India

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries and eight partner economies (Argentina, Brazil, Colombia, the People’s Republic of China, India, Indonesia, the Russian Federation, and South Africa).

Energy resources and market structure

India is one of the world’s fastest growing energy markets. It is the world’s second-largest coal producer, but must import additional quantities to meet its coal demand. India also had proven oil reserves of 4.6 billion barrels in 2017. Most crude oil and natural gas reserves are located along the country’s western continental shelf.

Coal India Ltd. (CIL) has a virtual monopoly on coal extraction in the country, accounting for about 95% of the total. Market reforms, however, are being implemented to bring more private actors into the sector. State-owned companies also command a large share of the market in all segments of the oil and gas sector. In the past, the regulated pricing of petroleum products has discouraged the entry of private companies into the downstream segment. However, in 2002, the Government liberalised the petroleum sector by allowing private sector in retail. This act was followed in 2007 with the establishment of an independent domestic regulator (PNGRB) to regulate the Indian midstream and downstream sectors.

The growth in domestic crude-oil production has not been fast enough to meet surging domestic demand and as a result India relies heavily on oil imports, mostly from the Middle East. To alleviate this reliance, the Government has been enacting policy changes towards encouraging domestic exploration and extraction of crude oil resources.

In a push for universal electrification, the Government launched the Pradhan Mantri Sahaj Bijli Har Ghar Yojana (SAUBHAGYA) in October 2017. As of January 2019, 24,819,168 households have been electrified reducing the number of unelectrified households to 28,594, equivalent to less than 0.05% of the total population.

Energy prices and taxes

In India, the Government regulates energy prices to protect domestic consumers from international volatility. Coal prices are not aligned to international prices. The Ministry of Coal allocates coal supplies to priority sectors such as electricity generation. As prescribed by the 2003 Electricity Act, tariffs for electricity generation and transmission charged by companies owned by the Central Government are regulated by the Central Electricity Regulatory Commission, whereas those for generation, transmission and distribution charged within the state are determined by each state’s Electricity Regulatory Commission. Natural gas is priced according to the new domestic pricing guidelines, in effect since April 2014, which differ from the previously more restrictive Administrative Pricing Mechanism (APM) in that benchmark global gas rates are now taken into consideration.

On 1 June 2017 India implemented a major tax reform introducing a Goods and Service Tax (GST) regime to replace several indirect taxes including the Central Excise Duty. This implied a change in taxation for coal...
products, kerosene, LPG and petrochemical products. However, this reform did not cover crude oil, natural gas and key petroleum products including diesel and aviation fuel.

**Total support for fossil fuels in India by support indicator (left) and fuel type (right)**

![Graph showing support for fossil fuels]

Note: CSE=Consumer Support Estimate; PSE=Producer Support Estimate; GSSE=General Services Support Estimate

*The above charts are based on an arithmetic sum of the individual support measures identified in the Inventory. Because they focus on budgetary costs and revenue foregone, the estimates for partner economies do not reflect the totality of support provided by means of artificially lower domestic prices. Particular caution should therefore be exercised when comparing these estimates to those reported by the IEA for these countries.

**Recent developments and trends in support**

Most of the support for fossil fuels in India is targeted towards consumers in the form of direct transfers for the purchase of petroleum products such as kerosene and LPG. The support has decreased sharply since its peak in 2012 as a result of the reform process initiated by the Government in order to reduce fiscal deficits. The price of petrol and diesel has been de-regulated by the Government, progressively increasing prices until levels were achieved to eliminate subsidies in the second half of 2014. However, some support remains for other fuel types, mainly LPG support targeting poor families. In 2014, the Government introduced direct benefit transfers (DBT) to support individual households purchasing LPG cylinders for cooking purposes. In May 2016, the Government launched *Pradhan Mantri Ujjwala Yojana* scheme to provide LPG connections to Below Poverty Line (BPL) families. As of January 2019, over 60 million households have been connected. The target has been revised from 50 to 80 million households connected by March 2019 with a budgetary allocation of INR 128 billion.

**Examples of Measures**

| Compensation for under-recoveries incurred by downstream oil companies (2002-) | This policy cost INR 603 billion in 2014-15 but was reduced to INR 45.7 billion in 2017-18. The government has reformed its subsidies on petrol in 2010 and on diesel in 2014, and is currently making efforts with respect to kerosene and LPG. In addition, world oil prices have fallen. As a result, under-recoveries have been significantly reduced and income support payments for OMCs have fallen accordingly. |
| DBT Subsidy on Domestic LPG and Permanent Cash Advance pertaining to DBTL (2014-) | Direct Benefit Transfer for LPG Consumer (DBTL) Scheme was launched with effect from 1st June 2013 to provide capped number of subsidised cylinders to domestic LPG consumers and transfer the subsidy amount directly to their bank account. This policy cost INR 39 billion in 2013-14 but increased to INR 209 billion in 2017-18. |
| DBT Subsidy on Kerosene and Permanent Cash Advance pertaining to DBTK (2016-) | In 2016, a Direct Benefit Transfer scheme was launched for kerosene where a consumer will pay the market price at the time purchase and later a subsidy amount is directly transferred to their account. This policy cost has grown from INR 0.11 billion in 2016-2017 to INR 1.13 billion in 2017-2018 |