

REVIEWING AND REFORMING LIQUIFIED PETROLEUM GAS SUBSIDY REGIME

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Abstract

Subsidies are one of the most powerful policy tools in the hands of the government. In India, as elsewhere, subsidies have been used for decades to achieve a range of economic, social and environmental objectives. Liquified Petroleum Gas (LPG) subsidies have been criticized on a number of grounds. The prices for LPG are regulated by the Indian government, resulting in substantial subsidy payments from the government budgets which are often poorly targeted and which fail to reach intended beneficiaries. In this paper an attempt has been made to review recent subsidy policy Direct Benefit Transfer for domestic LPG (DBTL) scheme and identify priorities going forward. It will put the emphasis on the social and political challenges associated with reform, and seek practical changes that safeguard the poor and vulnerable.

Key words: Subsidy, LPG, DBTL Scheme.

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Introduction

India, which has a population of 120 crore, has 16.35 crore LPG consumers. The government made an LPG subsidy payout of Rs 40,551 crore in 2014-15. During April-September, the subsidy outgo stood at Rs 8,814 crore. This was coming as the government had to somehow wriggle out of the immense subsidy burden eventually. The whole process of LPG subsidy rationalization began during the United Progressive Alliance (UPA) regime which restricted the number of subsidized domestic cylinders per household to six every year in September 2012, subsequently revising it to nine the following January. Further, the cap was revised in January 2014 to 12 cylinders a year, starting 1st April. This was followed by the evolution of the LPG subsidy to India's cash transfer system—the Direct Benefits Transfer (DBT) scheme, intended to reduce leakage and the duplication of household connections. The subsidy for 12 cylinders in a year is paid directly in the bank account of consumers, which they use to buy LPG at market rate.

PAHAL DBTL Scheme

LPG supply chain was opaque and LPG consumers were powerless, and were at the mercy of the distributors in a monopoly market structure. The government at one hand wanted overcome these obstacles and delivery good services to citizens and on the other hand wanted to reduce their subsidy burden by curbing the diversion of subsidized cylinders meant for domestic consumers into the commercial market. Hence, PAHAL (DBTL) has been introduced to curb the diversion of the subsidized LPG. Under the scheme, Consumers will pay the market price for the domestic cylinder and the subsidy will be transferred directly to their bank account. This removes the incentive to divert the domestic LPG cylinders, which moved in the supply chain at almost half of their real market price. The scheme was designed to ensure that the benefit meant for the genuine domestic customer reaches them directly and is not diverted. It also ensures that precious public money is saved by eliminating diversion. The following were the objectives of the scheme:

- Eliminate incentive for diversion.
- Safeguard entitlement and ensure subsidy to the consumer.
- Improve the availability/delivery of LPG cylinders for genuine users
- Weed out fake/duplicate connections

- Allow self-selection in subsidy

Beneficiaries of PAHAL DBTL Scheme

This scheme offers multi-faceted benefits to all the parties such as consumers, government and oil marketing companies involved in the deliverance of LPG.

- **Benefit to LPG consumers**

The PAHAL scheme is intended at directly benefiting the LPG consumers or in other words the citizen of India. The subsidy amount is nothing else but the variance between the prices of LPG at market rates and the subsidized rate at which the customer would be getting the LPG cylinder. However, the subsidy would only be given to consumers after they have joined the PAHAL scheme and submitted necessary details with either the distributor or the bank where they hold the saving account. The subsidy amount is directly transferred to the consumer's bank account after the cylinder is delivered to the consumer's house.

- **Benefit to the Government**

The government through the PAHAL scheme would be benefited in a way that this system would curtail the level of unauthorized sales that happen in LPG cylinders delivery. Also, this would put to a stop of multiple purchases of gas cylinders. Above all, the burden of subsidy on government would be reduced to a significant level.

- **Benefit to the Oil Marketing Companies**

Due to this scheme being into effect, the oil companies would not have to worry about the intermediaries. This way, they can ensure that they are in direct contact with their customers and have the complete details of their consumers. This would in turn build a great customer relationship. Moreover, this would put a check on the unauthorized distribution along with multiple connections under the same name.

Strategies to reform subsidy regime

LPG subsidies, meanwhile, are poorly targeted to poorer households, with most of the subsidy benefit accruing to richer, urban households. Despite their fiscal cost, LPG subsidies have largely failed to allow households in India's poorest communities to adopt safer, cleaner forms of energy

use. The routing of LPG subsidy through DBT channels has helped the government save Rs 15,000 crore in fiscal year 2015. The following are the some strategies to be adopted by the government of India to reform the current subsidy regime:

- The restricted number of subsidized domestic cylinders per household every year should vary depending upon the family size of the each and every customer.
- The government should make it mandatory that the customers whose annual income is more than ten lakhs have to compulsorily give up their subsidy for LPG.
- The subsidy should be transferred to the customer's bank account immediately after the delivery of each and every LPG cylinders.
- The queries and the problems of the customers regarding direct transfer of subsidy to customer's bank account should be clarified and solved instantly without any further delay.
- The government should conduct various awareness programmes to educate the importance of PAHAL DBTL scheme and to remind the duties and responsibilities of each and every citizen of India while using the available non-renewable natural resources.

Conclusion

LPG being an essential commodity, its supply and distribution has been regulated by various regulations to control the trade and illegal diversion. However, the prevention of such activities has at best been minimal, primarily due to the large scale of the LPG supply chain. Indeed, reforming and regulating LPG subsidy regime is one of the most important and challenging responsibilities of a government to allocate financial resources to achieve public good.

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