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## Are we ready for Market Driven Pricing for LPG in India?

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### A B S T R A C T

Energy sector in India is always vibrant and unpredictable. The reasons may be as geopolitical issues, demand-supply mismatch, government's policy and status of the economy etc. Pricing of petroleum products in India is equally interesting due to different demographic setup. The study on deregulation of pricing of Liquefied Petroleum Gas (LPG) is indeed need of the hour to see the overall impact on different sectors. Considering the timeline and availability of resources, a secondary database study was conducted to understand the need of deregulation of pricing of LPG and its impact. The overall finding suggest that the timing of deregulation is right and it will bring positive result for the economy in the long run.

### Background

On July 30, 2017, the government of India has decided that price of subsidized cooking gas will be increased INR. 4 per month to eliminate subsidies by the end of March 2018. State run oil companies in India has implemented the decision of the government as directed including subsidized cylinder of 5 kg also in the same proportion. Deregulation of pricing of petroleum products in India started well in year 1993 but petrol was deregulated in 2010 followed by Diesel in 2014. Now by March 2018, pricing of LPG will be fully market determined like most of the developed countries in the world. Deregulation of pricing of petrol, diesel and LPG is the outcome of recommendations made by Dr. Kirit Parikh committee in two reports submitted by the committee in years 2010 & 2013 (GoI, 2010 ; GoI , 2013).

The World Health Organization (WHO) in one of the study confirmed that smoke from burning fuels like firewood, coal, dung-cake etc. causing several respiratory diseases and sicknesses. The smoke from such fuels inhaled by women is equivalent to smoking 400 cigarettes per hour. The women and girl child have to collect firewood and dung-cake which is equally agonizing for the society and the economy (MoPNG, New Delhi, 2016). LPG is known as clean fuel and to provide such fuel to every section of society is prime task of any government. The problem is that Below Poverty Line (BPL) families in India can't afford to buy LPG at market price hence subsidies is required in the economy for many years. Providing subsidies has its own limitation as fiscal deficit is an issue and under recoveries (Please see annexure-1) for Oil Marketing Companies (OMCs) and Exploration & Production (E & P) companies is another concern. Various studies in the recent past also found that irregularities and inefficiency are always associated with subsidies related to petroleum products in India. Putting all issues together, government has decided to discontinue with subsidies.

The study on socio-economic aspects of deregulation of LPG is vital at this juncture, as one side fiscal deficit of government needs to be controlled and on the other side a major

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section of society may not afford to pay the market price of LPG.

### Research Objectives & Methodology

The study is deals with a number of aspects on deregulation of LPG. Deregulation of LPG was due for many years but is it the right time to deregulate? Could it be postponed for few more days/months/years? Are existing LPG schemes by the government contrary to the deregulation of pricing of petroleum products in India? These are some fundamentals research questions that require deliberations, discussions and need to be documented to support existing theory and practices. The objective of the study mainly includes:

1. To understand need for deregulation of LPG.
2. To study impact of deregulation of LPG on society, economy and industry.
3. To investigate various governments' schemes related to LPG.
4. To study impact of deregulation of LPG on Piped Natural Gas (PNG) and kerosene.

To achieve the stated objectives, research was carried extensively in the form secondary data analysis. Since deregulation of pricing of LPG is very much recent development in the Indian economy and that is why several news articles published in leading newspapers, reports from various agencies and related research papers were referred.

### Literature Review

Hari (2016) suggested that the price fluctuations from a peak of around \$115/barrel in the year 2014 to \$30-50/barrel in the year 2016 had given opportunities to the Asian government to cut down the subsidies and expedite the reforms in energy sectors. Thierry & Todoc (2017) defined that energy deregulation is transition from regulated to market based pricing of energy products. Deregulation of pricing of energy products is complicated in nature and politically difficult too as it has implications on social equity and financial viability of energy suppliers.

Zobalia , et al.,(2017) confirms that India import 80% of oil and almost 50% of gas requirements. Per capita energy consumption in India is still low in comparison to global standards and thus the growth in energy sector is expected in days to come. Almost every major energy forecasters agreed upon that India is the fastest growing oil and gas consuming countries in the world. IEA (2015) confirms that by year 2040 India's energy consumption will be more than double, as size of economy is growing rapidly and sooner India will be the largest populous country in the world. India will be the largest market for coal and also demand of LPG will go up as a substitute for cooking fuel in households. Additionally 260 million new passenger vehicles will be added and around 6 mb/d rise in oil demand is also expected. ExxonMobil (2017) commented on the demand of energy and said that non-OECD (The Organization for Economic Co-operations and

Development) countries from Asia Pacific region will be driving the energy demand.

Government has many things to do for the nation building. Keeping economy stable is of course a priority table but keeping society clean and healthy is equally important. Therefore, several products/commodities have been subsidized by the government for many years to protect the interest of all stake holders. Petroleum products are one such sector which required regulating in slightly different manner; considering the impact of inflation, fiscal deficit and BPL families of India. Nag (2014) pointed out with reference to the economic theory that subsidies encourages inefficiency and GDP growth also declines.

Out of 24 crore households in India about 10 Crore households are still deprived of LPG as cooking fuel and they have to rely on other cooking fuels like coal, firewood, dung-cakes etc. (MoPNG,New Delhi, 2016). In the last the last one year under the Pradhan Mantri Ujjwala Yojana (PMUY) about 2.5 crore poor women who were given free connections and as of total about 18.11 crore customers are availing the subsidized LPG in the country. There are only about 2.66 crore users of non-subsidized cooking gas customers are there in India (Financial Express, 2017; The Economic Times, 2017).

On May 1st, 2016 in Ballia, Uttar Pradesh, Pradhan Mantri Ujjwala Yojana (PMUY) was launched by Hon'ble Prime Minister. Ensuring women's empowerment especially in rural India, under PMUY 5 Cr. LPG connections will be provided to BPL families in the name of women of the households. BPL families will be identified with the help of Socio Economic Caste Census Data and INR. 8000 Cr. has been allocated for the implementation of PMUY (MoPNG,New Delhi, 2016).

To push LPG connections in rural India, on 16th Oct, 2009 the previous government had introduced Rajiv Gandhi Gramin LPG Vitaran (RGGLV). In order to help the customers in less populous and underserved areas, a new format of LPG distributorship, namely RGGLV was launched. The initial investment for regular distributorship was quite reasonable in terms of infrastructure and operational requirements (IOCL, 2009). Since the launch of RGGLV about 4,000 new domestic cooking gas distributors was rolled out across the country (Saikia, 2015).

PMUY and RGGLV both looked promising efforts by governments. RGGLV indeed worked well to penetrate LPG connections in rural areas through effective distributions designed by OMCs. PMUY is one step ahead as it provides direct connection to household as initial investment is crucial for poor families. Hopefully, soon every household will connect to clean fuel (LPG) which is good for environment, household and government.

The identification and selection of dealers under RGGLV was that, they had to sell 600 refills and 1,200 customers in monthly basis. The location of godown and showroom kept at the same place and at least 300 cylinders need to be in the stock every time. Under RGGLV a consumer has to take care of the

refilling of cylinders and they have to make payment at the prescribed retailing price as dealers don't deliver cylinders to consumers' residences. (Saikia, 2015).

### Discussions and Implications

ExxonMobil (2017) reports said that the expansion of middle class, continuing urbanization, growing industrial demand, development in the transportation sectors, and access to modern energy in homes in India & China are sufficient reasons for higher energy demands. Thierry & Todoc (2017) has reviewed the status and direction of energy reform in the energy sector in Asia. Their study highlighted the issue related to the environmental degradation due to energy production, transformation, and consumption. Anand, et al.(2013, p. 15) in their study emphasized on gradual and sequenced reform in the context of deregulation of pricing of petroleum products. Nag (2014) said that government should try for adequate awareness programmes before withdrawing any practices which is prevailing in the economy for many years. In India around 30 percent of households have consumption level below the national poverty line and thus before withdrawing such benefits, an alternative arrangement is also expected. Hari (2016) said that withdrawing fuel subsidies from populations adapted to low-priced oil is especially difficult when international oil prices are high as gap with subsidized fuel prices will be huge.

The fundamental aim of this study was to critically review the pricing of LPG and related consequences. Pricing of LPG is equally complex alike petrol and diesel as, consumers expect supports from government to get LPG at the best price, OMCs want the under recoveries to stop immediately. The government wants to have control over fiscal deficit and irregularities under check. Once LPG will be fully deregulated, private players will also enter in household LPG supplies and that will make the sector interesting.

The government's move on deregulation of pricing of LPG looks justified as gradual deregulation will not have an immediate effect on the economy or society. The society will be mentally prepared and economy will certainly have better position due to reducing fiscal deficit. The only challenge will be when crude price suddenly rises up and everyone will await for the move of government. In any case hopefully, the way Indian economy is growing, price rise might not affect much. Other side Piped Natural Gas (PNG) connection in different locations are also going up faster in making everyone accessible to clean fuel. Further in comparison to LPG cylinders, PNG is cheaper and convenient. The penetration of LPG and PNG especially in the rural India, will discourage the consumption of kerosene and wood for cooking purpose that will make better and healthy society. The Direct Benefit Transfer (DBT) scheme is interesting and meaningful however; the existing policies may require better discussions especially for daily wages workers. Overall it appears that gradual deregulation has more advantages than disadvantages.

### Limitations and future scope of the study

The secondary database study has its own limitations. The energy sector of India offers several ideas to carry out research in days to come. The future study would be quite challenging and interesting in terms of getting real data from policy makers, representatives of OMCs and consumers to understand the need and impact of such recent decision. Future research may focus on an empirical study.

### Annexure-1

#### The details of the under recovery/DBTL Subsidy during 2014-15, 2015-16 & 2016-17 (PPAC, 2017)

Product	2016-17 (Rs.Crore)	2015-16 (Rs.Crore)	2014-15 (Rs.Crore)
Diesel	0	0	10,935
SKO (PDS)	7,595	11,496	24,799
Domestic LPG	0	18	36,580
DBTL Subsidy (Direct Benefit Transfer for LPG)	12,133	16,056	3,971
Total	19,728	27,571	76,285

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