

Multi-Stakeholder Workshop on

Fossil Fuel Price / Subsidy Reforms: Status and Opportunities

Monday, 26 March, 2012 at National Institute of Public Finance and Policy

Background

According to the figures released by the International Energy Agency (IEA), India spent more than US\$22 billion subsidizing fossil-fuels in 2010, of which \$16 billion was spent on oil products. While the Government of India has made some progress towards liberalizing prices of gasoline, subsidies remain for diesel, kerosene and LPG. These subsidies have significant economic, environmental and social impacts. Numerous government committees, most recently the “Expert Group on A Viable and Sustainable System of Pricing of Petroleum Products” (February, 2010), have recommended that the subsidies be reformed.

In June 2010, in line with the recommendation of the Expert Group, the government deregulated the price of petrol and announced that diesel would follow suit. However, rising international crude oil prices have thwarted attempts made by the government to push through fossil fuel subsidy reforms in a holistic and efficient manner. Oil Marketing Companies (OMCs) still bear heavy under-recovery burdens on diesel, kerosene and LPG.

Deregulating the price of diesel is politically challenging, in part because it is perceived to foment inflation through an increase in cost of freight transport that eventually feeds into the final prices of essential commodities. Deregulating diesel prices also entails issues of taxation, under-recoveries and the burden placed on government finances.

As far as kerosene and LPG are concerned, there are issues related to the level of subsidies provided and leakages in the system. Diversion of kerosene for adulteration and misappropriation of domestic LPG connections for commercial use, for example, result in systemic inefficiencies and call for a better mechanism of subsidy delivery to intended beneficiaries.

An 18-month project on fuel price / subsidy reform in India aims to provide research and policy advice to support the Government of India’s efforts for reforms in this important sector. By June 2012, the project will develop at least two specific measures in detail, with an Action Plan aimed at garnering support for their implementation, including the required detail to allow a debate on the reform options.

The project team is: TERI (Delhi); NIPFP (Delhi); the International Institute for Sustainable Development (Geneva); and the Centre for Low Carbon Futures (Leeds, UK). The project is funded by the UK’s Prosperity Fund, managed by the Foreign and Commonwealth Office (FCO).

OBJECTIVES

The purpose of the workshop is to:

1. Present the project teams' preliminary research findings related to the impacts of diesel price reforms, the development of a cash transfer system to deliver LPG and PDS Kerosene subsidies, and related works (of NIPFP);
2. Facilitate a discussion among participants on India's petroleum products price / subsidy reform strategy; and
3. Launch the publication of *A Citizens' Guide to Energy Subsidies in India*.

The project team will integrate feedback from participants into its research program.

TIME AND VENUE

Day, Date: Monday, 26 March 2012

Time: 9:15 – 16:00 hours

Venue: Ground Floor, Auditorium,
NIPFP, 18/2, Satsang Vihar Marg, Spl. Instl. Area, Nr. JNU East Gate,
New Delhi: 110067,

ABOUT THE PROJECT PARTNERS

TERI: TERI was formally established in 1974, as an independent, not-for-profit research institute with the purpose of tackling and dealing with the immense and acute problems that mankind is likely to be faced with in the years ahead on account of (a) the gradual depletion of the earth's finite energy resources, which are largely non-renewable and (b) the existing methods of their use which are polluting.

Over the years the Institute has developed a wider interpretation of the above core issues and its approach to tackling them. Consequently, TERI has created an environment that is enabling, dynamic and inspiring for the development of solutions to global problems in the fields of energy, environment and current patterns of development, which are largely unsustainable. The institute has grown substantially over the years, particularly, since it launched its own research activities and established a base in New Delhi, its registered headquarters. The central element of TERI's philosophy has been its reliance on entrepreneurial skills to create benefits for society through the development and dissemination of intellectual property. The strength of the institute lies in not only identifying and articulating intellectual challenges spanning a number of disciplines of knowledge but also in mounting research, training and demonstration projects leading to development of specific problem-based advanced technologies that help carry benefits to the society at large.

The Institute's growth has been evolutionary, driven by a vision of the future and rooted in challenges looming today, based on an approach that looks beyond the present and across the globe. TERI has, therefore, grown to establish a presence not only in different corners and regions of India, but is perhaps the only developing country institution to have established a presence in North America and Europe and on the Asian continent in Japan, Malaysia and the Gulf. The global presence and reach

attained by TERI are not only substantiated by its presence in different parts of the world, but also in terms of the wide geographical relevance of its activities.

NIPFP: The National Institute of Public Finance and Policy (NIPFP) is a centre for applied research in sustainable public finance policy for development, advocacy and capacity development.

Major activities at NIPFP (www.nipfp.org.in) are geared:

to promote and conduct research in matters relating to tax policy and administration, public expenditure and control, public debt and its management, intergovernmental fiscal relations, economics and pricing of public and industrial enterprises and such other aspects of public finance as may relate to broader economic and fiscal policies;

to undertake and organise training courses, seminars, workshops and policy dialogue with a view to enhancing understanding of issues concerning public finance and policy;

to forge linkages with universities and research and training institutes, both within the country and outside, for undertaking collaborative research and exchange of scholars, information and publications; and

to disseminate information on public finance and policy by undertaking or providing for the publication of books, research reports, papers, and a journal on subjects covered by the work of NIPFP.

Established in 1976 as an autonomous society, the institute aims at contributing to policy making in spheres relating to public economics. The NIPFP maintains close functional links with the Central and State Governments in India, and actively collaborates with bilateral and multilateral donor agencies in pursuing its research and training agenda. It serves as a nodal agency for the State Finance Commissions. It has research partnership arrangements with the Indira Gandhi National Open University, Delhi, International Centre for Taxation and Development, IDS, Sussex, UK, University of Surrey, UK, Columbia University, New York, Australian National University, Canberra, and Hitotsubashi University at Tokyo. The Reserve Bank of India (RBI) has established a professorial chair at NIPFP for advancing research frontiers in the fields of macroeconomic and fiscal policy. The NIPFP faculty members are associated with world-wide research networks and serve as members on national and state-level commissions, professional organisations, and management boards of various institutions.

The Global Subsidies Initiative (GSI), founded in 2005, shines a spotlight on subsidies – transfers of public money to private interests – in order to promote reform of subsidy practices that are detrimental to sustainable development. The GSI's challenge to those who advocate creating or maintaining particular subsidies that they should be able to demonstrate that the subsidies are environmentally, socially and economically sustainable – and that they do not undermine the development of some of the poorest economies in the world. The GSI is headquartered in Geneva, Switzerland, and works with partners located around the world. Its principal funders include the governments of Denmark, the Netherlands, New Zealand, the United Kingdom, Sweden and Norway. The William and Flora Hewlett Foundation has also contributed to fund GSI research and communications activities. For further information: www.globalsubsidies.org

Established in 1990, **the International Institute for Sustainable Development (IISD)** is a Canadian-based policy research institute with a diverse team of more than 150 experts located in more than 30 countries. Through a dynamic portfolio of projects, IISD partners with more than 200 organizations throughout the world. The Institute is registered as a charitable organization in Canada and has 501(c)3 status in the United States. It receives core operating funds from the Government of Canada, provided through the Canadian International Development Agency (CIDA), the International Development Research Centre (IDRC) and Environment Canada, as well as from the Province of Manitoba. IISD receives project funding from numerous governments inside and outside Canada, United Nations agencies, foundations, the private sector and individual donors. For further information: www.iisd.org

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