

# NATIONAL COUNCIL OF BHUTAN



## **A Review of Issues Pertaining to Distribution of Liquefied Petroleum Gas and Superior Kerosene Oil in BHUTAN**

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Prepared and Presented by the  
Economic Affairs Committee at the  
13<sup>th</sup> Session of the National Council.

9 June 2014

## Background

The Economic Affairs Committee (EAC) of the National Council is pleased to present this review of the distribution of Liquefied Petroleum Gas (LPG) and Superior Kerosene Oil (SKO) in the country. The review is based on the mandate provided in the Constitution of Bhutan and the National Council Act under the following articles:

Article 10.2 of the Constitution provides the basis for parliamentary review of executive functions when it says: *“Parliament shall ensure that the Government safeguards the interests of the nation and fulfils the aspirations of the people through public review of policies and issues, Bills and other legislations, and scrutiny of State functions.”*

The Constitution in Article 11.2 also confers specific additional powers on the National Council to *“act as the House of review on matters affecting the security and sovereignty of the country and the interests of the nation and the people that need to be brought to the notice of the Druk Gyalpo, the Prime Minister and the National Assembly”*.

The Article 7 of the National Council Act states that:

*“The National Council shall ensure that the Government safeguards the interests of the nation and fulfils the aspirations of the people through public review of policies and issues, Bills and other legislation, and scrutiny of State functions.”*

Further Article 10 of the National Council Act highlights the review function of the National Council as follows:

*“In exercising its review function, the National Council shall:*

- a) Review and comment on the policies, plans and programmes of the government;*
- b) Review performance of the government;*
- c) Review implementation of resolutions and laws; and*
- d) Review issues of national importance.”*

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## 1. Introduction

During the 11<sup>th</sup> session of the National Council in 2013, the Hon'ble NC Member from Bumthang Dzongkhag raised the difficulties faced by the people in his Dzongkhag due to unsteady supply and shortage of Liquefied Petroleum Gas (LPG). Other members of the National Council also echoed this concern and shared the difficulties faced by the people particularly those residing in remote Dzongkhags.

LPG and Superior Kerosene Oil (SKO), are not only important sources of fuel, but also commodities whose price is subsidized to benefit the people of Bhutan. Therefore, it is important to ensure smooth distribution of the commodities as well as ascertain that subsidies reach the targeted beneficiaries especially those deserving of subsidy in the rural and remote areas.

The House directed the Economic Affairs Committee (EAC) to study the following:

- 1) Why are the two essential commodities not reaching the remote and rural areas?
- 2) What is the distribution mechanism for the commodities?
- 3) What is the quantity available for distribution to each Dzongkhags and how is it determined?

The Committee also looked at relevant areas beyond the three questions as these issues merited broader understanding. Both LPG and SKO subsidy form part of the grant assistance from the Government of India. The annual subsidy for LPG and SKO is estimated at about INR. 500 million per annum.<sup>1</sup> Essentially the subsidy is the difference in the international parity price at which LPG/ SKO is imported and the supply price to Bhutan which is based on the prices of SKO/LPG in the Indian domestic market. These items are subject to an annual quota of 8,400 MT of LPG and 15,000 KL of SKO.

This review conducted by the Committee comprises of data analysis, observations and summary of recommendations. The Committee is grateful to the Department of Trade for the support and cooperation extended to the Committee.

All data and information, unless otherwise indicated, have been obtained from Department of Trade, Ministry of Economic Affairs.

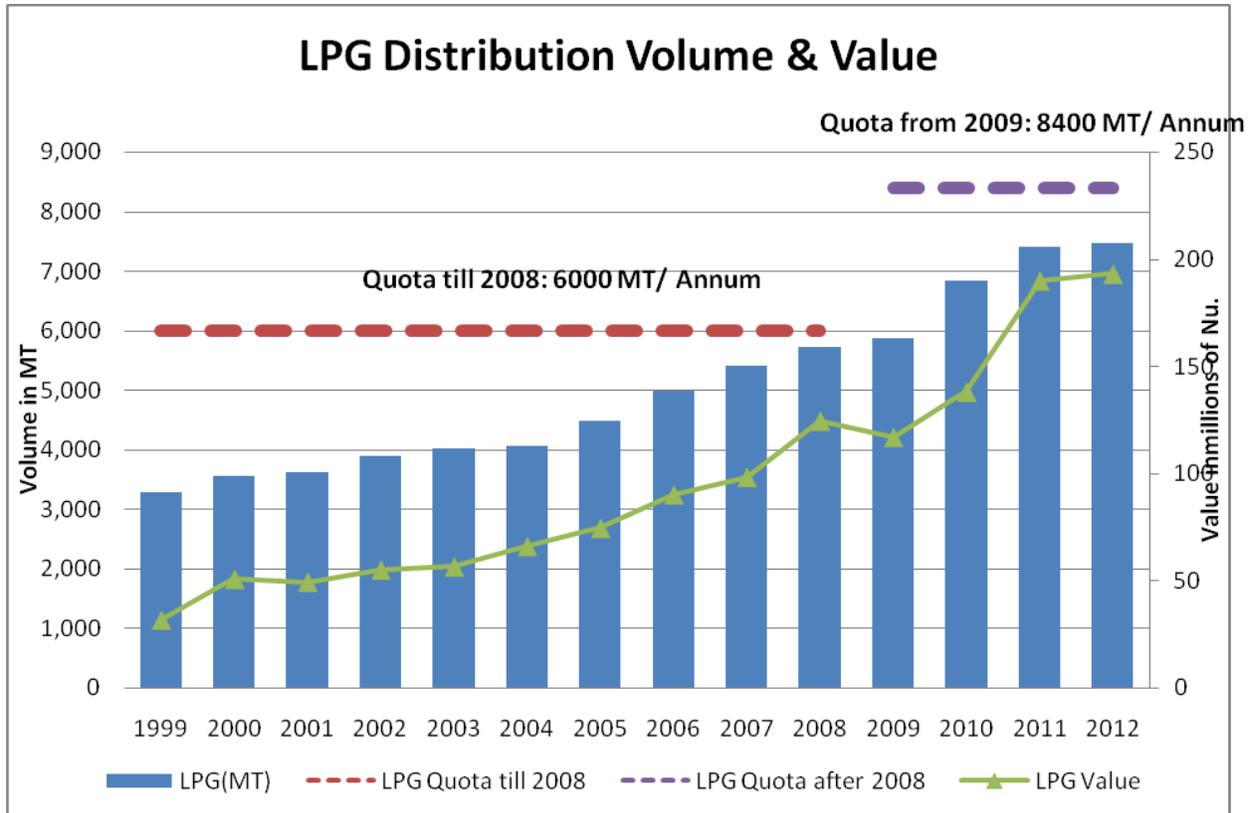
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<sup>1</sup> Ministry of External Affairs, Government of India, Outcome Budget 2013-14, page 25

## 2. Issues Pertaining to LPG

LPG is an important source of energy for cooking in the country. The Bhutan Living Standards Survey 2012 indicates that 61 percent of the Bhutanese use LPG for cooking. LPG is the most important source of cooking fuel in the urban areas with more than 92 % of the urban households reliant on LPG.<sup>2</sup> Considering the above data, it is not surprising that issues related to LPG supply frequently feature in the media.

The chart below shows the volume of LPG supplied in Bhutan from 1999 to 2012.



As shown in the chart above, the distribution of LPG has seen a steady growth averaging 6.6 percent growth over the last 13 years. The quota ceiling was enhanced from 6000 MT per annum to about 8400 per annum from 2009 onwards. In 2012, Bhutan imported LPG worth about Nu.193 million.

Bhutan has been procuring LPG from Indian suppliers for distribution within Bhutan through the three authorized retailers. As the LPG is supplied to Bhutan at a subsidized rate, the monthly quota ceiling is 700 MT (29,296 cylinders) translating to 8,400 MT per annum (5,91,549 cylinders). Both the volume and value of imports have seen a sharp

<sup>2</sup> National Statistical Bureau & the Asian Development Bank, Bhutan Living Standards Survey 2012 Report,

rise from 2008 onwards. Nonetheless, the available data indicates that domestic consumption/distribution is well within the quota allocated at the subsidized price.

However, with increasing population growth, urbanization, rapid growth of nuclear households especially in urban areas, surge in development activities and improved road access - the demand for LPG is likely to keep growing at a steady pace and may exceed the current quota ceiling soon. This requires the government to take immediate measures to monitor the distribution of LPG and ensure that it is available to the intended beneficiaries.

The MOEA estimates that although 200,000 domestic LPG cylinders have been distributed only about 40,000 are in circulation today.<sup>3</sup> This implies that there is either leakage or that one in five cylinders are hoarded due to insecurity of supply, unreliable supply or due to hoarding by hotels many of which are estimated to have 10 to 90 cylinders in stock.<sup>4</sup>

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<sup>3</sup> Rai, Rajesh "Old Stock Sold Out" [www.kuenselonline.com](http://www.kuenselonline.com) 3 July 2013.

<sup>4</sup> Rai, Rajesh, "Commercial Gas to go Nationwide" [www.kuenselonline.com](http://www.kuenselonline.com) , 7 October 2013

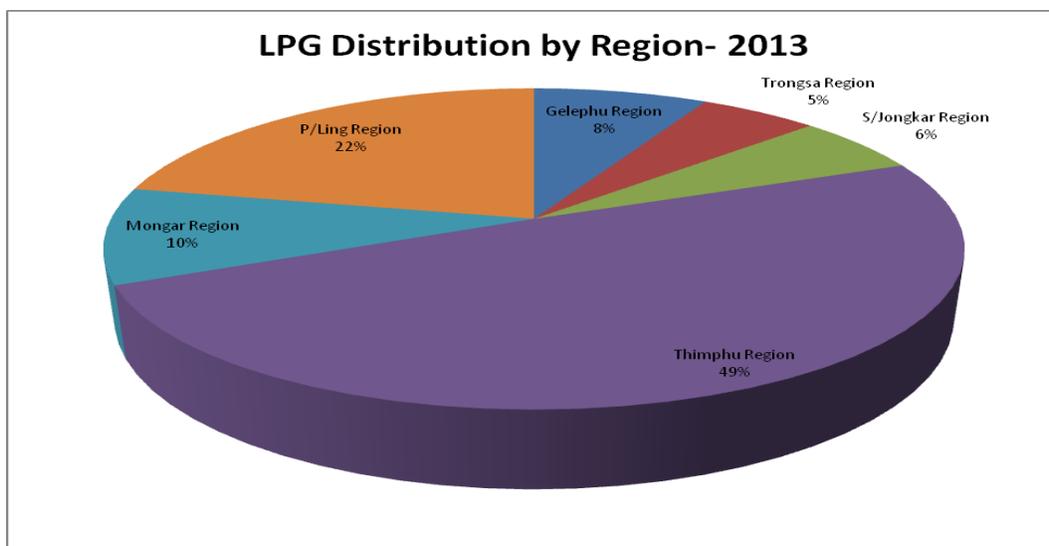
## 2.a. Regional Distribution

Currently, the Department of Trade that oversees the import and distribution of petroleum products allocates the monthly quota of 700 Metric Tonnes (MT) in the following manner to the regions.

**Western Region** (Thimphu, Chukha, Paro, Haa, Wangdue, Samtse, Gasa, Punakha)  
**460MT/per month.**

**Central Region** (Bumthang, Trongsa, Zhemgang, Dagana, Tsirang, Sarpang)  
**140MT/per month.**

**Eastern Region** (Trashigang, S/Jongkar, Mongar, T/Yangtse, Lhuentse, P/Gatsel,  
**100MT/per month.**



### Indian Export and Bhutanese Import points for LPG to Regions:

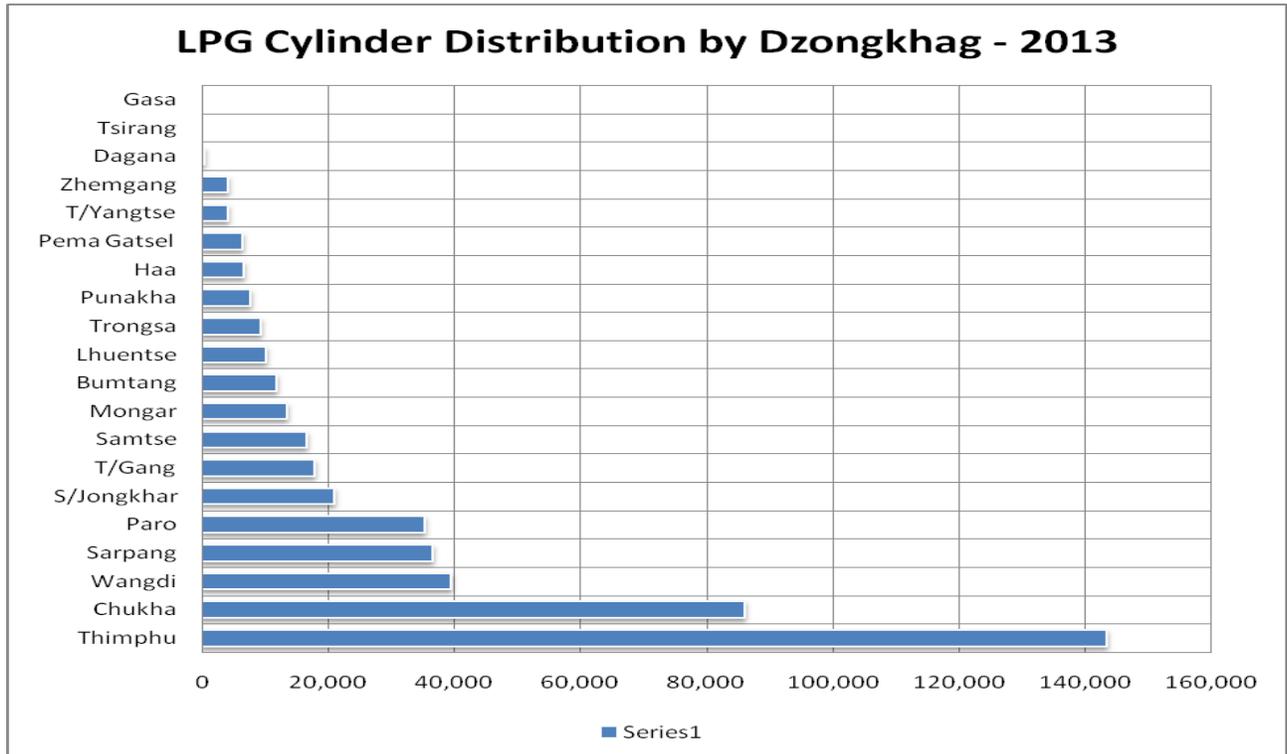
- a) Raninagar, West Bengal- Western Bhutan Region through Phuntsholing.
- b) Bongaigaon, Assam – Central Bhutan Region through Gelephu.
- c) Guwahati, Assam – Eastern Bhutan Region through S/Jongkar.

There are currently three private agencies that deal and distribute PoL products to consumers in Bhutan, namely:

- (1) Bhutan Oil Distributors (BOD)/ Bhutan Oil Corporation (BOC)
- (2) Druk Petroleum Corporation Limited (DPCL)
- (3) Damchen Petroleum Distributors (DPD)

## 2.b. Dzongkhag wise distribution

Based on the data from the distributors, the table below shows the pattern of distribution among the various dzongkhags. Details in Annexure 1.



Considering the concentration of population, businesses and institutions, development activities etc in Thimphu, Chukha, Paro, Sarpang and Wangdiphodrang Dzongkhags, it is no surprise that these top five Dzongkhags accounted for almost three quarters of LPG consumption in the country in 2013.

In the chart above, both the data value for Tsirang and Gasa is indicated as Zero due to data unavailability from the Tsirang depot. In the case of Gasa there is no distribution agent and people rely on LPG suppliers from Punakha or Wangdiphodrang.

The Department of Trade confirmed that supply to each Dzongkhag was decided by the Regional Trade and Industries Officer in consultation with the private distributors based on their calculation of demand. This is adjusted periodically to ensure that overall national demand is within the quota limit.

## 2.c Price Determination and Subsidy

As highlighted in the preceding discussions LPG is sold at a subsidized rate in Bhutan. The subsidy element ranges from 55 to 60 percent depending on the location of the outlets from the bordering towns. The difference between the subsidized and market price is covered by the government of India through its generous assistance to Bhutan.

	<b>Subsidized Price</b>	<b>Actual Price</b>	<b>% subsidy</b>
Phuentsholing	452	1145	60.52
Thimphu	504	1196	57.86
S/Jongkhar	458	1070	57.20
Trashigang	501	1124	55.43

Source: Kuensel, Subsidies are Back, 1 August 2013

The Committee in its discussions with the Department of Trade confirmed that the retail price of LPG is fixed by the Department of Trade, MoEA. The elements considered in the pricing structure and the various cost components (per cylinder) of the selling price for Thimphu are as follows:

	<b>Amount in Nu</b>	<b>As % of total price</b>
Invoice Price	368.60	72.63
Depreciation	15.00	2.96
Loading/unloading charges	5.00	0.99
Transportation cost	72.10	14.20
Dealers commission	46.82	9.23
<b>Total</b>	<b>507.52</b>	<b>100.00</b>

Considering that each truckload carries about 300 LPG cylinders, the dealer commission alone accounts for Nu12,852 per truckload. In addition each consumer pays the dealers Nu. 1,450 as security deposit for every new gas cylinder issued and this is retained by the dealer as well.

The transport cost per cylinder, which is charged to the consumer, ranges from Nu. 11.68 in Gelephu to Nu. 135.80 in Lhuentse.

## 2.d. Data Inconsistencies and Deflection Concerns

Due to the subsidy element, there are emerging concerns of misuse of LPG quota and possible deflection to bordering Indian towns. This issue became pronounced in mid-2013 when LPG subsidies were temporarily suspended. An official of the Government of India stated that: “*some discrepancies, in terms of how much [LPG] Bhutan reported as imports, and how much India recorded as exports to Bhutan, were also detected, which the ministry wanted to sort out before re-introducing the subsidies.*”<sup>5</sup>

The committee also encountered certain inconsistencies when comparing the data from the MOEA (as submitted by the private distributors) and Department of Revenue and Customs (based on what is recorded at the entry points in Bhutan). This is a major cause for concern as well and point to possible deflection of LPG by unscrupulous business people.

### Import data of LPG in MT

	2007	2008	2009	2010	2011	2012
<b>DRC Data</b>	5,386	5,726	<b>10,411</b>	<b>24,218</b>	7,459	7,481
<b>Distributors data</b>	5,406	5,725	<b>5,857</b>	<b>6,834</b>	7,411	7,469

While the MOEA maintains that stated that such discrepancies shown above could be due to data error, it merits further examination due to allegations and suspicion of deflection of LPG back to India.

There have been concerns that some of the distributors in Bhutan may be unscrupulous, misusing the quota and deflecting LPG back to Indian market to sell for a higher profit margin. For example, recent news report indicates that such practices may be prevalent and not just speculative. In May 2013, a truckload carrying 300 LPG cylinders were intercepted by border agencies in Phuentsholing.<sup>6</sup>

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<sup>5</sup> Palden, Tshering “Subsidies are Back from Today” [www.kuenselonline.com](http://www.kuenselonline.com) 1 August 2013

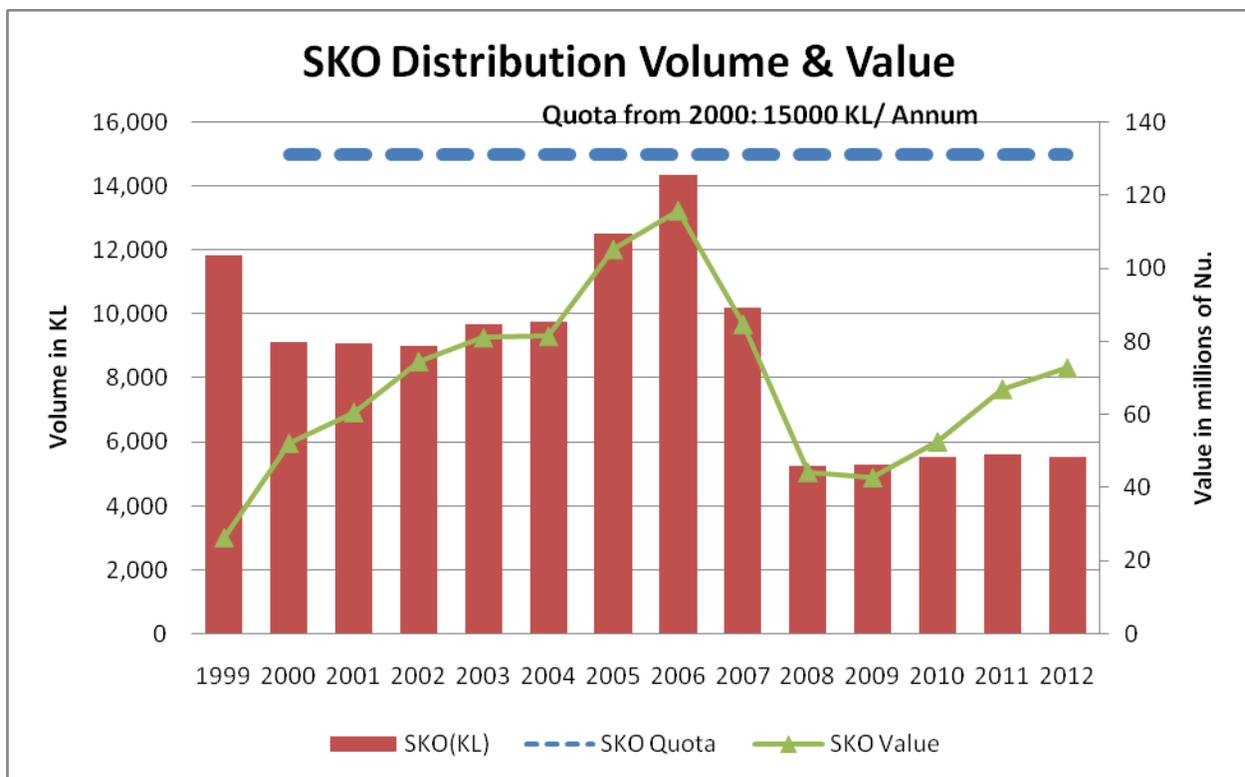
<sup>6</sup> BBS Report, Truck Load of LPG intercepted” [www.bbs.com.bt](http://www.bbs.com.bt), 22 May 2013

### 3. Issues pertaining to Superior Kerosene Oil (SKO)

Akin to the case of LPG, Bhutan imports SKO from suppliers in India and is based on a subsidized price. The current monthly quota is about 1,250 KL translating to about 15,000 KL per annum.

Unlike LPG which is primarily used for cooking, data from the Bhutan Living Standards Survey 2012, shows that SKO is used for cooking, lighting and heating especially during the winter months.

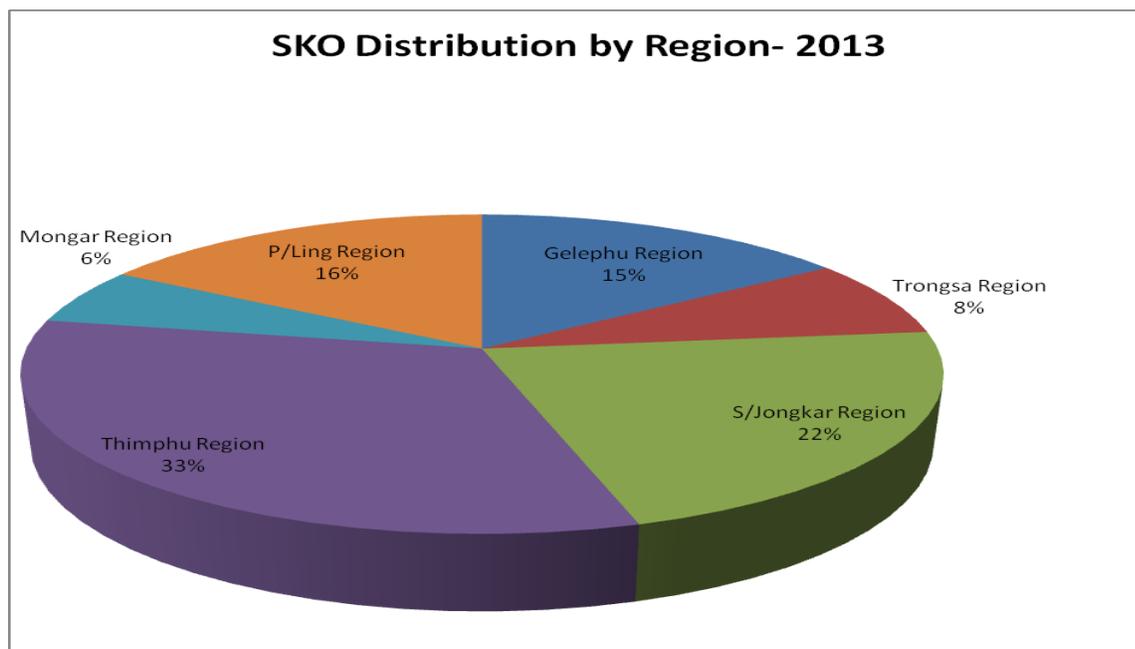
Information from the Department of Trade indicates that the monthly quota of 1250KL kept open to the three dealers to lift depending upon their lifting capacity based on the distribution made through their respective retail outlets.



As shown in the chart above, there have been sharp changes in SKO distribution with a peak in 2006. The sharp rise and drop can be attributed to the large-scale deflection of SKO across the border by unscrupulous businesspeople.

### 3.a Regional Distribution

The chart below shows the SKO distribution across the country on a regional basis.



As shown in the chart, The Thimphu region tops the list consuming almost one third of SKO distributed in the country.

The regional areas consist of the following Dzongkhags.

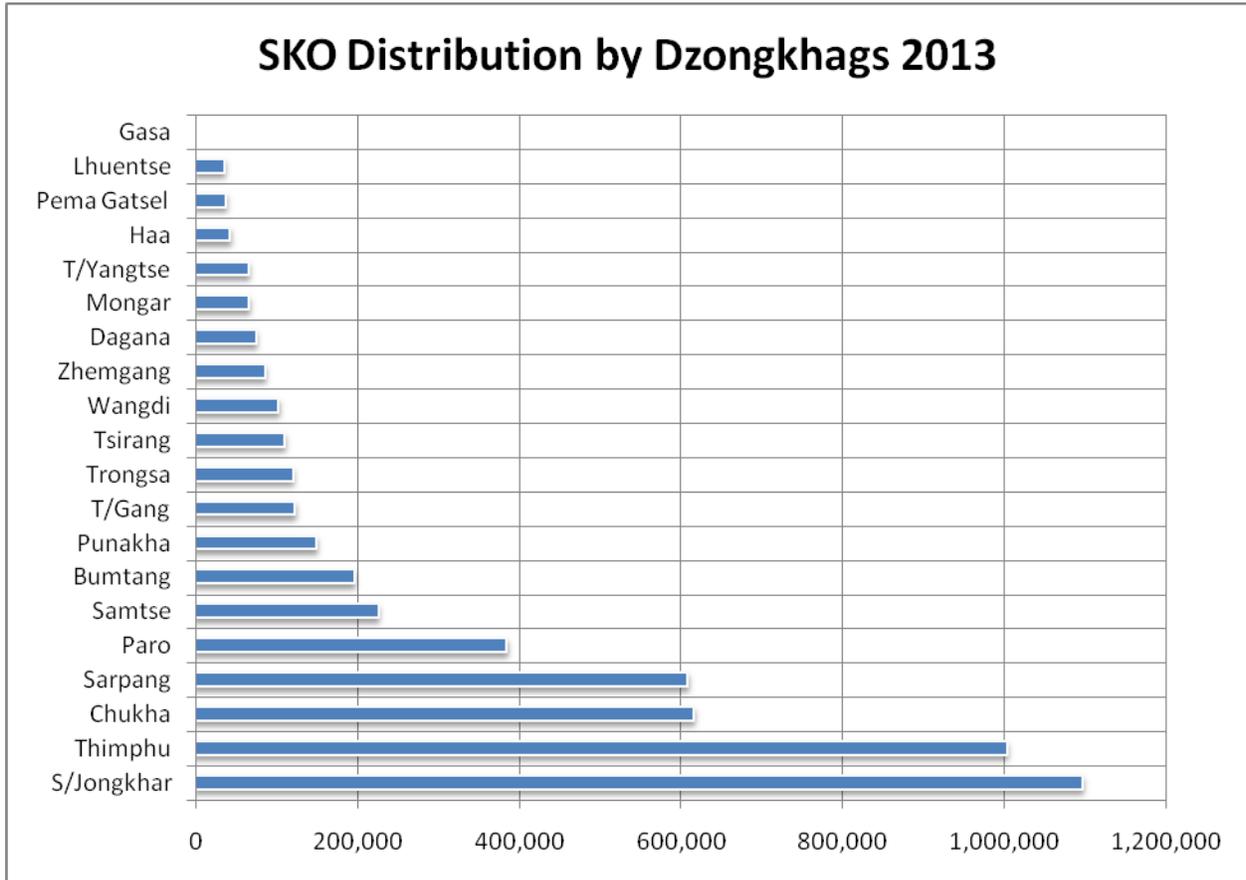
**Western Region** (Thimphu, Chukha, Paro, Haa, Wangdue, Samtse, Gasa, Punakha)

**Central Region** (Bumthang, Trongsa, Zhemgang, Dagana, Tsirang, Sarpang)

**Eastern Region** (Trashigang, S/Jongkar, Mongar, T/Yangtse, Lhuentse, P/Gatsel,

### 3.b Dzongkhag wise distribution

The chart below shows the national distribution of SKO based on Dzongkhag wise data for 2013. Details are in Annexure 2.



In terms of individual Dzongkhags, Samdrup Jongkhar tops the consumption followed by Thimphu, Chukha, Sarpang and Paro Dzongkhags. The top five Dzongkhags account for about 72 percent of all SKO consumed within the country in 2013.

The Department of Trade confirmed that, as in the case of LPG, SKO supply to each Dzongkhag is decided by the Regional Trade and Industries Officer in consultation with the private distributors based on their calculation of demand. This is adjusted periodically to ensure that overall national demand is within the quota limit.

### 3.c Subsidy and Price Determination

The consumers in Bhutan have access to SKO at heavily subsidized prices due to the generous assistance of the Government of India. As shown in the table below, the subsidy extends to over 70 percent of the actual market price.

	<b>Subsidized Price Nu.</b>	<b>Actual Mkt Price Nu.</b>	<b>% subsidy</b>
Phuntsholing	13.94	55.22	74.76
Thimphu	15.35	56.95	73.05
S/Jongkhar	14.28	54.99	74.03
Trashigang	15.72	56.67	72.26

Source: Kuensel, Subsidies are Back, 1 August 2013

Like the case of LPG, the retail price of SKO fixed by the Department of Trade, MoEA. The elements considered in the pricing structure per liter of SKO in the case of Thimphu are as under:

	<b>Amount in Nu.</b>	<b>As % of Price</b>
Invoice Price	12.99	84.64
Transport	1.41	9.22
Shrinkage allowance	0.11	0.70
Dealers Commission	0.23	1.53
Depot Surcharge	0.60	3.91
Retail price	15.35	100.00

Due to the marked cost difference between the subsidized price and the market price, there was a case of huge deflection of SKO back to India in 2004-2006. However, this issue was addressed and imports and distribution have stabilized.

There are continuing instances of small scale deflection in the border towns due to marked differences in price. For example as seen in the table above, the difference between the market price and subsidized price is almost Nu.40 a liter of SKO. Media reports indicate that SKO is deflected back to India by unscrupulous Bhutanese and sold at about Nu. 30 per liter.<sup>7</sup>

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<sup>7</sup> Rinzin, Yangchen, C., "Subsidized Kerosene Continue to be Deflected to India" [www.kuensleonline.com](http://www.kuensleonline.com) 14 September 2013

## 4. Observations.

Based on the review, the Committee has made the following observations:

1. Bhutanese consumers enjoy highly subsidized access to the two commodities due to the generous assistance from the Government of India.
2. There is far less public concern with distribution of SKO compared to LPG due to lower demand.
3. Available data shows that Bhutan has not yet breached the quota limit in both commodities. However, with the current growth trends, it is only a matter of few years that the quota limit, particularly for LPG, will be reached in the next few years.
4. While LPG and SKO are essential commodities imported in growing value and volume, the government does not have a policy to plan, administer and monitor the import, distribution and pricing of the two commodities.
5. It has been noted that the dealer commission on LPG and SKO is constant regardless of quantity imported and supplied. In keeping with basic economic laws, as quantity of supply increases, there should be a decrease in dealer commission as other fixed costs remain constant.
6. Distribution to various Dzongkhags and outlets are determined by the Regional Trade and Industry Office in consultation with the private dealers based on their estimation of demand. There is no Dzongkhag specific quantity and supply across the country is based on regional distribution quota.
7. There are concerns, the two items, and LPG in particular, may not be reaching its intended beneficiaries in remote Dzongkhags and rural areas due to supply side constraints and low volume of demand making it unprofitable for suppliers.
8. Not all Dzongkhags have ready access to LPG and SKO although these are increasingly becoming items of necessity due to urbanization and reduced dependence on firewood owing to urban living conditions. For example, Gasa, Dzongkhag does not have LPG outlet.

9. The Department of Trade officials informed the committee that access to reliable supply of LPG and SKO is disrupted occasionally due to the following conditions.
- a) Frequent strikes in Assam and West Bengal
  - b) Poor road conditions in India
  - c) Road blocks in India and Bhutan
  - d) Lifting capacity of dealers
  - e) Not able to effectively curb the use of LPG across the border as there are many Bhutanese citizens residing in the bordering towns.
10. In view of the growth in demand for domestic LPG consumption, the Committee was informed that the MOEA was in the process of undertaking the following initiatives to rationalize and streamline LPG use
- a) LPG card system introduced in all border towns
  - b) Distribution of commercial LPG (19 Kgs) to commercial establishments underway.
  - c) Working on introduction of LPG card/book system to all domestic LPG consumers to curb misuse.
11. It is acknowledged that due to feeling of insecurity of LPG supply, there is considerable degree of hoarding of LPG cylinders among consumers which make it difficult to increase access to new consumers especially in rural areas.
12. There is concern on possible misuse of LPG quota and deflection back to India as data inconsistencies have been pointed out by both Indian officials and borne out by differences in domestically collected data and also instances of deflection covered in the media.
13. The current practice of issuing coupons for SKO consumers is inefficient as consumers have to depend on many agencies to access coupons. The difficulty is most pronounced in rural areas where people have to walk considerable distances to the Gewog Office to obtain the coupon and again to the SKO dealer to purchase the SKO.

## 5. Summary of Recommendations

Based on the review of the two commodities, the Committee submits the following recommendations:

1. The Government to immediately take steps to frame a policy for the import, distribution and pricing of LPG and SKO in the country. This particularly pertains to dealer commission that seems to be constant regardless of quantity imported and distributed.
2. The policy must ensure adequate supply especially to rural areas through extension of the distribution network beyond urban and semi-urban areas.
3. The Government to continue its process of rationalizing the use of subsidized commodities in high demand such as LPG through the introduction of commercial cylinders for large scale establishments such as starred hotels and industries whose demand is high and presently depend on subsidized LPG.
4. Continued efforts to be made to improve circulation of subsidized LPG cylinders in the country through introduction of innovative means to prevent hoarding.
5. The Government should speed up to establish measures to monitor the distribution of subsidized LPG to households (for example, through link with Citizenship ID Card and household number) for benefit to be extended to all Bhutanese people.
6. The LPG lifting capacity of dealers to be enhanced to ensure regular and reliable supply of LPG as this has been pointed out by the MOEA as a cause for irregular supply.
7. The Government to take measures to prevent hoarding, leakages and deflection of LPG and SKO as these are subsidized commodities and the benefits should accrue to the intended Bhutanese beneficiaries and not to unscrupulous business houses and middlemen.
8. To address the concerns expressed by the Government of India, the MOEA should immediately conduct a thorough examination of the data on LPG to ensure that what is reflected as subsidized exports on the Indian side is correspondingly reflected as (a) imports on the Bhutanese side and (b) as items distributed within Bhutan on the register of the private distributors.

9. In particular it will be vital for the Government to study the cause of data discrepancies seen in 2009 and 2010 and report back to the National Council with their findings.
  10. The Government should consider reducing the procedures and steps for obtaining SKO coupons to make it less burdensome for people in the interior regions where deflection is not likely to occur.
  11. In the long run, the Government must continue to explore alternatives to reduce dependency on imported energy as prices are bound to rise with dismantling of subsidies in India and increase in transport costs.
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#### **Members of the Economic Affairs Committee**

1. Hon. Tashi Wangyal, Chairperson, Eminent Member
2. Hon. Pema Tenzin, Dy. Chairperson, MP, Chukha
3. Hon Sonam Dorji, Member, MP, Dagana
4. Hon. Sangay Khandu, Member, MP, Gasu
5. Hon Pema Dakpa, Member, MP, Zhemgang

#### **Special invitee**

Hon. Nima, MP, Bumthang

## Annexure 1. LPG Distribution 1999-2012 by Volume and Number of Cylinders

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
LPG(MT)	3,286.06	3,546.27	3,613.79	3,887.25	4,016.68	4,053.72	4,472.32	4,980.37	5,405.53	5,724.74	5,856.82	6,834.16	7,410.87	7,469.24
LPG (KG)	3286060	3546268	3613790	3887250	4016675	4053720	4472320	4980370	5405530	5724740	5856820	6834160	7410870	7469240
No. of Cylinders	231,413	249,737	254,492	273,750	282,864	285,473	314,952	350,730	380,671	403,151	412,452	481,279	521,892	526,003

SI No	Dzongkhags	LPG Cylinders in 2013	Percentage
1	Thimphu	143,486	30.49
2	Chukha	86,074	18.29
3	Wangdi	39,547	8.40
4	Sarpang	36,489	7.75
5	Paro	35,374	7.52
6	S/Jongkhar	21,053	4.47
7	T/Gang	17,841	3.79
8	Samtse	16,538	3.51
9	Mongar	13,423	2.85
10	Bumtang	11,757	2.50
11	Lhuentse	10,195	2.17
12	Trongsa	9,231	1.96
13	Punakha	7,702	1.64
14	Haa	6,723	1.43
15	Pema Gatsel	6,422	1.36
16	T/Yangtse	4,240	0.90
17	Zhemgang	4,085	0.87
18	Dagana	359	0.08
19	Tsirang	-	0.00
20	Gasa	-	0.00
	<b>Grand Total</b>	<b>470,539</b>	<b>100.00</b>

## Annexure 2 SKO Distribution by Volume and Percentage

SI No	Dzongkhags	Kerosene Ltr	Percentage
1	S/Jongkhar	1,096,140	21.29
2	Thimphu	1,002,826	19.47
3	Chukha	616,013	11.96
4	Sarpang	608,578	11.82
5	Paro	385,113	7.48
6	Samtse	226,170	4.39
7	Bumtang	196,312	3.81
8	Punakha	149,803	2.91
9	T/Gang	123,300	2.39
10	Trongsa	120,570	2.34
11	Tsirang	110,630	2.15
12	Wangdi	102,998	2.00
13	Zhemgang	86,182	1.67
14	Dagana	75,109	1.46
15	Mongar	66,600	1.29
16	T/Yangtse	66,000	1.28
17	Haa	43,125	0.84
18	Pema Gatsel	38,191	0.74
19	Lhuentse	36,000	0.70
20	Gasa	0	0
	<b>Grand Total</b>	<b>5149660</b>	<b>100</b>