



*By hand*

January 20, 2021

Smt. Nirmala Sitharaman  
Cabinet Minister  
Ministry Of Finance

**Budget 2021: An opportunity to incentivize clean fuel for air pollution control by making natural gas more competitive with coal**

Dear Nirmalaji,

As you may know, Centre for Science and Environment (CSE) has for the past many years worked to advocate solutions for cleaning up Delhi's toxic air. We know today that air pollution is extremely harmful for our health. We also know that air pollution is not only a problem in Delhi, but extends across the country. The cost of breathing polluted air has implication on the morbidity and mortality rates in the country and therefore, it is critical that we make concerted efforts to combat this environmental problem.

Over the past few years proactive steps taken by the Union and state government have led to a distinct improvement in air quality— our data shows a reduction of 25 per cent in pollution in the last 3 years over the same previous period in Delhi and this trend continues. But, this said, there is still a long way to go before we have the air quality that is considered to be 'good' or even 'moderate' – that has no adverse impacts on our health and the health of our children.

**One of the biggest solutions for clean air is to ensure a transition to cleaner fuels, used for combustion – natural gas or electricity.** The transition to gas has been the key action taken by Beijing to reduce its air pollution. It is also what Delhi did in the early 2000 when it moved to compressed natural gas (CNG) for its polluting vehicle fleet. Changing the fuel itself led to massive air pollution benefits.

Today the critical and necessary transition to cleaner fuels is not taking place because coal remains cheap and natural gas cannot compete in the current scenario.

Our recent publication on industrial fuel policy in Delhi and NCR shows the following:

- That coal continues to be widely used as an industrial fuel across the region. This in spite of the availability of cleaner natural gas in key industrial areas/districts.
- That coal is being burnt in medium and small industrial units where pollution control and enforcement is nearly impossible and so pollution is high.

LEAVES  
OF  
IMPORTANT  
SURVIVAL  
TREES  
IN  
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KHEJDI,  
ALDER,  
PALMYRA  
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It is also important to recognize that there is a crucial difference between the shift to CNG for vehicles and now, when the need is to introduce gas into the industrial sector. In the early 2000, it was agreed (then under the directions of the Hon'ble Supreme Court) that every effort would be made to keep the price of cleaner fuel lower than the more polluting fuel, in this case diesel. **However, now the displacement fuel is coal and this price is so low that natural gas, with its high tax burden, is unable to compete.**

We have compared the use of coal as against gas in industrial areas around Delhi. Currently, it would cost industry between 1-2 times more in the price of fuel to use gas instead of coal. This high cost of input-fuel would make the industry uncompetitive with its counter-parts in other states and in other countries. This, then makes the introduction of gas unviable and pollution becomes inevitable.

This is when industry accepts that the use of gas for combustion is more efficient (its calorific value is higher than coal); it is cleaner, it requires less maintenance and most importantly, it will reduce regulatory costs as pollution control is much simpler to do. Changing the fuel, will not just reduce investment in expensive pollution control equipment but will also reduce costs of compliance enforcement and inspections. **But without a reduction in price, this transition to clean fuel, is not possible.**

However, there is a way out of this impasse. We have taken a careful look at the taxation system for natural gas and we find the following:

a. **Natural gas has a high tax burden –currently, it is taxed both at the point of sale and purchase and this means that tax as a component of the final price can be as high as 18% and above.** This means that even as the price of natural gas gets lower because of national and global market conditions, it still remains uncompetitive in the face of cheap (and extremely polluting) coal availability.

b. In the case of NCR, most of the gas is sourced from the LNG terminals in Gujarat, where it is re-gassified before it is piped for supply to industries in the region. The Gujarat state VAT is 15% and this increases the price of gas by over US\$ 1. Then there is the state VAT charged when it is sold to industries in the region. At this point, NCR states add VAT -- another 6% (Haryana) to 10% (UP) and this makes the clean fuel completely uncompetitive as compared to coal. Even Delhi, which has reduced its VAT to 5%; has completely banned the use of coal and provides fiscal incentives to industries for this clean fuel-transition, does not get the advantage because of the higher taxes charged at the point of sale in Gujarat.

c. The situation is made worse because gas, unlike coal, is not included in GST and therefore, industry cannot get the credit for its use. This is ironic as gas is put at a disincentive as compared to the dirtier fuel options like coal, which is included in GST.





We realize that states, which charge a higher VAT on gas may have an issue about bringing this product into GST. For instance, the share of natural gas to the total petroleum product revenue was roughly 20% for Gujarat; 7% for Maharashtra in the past year. But on the other hand, given the economic strength of these states, it is a small percentage of the total state tax revenue. And, it is clear that these states will see the human health advantage of using cleaner fuel. In fact, all industries will benefit as they will also reduce the cost of equipment for pollution control and governments will reduce costs of regulation.

There is also advantage to the economy from the use of natural gas – its use will be regulated and metered and therefore, industrial production will be better accounted for. In our visits to the industrial areas around Delhi, we have been told of many instances where industry uses coal or other fuels and does not account for its production. This has parallels to the use of diesel in transport, which was often adulterated and the switch to gas led to better economic performance of the transport systems.

**We would therefore, urge you to consider ways of bringing down the costs of clean fuel in the country and if possible including it under GST.**


**Our understanding is that with 5%GST (instead of 18% state VAT and other taxes), the price to the industry consumer will reduce by 17 per cent and as gas has a higher calorific value and lower management costs, it will become attractive for industries to switch from coal to this cleaner fuel.** Once this is done, we will also work with the gas distribution companies to ensure that the benefits of lower price are passed on to industrial consumers so that this transition to clean fuel happens.

When CSE had advocated the use of CNG for vehicles, we had also asked for a fiscal strategy that would incentivize the use of clean fuel over dirtier fuels like diesel.

Today, given the extremely high pollution levels, not just in NCR but in many other cities of the country, we must incentivize clean combustion. The only two options are either gas or electricity but both are priced out and it is for this reason that air pollution has become a public health emergency in the country. This is why we need these structural changes so that clean fuel – cleaner generation of electricity in power plants and cleaner fuel in industrial manufacture – is made possible at affordable rates.

We will look forward to your support in this our fight for blue skies and clear lungs.

With regards,

  
Sunita Narain