PETROFED

Ref. No.: PF/9
February 27, 2013

To

1. Shri Vivek Rae
   Secretary
   Ministry of Petroleum & Natural Gas
   Shastri Bhavan, New Delhi-110 001

2. Shri Sumit Bose
   Revenue Secretary
   Ministry of Finance, Department of Revenue
   128-A, North Block, New Delhi-110 001

Sub.: OID Cess

Dear Sir,

The Petroleum Federation of India (PetroFed) is an apex Society of entities in the hydrocarbon sector and acts as an industry interface with Government, regulatory authorities etc. It helps in resolution of issues and evolution of policies and regulations. It represents the industry on Government bodies, committees and task forces and has been submitting recommendations to the Government on behalf of the industry on various issues.

The Oil Industry (Development) Act, 1974 provides for collection of cess as a duty of excise on indigenous crude oil. This cess on crude oil removed to a refinery was levied at Rs. 60 per tonne in July, 1974 and was progressively increased to Rs. 2,500/- per tonne on March 1, 2006. At that time the Ministry of Petroleum & Natural Gas vide Notification no. S.O. 253 (E) dated February 28, 2006 limited it to Rs. 900/- per tonne on crude oil production from 26 fields under the Production Sharing Contracts of pre-NELP discovered blocks.

The Committee on Pricing and Taxation of petroleum products, chaired by Dr. C. Rangarajan had observed in February, 2006 that fiscal integrity demands that all the support required to be borne as 'upstream contributions' should come as cess, be accounted for in the consolidated fund and then allocated for funding the subsidy. It will, therefore, be appropriate for the Government, according to the report, to determine the quantum of subsidy to be borne by ONGC/OIL up front and collect it by suitably adjusting the rate of cess. It had accordingly recommended raising the cess from

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Rs. 1,800/- per MT (which had been effective March 1, 2002) to Rs. 4,800/- per MT.

The Government, after this recommendation increased the cess to Rs. 2,500/- per MT from March 1, 2006 and then by another 80% to Rs. 4,500/- per MT from March 17, 2012. There was, thus, an increase of 150% in the cess as compared to the rate prevailing before the Report. This was done without implementing the accompanying second part of the recommendation i.e. withdrawing the 'upstream contribution' as subsidy to Oil Marketing Companies. This has resulted in a very heavy burden of cess over and above the upstream subsidy which continues.

In the case of pre-NELP exploration block (RJ-ON-90/1) the Production Sharing Contract (PSC) is silent on the cess issue. It became a contentious one when Cairn India made a significant oil discovery in the block in 2004. When Vendanta Resources plc took over control at Cairn India the Government made it a condition that both Cairn and ONGC would bear the cess liability in proportion to their participating interests in the block. As a result, Cairn is probably the only private producer paying cess at the prevailing rates besides ONGC and OIL, since Cairn accepted the liability to conclude the deal.

According to the PSC for the block (RJ-ON-90/1) if any change in or to any Indian law, rule or regulation imposed by any authority results in a material change to the economic benefits accruing to any of the parties under the contract, the Parties shall consult promptly and make the necessary revisions and adjustments to the Contract in order to maintain such expected economic benefits to each of the parties. In this case Cairn India had accepted the Cess liability of Rs. 2,500/- per MT which has been arbitrarily increased to Rs. 4,500/- per MT without any consultation or revision and adjustment in contract as spelt out in the PSC.

There appears, therefore, no justification for revision of cess from Rs. 2,500/- to Rs. 4,500/- per MT in this case.

The concerned companies have individually taken up the issue earlier but are awaiting redressal.

To strengthen the country's E&P sector and promote its healthy growth we urge you to kindly:

1. reduce the OID cess to the earlier level of Rs. 2,500/- per MT or eliminate the upstream subsidy being paid by the PSU E&P

companies to Oil Marketing Companies with the increased cess amount.

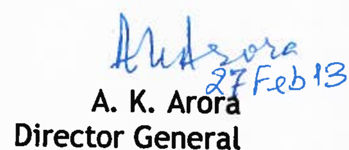
2. in light of the fiscal stability provisions of the Production Sharing Contract the cess with respect to the pre-NELP exploration block of Cairn (RJ-ON-91/1) be frozen at the earlier level of Rs. 2,500/- per MT.

It is submitted that E&P activities require fiscal stability to ensure reasonable returns to encourage investment. It is a capital intensive and high risk business which needs to be made attractive for investors.

An early decision would go a long way towards augmenting energy security of the country by sustained development of the E&P industry.

Thanking you,

Yours faithfully,



A. K. Arora
Director General