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The Secretary,
Ministry of Petroleum & Natural Gas
Shastri Bhavan
New Delhi

Dear Sir,

Sub: Re-introduction of Customs duty on crude oil

Oil refining companies are passing through difficult times due to massive inventory losses caused by steep and continuous decline in international crude oil prices and volatile exchange rates. The refining margins have been under pressure for some time and profitability of refineries largely remains uncertain under the current uncertain global oil price scenario.

Amidst all these uncertainties, the refiners are having a grave concern on apprehensions in certain quarters that Govt. is considering reintroduction of customs duty on crude oil. As you are aware, customs Duty on crude oil is not a pass through in the sales price of product as per present pricing formulae and therefore shall lead to an increase in the input cost of the refineries. This will further dent the already eroding financials of refineries due to falling oil prices.

The country imports about 78% of its crude oil requirement and remaining 22% is supplied by domestic crude oil producers. On the domestic crude oil purchases too, refineries have to bear Sales Tax / VAT, ranging from 2% to 5%, which cannot be passed on in the product prices as the VAT set-off credit is not permitted on the same. These levies are already being absorbed by the refining companies.

It may be mentioned that Govt has been garnering additional revenues through successive increases in excise duty on Petrol and Diesel during the last one year. Petroleum sector is already contributing to the Govt exchequer in a big way in this regard and therefore it is urged that it may not be saddled with any additional burdens like cess on domestic crude oil or customs duty on imported crude oil.

The oil companies have slated large CAPEX spend in the next few years to meet the growing demand of the economy as also to provide for stringent fuel quality specifications mandated by the Govt for implementation of BSIV norms across the country by 01.04.2017. Further, implementation of BSV/ BSVI fuels is also proposed from 1.4.2020 in view of increasing pollution and related environmental concerns. There is a strong case for Govt to consider giving fiscal concessions to refineries to produce higher quality fuels rather than putting additional burden on the already stressed and weak refinery financials.

Considering the investment plans of refining companies, the costs that are not pass through in prices (like VAT on crude oil) already being borne by them and the current burden of steep and continuous fall in oil prices, the refining companies shall not be able to absorb any additional costs such as imposition of customs duty on crude oil.

We only hope that there is no proposal to re-introduce customs duty on crude oil as is being talked in some circles. We request MoP&NG to ward off against any such move by the Finance ministry, if any.

Yours faithfully,

Dr. R. K. Malhotra
Director General

Petroleum Federation of India

PHD House, 2nd Floor, 4/2, Siri Institutional Area, August Kranti Marg. New Delhi 110 016 Tel.: +91-11-26537483, 26537062, 26537069, 26535284, 26535216, 65664067
Fax : +91-11-26984840 E-mail : petrofed@petrofed.org Website : www.petrofed.org