PIONEER, Delhi, 28.1.2018
Page No. 8, Size:(4.66)cms X (6.27)cms.

Dr Ashutosh Karnatak, Director(Project) GAIL (India) Limited hoisted National Flag at Corporate Office in New Delhi on 69th Republic Day of India and address GAIL employees and family.

HINDU (SUNDAY), Delhi, 28.1.2018
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OIL & GAS

Rationalise cess on crude oil

ANAND KALYANARAMAN

The oil and gas sector will be hoping for the Budget to rationalise cess on crude oil, cut import duty on liquefied natural gas (LNG) further, reduce excise duty on compressed natural gas (CNG) and provide incentives for domestic production. It will also be expecting a roadmap on the subsidy sharing mechanism. Consumers will be hoping for a cut in excise duty on petrol and diesel. Two years back, Budget 2016 had changed the cess calculation on crude oil produced from blocks allotted outside the erstwhile NELP mechanism, from ₹4,500 per tonne to 20 per cent *ad valorem*. This was to provide relief to producers reeling under the oil crash that saw prices go down to about $30 a barrel. But with oil recovering sharply from those lows and now about $70 a barrel, the 20 per cent cess has meant higher burden for oil producers. The industry will be hoping for relief from cess rationalisation, a wish that went unfulfilled in Budget 2017. This move will benefit explorers such as ONGC and Cairn India.

Budget 2017 reduced customs duty on LNG from 5 per cent to 2.5 per cent. There are hopes that Budget 2018 will exempt LNG from import duty altogether to add to the clean fuel's cost-competitiveness. Similarly, the industry is hoping for excise duty cut on compressed natural gas (CNG) and piped natural gas (PNG), a thrust area for the government. These cuts could benefit players across the gas value chain from importers such as Petronet LNG, transmitters such as GAIL (India), and city gas distributors such as Indraprastha Gas, Mahanagar Gas and Gujarat Gas.

The sharp rise in oil prices since June 2017 has the potential to upset the subsidy-sharing apple-cart. This could impact the public sector oil marketing companies (Indian Oil, HPCL and BPCL) and hydrocarbon producers (ONGC and Oil India) unless the government decides to pull more weight. Oil players will be hoping for clarity on the subsidy sharing mechanism. The industry will also be hoping for incentives to increase domestic production such as market-based prices for gas, and tax breaks on exploration and production.

The ongoing debate about if and when the key petroleum products should be brought under the GST could also find a mention in the Budget speech, though this vexed issue is likely to be eventually decided by the GST Council. The industry will be hoping for some indications, since the products being outside the GST cause many problems such as denial of input tax credits and increase in costs.

There is increasing disquiet amongst consumers about the steady and sharp rise in the price of petrol and diesel. The common man would be looking forward to a cut in excise duty on these products. With oil prices rising sharply, the steep tax hikes effected earlier have not been rolled back. The government could find itself in a tight spot, with its heavy dependence on revenue contribution from the oil and gas sector and the need to provide relief to consumers.

ON THE CARDS

- Cut in cess on crude oil
- Exempting LNG from customs duty
- Clarity on subsidy sharing