

# FIPI



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16<sup>th</sup> November 2017

Dr Hasmukh Adhia  
Finance Secretary  
Ministry of Finance  
North Block, New Delhi

**Sub: Issues faced by Oil & Gas Industry post GST rollout on July 1, 2017**

Dear Sir,

At the outset, we thank and acknowledge the proactive approach of the Government to support and address the concerns of Industry post GST rollout.

As you are kindly aware non-inclusion of Crude oil, MS, HSD, ATF, NG in GST levy is causing great hardship to oil & gas sector as approx. 75% to 80% of input GST credit stands ineligible for set off with output GST.

Oil Industry through various representations including GST working group for Oil & Gas, has suggested various mitigation measures to reduce the mounting stranding tax burden, which was expected to be approx. Rs. 22000 crore p.a. The Sectoral Group on Oil & Gas has already submitted its report incorporating some of these mitigation measures within the existing framework of GST law.

While thanking you in addressing some of the submissions of the Sectoral Group, we note that one of the important issues highlighted with respect to applicability of GST on transportation service via Cross Country Pipelines, has not been comprehensively addressed.

Needless to mention, transportation of crude oil and petroleum products through pipelines is not only safe and environmental friendly but also ensures energy supplies at an optimum cost. Accordingly, one of the key agenda of MOP&NG is to facilitate the expansion of transportation of crude and petroleum products through pipelines instead of transportation through rail and road.

Under GST rate notification, there is no specific category of 'transportation of crude oil or petroleum products through pipeline'. As a result, transportation of crude and petroleum products through various cross country pipelines falls under residual category, schedule 3, where applicable GST rate is 18%. Considering that approx. 75% to 80% of petroleum products are not subject to GST, input credit for GST on the stock transfer of services of cross country pipeline is adding to the already huge burden of stranded taxes on oil and gas sector. In this regard, we refer to the meeting held in your offices on September 22nd, 2017 wherein along with Secretary MOP&NG, this issue was appraised for your favourable consideration.

## **Federation of Indian Petroleum Industry**

The country has extensive cross country crude and petroleum products pipelines which are being operated by oil companies, the details whereof are enclosed in the attachment. Notwithstanding that most of these cross-country pipelines are not being operated as separate companies, the incidence of GST under-recovery stand equally applicable in such case also, in as much as that stock transfer of services via cross country infrastructure under present framework of GST falls under the definition of supply.

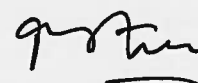
Section 7(1)(c) of CGST Act covers the activities specified in Schedule I, made or agreed to be made without a consideration, as supply. Clause 2 of Schedule I specifically covers "Supply of goods or services or both between related persons or between distinct persons, as specified in section 25, when made in course or furtherance of business". Oil companies with country wide network of pipelines qualifies for registration requirement u/s 25 of CGST Act and in-turn are distinct persons. Accordingly, transportation service provided through network of cross country pipelines, despite not being operated under separate company, also qualifies as supply thus liable for GST and consequently for stranding tax cost.

GST presently provide lower rate of GST @ 5% for both transportation of goods via railway and road however with respect to transportation of goods via pipeline, rate of tax is as high as 18%. Sectoral Group in its report has provided guidance in this regard by recommending rationalisation of the rate for transportation of NG, Crude & petroleum products via pipeline from 18% to 5% consistent with GST rate for transportation via railways and GTA. Government has since vide notification no 31/2017- Central Tax (Rate) dated 13<sup>th</sup> Oct 2017 has already rationalized the rate in respect of transportation of NG via pipeline, whereas similar relief for crude and petroleum products, has not been extended.

We request your kind support to provide similar rate of lower GST rate from 18% to 5% w.r.t. transportation of crude and petroleum products via pipeline in line with relief granted to NG and already available to transportation via railway and road. Additionally, the concessional rate should be without any restriction to input GST credit for input services. This will provide required relief to the industry and will support the further development of the cross country crude and petroleum products pipeline meet the growing energy requirement in the country.

Thanking you

Yours faithfully



Dr R. K. Malhotra  
Director General

Cc: Sh. K.D. Tripathi, Secretary, MoP&NG

Major crude oil and product pipeline network

	ONGC	OIL	Cairn	HMEL	IOCL	BPCL	HPCL	Other*	Total
<b>Crude Oil</b>		1191	1193	660	1017	5301	937	0	10299
(as on 1.8.2017)		58.5	8.4	8.7	9	48.6	6	0	139.2
<b>Products</b>		0	654	0	0	7491	1936	3333	16102
(as on 1.8.2017)		0	1.7	0	0	45.1	14.9	34.6	105.6

\*Other includes GAIL and Petronet India. Source PPAC