



Ref. No.: PF/9
19th December, 2016

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

Sub: OID Cess on Indigenous Crude Oil

Dear Sir,

At the outset we would like to thank Ministry of Finance for converting the levy of cess on Crude Oil from a specific rate to an ad-valorem rate in the last Union Budget. Directionally, it was a right step though the rate set at 20% at that time turned out to be very high.

Prior to the aforesaid revision, the cess was specified at a fixed rate of Rs.4500 per tonne. This rate was in force from March 2012 till the revision in February 2016. As the average monthly oil price during this period was approximately US\$ 100/barrel, in percentage terms the cess of Rs. 4500/tonne worked out to be about 9% of crude oil price.

The 20 % Cess rate provided benefit for a temporary period only upto moderate crude oil prices. In the wake of recent OPEC decision to again resort to production cuts, the crude oil prices have started moving up, though it is difficult to predict whether it is a sustained or temporary trend. As a result the domestic producers of crude oil are again feeling the pinch with 20% ad-valorem cess and are in fact in a much worse off than before. There is therefore an urgent need to reconsider this issue and provide the much needed relief to the domestic oil producers.

On behalf of industry, we would once again like to submit for an expeditious correction in the levy of cess on domestic crude oil production from 20 % to 8 % of the realized price of crude oil. Reducing the cess rate would help to expeditiously increase oil production and meet Hon'ble Prime Minister's vision of "Make in India" and enhanced energy security.

A self-contained note giving brief background and justification for revision in the rate of cess of cess is enclosed for kind consideration.

We wish to seek an appointment to brief you and present the case in person. We shall be grateful if you could give us a time at your earliest convenience.

Thanking you,

Yours faithfully,

Dr. R. K. Malhotra
Director General

Encl.: as above

cc: Shri K. D. Tripathi, Secretary, Ministry of Petroleum & Natural Gas

Petroleum Federation of India