



PETROFED

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February 12, 2016

To

- ✓ 1. Shri Kapil Dev Tripathi
Secretary
Ministry of Petroleum & Natural Gas
Shastri Bhavan, New Delhi - 110 001
2. Dr. Hasmukh Adhia
Revenue Secretary
Ministry of Finance, Department of Revenue
128-A, North Block, New Delhi - 110 001

Sub.: OID Cess on Crude Oil produced in India

Dear Sir,

The Petroleum Federation of India (PetroFed) on behalf of the hydrocarbon industry have repeatedly requested the GOI to reduce and convert the Cess levied on oil production from a fixed rate to an ad-valorem rate of approximately 8% of the realized price of crude oil. As indicated in our previous communication, the Cess was increased by the GOI from time to time in correspondence with rise in international crude oil prices.

For instance, during 2005-06, when the crude oil prices had increased from an average of USD 40 per barrel to USD 60 barrel, OIIB Cess was increased from INR 1,800 to INR 2,500 per tonne from 01 March 2006. Again, when the crude oil prices increased to over USD 100 per barrel, the rate of Cess was increased by the GOI to INR 4,500 per tonne.

The international crude oil prices over the last one year have fallen by 70% but the levy being fixed has remained at the same level. This has severely eroded the ability of the domestic oil producing companies. It was therefore recommended that the Cess be reduced and converted to an ad-valorem rate of 8% of the realized price of crude oil. We understand that MoP&NG has also recommended the same to the Ministry of Finance.

As cess levy is placing domestic crude oil producers – ONGC, Cairn India and Oil limited at a significant disadvantage vis-à-vis imported crude oil. This levy in a way is against the very spirit of "Make in India" and needs an immediate amendment. Currently, the Cess rate constitutes - 38% of the realized price of crude oil, which is severely impacting numerous cash generative assets. Moreover, several small discoveries and marginal fields will likely see project viability issues. Thus, existing Cess rate is a significant disincentive to production.

We were looking forward to the relief earlier but now hope that same will certainly be made an ad-valorem rate in the forthcoming Budget.

Thanking you in anticipation.

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 : +91-11-26964840 E-mail : petrofed@petrofed.org Website : www.petrofed.org