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OIL MINISTRY SEEKS REVIEW OF WINDFALL TAX, WANTS CERTAIN FIELDS EXEMPTED

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The Oil Ministry has sought a review of the two-and-a-half-month old windfall profit tax on domestically-produced crude oil saying it goes against the principle of fiscal stability provided in contracts for finding and producing oil.

The Ministry in the August 12 letter, reviewed by PTI, sought exemption for fields or blocks — which were bid out to firms under the Production Sharing Contract (PSC) and the Revenue Sharing Contract (RSC) — from the new levy.

It stated that since the 1990s, companies had been awarded blocks or areas for exploration and production of oil and natural gas under different contractual regimes, wherein a royalty and cess is levied and the government gets a pre-determined percentage of profits.

The Ministry, according to the letter, was of the opinion that the contracts have an in-built mechanism to factor in high prices as incremental gains get transferred in the form of higher profit share for the government. E-mails sent to the Oil Ministry as well as the Finance Ministry for comments remained unanswered.

‘Super-normal profit’

India first imposed the windfall profit tax on July 1, joining a growing number of nations that tax super-normal profits of energy companies. While duties were slapped on the export of petrol, diesel and jet fuel (ATF), a Special Additional Excise Duty (SAED) was levied on locally-produced crude oil.

The SAED on domestic crude oil was initially Rs. 23,250 per tonne ($40 per barrel) and in fortnightly revisions brought down to Rs. 10,500 per tonne.

The government levies a 10-20% royalty on the price of oil and gas as also an oil cess of 20% on production from areas given to state-owned Oil and Natural Gas Corporation (ONGC) and Oil India Ltd. (OIL) on a nomination basis.

RSC regime

These levies apart, fields were awarded under the PSC regime where the government gets about 50-60% of the profit made after deducting costs. The RSC regime specifically has a clause to capture windfall gains for the government.

According to Oil Ministry calculations, the new levy in the case of PSC and RSC results in a situation where the operator ends up paying much more than the windfall gain itself.

Besides, the contracts specifically provide for fiscal stability for the contracting parties, it said, adding any change of law or rule or regulation that adversely changes expected economic benefits to parties can lead to seeking revision and adjustments to the terms of the contracts.

It added that it had got representations from major crude oil producers, including ONGC and OIL and Vedanta Ltd., for a review of the new levy as it was adversely impacting their investment plans. Concerns raised by these firms include economic unviability and contract clause violation, it added.

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