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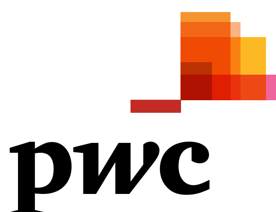
New View
Implications of the Union Budget 2014 on the Oil and gas Industry



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Chapter 1

India Union Budget 2014 - 2015 perspective

Two important directional announcements highlight the manner in which the new government looks at the oil and gas sector.

The government has unambiguously stated that it will continue with the policy of calibrated correction in diesel prices. Stabilisation of external exchange and stable international crude oil prices are stated in the Budget as critical in the process of rationalisation of diesel prices. The government expects that the gap between administered and market prices of diesel will be eliminated by early FY 2014-15. Thereafter, both petrol and diesel will be deregulated and linked to market prices.

Secondly, although the government has clarified that it will leave PDS kerosene and LPG subsidy untouched, the assertion that petroleum subsidy will be more targeted is very comforting. Although the Budget does not propose concrete measures, multipronged attempts are expected to be made in that direction while ensuring full protection to the needy. To manage subsidies, LPG duties have also been reduced albeit while formalising the expansion of base to include in subsidy the consumption in non-domestic deserved applications.

A budget of about 63,000 crore INR has been allocated to petroleum subsidies as against an estimated 85,500 crore INR spent in FY 2013-14. Before presenting the Budget proposals, the new government supported the rise in LPG, petrol and diesel prices. This heralds an altogether new regime. Reduced subsidy burdens will leave oil marketing companies in better financial health. Deregulation of petrol and diesel prices will make way for competition in the retail market. More importantly, the implementation of perfect GST will become more acceptable to the petroleum refining and marketing industry with the ability to pass on tax costs to consumers.

Union Budget 2014-15 re-affirms the government's commitment to carry the process of fiscal consolidation to its logical end. Accordingly, the fiscal deficit target of 4.1% has been retained in this year's fiscal policy. Disinvestments in government PSUs are proposed to be the main source of receipts for the government in the year. Certain petroleum sector PSUs will be disinvested. The Budget also anticipates that the dividends from such PSUs will be moderate due to disinvestment while dividends from PSUs will grow as their profit grows.

The Economic Survey acknowledged the unmanageable situation with respect to petroleum import dependence through crude oil and LNG, and its impact on trade and fiscal deficits. The decomposed trade deficit reveals that the petroleum sector contributed negatively although non-petroleum commodities improved the situation. Having clearly stated that managing these deficits is topmost in its agenda, steps by the government to augment domestic petroleum production were expected to have been clarified in the Budget. Yet, the Budget has remained silent on this. Further, the Finance Minister informed that the government will be working towards increase in indigenous production of fertilisers which will help reduce dependence on imports and make prices much more stable. The fertiliser sector will need domestic gas for new capacities, to be able to manage the subsidy burden. The need for positive development in the exploration and production sector is further underscored in this context. The sector is sincerely hoping that the exploration and production industry will receive serious attention of the government after the Budget.

The announcement that the GST regime will be rolled out within the year is a positive signal to the industry. The petroleum industry will need to continue to work towards its inclusion in the regime.

A positive investment climate, healthy oil companies, a strong economy and reforms within the sector–factors targeted by the government in Union Budget 2014–will go a long way in developing a strong oil and gas sector.

Chapter 2

The Economic Survey 2013-14

The Economic Division of the Ministry of Finance, government of India released the Economic Survey 2013-14 on 9 July 2014. The following excerpts of the Survey present the macroeconomic context to the developments in the oil and gas sector for the year 2013-14.

State of economy

In 2014-15, the Indian economy is poised to overcome the sub-5% growth of the gross domestic product (GDP) witnessed over the last two years. Persistent uncertainty in the global outlook, caused by the crisis in the Euro area and general slowdown in the global economy, compounded by domestic structural constraints and inflationary pressures, resulted in a protracted slowdown. The slowdown is broadly in sync with trends in other emerging economies, but relatively deeper. India's growth declined from an average of 8.3% per annum during 2004-05 to 2011-12 to an average of 4.6% in 2012-13 and 2013-14. Average growth in the emerging markets and developing economies including China declined from 6.8 to 4.9% in this period (calendar-year basis). What is particularly worrisome is the slowdown in manufacturing growth that averaged at 0.2% per annum in 2012-13 and 2013-14.

Aided by favourable monsoons, the agriculture and allied sectors achieved a growth of 4.7% in 2013-14, compared to its long-run average of around 3% (between 1999-2000 and 2012-13). However, in certain other sectors, slowdown has been more pronounced and protracted. Mining and quarrying activities have decelerated since 2011-12. Two prominent components of mining, coal and crude petroleum have stagnated in the last three to four years. Subsequent to an average growth of 7.1% in coal production during the four-year period from 2006-07 to 2009-10, its growth declined to an average of 1.6% during the next four years ending 2013-14. The slowdown in coal production partly owes to regulatory issues. The compound annual growth rate (CAGR) of crude petroleum was 1.2% during 2004-05 to 2013-14. As coal and petroleum are universal intermediates, the slack in their production impacted the economy adversely.

The disaggregated sectoral trends may be better understood in terms of movement in sectoral shares in GDP. The share of the agriculture and allied sectors in GDP has been consistently declining. During the eight years between 1999-2000 and 2007-08, the share of agriculture and allied sectors in GDP declined by 6.4 percentage points, while that of industry and services increased by 1.9 and 4.4 percentage points.

The last two years were particularly disappointing for the manufacturing sector, with growth averaging at 0.2% per annum. The decline has been quite broad-based, as per the data from the index of industrial production (IIP).

The slowdown in services, in particular the internal trade, transport, and storage sectors, could be attributed to the loss of momentum in commodity-producing sectors.

Prices

Compared to previous years, inflation showed signs of receding with average wholesale price index (WPI) inflation falling to a three-year low of 5.98% during 2013-14. Consumer price inflation, though higher than the WPI, has also exhibited signs of moderation with CPI (new-series) inflation declining from 10.21% during 2012-13 to about 9.49% in 2013-14. Food inflation, however, remained stubbornly high during FY 2013-14. As inflation remained above the comfort level of the Reserve Bank of India (RBI), the tight monetary policy stance was maintained by the central bank. The depreciation of the rupee, following the taper indication by the Federal Open Market Committee (FOMC) in May 2013, also impacted the inflation situation. The rupee went into a free fall and touched a low of 68 INR to a dollar by the end of August. However, the government and the RBI were quick to respond and announced immediate measures to arrest volatility and quell speculation. The RBI has since stuck to its commitment to bringing down inflation levels and maintained high rates in Q4 2013-14. Going forward, both wholesale and consumer price inflation in India is expected to inch downwards, paving the way for monetary easing, although there are risks to the outlook for inflation from a possible sub-normal monsoon during 2014-15 as predicted by the IMD, possible step-up in the pass-through of international crude oil prices, and exchange rate volatility.

Fuel inflation remained in double digits in the last three quarters, largely on account of movements in global crude prices, exchange rates, and revision in the administered prices. Oil marketing companies are allowed to revise retail prices of diesel upto 50 paise per month. Electricity tariffs were revised, and raised, in several states and pass-through of both global crude prices, as well as rupee depreciation particularly after the taper announcement by the US Federal Reserve in May 2013 increased domestic prices of several sub-components such as high-speed diesel.

Inflation in non-food manufactured (NFM) commodities, i.e core inflation, remained benign at around 2.5 to 3.5% throughout the year on account of lower international prices and growth slowdown. Unlike the inflation in food and fuel, inflation in NFM inched up partly on account of the wearing-off of the base effect and inflationary pressure within the chemicals, machinery and textile groups.

One of the strategies to control inflation is to move to market prices. It is important to know that the deregulation of diesel prices, power-sector reforms, and the move from administered to market-determined prices will release suppressed inflation in the short run. Nevertheless, the consequent reduction in subsidy and fiscal deficit will have a salutary effect in reducing inflation.

External trade

The 2008 global financial crisis and subsequent slowdown in the world economy resulted in a steep decline in India's export growth. It had registered a robust growth of 30.1% in the five pre-crisis years (2003-2007), which then decelerated to 16% in the five post-crisis years (2009-2013). India's export growth, in the past five years, has twice entered the negative territory: in 2009-10 as an aftershock of the 2008 crisis and in 2012-13 as a result of the Eurozone crisis. In 2013-14, there was a mild revival of 4.1% in export growth after the decline to -1.8% in 2012-13.

The export growth for India was in double digits continuously for four months from July to October 2013. Thereafter, it decelerated to a single digit for three months from November 2013 to January 2014, remained in negative territory in the next two months, and ended with positive but low growth at 4.1% for the full year. In April 2014, export growth was slightly better at 5.3 per cent, further improving to 12.4% in May 2014 and touching the double-digit growth after a gap of six months.

Export growth in dollar terms as well as in rupee terms showed an improvement over the previous year – growth in dollar terms accelerating from -1.8% in 2012-13 to 4.1% in 2013-14 and in rupee terms from 11.5% in 2012-13 to 15.9% in 2013-14.

Import growth decelerated sharply from 32.3% in 2011-12 to 0.3% in 2012-13 and fell to a negative -8.3% in 2013-14, owing to a fall in non-oil imports by 12.8%. Among the major items of import, the value of petroleum, oil, and lubricants (POL), which constituted 36.7% of total imports in 2013-14, grew marginally by 0.7%. This marginal growth was on account of moderate quantity growth of POL (2.6%) despite the moderation in crude oil prices with the average price of crude oil (Indian basket) falling to 105.5 USD/bbl in 2013-14 from 108.0 USD/bbl in 2012-13.

The growth in POL exports, which was negative for the first three quarters of 2012-13 (-7.3%), entered into positive territory in 2013-14. In the first two months of 2014-15 (P), there was further improvement in petroleum products exports, growth of which stood at 14% during this period.

The sharp fall in imports and moderate export growth in 2013-14 resulted in a sharp fall in India's trade deficit by 27.8%. A decomposition of the performance of trade deficit in 2013-14 vis-à-vis 2012-13 indicates that of the total reduction in trade deficit on Balance of Payments (BoP) basis, reduction in imports of gold and silver contributed approximately 47%, reduction in non-POL and non-gold imports constituted 40%, and change in exports constituted 25%. Higher imports under POL and non- Directorate General of Commercial Intelligence and Statistics (DGCI&S) imports contributed negatively to the process of reduction to the extent of 12% in 2013-14 over 2012-13.

In absolute terms, trade deficit fell to 137.5 billion from 190.3 billion USD during 2012-13. However, there was not much change in the POL deficit which was hovering at around 100 billion USD in the last two years. With the fall in imports of both gold and capital goods, non-POL deficit fell sharply to 35 billion USD in 2013-14 from 87.2 billion USD in 2012-13.

Significant compositional changes have taken place in India's export basket between 2000-01 and 2013-14 with the share of petroleum, crude, and products increasing nearly five times to 20.1% in 2013-14 from 4.1% in 2000-01, catapulted by its 33.5% average annual growth. There have been significant compositional changes in India's import basket in recent years as well. The share of POL imports increased from 31.3% in 2000-01 to 36.7% in 2013-14, implying an average CAGR of 21.6%.

Subsidies

One of the major reasons for the increase in the centre's fiscal deficit after 2008-09 has been the build-up in subsidies. As per the provisional actual figures of the Controller General of Accounts (CGA), the major subsidies in 2013-14 amounted to 2,47,596 crore INR, well above the Revised Estimate (RE) figures. There has been a sharp increase in total subsidies from 1.42 % of GDP in 2007-08 to 2.26 % in 2013-14 (RE).

The under-recoveries of the oil marketing companies (OMCs) have been rising in tandem with international oil prices. The under-recoveries have increased from approximately 77123 crore INR in 2007-08 to 1,39,869 crore INR in 2013-14. The cap set on the number of subsidised liquefied petroleum gas (LPG) cylinders per month per family has also been increased from 9 to 12 from April 2014. The single largest component of the wider levels of FD as well as the current account deficit (CAD) owes to the inability to pass through the rise in global oil prices to the domestic market. In addition, leakages from the system also contribute substantially to the overall increase in subsidy. An International Monetary Fund (IMF) working paper, *The Fiscal and Welfare Impacts of Reforming Fuel Subsidies in India* (Anand et al, 2013) found fuel subsidies in India to be badly targeted, with the richest 10% of households benefiting seven times more than the poorest 10%.

In recent years, under-provisioning of petroleum and fertiliser subsidies has been an important reason for supplementary demands for grants with a cash outgo. In 2013-14, out of the three supplementary demands for grants that was presented totalling approximately 74,321.26 crore INR, about 24,255 crore INR was on account of petroleum, fertiliser, and food subsidies.

Oil and gas sector

In order to meet the ever-growing demand for petroleum products, the government has consistently endeavoured to enhance exploration and exploitation of petroleum resources, along with developing a concrete and structured distribution and marketing system. Despite this, crude oil production for 2013-14 remained stagnant at around 37.8 million metric tonnes (MMT) as against 37.9 MMT in 2012-13, showing a marginal decrease of about 0.20%. The bulk of crude oil production is from ageing fields, with the exception of the Krishna Godavari (KG) deep-water and Rajasthan blocks. Production of crude oil was also affected by environmental issues, *bandhs*/blockades, lower base potential, and delay in production from wells in some states. The average natural gas production for 2013-14 was about 35.4 BCM as against 40.7 BCM for 2012-13, showing a decline of about 13%.

Exploration of domestic oil and gas

India has an estimated sedimentary area of 3.14 million sq km, comprising 26 sedimentary basins. A total of 254 production sharing contracts (PSCs) have so far been signed under nine rounds of the New Exploration Licensing Policy (NELP) bidding, of which 148 blocks are currently operational and the remaining 106 have been relinquished by the contractors. An area of 1.5 million sq km has so far been awarded under the NELP, which works out to almost 48% of the total sedimentary area in the country. Current average oil production from the NELP blocks is about 6938 barrels per day with a gas production of 14.13 million cubic metres (MCMs) per day. Activities related to the 10th round of NELP bidding (NELP-X) have been initiated. A total of 86 blocks (30 deep water, 23 shallow water and 33 on land) have been tentatively proposed. Inter-ministerial clearances are underway.

Domestic exploration of other gaseous fuels

Coal bed methane (CBM)

India has the fourth largest proven coal reserves in the world and holds significant prospects for the exploration and exploitation of coal bed methane (CBM). Under the CBM policy, 33 exploration blocks have been awarded in Andhra Pradesh, Assam, Chhattisgarh, Gujarat, Jharkhand, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu and West Bengal. Of the total available coal-bearing area of 26,000 sq km for CBM exploration in the country, exploration has been initiated in about 17,000 sq km. The estimated CBM reserves in the country are about 92 trillion cubic feet (TCF), of which only 9.9 TCF has so far been established. Commercial production of CBM in India has now become a reality with current production at about 0.45 million metric standard cubic metre per day (MMSCMD).

Shale gas

Shale gas can emerge as an important new source of energy in the country. India's shale gas formations are spread over several sedimentary basins such as Cambay, Gondwana, Krishna-Godawari onland, and Cauvery. The Director General of Hydrocarbans (DGH) has initiated steps to identify prospective areas for shale gas exploration.

A multiorganisational team (MOT) of the DGH, Oil and Natural Gas Corporation (ONGC), Oil India Limited (OIL), and Gas Authority of India Limited (GAIL) has been formed by the government to examine the existing data set and suggest a methodology for shale gas development in India. Further, a memorandum of agreement (MoU) between the Department of State, US, and the Ministry of Petroleum and Natural Gas has been signed for the assessment of shale gas resources in India, imparting training to Indian geo-scientists and engineers, and assistance in the formulation of regulatory frameworks. Under the MOU signed with the

US, the US Geological Survey (USGS) has estimated the technically recoverable shale gas resource for three basins as 6.1 TCF. Further studies by the USGS are in progress.

Equity oil and gas from abroad

In view of the unfavourable hydrocarbon demand-and-supply balance in the country, acquiring equity oil and gas assets overseas is important for enhancing energy security. The government is encouraging national oil companies to aggressively pursue equity oil and gas opportunities overseas. Oil and Natural Gas Corporation Videsh Limited (OVL) has produced about 8.357 MMT of oil and equivalent gas during 2013-14 from its assets in Sudan, Vietnam, Venezuela, Russia, Syria, Brazil, South Sudan and Colombia. The estimated oil and equivalent gas production target for 2014-15 is about 8.155 MMT. The reasons for lower overseas production are geopolitical problems in south Sudan and Syria. Oil public-sector units (PSU), namely OVL, Indian Oil Corporation (IOC), OIL, Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL), and GAIL have acquired exploration and production (E&P) assets in more than 20 countries.

Refining capacity

The Indian refining industry has done exceedingly well in establishing itself as a major player globally. India is emerging as a refinery hub and refining capacity exceeds demand. The last decade has seen tremendous growth in the sector. The country's refining capacity has increased from a modest 62 million metric tonnes per annum (MMTPA) in 1998 to 215.07 MMTPA as on 1 April 2014, and comprises 22 refineries, with 17 under the public sector, three under the private sector, and two in joint ventures (JVs). By the end of the 12th Five Year Plan, refinery capacity is expected to reach 307.37 MMTPA. Refinery crude throughput (crude oil processed) for 2013-14 was about 222.70 MMT as against 219.21 MMT for 2012-13, showing a marginal increase of about 1.59%. During 2013-14, a total of 68.4 MMT of petroleum products, valued at 3,71,143 crore INR, was exported against 63.4 MMT, valued at 3,20,090 crore INR, during 2012-13. Exports of petroleum products during 2013-14 were higher by 7.9 and 16% in terms of quantity and value respectively, as compared to the previous year.

Non -Conventional Energy

Ethanol-blended petrol

The government started the Ethanol Blended Petrol (EBP) Programme in 2003. In 2006 it was extended to the entire country, except the north-eastern states, Jammu and Kashmir, Andaman and Nicobar Islands, and Lakshadweep. To boost the EBP Programme, the government decided on 22 November 2012 that 5 per cent mandatory ethanol blending with petrol should be implemented across the country. Procurement price of ethanol was henceforth to be decided between oil marketing companies (OMCs) and suppliers of ethanol. The OMCs are implementing the Programme in the notified 20 states and 4 union territories (UT) as per the availability of ethanol.

New and renewable energy

The Planning Commission has indicated that the 12th Plan envisages the development of renewable and non-conventional energy sources to the tune of five MTOE by oil PSUs. Accordingly, oil PSUs have taken various initiatives for renewable energy by way of solar and wind energy projects and for non-conventional energy by way of CBM, basin-centred gas (BCG), and underground coal gasification (UGC) projects during 2010-11 to 2013-14. MOUs for setting up special purpose vehicles (SPVs) on renewable energy installations and off-grid applications have accordingly been signed between the Ministry of Petroleum and Natural Gas (MOPNG) and the Ministry of New and Renewable Energy (MNRE) on 25 February 2014.

Chapter 3

Analysis of Union Budget 2014 - 2015

Personal tax rates

The tax slabs for individuals, Hindu undivided family (HUFs), Association of persons (AOPs) and Body of individuals (BOIs) are proposed to be revised as under:

Existing slab rates		Proposed slab rates	
Income slab (INR)	Tax rate	Income slab (INR)	Tax rate
0 - 2,00,000	Nil	0 - 2,50,000	Nil
2,00,001 - 5,00,000	10%	2,50,001 - 5,00,000	10%
5,00,001 - 10,00,000	20%	5,00,001 - 10,00,000	20%
Above 10,00,000	30%	Above 10,00,000	30%

Senior citizen

Existing slab rates		Proposed slab rates	
Income slab (INR)	Tax rate	Income slab (INR)	Tax rate
0 - 2,50,000	Nil	0 - 3,00,000	Nil
2,50,001 - 5,00,000	10%	3,00,001 - 500,000	10%
5,00,001 - 10,00,000	20%	5,00,001 - 10,00,000	20%
Above 10,00,000	30%	Above 10,00,000	30%

- No change in surcharge and cess
- Threshold of investments eligible for deduction from gross total income increased from 0.1 million to 0.15 million INR
- Interest on housing loan – deduction increased from 0.15 million to 0.2 million INR in case of self- occupied property

Corporate tax rates

- Corporate income tax rate proposed to remain unchanged at 30% (domestic company) and 40% (foreign company)
- Minimum Alternate Tax (MAT) rate to remain unchanged at 18.5%
- Surcharge/ cess rate to remain unchanged for companies
- The Dividend Distribution Tax (DDT) rate also to remain unchanged at 15% (plus surcharge and cess). However, the base for calculating DDT shifted from 'dividend distributed' to 'distributable profits', which will increase the effective tax rate by up to 3.48%.

Withholding tax provisions

- The concessional rate of 5% withholding tax on interest paid outside India by an Indian company further extended to borrowings by way of issue of any long-term bond in foreign currency, and not limited to long-term infrastructure bond. Furthermore, the benefit available up to 30 June 2015 now extended to borrowings made up to 30 June 2017.

- Tax deducted from payments made to non-residents if paid till due date of filing of return, will not be disallowed
- Disallowance on account of failure to deduct/ deposit withholding taxes, which was earlier restricted to certain resident payments now extended to all resident payments (including salary payments, etc)
- Disallowance on account of failure to deduct/ deposit withholding taxes on payment to all resident restricted to 30% of the expenditure as compared to entire expenditure under earlier provision
- Withholding verification limit for payment to resident now extended to seven years from end of relevant financial year
- Withholding tax at the rate of 2% on maturity receipts from taxable life insurance products introduced with effect from 1 October 2014 (if exceeding 0.1 million INR).

Tax holiday: Power projects

- It is proposed that companies engaged in the following businesses shall be eligible to claim profit-linked incentive for a further period of three years, i.e. the sunset date has been extended to 31 March 2017 (from the present 31 March 2014):
  - Generation or generation and distribution of power
  - Transmission or distribution by laying a network of new transmission and distribution lines
  - Undertakes substantial renovation and modernisation of existing networks of transmission/distribution lines

Investment linked deduction

- The benefit of investment-linked deduction available to certain specified businesses, extended to two new sectors (commencement of operations on or after 1 April 2014)
  - Slurry pipeline for transportation of iron ore
  - Semi-conductor wafer fabrication manufacturing unit
- Additional conditions introduced, which provides for mandatory use of assets for the specified business for eight years. If this condition not satisfied, benefit claimed in excess of eligible depreciation to be taxable.
- No deduction to be available under section 10AA.

Investment allowance

- Currently, investment allowance at the rate of 15% allowed on the acquisition of new plant and machinery worth more than 1000 million INR (during financial year 2013-14 and 2014-15) to companies engaged in manufacturing or production of any article or thing
- In addition to above, deduction now extended on investment in new plant and machinery of more than 250 million INR in any previous year starting from financial year 2014-15 and up to financial year 2016-17

Corporate social responsibility (CSR)

Under the Companies Act, 2013 certain companies are mandatorily required to spend a certain percentage of their profit on activities relating to CSR. CSR expenditure, being an application of income, is not incurred wholly and exclusively for the purposes of carrying on business and therefore will not be allowed as deduction for computing the taxable income of the company.

Retrospective amendments

No specific amendment has been made to provide relief on existing retrospective amendments. It is stated that all fresh cases arising out of retrospective amendments (in respect of indirect transfers), will be scrutinised by a high-level committee to be constituted by the Central Board of Direct Taxes (CBDT) before any action is initiated.

Capital gains (CG)

- Period of holding for qualifying long-term capital asset increased from 12 to 36 months for mutual funds (other than equity oriented fund) and unlisted security (other than zero coupon bonds)
- The benefit of concessional rate of 10% available to long-term capital gains arising on transfer of listed security, unit of a debt oriented mutual fund, etc is no longer available to unit of debt oriented mutual fund
- Definition of capital asset enlarged to include securities held by foreign institutional investors and made investment in accordance with Securities and Exchange Board of India (SEBI) regulations. Income arising from transfer of such securities will now be taxed as capital gains.

Dividend Distribution Tax (DDT)

- Concessional tax rate of 15% on dividends received by domestic company from its overseas subsidiary extended without any sunset date

Transfer pricing provisions

- Introduction of a rollback provision in the Advance Pricing Agreement (APA) scheme so that an APA entered into for future transactions is also applicable to international transactions undertaken in previous four years in specified circumstances
- APA team to be strengthened to expedite disposals
- Transactions with a domestic unrelated party clarified to be covered as international transactions if it meets specified conditions.
- Range concept to be introduced for determination of arm's length price in transfer pricing regulations
- To allow multiple year data for comparability analysis under transfer pricing regulation

Special regime introduced

- Special taxation regime for Real estate investment trusts (REITs) and Infrastructure investment trust (InvIT) introduced: Units to be listed on recognised stock exchange. Pass-through status accorded to such trusts
- Interest distributed by above trust subject to withholding tax at the rate of 5% in case of non-residents and at the rate of 10% in case of residents

Tax administration and other amendments

- Setting-up of a high-level committee to interact with trade and industry on a regular basis and ascertain areas where clarity in tax laws is needed. Based on committee recommendations, CBDT to issue appropriate clarifications, wherever necessary, within a period of two months
- Work on Direct Tax Code, revival of special economic zones and introduction of Tax Accounting Standards to be carried out in due course
- Amendments likely to be moved in current session of Parliament to:
  - Extend the benefit of advance ruling above a define threshold to resident taxpayer
  - Enlarge the scope of settlement commission
- No discussion on General Anti Avoidance Rule (GAAR): To be applicable from 1 April 2015

Scorecard (DT)	
Removal or extension of the sunset clause for tax holiday on income from production of mineral oil to blocks licensed post 31 March 2011	No
Availability of tax holiday under section 80IB (9) on the natural gas produced (other than NELP VIII and CBM IV)	No
Separate tax holiday for each well or cluster of wells treating it as a separate ‘undertaking’	No
Ceiling of 20% on the deduction for investment on Site Restoration Fund either removed or increased to 50%	No
Tax holiday to E&P companies to be enhanced to the block of 10 years out of 15 years	No
Extension of tax holiday under section 80-IA(4) for undertakings set-up for generation or generation and distribution of power	Yes
Exemption from MAT to companies eligible under section 80IB(9)	No
Weighted deduction to expenditure incurred in respect of drilling and exploration activities in line with R&D expenses	No
Weighted deduction under section 35 (2AB) on R&D activities for bio-fuels	No
Condition for surrender of block to be deleted for claiming deduction for infructuous or abortive exploration expenses under section 42	No
Allowance of deduction for CSR expenses	No
Extension of concessional rate of dividend received from foreign company	Yes
Benefit under section 35AD to be extended to intra-city and inter-state distribution network	No
Allowability of deduction under section 35AD to the pipelines which are dedicated for supply of petroleum products to a specific consumer	No
Weighted deduction under section 35AD to cross-country pipeline network	No
Removal of restrictions for set-off of losses for specified business of section 35AD	No
Infrastructure status to LNG projects for the purpose of tax holiday under section 80IA	No
100% depreciation allowance on capital investments made by refineries for up-gradation of fuel quality	No
Extension of the sunset clause (31 March 2012) for tax holiday for undertakings engaged in refining of mineral oil	No
Profit-based or investment-based incentive to refineries for expansion and up-gradation	No
Restoring the application of presumptive tax regime to oil and gas service providers	No

Budget highlights (Indirect tax)

Goods and Services Tax

One of the key expectations of the industry from the Budget was that the Finance Minister would lay down a roadmap for the implementation of GST. However, the Budget merely reiterated the introduction of GST without any clear road map or a likely date for such an introduction.

The Finance Minister has indicated the central government's intentions to address various apprehensions of the states in terms of surrendering their taxation jurisdiction and adequate compensation by the end of the fiscal year 2014-15.

It now needs to be seen, as to what extent the states move forward and work with the government to introduce this transformation in the indirect tax regime of India.

Customs

Tariff

- The median rate of basic customs duty (BCD) for non-petroleum products maintained at 10%
- Change in custom duty rates for select petroleum products.

Effective from 11 July 2014

- BCD on specified products of coal tar distillation (other aromatic hydrocarbons) reduced from 10 to 2.5%
- BCD on coal tar pitch reduced from 10 to 5%
- BCD on propane reduced from 10 to 2.5%

Non-tariff

Effective from 11 July 2014

- Extension of exemption, with effect from 8 February 2013, to IOCL, HPCL or BPCL on the import of LPG, liquefied propane and butane mixture, liquefied propane and liquefied butane for the supply to non-domestic exempted category (NDEC). Earlier exemption restricted to household domestic consumers
- BCD rate on machinery and components used for initial setting up of power project for generation of bio-CNG reduced to 5%
- Advance Ruling application now filed by "Resident Private Limited Company"

Effective from the date of enactment of Finance Bill

- Introduction of statutory provisions in relation to mandatory pre-deposits while appealing before the Commissioner (Appeals) and Tribunal. While mandatory pre-deposit for first appeal has been kept at 7.5% of the total demand, the pre-deposit for subsequent appeal has been fixed at 10% of the total demand. It has also been provided that the total pre-deposit will not exceed 10 crore INR.
- Section 25 of the Customs Act being amended to provide that the customs duties on mineral oils including petroleum and natural gas extracted or produced in the continental shelf of India or the exclusive economic zone of India shall not be recovered for the period prior to 7 February 2002
- Discretionary powers of Tribunal increased from 50,000 to 2,00,000 INR for admission of appeal

Excise duty

Tariff

- The standard rate of excise duty for non-petroleum goods maintained at 12%

Effective from 11 July 2014

- Excise duty rate on motor spirit (petrol) sold under a brand name reduced from 7.5 to 2.35 INR per liter
- Benefit of 'nil' excise duty on LPG supplied by IOCL, HPCL or BPCL extended to NDEC with effect from 8 February 2013
- EC and SHEC (customs cess) exempted on removal of goods from EOU to DTA

Non tariff

Effective from 11 July 2014

- Advance Ruling application to now be filed by "Resident Private Limited Company"
- Transaction Value to be adopted where goods sold at a price less than manufacturing cost including profit provided no additional consideration flows from buyer
- Exemption from excise duty to machinery and components for initial setting-up of power generation projects for generation of bio-CNG
- If an assessee fails to pay duty within a period of one month from the due date, penalty payable at the rate of 1% of the duty not paid for each month.

Effective from the date of enactment of Finance Bill

- Introduction of statutory provisions in relation to mandatory pre-deposits while appealing before the Commissioner (Appeals) and Tribunal. While the mandatory pre-deposit for first appeal has been kept at 7.5% of the total demand, the pre-deposit for subsequent appeal has been fixed at 10% of the total demand. It has also been provided that the total pre-deposit will not exceed 10 crore INR.
- Discretionary powers of Tribunal increased from 50,000 to 2,00,000 INR for admission of appeal
- Matters in relation to 'determination of any question having a relation to rate of duty' to be heard before the Supreme Court directly after Tribunal order

CENVAT credit

Effective from 11 July 2014

- Definition of place of removal inserted in lines of that existing under the Excise Act
- Condition of payment of value of service under full reverse charge for availing credit withdrawn
- Re-credit of cenvat reversed on account of non-receipt of export proceeds within the specified period permitted if received within one year from such specified period
- Input Service Distributor rules clarified to provide for distribution of common credit of more than one unit to all units operational during the year
- Distribution of credit by large taxpayer from one unit to another dis-allowed

Effective from 1 September 2014

- Cenvat credit on inputs and input services to be availed within a period of six months from the date of issue of invoice

Service tax

Effective from 11 July 2014

- Advance Ruling application can now be filed by "Resident Private Limited Company"
- Procedure for exemption in case of SEZ units simplified
- Reverse charge mechanism extended to:
  - services provided by director to a body corporate
  - services provided by recovery agents to banks/ financial institutions and NBFCs

Provisions to be effective from 1 October 2014

- Amendment in Place of Provision of Services Rules:
  - Definition of 'Intermediary' expanded to include goods
  - POPS for services of hiring of vessels (excluding yachts) and aircraft to be location of service recipient
- Value of service portion in works contract relating to movable and immovable property aligned to 70%
- Variable interest rates (18 to 30%) to be applicable for delay in payment of taxes
- E-payment of service tax made mandatory
- Proportion of service tax payable under reverse charge by a service recipient of rent-a-cab services (non-abated) increased to 50%
- Point of taxation as per Rule 7 on reverse charge to be amended to be the date of payment or the date subsequent to end of three months from the date of invoice, whichever is earlier
- Abatement rate to be revised to 60% in case of transport of goods by vessel

Effective from the date to be notified

- Service tax levy on sale of space and time for advertisements to be extended to include online and mobile advertisements. Advertisements in print media continue to be exempt

Effective from the date of enactment of Finance Bill

- Introduction of statutory provisions in relation to mandatory pre-deposits while appealing before the Commissioner (Appeals) and Tribunal. While the mandatory pre-deposit for first appeal has been kept at 7.5% of the total demand, the pre-deposit for subsequent appeal has been fixed at 10% of the total demand. It has also been provided that the total pre-deposit will not exceed 10 crore INR.
- Service tax dues of a predecessor made recoverable from the assets of a successor
- Rate of exchange to be determined in the prescribed manner
- Time limit for adjudication prescribed
- Specified third-party sources to furnish information. Failure to furnish information will attract penalty.

Score Card (indirect tax)	
Expansion of the list of goods that can be imported duty-free by the E& P companies, to cover all goods imported in relation to petroleum operations	No
Removal of the National Calamity Contingent Duty (NCCD) on crude oil	No
Exemption from payment of customs duty in relation to import of raw material for onshore oil and gas activities	No
Availability of CENVAT credit in respect of crude and product pipelines belonging to the refineries	No
Availability of CENVAT credit on cement and steel articles	No
Non levy of service tax on production sharing contracts	No
Exemption from service tax on input services consumed by oil and gas companies in relation to exploration and production activities	No
Non-applicability of service tax on recoveries made by an employer from employee	No
No benefit of service tax paid on amounts written-off as bad debts	No
Clarity on payment of service tax on transmission charges	No
Clarity on levy or abatement under service tax for transportation of goods through 'time chartered vessel'	No
Removal of ambiguity on distribution of credit through the Input Service Distribution (ISD) mechanism	No
Inclusion of goods required for laying down the natural gas pipeline network in the category of goods eligible for concessional CST against Form C	No
Declared goods status to natural gas, naphtha and ATF	No
Reduction of rate of reversal of input tax credit on stock transfers from 4 to 2% uniformly across all states in India	No

Chapter 4

Major pre-budget expectation of oil and gas industry

Direct Tax

Upstream

Income tax holiday under section 80-IB(9) of the Income Tax Act 1961 (the Act): Sunset clause

A tax holiday of seven years was allowed to undertakings engaged in the production of mineral oil. The Finance Act, 2011 had inserted a sunset clause stating that this tax holiday would not be available to blocks licensed under a contract awarded after 31 March 2011.

This amendment has effectively withdrawn the tax holiday incentive for the production of mineral oil in respect of blocks licensed under contracts awarded after 31 March 2011.

The amendment will lead to an increase in the cost of mineral oil production, since the operator will pass on the burden to downstream companies, which may ultimately have a cascading effect on the economy.

Since blocks under the ninth round of bidding under the New Exploration Licensing Policy (NELP IX) are to be awarded after 31 March 2011, the income from mineral oil production in blocks licensed under NELP IX will not qualify for the tax holiday. This amendment is not in line with the promises made by the Government while inviting bids under NELP-IX, since the bid document specifically mentioned the availability of a tax holiday. Thus, such withdrawal is clearly retro-active in nature and could lead to litigations, which could have been avoided.

The government was expected to declare that the sunset clause would be applicable to contracts awarded subsequent to NELP IX, so that undertakings engaged in mineral oil production pursuant to contracts awarded under NELP IX qualify for tax holiday.

Income tax holiday under section 80-IB(9) on income from production of natural gas

The income tax department is adopting a narrow interpretation of the tax holiday provisions of section 80-IB(9) and states that tax holiday is available only if exploration results in the striking of crude oil. Further, it consequently states that profits made on the sale of gas, where gas is struck, are not eligible for income tax holiday.

The Finance Minister, during the discussion on the Finance Bill, 2008, gave assurances that the benefit of section 80-IB(9), as finally interpreted by the courts, would be applicable to all exploration and production contracts. The Finance (No.2) Act, 2009 includes new clauses to clarify that the tax holiday would be available on gas produced from blocks licensed under the eighth round of bidding under the NELP (NELP VIII) and the fourth round of bidding for award of exploration contracts for the Coal Bed Methane

(CBM IV). The insertion of these clauses may suggest that the income from gas produced from the blocks other than those awarded under NELP VIII /CBM IV is not entitled to the benefit of tax holiday.

Therefore, the Union Budget 2014-15 was expected to clarify that the benefit of tax holiday would be available on the gas produced from all the blocks awarded under NELP/CBM or in any other manner by central or state governments.

Availability of tax holiday to each well

As per legal pronouncements and the general provisions of the Act, each well can be considered as a separate undertaking for the purpose of tax holiday under section 80-IB(9). However, the Finance (No. 2) Act, 2009 has amended the provisions of the Act to clarify that all blocks licensed under a single contract, awarded under NELP or in pursuance of any law for the time being in force or awarded by the central or a state government in any other manner, will be treated as a single 'undertaking' for the purpose of claiming a tax holiday under section 80-IB(9). This amendment has virtually overturned previous cases ruled in favour of the assessee, by making retrospective legal amendments to rewrite the law from FY 1999-2000 and pre-judging matters pending in courts and tribunals. These changes are detrimental to the nation's energy security and also cause hardship to taxpayers who have acted upon the pre-amendment provisions of the Act.

Therefore, we expected section 80-IB(9) to be amended so that each well or cluster of wells is defined as an undertaking for the purpose of availing tax holiday. Alternately, the section could be amended such that each distinct field development evidenced by a separate development plan is defined as an 'undertaking'.

If at all, the term 'undertaking' is to be defined to reflect a change in government policy with regard to the oil and gas sector, a clarification was expected that such change will become effective only on a prospective basis, i.e. from FY 2009-10.

Site restoration fund under section 33ABA of the Act

Section 33ABA provides for deduction of the amount deposited in the site restoration fund scheme subject to the ceiling of 20% of the profits. Due to environmental concerns, site restoration or abandonment is increasingly attracting the attention of governments worldwide. Thus, it was expected that the ceiling of 20% would be either removed or increased to 50%.

There are many foreign companies operating in the Indian E&P sector, and in any case most of the items required for site restoration or abandonment are imported. It was therefore expected that to avoid currency fluctuation risk the contractor would be allowed to maintain the fund in USD also, in addition to the rupee deposit allowed currently.

Tax holiday for exploration and production (E&P) companies to be enhanced to 15 years from seven years or for a period of at least 10 consecutive years within the 15-year period and flexibility to choose a period of 10 years of tax holiday out of 15 years

A tax holiday under section 80-IB (9) is available to E&P companies for seven consecutive years starting from the year in which commercial production commences. The period of seven years of tax holiday is less than the tax holiday period available to companies in the infrastructure sector. Furthermore, during the initial seven years, companies have a large expenditure to set off, due to which they are unable to enjoy the actual benefit of the tax holiday.

Like the infrastructure industry, the E&P industry is also highly capital-intensive and has a long gestation period. Thus, it was expected that the provisions of section 80-IB(9) would be amended to extend the tax holiday from seven to 15 years or for a period of at least 10 consecutive years within the 15-year period with a flexibility to E&P companies to choose the block of 10 years of the tax holiday any time during the initial 15 years from the commencement of commercial production.

Incentives for solar power and windmill projects

Solar power and wind power are bound to become important sources of energy in the future. Since traditional sources of energy such as oil, gas, coal, etc will not last for long time, solar power and windmill power may provide solutions to the energy crisis. It is therefore imperative to promote the generation of renewable energy sources such as wind power and solar power in order to meet the energy need of the country.

Solar power and windmill power projects involve high capital outlay needing special tax incentives. Presently, 100% tax holiday is provided to power generation project under section 80IA set up till 31 March 2014.

The benefit is available under section 80IA (4) (iv) to set up in India for the generation or generation and distribution of power if it begins to generate power any time during the period beginning on 1 April 1993 and ending on 31 March 2014.

In order to promote renewable energy generation, the tax benefit extended to power generation plants through section 80IA of Act may be extended further.

Separately, the rate of depreciation on windmills installed upto 31 March 2012 was 80%, however vide Notification no 15/2012 [F.No. 149/21/2010-SO(TPL)] S.O. 694 (E), dated 30 March 2012, the depreciation on windmills installed after 30 March 2012 has been reduced to 15%.

It was expected that the depreciation rate on windmills installed after 31 March 2013 should be restored to 80% in order to promote renewable energy sources.

Exemption from Minimum Alternate Tax (MAT) under section 115-JB

The production of mineral oil and natural gas has been given a tax holiday under section 80-IB(9). However, this provision has been nullified to an extent by the provisions of MAT under section 115-JB. These companies normally earn higher book profits in the initial years after commercial production begins, since the tax deductions in respect of accumulated exploration and drilling expenditure are allowable in the year in which commercial production commences. It was therefore expected that the production of mineral oil and natural gas would be exempt from MAT under section 115-JB of the Act.

Weighted deduction in line with Research & Development (R&D) expenses under section 42

Section 42 of the Act allows deductions in respect of capital and revenue expenditure actually incurred by the assessee on drilling and exploration activities. The business of exploration and production of mineral oil is a capital-intensive and high-risk business and therefore a weighted deduction of 150% of all capital and revenue expenditure incurred for the exploration and production business was expected to be allowed under section 42 of the Act. Presently, 100% expenditure incurred on the E&P business is allowed under section 42.

Section 35 (2AB): – Weighted Deduction on R&D Activities for Bio-fuels

To encourage R&D initiatives by the industry and to make R&D an attractive proposition, the Finance Bill 1997 introduced a sub section (2AB) in section 35 of Act allowing a deduction of 200% of the expenditure. However, such expenditure needs to be approved by the prescribed authority [Secretary, Department of Scientific Research ('DSIR')].

In order to promote investment and R&D initiatives for renewable and non-conventional energy sources, it was expected that any expenditure incurred on bio-fuel activities would also qualify for a deduction of 200% under section 35(2AB) of the Act.

Deduction for infructuous or abortive exploration expenses under Section 42

Typically, the provisions of the production sharing contract do not require the area to be surrendered as a prerequisite for claiming the deduction of unsuccessful exploration cost. However, under section 42 of the Act, a deduction for infructuous or abortive exploration expenses is not allowed until the area is surrendered, even though the expenses are already charged off in the books of accounts as per the company's accounting practices. As a result of the requirement to surrender the area prior to the commencement of commercial production, the assessee is unable to avail the deduction of expenses on account of abortive exploration in the year when expenditure is incurred.

It was expected that the requirement to surrender the area would be deleted from section 42(1)(a) and that deduction will be allowed from the year in which the area is abandoned as abortive.

Further, a clarification was also expected by inserting a proviso in section 42 that the taxpayer will be eligible to claim deduction for exploration expenses (including survey expenditure) and drilling expenses in the year of incurrence against other business income irrespective whether commercial production has started or not (as the position is not clear from section 42).

Corporate social responsibility (CSR) expenses

CSR expenditure has become part of a company's business operations, particularly in the case of PSUs. Further, the Companies Act 2013 also provides for mandatory CSR expenses to the extent of 2% of the average net profit of a company in the last three years. In order to promote the development of the country, CSR expenses need to be promoted. Under CSR, various development programmes such as development of schools for poor children, roads and bridges in rural areas, financial assistance to NGOs engaged in helping the poor by providing employment are carried out.

As of now, there is no specific provision dealing with the deductibility of such expenditure which may lead to litigation with the tax authorities. In view of the mandatory nature of CSR expenses under the Companies Act 2013, it was expected that specific provision may be inserted for the allowance of CSR expenditure whether capital or revenue.

Dividend received from foreign company

Dividends received by an Indian company from its specified foreign company (in which shareholding is 26% or more) is taxable at the rate of 15% under section 115BBD upto FY 2013-14.

In order to boost the Indian presence in equity participation outside India in E&P assets, it was expected that the above beneficial rate of 15% on dividends received by an Indian company from such a specified company may be continued for AY 2015-16.

Midstream

Investment-linked incentive under section 35-AD

Under the current tax regime the benefits of investment-linked tax holiday are provided only to the cross-country natural gas, crude or petroleum pipeline network for distribution, including storage facilities being an integral part of such network.

Since pipelines have several distinct advantages over other modes of transport, it was expected that this benefit would be extended to intra-city and intra-state gas distribution networks used for transporting natural gas. It was expected that the Government of India, by way of an amendment to the Act, would define the term 'cross country' in relation to the gas distribution network.

Amendment in section 35AD

Under the existing provisions of section 35AD of the Act with effect from 1 April 2010, investment-linked tax incentive is provided by way of allowing 100% deduction in respect of any capital expenditure (other than on land, goodwill and financial instrument) incurred wholly and exclusively, for the purposes of the 'specified business'.

Such 'specified business' include the business of laying and operating a cross-country natural gas, crude or petroleum oil pipeline network for distribution, including storage facilities being an integral part of such network.

Benefit under section 35AD of Act is available only to the oil and gas pipelines approved by the Petroleum and Natural Gas Regulatory Board ('PNGRB') and notified by the Central Government in the Official Gazette and which have common carrier capacity as per PNGRB regulations.

As crude oil pipelines and those dedicated for the supply of petroleum products to a specific consumer, are outside the ambit of the PNGRB Act, the benefit under section 35 AD is not available to them. Therefore, inadvertently, the benefit to oil and gas pipelines made available under section 35 AD of the Income Tax Act, 1961, is not actually available to crude oil pipelines and the pipelines dedicated to the supply of petroleum products to a specific consumer.

It was expected that conditions under sub-clause (b) and (c) of clause (iii) of sub-section (2) of section 35 AD of the Act, regarding approval of PNGRB for specified business and availability of common carrier capacity as per PNGRB regulations, may be waived for crude oil pipelines and the pipelines dedicated to the supply of petroleum products to a specific consumer.

Weighted deduction under section 35AD to cross-country pipeline network

Under section 35AD of the Act, 100% deduction in respect of capital expenditure incurred (other than land, goodwill and financial instrument) prior to commencement of operation of the specified business to the assessee engaged in laying and operating a cross-country natural gas, crude and petroleum pipeline network for distribution is allowed.

Section 35AD (1A) inserted by the Finance Act 2012 provided that where the specified business is of the nature referred in the following sub clauses of sub section 8(c) of section 35AD:

- Setting up and operating a cold chain facility
- Setting up and operating a warehousing facility for storage of agricultural produce
- Building and operating, anywhere in India, a hospital with at least 100 beds for patients
- Developing and building a housing project under a scheme for affordable housing framed by the Central Government or a State Government, as the case may be, notified by the board in this behalf in accordance with the guidelines as may be prescribed
- Production of fertiliser in India

and has commenced its operations on or after 1 April 2012, deduction of an amount equal to one and one half times of expenditure (i.e. 150%) under section 35AD (1) shall be allowed.

A similar deduction of 150% was expected to be allowed under section 35AD to the specified business of laying and operating a cross-country natural gas, crude or petroleum oil pipeline network for distribution, including storage facilities being an integral part of such network covered under sub clause (iii) of subsection 8(c) of section 35AD of the Act and as allowed to the other specified businesses mentioned above.

Removal of restrictions for set-off of losses for specified business of section 35AD

Section 70 provides that in case of loss under any head of income (other than head of capital gain), the assessee is entitled to set off such loss from any other source of income under the same head. Therefore, the loss from one business can be set off from profits of another business.

However, section 73A provides that loss computed under section 35AD will be set off only against profits and gains of specified business and specified business inter alia includes the business of laying and operating a cross-country natural gas (laid after 1 April 2007), crude or petroleum oil pipeline network for distribution, including storage facilities as an integral part of such network. This restricts the claim for adjustment of loss from profits of other income which is allowed otherwise in all other cases.

In the initial three to four years, there may be no profit in specified business of an assessee. Therefore, section 73A appears to be restrictive and unfair to the assessee. An amendment was expected allowing set-off of loss under section 35AD against profits of any other business carried on by the assessee.

Further, section 72A was expected to be amended suitably so that in case of the amalgamation or demerger of a company, accumulated loss in specified business (under section 35AD) of the amalgamating or demerged company shall

- Where such loss of specified business (under section 35AD) is directly relatable to the undertakings transferred to the resulting company be allowed to be carried forward and set off in the hands of the resulting company;
- Where such loss of specified business (under section 35AD) is not directly relatable to the undertakings of the resulting company, be apportioned between the

demerged and the resulting companies in the same proportion in which the assets of the undertaking have been retained by the demerged company and transferred to the resulting company and be allowed to be carried forward and set off in the hands of the demerged or the resulting company as the case may be.

Infrastructure status to LNG projects for the purpose of tax holiday

At present, there is a significant requirement of natural gas to meet the requirements of city gas distribution networks, refineries and the power sector. Therefore, it was expected that in order to promote the import of LNG, LNG facilities located at ports would be included in the definition of infrastructure facility for the purpose of tax holiday under section 80-IA and that the benefit may be extended for the next five years.

Downstream

Section 32: 100% depreciation allowance for projects undertaken for the upgradation of fuel quality

As per section 32 of the Act, assessees engaged in business or profession are allowed depreciation allowance in respect of assets used in business or profession. Rule 5 of the Income Tax Rules along with Appendix-1 provides for the rate of deprecation on various categories of assets. As per this rule, 100% depreciation allowance is admissible in respect of air or water pollution control equipment. Also, the Appendix provides the list of equipment eligible for 100% depreciation allowance.

Under the auto fuel policy, the Government has directed oil companies to supply speed diesel with maximum prescribed sulphur content. Now as per the auto fuel policy, the Government has directed oil companies to provide the HSD with maximum sulphur content of 0.035% (BS-III) and 0.005% (BS-IV) with effect from 1 October 2010 throughout the country.

In order to fulfil the criteria of the Government to provide the HSD with maximum sulphur content as specified, the oil refinery is required to make significant capital investment to undertake necessary changes to comply with Government directives and remove the sulphur from crude oil which is in excess of prescribed limits. Such reduction helps reduce air pollution.

Since these upgradations help reduce air pollution by limiting the sulphur content from fuel, the expenditure incurred on this was expected to be made eligible for 100% depreciation under section 32.

Extension of the sunset clause beyond 31 March 2012 for tax holiday under section 80-IB(9) for undertakings engaged in refining of mineral oil

A seven-year tax holiday is available to undertakings engaged in the refining of mineral oil, which began on or after 1 October 1998 but not later than 31 March 2012. Thus, refineries that will begin the refining of mineral oil after 31 March 2012 are not eligible for tax holiday.

Several refineries are expanding rapidly and are planning new capacities during the 12th Five Year Plan (2012–2017). The tax concession enables a reduction in under-recoveries and encourages further investment.

Therefore, it was expected that the sunset clause will be extended so that the refineries that will begin the refining of mineral oil after 31 March 2012 will also be eligible for the tax holiday.

Deduction for expansion and up-gradation of refineries

GDP growth of around 8% as envisaged in the 12th Five Year Plan will require an increase in energy availability across the country. Plans for faster and inclusive growth will result in higher consumption of energy and fuel which will in turn entail infrastructural preparedness by oil companies.

Given the large expected step-up in fuel demand, oil marketing companies (OMCs) are required to reinforce their infrastructure in terms of capacity augmentation and fuel-quality upgradation in line with environmental norms. Needless to say, commensurate investments will be required for supporting the expansion.

The Government in an attempt to protect the common man from the volatility of crude prices, has been controlling the prices of sensitive products such as petrol, HSD, SKO and LPG resulting in huge losses to OMCs. The gap in the costs and sales realisation is partially compensated through discounts from upstream PSUs/cash/bonds from the Government resulting in a varying amount of under-recoveries being absorbed by the OMCs leading to unpredictability in their profit levels. In addition to the under-recoveries, there is an additional impact on the profitability on account of increased interest costs due to delay and uncertainty in receiving compensations, delay and loss on liquidating the bonds, etc. As a result, the borrowing capability of these companies, to support the above investments and meet working capital requirements, also gets marginalised.

In order to sustain the existence and to be a part of the inclusive growth plans of the nation, it was expected that either a profit-based or investment-based incentive would be provided to OMCs for expansion and up-gradation of their refineries.

Service providers

Clarification that the income of oil and gas service providers shall not be chargeable to income tax at the rate of 10% on gross basis and will be eligible for presumptive tax regime

Section 44-BB provides for presumptive taxation of income earned by a non-resident engaged in the business of providing services or facilities in connection with, of supplying plant and machinery on hire used or to be used, in the prospecting for, or extraction or production of mineral oil. Such income is taxable at 10% of the gross sum paid or payable to such non-resident.

Section 44-DA separately provides that the fee for technical services (FTS) or royalty income earned by a non-resident having a permanent establishment (PE) in India shall be taxable on net income basis at 40%.

The definition of FTS as provided under the Act categorically excludes the consideration for any mining or similar project. Instruction no 1862 issued by the Central Board of Direct Taxes on 22 October 1990 states that the expression 'mining project' or 'like project' would cover the services rendered for exploration or exploitation of oil and natural gas. Thus, the consideration for such services will not be treated as FTS under section 9(1)(vii) and payment will be taxed under section 44-BB of the Act.

The scheme of presumptive taxation under section 44-BB has been amended by the Finance Act, 2010 to exclude the income referred to in section 44-DA (i.e. royalty or FTS) earned by a non-resident having a PE in India. A corresponding amendment has also been made in section 44-DA to provide that section 44-BB shall not apply in respect of the income referred to in section 44-DA of the Act.

Considering that the services rendered by the oil and gas service providers do not fall within the definition of FTS as provided under section 9(1)(vii) of the Act, the amendment shall result in unnecessary litigation with the tax authorities. The intention behind the presumptive taxation scheme was to simplify the determination of income of the non-resident who is providing services or facilities to the oil and gas sector. This rationale still holds good.

Therefore, it was expected that the government would issue a clarification to the effect that Instruction no 1862 will continue to apply to all services rendered in connection with the prospecting for, or extraction or production of, mineral oil so that the benefit of presumptive taxation will continue to be available to such service providers.

Additionally, the intent of legislation is always to tax the real income. The statutory levy like service tax, etc is not in the nature of real income as the same is deposited by the service provider with the Government treasury as a part of the statutory obligation. Considering this, it was expected that a clarification would be provided that the income chargeable to tax under section 44BB is exclusive of taxes.

Indirect Tax

Customs

Expanding the list of goods that can be imported duty free

Select goods, which are currently specified under list 13 or 14 of the customs notification no 12/2012 dated 17 March 2012, when imported by oil and gas companies, sub-contractors or service providers in relation to oil and gas activities are exempt from the levy of customs duty. It is recommended that such customs duty exemption should be extended to all goods imported in relation to petroleum operations.

Removal of national calamity contingent duty on crude oil

Currently, the national calamity contingent duty (NCCD) of 50 INR per metric tonne is payable on domestic as well as imported crude oil. This was rolled out in the Finance Bill 2003 in order to augment the funds available with the government so as to support relief work in the natural calamity-affected areas of the country. This however results in stranded costs to the refining sector, and hence, it is recommended that the NCCD on crude oil must be abolished in this Budget.

Exemption from payment of customs duty in relation to the import of raw material for onshore oil and gas activities

Under the Customs Act, an exemption[1] from payment of customs duty has been provided to certain parts and raw materials for the manufacture of goods supplied in connection with offshore oil exploration. These benefits available to offshore oil exploration activities should also be extended to onshore oil exploration activities in order to provide a level playing field to both the operators.

[1] *vide Sl. No 357 of the customs notification no 12/2012*

Excise duty

Availability of Cenvat credit in respect of crude and product pipelines belonging to refineries

In terms of the Cenvat Credit Rules, 2004 (CCR), Cenvat credit in respect of inputs as well as capital goods is allowed only if such goods are received and used in the factory of production. Typically, oil refineries have huge networks of crude as well as product pipelines spread all across India, and the same is not limited to the oil exploration plant. The fact as to whether Cenvat credit in respect of such pipelines, spread outside these exploration plants is available or not has been a matter of intense judicial scrutiny, since such pipelines are not physically located within the factory.

Therefore, it is suggested that necessary amendments shall be carried out in the CCR in order to enable the eligibility of Cenvat credit in respect of both crude as well as product pipelines extending outside these oil refineries.

Availability of Cenvat credit on cement and steel articles

In the Union Budget for 2012-13, the definition of 'inputs' as contained under the CCR was amended, whereby no Cenvat credit was available in respect of goods used for the construction of building or supporting capital goods. The shift in service taxation from positive to the negative list is a step towards the introduction of a nation-wide goods and services tax (GST), whose basic idea is to have in place seamless credits across goods and services. Restriction of Cenvat credit is a roadblock in the successful implementation of GST. Therefore, it is recommended that Cenvat credit admissibility needs to be extended to all goods and services, including those which are used for the construction of building and supporting capital goods, keeping in view the large amount of investments made by the sector into buildings or capital goods.

Service tax

Levy of service tax on production sharing contracts (PSC)

Typically, PSCs are entered into between the government and private oil companies, where exploration risk lies with the oil company, while the government remains the owner of the petroleum produced. Recently, instead of one oil company entering into a PSC with the government, three to four oil companies come together to form an unincorporated consortium, which in turn, jointly enters into a PSC with the government. Within this consortium, one of the oil companies acts as a lead consortium member, and raises cash calls on other members of the consortium in order to meet the operating expenses.

Section 65B (44) of the Finance Act, 1994 (as amended) defines the term 'service'. As per Explanation 3 of the definition of 'service', an unincorporated association or a body of persons, and a member thereof shall be treated as distinct persons. By virtue of this explanation, the service tax authorities are demanding the levy of service tax on cash calls between the member consortium on the basis of the fact that the association of persons (AoP) and members are distinct persons, and that the lead consortium member is providing the requisite services to other consortium members.

It is recommended that a clarification be put forth to the effect that mere cash transactions between members and unincorporated associations shall not qualify as services and hence will not be leviable to service tax.

Exemption from service tax on input services consumed by oil and gas companies in relation to exploration and production activities

Exemption from service tax on input services consumed by oil and gas companies has been a recurring demand of the sector. The recent shift in the taxation of services from select services to all services has further increased the service tax burden on the sector. It has been exempted from the payment of excise duty on the output leg on the crude oil and natural gas production. This has resulted in a break in the credit chain which has increased the operating costs for exploration companies. Hence, the service tax paid on the procurement of taxable services by oil and gas companies is a sticking cost.

Hence, it is expected that in line with other concessions, the central government should exempt the input services consumed by the oil and gas sector from the levy of service tax. Alternatively, the possibility of refund of the service tax paid on input services consumed by the sector may also be considered.

Service tax on recoveries made by an employer from an employee

Services provided by an employee to an employer in relation to employment has been kept outside the purview of service tax. It is a common phenomenon that companies provide certain facilities or benefits to employees, and often recovers a token amount from employees for such facilites.

Within the present framwork of service tax, the token amount recovered by the employer from its employees is subject to service tax. This poses the challenge of enormous compliances (in the form of registration as well as other procedural requirements), especially for companies who do not have any other output service tax or CENVAT liability, except the service tax on these faciities or benfits to employees. It is therefore recommended that the government should carve out service tax exemption on services provided by an employer to its employees on similar lines as provided for services rendered by employees to its employer during the course of employment.

No benefit of service tax paid on amounts written off as bad debts

Rule 6(3) of Service Tax Rules, 1994 provides for the adjustment of service tax already paid if the services are not provided by the service provider. However, there is no corresponding provision for service tax adjustment when the amount is written off as bad debt. Since the amounts written off as bad debts affects the cash flow of the assesses, therefore it is suggested that suitable amendment should be made to the relevant Rules in order to provide for service tax adjustments for amounts written off as bad debts.

Clarity on the payment of service tax on transmission charges

As a matter of business practice in the oil and gas sector, contracts for the supply of a product is a lump sum contract for the sale and transmission of the product. The supplier of the product usually charges transmission fee which is a part of the sale price itself, and accordingly chargeable to Value Added Tax (VAT) VAT. However, lately, service tax authorities have been raising demands for the payment of service tax on transmission charges. It is recommended to issue necessary clarification on the matter in order to avoid the issue of double taxation.

Clarity on levy or abatement under service tax for transportation of goods through 'time chartered vessel'

Oil marketing companies usually transport their goods either through 'voyage chartered vessels' or through 'time chartered vessels'.

Presently, services in relation to the import of goods through 'voyage chartered vessels' for transportation purposes is not subject to service tax since the same has been specified in the negative list. In terms of section 66D (p)(ii) of the Finance Act, 1994, service tax is not payable on the transportation of goods by an aircraft or a vessel from a place outside India to the first custom station of landing in within the country. Therefore, import of goods by a vessel in India is not chargeable to service tax.

In addition to the above, transport of goods though a vessel is entitled for 50% abatement[2].

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[2] *vide Sl.No.10 of Notification No.30/2012-ST dated 20.06.2012*

However, the benefit of this exemption is not extended to transport of goods through 'time chartered vessel' since such services fall within the category of supply of tangible goods for use. It is therefore recommended to issue appropriate amendments in order to allow the aforesaid benefits on the transport of goods through a 'time chartered vessel'.

Removal of ambiguity on distribution of credit through the input service distribution (ISD) mechanism

The manner of distribution of eligible input service credit through the ISD mechanism under Rule 7 of CCR has been redefined through amendments made (notification no5/2014 dated 24 February 2014) post 1 April 2014. This amendment was introduced based on the Shome Committee recommendations. However, this amendment seems to have deviated from the original intention since then.

The amended rule provides that the credit of service tax attributable to services used in more than one unit shall be distributed pro-rata on the basis of the turnover of the unit to the sum total of the turnover of all the units, irrespective of whether the credit pertains to those units or not. This methodology for the distribution of credit results in the loss of credit to the extent that the credit gets distributed to the exempted units. It is recommended to streamline the method of credit distribution by appropriately amending the provisions so as to allow appropriation of credit to only the units using these common services.

Central sales tax (CST)

Inclusion of goods required for laying down the natural gas pipeline network within the category of goods eligible for concessional CST against Form C

Presently, public sector undertakings (PSUs) are investing heavily on the development of the national gas grid to transport natural gas. Considering the impetus of huge investments into this sector, it is recommended that the natural gas pipeline or network products should be included within the purview of section 8(3) of the CST Act on similar lines as the telecom network. The inclusion of natural gas pipeline or network products under section 8(3) of the CST Act will enable the industry to purchase these goods at a concessional rate of CST against Form C.

Declared goods status to natural gas, naphtha and Aviation Turbine Fuel (ATF)

Natural gas, naphtha and ATF are primary sources of energy for fertilizer, petrochemicals, power, aviation and several other industries. The importance of natural gas is likely to increase in the future with its rising domestic use.

However, the high and multiple point sales tax structure on natural gas and naphtha, without input credits, is adversely affecting the industry, and ultimately the consumers are bearing the load of high taxes.

Over the years, natural gas and naphtha have become costlier and non-competitive in comparison to other fuels such as coal and crude oil which have been declared as 'goods of special importance' in terms of section 14 of the CST Act. In order to provide a level playing field amongst different primary energy sources it is recommended that natural gas (including R- LNG) , naphtha and ATF must be accorded the 'declared goods' status under the CST Act. It will also help in maintaining the uniformity in the VAT rates on these products all across India.

Prescribed Rate for reversal of Input Tax Credit (ITC) on stock transfers should be reversed from 4 to 2% uniformly across all states in India

Presently, under most of the state VAT laws, a reversal of ITC to the tune of 4% is required to be executed in relation to goods stock transferred outside the state or used in the manufacture of goods which are stock transferred outside the state. The provision is based on the premise that in case of stock transfers, there is a revenue loss to the extent of CST payable in inter-state sales otherwise. However, since the rate of CST payable on inter-state sales has been made to 2% with effect from 1 April 2007, therefore, it is recommended to suitably amend the state VAT laws and accordingly, require the reversal to 2% VAT instead of the prevailing rate of 4%.

Goods and service tax(GST)

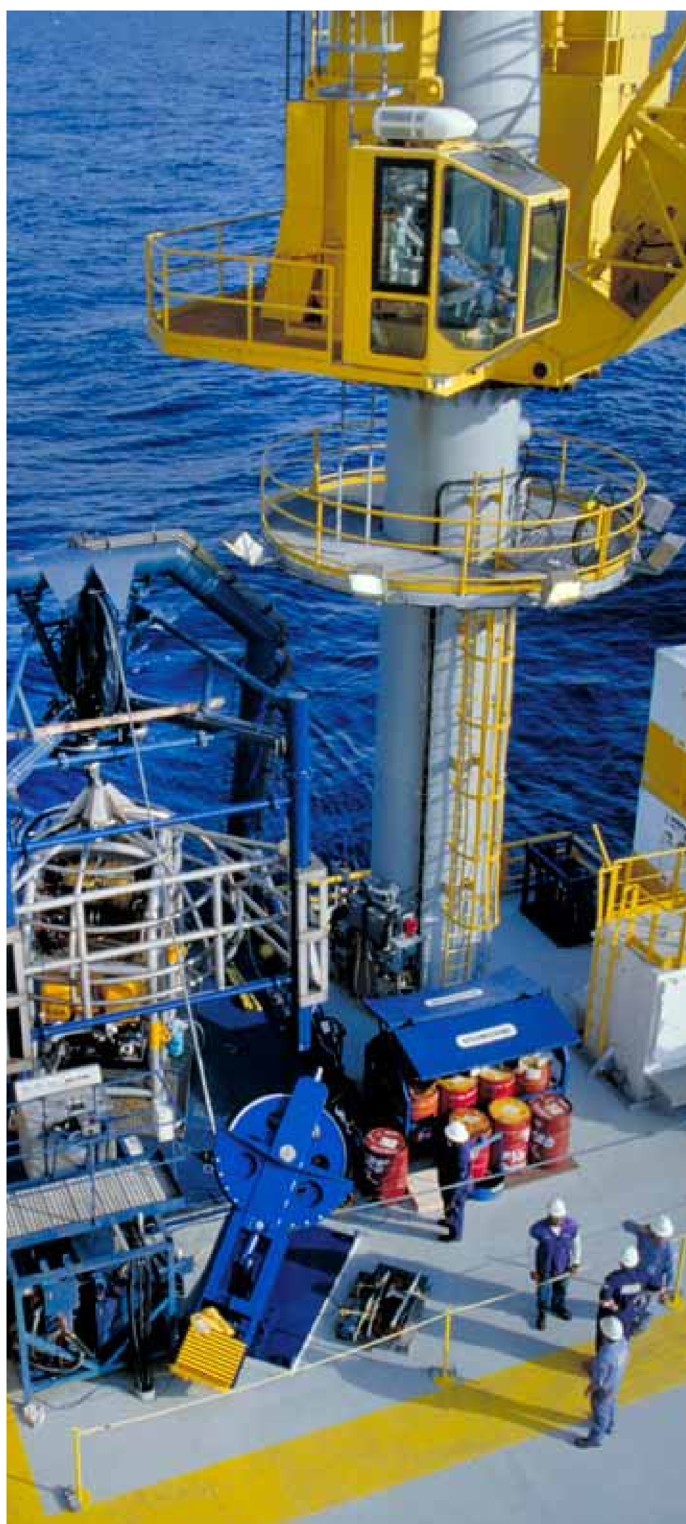
Inclusion of petroleum products within the GST regime: The draft proposal circulated by the Ministry of Finance
to the state government proposes to keep petroleum products and natural gas outside the ambit of the proposed GST regime. Thus, these goods will continue to be taxed as per the existing scheme of taxation even after the introduction of GST. This would lead to inefficiencies as well as tax cascading.

Several countries such as Australia, Canada, Sri Lanka, Singapore and Brazil have included petroleum products under the GST net. In fact, even for India, the 13th Finance Commission has recommended the inclusion of petroleum products under GST.

Thus, to avoid the breakage in the tax chain and overall growth of the oil and gas sector, it is suggested that all petroleum products need to be brought into the GST regime, and if they have to be excluded from GST at this stage, it may be done through an appropriate provision within the GST legislation, instead of excluding them through the constitutional amendment bill.

Chapter 5

Significant Policy Changes and Initiatives in Oil & Gas Industry



Upstream

Initiatives to accelerate exploration and production activities

The policy for geo scientific data generation for hydrocarbons in Indian sedimentary basins was launched in February 2014 in view of the requirement for generation of high quality geo-scientific data in a speedy manner inorder to make the speculative survey model more attractive and easier to implement. Under this policy, permission for conducting geo scientific data surveys will be granted by way of a non-exclusive multi-client survey agreement. This policy replaces the earlier model of profit-sharing after cost recovery with a one-time project fee.

In the area of exploration and production (E&P), the government cleared 31 exploration blocks from defence and other angles to pave the way for exploration work in those blocks. A high-powered fast-track mechanism created at the level of Cabinet Committee on Investment (CCI) facilitated the decision. The government also cleared 95 pending resolutions of Management Committees of exploration blocks to expedite the E&P activity. Similarly, further exploration was allowed in the mining lease areas of exploration blocks where discoveries had been made. This increased the possibility of making more discoveries and one discovery in the KG basin and one in Rajasthan were made during the year itself. The shale gas and CBM policies were approved during the year in order to enhance the utilisation of new sources of hydrocarbon. While the new shale gas policy opens up exploration by National Oil Companies, the amended CBM Policy allows Coal India Ltd. (CIL) and its subsidiaries to undertake the exploration and exploitation of CBM gas in areas allotted to them under mining leases.

The government also formulated the Draft Uniform Licensing Policy for the award of acreages for hydrocarbon E&P in the future, covering all categories of hydrocarbons. This is expected to overcome the bottlenecks caused by different kinds of hydrocarbons found in the same area thus ensuring smooth operation for enhancing oil and gas production.

In order to enable early monetisation of discoveries, a policy was formulated in October 2013 enabling operators to submit an integrated development plan (IDP) consisting of multiple discoveries, and permitting them to sell petroleum produced from such discoveries pending final approval of the IDP.

A committee was constituted in December 2013 to codify Good International Petroleum Industry Practices (GPIP) for the E&P sector for faster decision-making. Codification of these standards will provide objectivity to the decisions of regulators, operators and other stakeholders.

Midstream

Augmenting gas supply and expanding supply infrastructure

Progress was also towards natural gas imports from Turkmenistan through the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline project. The government approved GAIL India Ltd to be the consortium partner from India for the TAPI project.

The 1400 km long Dabhol-Bengaluru pipeline built by GAIL was commissioned in 2013 to enable the supply of imported natural gas from Dabhol LNG terminal to the southern part of the country by connecting consumers in the three states of Maharashtra, Goa and Karnataka for the supply of imported liquefied natural gas (LNG) to them.

The Kochi LNG Terminal built by Petronet LNG Ltd (PLL) was commissioned in 2013 with the capacity to import and regasify LNG upto 5 million tonnes per annum (MMTPA) making natural gas available to industries in Kerala, Tamil Nadu, Karnataka, Andhra Pradesh and Maharashtra. The total capacity of the country to import and regasify LNG thus increased to 22 MMTPA.

Guidelines for clubbing and diversion to improve PLF of gas based power plants issued

In order to improve the Plant Load Factor (PLF) of gas based power plants leading to the increase in generation of electricity, the Ministry of Petroleum and Natural Gas issued guidelines for the clubbing and diversion of natural gas. An entity (owner of two or more power plants) may club its gas allocation and supply of two or more of its power plants to utilise in a more effective manner.

Revised guidelines for allocation of domestic gas of small and isolated fields issued

To enable early monetisation of gas produced from small and isolated fields of National Oil Companies (NOCs), the Petroleum Ministry revised the guidelines in July 2013 doing away with sectoral priority and introducing price bidding for customer selection. Further, the limit of peak production was raised from 0.1 Million Metric Standard Cubic Meter Per Day (MMSCMD) to 0.2 MMSCMD to qualify as small and isolated fields. This is expected to lead to faster monetisation with higher returns for NOCs and encourage investment in exploration.

Guidelines for allocation and supply of domestic gas to CNG (transport) and PNG (domestic) segment issued

The Ministry of Petroleum and Natural Gas issued guidelines regarding the allocation and supply of domestic natural gas to city gas distribution (CGD) entities for CNG (transport) and PNG (domestic). These guidelines have brought all CGD entities at par, across the nation, with regard to the supply of domestic natural gas for CNG (transport) and PNG (domestic). Further, recognising the importance of natural gas in the transport and domestic sectors as fuel, the Ministry has increased the supply of domestic gas to these sectors by about 12%. The guidelines have had a positive impact in several cities and towns. The prices of CNG (transport) and PNG (domestic) have reduced in many cities and towns.

CCEA defers domestic natural gas pricing guidelines for wider consultations

The domestic natural gas pricing guidelines announced in January 2014 were later deferred due to the Model Code of Conduct that had been effected in the country then.

The Cabinet Committee on Economic Affairs (CCEA) decided that comprehensive discussions were necessary on the issue and the guidelines. It was decided that consultations would be held with all stakeholders and it was important to keep public interest in mind.
Therefore, the CCEA deferred this issue for a period of three months.

Downstream

FDI policy liberalised for oil and gas sector

In order to attract Foreign Direct Investment (FDI) in the sector, the FDI policy was further liberalised in refining during the year. According to this liberalised FDI policy, now, joint venture refineries with Public Sector Units (PSUs) can be set up with FDI through the automatic route till upto 49%. This stipulation was limited to 20% earlier. This is expected to facilitate more projects, strengthen domestic value addition and establish India as a refinery hub.

LPG connection portability scheme launched on an all India basis

The scheme for portability of LPG connections across Oil Marketing Companies (OMCs) and distributors was launched during the year on an all-India basis by expanding its coverage to over 480 districts and a population of over 8.2 crore LPG consumers across the country. These districts cover all possible LPG markets which have multiple LPG distributors of various ratings.

With this, an LPG consumer in these markets can now switch to the distributor of his/her choice within a cluster of LPG distributors in the vicinity under the LPG connection portability scheme. This measure will bring great relief to those LPG consumers unhappy with the services of their current distributor or those who want to move to an LPG distributor closer to their home. In order to facilitate LPG consumers to benefit from the portability scheme, OMCs have made more than 1,400 cluster distributors in over 480 districts with an average of almost four distributors per cluster to choose from.

Implementing Ethanol Blended Petrol Programme to enhance oil security

In order to utilise domestic ethanol to supplement fuel availability under the Ethanol Blended Petrol (EBP) Programme, in July 2013, the CCEA decided that ethanol would be procured only from domestic sources to achieve the mandatory requirement of blending 5% ethanol with petrol across the country (except the north-eastern states, J&K, Andaman and Lakshadweep) by October 2013. The government also decided that OMCs and sugar industry associations may interact with each other on a regular basis to achieve the target. Another important aspect of the decision is the implementation of the EBP programme by OMCs as per ethanol quantity becoming available to achieve the mandatory level. Pursuant to this, OMCs will implement the programme in 20 notified states and 4 UTs as per the availability of ethanol.

Launch of Direct Benefit Transfer for LPG (DBTL) Scheme to place LPG subsidy directly in the hands of consumers

The Direct Benefit Transfer to LPG consumers (DBTL) scheme was launched in 2013 covering over half of the LPG consumers in the country. The scheme covers a total of 9.5 crore LPG consumers in 291 districts out of the approximate 15 crore LPG consumers in the country. It has been successful so far with more than 15 million LPG consumers enjoying the transfer of over 2,000 crore INR into the Aadhaar linked bank accounts of LPG consumers. The subsidy burden due to sale of domestic LPG was about 40,000 crore INR in 2012-13. The Aadhaar based DBTL scheme is an efficacious mechanism to prevent fake or ghost connections and the consequent diversion of subsidised LPG cylinders. This system also permits any citizen unwilling to avail of subsidy to remain out of its ambit, thereby allowing for self-selection to some extent.

General

Fuel efficiency norms prescribed for LPG stoves and diesel pumps

In order to encourage the conservation of key petroleum based fuels, viz. LPG and diesel, the government of India has prescribed fuel efficiency norms for equipment and appliances consuming these products. Efficiency benchmarks for LPG domestic stoves and diesel monoset pumps have been launched on a voluntary basis. These programmes have been approved by the government under the Energy Conservation Act 2001, in consultation with the Bureau of Energy Efficiency (BEE).

The efficiency norms for LPG domestic stoves and diesel monoset pumps will be implemented jointly by the BEE and the Petroleum Conservation Research Association (PCRA) as part of the star labelling scheme. The programme will permit vendors to display star labels on their equipment according to its fuel efficiency parameter. Customers will be able to prefer more efficient models based on number of stars displayed on the equipment. The initiative will make available more fuel-efficient appliances to the consumer, reducing the consumption of LPG and diesel. Improved efficiency values in the case of domestic LPG stoves and diesel monoset pumps are expected to save 2.4 MMT of LPG and 17.0 MMT of diesel respectively, over the next 10 years.

Significant successes in securing oil and gas equity abroad

To strengthen the country's energy security, by aggressively pursuing equity oil and gas opportunities overseas, today, Indian oil companies are present in 25 countries. As part of these efforts, ONGC Videsh Ltd (OVL) acquired 2.72% stake in ACG fields, one of the biggest offshore fields globally and 2.36% stake in BTC Pipeline in Azerbaijan in March 2013. OVL also acquired 12% additional stake in Block BC-10, Brazil in December 2013. Further, OVL along with Oil India Limited (OIL) acquired 10% stake in Area-1, Mozambique. Further, OVL finalised the agreement to acquire 10% stake in the same Area-1, Mozambique from a US listed company. Area-1, Mozambique is one of the biggest gas finds in recent times with estimated reserves (2C) of 45 trillion cubic feet.

Further, GAIL signed a Terminal Service Agreement (TSA) with Dominion Cove Point LNG LP in April 2013 for booking 2.3 MMTPA liquefaction capacity in the Cove Point LNG liquefaction terminal project located in Lusby, Maryland, US. The US Department of Energy (DoE) recently approved Dominion Cove Point LNG LP's application to export LNG from its terminal to countries that do not have a free-trade agreement with the US. This is in addition to the off take agreement signed by GAIL with Sabine Pass Liquefaction LLC for the supply of 3.5 MMTPA LNG from Sabine Pass Terminal in December 2011. This is the first LNG project in the USA with non-FTA authorisation.

Chapter 6

Commodity balance of petroleum and petroleum products

Commodity Balance of Petroleum and Petroleum Products (Million tonnes)

	Item	1980-81	1990-91	2000-01	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13*	2013-14*
	1	2	3	4	5	6	7	8	9	10	11	12	13
Crude Oil													
1	Refinery throughput	25.8	51.8	103.4	130.1	146.6	156.1	160.8	192.8	197.0	204.1	219.2	222.7
2	Domestic production	10.5	32.2	32.4	32.2	34.0	34.1	33.5	33.7	37.7	38.1	37.9	37.8
(a)	*On-shore*	5.5	11.8	11.8	11.4	11.3	11.2	11.3	11.8	16.4	18.0	19.4	19.6
(b)	*Off-shore*	5.0	20.4	20.6	20.8	22.7	22.9	22.2	21.9	21.3	20.1	18.4	18.2
3	Imports	16.2	20.7	74.1	99.4	111.5	121.7	132.8	159.2	163.6	171.7	184.8	189.6
4	Exports	—	—	—	—	—	—	—	—	—	—	—	—
5	Net imports (3-4)	16.2	20.7	74.1	99.4	111.5	121.7	132.8	159.2	163.6	171.7	184.8	189.6
Petroleum Products													
1	Domestic consumption@ of which	30.9	55.0	100.1	113.2	120.7	128.9	133.6	137.8	141.0	148.1	157.1	158.2
(a)	*Naphtha*	2.3	3.4	11.7	12.2	13.9	13.3	13.9	10.1	10.7	11.2	12.3	11.5
(b)	*Kerosene*	4.2	8.4	11.3	9.5	9.5	9.4	9.3	9.3	8.9	8.2	7.5	7.2
(c)	*High speed diesel oil*	10.3	21.1	37.9	40.2	42.9	47.7	51.7	56.2	60.1	64.7	69.1	68.4
(d)	*Fuel oils*	7.5	9.0	12.7	12.8	12.6	12.7	12.6	11.6	10.8	9.3	7.7	6.2
2	Domestic production$ of which	24.1	48.6	95.6	119.8	135.3	144.9	155.2	184.6	194.8	203.2	217.7	220.6
(a)	*Naphtha*	2.1	4.9	9.9	14.5	16.7	16.4	16.5	18.8	19.2	18.8	19.0	18.4
(b)	*Kerosene*	2.4	5.5	8.7	9.1	8.5	7.8	8.2	8.7	7.8	7.9	8.0	7.4
(c)	*High speed diesel oil*	7.4	17.2	39.1	47.6	53.5	58.4	62.9	73.3	78.1	82.9	91.1	93.7
(d)	*Fuel oils*	6.1	9.4	11.4	14.3	15.7	15.8	17.7	18.3	20.5	18.4	15.1	13.3
3	Imports#	7.3	8.7	9.3	13.4	17.7	22.5	18.5	14.7	17.4	15.9	15.8	16.1
4	Exports	—	2.7	8.4	23.5	33.6	40.8	38.9	51.2	59.1	60.8	63.4	68.4
5	Net imports (3-4)	7.3	6.0	0.9	(10.1)	(15.9)	(18.3)	(20.4)	(36.5)	(41.7)	(45.0)	(47.6)	(52.3)

Source: Economic Survey 2013-14, Ministry of Petroleum & Natural Gas

** Provisional*
@ Excluding refinery fuel consumption, including imports by private parties
$ Excludes LPG production from fractionators
 # Excluding import of LNG

Notes: Excludes other inputs from refineries crude throughput during 2010-11 to 2013-14

About PetroFed

The Petroleum Federation of India is an apex hydrocarbon industry association to promote the interests of members through a self-regulatory environment with national and consumer interest in sight. It acts as an oil industry interface with Government, regulatory authorities and public and helps in resolution of issues and evolution of hydrocarbons related policies and regulations. It represents the industry on Government bodies, committees and task forces and organises seminars, conferences, workshops, training programmes, lectures and brings out study reports and technical publications. It has instituted 13 Annual Awards in eleven categories.

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