



Need fuel to fulfill \$5-trillion economy target

Abhishek Rastogi, Khaitan & Company

2nd January, 2020

The honouring of existing contracts by the government is as critical for inflow of new investments as it is for the nation's energy security.

Energy self-reliance is pivotal to fuel India's \$5-trillion economy dream. Every additional barrel of oil imported is actually a hindrance to realise this dream as imports add pressure to the exchequer and the current account deficit (CAD). Recently, the oil minister had said that India's demand for gas is expected to grow three times in the near future to 600 million standard cubic meters per day. In fact, the government has aligned its policy regime to attract global investments in its bid to enhance energy security with \$100-billion energy infrastructure. Much of the effort has been skewed towards the downstream segment which is import-intensive. As a corollary, there is an urgent need for policy intervention in the upstream sector that will enable new explorations and significantly increase domestic production, helping the government meet its target of cutting imports by 10 per cent.

Taxing times:

One is aware of the heavy tax burden on the upstream industry and its impact on new

investment. Therefore, the government took cognizance and introduced transformational reforms with reduced level of taxes for subsequent blocks allotted under its hydrocarbon exploration and licensing policy (HELP), open acreage licensing policy (OALP) and discovered small field (DSF) regimes to boost domestic production. However, there is a need to address the concerns of the existing producers – the existing oil fields from pre-new exploration licensing policy (NELP) and nomination era that account for more than 95 per cent of India's domestic oil production. These fields are still subject to higher taxes compared to NELP and HELP contracts.

Moreover, oil companies are subjected to a regressive oil industry development (OID) cess, which is not levied on oil production from blocks under NELP, HELP, and marginal fields policy. At 20 per cent of the realised price of crude oil, cess continues to remain an overriding burden on the finances of existing producers. Another anomaly is that OID cess is levied only on domestic production, placing domestic crude at a significant disadvantage against imported crude oil which does not attract such duty. India happens to be the only country which levies two sets of production taxes – cess and royalty. The dual taxation raises the cost of production, thereby increasing cess and revenue collections. It has no impact on the CAD as the imports have ballooned following decline in crude production with each passing year. There have been several rounds of debate on the inclusion of petroleum products in the goods and services tax (GST) gamut. The time has come to take a decision so that the entire petroleum sector gets the desired immediate boost.

Contractual sanctity:

Contractual sanctity and transparency are a must to make business easy. The fact that India has moved from 142 in ease of doing business in 2014 to 63 in 2019 indicates the measures the government is taking to make the environment conducive to business. However, India's rank in the parameter relating to contract enforcement is still abysmally low at 163, which bodes ill for the business environment. In fact, a large number of cases remain sub-judice – 18 lawsuits in the Supreme Court of India and 72 cases in the high courts of India, according to official data presented in the ongoing parliament session.

Effective processes need to be implemented to ensure adherence to contracts, especially in highly important sectors like oil and gas. Such an approach for the existing oil blocks will immensely help the country realise its \$5-trillion economy dream. There are instances of retrospective changes brought in by the authorities in the past – increased cess burden, introduction of tax on imports under the GST on goods for petroleum operations, sharing of royalty and cess in proportion to the participating interest of the contractors in pre-NELP exploration blocks. The arbitrary increase in government's share of profit petroleum by 10 per cent to access unconventional hydrocarbons deteriorates the economics of domestic oil producers and sends out the wrong signal to investors.

Reneging on contracts through these policy changes create ambiguity in the business environment and discourages investment, as witnessed in the recent round of auctions

where no foreign energy and production players participated. It should be understood that higher investments and increased production would eventually lead to higher revenues for the government by way of more royalty, cess and profits.

India's oil and gas production is declining and import dependence is increasing. However, over 70 per cent of resources are yet-to-find category. Thus, attractive fiscal terms become imperative to unlock India's hydrocarbon potential. The honouring of existing contracts by the government is as critical for inflow of new investments as it is for the nation's energy security.

DISCLAIMER: The views expressed are solely of the author and ETEnergyworld.com does not necessarily subscribe to it. ETEnergyworld.com shall not be responsible for any damage caused to any person/organisation directly or indirectly.

About **Abhishek Rastogi**

Abhishek works as a Partner-Tax with Khaitan & Co. He is a Chartered Accountant and a graduate from Shri Ram College of Commerce. He has also worked at PwC and Ernest & Young in the past.



Ajay Sawhney

Partner, Cyril Amarchand Mangaldas

Renewable energy sector: The way forward

The sector continues to grapple with the problem of imposition of custom duties on solar modules which caused a 12 to 18 month installation delay in projects

Dec 30, 2019, 09.05 PM IST

[+ Click Here to Read This Story](#)



Anil Chaudhry

Country President and MD, Schneider Electric India

Why the circular economy model is imperative for a brighter energy outlook in 2020

Rationale for smart energy systems remains strong in growing economy

Dec 30, 2019, 08.41 PM IST

[+ Click Here to Read This Story](#)



Akshima Ghate
Principal, RMI India

Delhi EV Policy: Govt lays foundation for a clean mobility future

The policy by far presents itself as the most comprehensive sub-national policy that adopts a system-wide approach to promote adoption of EVs

Dec 27, 2019, 01.37 PM IST

[+ Click Here to Read This Story](#)



Sambitosh Mohapatra
Partner - Power and Utilities, PwC India

Power and utilities outlook 2020: A new decade of growth

What to expect from India's power and utilities sector in 2020

Dec 26, 2019, 05.24 PM IST

[+ Click Here to Read This Story](#)



Partners:



Follow ETEnergyworld / [Twitter](#) / [Facebook](#) / [LinkedIn](#)

Trends ›

[Dharmendra Pradhan](#) / [CNG Updates](#) / [KPMG News](#) / [Bharat Petroleum](#) / [Petrol Price](#) / [HPCL](#) / [GAIL](#)

Editor's Picks ›

[How the economic slowdown has dented India's power sector](#) / [India's power distribution sector facing debt pile of over Rs 4 lakh crore: ADBI](#) / [MNRE issues draft policy for round-the-clock supply of bundled renewable power](#) / [India identifies offshore wind energy potential of 70,000 MW along Gujarat, TN coasts](#) / [India to attract increased energy infrastructure investment in 2020: Pradhan](#) / [Delhi's winter peak power demand touches all time-high, crosses 5000 Mw mark](#) / [Fall in coking coal prices fuelling higher steel spreads](#) / [Oil Minister Dharmendra Pradhan to preside over signing of contracts for OALP IV](#) / [TERI develops blockchain-enabled prototype for solar power trading](#) / [India has installed 84 GW of renewable energy capacity so far: MNRE](#)

Features ›

[Trends](#) / [IndustrySpeak](#) / [International](#) / [Policy](#) / [Reports & Data](#) / [Innovations](#)

Other B2B News Sites ›

[Retail News](#) / [Auto News](#) / [Health News](#) / [Telecom News](#) / [IT News](#) / [Real Estate News](#) / [Marketing & Advertising News](#) / [Technology News](#) / [CFO News](#) / [IT Security News](#) / [BFSI News](#) / [Government News](#)

[About Us](#) / [Contact Us](#) / [Advertise with us](#) / [Newsletter](#) / [RSS Feeds](#) / [Embed ETEnergyworld.com Widgets on your Website](#) / [Invite Friends](#) / [Enroll Company Employees](#)

[Privacy Policy](#) / [Terms & Conditions](#) / [Guest-Post Guidelines](#) / [Sitemap](#) / Copyright © 2020 ETEnergyworld.com . All Rights Reserved.