

Ref. No.: PF/9
January 5, 2017

Shri Hasmukh Adhia
Revenue Secretary &
Ex-officio Secretary to GST Council
Ministry of Finance
Department of Revenue
North Block, New Delhi

Sub: GST - Inclusion of Petroleum and Hydrocarbon Industry

Dear Sir,

The Constitutional Amendment as enacted includes Petroleum products (MS, HSD, ATF, Crude Oil and Natural Gas) but the date of inclusion within GST framework will be decided by the GST Council. The non-inclusion of Oil and Gas sector at the time of introduction of GST will have huge adverse impact on this sector, India's energy security and will have cascading inflationary impact on various other industries and economy which would impact the competitiveness of "Make in India" initiative of GOI.

Non-inclusion of the sector in GST regime means, various goods and services procured by this industry will be subject to GST, whereas the sale/ supply of Oil, Gas and Petroleum Products, the earlier taxes (i.e. excise duty/ Value Added Tax/ Central Sales Tax, Entry Tax etc.) will continue to apply without any credits on input GST. Thus, this industry will be subjected to a huge additional indirect tax burden with stranded costs of Rs. 25,000 crore - refer to Annexure-I for details.

Petroleum products directly enter as an input into a large number of economic activities impacting masses (e g, transportation, and electricity generation and fertiliser production). The increase in tax incidence and stranded costs will have a significant inflationary impact on the Indian economy.

In view of the above-mentioned adverse impact for non-inclusion of the Petroleum Products in GST regime, our request is as follows:

Option 1: Petroleum Products are included in the GST

GST is levied on sale/ supply of Petroleum Products. This inclusion will provide free-flow of credit and avoid cascading impact and inflation in the economy. The GST charged on supply of Oil and Gas will be eligible as tax credit to customer, which will ensure that there are only incremental taxes.

Option 2: Oil & Gas is included in the GST regime (at a lower band) with added tier of Excise and Vat

This would involve applying GST together (at the lower rate of say 5%) with an added tier of taxation in the form of a scaled down Excise and VAT. This would help bring petroleum into the GST regime. This will unlock all credits on the procurement side for refineries and E&P operations. Corresponding Excise and VAT rates would need to be reduced under this scenario to keep the products revenue neutral. This is compatible with GST framework.

Submission

In recent times, India's domestic oil and gas production has been on decline while there is a significant increase in consumption leading to increased level of imports. Hence the domestic production of Oil and Gas is critical to India for its energy security and reduction in import dependence. The new and innovative policies combined with fiscally stability through the interventions discussed above will go a long way in unlocking investments of US\$ 15-20 billion over next 4-5 years helping to realise the Honourable PM's vision for reduction of Oil and Gas imports by 10% by year 2022.

We shall be extremely grateful if we are provided an opportunity to present our case on behalf of the oil & gas industry before the GST Council. We also wish to seek an appointment with you to present the case in person at your earliest convenience.

Thanking you,

Yours sincerely,



Dr. R. K. Malhotra
Director General

Encl.: as above

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

Stranding of Taxes**Annex 1**

Rs/Crore

Particulars	Tax Stranding		
	Current	Incremental	Post GST
CST On Crude	611	0	611
VAT on Crude (without ITC)	1653	0	1653
CST on MS,HSD, ATF	1600	0	1600
IGST on Imported goods used in Upstream	0	1721	1721
Tax on Indigenous goods used in Upstream	541	946	1487
Tax on services (both imported & indigenous) used in Upstream	4559	3042	7601
Duties & Tax on goods and services used in refinery for manufacture of MS,HSD & ATF	0	5372	5372
Duties & Tax on goods and services used in distribution & marketing of MS,HSD & ATF	0	2183	2183
Loss of excise duty exemption to NE Refineries	0	2039	2039
TOTAL	8964	15303	24267