

Ref. No. PF/9
21st September 2016

Shri Najib Shah
Chairman
Central Board of Excise & Customs
North Block
New Delhi

Sub: Subsuming CST into GST

Dear Sir,

We understand that a proposal to subject the excluded petroleum products (MS, HSD, ATF, Crude & Natural Gas) to GST from 01.04.2017 is under active consideration of the Government. We sincerely acknowledge your support in addressing the concern of the oil industry and shall remain grateful for providing us an opportunity to present the case before you alongwith the industry in the meeting held on 19th August 2016 in your office.

On behalf of industry, we would like to further submit as follows:

1. As regards excise duty and VAT on the excluded goods (MS, HSD, ATF, Crude & Natural Gas), the Central and State Governments are expected to recalibrate the rates of excise duty and VAT, which may continue on these products.
2. As regards CST, as per the Statement of Objects and Reasons to the Constitution Amendment Bill (122nd amendment Bill), the CST Levy would be subsumed into the GST.
3. The pricing of petroleum products is on normative import parity and since imported products do not suffer CST, the price does not include CST. This leads to stranding of levy of CST in the hands of the oil companies for any interstate movement of these products. More importantly, CST distorts logistics due to the creation of sub-optimal depots and double-handling operations. In the above context, the total elimination of CST under GST regime is welcome.
4. The Oil Industry currently pays approx. Rs. 2000 Crores per annum as CST on all the excluded products (MS, HSD, ATF, Crude & Natural Gas).
5. The possible loss due to abolishing of CST on these products is miniscule when compared to the total contribution from this sector. It appears that this revenue should be possible to be more than made up from the expected

buoyancy and imposition of GST itself on this sector, where the value addition upto the stage of retail sale would get taxed, unlike at present. However, in case, it is necessary to provide a mechanism to recover the above Rs.2000 crores per annum, two options are open:

- (1) Each state while recalibrating their VAT rates on MS, HSD & ATF can factor any loss of revenue on CST on the excluded goods;
 - (2) The Central Government is bound to protect the tax revenues of states, including CST, as per the 101st Constitution Amendment Act. In the spirit of GST, the Central Government may also consider the revenue lost due to inclusion of the 'excluded products' (MS, HSD ATF, Crude and Natural Gas) for compensation, which may have only a minimal impact, as has already been agreed to in the case of other commodities.
6. It is expected that the GST rate on downstream products (MS, HSD and ATF) will not be less than the GST on crude and natural gas, so that there is no stranding in downstream due to an inverted duty structure.
 7. It is also expected that imports will suffer the same rate of IGST equal to GST applicable (including IGST) on locally manufactured goods.

We request you to kindly consider the above while finalising the proposal for subjecting the excluded petroleum products to GST.

Thanking You,

Yours faithfully



Dr. R.K. Malhotra
Director General

cc. Shri Upendra Gupta, Commissioner GST, CBEC
cc. Shri K. D. Tripathi, Secretary, MoP&NG