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GST HIKE ON E&P SERVICES

Govt chalking out plan to compensate upstream oil firms

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The government is working on a scheme to compensate upstream oil and gas companies — those engaged in exploration & production (E&P) — for the higher input costs they will incur owing to the recent increase in goods and services tax (GST) on their activities, a senior government official said.

"We are assessing an expenditure-side scheme to compensate upstream companies, something to look at the stranded taxes. Higher GST eats into the companies' margins. The proposal will be sent to the finance ministry for approval," the official said.

As crude oil and natural gas are outside the purview of GST, a rise in the cost of exploration, development, and production — owing to higher GST on services like hiring drilling rigs — without an offset available on the sale of these products, will lead to stranded taxes.

An email sent to the oil ministry remained unanswered.

The move comes as upstream firms are accelerating deepwater and ultra deepwater exploration, which requires a higher cost of exploration, to boost domestic production. India's upstream industry includes state-run ONGC and Oil India Ltd, along with private players like Reliance Industries and Vedanta's Cairn Oil & Gas.

On September 3, the GST Council raised the rates of tax in the oil and gas E&P sector from 12 per cent to 18 per cent, with input tax credit. This has been introduced to aid procuring rigs for upstream companies — essential for exploration.

The alternative plan would be to introduce a special scheme of incentives for oil companies, the official added.

Why intervention is needed

- Higher GST on exploration and production services will push up cost of production for Indian upstream companies
- They are already dealing with lower energy prices
- Since crude oil and natural gas outside GST purview, stranded taxes will arise if no offset available on the sale of these products

The higher tax levy is set to push up the cost of production for Indian upstream companies, which are grappling with lower energy prices. ONGC could incur an additional input cost of upto ₹3,000 crore, the official said.

"The most impacted is the E&P sector and more so when they carry out deepwater and ultra-deep water exploration. Petrochemical is the other affected sector. I believe for the growth of these two, there should be an assured margin, below which if margins go, there should be some sovereign support," said Sandeep Gupta, chairman and managing director of GAIL, on September 16 at an industry event.

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GAIL to supply natural gas to Tata Steel plant

Jamshedpur: GAIL (India) has entered into an agreement with Tata Steel for supply of natural gas to the steel major's Combi-Mill plant in Jamshedpur, a statement said. As per the agreement, GAIL will supply 31,000 standard cubic metres per day (SCMD) of natural gas until March 2026, with volumes scaling up to 43,000 SCMD thereafter. PTI