

Oil majors stumped by excise duty hike on branded fuels

Source: *The Hindu Business Line*
July 07, 2009

Since the price differential [between regular and branded fuel] grew, use of branded fuel has fallen sharply over the months. The Budget's intervention could now make things worse.



Oil marketing companies (OMCs) that got little by way of pricing policy announcements from Mr Pranab Mukherjee in the Budget are now flummoxed by the move to change the excise duty structure on branded auto fuels at a time when their sales have fallen steeply over the last year.

The total excise on branded petrol is now up by nearly 20 paise/litre at Rs 14.50 while it is “largely unchanged” in the case of diesel at Rs 4.75/litre. The basic duty on branded petrol was earlier 6 per cent plus Rs 5/litre which is now a flat Rs 6.50/litre while, for diesel, it has changed from 6 per cent plus Rs 1.25/litre to just Rs 2.75/litre.

OMC sources said that on an average, branded petrol accounts for 20 per cent of the combined (petrol) sales of Indian Oil Corporation, Hindustan Petroleum Corporation and Bharat Petroleum Corporation. This is much lower in the case of branded diesel at 8-10 per cent.

The revision upwards for branded petrol is hardly going to help the cause with oil companies apprehensive that its component of total sales could now come down to 15 per cent. “Motorists are not going to pay more when they do not perceive any tangible value in the process,” sources said.

Price differential

It is this issue that has raised the hackles of the three refiners. Contrary to popular perception, they do not make profits on sale of these branded fuels. “Just because they are dearer does not translate into profits. By the end of the day, branded petrol is dearer by Rs 2/litre and (branded) diesel by Rs 1.75. It hardly helps when the non-branded options account for over 80 per cent of sales each,” they added.

A little over a year ago, the difference between regular petrol and diesel vis-à-vis their branded options was only 50-75 paise and sales soared in the process. Even truckers opted for branded diesel because there was a greater feel-good factor about its benefits for the engine. Since the price differential grew, their use has fallen sharply over the months. The Budget's intervention could now make things worse.

Right boost: Deora

On a different note, though, the Petroleum Minister, Mr Murli Deora, was upbeat about the Budget and said it would give the “right boost” to the petroleum sector.

As for the proposal to form an expert group to advise on viable and sustainable system of pricing of petroleum products, he said it would be “set up soon” even while an oil industry executive wryly commented that “the ink on the Chaturvedi committee report had not dried up yet”.

This panel had submitted its recommendations on deregulating the oil sector a little over a year ago.

Upstream cos happy

Upstream companies such as Oil and Natural Gas Corporation also had cause for cheer. Mr R.S. Sharma, Chairman and Managing Director, ONGC said, “The move to include natural gas production for income-tax exemption under Sec 80-IB will boost future investments in exploration and production. That was a key demand by the upstream sector.”

He added that the move to form an expert group to look into the pricing of petroleum products was also a positive policy move.

GAIL (India) felt that the focus on national gas highway would boost investments in the sector and result in more gas-based industries in newer areas while giving more kitchens access to cheaper fuel. The benefit in taxation on gas pipelines would also encourage investment by lowering gas price, the company said.

Mr Gokul Chaudhri, Partner and Leader of the Energy and Infrastructure Practise, BMR, said, “The proposal for tax holiday for natural gas brings the much needed clarity for the upcoming round of bidding under NELP to attract global exploration capital. It, unfortunately, does not resolve the ambiguity in respect of existing NELP blocks where the ongoing and potential production of natural gas is risked to tax litigation.”

Added Mr Vijay Iyer, Partner, Oil & Gas, Ernst & Young, “The Budget has not been so positive for the sector. The tax holiday for cross-country natural gas distribution network, inserted in 2007, is proposed to be withdrawn. Instead, the Budget proposes an investment-linked tax incentive for natural gas distribution network including crude/petroleum oil pipeline network.”