Levy on fuel exports cut; govt spares SEZs from windfall tax

Move to benefit RIL, ONGC and Oil India, say analysts

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The government on Wednesday exempted the export of petroleum products from units located in special economic zones (SEZs) from the windfall tax and slashed the export levies on these fuels amid easing global crude oil prices, less than three weeks after imposing them.

The move is expected to provide significant relief to Reliance Industries (RIL), whose 55 per cent of refining production comes from its two SEZ refineries at Jamnagar in Gujarat, from where a majority of products are exported. Other beneficiaries include the government-owned Oil and Natural Gas Corporation (ONGC) and Oil India.

"The central government, on being satisfied that it is necessary in the public interest to do so, hereby exempts the excisable goods, when exported from units located in SEZs," a government notification said.

According to the notification, the government lowered the windfall tax on upstream oil production to ₹17,000 per tonne from ₹23,250 per tonne. It also scrapped the ₹6-per-litre export tax on petrol and revised down the levy on diesel to ₹10 per litre from ₹13 per litre earlier, and on aviation turbine fuel to ₹4 per litre from ₹6 per litre.

JP Morgan in a report said the revision in taxes would result in revenue foregone of ₹67,600 crore.

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TAX DILEMMA

EARLY JUNE: Oil minister hints at levying windfall tax on domestic oil producers

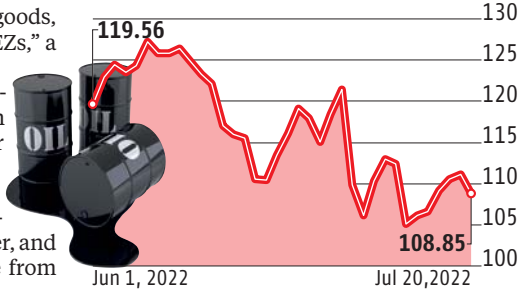
JULY 1: Govt imposes ₹6/litre tax on ATF and petrol exports, and ₹13/litre on diesel exports; says will review the levy fortnightly

JULY 15: No decision taken as petroleum ministry assesses the levy; says will consider average price trends, and not brief fluctuations

JULY 20: Export levy on petroleum products cut; SEZs exempted from windfall tax

OIL PRICES EASE

Brent Crude spot ($/BBL)



Source: Bloomberg

CUT IN FUEL EXPORT TAX DRIVES WINDFALL GAINS FOR OIL FIRMS P12

beyond March 2020, as businesses grappled with the disruption caused by Covid-19. The policy was extended from time to time and thereafter until September 30, 2022, as the government did not have anything substantial to roll out in the new policy in the absence of a new incentive scheme.

Exporters currently get support from schemes such as interest equalisation scheme, transport subsidy scheme, RoSCTL, and RoDTEP. Various export incentive schemes had to be phased out after India faced challenges at the World Trade Organization (WTO) over the same. Sunil H Talati, chairman, Services Export Promotion Council (SEPC), said since an ambitious $350-billion services export target has been set for the current financial year, there is a need for some fiscal incentives in the upcoming foreign trade policy. "While the government has made it clear that the SEIS (service exports from India scheme) will be discontinued, we have requested the DGFT (Directorate General of Foreign Trade) to include the scheme in the upcoming FTP, perhaps with more stringent norms," Talati said. Sectors, such as education, aviation, tourism, and hospitality, had to bear the brunt of the Covid pandemic and this makes a case for rolling out stronger incentives.

Windfall tax...

Moody's had earlier estimated that the government might generate ₹94,800-crore revenue from the windfall tax after it was imposed on July 1.

"It was announced earlier that windfall tax gains will be reviewed. We have reviewed and rationalised the levy," Finance Secretary T V Somanathan told reporters outside North Block. The Centre had earlier announced that it would review the windfall tax every 15 days.

CLSA in an analyst report said the government's clarification that SEZ units would now be exempt from the windfall tax was a positive for Reliance. "This will also ensure that the government's export-friendly image is not hurt. With this clarification as well as the windfall tax cut, our bottom-up calculation shows the (impact on) refining margin of Reliance falling from $10-11 per barrel to $3-4 per barrel," it added.

The RIL stock surged 2.5 per cent to ₹2,501 per share on the BSE on Wednesday.

According to industry experts, though the cess imposed on crude oil has been reduced, it remains quite steep at about $30 per barrel and is likely to adversely impact the EBITDA of the Indian upstream industry by about ₹39,000 crore for FY23.

(Shine Jacob contributed to this story)

NCLT...

Bank of India had moved the insolvency petition against Future Retail on April 14.

Amazon had subsequently moved the tribunal, alleging that the lenders had colluded with Future Retail to deny it its rights