

**GOVERNMENT OF INDIA  
PETROLEUM AND NATURAL GAS  
LOK SABHA**

UNSTARRED QUESTION NO:817

ANSWERED ON:04.08.2011

ROYALTY ON CRUDE OIL AND GAS

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**Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:**

- (a): whether the Royalty on crude Oil and Gas is to be paid to the State Governments based on the Wellhead Price of Crude Oil;
- (b): if so, the details thereof;
- (c): whether from April 2008 onwards, Oil & Natural Gas Corporation Ltd. unilaterally paid the Royalty to the State Governments on Post-discounted Prices;
- (d): if so, the reasons therefor;
- (e): whether the State Government of Gujarat has represented to Union Government for payment of royalty as per the said mechanism and as requested for per Pre-Discounted Prices;
- (f): if so, the details thereof; and
- (g) the reaction of the Government thereon?

**Answer**

MINISTER OF STATE IN THE MINISTRY OF PETROLEUM & NATURAL GAS( SHRI R.P.N. SINGH)

(a.) & (b.): Royalty on production of crude oil and natural gas is payable to the State Governments for production from onshore fields and to Central Government for production from offshore fields in terms of statutory provisions of Oilfields (Regulation & Development) Act, 1948, Petroleum & Natural Gas Rules, 1959, Petroleum & Natural Gas (Amendment) Rules, 2003 read with the notifications/resolutions issued by the Government from time to time.

The payment of royalty to State/Central Government is based on well head price of the crude oil & natural gas.

(c) and (d): Government of India during 2003-04 decided to modulate retail selling price of sensitive petroleum products so that full impact of international oil prices was not passed on to the consumers. A burden sharing formula was evolved by the Government and accordingly, actual prices realized by National Oil Companies (NOCs) on the sale of crude oil from 2003-04 till date are net of the discounts.

Oil and Natural Gas Corporation Limited (ONGC) paid royalty on onshore crude to State Government of Gujarat on pre-discount sale price from April, 2003 to March, 2008, whereas on the offshore crude production, ONGC has been paying royalty to the Government of India at post-discount sale price since April, 2003.

The above arrangement resulted in the breach of the statutory provision whereby royalty was not to exceed 20 % of the sale price of mineral oil. While the onshore royalty paid by ONGC to the State Governments during 2003-04 amounted to about 20.5 % of the actual price realized by that Company, the same went up to about 48.5 % during 2007-08.

To amend this anomalous situation the Government vide its order dated 23 May, 2008 directed NOCs to bring royalty computation for the crude oil to State Governments on the same principles as applicable to the Central Government i.e. on Post Discount Sale Price.

(e.) to (g.): A number of representations have been received from the State Government of Gujarat for payment of royalty as per Pre-Discounted Prices. Representations have been received from various levels of the Government including Chief Minister, Minister of State for Energy and Petrochemicals and Chief Secretary, Gujarat.

In the replies to the State Government it has been stated that for the reasons mentioned above at (c) & (d) the Government of India has decided to make royalty a function of actual price realized by the NOCs and not the notional Pre-Discount Price.