

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

UNSTARRED QUESTION NO:1254
ANSWERED ON:01.12.2014
ROYALTY ON CRUDE OIL
Patil Shri Chandrakant Raghunath

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

- (a) whether the Oil and Natural Gas Corporation Limited (ONGC) unilaterally pays the royalty to the States on post discounted prices;
- (b) if so, the details thereof along with the reasons therefor;
- (c) whether the rates of royalty being paid to the States are based on the Wellhead price on crude oil production and if so, the details thereof;
- (d) whether certain States including Gujarat have represented to the Government for payment of royalty as per pre-discounted prices; and
- (e) if so, the details thereof along with follow-up action taken by the Government and the outcome thereof?

Answer

MINISTER OF STATE IN THE MINISTRY OF PETROLEUM & NATURAL GAS (INDEPENDENT CHARGE) (SHRI DHARMENDRA PRADHAN)

(a) and (b): In view of Government of India's directives, vide letter dated 30th October, 2003, since 2003-04 Oil and Natural Gas Corporation Limited (ONGC) has been allowing discount to Oil Marketing Companies (OMCs) on sale of crude oil. In the above letter, ONGC was directed that revenue of State Governments in terms of royalty on crude oil should not be affected by the discount. In view of specific directive, since April, 2003, ONGC paid royalty on production of onshore crude to State Governments on pre-discount sale price though royalty on production of offshore crude oil to the Government of India 12:10 PM 12/11/2014 was paid at post-discount sale price, in line with statutory provisions.

Subsequently, Ministry of Petroleum & Natural Gas vide letter No.P-20012/28/97-pp(Part-II-A) dated 23 May, 2008 withdrew the earlier directives issued vide letter dated 30th October, 2003. Consequently, ONGC started making payment of royalty to State Governments also on post discount price from 01st April, 2008.

(c): Royalty on production of crude oil is payable to the Central Government (for production from offshore fields) and to the State Governments (for production from onshore fields) in terms of the statutory provisions of Oilfields (Regulation and Development) Act, 1948 (ORDA), Petroleum & Natural Gas (PNG) Rules 1959, Petroleum & Natural Gas (Amendment) Rules, 2003 read with notifications/resolutions dated 17th March, 2003, 16th December, 2004, 20th August, 2007 and 28th August, 2009 issued by the Government under the ORDA from time to time.

Royalty on crude oil to the Central and State Government is paid at the rates specified in the Schedule to ORDA on the well head price.

The current schedule of royalty rates is attached at the annexure.

(d) and (e): The State Governments of Gujarat and Assam have represented to the Government of India on the issue of payment of royalty. After examination, Government of Gujarat was informed on 07.07.2009 that in respect of offshore crude oil, the Royalty paid by upstream companies to the Central Government has always been on the basis of post-discount prices. There is nothing in the legal provisions to suggest that payment of onshore Royalty to State Governments should be on a different principle.

Government of Gujarat had filed a Special Civil Application in the High Court of Gujarat, Ahmedabad on 27th September, 2011 for payment of royalty at pre-discount prices.

Against above Special Civil Application, Honble Gujarat High Court, vide its order dated 30th November, 2013 has decided that royalty on crude oil is to be paid on pre-discount price and directed ONGC to make the payment towards shortfall royalty for the period April, 2008 till date, within a period of two months from the date of issue of order.

Aggrieved by the order, ONGC filed a Special Leave Petition (SLP) before the Supreme Court of India. The Supreme Court heard the matter on 13th February, 2014 and was pleased to grant leave in the matter. Pending further orders, the Honble Court stayed the operation of the impugned judgment subject to the condition that ONGC pays royalty to State of Gujarat on pre-discounted price of

crude oil w.e.f. 1st February, 2014 onwards. In compliance of court order, ONGC has started paying royalty to Govt. of Gujarat on pre-discount price w.e.f. February, 2014.