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“FROM BUDGET TO BARRELS: ANALYZING THE FINANCIAL IMPACT OF THE UNION BUDGET 2024 ON INDIA’S OIL AND GAS INDUSTRY”

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ABSTRACT

Oil and Natural Gas form a part of the core sectors in the economy of any nation and is more often than not, a determining factor in the decision-making, formulation of policies, regulations, etc. of a nation, therefore, having an impact on the other sectors as well. Therefore, any policies made in furtherance of this sector is of vital importance, especially for a country like India, which continues to be a leader in the industry. The present paper delves into the nuances of the Union Budget 2024 with special emphasis on the oil and gas industry in India. It goes on to study the impact that the budget is likely to have in the sector and the potential growth that may be anticipated through it. This paper also looks into the long-term effects that the budget of 2024-25 might have on India and whether it runs parallelly with the major objectives that the government has envisioned to achieve by 2070. The paper also studies the role of the budget into attracting overseas investments into India, especially in the oil and gas industry aimed not only to meet the demands of the public but also to upgrade the current infrastructure so as to meet global standards and further cement India’s position in the global forum. It further studies the benefits that the change in tax slabs confers on this industry, especially as far as non-residents are concerned so as to support further development and interest in the sector in India. Therefore, the study is aimed at proving how the Union Budget of 2024 facilitates the vision to make India, self-reliant and a leader in the oil and gas industry whilst also looking forward to achieve net zero emissions, thereby, promoting sustainable development.

1. INTRODUCTION

Oil and Natural Gas are the backbone of the country and the key driving force for all the decisions that are taken in the economy. Historically, States continue to wage wars for oil and natural gas, thereby, making its importance relevant not only in the past but also in the present and the future. As of 2023, in the industrial division alone, the oil and gas sector garnered an

impressive revenue of \$ 3332.72 billion globally. Furthermore, Global Oil and Gas Market size was recorded at USD 6,705.68 billion in 2023, which is estimated to be at USD 6,923.33 billion in 2024 and projected to reach USD 8,917.40 billion by 2031, growing at a CAGR (Compound Annual Growth Rate) of 3.68% from 2024 to 2031.¹

Taking India into consideration, oil and gas industry forms a part of the eight core industries in the nation which has a looming effect on the decisions, policies, regulations, etc. that are taken for all the other important sectors of the country. India is the 3rd largest consumer of energy and oil in the world on top of being the 4th largest importer of Liquefied Natural Gas (LNG) and the 4th largest global refiner.² Furthermore, India ranks 20th in the production of oil and natural gas in the world.³ This in fact, makes India a major stakeholder in this sector.

The aforementioned statement is further highlighted and founded by the Union Budgets made by the Government of India, every financial year in reference to the budget that is allocated to the oil and gas industry and the new policies formulated every year for the upliftment of this sector. For instance, through the Union Budget 2024, a total budget of Rs. 1.19 lakh crores for petroleum and natural gas.⁴ This marks an increase in budget allocation as opposed to the Rs. 35,000 crores allocated towards the oil and gas sector in Union Budget 2023.⁵ However, the common objective of the government in this sector continues to be directed at achieving net zero emissions and making India self-reliant, thereby reducing India's dependency on imports in the future.⁶ Additionally, provisions have been made to allow more FDI and investments towards the oil and gas industry which intends to facilitate this industry to take an upward trajectory in their overall financial performance, thereby allowing India to further take a leap and founding its status as a global leader.

¹ Antrikh P., Oil and Gas Market Size, Share, Growth & Industry Analysis, By Type (Upstream, Downstream, and Midstream), By Deployment (Offshore and Onshore), By Application (Residential, Commercial, and Industrial), and Regional Analysis, 2024-2031, Kings Research, (June 2024), <https://www.kingsresearch.com/infographics/oil-and-gas-market-177>.

² Pradeep Eapen Mathew, Oil and Gas Industry in India: Investment Opportunities and FDI, Invest India, (Sept 4, 2024), <https://www.investindia.gov.in/sector/oil-gas#:~:text=India%20is%20the%203rd%20largest,over%20the%20Apr%20Jul%202023>.

³ Oil and Gas Industry in India, IBEF, (Sept, 2024), <https://www.ibef.org/industry/oil-gas-india>.

⁴ Saurav Anand, Budget 2024: Govt allocates ₹1.19 lakh crore for petroleum and natural gas, focus on strategic reserves and infrastructure, EnergyWorld (Jul 23, 2024, 6:01pm IST), <https://energy.economictimes.indiatimes.com/news/oil-and-gas/budget-2024-govt-allocates-1-19-lakh-crore-for-petroleum-and-natural-gas-focus-on-strategic-reserves-and-infrastructure/111963647>.

⁵ Shubhangi Mathur, Budget@10: Oil and Gas Industry headed to energy transition, focused on self-reliance, Money Control, (Dec 29, 2023, 14:59 IST), <https://www.moneycontrol.com/news/business/budget/budget10-oil-and-gas-industry-headed-to-energy-transition-focused-on-self-reliance-11927121.html>.

⁶ Id.

2. UNION BUDGET 2024: STRATEGIC ALLOCATIONS MADE TOWARDS THE OIL AND GAS INDUSTRY

The Union Budget 2024 presents a strategic yet mixed approach to India's oil and gas industry, focusing on energy security while embracing energy transition. While it promotes further exploration, it also aims to take a sustainable route in furtherance of the same. A significant allocation of Rs. 1,19,402 crores have been made for the Ministry of Petroleum and Natural Gas, indicating the government's commitment to securing energy resources and enhancing sector growth.⁷

Taking into account the major state-run companies, the Oil and Natural Gas Corporation (ONGC) received Rs. 30,800 crores, as opposed to Rs. 30,500 crores in Union Budget 2023 reflecting its vital role in exploration and production, which is crucial for reducing reliance on energy imports. Oil India Limited witnessed a massive increase in allocation from Rs. 5,648 crores in 2023-2024 to Rs. 6,880 crores in 2024-2025.⁸ Furthermore, Oil and Natural Gas Corporation Videsh Limited (OVL) saw a rise of allocation to Rs. 5,580.01 crores in 2024-2025 as opposed to Rs. 3311.23 crores in the 2023-2024 budget.⁹

The budget therefore, evidently favours international energy security, with increased allocations to Oil India Limited and ONGC Videsh Limited to secure overseas energy resources. These investments, coupled with initiatives for domestic production, signal a balanced approach aimed at both energy security and sustainability.

However, GAIL (India) Limited saw a reduction in its allocation to Rs. 4,886 crores, signalling a potential strategic shift in the gas value chain or a focus on alternative energy sources. Additionally, Bharat Petroleum Corporation Limited (BPCL) also saw a decline in allocations in the 2024-2025 budget with only Rs. 2,000 crores allocated.¹⁰ The budget also emphasizes embracing new technologies, with investments in digitalization, artificial intelligence, and

⁷ Pradeep Eapen Mathew, Oil and Gas Industry in India: Investment Opportunities and FDI, Invest India, (Sept 4, 2024), <https://www.investindia.gov.in/sector/oil-gas#:~:text=India%20is%20the%203rd%20largest,over%20the%20Apr%2DJul%202023>.

⁸ Id.

⁹ Surabhi Sahu, India's Union Budget for 2024-25 keeps some focus on natural gas amid renewables push, S&P Global, (23 Jul, 2024, 16:01 UTC), <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/lng/072324-indias-union-budget-for-fy-2024-25-keeps-some-focus-on-natural-gas-amid-renewables-push>.

¹⁰ Deepto Roy, Union Budget 2024-25: Will India's Energy Sector get a Massive Boost?, BT, (Jul 22, 2024, 1:28pm IST), <https://www.businesstoday.in/union-budget/story/union-budget-2024-25-will-indias-energy-sector-get-a-massive-boost-438097-2024-07-22>.

advanced analytics to optimize exploration and production efficiency. Additionally, there is support for cutting-edge exploration technologies aimed at increasing resource extraction while reducing costs.

Another highlight is the push toward India's low-carbon future. The National Hydrogen Mission, with a ₹600 crore allocation, aims to position the oil and gas sector as a key player in hydrogen production, aligning with the country's target of achieving net-zero emissions by 2070.¹¹ This marks a significant step towards decarbonizing the industry, ensuring long-term sustainability while maintaining energy security.

Overall, the budget lays a strong foundation for the oil and gas sector, though industry experts call for continued policy support, research, and investment in new technologies to maintain momentum in the transition toward a greener future.

3. AMENDMENTS IN TAX SLABS AND ITS IMPACT ON THE OIL AND GAS INDUSTRY

The Union Budget 2024 has given way to massive changes as far as taxation is concerned, especially considering it being the most highlighted facet of the budget. In lieu of this, it is of great importance to note that such changes will indefinitely have an impact on the oil and gas sector as well be it positive or negative. The question here is whether these changes in tax slabs will support the Government of India's vision in pushing for developments in energy whilst also aiming at net zero emissions and additionally, looking for overall economic growth in the sector. Therefore, it is vital to highlight the changes brought both in case of direct taxes as well as the indirect taxes.

3.1.KEY AMENDEMENTS BROUGHT IN DIRECT TAXES

In reference to the key changes made in the tax slabs via the Union Budget 2024, it is pertinent to note that while domestic companies witnessed no shift in taxes, foreign companies on the other hand saw a shift on the rate of income-tax chargeable on the basis of the income from 40% to 35%¹². This furthermore, acts as an asset especially for non-residents who shall benefit from the tax reduction, in this case, especially the ones involved in the oil and gas industry. For

¹¹ Id.

¹² Government of India, Memorandum Explaining the Provisions in the Finance Bill, 2024, India Budget, (Jul 2024), <https://www.indiabudget.gov.in/doc/memo.pdf>.

instance, according to Section 44BB of the Income Tax Act, 1961¹³, the maximum effective tax rate imposed on non-residents who are engaged in providing services for prospecting, extraction, or production of mineral oils, opting to be taxed on gross basis is 4.368% of gross receipts which was proposed to be reduced to 3.822% of gross receipts¹⁴.

Currently, domestic companies are subject to an "angel tax" on the issuance of shares when the consideration received from investors exceeds the fair market value. However, an amendment, effective from April 1, 2025 (FY 2024-25), proposes the removal of this angel tax. As of now, buy-back tax is imposed on domestic companies at a rate of 23.30% on the repurchase of shares, with the income being exempt in the hands of shareholders.¹⁵ From October 1, 2024, this regime will change: the buy-back tax will be abolished, and the income from buy-back will be treated as "deemed dividend," taxable in the hands of shareholders. Shareholders will not be allowed to claim any deductions for expenses against this income, and domestic companies will be required to withhold tax at 10% on payments to resident shareholders¹⁶. Additionally, the cost of acquisition of the shares will result in a capital loss, which can be set off and carried forward against future capital gains.¹⁷

Furthermore, under the current provisions, transfers of capital assets through gifts, wills, or irrevocable trusts are not considered taxable for the purpose of capital gains. Moving forward, this exemption will be limited to transfers made by individuals and Hindu Undivided Families (HUFs). Gifts made by corporate entities will now be taxable, and fair market value provisions will apply when computing capital gains.¹⁸

3.2.KEY AMENDMENTS BROUGHT IN INDIRECT TAXES

In reference to the changes brought about in the indirect tax regime, especially focusing on the oil and gas industry, then first and foremost, additional items were added for exemption in custom duty for petroleum operations or coal bed methane operations¹⁹ as specified under S.

¹³ The Income Tax Act, 1961, No. 43, Acts of Parliament, 1961 (India).

¹⁴ Id.

¹⁵ Ms. Neetu Vinayek, Bolstering India's Pathway to Energy Transition, Ernst & Young (Jul 23, 2024), https://www.ey.com/en_in/alerts-hub/2024/07/union-budget-2024-oil-and-gas-sector.

¹⁶ Id.

¹⁷ Id.

¹⁸ Government of India, Memorandum Explaining the Provisions in the Finance Bill, 2024, India Budget, (Jul 2024), <https://www.indiabudget.gov.in/doc/memo.pdf>.

¹⁹ Id.

No. 404 of a notification no. 50/2017.²⁰ For example, exemption of customs on petroleum exploration licenses.²¹ However, the added exemption is deemed to be operable only until 31st of March 2026.

In addition to that, as far as Goods and Services Tax (GST) is concerned, the future litigation framework introduces a common timeline for the issuance of Show Cause Notices (SCNs) within 42 months of the due date of annual returns, and final orders within 12 months from the notice date for both fraud and non-fraud cases starting FY 2024-25.²² A staggered penalty relaxation will continue, with specific timelines for fraud and non-fraud cases.

An amnesty scheme is proposed for resolving past tax controversies, waiving interest and penalties on non-fraud tax demands from FY 2017-18 to FY 2019-20 if the full tax is paid by a notified date, with certain exclusions.²³ For department-upheld appeals, remaining tax must be paid within three months. Key amendments include reducing pre-deposit amounts for GST appeals, allowing authorized representatives to appear for summons, and extending timelines for Input Tax Credit (ITC) claims from July 2017 to March 2021. TDS returns will now be mandatory, even if no deductions are made.²⁴

4. THE IMPACT OF THE UNION BUDGET 2024 ON THE OIL AND GAS INDUSTRY IN INDIA

The Union Budget 2024 has evidently struck a tandem with the previous budgets as far as the oil and gas industry is concerned especially, if light is shed on the core objectives that the Government of India intends to achieve for India in this sector. The major objective continues to be sustainable development, i.e., there is more focus on energy transitions aiming to achieve net zero emissions by 2070. However, this budget also promotes further explorations in terms of petroleum, also facilitating the path for developing such infrastructure by introducing the 100% Foreign Direct Investment (FDI) policies directed especially towards this sector. The

²⁰ The Customs Tariff Act, 1975, No. 51, Acts of Parliament, 1975 (India).

²¹ Id.

²² Dr. Sanjiv Agarwal, Recent Developments in GST, Tax Mngmt. India, (Aug 24, 2024), [https://www.taxmanagementindia.com/visitor/detail_article.asp?ArticleID=12869#:~:text=2\)%20Bill%2C%202024.&text=Amendment%20to%20Section%209%2C%20which,CGST%2C%20including%20certain%20additional%20goods.&text=Amendment%20to%20Section%2010%2C%20which,scheme%20for%20taxpayers%20under%20GST.&text=Insertion%20of%20Section%2011A%2C%20addressing,levied%20due%20to%20general%20practice.](https://www.taxmanagementindia.com/visitor/detail_article.asp?ArticleID=12869#:~:text=2)%20Bill%2C%202024.&text=Amendment%20to%20Section%209%2C%20which,CGST%2C%20including%20certain%20additional%20goods.&text=Amendment%20to%20Section%2010%2C%20which,scheme%20for%20taxpayers%20under%20GST.&text=Insertion%20of%20Section%2011A%2C%20addressing,levied%20due%20to%20general%20practice.)

²³ Id.

²⁴ Id.

Union Budget 2024 added more segments in the oil and gas industry which could accept 100% FDI from companies, which includes natural gas, petroleum products and refineries.²⁵ Furthermore, the FDI limit for refining projects has been raised to 49%.²⁶ This budget also proposed to simplify FDI so as to promote the use of Indian currency for overseas investment. The Union Budget 2024 has recognized the importance of oil and gas industry and the current upwards trend as far as the demand for oil and natural gas is concerned in the near future, hence the provisions for further exploration of oil into erstwhile unchartered areas and further provisions for inviting increased investments from abroad. Furthermore, if we consider the allocations made to the major oil and gas companies in the public sector, some of which have been aforementioned, it becomes clear that the government has evidently bolstered the funds of these entities with an aim to improve their infrastructure so as to be able to meet the demands of the country so as to achieve self-sufficiency in the near future.

Experts have cited that the oil and gas sector is expected to attract US\$25 billion in investment in exploration and production. India is the third-largest consumer of oil in the world and is already a refining hub with 23 refineries²⁷. This brings us to consider another major objective of the government, which is to make India self-sufficient or self-reliant²⁸, hence, promoting the gradual decrease of importing oil and gas from abroad and become a major hub itself. The Union Budget 2024 is therefore, reflective of this intention just like the budgets in the preceding years in relation to this sector. This is majorly because all economic decisions in the country are centred around the public demand for oil and natural gas and hence, the government has made continuous efforts in uplifting this sector for India's economic boost.

5. CONCLUSION

A thorough analysis of the Union Budget 2024's impact on the oil and gas industry would evidently highlight that although changes have been made in furtherance of the development of this sector, however, such changes that were made were not drastic or entirely out of the ordinary. That is to say that, this budget as far as the oil sector is concerned has acted as an

²⁵ Melissa Cyril, India to Consider Easing Rules for FDI and Overseas Investments, India Briefing, (Jul 25, 2024), <https://www.india-briefing.com/news/india-to-consider-easing-rules-for-fdi-and-overseas-investments-33749.html/#:~:text=The%20finance%20minister%20Nirmala%20Sitharaman,ground%20segment%20and%20user%20segment.>

²⁶ Id.

²⁷ Id.

²⁸ Shubhangi Mathur, Budget@10: Oil and Gas Industry headed to energy transition, focused on self-reliance, Money Control, (Dec 29, 2023, 14:59 IST), <https://www.moneycontrol.com/news/business/budget/budget10-oil-and-gas-industry-headed-to-energy-transition-focused-on-self-reliance-11927121.html>.

addition to the preceding budgets and is in tandem with the government's goal to make India self-reliant while achieving sustainability in the long run. The Budget clearly pans out to target long-term goals rather than exclusively facilitating short-term goals. This Budget accommodates the oil and gas industry to expand, provide employment opportunities in the long run and further improve its infrastructure to meet international standards. Additionally, this Budget has made provisions to further increase FDI in India or any other form of overseas investment, keeping into mind that currently India has been evolving into a hotspot of foreign investments which is reflective of the market potential that India holds as well as its strong presence in the global forum. This Budget utilises this presence as a major motivator to further cement India's strong hold in the global forum, founding it as a major economy not only in the Global South but also in the international forum at large.

