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Centre Cuts Royalty on Crude Oil and Natural Gas to Revive Exploration

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WHY IN NEWS

The **Ministry of Petroleum and Natural Gas (MoPNG)** notified, on **May 8, 2026**, a sweeping revision of **royalty rates on crude oil and natural gas** – with reductions for **deepwater, ultra-deepwater, and onshore nominated** fields. The reform was reported May 11-12, 2026 and triggered a rally in ONGC and Oil India shares. The aim: revive India's flagging upstream exploration & production (E&P) and reduce **~87% crude import dependence**.

THE NEW ROYALTY ARCHITECTURE

FIELD TYPE	EARLIER ROYALTY	NEW ROYALTY
Onshore nominated / pre-NELP PSC	20%	**12.5%**
Deepwater	10% throughout	**5% (first 7 years); 10% thereafter**
Ultra-deepwater	5% throughout	**Zero (first 7 years); 5% thereafter**
DSF / HELP deepwater	7.5%	**Zero (first 7 years); 5% thereafter**
DSF / HELP ultra-deepwater	5%	**Zero (first 7 years); 2% thereafter**

- **Royalty calculation:** on **standardised well-head price** (insulates producer from arbitrary pricing)
- **Effective from:** Notified May 8, 2026
- Applies to **new contracts and pending blocks**; existing producers can opt-in on certain conditions

WHY ROYALTY REFORM WAS OVERDUE

India's import dependence

- FY 2025-26: India imported **~87% of crude** and **~50% of natural gas**
- Crude import bill: **USD 150+ billion** (FY 2024-25)
- Energy security is the dominant strategic vulnerability after defence

Falling domestic output

- Domestic crude production fell from 38.5 MMT (FY 2011-12) to **~29 MMT (FY 2024-25)**
- Mature fields of ONGC/Oil India are declining; new discoveries lag
- Pre-NELP and NELP-era PSCs imposed high royalty + cost-recovery friction

Investor signal

- Major international E&P companies exited Indian E&P after 2010
- HELP (2016) introduced revenue-sharing, but offshore exploration remained unattractive
- The Open Acreage Licensing Programme (OALP) – under HELP – requires more attractive **fiscal terms**

INDIAN UPSTREAM LICENSING – THE PHASES

PHASE	REGIME	COVERAGE
Pre-NELP (1980s-90s)	PSC; high royalty	Bombay High, Krishna-Godavari early
NELP (1999-2017)	PSC; cost-recovery model	9 rounds; ~254 blocks
HELP (2016 onwards)	Revenue-sharing; OALP	Open acreage; bid round system
DSF (Discovered Small Field, 2015 onwards)	Revenue-sharing	Smaller fields auctioned
Royalty reform (May 2026)	Tiered, time-bound concessions	New blocks + opt-in for existing

HOW THE REFORM WORKS IN PRACTICE

Tiered concession

- Producer pays **lower (or zero) royalty in early years** when capex is highest
- Royalty rises only after the field is generating sustained cashflow
- This is **internationally aligned** – US Gulf of Mexico and Brazil pre-salt operate on similar tiered fiscal structures

Well-head price benchmark

- Royalty was earlier calculated on **post-transport, post-stabilisation** prices – giving producers an arbitrary deduction
- The reform fixes a **standardised well-head price** – formula-based; transparent

Strategic Petroleum Reserves (SPR)

- India holds ~5.33 MMT in SPRs at Visakhapatnam, Mangalore, and Padur – **about 9.5 days of imports**
- Phase II is in progress at Chandikhol (Odisha) and Padur expansion
- Domestic production rise + SPRs together build energy resilience

MARKET AND FISCAL IMPLICATIONS

For ONGC and Oil India

- Lower royalty = higher netbacks
- Stock prices of both rose post-notification

For state revenues

- Royalty is shared with **state governments** for onshore fields
- The onshore cut from 20% to 12.5% means lower per-barrel receipts – but Centre expects offsetting **volume gains**

Strategic

- Aligns with **Aatmanirbharta in Energy** goals
- Supports **PM's stated target of cutting import dependence to 50%** by 2030

CRITICAL REFLECTION

Strengths

- Fiscal architecture brought close to global benchmarks
- Time-bound concessions, not permanent giveaways
- Predictable – well-head pricing eliminates ad-hoc disputes

Concerns

- States losing onshore royalty revenue may resist
- Climate transition pressure – royalty cut signals continued fossil-fuel commitment
- The effect on actual discoveries depends not on royalty alone but on **geological data quality** and **regulatory clarity**

UPSC RELEVANCE

GS Paper 3 – Economy and Energy

- Mobilisation of resources, growth, infrastructure
- Energy security; upstream and downstream
- Investment models in energy sector

GS Paper 2 – Centre-State Relations

- Royalty share between Centre and states; cooperative federalism

Mains Angles

1. Discuss the regulatory evolution of India’s upstream oil and gas sector from PSC to HELP. What additional reforms are needed to revive E&P?
2. India’s import dependence in crude oil is a strategic vulnerability. Discuss the policy levers to reduce it.
3. Should royalty reform on fossil fuels coexist with India’s net-zero by 2070 commitment? Critically evaluate.

Onshore nominated: 20% -> 12.5%; Deepwater: 5% (yrs 1-7), 10% thereafter; Ultra-deepwater: 0% (yrs 1-7), 5% thereafter.

Pre-NELP (PSC, 1980s-90s); NELP (1999-2017, PSC, cost-recovery); HELP (2016 onwards, revenue-sharing, open acreage / OALP); DSF (Discovered Small Field, 2015 onwards).

Hydrocarbon Exploration and Licensing Policy – single licence for both conventional and unconventional hydrocarbons.

Open Acreage Licensing Programme – under HELP; bidder can identify a block any time and bid.

Crude ~87%; natural gas ~50%.

~29 MMT (FY 24-25), down from 38.5 MMT (FY 11-12).

Directorate General of Hydrocarbons – the regulator; under MoPNG.

Visakhapatnam, Mangalore, Padur (~5.33 MMT, ~9.5 days of imports); Phase II at Chandikhol, Padur expansion.

Standardised formula for royalty calculation – a key transparency reform.

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