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# How PSU share buybacks have filled government coffers in the recent past

## These, along with dividend payouts, have helped Centre bridge fiscal deficit

**DATA FOCUS**

**NARAYANAN V**

Chennai, December 9

In addition to hefty dividend payouts every year, public sector undertakings (PSUs) have also been helping the Centre shore up its revenue and bridge its fiscal deficit by pouring in huge sums of money in the form of share buybacks over the last few years.

Between FY16 and FY20, PSUs have ploughed back close to ₹40,500 crore in the form of share buybacks to their promoter, the Government of India (GoI). From close to ₹4,500 crore in FY16, the amount jumped more than four times to ₹19,000 crore in FY17. However, it tumbled to ₹822 crore in FY20.

Last month, Bloomberg reported that the Centre is planning to ask eight PSUs to repurchase shares to help it shore up its finances amid the coronavirus pandemic.

### Immediate plans

The report also noted that Coal India Ltd (CIL), NTPC, NMDC, MOIL, KIOCL and Engineers India Ltd (EIL) are among the eight companies that might be asked to buy back shares this year.

Subsequently, EIL announced in the exchanges earlier this month that it will buy back nearly 7 crore shares (representing 11.06 per cent of the total number of fully paid-up equity shares) to raise about ₹587 crore. The GoI holds a 51.50 per cent stake in the firm.

Similarly, mining major NMDC also, earlier this month, announced that its board has approved a buy-back of shares representing 5-5.05 per cent of the total fully paid-up equity share capital and free reserves to raise up to ₹1,378 crore. The PSU, the country's largest iron ore miner, is already the highest contributor of buyback revenue to the government.

Between FY16 and FY20, NMDC paid about ₹8,300 crore to the GoI, followed by Hindustan Aeronautics (₹5,206 crore) and CIL (₹3,682 crore).

### Dividend payouts

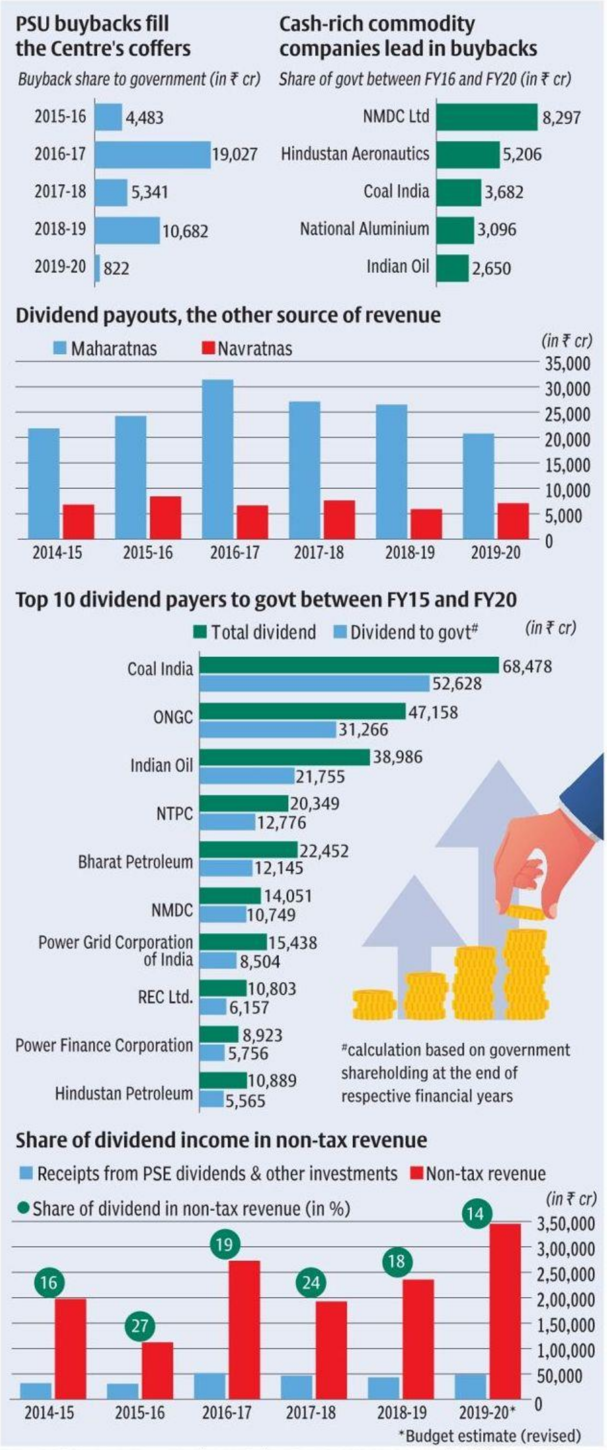
Besides, PSUs, despite their own operational challenges in the last few years, have also been major contributors of non-tax revenue in the form of dividend payouts.

Between FY15 and FY19, they collectively paid ₹2.04-lakh crore in dividend and other investments. Of this, mega PSUs (Maharatnas and Navratnas) alone contributed over ₹1.66-lakh crore, or 82 per cent of the total.

Per the latest annual reports, these are expected to contribute about ₹28,000 crore in dividend to the government for FY20.

Consequently, PSUs' dividend as a percentage of the government's overall non-tax revenue grew from 16 per cent in FY15 to 18 per cent in FY19, after going as high as 27 per cent in FY16.

Mineral majors such as CIL and NTPC, and oil marketing companies such as BPCL, HPCL, IOC and ONGC are among the top contributors of dividend revenue to the government.




Source : BSE, company annual reports, bsepsu.com, Department of Public Enterprises

# China bails out Iraq with long-term, upfront deal

**BLOOMBERG**
9 December

Iraq is poised to sign a multibillion-dollar contract with China ZhenHua Oil, a bailout from Beijing for the cash-strapped government which will receive money upfront in exchange for long-term oil supplies.

The deal is the latest example of China, via state-controlled trading companies and banks, lending to struggling oil producers such as Angola, Venezuela and Ecuador, with repayment in the form of oil barrels rather than cash. This year's crash in oil prices has hammered Iraq's budget and the government has failed to pay teachers and civil servants on time.

The Iraqi agency in charge of petroleum exports, SOMO, picked ZhenHua after asking oil traders for bids, according to people familiar with the matter. Cabinet spokesman Hassan Nadhim said on Tuesday there had been "several offers" and they were being studied before Prime Minister Mustafa Al-Kadhimi makes the final decision.

Under the terms of a letter SOMO sent last month, the winning bidder will buy 4 million barrels a month, or about 130,000 a day. They will pay upfront for one year of supply, which at current prices would bring in more than $2 billion, according to *Bloomberg* calculations.

Business Standard

**How oil majors shift billions in profits to island tax havens**

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# How oil majors shift billions in profits to island tax havens

TOM BERGIN, RON BOUSSO

9 December

Bermuda and the Bahamas aren't exactly big players in the oil-and-gas world. They don't produce any of the fuels at all. Yet the islands are deep wells of profit for European oil giant Royal Dutch Shell.

Oil majors are avoiding hundreds of millions of dollars in taxes in countries where they drill by shifting profits to thinly staffed insurance and finance affiliates based in tax havens, according to a *Reuters* review of corporate filings and rating agency reports. Shell, BP, Chevron and Total use subsidiaries in the Bahamas, Switzerland, Bermuda, the UK Channel Islands and Ireland to provide their global operations with banking, insurance and oil-trading services, the documents show. These subsidiaries, in turn, book profits that go lightly taxed or entirely tax-free.

Such arrangements are not illegal. But they highlight the ability of international oil corporations to game global tax systems and avoid handing over revenue to nations where they conduct their core business, according to academics who study corporate taxation.

The profits generated by those offshore units are enormous, despite their tiny operations.

The big oil firms' captive insurers are far more profitable than a typical insurance company. That's because the amount they pay in claims accounts for a far lower proportion of the money collected in premiums — all from other affiliates of the oil giants - than is the case at other insurers, Industry data shows. That means the captive insurance units absorb part of the revenue made by the oil majors' subsidiaries elsewhere - often in high-tax countries where they extract oil and gas - and shift it to operations located in low-tax or no-tax jurisdictions.

The oil companies have also transferred capital to tax havens to establish banking units that lend money to sister companies.

The companies named in this story all said they followed tax rules of the nations where they do business. Their subsidiaries in tax havens, the companies said, were located there for commercial or operational reasons rather than to avoid taxation.

Shell denied that its arrangements constituted tax avoidance and said the location of its subsidiaries were driven by business rather than tax reasons. BP declined to answer questions about its insurance subsidiary but a spokesman directed Reuters to a 2018 tax policy statement — published to meet a

regulatory requirement - which said the firm does not engage in profit-shifting.

Profit-shifting has long been a concern among the Group of 20 nations, which have asked the Organization for Economic Cooperation and Development (OECD), which helps coordinate international taxation rule-making, to find ways to rein in corporate tax avoidance. The organization in February issued new guidance on the treatment of intra-group financial transactions, advising nations to limit deductions on such payments.

Critics of corporate tax planning say oil firms' profit-shifting undermines their claims to responsible corporate governance and exacerbates the deep budgetary problems that many oil-producing countries face amid the coronavirus pandemic and a related drop in oil prices.

Nations such as Angola, Brazil and Trinidad, who rely heavily on oil tax revenues, have had to moderate spending and increase borrowing to respond to the health crisis.

Tax advisors said companies owe it to their shareholders to pay the lowest-possible tax bill.

Shell booked $1.3 billion in 2018 and 2019 profits through Bermuda-based banking and insurance subsidiaries that together employed three people, according to the company's "Tax Contribution Reports" published in November this year and December 2019 which detail tax payments.

The tiny firms provide insurance and loans to Shell oil-producing facilities worldwide, although Shell said in its most recent tax report, published last month, that it ceased the intra-group lending from Bermuda in 2020 for reasons the company did not disclose. In 2018, the companies derived 96% of their revenues from other Shell companies.

The operations appear to exist primarily for tax purposes, said Richard Murphy, professor of political economy at City University of London. The high profitability of the Bermudan units – along with their heavy reliance on revenue from affiliates — suggests that they are designed to shift profits to low tax jurisdictions, he said.

Shell denied that its Bermuda operations are designed for tax avoidance.

In 2014, Jupiter had an operating ratio — which includes pay-outs and other costs as a share of premiums - of just 1.3%.

Jupiter's profit margins remained exceptional through those years despite the explosion of BP's Deepwater Horizon rig and subsequent oil spill in the Gulf of Mexico in 2010, one of the worst industrial accidents in history. The incident caused $70 billion in damages, but Jupiter's payouts to affiliated companies were capped at $1.5 billion for any one event. So, the insurer kept a loss ratio under 15% of premium income for the years 2009 to 2013, according to a 2014 *AM Best* report.

BP group retained access to Jupiter's hefty cash pile because the captive insurer lends 98% of its reserves back to Jupiter's parent, London-based BP International Ltd, for terms of a year or less, according to AM Best. BP pays interest on the money back to Jupiter, adding to the insurer's low-tax profits.

BP declined to answer questions about Jupiter's operations and how much tax, if any, the insurer pays.

California-based Chevron operates a captive insurer in Bermuda. Until 2015, *AM Best* issued reports on Heddington Insurance and rated it highly due to its "good loss history" and "very strong investment income" made through high-interest loans to other Chevron firms.

Chevron said it formed Heddington to reduce insurance costs and provide broader coverage than what is available in the commercial insurance market. The company said the insurer paid US taxes but declined to detail how much or the effective rate.

Other oil firms have tax-haven subsidiaries through which they self-insure their facilities.

France's Total SA operates Swiss-based Omnium Reinsurance Company S.A., its financial filings show. Total did not respond to requests for comment about Omnium. REUTERS

# Need to shift away from fossil fuels: Petroleum Secretary

**OUR BUREAU**

New Delhi, December 9

India will need to gradually shift away from fossil fuels to sustainable cleaner alternatives according to Petroleum Secretary Tarun Kapoor.

At an event, jointly organised by IndianOil and LanzaTech on Circular Economy Vision – CO2 Valorisation, Kapoor said, "We will need to shift away from fossil fuels in a phased manner and adopt more sustainable alternatives to meet our energy requirements."

The session was organised by the DBT-IOC Centre for Advanced Bio-Energy Research (an entity co-funded by India's Department of Biotechnology and IndianOil Corporation Limited) and carbon recycling company, LanzaTech.

The event highlighted the carbon recycling technology that has been developed by the two over the last six years in India.

An IndianOil statement said that this technology uses two basic ingredients, CO2 and H2, to produce sustainable fuels, chemicals and food.

These companies have been working on this platform since 2014 when they first demonstrated the production of omega-3 fatty acids and fatty acids of biodiesel from CO2 feedstock. Together, they have integrated two cutting edge technologies to enable direct conversion of CO2 to high-value products.

## Patented processes

Both these processes are widely patented by the respective collaborators and they are now patent protected in prominent geographies, the IndianOil statement added.

Kapoor said that this technology has the potential to significantly reduce the cost of biofuels and make them directly competitive with conventional fossil fuels in the country.

Business Standard
**Oil near $50 on vaccine hopes**
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# Oil near $50 on vaccine hopes

Oil prices climbed as news about Covid-19 vaccines lifted investor hopes for a recovery in fuel demand and the dollar, in which oil is traded, reached 21/2-year lows. Brent crude rose 51 cents, or 1 per cent, to $49.35 a barrel by 7:35 pm IST. West Texas Intermediate (WTI) crude climbed 51 cents, up 1 per cent, to $49.35. The dollar fell on Wednesday as vaccine progress boosted risk appetite amid prospects of more US fiscal stimulus. **REUTERS**

THE MORNING BRIEF PODCAST

# Fuel on Fire

Petrol and diesel prices are inching towards all-time highs. What triggered these price hikes? Can consumers expect relief soon?

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