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Government of Pakistan
Ministry of Energy (Petroleum Division)
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SUMMARY FOR THE CABINET

Subject: OIL REFINING AND MARKETING POLICY 2020

In October 1997, the Government of Pakistan (GOP) issued Petroleum Policy 1997 which also provided various policy incentives, including the refinery pricing formula, for upcoming refineries in the country. However, considerable time has lapsed since the said Policy was framed. Due to the changing environments for refining business in the world as well as in our country, the policy focus has shifted in the preceding years to self-sustainability of the refineries based on techno-commercial viability, quality and standards, optimal value addition and environmental concerns.

2. Accordingly, critical developments such as deregulation and commercialization of the refining industry occurred which were followed by some important decisions of the Economic Coordination Committee (ECC) of the Cabinet taken in the recent past. These developments warrant a thorough revision in the provisions of the Petroleum Policy 1997 relating to the downstream oil refining and marketing sector. Relevant extract from the Petroleum Policy 1997 is placed at **Annex-A.**

3. Petroleum Division has prepared a draft oil Refining and Marketing Policy 2020 in consultation with oil industry and other stakeholders. The Prime Minister's Task Force Energy has also been consulted in the matter.

4. Accordingly, the draft Oil Refining and Marketing Policy 2020 may be approved as per **Annex-B** for implementing the reform program pertaining to the downstream oil sector.

5. The Summary is being circulated to the Ministry of Finance, FBR, M/o Planning Development & Reform, M/o Defence, M/o Industries & Production/Explosives Department, Bard of Investment, M/o Climate Change, M/o Railways, M/o Communication, M/o Maritime Affairs and OGRA. Their views/comments are attached at **Annex-C** (to be added later).

6. Approval of the Cabinet is solicited for proposal contained at para-4 of the Summary.

7. The Minister for Energy (Petroleum Division) has seen and authorized for submission of the summary to the Federal Cabinet.

MIAN ASAD HAYAUDDIN
SECRETARY

ISLAMABAD
07-07-2020

Annex-A

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PETROLEUM POLICY 1997

GOVERNMENT OF PAKISTAN

Ministry of Petroleum & Natural Resources

(OCTOBER 1997)

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3 - OIL REFINING AND LUBES

3.1 REFINERIES

3.1.1 No permission is required for setting up new refineries or for expanding the existing ones.

3.1.2 Import parity price formula for new oil refinery projects has been linked to a market related mechanism of refined products' prices based on Singapore Mean FOB spot, price alongwith all applicable local charges as detailed in Annexure-X. There will be no minimum Rate of Return guarantee for new refinery projects. In addition the petroleum refinery investment will be included in the package for facilitation and incentives in the Investment Policy to be announced shortly.

3.1.3 The limit of 10-40% on the rate of return for existing refineries will be removed subject to agreements being executed with the Ministry of Petroleum and Natural Resources covering development and expansion plans.

3.1.4 Other income earned from non-refinery operations can be retained by the refineries.

3.1.5 Import of crude oil will be permitted from any source, subject to price economics after upliftment of local crude oil if so allocated.

3.1.6 Export of surplus products will be allowed freely.

3.1.7 GOP will not give any product offtake right guarantee. Refineries shall be allowed to sell products to any marketing company or they can setup their own companies.

3.1.8 Custom/relevant authorities will accept instructions for release of equipment on the basis of the recommendations of Regulatory Authorities. Import duties and taxes will be payable as per applicable SROs.

3.2 LUBES

3.2.1 Lube products will remain free from price control.

3.2.2 No permission will be required for establishing lube blending, reclamation, grease and wax plants except registration for quality check based on the following:-

3.2.2(i) Certification of HDIP that plant is technically sound to produce products of approved specifications.

3.2.2(ii) Technical services agreements will be executed with HDIP except in respect of plants owned by or set up in collaboration with oil marketing companies/multi-national oil companies.

3.2.3 To have more effective quality control, all existing reclamation plants (other than those owned by or having collaboration with oil marketing companies or multi national oil companies) will be required to enter into technical services agreements with HDIP by 30th June, 1998.

3.2.4 Investors will be free to procure raw materials from local or foreign sources, if not available locally.

3.2.5 Used lubricating oils will be sold only to registered reclamation plants operating in accordance with the prescribed guidelines.

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4 - OIL MARKETING AND DISTRIBUTION

4.1 MARKETING COMPANIES' MARGINS AND DEALERS' COMMISSION

The commission of the Oil Marketing Companies(OMCs) and dealers will be reviewed and adjusted annually by the GOP, if necessary, to enable them to invest in the construction of commercial POL storages, logistics and allied facilities for which a specific linkage would be stipulated. Improved margins and infrastructure will also help to eliminate short measurements, adulteration and other malpractices.

4.2 RETAIL OUTLETS

Development of retail outlets will be left to the OMCs subject to environmental and safety rules.

4.3 QUALITY CONTROL

Anti Adulteration Law will be introduced by June, 1998 for strict quality control and enforcement.

4.4 Import duties and taxes will be payable as per applicable SROs.

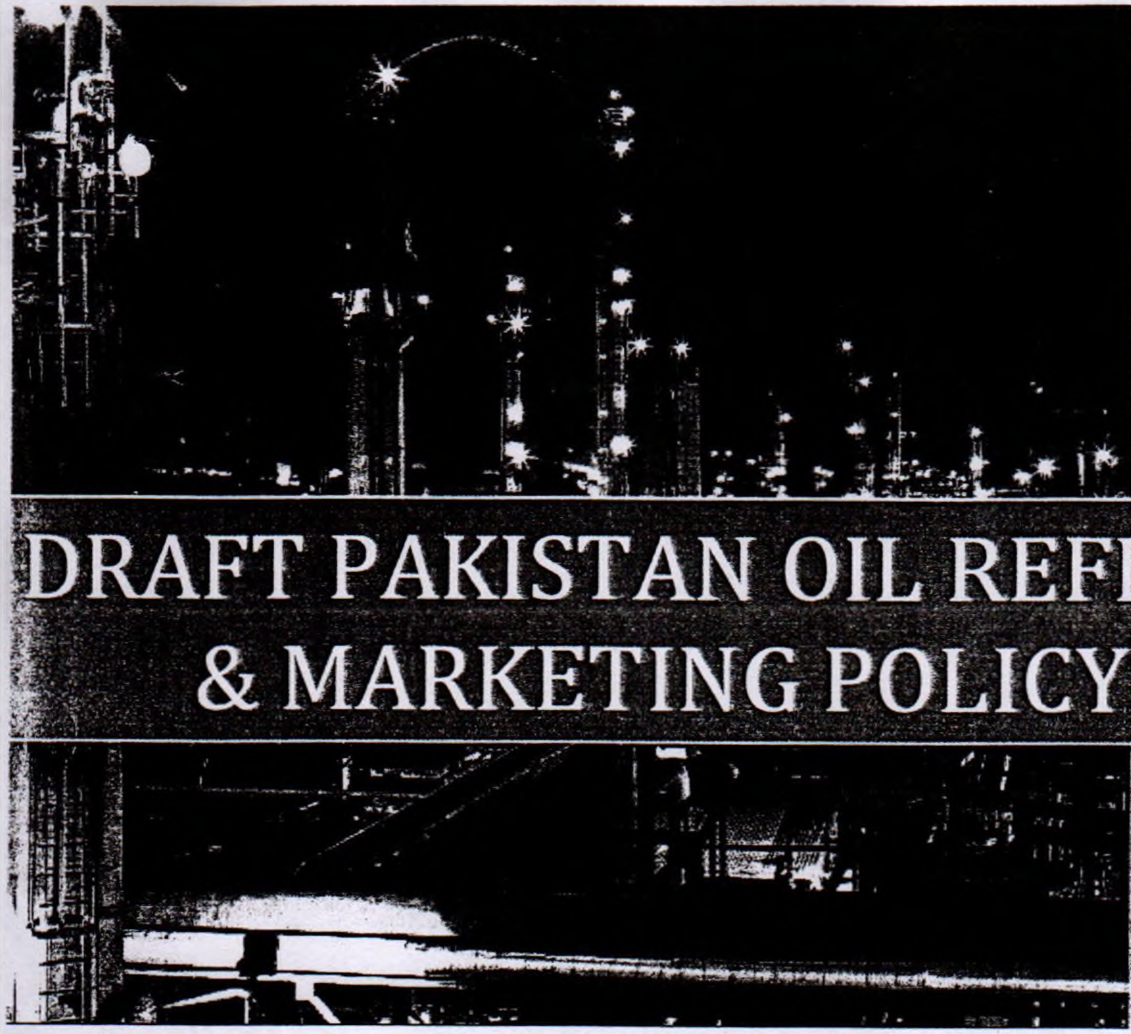
5 - INFRASTRUCTURE DEVELOPMENT

5.1 Tariff for new white/black oil pipeline projects will be determined based on competing options of transporting the products by road or rail.

5.2 A storage surcharge of Rs. 0.10 per liter will be imposed on POL products for construction of strategic storages through NLC or OMCs for a 45 days cover by the year 2000.

5.3 Import duties and taxes will be payable as per applicable SROs.

Annex-B



DRAFT PAKISTAN OIL REFINING & MARKETING POLICY 2020

Directorate General (Oil)
Ministry of Energy (Petroleum Division)
Government of Pakistan

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1. BACKGROUND

About 31% of Pakistan energy requirements are met by oil. The role of the downstream oil refining and marketing sector in meeting Pakistan's energy needs is crucial. The refining sector processes available domestic as well as imported crude oil to meet the requirements of refined petroleum products in the country whereas the oil marketing sector ensures availability of the refined petroleum products to end consumers. A supporting and vertically integrated oil refining and marketing infrastructure in the country is also critical as it directly supports oil and gas Exploration and Production (E&P) activities and value addition utilization of the natural resource commodities.

In October 1997, the Government of Pakistan (GOP) issued Petroleum Policy 1997 which also provided various policy incentives, including the refinery pricing formula, for upcoming refineries in the country. However, considerable time has elapsed since the said Policy was framed. With the changing environment for refining business in the world as well as in our country, the policy focus has shifted in the preceding years to self-sustainability of the refineries based on techno-commercial viability, quality and standards, optimal value addition and environmental concerns. Accordingly, developments such as deregulation and commercialization of the refining industry took place which was followed by some important decisions of the Economic Coordination Committee (ECC) of the Cabinet taken in the recent past. All these developments warrant a revision in the provisions of the Petroleum Policy 1997 relating to the mid and downstream oil refining and marketing sector.

The ECC of the Cabinet in its meeting held on 25th October, 2003 approved criteria for establishment of new Oil Marketing Companies (OMCs). The basic purpose behind this initiative was to attract investment, create competition and achieve efficiencies in the oil marketing sector. Under the ECC approved criteria, about 25 new OMCs have been granted marketing licenses, while more than 30 applications for marketing licenses are under process with OGRA..

However, some practical insights gained from the experience in this sector necessitate some revisions in the criteria for the OMCs.

Strategic Petroleum Reserves (SPR) is an important component of any government policy package aimed at coping with fuel supply disruptions in the wake of national emergencies. The issue needs to be seen in a wider context than just supply disruptions. This is particularly important given that building up of oil stocks require significant capital outlays that have a high opportunity cost in view of competing economic priorities and limited resources available to the Government. Therefore, the cost of building and holding strategic stocks needs to be balanced against the benefits and the risks faced by the country.

Many countries including developing countries such as India, China and Kenya keep strategic stocks. It is high time for Pakistan to arrange strategic stocks for security of the supply. Accordingly, there is a compelling need for Pakistan to formulate a specific policy for maintaining strategic stocks so as to enhance the state of readiness in the event of any major oil supply crises.

2. POLICY OBJECTIVES

The objectives of this policy document are to augment the enabling framework to:

2.1 *Gradually achieve self-reliance in petroleum refining requirements of the country and reduce dependence on imports by incentivizing local and foreign investment in new refinery projects*

2.2. *Provide matching oil refining and marketing infrastructure to support enhancing E&P activities*

2.3 *Facilitate and monitor modernization and up-gradation of existing refining capacity in the country for their long run commercial viability and self-sustainability by achieving the required technological advancements*

2.4 *Facilitate production and marketing of high quality, competitive and environmentally friendly fuels to end consumers*

2.5 *Attract technically capable and financially sound players in the oil marketing sector of the country*

2.6 *Introduce policy provisions in order to ensure enhancement in existing oil storage capacity and corresponding investment therein*

2.7 *Introduce the policy for development of Strategic Petroleum Reserves (SPR) so as to enhance the state of readiness and security of supply in the event of a national emergency.*

3. OIL REFINING

A) General Policy for Oil Refining Sector

3.1 A single license from Oil & Gas Regulatory Authority shall be required in accordance with the Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules 2016 for construction and operation of the refinery.

3.2 The Import Parity Price Formula of refineries shall be a market related mechanism of refined products prices based on Arab Gulf Mean FOB spot price or Singapore Mean FOB price, if not published at Arab Gulf Market.

3.3 Existing pricing mechanism for refineries is given at **Annex-I**. Proposed modifications in the existing pricing mechanism, to be effected in a gradual manner, are given at **Annex-II.**

3.4 There will be no minimum Rate of Return guarantee for new and existing refinery projects, while capping for payment of dividends by refineries shall continue till the full deregulation of ex-refinery prices.

3.5 In future, no hydro-skimming refinery shall be allowed to be installed in the country as well as no second hand/relocated refinery projects of any sort will be allowed.

3.6 After upliftment of local crude oil suitable for local refinery processing if so allocated, the refineries, without any GOP obligation, shall be free to import crude oil from any source except prohibited countries.

3.7 Refineries will be allowed export of surplus petroleum products.

3.8 GOP will not provide any product off take right/guarantee. Only deficit products will be imported in the country. Refineries shall be allowed to sell products to any marketing company or they can setup their own marketing and distribution companies.

3.9 Import duties and taxes will be payable as per applicable SROs.

B) Incentives for Setting-Up New Oil Refineries and Expansion/Upgradation of Existing Oil Refineries

3.10 <u>**Investments Package "Category-A"**</u>

Greenfield Projects:

The incentives in Package A would be applicable to all new state of the art deep conversion (not second hand/relocated) oil refinery projects of minimum 100,000 bpd refining capacity to be set up anywhere in the country.

Brownfield Projects:

Expansion/upgradation projects of existing oil refineries for conversion to Deep Conversion Refineries with the addition of 100,000 bpd or more in the existing refining capacity. The applicability of the incentives under **Incentive Package "Category A"** to the expansion/upgradation shall be subject to following conditions:

a. To avail the duties/taxes exemption or waiver, as provided in this Category, the expansion projects of existing refineries shall be based on new state of the art (not second hand/relocated), plant, machinery equipment, other materials and spares etc.

b. The incentives shall only be applicable to the extent of the expansion project/investment and not on the existing/old units.

c. The incentives for expansion/up-gradation projects of existing refineries are time bound and must be availed within five (5) years from the announcement of this Policy.

Incentives Package "Category-A"

3.10.1 20 years' income tax holiday

3.10.2 New refinery projects and upgradation/ expansion of existing refineries under this category shall be exempt from the application of the Companies Profits (Workers' Participation) Act 1968 and Workers' Welfare Fund Ordinance 1971.

3.10.3 Exemption from all duties, taxes, surcharges and levies on import, by the refinery project, its contractors or any other persons, of all machinery, vehicles, plant and equipment, other materials and spares and consumables for setting up, operation, maintenance and repair of the refinery.

3.10.4 Exemption from withholding tax and all other duties, taxes, surcharges, levies and impost relating to foreign contractors/subcontractors and their personnel in connection with engineering, procurement, construction, commissioning, operation, maintenance and repair of the refinery.

3.10.5 Exemption from leviable sales tax and excise duty on supply of locally manufactured building and construction material, equipment and services for setting up of refinery.

3.10.6 Provision of a pricing mechanism which shall be no less favorable than the prevailing mechanism.

3.10.7 Facilitation in project infrastructure such as Single Point Mooring (SPM), jetties, subsea/land pipelines etc. in coordination with various concerned Ministries/ Government entities.

3.10.8 Waiver of applicable Development Surcharge on the value of exports under the EPZA Rules 1981 in case the refinery project is set up in an Export Processing Zone.

3.10.9 Temporary imports by contractors/sub-contractors of all machinery, vehicles, plant and equipment, other materials and spares in connection with engineering, procurement, construction, commissioning, operation, maintenance and repair of the refinery shall be exempted from all duties, taxes, surcharges and levies on import.

3.10.10 In case of establishing a project in upcountry locations, the imported crude oil transportation pipelines and its storages will be an integral part of the refinery project and will also be eligible to avail all incentives as given above.

3.11 Investments Package "Category-B"

Greenfield Projects:

The incentives in Package B would be applicable to all new state of the art deep conversion (not second hand/relocated) oil refinery projects of **less than** 100,000 bpd refining capacity to be set up anywhere in the country.

Brownfield Projects:

Expansion/upgradation projects of existing oil refineries for conversion to deep conversion refineries with the addition of **less than** 100,000 bpd in the existing refining capacity. The applicability of the incentives under **Incentive Package "Category B"** to the expansion/upgradation shall be subject to following conditions:

a. To avail the duties/taxes exemption or waiver, as provided in this Category, the expansion projects of existing refineries shall be based on new state of the art (not second hand/relocated), plant, machinery equipment, other materials and spares etc.

b. The incentives shall only be applicable to the extent of expansion project/investment and not on the existing/old units.

c. The incentives for expansion/upgradation projects of existing refineries are time bound and must be availed within five (5) years from announcement of this policy.

Incentives Package "Category-B"

3.11.1 **Only one time** exemption from all duties, taxes, surcharges and levies on import, by the refinery project, of all machinery, vehicles, plant and equipment, other materials and spares and consumables for engineering, procurement, construction and commissioning of the new refinery project or expansion/upgradation of existing oil refineries.

3.11.2 **Only one time** exemption from withholding tax and all other duties, taxes, surcharges, levies and impost relating to foreign contractors/subcontractors and their personnel in connection with engineering, procurement, construction and commissioning of the refinery project or expansion/upgradation of existing oil refineries.

3.11.3 Exemption from leviable sales tax and excise duty on supply of locally manufactured building and construction material, equipment and services for setting up of new refinery or expansion/upgradation of existing oil refineries.

3.11.4 Provision of a pricing mechanism which shall be no less favorable than the prevailing mechanism.

3.11.5 Facilitation in project infrastructure such as Single Point Mooring (SPM), jetties, subsea/land pipelines etc. in coordination with various concerned Ministries/ Government entities.

3.11.6 Waiver of applicable Development Surcharge on the value of exports under the EPZA Rules 1981 in case Refinery Project is set up in an Export Processing Zone.

3.11.7 In case of establishing a project in upcountry locations, the imported crude oil transportation pipelines and its storages will be integral part of the refinery project and will also be eligible to avail all incentives as given above.

4 LUBES

4.1 Lube products will remain free from any price controls.

4.2 A license from Oil & Gas Regulatory Authority (OGRA) shall be required in accordance with the Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, for construction and operation of a lube oil blending, reclamation, grease and white oil manufacturing plant.

4.3 Lubricant blending/ reclamation/ grease Plants will sell/market their products through licensed Lubricant Marketing Companies (LMCs). Such lubricant plants will only be allowed for bulk sale to Industry. In case, they intend to carry out retail sale of their product or imported finished lubricants, they need to obtain a separate license as a LMC. All existing OMCs and blending plants with OGRA license for lube blending and retail sales of lubricants shall be exempted from this separate licensing requirement.

4.4 For a LMC, a license from Oil & Gas Regulatory Authority (OGRA) shall be required in accordance with the Pakistan Oil (Refining, blending, Transportation, Storage & Marketing) Rules, 2016, for marketing of finished lubricating oil.

4.5 A LMC will be allowed to import finished lubricants and base oil (for provision to licensed lubricant plants), whereas lubricant blending and grease plants will be allowed to import base oil, if not available locally.

4.6 Used lubricating oils will be sold only to licensed reclamation plants operating in accordance with the prescribed guidelines provided such licensed reclamation plants are available across the country.

4.7 Specifications of finished lubricating oils to be produced by any lubricant oil blending, reclamation, grease and white oil production plants shall relate to international standards (such as SAE, ACEA, EMA, JAMA, API and ILSAC), whose application in the country would be laid down by the Ministry of Energy (Petroleum Division) from time to time in consultation with all stakeholders.

4.8 Renewable Base Oil-Used Lubricant Oil Refining

4.8.1 Used lubricant oil sale, collection, logistics, storage and refining processes in Pakistan are affecting its air, water and soil leading to severe health issues / diseases. These processes will be improved / upgraded as per best international practices.

4.8.2 Foreign/local companies shall be encouraged to make investment in building technically advanced eco-friendly, renewable and sustainable Base Oil/Lubricant Refineries utilizing the toxic waste oils as major feed stock to be converted into the highest quality Group 2 & 3 Base Oils and Lubricants for local and export markets.

4.8.3 All sales of used lubricant oil will strictly be prohibited in the open market by individuals and all public and private legal entities that generate or possess used lubricant oils.

4.8.4 Used lubricant oil sales shall only be allowed to the proposed Renewable Base Oil/Lubricant Refineries or new specialized collection and storage companies, duly licensed by the Ministry of Climate Change. These specialized collection companies must have a valid used lubricant oil supply contract with the new Renewable Base Oil/Lubricant Refineries in order to qualify for license from the Ministry of Climate Change.

4.8.5 OGRA shall notify specific technical standards and refining processes in accordance with best international practices to be followed by Renewable Base Oil/Lubricant Refineries.

4.8.6 Existing Lube Oil Refineries and Reclamation Plants shall be given reasonable timeframe by OGRA to upgrade their facilities for compliance of the notified technical standards and refining processes. Plants which do not comply with notified standards after the prescribed timeline shall be forcefully shut down.

4.8.7 Petroleum Division shall notify the specifications of the base oils and other products to be produced by the Renewable Base Oil/Lubricant Refineries, as per usual practice.

4.8.8 An Inter-Ministerial/Stakeholders Committee shall develop a regulatory framework for implementation of policy relating to Base Oil/Used Lubricant Oil market.

4.9 **Incentives Package for New Renewable Base Oil/Lubricant Refineries**

Following incentives would be applicable to all new Renewable Base Oil/Lubricant Refineries, having minimum 20 million liters/annum refining capacity, to be set up anywhere in the country.

4.9.1 20 years' income tax holiday

4.9.2 Exemption from all duties, taxes, surcharges and levies on import, by the refinery project, its contractors or any other persons, of all machinery, vehicles, plant and equipment, other materials and spares and consumables for setting up, operation, maintenance and repair of the refinery.

4.9.3 Exemption from withholding tax and all other duties, taxes, surcharges, levies and impost relating to foreign contractors/subcontractors and their personnel in connection with engineering, procurement, construction, commissioning, operation, maintenance and repair of the refinery.

4.9.4 Exemption from leviable sales tax and excise duty on supply of locally manufactured building and construction material, equipment and services for setting up of refinery.

4.9.5 Facilitation in project infrastructure including land acquisition in coordination with various concerned Ministries/ Government entities.

4.9.6 Facilitation for Water, Gas and Electricity Connections along with load requirement.

4.9.7 Facilitation for acquiring licenses from OGRA, Ministry of Climate Change, Ministry of Industries/Explosives Department, Ministry of Defence and Local/Provincial Government Authorities etc.

4.10 **Incentives Package for Existing Lubricant Refineries & Reclamation Plants**

Following incentives would be applicable to all existing lubricant refineries and approved reclamation plants for up-gradation and expansion of their facilities for enabling themselves to comply with government approved product specifications and technical standards/refining processes within specified timeline. These incentives shall only be applicable to the extent of expansion project/investment and not on the existing/old units.

4.10.1 **Only one time** exemption from all duties, taxes, surcharges and levies on import, by the refinery project, its contractors or any other persons, of all machinery, vehicles, plant and equipment, other materials and spares and consumables for setting up, operation, maintenance and repair of the refinery.

4.9.3 **Only one time** exemption from withholding tax and all other duties, taxes, surcharges, levies and impost relating to foreign contractors/subcontractors and their personnel in connection with engineering, procurement, construction, commissioning, operation, maintenance and repair of the refinery.

4.9.4 Exemption from leviable sales tax and excise duty on supply of locally manufactured building and construction material, equipment and services for setting up of refinery.

4.9.5 Facilitation in project infrastructure in coordination with various concerned Ministries/ Government entities.

5 MARKETING & DISTRIBUTION

5.1 Marketing Companies' Margins and Dealers' Commission

5.1.1 The process for deregulating the marketing companies' margins and dealers' commissions will continue in a gradual manner with a view to enable them to invest in the construction of commercial POL storages, logistics and allied facilities for which OGRA will develop a suitable monitoring mechanism.

5.1.2 Till the complete deregulation of oil marketing companies' and dealers' margins, the dispensation shall be reviewed on an annual basis in line with the inflation rate /CPI published by the Government of Pakistan. The revision should be effective July 1st i.e. start of each financial year without further ratification from the ECC/Cabinet.

5.2 Retail Outlets

5.2.1 Linkage between retail development and mandatory storage capacity shall be discontinued. Accordingly, the ban imposed by OGRA on retail development by OMCs in relation to lack of storage capacity in the regional context shall be lifted. However, OMCs shall be obligated to work out their storage development plans on regional requirement and national coverage basis.

5.2.2 Oil Marketing Companies and dealers will maintain an online inventory system in a phased manner in order to review and monitor stock levels at oil depots and retail outlets. OGRA will develop a suitable monitoring mechanism in consultation with the industry.

5.2.3 Safety standards for retail outlets applicable through the Pakistan Petroleum Rules, 1937 shall be revised in accordance with current international standards being followed.

5.3 Deregulation

Deregulation process in the oil marketing sector will continue in the gradual and phased manner. The following steps are envisaged in the next phase:

a. Deregulation/ price rationalization of kerosene oil/JP-1/JP-8 and light diesel oil.

b. Deregulation of ex-refinery prices and margins of HSD/MS for local refineries and OMCs in a phased manner.

c. In order to encourage competition and efficiency, the IFEM system will be phased out at a time when the pipeline backbone of the country is completed from Karachi to Peshawar along with multiproduct movement (Diesel + Gasoline) leading to substantial reduction in primary freight costs. .

d. Marketing of differentiated products shall be allowed and import of same will be subject to approved product specification by the competent forum on case to case basis.

5.4 Fuel Specifications

5.4.1 The drive to improve quality/specification of petroleum products in the country will continue and keeping in its environmental impact, specifications of petroleum products will be laid down from time to time to keep pace with international standards.

5.4.2 A road map for improvement of different product specifications shall be developed by the end of 2021 in consultation with all stakeholders especially refineries as it entails process up-gradation which is capital intensive in nature requiring necessary incentives.

5.4.3 In line with the drive for fuel quality improvement, import of Euro-IV (0.005 wt %) / Euro -V (0.001wt %) HSD and PMG shall be considered as per the regional and global availability, while the local refineries may gear up production of the same after provision of necessary incentives for up-gradation preferably by 2025.

5.4.4 Anti-adulteration laws and competition oriented marketing rules may be introduced in consultation with the industry.

5.5 Petroleum Products' Transportation

5.5.1 Petroleum products' transportation through pipelines will be preferred / encouraged as per the specified/ applicable standards and economics. OMCs and refineries may invest in pipeline systems provided that market competition is not compromised.

5.5.2 The Government shall endeavor to increase POL movement through railways on a cost competitive basis.

5.5.3 All HSE (Health, Safety & Environment) and road transport concerns, especially for sites in far flung areas shall be addressed in consultation with the industry/ oil marketing companies.

5.5.4 IFEM system shall be phased out to encourage competition and efficiency. Furthermore, any increase in the pipeline network would also change the transportation cost dynamics. Various supply clusters/depots jointly operated may be developed for cost effectiveness and optimization.

5.5.5 The Ministry of Energy (Petroleum Division), in consultation with the Planning Commission and Ministry of Communications, shall encourage railways for intercity mass transportation of passengers and cargoes to shift towards fuel efficient transportation and reduce heavy reliance on Petroleum Products by buses and trucks.

5.5.6 The Ministry of Energy (Petroleum Division), in consultation with the Planning Commission and Provincial Governments, shall encourage intra-city metro bus / subways for mass transportation of passengers to shift towards fuel efficient transportation and reduce heavy reliance on Petroleum Products by buses, cars and motorcycles.

5.6 **New Oil Marketing Companies**

Establishment of new oil marketing companies in the private sector will continue in accordance with the Government approved Criteria, as spelled out at **Annexure-III** subject to following modifications:

5.6.1 New companies shall make investment of Rs 4 billion or more, in infrastructure development within the first three years. They shall have minimum upfront equity of Rs 500 million in the shape of Paid-up-Capital, at the time of the application.

5.6.2 New companies must construct minimum storage of 20,000 MT each for diesel and petrol or storage equivalent to 20 days' sale (average of last 12 months on country level basis) at/around IFEM locations, whichever is higher, for a confirmed marketing license. A mechanism may be developed to complement the above mentioned requirement by accounting for stocks held by each OMC in pipeline, rail tank wagon, tank lorry in transit to depots and retail outlets across the country at any point in time to determine cumulative stocks and days' cover. New companies, after developing storage can start marketing activities to the extent of the province/area, where they have completed the said facility. This will be applicable to existing companies as well.

5.6.3 OMCs shall be encouraged to develop retail outlets across the country based on market dynamics along with facilities for public in accordance with applicable laws/rules for retail outlets and/or specific regulations issued by OGRA.

5.7 Inter OMC sales of petroleum products will not be permitted without prior approval of the Regulating Authority.

5.8 All OMCs shall maintain stocks equivalent to 20 days' sale (average of last 12 months on country level basis) of petroleum products or as may be specified by the authority from time to time. A mechanism may be developed to complement the above mentioned requirement by accounting for stocks held by each OMC in pipeline, rail

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tank wagon, tank lorry in transit to depots and retail outlets across the country at any point in time to determine cumulative stocks and days' cover.

5.9 Import duties and taxes will be payable as per applicable SROs.

6 INFRASTRUCTURE DEVELOPMENT

6.1 Investment in new petroleum product pipelines and SPMs with subsea pipeline projects shall be encouraged. Issues of tariff, feasibility and third party access in such cases shall be examined and determined by OGRA in accordance with OGRA Ordinance 2002 and Rules made there under.

The following incentives will be offered for this purpose:

6.1.1 Tariff for new white oil pipelines and subsea pipeline for SPM projects will be determined by OGRA.

6.1.2 10 years tax holiday for the investor

6.1.3 Exemption from all Federal duties/taxes on import of equipment and machinery.

6.1.4 Initial pipeline fill will be provided by OMCs, as per their market share. As an alternative, pipeline fill may be considered as part of the project cost if financially feasible and operationally viable by the pipeline company.

6.2 In order to enhance efficiency, economy and reliability in POL logistic infrastructure of the country, investment in following projects will be supported / facilitated:

a. Pipeline connectivity between Keamari and Port Qasim.
b. Pipeline connectivity between Machike and Taru Jabba to complete the country's pipeline system.
c. Construction of a new jetty at Port Qasim / Hub areas and its connectivity with the existing white oil pipeline system.
d. Pipeline connectivity of different oil depot locations with the White Oil Pipeline Network.
e. Debottlenecking of the existing jetties at the ports

f. Single Point Mooring (SPM)

6.3 In order to create a viable healthy storage infrastructure in a cost effective manner, the oil marketing companies may develop joint storage facilities, subject to prior approval of OGRA.

6.4 Local investors shall be allowed to develop, maintain and operate oil storage facilities on third party hospitality basis, under commercial agreements with approved oil marketing companies subject to specific licenses from OGRA and other relevant agencies/authorities such as Explosive Department, Ministry of Defence, Highway and Local Government Authorities for such purposes. Specific policy guidelines in this regard shall be provided by Ministry of Energy (Petroleum Division).

6.5 The Ministry of Energy shall assess the consumption of petroleum products with the help of a 20 year Road Map to be updated every 5 years, keeping in view developments pertaining to ports/ SPM/ jetties, refineries, pipeline, storage and distribution infrastructure in consultation with the Ministries of Defense and Maritime Affairs.

6.6 Ministry of Energy (Petroleum Division) shall facilitate in obtaining approvals from various other Ministries including Ministries of Defense and Maritime Affairs.

6.7 Ministry of Energy (Petroleum Division) shall also provide clear guidelines associated with this Policy for setting up and timelines for processing approval of joint operations depots/ terminals.

6.8 Strategic Petroleum Reserve

A comprehensive study will be undertaken through an independent group of experts for devising a detailed framework for setting up a Strategic Petroleum Reserve (SPR) suggesting possible ways and means to achieve the target. The studies will inter-alia cover the following aspects:

a. The stock holding requirements by the Government.
b. Mandatory stock holding by the oil industry.
c. Provision of infrastructure to transport and hold strategic stocks by GoP.
d. Funding mechanism for procurement of stocks and infrastructure as well as operating and maintenance costs.
e. Common sharing strategic storage.
f. Public-private partnership for SPR.

6.9 Bonded Storage Trade Development

In view of the limited local refinery supplies, Pakistan is heavily dependent on import of deficit petroleum products. In order to enhance supply access to the local OMCs, diversify the sources of supply and to avail freight economies of scale, reputable international oil suppliers would be facilitated / encouraged to make investments in storage and trade of petroleum products under the following policy guidelines:

6.9.1 Subject to approval of the Federal Government and relevant authorities, international suppliers will be allowed to maintain inventory of petroleum products directly onshore in Pakistan, within port areas, under a bonded status.

6.9.2 Companies so approved would deliver the goods into the bonded facilities on duty unpaid basis and store them until being sold to local OMCs on an ex-tank basis, instead of CIF (on board ship), on the prices mutually agreed with the local OMCs under a commercial agreement.

6.9.3 Local OMCs would settle duties prior to taking delivery of the goods and pay for the applicable taxes and duties at the time of ex-bonding.

6.9.4 When necessary, the international supplier would be free to re-export the goods, from the bonded facilities, outside Pakistan.

6.9.5 The companies would only trade the products conforming to the specifications approved by the Government of Pakistan, while the existing mechanism for product quality inspection will be the same as being followed for the import of petroleum products in Pakistan.

6.9.6 The companies would be bound to develop their own dedicated storage facilities at Port Qasim only after seeking all necessary permissions from Oil & Gas Regulatory Authority, Department of Explosives and Ministry of Defence etc.

6.9.7 Federal Board of Revenue would devise a special procedure to facilitate such trade for lodging of goods by the original owner (in-bonding) and then claiming by another (ex-bonding) in accordance with the provisions of Customs Act 1969 and Customs Rules 2001.

6.9.8 Ministry of Energy (Petroleum Division) would coordinate and develop an overall mechanism for facilitating such trade arrangements in consultation with all the concerned stakeholders such as oil industry, OGRA, FBR, Explosive Department and Ministry of Defence etc.

7 POLICY APPROVAL, VALIDITY & IMPLEMENTATION

7.1 There should be consistency in the present and any future Oil Refining & Marketing Policy including tariffs and incentives given to refineries and oil marketing companies.

7.2 Petroleum Policy shall be ratified by Parliament for a period of 20 years which may be reviewed after 5 years on account of changes in product specification, impact of competing fuels and change in supply / demand outlook of crude oil and petroleum products enabling refineries and oil marketing companies to plan their infrastructure / upgradation accordingly.

7.3 Emerging trends in transportation i.e. Electric cars vs. Hydrocarbon/fuel based automotive transportation shall also be factored in the medium to long term planning in consultation with the Planning Division, Ministry of Production and other relevant Ministries.

7.4 Emerging trends in the power sector such as solar, wind, coal and nuclear shall also be factored in the medium to long term planning in consultation with the Planning Division and other relevant Ministries.

7.5 In order to give effect to income tax holiday, exemption/ waiver from duties, surcharges, and levies, as extended under this policy, Federal Board of Revenue (FBR) and relevant Ministries/ Departments will issue necessary SROs.

<u>ANNEXURE (I)</u> - Prevailing Pricing Mechanism for Existing Refineries

1. The ex-refinery prices of petroleum products are set on a regular basis by refineries on their own under the parameters approved by the ECC from time to time.

2. Ex-refinery prices of petroleum products should not be more than the PSO's average landed import price for the previous period, which are announced on a monthly basis.

3. In case of no imports by PSO, the-ex-refinery price will be fixed as per Import Parity Price (IPP) formula based on Arab Gulf monthly average FOB prices [including premium and Average Freight Rate Assessment (AFRA)] to arrive at the C&F price.

4. Ex-refinery price for PMG will be based on PSO actual landed import price of 92 RON PMG minus a RON penalty factor to derive the prices for 90/87 RON PMG. In case PSO does not import PMG-92 in a particular period, the above pricing mechanism shall be based on Import Parity Price (IPP) formula calculated on the basis of average MOPAG 92 RON FOB prices of the previous period, plus actual tender premium, freight and incidentals minus ocean losses of PSO's last imported cargo.

    a) In case PMG 92 RON FOB mean price is not published/ quoted in Arab Gulf Market [Mean of Platts Arab Gulf (MOPAG)], the same would be linked with the Mean of Platts Singapore (MOPS).

    b) b) RON penalty will be applicable on producing below the standard of PMG-92 RON which will be derived from the differential of monthly Arab Gulf average FOB price of PMG 92 RON and PMG 95 RON and divided by three to arrive at unit RON penalty factor. The same will be multiplied with respective RON differential number (existed between PMG 92 RON PMG 90 or 87 RON).The resultant unit penalty amount shall be adjusted accordingly to arrive at ex-refinery price of PMG 90/ 87 RON.

5. The pricing of 95/97 RON PMG is fully deregulated.

6. For HSD (0.05% Sulphur content i.e. Euro-II): The ex-refinery price for refineries producing Euro-II grade will be based on PSO's actual landed import cost of HSD (Euro-II) of the previous period. In case of no import by PSO, the Euro-II grade HSD price will be based on

the previous period, Arab Gulf FOB price plus premium and average freight rate of AFRA including PSO's last cargo actual import incidentals and less ocean losses.

a) For HSD (0.5% Sulphur content): The ex-refinery price for refineries producing HSD (below Euro-II) is linked with the IPP formula where by the 1.7% discount factor will apply on FOB price of HSD (0.05%) to arrive at FOB price of HSD (0.5%) while 58.73% discount factor will be applied on the premium of HSD (0.05%) published in Plats for Arab Gulf Market to arrive at the premium for HSD price of 0.5% sulphur content. Based on the said FOB and premium derived for HSD (0.5%), the average AFRA will be added to arrive at C&F price for respective refineries including PSO's last cargo actual import incidentals less ocean losses.

b) For HSD (more than 0.5% Sulphur content): On the above derived FOB price of HSD (0.5%) and its premium, the penalty rate of 0.705% on FOB and 36.40% on premium will be applied there on to scale down the HSD (0.5%) price to arrive at the HSD having Sulphur content of more than 0.5%. Based on the penalized FOB and premium, the AFRA will be added to arrive at C&F price including PSO's last cargo actual import incidentals less ocean losses.

c) In case of HSD (below Euro-II), the lowest of the ex-refinery price worked out by the Import Parity Price (IPP) formula and the actual import price as mentioned above for PSO, is admissible to refineries.

d) Deemed duty of 7.5% on HSD (refinery margin) is also applicable for maintaining refinery profitability, which will be revised, if required.

e) For uniformity of HSD price of all refineries including PARCO, refineries would announce HSD ex-refinery price as per PSO's actual import price of Euro-II less ocean loss and subsequently the differential, if any, will be adjusted through IFEM by OGRA.

Product make up under IPP formula

MS 92 RON	AG Mean FOB spot price of MS 92.
HSD (0.5%S)	AG Mean FOB spot price of Gas Oil 0.05 less discount® 1.7%
HSD (0.05% S)	AG Mean FOB spot price of "Gas Oil 0.05"
Kerosene	AG Mean FOB spot price of Kerosene.
JP-8	AG Mean FOB spot price of Kerosene + 1 US cent /gallon.
JP-1	AG Mean FOB spot price of Kerosene + 1 US cent /gallon.
LDO (Euro-II HSD)	80% HSD (0.05%) FOB plus 20% Furnace Oil price (180 cst) FOB for LDO.
LDO (Below Euro-II HSD)	80% HSD (0.5%) worked out above plus 20% Furnace Oil price (180 cst).
C&F Price	FOB prices plus white oil products premium for white products and FO 180 CST premium for black oil product including marine freight based on AFRA.
Incidentals etc.	C&F Price (MS&HSD) FOB prices including actual tender premium/freight and incidentals minus ocean losses of PSO's last imported cargo. PSO's import incidentals of the last cargo excluding ocean loss are included in C&F prices of MS and HSD.

ANNEXURE (II) – Proposed Modifications in Pricing Mechanism

1. Import Parity Price formula in case of MS and HSD may also include ocean losses plus weighted average of the actual tender premium, freight and incidentals of PSO's cargoes from the last importing period [at item 4,6 and 6 (b) & (e) of the prevailing pricing mechanism].

2. The relevant foreign exchange currency rate on Import Parity Price (IPP) shall be applied so as to fully recover all the actual cost incurred on the import of crude oil and petroleum products by importing refineries and oil marketing companies, including all duties and import incidental expenses. Any gains or losses, including losses due to delay in State Bank of Pakistan (SBP) approval to OMCs/ refineries because of in-month movement of the foreign exchange rate, shall be adjusted in the following period's price.

3. To offset the time lag of petroleum products and crude oil prices, especially some local crude oil fields invoiced on weekly basis, determination of petroleum product prices shall move to a fortnightly basis in a phased manner in consultation with stakeholders. Subject to the applicable regulations of State Bank of Pakistan and fulfilling all codal formalities, refineries shall be allowed to open and maintain foreign currency accounts and retain export proceeds in foreign currency to meet operational/emergency requirements.

4. The pricing of 95/97 RON PMG may attract same duties and taxes as applicable for PMG 92 RON.

5. The current deemed duty of 7.5% on HSD and capping of dividends by refineries may be discontinued and instead "refinery margins" may be introduced on the basis of 50% OMCs margin on MS and HSD being worked out on a CPI on annual basis.

6.

C&F price	FOB prices plus white oil products premium for white products and FO premium for black oil product including marine freight based on AFRA. In case of no imports of FO in the country, the black Oil premium appearing in the previous period's Platts Oilgram should be used for C&F working of LDO.

<u>ANNEXURE (III) -</u> CRITERIA FOR ESTABLISHMENT OF OIL MARKETING COMPANIES (OMCS)

I) Corporate Structure of the Company.

Corporate structure is important from the point of view of protection against leakage in Government revenues i.e. duties, taxes and sale tax. Therefore, the prospective company shall be a Private / Public Limited Company quoted on the Stock Exchange or unquoted Private/Public Limited Company registered in Pakistan. However, the prospective company should not be affiliated in any manner with existing oil marketing company operating in Pakistan.

II) Experience in Oil Marketing

The prospective company should have experienced personnel in oil marketing from national and international oil industry. Moreover, technical collaboration / franchise agreement within the national /international oil industry other than the oil marketing companies operating in Pakistan shall have an added advantage.

III) Marketing Plan

The Marketing Plan of the prospective candidate shall constitute the following provisions:-

a) The plan shall highlight the supply arrangements and it shall be incumbent on the new company to first uplift local refinery product and only deficit volumes as determined by OCAC shall be imported.

b) A specific plan for setting up retail outlets over a period of 3 years should be given. The number of retail outlets to be setup during the interim period of three years shall commensurate with the Marketing Plan being submitted by the prospective applicant. The plan shall further specify the cities/locations where the retail sites are to be set up. The Marketing Plan should provide coverage both in urban/rural areas and also in far flung area.

c) Compliance with the laid down standards of Retail Operations, including environmental and safety standards.

d) A transport plan should be included as part of the marketing plan which shall include a commitment that road transport used will met safety and petroleum products transport standards.

e) The company should have to comply with the depot operations standards and maintain adequate stocks

f) Marketing License should be provisional for 3 years till the marketing plan is executed / implemented. In case of failure to comply with the above condition, the Licensing Authority will not renew the marketing license. Depending on the nature of the non-compliance, the Licensing Authority may also impose a penalty in such circumstances.

IV) Plan for Investment in Infrastructure

a) A new company should develop storages at locations and capacities corresponding to their business strategy, estimated business volumes and associated economics.

b) Investment Plan of the company should concentrate on:

I. Infrastructure development of depots, installations etc.

II. The new company must create minimum storage of 20 days of their proposed sales as infrastructure prior to beginning sales in the country. A specific plan to this effect over a period of 3 years shall also be provided.

V) Financial Capability

a) Equity investment should commensurate with the marketing plan being submitted by the new company. However, the prospective company shall have investment capability of Rs.500 million or more over a period of 3 years with a minimum upfront equity of Rs.100 million. Equity investment should however, be based on the criteria of 60:40 debt / equity ratio. The group sponsoring the company should be of repute having adequate financial resources to manage the new entrant in the initial period.

b) The company should have capability to raise funding from commercial banks/financial institutions. A letter of support from banks / financial institutions must be provided with the application.

VI) <u>Bank Default / Criminal Proceedings</u>

The prospective company shall submit an affidavit confirming that:-

a) None of the Sponsors / Directors / Relatives of sponsors / Directors is involved in any criminal case and or bank / loan and direct and indirect Federal taxes default.

b) No case is pending in National or International courts for recovery of loans / tax frauds etc.

c) All exercise formalities completed as per rules and regulation prescribed by the CBR prior to start of commercial operation.

Bank default / criminal proceedings shall apply to Sponsors / Directors and other persons in accordance with the relevant law.

VII) The products to be marketed should conform to the GOP approved specifications.

VIII) The company should take all necessary steps in advance, for protection of environment as per applicable rules.

IX) **<u>Validity of License</u>**

The company will operate in accordance with the terms and conditions of the license as prescribed by the Licensing Authority under the Rules.