PAKISTAN OIL REFINING POLICY FOR UPGRADATION OF EXISTING/ BROWNFIELD REFINERIES, 2023

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

MINISTRY OF ENERGY (PETROLEUM DIVISION)

Petroleum & Natural Resources Division was created in April 1977. Prior to that Petroleum and Natural Resources was part of the Ministry of Fuel, Power and Natural Resources.

MISSION STATEMENT

To ensure availability and security of sustainable supply of oil and gas for economic development and strategic requirements of Pakistan and to coordinate development of natural resources of energy and minerals.

Message from the Minister of Energy and Secretary Petroleum

The refining sector is the backbone of the country as it is critical for energy security and economic growth. The demand for petroleum products and petrochemicals has been increasing in Pakistan and is expected to increase substantially in the coming years. As per the forecast, there is a need to double the country's refining capacity and add at least one new world scale deep conversion refinery and petrochemical complex to meet near future requirements.

Being a highly capital-intensive business, the refining sector requires consistent support from the Government to meet country's objective of self-sufficiency and reliability.

Globally, governments support their local refining industry through incentives and tariff protection to ensure their health and sustainability. The Government of Pakistan has also provided incentives and tariff protection to other important local industries, leading to employment generation, technology transfer and contribution to economic growth.

The Government of Pakistan, through this Policy, intends to provide necessary incentives and tariff protection to attract investment in this sector, being strategic assets of the country.

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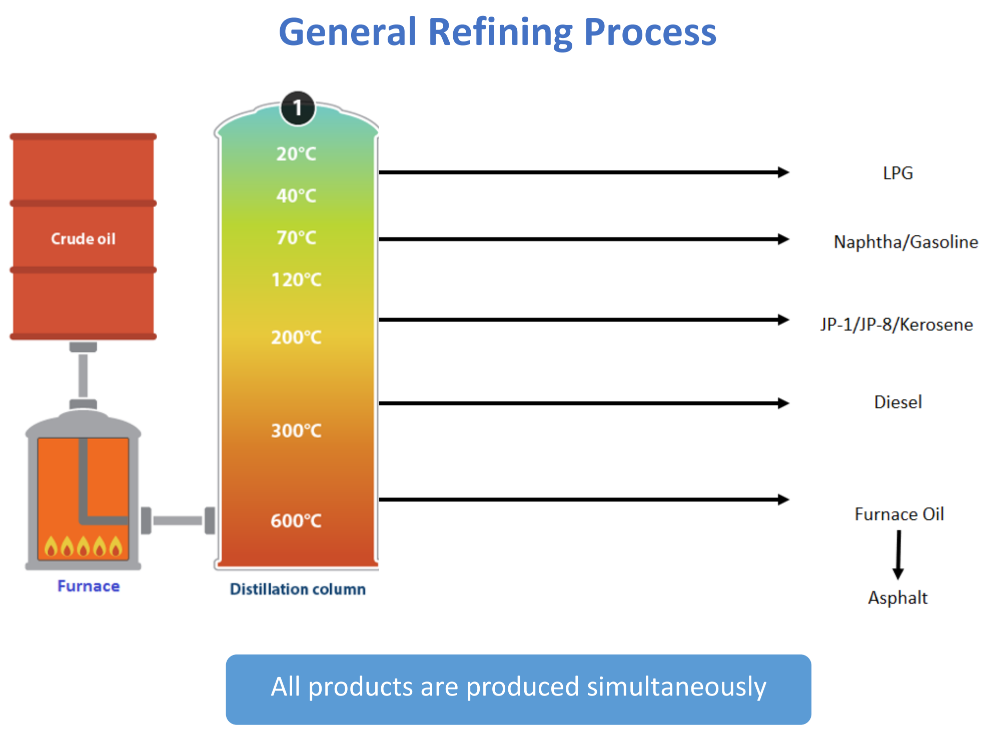
SECTION 1

INTRODUCTION TO REFINERIES

1. INTRODUCTION TO REFINERIES

The first element of the petroleum value chain is the extraction of crude oil. An oil refinery is an industrial plant that processes the crude oil to produce diesel, gasoline and other energy and non-energy products. A simplified depiction of the refining process is depicted below.

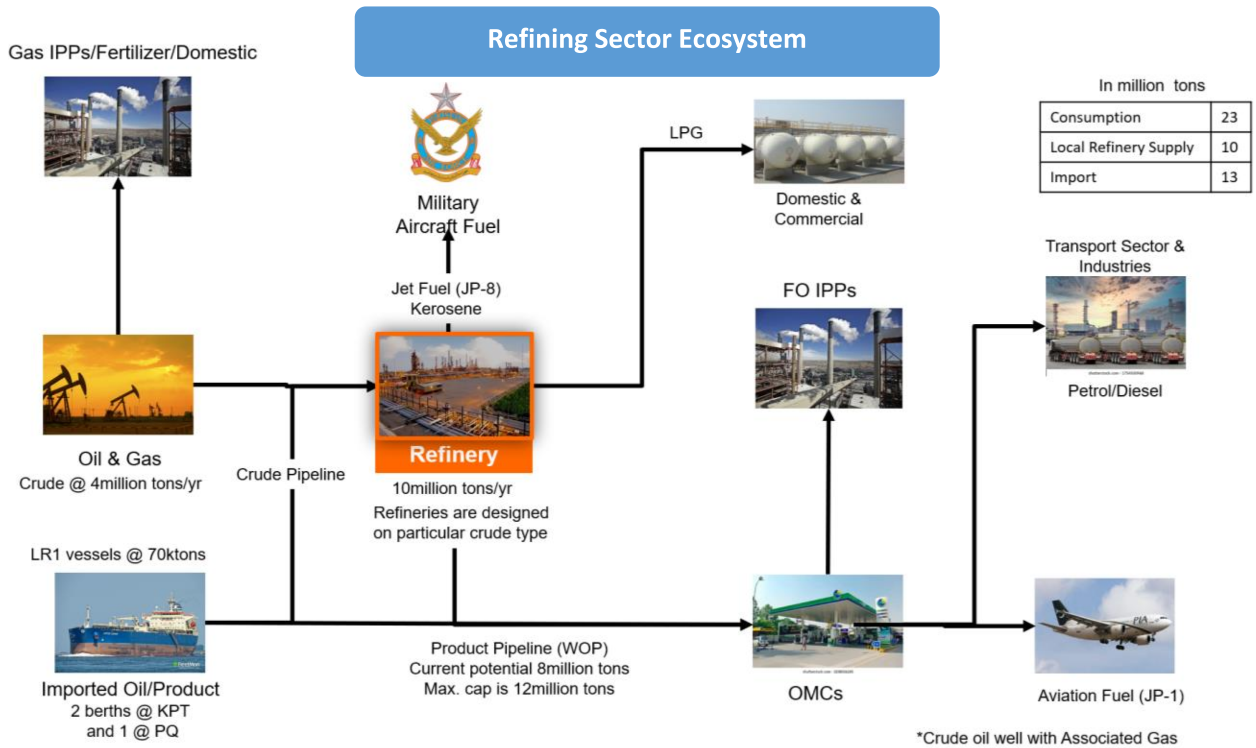


1.1. Economic and Strategic Importance of Local Refineries

Local refineries are strategic assets for a country and their sustainability and continuity is essential for its prosperity and economic development. By providing indigenous supply of essential transportation and energy products, refineries deliver the following strategic and economic benefits:

- Provide fuel security in case import supply chain is disrupted
- Contribute significantly to the GDP as multiple economic sectors are dependent on its output
- Save foreign exchange through import substitution
- Generate significant direct and indirect employment and grown in ancillary
- Utilize local crude oil production if available, which otherwise would have to be exported
- Reduce burden on port infrastructure by reducing import requirements

Similarly, Pakistan's local refineries are the backbone of industrial development and are intrinsically connected to Defense and energy security needs of the country. They have a pivotal role in the energy supply chain and economic development of Pakistan. A brief pictorial depiction of the contribution of refineries is exhibited below:



While there are multitude of benefits of local refining, as mentioned above, some of the strategic and economic benefits local refineries have provided specifically for Pakistan are:

- They supply 45% of the nation's annual demand of petroleum products
- They provide indigenous fuel supply for defense and essential transportation
- As per recent calculations, they enable annual forex savings of more than USD 1 billion
- They utilize about 70,000 barrels per day of local crude and condensate
- They generate more than 100,000 direct and indirect employment
- They represent a substantial contribution to national exchequer and GDP
- They reduce the burden on Port Qasim and Kemari ports – instead of importing refined products, crude oil is processed to produce multiple energy and non-energy products (Petrol, Diesel, JP-1, JP-8, Kerosene, Furnace Oil, LPG, lubes, bitumen, wax, etc.)

Despite being integral to the growth of the economy, no new refinery project has materialized in Pakistan since more than a decade and only two refineries have been added in the last 40 years.

SECTION 2

PETROLEUM MARKET IN PAKISTAN

2. PETROLEUM MARKET IN PAKISTAN

2.1. Oil Refineries in Pakistan

Currently, there are five organizations operating in the oil refining sector in Pakistan: Pak-Arab Refinery Limited (PARCO), Attock Refinery Limited (ARL), National Refinery Limited (NRL), Pakistan Refinery Limited (PRL) and Cnergyico Pk Limited (CPL). All of the refineries except PARCO are based on old, hydroskimming, technology. PARCO is a mild-conversion refinery and even that is now more than 20 years old. The product slate of all the existing local refineries typically comprises of Naphtha, Motor Gasoline (MS), High Speed Diesel (HSD), Furnace Oil (FO), Kerosene, Jet fuel (JP-1 & JP-8), High-Octane Blending Component (HOBC), Liquefied Petroleum Gas (LPG) and Light Diesel Oil (LDO).

2.2. Refining Industry and the Petroleum Products' Production and Consumption in Pakistan

Pakistan's oil refining capacity is about 450,000 barrels per day (bpd), equivalent to 20 million tons per annum. The pertinent details of the refineries are as under:

Refinery	Year	Technology	Capacity (bpd)	Capacity (MT)
PARCO	2000 2010 (Euro II) 2011 (AABU) 2020 (upgrade)	Mild Conversion	120,000	5.5
ARL	1922(original) 1981(new) 1999(upgrade) 2016(upgrade / capacity enhanced)	Hydroskimming	53,400	2.4
NRL	1966(lube) 1977 (fuel) 2017 & 2018 (upgrade & revamp) 2021 (capacity enhanced)	Lube Refinery + Hydroskimming	70,000	3.2
PRL	1962 2015(upgrade)	Hydroskimming	50,000	2.3
CPL I	2004 (commissioned) 2008 (revamp/capacity enhanced)	Hydroskimming	36,000	1.6
CPL II	2015 (commissioned) 2017 (Upgrade Isomerization)	Hydroskimming	120,000	5.5
Total Capacity			**450,000**	**20.5**

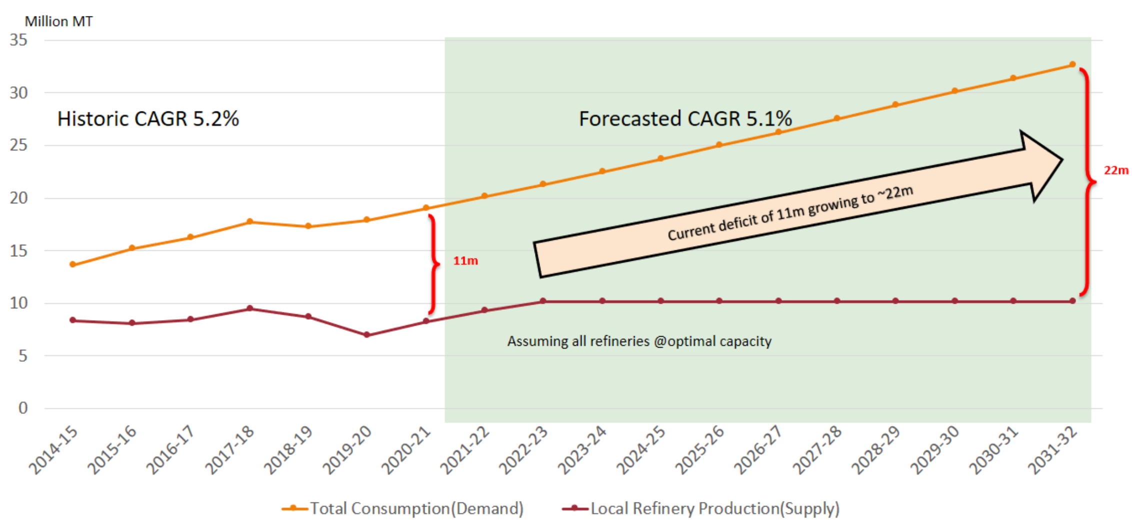
Compared to the 20 million ton of refining capacity, the actual capacity utilization is at around 10 million tons. This is mainly due to the decreasing FO demand in the country as a result of a change in the energy mix in the power sector. It may be noted that in essence the production slate for refineries is fixed. i.e., they cannot produce just MS or HSD, all products are produced simultaneously. Thus, as FO demand declines, refineries have to lower their overall production and struggle to maintain their throughput at optimal levels.

Historically, local refineries have supplied about 45% of the country's requirements of HSD, 30% of MS and more than 100% of Jet fuel for defense. The rest of the demand is supplied through imported refined products.

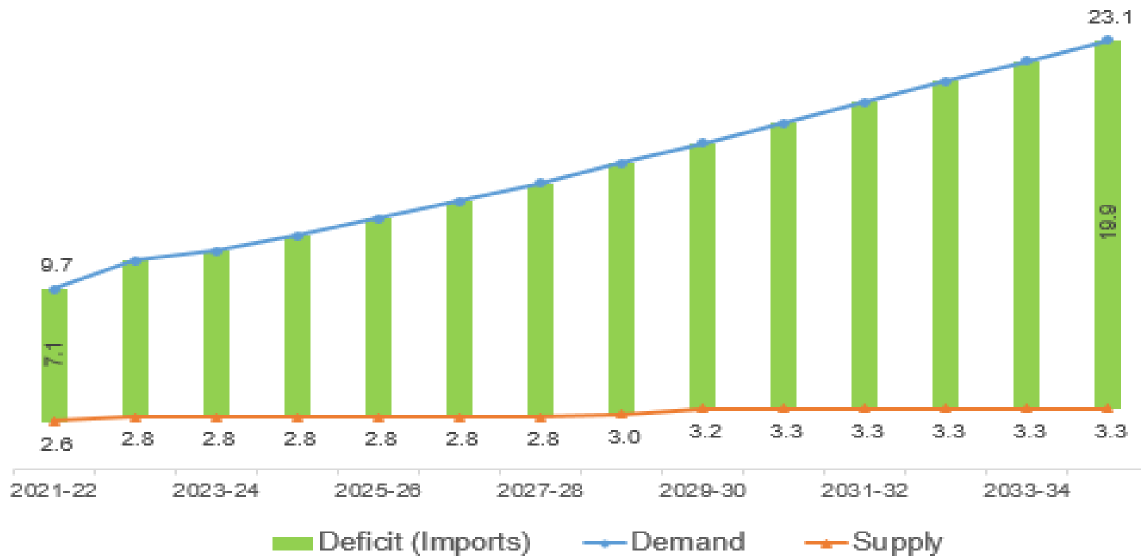
Name of Product	Production (tons/annum)	% of Country Requirements
Jet Fuels/Kerosene	0.7 Million	More than 100%
HSD	4.0 Million	45%
Motor Gasoline	2.5 Million	30%

As per the forecast by an international consultant, Pakistan's demand for MS and HSD is expected to reach 33 million tons per annum (mpta) by 2035.

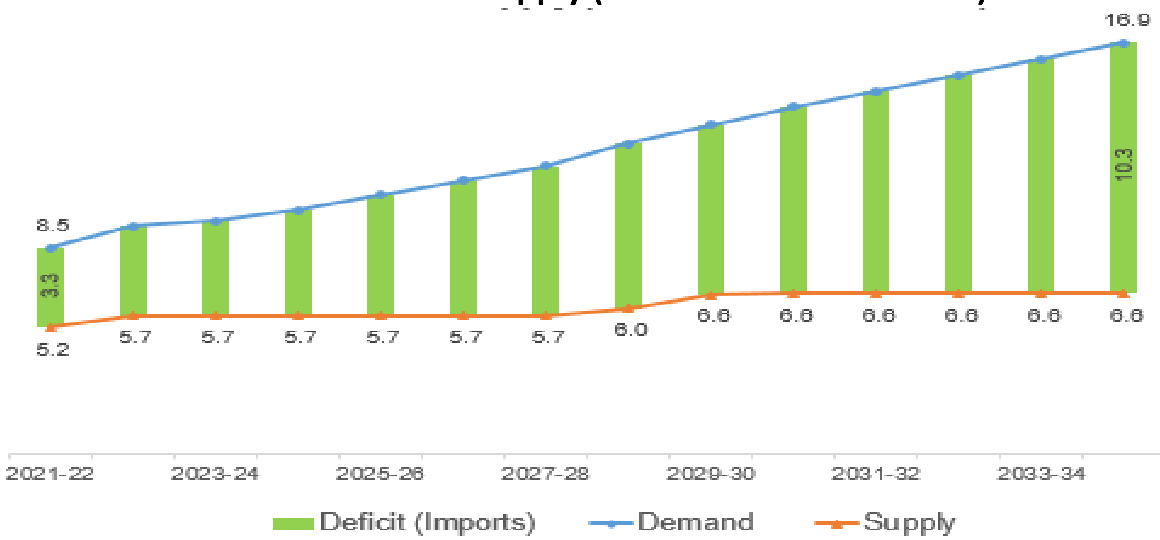
Projected Demand & Supply of Motor Gasoline and Diesel



Mogas Demand & Supply (Million Tons Per Annum)



Diesel Demand & Supply (Million Tons Per Annum)



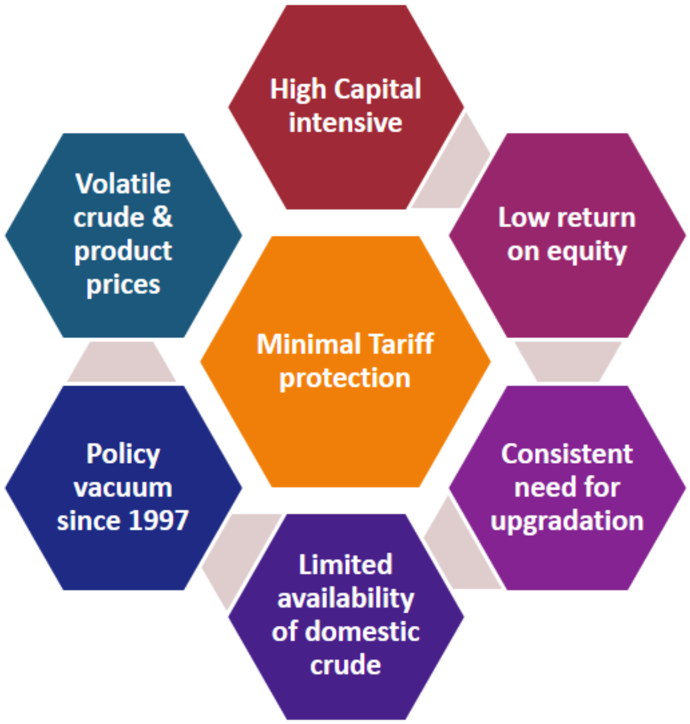
SECTION 3

CHALLENGES IN THE CURRENT REFINING SECTOR OF PAKISTAN

3. Challenges in the Current Refining Sector of Pakistan

3.1. Lack of Investment in Refining Sector

There are a multitude of reasons for lack of investment in Pakistan's refining sector, as summarized below:



Only two refineries have been set up in last 40 years

The lack of investment in the refinery sector not only puts additional burden on the foreign exchange reserves, but it also creates a significant dependency on imports. The subsequent section highlights one of the major, controllable, reasons for lack of investment in the sector. i.e., declining tariff protection for refineries.

3.2. History of Pricing Policies in Pakistan

The provision of tariff protection to local industry is a global practice, acceptable under the rules of the World Trade Organization (WTO). However, in Pakistan, the tariff protection provided to local refineries has been declining over the years and is currently available only for HSD, which is ~30% of the total production. Thus, the refineries effectively receive less than 2% in tariff protection.

While further details on the tariff protection available to local industries are provided in a subsequent section of this document, the salient points are depicted below:

Diminishing return in Pricing Mechanism for Refineries

Until 1988
- Up to 18% fixed return on their investment
- Subsequently, it was substituted by processing fee

1993-2002
- Import Parity Pricing formula was applicable with capping of 10% - 40% return on paid up capital.

1994
- Petroleum Policy 1994, new refineries were ensured a minimum rate of return of 25% on the paid up capital net of tax for eight years.

Jul 2002
- Tariff protection (Deemed Duty) was introduced @ 10% on HSD and 6% on SKO, LDO & JP-4

Jun 2007
- Tariff protection on SKO, LDO & JP-4 was abolished

Aug 2008
- Tariff protection on HSD was reduced from 10% to 7.5%, which is equivalent to ~2% on overall production slate.

Declining GoP Support w.r.t tariff protection

The objective of this Policy is to optimize tariff protection with a view for sustainability and upgradation of refining sector.

3.3. Existing Policy is outdated

The importance of local refineries and their contribution to economic growth is clear. In October 1997, the Government of Pakistan (GOP) issued the Petroleum Policy 1997 which provided various policy incentives, including the refinery pricing formula. Later in 2007 and 2018, further incentives were also provided but they could not attract investment in the sector. Since then, the required attention to the sector remained lacking and no policy updates were made.

While global oil refining technology evolved, there was a policy vacuum in Pakistan which should have addressed the latest developments in the refining industry. Given the above challenges and lack of policy alignment with the international market, the refineries are now at the risk of closure.

3.4. Impact of closing local refineries

Shutdown of refineries in the country will have serious ramifications and can lead to a national crisis. The ramifications could include:

- 7 energy products (Petrol, Diesel, JP-1, JP-8, Kerosene, Furnace Oil, LPG) as well multiple non-energy products (lubes, bitumen, wax, etc.) would need to be imported instead of importing only crude oil.

- Based on current demand, ~20 million tons/year of products will need to be imported and 3.5 million tons/year of local crude/condensate will need to be exported. Forecasted product imports by 2035 will be ~46 million tons/year.
- 60%-65% of local crude production would have to be transported to Karachi from upcountry for export, and more than 70% of imported finished products would have to be transported from Karachi to upcountry, requiring significant infrastructure enhancement and entailing huge transportation cost.
- The above mentioned import/export/transport requirements will significantly increase port congestion, demurrage costs, storage constraints and operational complexities, and put the entire energy supply chain at risk
- Negative impact on economy, such as employment, taxes, import bill, GDP etc.
- Compromised national energy security; unsustainable supply in geo-political situations
- There will be loss to the country as a result of
    - Exporting crude oil/condensate at a lower realizable price than the local market.
    - Import value added (finished) products instead of raw material (crude oil)
- Country's economy requires sustained provision of energy. Refineries bring that stability in the supply chain. The energy supply chain may disrupt as a result of closure of crude oil fields with associated gas, potentially resulting in gas shortage.

Ultimately a deregulated environment is the need of the day. However, without upgrading existing refineries, complete deregulation will result in shut down of the existing refineries, which will be detrimental to the overall economic interest of Pakistan, as highlighted above.

3.5. Importance of Incentives to Local Refining Industry

A modern refining sector will not only boost development of allied and downstream sectors of the economy, it will also lead to industrial development, which is critical for economic growth. Furthermore, the modernization also benefits the end consumer, along with all the stakeholders, as productivity is optimized and economic activity in nearby areas increases.

The refining sector needs multi-billion-dollar investments for development of new deep conversion refineries, petrochemical complexes, and upgradation of existing refineries. These developments and upgrades are needed to reduce the current heavy dependence on imported finished products, and consequently positively impact on the country's precious foreign exchange requirements. This, along with requisite development of pipelines and storages across the country, will provide the necessary energy security to the country.

The refining sector thus requires support from the Government in order to continue operating viably and to contribute effectively to economic growth, both through induction of new refineries and upgradation of old ones. Such a long-term Policy, and its effective implementation, is needed to attract the capital investment required for long-term sustainable development of the refining sector.

The Ministry of Energy (Petroleum Division), with inputs from local refineries, has been engaged in the development of a policy package for sustainability and upgradation of existing refineries as well as attracting investments in refining/petrochemical/oil import terminals and associated infrastructure.

SECTION 4

CONTOURS OF POLICY

4. CONTOURS OF POLICY

In order to support existing local refineries, being strategic assets for the country, and to attract new investment in the sector, the Government of Pakistan, in consultation with the refining industry, has prepared this Policy as presented in subsequent sections while the policy for new refineries is in the process of finalization and will be notified separately. The objective of this Policy is to provide optimal tariff protection to the refining sector, as is available to other local industries, to ensure sustainability of the existing refineries.

4.1. Modernization/Upgradation/Expansion of Existing Refineries

The respective refineries have already initiated feasibility studies for independent upgrades to: meet Euro V specifications; and maximize production of Motor Gasoline and Diesel by minimizing production of Furnace Oil (FO). After these upgrades, the existing refining infrastructure would be similar to that of a typical conversion refinery, producing Euro-V spec fuels.

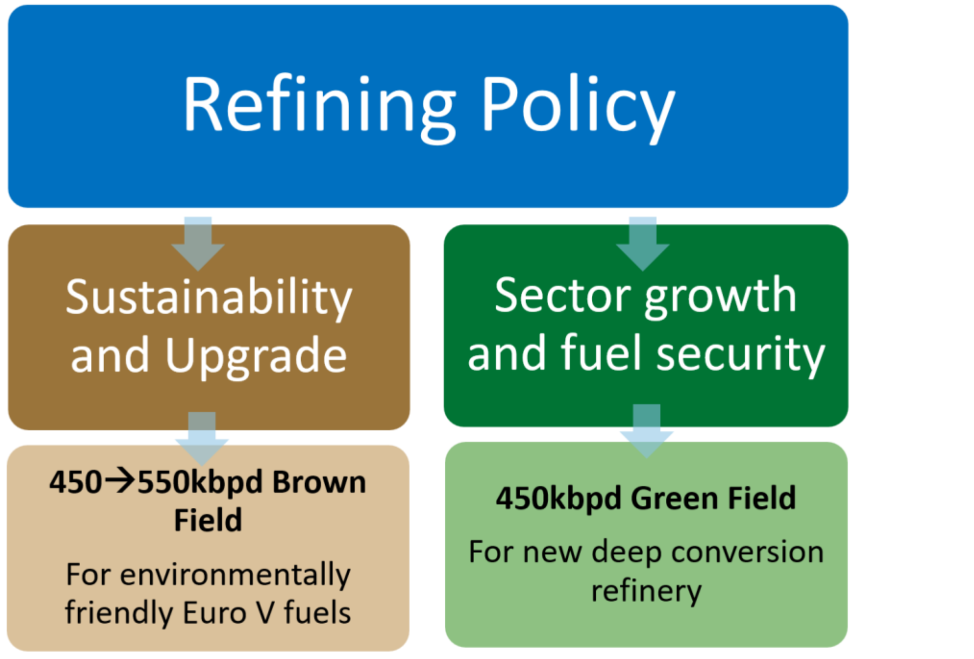
4.2. Incentive package to facilitate investments including fiscal interventions

To alleviate the challenge of low margins in refining, an incentive package along with tariff protection is required to improve the viability and sustainability of existing refining facilities in Pakistan. This will reduce dependency on imported petroleum products.

SECTION 5

POLICY OBJECTIVES

5. POLICY OBJECTIVES



The objectives of the Refining Policy are to provide the enabling environment for long-term sustainability of the existing refineries and to attract foreign investment in new refinery projects. While there will be a separate Policy for new refinery investments, this Policy cover the existing refineries and has the following objectives:

5.1. Achieve energy security through a gradual increase in self-reliance in petroleum refining capacity of the country, and reduce dependence on imports of refined products by incentivizing investment in upgradation and modernization of existing refineries;

5.2. Provide an enabling environment for attracting significant investments in a highly capital-intensive industry;

5.3. Enforce production & marketing of high quality and environmentally friendly fuels to end consumers at competitive prices;

Provide tariff protection to local refineries for: their sustainability; to enable a business case for their upgradation to produce Euro-V fuels and maximize production of Motor Gasoline and Diesel by minimizing production of High Sulphur Furnace Oil;

SECTION 6

POLICY STRUCTURE

6. POLICY STRUCTURE

6.1 Policy Structure for Upgradation/Modernization/Expansion of Existing Refineries

All existing refineries are encouraged to upgrade/modernize/expand (Upgrade Project) their refineries to produce environmentally friendly fuels as per Euro-V specifications and to maximize production of Motor Gasoline and Diesel by minimizing furnace oil (FO)/ other fuels. The refineries that commit to Upgrade shall be entitled for incentives under this Policy. The selection of equipment, technology or process will be on a project-to-project basis by the concerned refineries. The refineries have planned to make following improvements in product quality, quantity and product mix through up-gradation:

Refinery	Current Capacity (tons/day)				POST UPGRADE Capacity (tons/day)			
	Specs (mogas/diesel)	MOGAS	Diesel	FO	Specs (mogas/diesel)	MOGAS	Diesel	FO
PARCO	Euro-III/III	3,678	5,600	3,290	Euro-V/V	5,493	8,082	212
ARL	Euro-V/III	1,923	2,071	1,024	Euro-V/V	2,379	2,008	908
PRL	Euro-V/-	783	1,793	1,350	Euro-V/V	4,854	6,111	167
NRL	Euro-V/V	818	3,273	2,253	Euro-V/V	2,025	4,087	1,127
CPL	Euro-V/-	3,500	8,500	7,500	Euro-V/V	6,500	11,000	1,000

All numbers are based on detailed feasibility studies and may change after completion of Front-End Engineering Design (FEED). Current production by refineries in Euro V compliant is in terms of sulphur content only.

6.1.1. Regulation and General Licensing Conditions

6.1.1.1. Refineries shall be allowed to sell their products to any OMC licensed by OGRA. Refineries will be allowed to export surplus petroleum products with respect to domestic demand subject to approval of OGRA.

6.1.1.2. The Petroleum Division shall notify Euro V fuel specifications, for compliance post upgradation of refineries, within one (1) month after approval of this Policy.

6.1.1.3. In case Government decides to improve the fuel specification beyond Euro-V, the timelines for applicability of revised specification shall be devised and notified as required.

6.1.2. Fiscal Regime

6.1.2.1. There shall be a minimum customs duty of 10%, for a period of 6 years from date of notification of this Policy, on Motor Gasoline and Diesel imported in the country. Any customs duty imposed over 10% and reflected in the ex-refinery price, will be deposited in the Inland Freight Equalization Margin (IFEM) pool. In case any refinery is not eligible to avail the incentives provided in this policy, it will be bound to deposit the same in IFEM. Any customs duty on crude oil shall be reimbursed to refineries through IFEM.

6.1.2.2. The refineries shall be allowed 10% tariff protection/ deemed duty applicable on Motor Gasoline and Diesel's ex-refinery price for 6 years from the date of notification of this policy and opening of the joint Escrow Account with OGRA. However, 2.5% of the deemed duty on Diesel and 10% on Motor Gasoline (incremental incentive), shall be deposited by refineries in the Escrow Account maintained by OGRA and the respective refinery jointly in National Bank of Pakistan for utilization of Upgrade Projects only. The respective refinery and OGRA will open the requisite joint Escrow Account within three months after the notification of this Policy. Until the opening of the said account, the incremental incentive shall be deposited in the IFEM.

6.1.3. Implementation Mechanism

6.1.3.1. For an existing refinery to be eligible for the fiscal incentives provided in this Policy, it shall within 3 months after the notification of this Policy, execute a legally binding Upgrade Agreement with OGRA. The said Upgrade Agreement shall include: (i) output and outcome of the committed upgrade (at least as provided in clause 6.1) (ii) the proposed milestones/ deliverables with tentative timelines (including Feasibility study, FEED, Financial Close, EPC & Commissioning); (iii) the potential configuration / units / size; (iv) the tentative product slate after upgradation; and (v) a project management methodology/ firm for on time delivery, as per approved cost and specification. The milestones/ deliverables and timelines will be firmed up in FEED of Upgrade Project.

6.1.3.2. Refinery defaulting on any government dues/ petroleum levy on Petroleum Products would not be eligible to avail this Policy until a legally binding and enforceable (with a recourse) settlement is reached with the Government of Pakistan. Till such time, the defaulting refinery will deposit the incremental incentives into IFEM pool. Once a settlement is reached with the GOP, the refinery will become eligible to open a joint Escrow Account with OGRA and start depositing the incremental incentives on a prospective basis. The funds available in the joint Escrow Account can only be drawn and used by the respective refinery on the Upgrade Project after payment of all outstanding government dues/ petroleum levy on Petroleum Products.

6.1.3.3. As soon as a refinery defaults in payment of government's revenue/ petroleum levy on petroleum products in a timely manner after the execution of the Upgrade Agreement, the refinery's right to claim expenditure out of the joint Escrow Account will be suspended by OGRA till the time the refinery deposits the outstanding amount.

6.1.3.4. The joint Escrow Accounts shall be operated in accordance with the terms and conditions to be specified in the Escrow Account Agreement amongst OGRA, respective refinery and NBP based on following broad guidelines:

a) The eligible refinery importing used Plant, Machinery & Equipment (PME) for Upgrade Project, will be allowed to withdraw maximum of 22% of the total project cost from the joint Escrow Account whereas, the refineries importing new PME for Upgrade Project, will be allowed to withdraw maximum of 25% of the total project cost from the joint Escrow Account. The release from the joint Escrow Account shall be on a pro-rata basis i.e. a maximum capped limit of 22% or 25% as the case may be, from the joint Escrow Account, and remaining from the refineries' own resources.

b) OGRA will allow withdrawal of a maximum of the respective capped limit of the refinery's Upgrade Project Cost, determined based on Final Investment Decision (FID).

c) In case the funds deposited in the joint Escrow Account are lesser than the respective capped limit of the expenditure made on a milestone/ deliverable and/ or on entire Upgrade Project basis, there will be no obligation/ responsibility on the part of OGRA/ GoP to meet the shortfall.

d) The funds from the joint Escrow Account will be available for withdrawal, post financial close of the Upgrade Project, against expenditure made for each milestone/ deliverables of the respective refinery Upgrade Project. The release from the joint Escrow Account shall be on a pro-rata basis i.e. a maximum of the respective capped limit from the joint Escrow Account and remaining from the refineries' own resources.

e) The interest accrued in the joint Escrow Account will also be used for the respective capped limit of the payment of Upgrade Project from the joint Escrow Account, as referred above.

f) OGRA will have a unilateral right to withdraw funds from the relevant joint Escrow Account pursuant to clause 6.1.4.1.

g) The deposit in the joint Escrow Account will only be utilized for capital expenditure and revex associated with capex only on the Upgrade Project. The joint Escrow Account will not be used as any charge/lien/ collateral or other instrument of borrowing.

h) The incremental incentives collected in a given month shall be deposited by refineries in the joint Escrow Account, within 10 days of subsequent month.

   i. In the event the refinery does not deposit the due amount of incremental incentive in the escrow account as per the time stipulated in clause (h) above, an interest on such unpaid amount shall accrue at the rate of one-month KIBOR + 3%, prevailing on the date that payment first becomes due and calculated for the actual number of days for which the relevant amount remains unpaid; and

   ii. If the default continues beyond 30 days the refinery will become ineligible to claim any funds out of joint Escrow Account till the time the due amount of incremental incentive along with interest is deposited in the joint Escrow Account.

   iii. If the default continues beyond 60 days, the joint Escrow Account will be ceased by OGRA and the balance will be confiscated by OGRA in favor of IFEM and the waiver to produce and market their products shall also stand withdrawn/cancelled. OGRA shall also encash bank guarantee mentioned at clause 6.1.3.6 against the outstanding dues of incremental incentive.

iv. The suspension under clause (iii) above shall end and entitlement to the incentives under this policy shall be reinstated on a prospective basis only if the refinery deposits the outstanding amount along with interest mentioned at para h(i) above and on resubmission of a bank guarantee if already encashed by OGRA.

i) OGRA will develop SOPs for filing of claims by refineries for payment of funds from the joint Escrow Account and processing of the same within a stipulated time period.

j) No cheque shall be drawn/ cashed without the signature of signatory nominated by OGRA. OGRA will ensure biannual audit of the record/ book(s) of the joint Escrow Account.

6.1.3.5. Upon the execution of the said Upgrade Agreement, OGRA shall provide a waiver to the respective refinery to produce and continue marketing of its products below Euro-V Specifications until the agreed completion date of the Upgrade Project, which will not be later than six years after the notification of this Policy. Thereafter, the waiver shall expire and the refineries shall not be allowed to produce such products, which do not meet the Euro-V Specifications. After six months of the notification of this Policy, the Refineries which do not have waiver will not be allowed to produce and market their products, which are below Euro-V Specifications.

6.1.3.6. With the execution of the said Upgrade Agreement, each refinery shall submit an unconditional and irrevocable bank guarantee of Rs. 1 Billion, issued by at least a “AA” rated bank to OGRA valid till the committed successful commissioning date of the Upgrade Project plus six (6) months. The refinery will ensure an extension of bank guarantee in case the committed commissioning date of the Upgrade Project is extended by OGRA to cure any default. The bank guarantee, net of any outstanding obligations due under this Policy, shall be released upon OGRA’s satisfaction of successful commissioning of the respective Upgrade Project.

6.1.3.7. In case of non-completion of Upgrade Project within committed timelines, termination or relinquishment of the Upgrade Project by refinery, OGRA shall encash the bank guarantee.

6.1.4. Monitoring Mechanism

6.1.4.1. OGRA will monitor the Upgrade Projects. Failure to meet the timelines committed in the Upgrade Agreement/ FEED will initially result in a default notice by OGRA to the respective refinery, with an allowed cure period. OGRA may allow a maximum of one year cumulative cure period along with an automatic extension of waiver for the entire Upgrade Project. The refinery's right to claim expenditure out of joint Escrow Account will be suspended after the lapse of cure period. The monitoring mechanism shall be as follows:

a) OGRA shall engage third-party technical consultant(s) for evaluation of milestones/ deliverables. The technical consultant shall verify quantity/ quality of each milestone and associated costs for the Upgrade Project upon payment by OGRA out of the joint Escrow Account. The third-party consultant should issue project progress report on monthly basis.
b) OGRA shall appoint auditor(s) out of the Big 3 audit firms, who shall carry out a bi-annual audit and report to OGRA.
c) The cost of above technical consultants and auditors will be charged to the respective refineries from Joint Escrow Account and their scope of work will be recorded in the Upgrade Agreement.
d) *Upon any Delay/Default*: Refinery shall immediately inform OGRA of any foreseen delay in achieving a committed milestone/ deliverable as per timeline and state the underlying reasons.
e) *Delay/Default continued for more than the cure period allowed by OGRA*: In case a refinery does not progress according to the committed milestone/ deliverable even after a lapse of the cure period, OGRA shall suspend refinery's right to claim expenditure out of the joint Escrow Account of that respective milestone/deliverable till such time the respective milestone/ deliverable is achieved. However, in case the default by refinery continues beyond OGRA's maximum allowed cure period of 1 year for the Upgrade Project, OGRA shall suspend the refinery's right to claim expenditure out of the joint Escrow Account and shall encash the bank guarantee as per clause 6.1.3.6 & 6.1.3.7.
f) *Project Relinquishment:* If at any stage, a refinery decides to relinquish the Upgrade Project, the funds available in the joint Escrow Account shall be withdrawn by OGRA for utilization in the IFEM pool. The defaulting refinery shall be liable to pay back the amount already withdrawn by the refineries from the joint Escrow Account to OGRA.
g) After the payment of a maximum of the respective capped limit of the expenditure on Upgrade Project, OGRA will withdraw the unspent funds available in the joint Escrow Account for utilization in IFEM pool and close the joint Escrow Account.
h) Refineries will submit a monthly report to OGRA with regard to the due amount of incremental incentive required to be deposited in the joint Escrow Account and the actual amount deposited

in the said account(s). OGRA shall reconcile the funds deposited in the joint Escrow Account with the refineries on a monthly basis.

i) In case any refinery does not deposit the incremental incentive in the respective joint Escrow Account within due date as referred in clause 6.1.2.2 and 6.1.3.4, OGRA shall suspend the waiver of respective refinery to produce the petroleum products.

j) In case of any issue in interpretation or implementation mechanism of this Policy, the refineries will refer the issue to OGRA for a settlement.

6.1.5. POLICY IMPLEMENTATION

6.1.5.1 For any dispute arising under this Policy, the matter shall be referred to the arbitrator appointed by the Secretary, Petroleum Division.

7. APPROVAL & VALIDITY

7.1. To facilitate investment by local and foreign investors, and for ease of doing business, approvals from various authorities will be coordinated by OGRA and Ministry of Energy (Petroleum Division).

7.2. The Policy shall supersede all previous refining policies. However, if a contractual commitment made by the Government of Pakistan to any refinery is already in place, then the same shall supersede any conflicting provision in this Policy until the validity of such contractual commitment.

7.3. The existing relevant laws and the regulatory framework shall be amended by the relevant government bodies and authorities (if required) to reflect and implement this Policy.

8. DEFINITIONS

1. **“Cure Period”** means the time period granted to refinery by OGRA to remedy the refinery’s lapse on committed milestone.
2. **“Deep Conversion Refineries”** means Refineries that are equipped with a cracking facility, wherein furnace oil is converted/minimized to produce more Petrol and Diesel.
3. **“Deregulation**” means the pricing regime where refineries are free to set their own price on market competitive basis.
4. “**Environment**” means the Environment as defined under the Pakistan Environmental Protection Act, 1997 (XXXIV of 1997)
5. **“Ex-Refinery Price”** means the price at which Refineries offer Petroleum Products to its customers at refinery gate, based on the pricing mechanism, as approved by the government from time to time.
6. “**Existing refinery/ Brownfield Refinery**” means existing refineries already operating under a license issued by OGRA.
7. “**External Auditor**” means the external audit firm amongst one of the audit firms namely PricewaterhouseCoopers, Deloitte, KPMG and Ernest & Young.
8. **“Joint Escrow Account**” as mentioned in Section 6 of this Policy.
9. **“Financial Close”** shall means the date when all financing agreements have been executed and final investment decision has been made by the refineries for its upgrade project.
10. **“Fiscal Incentive”** bears the meaning as mentioned in Section 6 of the Policy.
11. **“Government Bodies”** means any national agency, authority, departments, inspectorate, ministry, court, tribunal, either public or statutory.
12. **“Hydro Skimming Refinery”** means the refinery equipped with atmospheric distillation, naphtha reforming and necessary treating processes.
13. “**IFEM**” means Inland Freight Equalization Margin duly worked out by OGRA for keeping uniform prices across the country under relevant Rules and policy guidelines issued by Federal Government from time to time.
14. “**License**” means a license granted under Oil and Gas Regulatory Authority Ordinance, 2002 (XVII of 2002) and the rules made thereunder.
15. “**MEPD**” means Ministry of Energy (Petroleum Division)

16. **“Mild Conversion Refinery”** means a refinery equipped with atmospheric and vacuum distillation, naphtha reforming and vacuum gas oil mild hydrocracker.
17. “**New Refinery/ Greenfield Refinery**” means a brand new deep conversion refinery whose selection of equipment, technology and process must be that of a deep conversion refinery which maximizes production of white products including Diesel & Motor Gasoline by minimizing or eliminating the production of Furnace Oil.
18. **“OGRA”** means Oil and Gas Regulatory Authority as defined under the Oil and Gas Regulatory Authority Ordinance, 2002 (XVII of 2002)
19. **“Incremental Incentive”** means as defined in clause 6.1.2.2 of this Policy.
20. “**Oil Marketing Company**” means the Oil Marketing Company as defined under the Oil and Gas Regulatory Authority Ordinance, 2002 (XVII of 2002) and the rules made thereunder.
21. “**Ordinance**” means the Oil and Gas Regulatory Authority Ordinance, 2002 (XVII of 2002)
22. “P**etroleum Products**” means the petroleum products specified under Schedule-III of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016.
23. **“Platts”** means daily market Price Report of crude oil and related petroleum products traded in different markets including Arab Gulf energy market, presently published by S&P Global.
24. **“Policy**” means Pakistan Oil Refining Policy 2023 for upgradation of Existing Refineries, already operating under a license issued by OGRA.
25. “**Pricing Mechanism**” means the prevailing pricing mechanism for the regulated and semi-regulated petroleum products as defined by the Federal Government at the time of promulgation of this policy with subsequent amendments by the government from time to time for the fixation of ex-refinery or ex-depot sales price. The prices of fully de-regulated petroleum products are determined by the OMCs and Refineries at their own under market forces.
26. **“Product Slate”** means petroleum products being produced by the respective refinery.
27. “**Refinery**” means the Refinery as defined under the Oil and Gas Regulatory Authority Ordinance, 2002 (XVII of 2002) and the rules made thereunder.
28. “R**efining**” as defined under Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016.

29. “**Rules**” means the Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016 as well as Petroleum Products (Petroleum Levy) Rules, 1967 Rules framed under Petroleum Products (Petroleum Levy) Ordinance, 1961.
30. “**SBP**” means The State Bank of Pakistan as defined under The State Bank of Pakistan Act, 1956 (XXXIII of 1956)
31. “**Specifications**” as defined under Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016 and notified by MEPD from time to time.
32. “**Storage**” as defined under Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016.
33. “**Substandard petroleum product**” as defined under Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016.
34. “**Tariff Protection**”: The applicable custom duty duly charged by Custom authority at import stage on petroleum products which local refineries are allowed to apply and retain in the ex-refinery prices of petroleum products for the sustainability (7.5% on HSD) and up-gradation of refineries (2.5% on HSD and 10% on MS) as mentioned in section 6.1.2 of this Policy.
35. “**Technical Standards**” as defined under Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016.
36. “**Upgrade Project**” means projects to **upgrade/modernize/expand the** existing refineries to produce environment friendly fuels of minimum Specifications to be notified by Petroleum Division, maximize production of Motor Gasoline (Petrol) and Diesel and reduction of Furnace Oil.
37. “Upgrade Agreement” means as defined in clause 6.1.3.1
38. **“Waiver”** as referred at clause 6.1.3.5 of the Policy.

All other words and expressions used but not defined in this policy shall have the same meanings as are assigned to them in Oil and Gas Regulatory Authority Ordinance, 2002 (XVII of 2002) and rules made thereunder.

DISCLAIMER

The data and information contained in the Policy has been obtained from various sources which is correct to best of understanding of MEPD. However, MEPD would urge person/ investors to carryout independent due diligence prior using the data given in the Policy.

List of abbreviations

AABU	Asphalt Air Blowing Unit
BPD	Barrels per day
FOB	Freight on Board
FO	Furnace Oil / Fuel Oil
FY	Fiscal Year
GDP	Gross Domestic Product
GOP	Government of Pakistan
LPG	Liquefied Petroleum Gas
MEPD	Ministry of Energy Petroleum Division
MT	Metric Tons
OGRA	Oil & Gas Regulatory Authority
OMC	Oil Marketing Company
SBP	State Bank of Pakistan

Ministry of Energy (Petroleum Division)
Government of Pakistan
Pak Secretariat, Block A,
Islamabad.
Ph: +92(51)9211220
Fax: +92(51)9103998
Email: secretary@mpnr.gov.pk
Website: https://petroleum.gov.pk