Government of Pakistan
Ministry of Petroleum and Natural Resources

PETROLEUM POLICY

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Though the first well in the territory now constituting Pakistan was drilled as far back as 1866 and the first commercial discovery was made (at Khaur near Rawalpindi) almost eighty years ago, the production of oil at the time of independence was no more than 1500 barrels a day from four fields all in the Potwar region. The oil was refined in Attock Oil's refinery at Rawalpindi which also owned the wells. The remaining requirement of petroleum products which in 1947 stood at a meagre 7500 barrels was imported.

2. To promote and regulate exploration, the Petroleum Production Rules were promulgated in 1949. In the same year Pakistan Oilfields Ltd (POL) was established as a subsidiary of Attock Oil in which 30% shares were held by the government. In 1950 yet another company Pakistan Petroleum Ltd (PPL) was incorporated inheriting the assets and activities of Burmah Oil Company. PPL discovered the country's first, and still the biggest, gas field at Sui in 1952. For the purification and distribution of gas, Sui Gas Transmission Company (SGTC) was incorporated in 1954 and Sui Northern Gas Company Limited (SNGPL) in 1963.

3. To reduce the import of products two refineries were established in Karachi, one going into production in 1962 and the second in 1966. In 1974, one of the two refineries (National) and the locally owned marketing companies were nationalised leading to the formation of Pakistan State Oil (PSO) which in 1977 also purchased Esso. PSO is now the largest commercial organisation of the country claiming three-fourths share in the distribution of petroleum products. The rest is shared between PBS and Caltex. The State Petroleum Refining and Petrochemical Corporation was also set up in 1974 to develop refining and petrochemical industries in the public sector. Yet another organization in the public sector, Pak-Arab Refinery Limited (PARCO) with 40% equity holding by ADNOC of Abu Dhabi, was formed in 1974 which, since 1981, is operating a pipeline for transporting petroleum products from Karachi to Multan. To extend support to the exploration and refining effort, a research organisation called the Hydrocarbon Development Institute of Pakistan (HDIP) was established in 1975.

4. The spectacular Sui discovery attracted five foreign companies — Stanvac, Hunt, Shell, Sun and Tidewater — to invest in exploration. They drilled 45 wells but made only one worthwhile discovery of gas at Mari-Sindh (by Stanvac) which, though large in size, was low in quality and suited to fertilizer production to which it is now almost wholly dedicated. To give impetus to exploration, the government established in 1961 its own Oil and Gas Development Corporation (OGDC) with Soviet assistance. OGDC made its first oil discovery at Toot in Potwar in 1968. Eight years later it struck gas/condensate at Dhodak which is only now being developed.

5. The discovery of oil at Khaskheli in 1981 in lower Sindh by Union Texas constitutes a watershed in petroleum exploration in the country. It negated the commonly held belief that oil in Pakistan was confined to Potwar region. Khaskheli was the tenth oilfield found in Pakistan in 70 years. In the following 10 years 30 more fields were found.

6. OGDC found gas/condensate at Dakhni in 1983. In the following year Occidental (OXY)

discovered the largest oilfield of Pakistan at Dhurnal rejuvenating the interest of explorers in Potwar region.

7. In 1988 exploration was planned with a liberal bias. Forty-three blocks were offered to international companies for competitive bidding. Twenty-four bids were received for 12 blocks. Nine have since been awarded. In all, 54 exploration licences are now held by 23 companies, 22 of them by OGDC.

8. The country now produces some 65,000 barrels of oil and 1.5 billion cubic feet of gas per day saving around Rs 50 billion ($ 2 billion) a year in foreign exchange. Another 64 million barrels of crude oil and products are imported costing (in 1990- 91) Rs 45 billion ($ 1.8 billion).

9. The exploration efforts have been dogged by bad luck and a government policy which did not provide either adequate incentives or infrastructure for sustained investment. The silver lining in this gloomy picture is provided in the earlier years by the discovery of Sui and in the last decade by the oilfields, small though, in lower Sindh.

10. The liberal and forthright attitude of the present government both in handling the affairs of OGDC and in dealings with foreign prospectors and producers has resulted in the award of 23 concessions since October, 1990.

11. Presently, a little more than one-fourth of oil consumption in the country is met through domestic production. In gas the picture in much brighter. In the national energy consumption pattern, gas with a share of 35% is catching up with oil (45%).

12. The intention in declaring this policy is to let the explorers, producers, refiners and traders worldwide know the rules and procedures which would henceforth govern the hydrocarbon sector. The basic principles underlying the policy are to:

(i) Produce and procure enough oil and gas to sustain the planned economic rate of growth.

(ii) Step up exploration and development of indigenous oil and gas resources.

(iii) Mobilise domestic and external financial and technical resources from private and public sectors, especially the former, for the development of petroleum exploration, refining, import, export, storage, distribution and marketing.

(iv) Replace oil even by bulk import of gas but so to fix the quantity imported as not to dampen the indigenous exploration efforts.

(v) Strengthen the research, technical and administrative capabilities of the government agencies responsible for making policies and their effective implementation.

(vi) Progressively free the petroleum industry and trade from government controls.

(vii) Create a competitive environment for giving the best deal to the consumer in price and quality.

(viii) Promote measures for protection of the environment especially by reduction of lead in motor spirit and use of CNG in vehicles.

13. The measures specific to various segments of the oil and gas sector for achieving these policy objectives are spelled out below.

EXPLORATION AND DEVELOPMENT

14. (i) All applications for exploration licences will be decided within three months. The applications disputed or contested may take up to six months to decide but no more.

(ii) Expeditious and equitable disposal of applications will be ensured through a standing committee in the Ministry of Petroleum and Natural Resources on which all the concerned Federal and Provincial organisations will be represented.

(iii) The standing practice of the government (or OGDC on its behalf) sharing in every concession agreement 5% of the exploration cost and acquiring 50% share in development and production after commercial discovery would be replaced by negotiations or competitive bidding, if there be more than one applicant, to determine these shares or to adopt any other suitable formula like production-sharing.

(iv) Local companies would be induced to invest with the foreign companies and OGDC in exploration.

(v) The foreign exchange requirements of exploration companies who are paid for their share of oil/gas in local currency will be fully met by the government.

(vi) The present system under which no duty is levied on machinery and equipment imported by companies at the exploration stage, 5-1/4% at the development stage (two to five years) and normal rates thereafter would be replaced by a uniform rate of 5-1/4% at all stages. The import of the following equipment however would be allowed without duty:

a) Drilling rigs.
b) Logging trucks.
c) Seismic equipment.
d) Well cementation equipment.
e) Snubbing units.
f) All equipment for exploration, development and production off-shore.

The equipment imported for enhanced oil recovery will also be subject to the same concessionary rate of duty.

Locally manufactured machinery and equipment used by the exploration companies will be entitled to all such benefits as are admissible on its export.

(vii) The price of non-associated gas is currently determined at 66% of the border price of fuel oil less negotiated discount. To attract companies to explore for gas in new areas, it would now be fixed at 75% of fuel oil price less such discounts as may be negotiated at the time of signing the concession agreement and not on commercial discovery as is the present practice.

(viii) The price of LPG will be, in stages, linked to its international price with appropriate discount to encourage its local production.

(ix) The associated gas currently priced at a fixed rate of Rs 5 per Mcft will be priced at 66% of the fuel oil price less discounts based on a declared formula provided there is no flaring beyond the quantity authorised for reservoir study.

(x) The current practice of relating the oil price to the price of comparable Middle East crude less a discount negotiated at the time of signing the concession agreement keeping in view the prospects of the areas and size of investment will continue. There will be no discount on off-shore production.

(xi) The current practice of accepting a commercial discovery on the basis of the first exploration well followed by two appraisal wells to determine the extent of the reservoir will be changed, and the declaration of commerciality could be accepted even on the basis of one well.

(xii) The gas producing companies will be assured a market outlet within a reasonable time (upto four years) of commercial discovery. If indication of an outlet is not given by the government within 6 months of the declaration of commercial discovery the producer would be free to use it for power generation, fertilizer production or any other industrial or commercial purpose.

(xiii) To encourage drilling off-shore, the associated and non-associated gas from such fields will be priced at par with fuel oil.

(xiv) The companies would be required to undertake optimal development of oil and gas fields for maximum recovery.

(xv) Incentive orientated regulations will be prescribed for exploration and recovery from deeper horizons.

(xvi) A comprehensive data base will be developed for the use of exploration companies. The confidentiality rules will be amended to bring it in line with the international practice.

(xvii) The model concession agreement will be reviewed at suitable intervals in consultation with the explorers/producers.

(xviii) The pre-shipment inspection of machinery will be discontinued.

(xix) Security of personnel and equipment in the fields will be assured through a special force.

(xx) OGDC will be placed wholly on commercial footing and treated at par with private companies.

(xxi) For off-shore production the rate of income tax, bonuses and government's share would be lower by 5% than on-shore production.

OIL REFINING

15. Oil refining has stagnated around 140,000 barrels/day because of the nationalisation policy of 1972 and government control on prices and marketing of products. Expansion and modernisation of the refining sector is imperative to meet the current demand of 250,000 barrels/day growing at 7 to 8% annually. Inadequate and inefficient refining hampers exploration and production as well as marketing. In order to attract private investment in the development of refining centres (on the coast, in the middle and north of the country) the following policy changes will be made:

(i) No permission would be required for setting up new refineries or expanding existing ones.

(ii) New marketing companies linked with investment in production and refining would be allowed at the zonal and national levels subject to a firm irrevocable commitment to develop infrastructure (pipelines, storages, distribution) particularly in remote areas.

(iii) Debt equity ratio for refineries would be 80 : 20 instead of 70 : 30.

(iv) The pricing formula for refineries will be based on import parity prices. Local crude will be supplied at import parity price at the refinery gate. Inland freight for products will be added for upcountry refineries based on imported crude.

(v) The existing refineries will be allowed up to five years to increase capacity and modernise processes to switch over to international prices.

(vi) Refineries may import crude, after lifting the local crude allocated, from sources of their choice at prices not higher than those negotiated in government-to-government deals.

(vii) Foreign exchange for the import of crude will be provided by the government.

(viii) Concessionary import tariff will be prescribed for refining equipment not manufactured locally.

(ix) Refineries will be free to sell their products to any marketing company.

(x) Foreign investors in refining whether on their own or in association with the local investors would enjoy the benefits of the Private Investment (Promotion and Protection) Act, 1976.

LUBES

16. (i) Lube products will be freed from price control.

(ii) No permission will be required for establishing lube, grease, and wax plants subject to registration for quality check.

(iii) The investors will be free to procure raw materials from local or foreign sources.

(iv) The used lubricating oils will be sold only to registered reclamation plants operating on the prescribed guidelines.

(v) As a consequence to the deregulation of investment and prices, quality standards will be enforced through checks and each plant will be required to establish adequate testing facilities.

MARKETING AND DISTRIBUTION

17. A free marketing environment will be created with due regard to quality and reasonable prices for the consumers. The measures intended towards this end are:

(i) The prices of products will be fixed ex-depot at various places in the country instead of ex-retail outlet to encourage development of regional storage, reduce "dumping" and to ensure a return to the marketing companies and petrol pump dealers related to their investment.

(ii) Development of retail outlets will be left to the marketing companies subject to environment and safety rules.

(iii) The commission of the marketing company and dealer will be excluded from the notified prices and instead given to the former as a percentage of the selling price. The dealer's commission will be left to be determined by the marketing company.

(iv) The private sector will be given incentives to invest in infrastructure like pipelines (including common carriers), storages, and distribution / handling facilities.

(v) Marketing companies may import POL products after lifting the local products.

(vi) Stringent laws will be enacted to check adulteration and to enforce quality.

(vii) The use of imported fuel oil in power generation and in other industry will be replaced by gas imported through pipeline in a quantity and at a price (lower than fuel oil) which does not discourage the exploration and development of gas in the country.

(viii) Private sector may obtain gas from the trunk mains for distribution in specified areas or for specified purposes like power generation and fertilizer manufacture.

(ix) Import of LPG will be allowed free of duty, sales tax and surcharges for use as household fuel.

RESEARCH AND DEVELOPMENT

18. To enforce this policy the monitoring, research and development capabilities of Directorate General of Petroleum Concessions, Hydrocarbon Development Institute of Pakistan, Geological Survey of Pakistan, Oil and Gas Training Institute, universities and other institutions will be strengthened by utilizing the technical assistance provided by the oil-producing companies under concession agreements. A cess, say one percent, on domestic production of oil and gas may also be earmarked for this purpose in addition to the normal budgetary allocation.

USE OF CNG IN TRANSPORT

19. The use of CNG in vehicles replacing petrol and diesel will be commercialised through the oil marketing companies, Hydrocarbon Development Institute of Pakistan and others. No duty, sales tax or surcharges will be levied on equipment imported for compression and refuelling of natural gas and for conversion of vehicles.

NEW AND RENEWABLE SOURCES OF ENERGY

20. The integration of new and renewable sources into the energy sector in any country whether industrialized or developing is a slow process. About 85% of the energy needs of the rural areas in the country are met by "non-commercial" sources. The remaining 15% is met by kerosene, diesel oil and electricity. The use of biomass in Pakistan has advanced to a point where severe damage is being done to the forest resources. Radical measures are needed for adopting renewable technology to reduce dependence on imported oil and yet improve the living conditions of rural population without degrading the environment. The measures planned are:

(i) Instal renewable energy systems which are easy to operate and maintain.

(ii) Integrate renewable energy technology systems with rural development programmes.

(iii) Subsidise the renewable energy technology systems to the same extent as conventional fuels.

(iv) Encourage investment in the systems under a leasing programme.

(v) Allow import of equipment free of duty till manufactured locally.

ENERGY CONSERVATION

21. The import of all equipment, not manufactured locally and needed for conservation of energy will be free of duty.

CONSULTATIONS

22. A standing panel of experts will be constituted to advise the government on important policy and operational issues relating to the exploration and development of oil and gas resources.

SAFETY

23. A standing task force will be established to oversee and coordinate safety hazards at the oil/gas fields and installations.

WELFARE

24. The companies in consultation with the Ministry of Petroleum and Natural Resources will contribute towards the:

(i) Development of roads, water supply, health and educational facilities in the areas of their operation.

(ii) Eradication of illiteracy in the country.

(iii) Rehabilitation of the mentally retarded and handicapped children.

(iv) Promotion of sports.

(v) Fight against narcotics.

25. The existing laws and rules will be amended to reflect the policy changes.

26. The Government of Pakistan expects prompt and large investment in the petroleum sector, especially in exploration, in response to these measures.