



# PETROLEUM POLICY 1994

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**GOVERNMENT OF PAKISTAN**  
**Ministry of Petroleum & Natural Resources**

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# 1 - INTRODUCTION

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*Pakistan's indigenous supply of oil of around 60,000 barrels per day satisfies about one fourth of the country's current oil requirements and the balance requirements are met through imports at a heavy cost of US\$ 1.5 billion. This cost will continue to increase unless the current decline in production is reversed. At the same time the demand for natural gas is outstripping supply due to increased domestic, industrial and power generation requirements. Even if the heavy cost of imports can be met, Pakistan lacks the necessary infrastructure to handle the increasing oil and gas requirements. Heavy investment is required to augment this infrastructure. There is thus an imperative need to attract private sector investment to this area of the economy, thereby allowing the Government to commit additional funds to the social sectors. The international investment climate is highly competitive. Therefore, halfhearted measures to attract investment are not likely to succeed.*

*Being cognisant of the significance of the energy sector and the vital role that it plays in industrialization and the growth of the agricultural sector, one of the first steps taken by Prime Minister Mohtarma Benazir Bhutto on assumption of office was to establish a Task Force on Energy with the defined objectives of framing a new energy policy, evolving a strategy for the elimination of load shedding, mobilization of resources, promoting private sector investment - domestic and foreign, and enhancing indigenous oil and gas production. The Task Force in its Report to the Government proposed major liberalisation of the Petroleum Sector from Government control through increased incentives, improved procedures and regulatory framework and transparency in operations.*

*Based on the recommendations of the Task Force, the Government hereby announces the new Petroleum Policy which for the first time forms part of an integrated energy plan and besides being more radical and liberal it offers major incentives in the upstream and downstream petroleum sectors.*

## **2 - EXPLORATION AND PRODUCTION SECTOR**

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### **2.1 PROCEDURAL AND REGULATORY MEASURES**

#### **2.1.1 *Expeditious Disposal of Applications***

- a. Procedures for security clearances by Provincial Governments and security agencies (Defence, Interior, IB, ISI, etc.) shall be streamlined through a "Green Area Map". No area clearance would be required for concession blocks falling inside the green areas.
- b. It has been decided to introduce a new Block Award Process through competitive bidding for the Work Programme, thereby introducing transparency and minimizing discretion (Annexure I). However, Exploration and Production (E & P) companies which have bid through the Licencing round or have otherwise applied for a Block before the introduction of this Policy, but have not yet signed a Petroleum Concession Agreement (PCA) will be provided an opportunity to either accept the terms already offered/negotiated or the new Policy as a package. The Government of Pakistan (GOP) retains the right to award any Block on a Government to Government basis without following the bidding process.
- c. Once a new Model PCA/Production Sharing Agreement is in place, the negotiated draft agreement based on the Model and the defined economic package, will not be circulated for concurrence of the Ministries /Departments of the GOP and will be submitted to the Minister for Petroleum and Natural Resources for final approval. Where the negotiated draft substantially deviates from the Model Agreement and the defined economic package, the prior consultation of the concerned Ministries/Departments would be required before submission of the draft Agreement to ECC. In such cases the Ministries/Departments shall give their clearance or otherwise within a period not exceeding 15 days after which their approval shall be assumed.
- d. All applications for Exploration Licences will be decided within 60 days. Applications which are contested may take upto 120 days but no more.
- e. It has been decided to create a negotiation cell in the Directorate General Petroleum Concessions (DGPC) for expeditious disposal of applications in accordance with the aforesaid deadlines (Annexure II).

### *2.1.2 Operations in Balochistan and Tribal Areas*

- a. A high level committee will be formed to review operational and security problems in Balochistan and the Tribal Areas of NWFP. This committee shall submit its recommendations in consultation with the Provincial Governments and other parties concerned within 4 months.
- b. Oil and Gas installations in Balochistan and the Tribal Areas shall be exempted from the application of Industrial Relations Ordinance, 1969.
- c. The law and order situation in and around the producing fields in Balochistan will be improved for sustaining optimum production.

### *2.1.3 Holding Company*

A new 100% GOP owned Holding Company as outlined in Annexure-III is proposed to be formed after the carrying out of a detailed study to separate GOP's ownership and regulatory functions. The GOP participation in joint ventures will be handled through this Holding Company. Pending formation of such a company the GOP's investment in joint ventures will continue to be handled by the Ministry of Petroleum and Natural Resources.

### *2.1.4 Autonomy to Oil & Gas Development Corporation (OGDC)*

OGDC will be restructured on commercial lines and its Board of Directors strengthened, to allow it complete autonomy and authority in all administrative, operational and financial matters. As a first step OGDC will be converted into a joint stock company by June 30th, 1995 after necessary amendments to the OGDC Ordinance. The GOP will restructure its investments in OGDC to make it a viable joint stock company.

### *2.1.5 Incentives for Local E&P Companies*

There is a need to develop a strong indigenous base in exploration and production activities so that the exploratory effort is sustained at a reasonable level during periods in which foreign investment is minimal. Therefore, the following incentives are being provided to local E&P companies:

- a. A local E&P company investing a minimum of 5% during exploration phase will be assigned an additional share out of the GOP's Working Interest after Commercial Discovery. Provided, however, that if two or more local E&P companies participate in a joint venture, then the GOP will assign a maximum of 5% out of its Working Interest to such companies on a pro-rata basis. However, such E&P companies should neither be affiliated, associated, holding or subsidiary companies of each other. Except for this and other incentives mentioned in this Policy, local and foreign E&P companies will be treated equally.



- b. Local E&P companies will, on a case to case basis, be entitled during the exploration phase to receive foreign exchange against payment in Rupees to meet their day to day obligations under Permits, Licences and PCAs. After Commercial Discovery, local E&P companies would be paid upto 30% of their sale proceeds in foreign currency to meet their day to day operational requirements. For project financing after Commercial Discovery, local E&P companies will be required to make their own foreign exchange arrangements.

#### 2.1.6 *Gas Allocation*

The GOP will decide within 3 months of Commercial Declaration in Zone 3 to allocate gas to specified buyers (gas companies/individual consumers like power/fertilizer). Thereafter the gas producer and the specified buyer will enter into an agreement within 6 months specifying the time frame for the sale/purchase of gas on a "take or pay" basis. If no allocation of gas is made by the GOP within 6 months of Commercial Declaration or no agreement is reached as specified above, the producers will be free to dispose of the gas as they wish. In the case of gas production from Zones 1 and 2 the producers will be free to dispose of the gas as they wish.

#### 2.1.7 *Improvement of Prospectivity*

In addition to the exploratory effort envisaged through the private sector, the GOP has also devised an approach for acceleration of oil and gas exploration including specific budgetary allocations for basin studies, geological/geochemical studies, seismic surveys etc. in order to achieve a break-through success in prospectivity and to improve the data bank. The GOP would institute the forementioned programmes directly, on a multi client basis, through OGDC or through service contractors. A minimum percentage of OGDC's profit would be dedicated to exploration and the Provinces would be encouraged to allocate a portion of their royalty and development surcharge proceeds for exploration activities.

#### 2.1.8 *Miscellaneous Matters*

- a. DGPC is authorized to allow export of data for primary processing.
- b. The requirement for security clearance of expatriates is discontinued and security clearance will be done at the time of issuance of visas.
- c. Commercial Declaration of a Discovery can be accepted even on the basis of one well, subject to justification, current rules and regulations.
- d. Steps will be taken to streamline the procedure for land acquisition by E&P companies. A working group comprising representatives from the GOP, the concerned Provincial Governments and the Industry shall be formed to review the procedures and submit recommendations to the Cabinet within 6 months (see Annexure IV).

## 2.2 ECONOMIC TERMS

The Economic Package has been defined and fixed for three defined geological Zones determined on the basis of prospectivity and corresponding financial and economic parameters. The Zones are shown in Annexure V. The economic package will be reviewed from time to time in the light of additional information and may be subsequently adjusted to maintain international competitiveness.

### 2.2.1 *GOP Working Interest (Pre and Post Commercial Discovery)*

All PCAs' will provide for a 5% carry for the GOP during the exploration phase. The expenditure incurred will be reimbursed by the GOP in installments from Commercial Discovery from production over a 5 year period. The level of GOP Working Interest in each Commercial Discovery in each Zone will be as under:

Zone-1 (High Risk/High Cost).....	15%
Zone-2 (Medium Risk/High Cost).....	20%
Zone-3 (Medium Risk/Low to High Cost).....	25%

### 2.2.2 *Producer Pricing*

- a. **Oil:** The price for Crude Oil delivered at the refinery gate shall be based on the C&F price of a comparable crude oil or a basket of Arabian/Persian Gulf Crude Oils plus or minus a quality differential between the basket and the local crude. No other adjustment or discount will apply.
- b. **Condensate:** The price for Condensate will be the FOB price of internationally quoted comparable Condensate. No other adjustment or discount will apply.
- c. **Non-Associated Gas:** The price for Non-Associated Gas will be indexed to the C&F price of a basket of imported Arabian/Persian Gulf Crude Oils as follows:

Zone-1 .....	77-1/2%
Zone-2 .....	72-1/2%
Zone-3 .....	67-1/2%
- d. **Associated Gas:** The price for Associated Gas shall be equal to the price of Non-Associated Gas as applicable to each Zone for acceptable gas specifications.
- e. **Liquefied Petroleum Gas:** The current LPG producers will be given incentive for incremental production over currently committed levels, which come on stream after the announcement of this Policy, through a higher price (FOB) subject to a maximum of US\$ 175 per metric ton. For new projects, C&F parity prices, based on proper port off-loading facilities, will be allowed.

- f. **Fixed Return Formulae:** Application of fixed return formulae to the industry will be progressively changed to market related formulae. A study to review and determine the implications and modalities of this change will be undertaken and completed by December 31, 1995.

2.2.3 *Import Duties, Fees and Income Tax*

- a. Incentives in respect of Import Duties, Licence/Authorisation Fees and Income Tax are set out in Annexure VI.

2.2.4 *Production Bonuses*

- a. Production bonuses for all Zones will be payable on a Concession Area basis, as under:

<u>AMOUNT, US\$MM</u>	<u>CUMULATIVE PRODUCTION (MMBOE)</u>
0.5	On Commencement of Commercial Production
1.0	30
1.5	60
3.0	80
5.0	100

- b. Local E&P companies will pay their share of Production Bonuses in Pakistan Rupees.
- c. As long as the GOP is OGDC's majority shareholder, OGDC will not be subject to Production Bonuses.
- d. Production Bonuses will be expended on infrastructural development in and around the Concession Areas.

2.2.5 *Incentives for Deeper Drilling*

For existing Lease areas, if an E&P company discovers hydrocarbons below the deepest known producing horizon, such company shall be entitled to the price formula applicable to the respective Zone under this Policy for the hydrocarbons produced from the deeper horizon.

2.2.6 *Local Employment, Training and Social Welfare*

*Local employment, training and social welfare schemes will apply as per Annexure VII.*

## 2.3 APPLICABILITY

- a. The incentives pertaining to the GOP's Working Interest after Commercial Discovery shall be applicable to E&P companies who sign PCAs after the announcement of this Policy.
- b. The incentives given in respect of import duties and fees shall be applicable to all E&P companies holding Permits, Licences, Leases or those who sign PCAs on or after January 1, 1994.
- c. The remaining upstream incentives given in this Policy shall be applicable to E&P companies who sign PCAs after the announcement of this Policy as well as to "new exploratory efforts".

To give effect to the aforesaid incentives, supplemental agreements will be entered into between the GOP and eligible companies who are willing to accept the terms of this Policy as set out in (b) and (c) above as a package.

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**Note:** The term "new exploratory efforts" means Exploration Wells spudded after January 1, 1994.

## 3 - OIL REFINING AND LUBES

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### 3.1 REFINERIES

In order to attract private investment for the development of refining centres (on the coast, in the middle and north of the country) the following incentives are offered:

- a. No permission will be required for setting up new refineries or expanding existing ones.
- b. The debt equity ratio for refineries will be 80 : 20 instead of 70 : 30.
- c.
  - (i) The pricing for new refineries will be based on the import parity formula as set out in Annexure VIII.
  - (ii) Prevalent inland freight for products will be added for upcountry refineries based on imported crude oil.
  - (iii) New refineries based on indigenous crude or offering a definite logistic advantage will be ensured a minimum rate of return of 25% on the paid up capital net of tax for eight years if set up by the year 2000.
- d.
  - (i) 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.
  - (ii) Other income earned from non-refinery operations can be retained by the refineries.
- e. Refineries may import crude oil, after lifting the allocated local crude oil, from sources of their choice at prices not higher than those negotiated in Government-to-Government deals.
- f. Foreign exchange for the import as well as purchase of local crude oil from foreign oil producing companies will be provided by the GOP.
- (g) Incentives in respect of Import Duties, Licence/Authorisation fees are set in Annexure VI.
- (h) Refineries will be free to sell their products to any marketing company.

### 3.2 LUBES

- a. Lube products will remain free from price control.
- b. No permission will be required for establishing lube, grease, and wax plants subject to registration for quality check.
- c. Investors will be free to procure raw materials from local or foreign sources.
- d. Used lubricating oils will be sold only to registered reclamation plants operating in accordance with the prescribed guidelines.
- e. Consequent to the deregulation of investment and prices, quality standards will be enforced through checks and all plants will be required to establish adequate testing facilities.

## **4 - OIL MARKETING AND DISTRIBUTION**

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A free marketing environment will be gradually created after giving due regard to quality and reasonable prices for consumers. The policy measures intended towards this end are:

### **4.1 MARKETING COMPANIES' MARGINS AND DEALERS' COMMISSION**

The commission of the marketing companies 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 measuring, adulteration and other malpractices.*

### **4.2 RETAIL OUTLETS**

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

### **4.3 CONVERSION FACTORS**

The present anomaly in conversion factors for petroleum products will be removed as early as possible but not later than June 30, 1994.

### **4.4 NEW OIL MARKETING COMPANIES**

New oil marketing companies in the private sector will be allowed provided suitable agreements are executed with the Ministry of Petroleum and Natural Resources to cover inter alia the development of infrastructure (pipelines, storage, distribution facilities etc.).

## **5 - INFRASTRUCTURE DEVELOPMENT**

### **5.1 PIPELINES AND STORAGE DEVELOPMENT ETC.**

The following incentives are hereby given for an initial period of 10 years for investments in new oil pipelines (including common carriers, storages and distributions/handling facilities). These incentives will help in taking traffic away from the roads towards cheaper and more efficient modes of transportation and will reduce freight pool expenditures:

- a. The pipeline tariff for new white oil pipeline projects completed before the year 2000 will be allowed at 100% of the Railway tariff. The pipeline tariff for new black oil pipeline projects will be allowed to generate a 25% rate of return on paid up capital in excess of railway freight (i.e. adjustment will be made if railway freight does not generate a 25% return). This incentive will be valid for projects completed within the next 5 years.
- b. Incentives in respect of Import Duties, Licence/Authorisation Fees and Income Tax are set out in Annexure VI.
- c. A storage surcharge of Rs.0.10 per litre will be imposed on POL products for construction of strategic storages through NLC or marketing companies for a 45 days cover by the year 2000.
- d. The GOP will provide guidelines on approximate routes of pipelines to cater for major consumption centres and will extend all possible support in acquisition of rights of way.
- e. The GOP will ensure that necessary minimum volume commitment is provided by marketing companies, refineries or other agencies to new investors in pipelines.
- f. To encourage storage development in the private sector, oil marketing companies will be free to utilise private sector facilities at a mutually agreed rental, to be met out of their marketing margins, to ensure a reasonable return of 25% on investment net of tax.

### **5.2 QUALITY CONTROL**

Stringent laws will be enacted to check adulteration and to enforce quality of products and appliances.

### **5.3 FLOATING STORAGE/OFFSHORE TERMINAL**

The development of floating storages at Karachi port will be encouraged in addition to the new Offshore SBM/SPM terminal at Khalifa point.



## **6 - NATURAL GAS/LPG/CNG**

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### **6.1 NATURAL GAS IMPORTS**

In view of the depletion of existing fields, the import of Natural Gas would be inevitable and the GOP will encourage the import of Natural Gas. A separate cell will be set up in the Directorate General, Gas to handle all matters concerning gas imports.

### **6.2 SALE OF NATURAL GAS TO THE PRIVATE SECTOR**

After appropriate regulatory framework is in place and subject to availability of gas, the private sector may obtain gas from trunk mains for distribution in specific areas or for specified purposes like power generation and fertilizer. For this purpose, a bulk purchase price formula will be announced for sales of gas to private distributors.

### **6.3 NATURAL GAS ALLOCATION FOR MANUFACTURING INDUSTRIES**

Manufacturing industries having continuous operations like glass, textile, ceramics, pharmaceutical etc. will, after existing commitments are met, be given priority for gas allocation over power generation to enable them to operate around the year.

### **6.4 NATURAL GAS CONSUMER PRICE**

The consumer price of Natural Gas will be suitably and gradually adjusted so that the transmission and distribution system of gas to existing and new consumers can be expanded.

### **6.5 LIQUEFIED PETROLEUM GAS**

Incentives in respect of Import Duties, Licence/Authorisation Fees are set out in Annexure VI.

### **6.6 COMPRESSED NATURAL GAS**

The use of CNG in vehicles will be commercialized. In addition the industrial gas tariff will apply for conversion to CNG and will only be revised if there is a change in the consumer price of motor gasoline. The existing price differential between industrial gas tariff and motor gasoline will be maintained as an incentive for CNG use. Incentives in respect of Import Duties, Licence/Authorisation Fees and Income Tax are set in Annexure VI.

## **7 - MISCELLANEOUS**

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### **7.1 ENERGY CONSERVATION, ENVIRONMENT AND SAFETY CONTROL**

- a. Incentives in respect of Import Duties, Licence/Authorisation Fees are set out in Annexure VI.
- b. New environmental and safety regulations shall be applicable to all companies.
- c. A standing task force will be established to oversee and coordinate safety hazards at the oil/gas fields and other oil and gas installations.

### **7.2 CONTINGENCY PLANS**

In view of the petroleum sector's lack of flexibility to adjust to crises situation due to infrastructural constraints, alternative plans/fall back positions will be formulated. A study will be undertaken to conceive all possible adverse situations the petroleum sector may face and to formulate appropriate contingency plans for all key sectors like refining, storage, transportation and distribution etc. These plans will be integrated to provide necessary alternatives to the GOP.

### **7.3 DATABASE**

A reliable and comprehensive upstream and downstream data base will be established in the Ministry of Petroleum and Natural Resources to undertake quantitative analysis and to simulate real life problems and to answer "what if" questions.

### **7.4 PROTECTION OF INVESTMENT**

Foreign investors whether on their own or in association with the local investors will enjoy the benefits under the Private Investment (Promotion and Protection) Act, 1976, the Enforcement of Shari'ah Act, 1991 and the Protection of Economic Reforms Act, 1992

### **7.5 INCENTIVES FOR LOCAL MANUFACTURE ETC.**

Incentives to encourage the local manufacture and production of items meant for the petroleum sector and incentives to encourage the use of such items by petroleum sector companies are set out in Annexure VI.

## 7.6 PRIVATISATION

Privatisation of Pak-Arab Refinery Ltd., Pakistan State Oil Ltd., Sui Northern Gas Pipelines Ltd., Sui Southern Gas Company Ltd. and Oil & Gas Development Corporation would be referred to the Privatisation Commission for expeditious action for off loading a certain percentage of GOP's equity in these companies.

## 7.7 PETROLEUM REGULATORY BOARD AND POLICY CELL

### 7.7.1 *Petroleum Regulatory Board*

An independent Petroleum Regulatory Board (PRB) will be established as early as possible and will be funded through an administrative fee or a cess.

### 7.7.2. *Petroleum Policy Cell*

A Petroleum Policy Cell for the ongoing review of the Petroleum Policy and issues facing the petroleum sector will be set up in the Ministry of Petroleum and Natural Resources as soon as possible.

## 7.8 IMPLEMENTATION OF PETROLEUM POLICY

### 7.8.1 *Implementation committee*

The implementation of this policy will be coordinated by a Committee consisting the following members of the Cabinet Committee on Energy (CCE):

- |  |                  |
|--|------------------|
| a. Minister for Water & Power                                      | Convener         |
| b. Minister for Petroleum & Natural Resources.                     | Member           |
| c. Adviser to the Prime Minister for Finance and Economic Affairs  | Member           |
| d. Special Assistant to the Prime Minister for Economic Sectors.   | Member           |
| e. Additional Secretary, Incharge, Planning & Development Division | Member/Secretary |

Secretariat assistance to the Committee would be provided by the Planning and Development Division. The Committee may co-opt other Members as required and would submit its recommendations for approval to the Chairperson of the CCE, i.e., the Prime Minister.

7.8.2 *Formalisation of the Petroleum Policy*

Existing laws, rules, procedures, policies and orders etc, will be amended to reflect these policy changes. The Central Board of Revenue (CBR), Ministry of Commerce and other Ministries concerned shall issue specific SROs and notifications for the petroleum sector to give effect to the changes relating to Import Duties, Fees, Income Tax and import procedures etc., within one month of the announcement of this policy.

7.8.3 *Effect of the Petroleum Policy*

This policy supersedes the 1991 Petroleum Policy and the 1993 Petroleum Exploration and Production Policy without affecting the rights that may have accrued to any party under the superseded policies.

## **8 - ANNEXURES**

## **THE NEW BLOCK AWARD PROCESS**

It is a prerequisite for this Block Award Process that the standard Model Agreement is followed. All applicants will be required to follow the Model Agreement. The new process will be as follows:

- (a) A company can apply for a block in accordance with the laid down grid system and the rules without a Work Programme.
- (b) Offers will be invited through the press within 15 days thereafter from other interested E&P companies.
- (c) The first applicant company and any other company wishing to compete for the same block will have 30 days in which to submit sealed bids specifying the Work Programme and the related minimum financial obligation in US Dollars. The GOP reserves the right to ask any bidder for a bid bond of an appropriate value. All the economic terms and conditions will remain fixed as defined in this Policy, unless relaxed by the GOP.
- (d) Bids will be opened in public and the winner decided on the basis of the best Work Programme and related financial commitment offered. The first applicant company may be given the opportunity to match the best offered Work Programme and financial obligation. If no competing bids are received then the first applicant company shall be awarded the concession.
- (e) Applications by OGDC will also be subject to the same process.
- (f) If a company applies for a Reconnaissance Permit and another for an Exploration Licence, then preference shall clearly be given to the applicant for the Exploration Licence provided that the Work Programme offered for the Exploration Licence is better than that for the Reconnaissance Permit.
- (g) A Model Production Sharing Agreement will be prepared by consultants after necessary amendments in the law. This will be available as an option to E&P companies in due course.

**INVITATION TO BID UNDER THE  
PETROLEUM POLICY,**

Applications are invited for grant of Petroleum rights over the Exploration Block No. \_\_\_\_\_ (technical name) (\_\_\_\_\_ - common name) in accordance with the provisions of the Pakistan Petroleum (Exploration and Production) Rules 1986 and the Petroleum Policy.

Applicants are required to submit their Work Programmes and related minimum financial obligations under a sealed cover to the DGPC, 1019, Pak Plaza, Fazal-e-Haq Road, Blue Area, Islamabad by \_\_\_\_\_ (time) \_\_\_\_\_ (date).

The sealed bids will be opened publically at \_\_\_\_ (time) on \_\_\_\_\_ (date) in the DGPC offices.

DGPC will select a successful bid on the basis of the best Work Programme and related minimum financial obligations consistent with the Rules and the Petroleum Policy.

DGPC reserves the right to accept or reject any application without assigning any reason.

The successful bidder will be notified in writing by the DGPC by no later than \_\_\_\_\_ (date).

**Director General,  
Petroleum Concessions**

**NEGOTIATION CELL**

DGPC staffing and resources will be augmented. In order to meet deadlines, a separate negotiating cell headed by Director General, Petroleum Concessions will be constituted on a full time basis and comprise of:

- (a) Legal Advisor,
- (b) Petroleum Economist,
- (c) Petroleum Explorationist.

It has been decided to finance these positions through training funds under PCAs with E&P companies. The Ministry of Petroleum & Natural Resources will select and appoint the appropriate professionals on contract basis.



## FRAMEWORK OF THE GOP HOLDING COMPANY

A Holding Company 100% owned by the GOP will be created after necessary study for managing the interests of the GOP in this sector. In addition this company will assume the GOP's interest in new PCAs and Production Sharing Agreements. Such a company will, however, not operate like OGDC. There will be no risk in these new ventures as under the new arrangements the 5% GOP interest will be carried by the E&P companies until Commercial Discovery. The GOP will reimburse the 5% exploration cost of the E&P companies related to a Commercial Discovery from its share of production in installments over a 5 year period from the date of Commercial Discovery.

The Holding Company will receive all the revenues from the present State holdings and from future discoveries.

The technical nature of the business warrants that the Holding Company be manned by highly qualified and competent industry experts. The framework will be as follows:

### Composition of the Board of the Holding Company

- (a) Chairman: He should be a Pakistani professional with extensive industry experience and should be appointed for a fixed tenure by the Prime Minister.
- (b) Finance Director: He should be a competent petroleum economist and appointed for a fixed tenure by the GOP.
- (c) Technical Director: He should be a competent industry professional with relevant experience appointed by the GOP for a fixed tenure.
- (d) Non Executive Directors shall not be from the PRB.

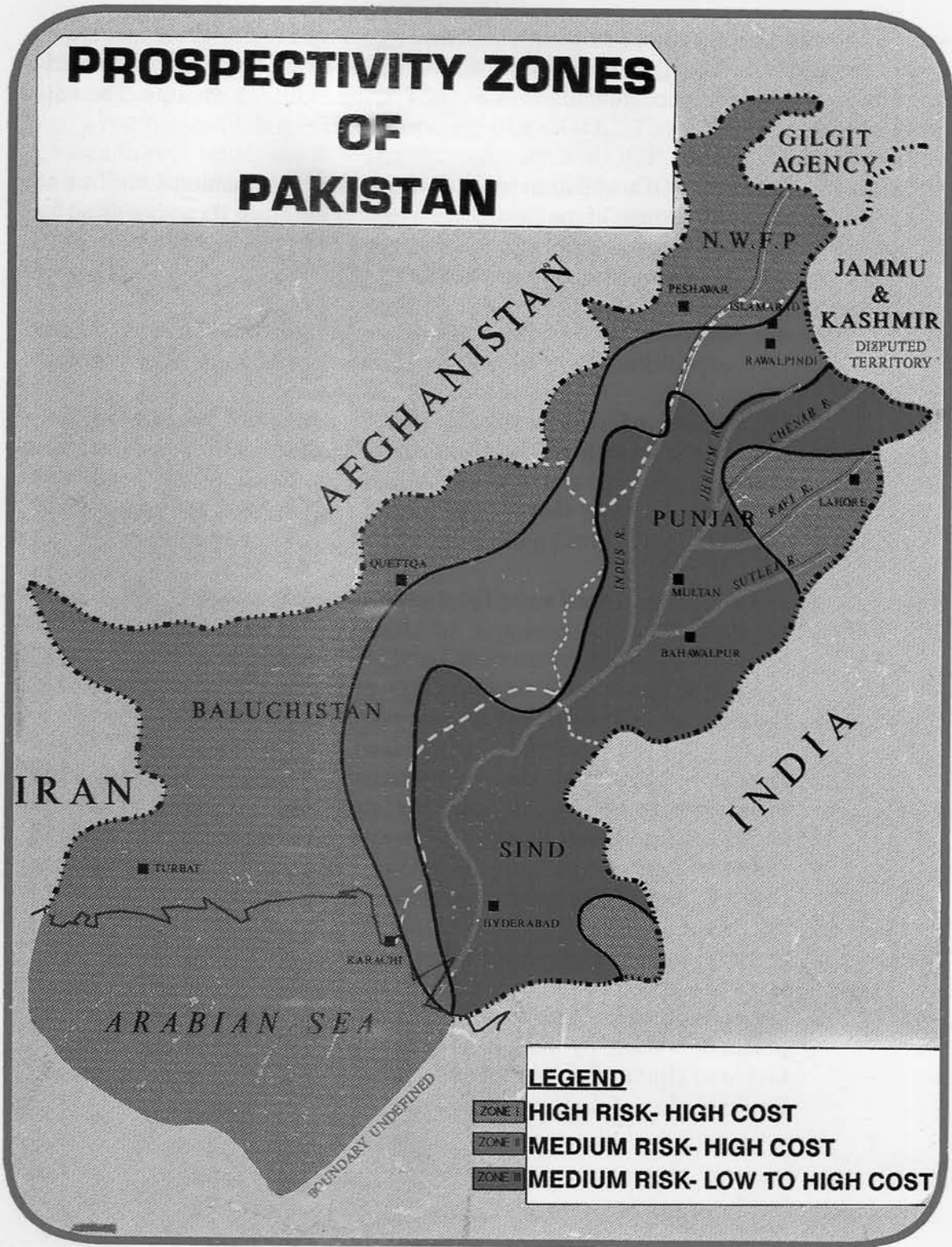
All investment decisions by the company will be based on sound financial and economic criteria.

## LAND ACQUISITION

A working group comprising representatives from the Federal Government, the concerned Provincial Governments and the Industry shall be formed to review the procedures and submit recommendations to the Cabinet within 6 months. The basic problems are:

1. Current Land acquisition procedure starting from Section 4 notification to the final stage of mutation takes time. Therefore there is a need for:
  - land acquisition procedure be simplified.
  - Guidelines to be provided to Civil Administration for making land expeditiously available for exploration/production operations.
2. The respective Governments need to fix land prices for different areas in accordance with the prevalent market rates with some premium added to the market price for oil/gas exploration and production operations in order that acquisition proceedings are not unnecessarily delayed.
3. Lease rates also need to be fixed as per Sr. No.2 above.
4. As reservation of Government Land also entails a long procedure that procedure needs to be simplified for expeditious finalization of cases. Rates need to be fixed in line with prevalent market rates.
5. Procedure/Legislation needs be enacted for handling of Lands which have already been leased out by an owner to another party for agricultural purposes. In such situations both the Lessor/Lessee make claims on E&P companies. Formulation of a procedure/law will facilitate resolution of disputes and speedy availability of land for oil/gas operations.
6. In some cases the land has been sold out by owner to another party on deferred payment basis and under a sale agreement. Till such time full payment is made by the buyer, clear title of property does not exist in favour of either the seller or buyer. A Procedure/law needs to be enacted for resolution of such issues as well.

ZONAL AREA MAP



**TAX AND DUTY STRUCTURE FOR THE  
PETROLEUM SECTOR**

**E&P COMPANIES**

*Import Duties*

- (a) No Import or Export Duties including Customs Duty, Sales Tax, Iqra Surcharge or any other Surcharges shall be levied or charged on machinery, equipment, materials, specialised vehicles, accessories, spares, chemicals and consumables imported or exported in accordance with the approved list as applicable to Permits, Licences, Leases, PCAs and other Agreements for petroleum operations by an Operator including OGDC, its contractors or subcontractors during exploration, development and production phases including enhanced petroleum recovery and compression projects. The said duty concession will apply to all Zones during all phases of operations.
- (b) After a Commercial Discovery has been made the respective Operator will pay on an annual deferred basis a consolidated fee equal to 3% of the total invoice value of the equipment, materials, specialised vehicles, accessories, spares, chemicals and consumables imported by it, its contractors and subcontractors free of duty during that year in respect of that Commercial Discovery and exploration activities in that particular concession. Items imported free of Import Duties under (c) below if sold to E&P companies as part of their services will be included in the total invoice value for calculation of the fee payable hereunder by the Operator. The value to be taken for the service company items for inclusion in the total invoice value shall be their invoice value at the time of import. The Operator shall submit an account of all import invoices to the Regulatory Authority and the Customs Department for confirmation with their record at the time of annual payment.

This provision will also apply to OGDC and other local E&P companies who hold Mining/Development and Production Leases and have not been required to enter into any agreement with the GOP.

- (c) No Import or Export Duties including Customs Duty, Sales Tax, Iqra Surcharge or any other Surcharges shall be levied or charged on machinery, equipment, materials, specialised vehicles, accessories, spares, consumables and chemicals imported or exported in accordance with the list approved by the Regulatory Authority for this purpose by companies providing services covering inter alia seismic, drilling, cementation, logging, snubbing, testing or similar type of services to E&P companies including OGDC. Should any item imported free of Import Duties be sold other than as scrap or other than

to other E&P companies or be used for providing services other than to E&P companies, the importing company will be liable to pay Import Duties including Customs Duties, Sales Tax, Iqra Surcharge and any other Surcharges that would have been payable had the item not been imported free of Import Duties.

- (d) No Licence/Authorisation Fees shall be levied or charged on items imported or exported free of Import or Export Duties under this Policy.

#### *Income Tax*

Under Regulations of Mines and Oilfields and Mineral Development (Government Control) Act, 1948, as amended in 1976, the Ministry of Petroleum & Natural Resources has the discretion to determine the aggregate of the taxes on income and other payments to the GOP in respect of the profits and gains of E&P companies within 50-55% before deduction of payments to the GOP but after deduction of depletion allowance. Accordingly the respective rates for the three Zones established under the Petroleum Policy are as follows:

Zone-1	50%
Zone-2	52-1/2%
Zone-3	55%

### **REFINERIES**

#### *Import Duties*

- (a) Import Duty at a concessionary rate of 5-1/4% inclusive of Customs Duty, Sales Tax, Iqra Surcharge and any other Surcharges shall be levied or charged on replacement machinery, equipment, materials, accessories, spares, specialised vehicles, chemicals and consumables imported or exported by the existing refineries in accordance with the list approved by the Regulatory Authority.
- (b) No Import or Export duties including Customs Duty, Sales Tax, Iqra Surcharge and any other Surcharges on imports shall be levied on machinery, equipment, materials, accessories, spares, specialised vehicles, chemicals and consumables imported or exported in accordance with the list approved by the Regulatory Authority for the establishment of new or for expansion, modernisation and upgradation projects of existing refining capacity.
- (c) No Licence/Authorisation Fees shall be levied or charged on items imported or exported free of Import or Export Duties under this Policy or at the concessionary rate of 5 1/4%.

### *Income Tax*

No additional incentives are proposed. However, the CBR will clarify/amend the Fifth Schedule to the Income Tax Ordinance, 1979, to the effect that income received from the processed products from Dhodak and Bobi fields due to their specific development needs which require an insitu processing/refining capability for the field to be put on production will be considered as being income under the 5th Schedule. Other fields requiring similar infield processing/refining facilities will be considered for similar treatment by the CBR.

**Note:** The above incentives will also apply to imports made by E&P companies including OGDC where they establish a refinery as part of their field development (except where the income from processed/refined products is considered income under the Fifth Schedule) and the value of items imported hereunder will be excluded from the calculation of the annual consolidated fee of 3% to be paid by E&P companies after Commercial Discovery.

## **OIL & GAS PIPELINES**

### *Import Duties*

- (a) No Import or Export Duties including Customs Duty, Sales Tax, Iqra Surcharge and any other Surcharges shall be levied or charged on machinery, equipment, material, accessories, specialised vehicles, spares, consumables and chemicals imported or exported in accordance with the list approved by the Regulatory Authority for oil transportation and gas transmission and distribution projects .
- (b) No Licence/Authorisation Fees shall be levied or charged on items imported or exported free of Import or Export Duties under this Policy.

### *Income Tax*

No additional incentive is proposed except that cross country pipelines will be entitled to accelerated tax depreciation of 50% in the first year. The CBR will also clarify that income received from pipeline operations by E&P companies will be considered part of such company's income under the Fifth Schedule of the Income Tax Ordinance, 1979.

**Note:** The above incentives will also apply to E&P companies where they establish a pipeline and the value of items imported hereunder will be excluded from the calculation of the annual consolidated fee of 3% to be paid by E&P companies after Commercial Discovery.

## LIQUEFIED PETROLEUM GAS

### *Import Duties*

- (a) No Import or Export Duties including Customs Duty, Sales Tax, Iqra Surcharge or any other Surcharges shall be levied or charged on imports or exports of LPG or on machinery, equipment, materials, accessories, specialised vehicles, spares, consumables and chemicals imported or exported in accordance with the list approved by the Regulatory Authority for the establishment and expansion of LPG processing and extraction plants, LPG bottling and handling facilities .
- (b) No Licence/Authorisation Fees shall be levied or charged on items imported or exported free from Import or Export Duties under this Policy.

### *Income Tax*

No additional incentives are proposed except that the CBR will clarify that income received by E&P companies from the manufacture or sale of LPG will be considered part of such company's income under the Fifth Schedule of the Income Tax Ordinance 1979.

**Note:** The above incentives will also apply to imports made by E&P companies where they establish LPG facilities or market LPG and the value of items imported hereunder will be excluded from the calculation of the annual consolidated fee of 3% to be paid by E&P companies after Commercial Discovery.

## COMPRESSED NATURAL GAS

### *Import Duties*

- (a) No Import or Export Duties including Customs Duty, Sales Tax, Iqra Surcharge or any other Surcharge or any other Surcharges shall be levied or charged on machinery, equipment, materials, accessories, specialised vehicles, spares, consumables and chemicals imported or exported in accordance with the list approved by the Regulatory Authority for the establishment of natural gas compression, refilling and outlet facilities, for the conversion of vehicles to CNG and for the transportation of CNG through specialised vehicle mounted systems .
- (b) No Licence/Authorisation Fees shall be levied or charged in respect of items imported or exported free of Import or Export Duties under this Policy.

### *Income Tax*

No additional incentives are proposed except that the CBR will clarify that income received by E&P companies from the manufacture and sale of CNG will be considered part of such company's income under the Fifth Schedule to the Income Tax Ordinance, 1979.

**Note:** The above incentives will also apply to E&P companies where they establish CNG facilities or market CNG and the value of items imported hereunder will be excluded from the calculation of the annual consolidated fee of 3% to be paid by E&P companies after Commercial Discovery.

## **PETROLEUM TERMINALS**

### *Import Duties*

- (a) No Import or Export Duties including Customs Duty, Sales Tax, Iqra Surcharge and any other Surcharges shall be levied or charged on the machinery, equipment, materials, accessories, spares, specialised vehicles, consumables and chemicals imported or exported in accordance with the list approved by the Regulatory Authority for the establishment of port terminals mainly used to handle petroleum items, including crude and fuel oil, petroleum products, LPG and CNG whether for import or export.
- (b) No Licence/Authorisation Fees shall be levied or charged on items imported or exported free of Import or Export Duties under this Policy.

### *Income Tax*

No additional incentive is proposed.

**Note:** The above incentives will also apply to E&P companies where they establish petroleum terminal facilities and the value of items imported hereunder will be excluded from the calculation of the annual consolidated fee of 3% to be paid by E&P companies after Commercial Discovery.



## ENERGY CONSERVATION, ENVIRONMENT AND SAFETY CONTROL

### *Import Duties*

- (a) No Import or Export Duties including Customs Duty, Sales Tax, Iqra Surcharge and any other Surcharges shall be levied or charged of any machinery, equipment, material, accessories, specialised vehicles, spares, chemical and consumables imported or exported in accordance with the list approved by the Regulatory Authority for energy conservation, efficiency enhancement, pollution, environmental and safety control.
- (b) No Licence/Authorisation Fees shall be levied or charged on items imported or exported free of Import or Export Duties under this Policy.

**Note:** The above incentives will also apply to E&P companies where they import conservation, efficiency enhancement, pollution control, environmental and safety equipment and the value of items imported hereunder will be excluded from the calculation of the annual consolidated fee of 3% to be paid by E&P companies after Commercial Discovery.

### MISCELLANEOUS

- (a) The relevant Regulatory Authority shall notify the CBR from time to time of the list of machinery, equipment, materials, accessories, specialised vehicles, spares, chemicals and consumables required to be imported by the petroleum sector. A general indicative list of the items covered under this policy will be jointly prepared by the Regulatory Authorities within one month of the announcement of the policy. This list will be subject to amendments by additions and deletions from time to time as considered appropriate by the relevant Regulatory Authority. Whether a specific item falls within the list shall be decided by the relevant Regulatory Authority. Until the general indicative list is finalised the relevant Regulatory Authority will certify whether a company or an item can avail the concessions and incentives set out herein.

**Note:** For the purposes of these incentives the Regulatory Authorities shall be as under:

PETROLEUM EXPLORATION, PRODUCTION AND PETROLEUM SERVICE COMPANIES	DGPC
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REFINERIES AND OIL PIPELINES	DG (Oil)
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IMPORTS FOR GAS PIPELINES, LPG,  
CNG AND OTHER GAS PROJECTS.

DG  
(Gas)

PETROLEUM TERMINALS

DG  
(Posts &  
Shipping)

ENERGY CONSERVATION, ENVIOR-  
NMENT AND SAFETY CONTROL

RELEVANT  
REGULA-  
TORY  
AUTHORITY

- (b) In order to provide incentives for the local manufacture of petroleum sector items and their use the following concessions are being proposed in respect of any item listed in the general indicative list supplied to companies operating in the petroleum sector:
- (i) Local manufacturers or producers will be entitled to all such benefits as are admissible for exports.
  - (ii) Local manufacturers or producers will be entitled to import free of Import Duties (including Customs Duty, Sales Tax, Surcharges, Licence/Authorisation Fees) all items which are to be incorporated in or are to form part of any item to be supplied to a company operating in the petroleum sector. Where an item has been imported and is incorporated in an item to be supplied to a company in the petroleum sector, the manufacturer or producer will be entitled to a refund of any Import Duties and Fees paid thereon.
  - (iii) No Sales Tax will be leviable or payable on items manufactured or produced locally which are sold to companies in the petroleum sector.
- (c) Import/export procedures shall be agreed and notified by the Ministry of Commerce within one month of the announcement of the Policy. A draft import/export procedure is set out in Enclosure 1 to this Annexure VI.
- (d) Imports of domestic appliances like room air-conditioners, fridges, freezers etc. and saloon vehicles will not be allowed. Specialised vehicles will be allowed to be imported. The Regulatory Authority will certify whether any vehicle qualifies as a specialised vehicle.
- (e) Foreign employees and consultants of petroleum sector companies and foreign employees of such companies' contractors and sub-contractors will be entitled to import free of Import Duties including Customs

Duty, Sales Tax, Iqra Surcharge and any other Surcharges and Licence/Authorisation Fees used and bona fide personal and household effects, excluding passenger vehicles provided that the effects were acquired or were in such person's possession before his arrival in Pakistan or were imported within 6 months of such arrival. Such personal and household effects may thereafter be freely exported free of Export Duties and Fees. Such articles shall not be sold or disposed off or transferred in Pakistan except with the prior permission of the Regulatory Authority and on payment of Import Duties at the rate and value operating on the date the goods were first imported into Pakistan on the declared value of the goods at the time of import less depreciation @ 10% per annum.

- (f) In the event a dispute arises as to whether any item can be imported, the amount of import duty payable thereon, or the description or valuation of such item, the item will be immediately released by the Customs Department against a corporate guarantee. A subsequent certificate from the relevant Regulatory Authority that item of import is covered under the Policy shall be given due consideration by the Customs Department towards finally resolving the dispute.
- (g) In the event that an emergency condition occurs in connection with operations by a petroleum sector company which seriously endangers life or property, the relevant Regulatory Authority shall declare an emergency and the operating company shall be allowed to import any item or items considered necessary by the said company to deal with the emergency under intimation to the Regulatory Authority without formalities or delays and the formalities will be attended to thereafter as soon as practicable.
- (h) Items imported free of Import Duties or at a concessionary rate which ultimately become scrap, junk or obsolete shall be disposed of in the following manner:
  - (i) In the event an item (other than vehicles) is sold to another company in the petroleum sector no Import Duties shall be levied or charged. If the item is not sold to another petroleum sector company it shall be sold through a public tender and duty shall be applied at 5 1/4 % of the sale proceeds.
  - (ii) For vehicles there would be a minimum retention period of 5 years after which the vehicles may be disposed off in the manner provided in (i) above except that the full rate of Import Duties net of any Import Duties paid shall be applied subject to an adjustment of depreciation @ 2% per month upto a maximum of 24 months. Vehicles can be surrendered at any time to the GOP without payment of any Import Duties.

- (i) Any machinery, equipment and material imported free from Import Duties, Licence/Authorisation Fees may from time to time be exported free of any Import or Export Duties or Fees for repair or modification and may be reimported without the payment of additional Import Duties including Customs Duty, Sales Tax, Surcharges or Fees of any kind subject to them having a certificate from the Regulatory body that the item needs to be exported for replacement or modification and subject to the exporting company providing a corporate guarantee for reimport.
- (j) Foreign employees and consultants of petroleum sector companies and foreign employees of such companies' contractors and sub-contractors shall be allowed to import commissary goods free of Import Duties including Customs Duty, Sales Tax, Iqra Surcharge and an other Surcharges to the extent of US\$ 1,200 each (excluding family members) per annum or such greater amount notified from time to time subject to the condition that the said goods shall not be sold or disposed off in Pakistan and no foreign exchange from Pakistan shall be involved.
- (k) Construction and erection machinery, equipment and materials for petroleum projects will be importable free of Import Duties or Export Duties including Customs Duty, Sales Tax, Iqra Surcharge and any other Surcharges and free of Licence/Authorisation Fees on an import/cum export basis against a corporate guarantee equal to the value of the Import Duties and Fees that would have otherwise been payable on imports. Should the equipment etc. not be exported on the conclusion of the project or transferred with the approval of the Regulatory Authority to another duty free project then the company concerned will be considered an assessee in default.
- (l) The relevant Regulatory Authority shall be the ultimate arbiter between various GOP Departments in respect of the interpretation of Agreements.
- (m) The relevant Regulatory Authority is authorized to allow the intercompany transfer of machinery, equipment, materials, accessories, specialised vehicles spares, consumables and chemicals where both are petroleum sector companies enjoying similar duty concessions under the Policy. Where the petroleum sector companies are subject to different rates of duty the Regulatory Authority may allow the transfer under intimation to CBR on payment of differential rate of duty.

## **IMPORT/EXPORT PROCEDURE**

Imports and exports by petroleum sector companies will be allowed on the recommendations of the respective Regulatory Authority without recourse to other Agencies, Departments, or Ministries. The procedure will be guided by the terms of the Petroleum Policy, notifications issued thereunder and any Agreements with the GOP. These imports/exports will be controlled as follows:

### **Imports**

- (a) L/C to be opened through an accredited bank. Imports can also be affected through invoices.
- (b) Upon arrival of goods, Bill of Entry to be filed with complete shipping documents (invoice, certificate of origin, packing list, bill of lading) alongwith relevant copies of any agreement with the GOP and/or the relevant notification issued pursuant to the Policy.
- (c) After clearance, customs to be required to send a copy of Bill of Entry to the relevant Regulatory Authority/Ministry of Commerce.
- (d) In case of confusion/doubt the consignment to be immediately released against a corporate guarantee.

### **Exports**

#### *(a) Crude Oil or Products Export*

A copy of Bill of Lading to be submitted alongwith a copy of Sales Agreement, certificate of origin, name and address of the buyer with vessel and destination details to Custom/CBR. Copies of above to be sent to Ministry of Commerce/EPB/relevant Regulatory Authority for record.

#### *(b) Re-Export of Equipment*

Copies of original import documents or transfer of equipment letter to be submitted alongwith Bill of Lading, Packing list and shipping details (name, address for destination) to Ministry of Commerce, Customs / EPB/relevant Regulatory Authority.

Until such time as the above recommendations are not implemented, the Ministry of Commerce will issue all categories of import/export authorization on the basis of recommendations of the Relevant Regulatory Authority and exempt the relevant petroleum sector companies from their existing procedures. Similarly all existing import-cum-export permits and licences will be re-validated to facilitate import as well as export of equipment not required by any petroleum sector company.

## **EMPLOYMENT, TRAINING AND WELFARE PROGRAM**

### **EMPLOYMENT AND TRAINING**

Training shall be provided annually by foreign and local E&P companies. A minimum expenditure of US Dollars 10,000 per Licence/Lease Year at the Pre-Commercial Production stage and US Dollars 25,000 per Licence/Lease Year during the Post Commercial Production stage will be incurred which will be subject to review from time to time.

Employment programs for Pakistani nationals shall be agreed upon with the DGPC on an annual basis.

### **WELFARE PROGRAM**

The amount of social welfare funds pledged by the companies (local and foreign) in their respective Agreements must be utilized to give lasting benefit to the communities. Social welfare projects must be agreed with the local community and GOP.

The following minimum expenditures shall be incurred on welfare projects:

Pre-Commercial Production	US\$ 10,000 per Licence/Lease Year for Zone 1 and US\$ 20,000 per Licence Year for Zones 2&3
Post Commercial	
Production rate (BOE/d)	Amount/Licence/Lease Year (US\$) (For all Zones)
Less than 2,000	20,000
2,000 - 5,000	40,000
5,000 - 10,000	75,000
10,000 - 50,000	150,000
More than 50,000	250,000

The above expenditure amounts will be subject to annual review in accordance with the respective PCAs.

Local E&P companies will incur the expenditures in equivalent Rupees.

**PARAMETERS FOR IMPORT PARITY REFINERY PRICING**

<u>ITEMS</u>	<u>SOURCE/BASIS</u>
BASE PRICE FOR PRODUCTS	3 DAY AVERAGE OF A.G. MEAN PUBLICATIONS IN EFFECT
+ FREIGHT	AFRA (GP) A.G. MEAN FLAT RATE APPLICABLE FOR ALL PRODUCTS
+ DEEMED INSURANCE	0.045% OF C&F
+ DEEMED LOSS	0.5% OF CIF
+ DEEMED IMPORT DUTY/TAXES	AS PREVALENT
+ DEEMED IMPORT LICENCE FEE	AS PREVALENT

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<u>PRODUCT MAKE UP</u>	<u>PRICE BASIS</u>
HOBC	A.G. MEAN SPOT PRICE OCTANE RELATED WITH NAPHTHA PRICE.
REGULAR GASOLINE	A.G. MEAN SPOT PRICE. OCTANE RELATED WITH NAPHTHA PRICE,
PREMIUM GASOLINE	A.G. MEAN SPOT PRICE. OCTANE RELATED WITH NAPHTHA PRICE,
H.S.D. (1% S)	A.G. MEAN SPOT PRICE
S.K.	A.G. MEAN SPOT PRICE
F.O.	A.G. MEAN SPOT PRICE
JP-1	A.G. MEAN (KERO) + 1 CENT/US GALLON
JP-4	50% NAPHTHA PLUS 50% KEROSENE
D.F.O./L.D.O.	80% HSD PLUS 20% FURNACE OIL

M.T.T.	110% OF PRICE OF KEROSENE
SOLVENT	110% OF PRICE OF WHOLE NAPHTHA
L.P.G	KEROSENE SPOT PRICES
BTX	130% OF HOBC

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IMPORTED CRUDE	FOB PLUS APPLICABLE AFRA PLUS INSURANCE OR AS PER CONTRACT WITH THE SUPPLIER
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LOCAL CRUDE	AS PER PROVISION OF THE CONCESSION AGREEMENT WITHOUT DISCOUNT. TO BE SUPPLIED AT REFINERY GATE.
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IMPORT DUTY/TAXES/IMPORT LICENCE FEE	NIL
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