Pakistan Oil Refining Policy for Upgradation of Existing/Brownfield Refineries, 2023

(As Amended In February 2024 and August 2026)

Notified on September 10, 2026

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 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.

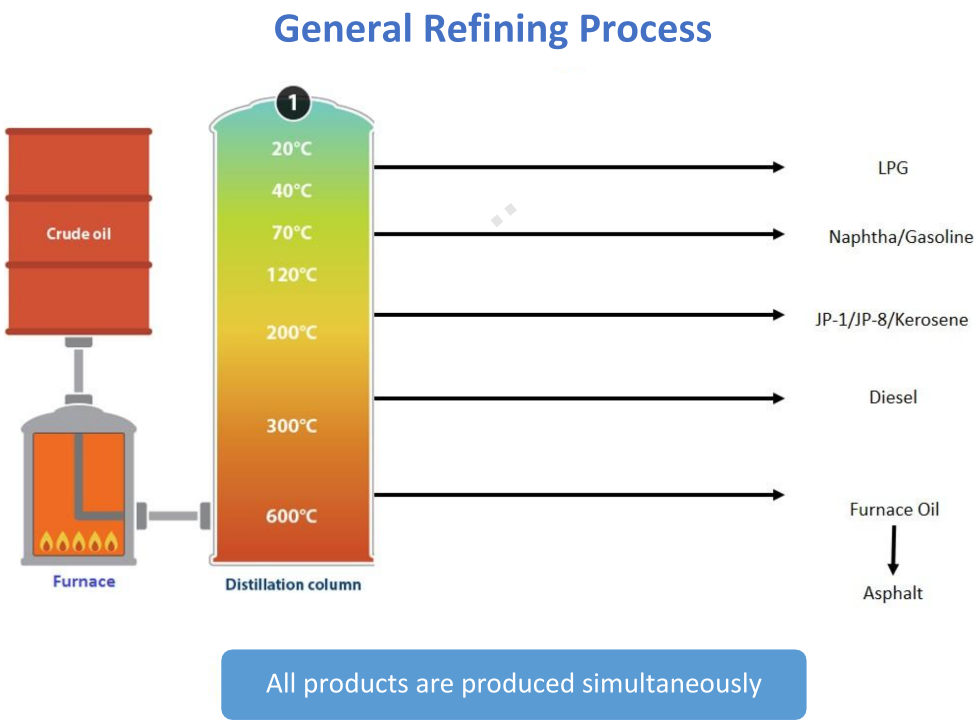
The Government of Pakistan, through this Policy, intends to provide necessary incentives, stability and tariff protection to attract investment in this sector, being strategic assets of the country.

CONTENTS

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.

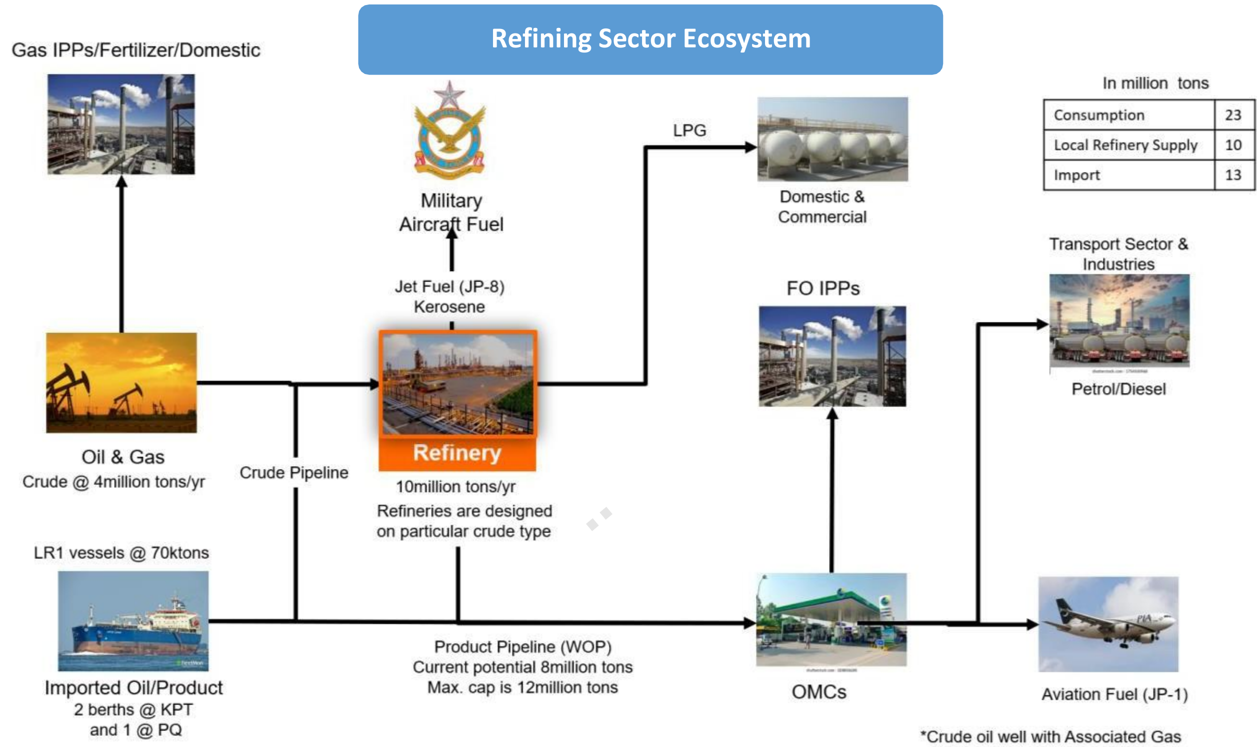


1.1 Economic and Strategic Importance of Local Refineries

Local refineries are strategic assets for a country and their sustainability and continuity are 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:

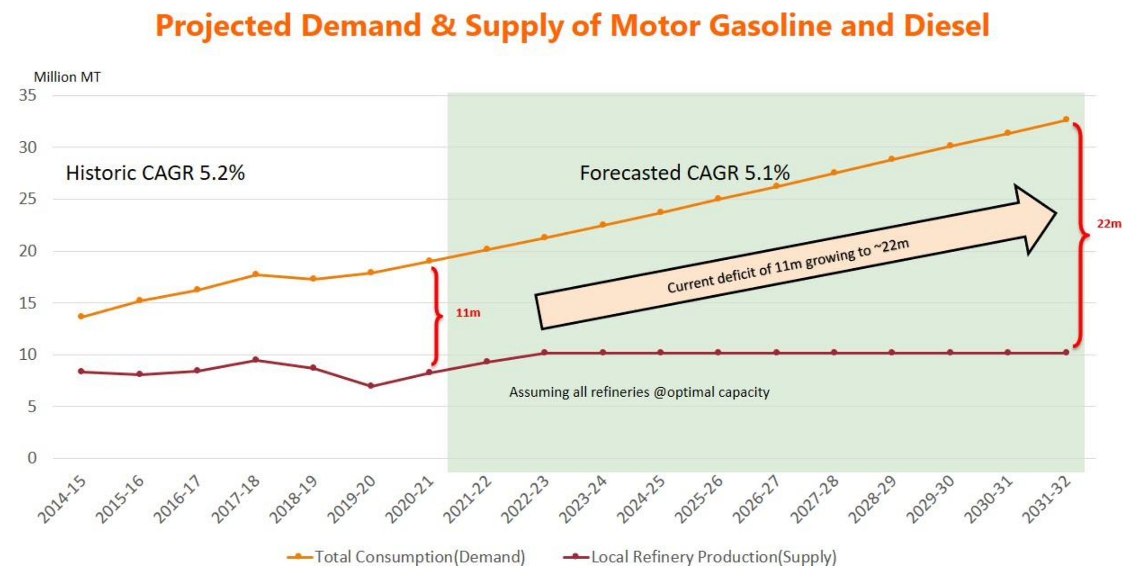
Refinery	Year	Technology	Capacity (bpd)	Capacity (MT)
PARCO	2000 2010 (Euro II) 2011 (AABU) 2020 (upgrade)	Mild Conversion	120,000	5.5
ARL	1922(original) 1981(new) 1999(upgrade) 2016(upgrade / capacity enhanced)	Hydroskimming	53,400	2.4
NRL	1966(lube) 1977 (fuel) 2017 & 2018 (upgrade & revamp) 2021 (capacity 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.

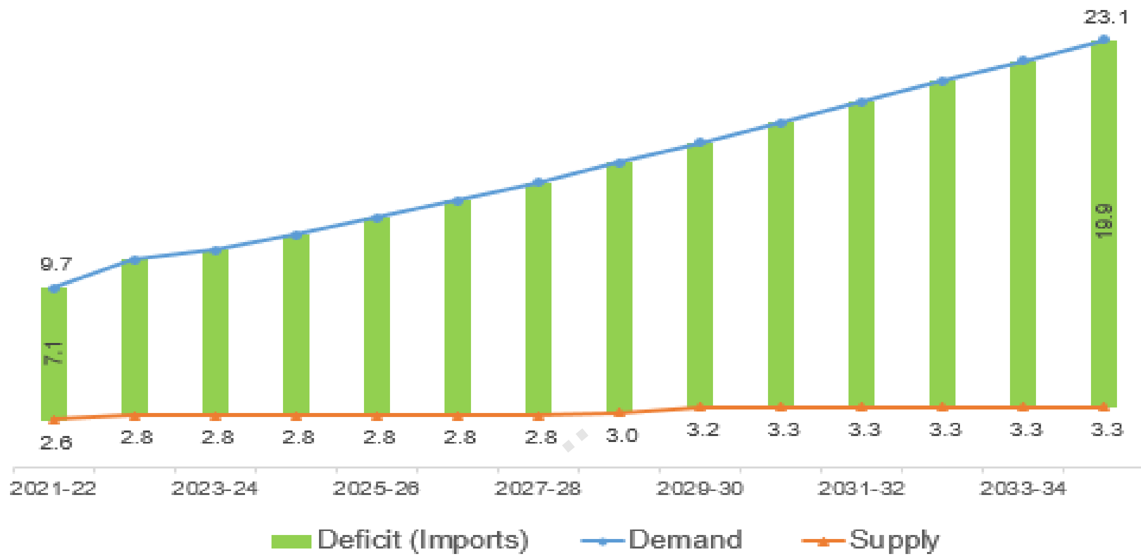
Historically, local refineries have supplied about 45% of the country's requirements of HSD, 30% of MS and more than 100% of Jet fuel for defense. The rest of the demand is supplied through imported refined products.

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%

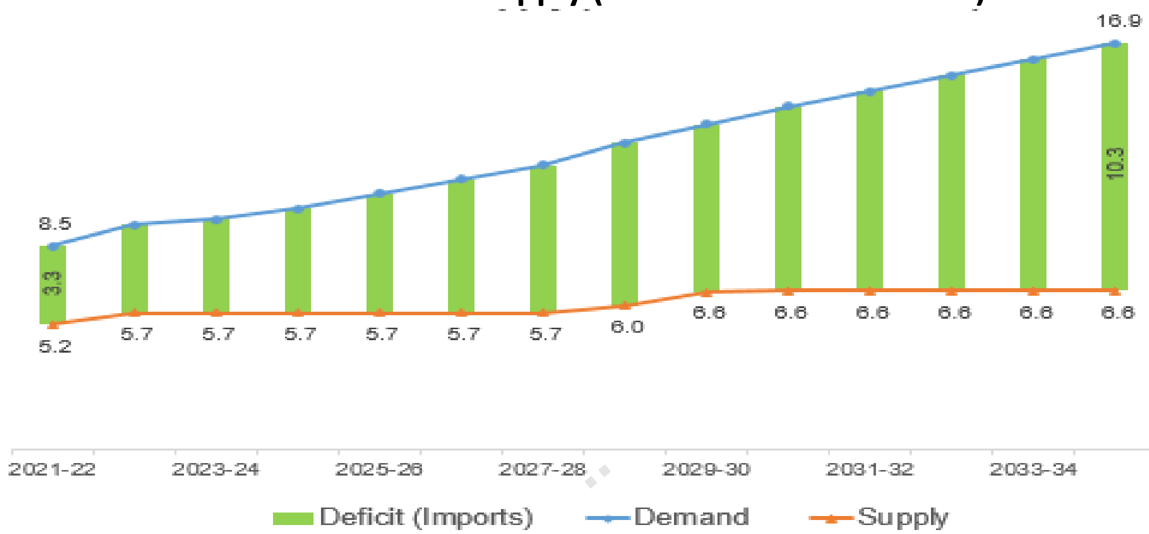
As per the forecast by an international consultant, Pakistan's demand for MS and HSD is expected to reach 33 million tons per annum (mpta) by 2035.



Mogas Demand & Supply (Million Tons Per Annum)



Diesel Demand & Supply (Million Tons Per Annum)

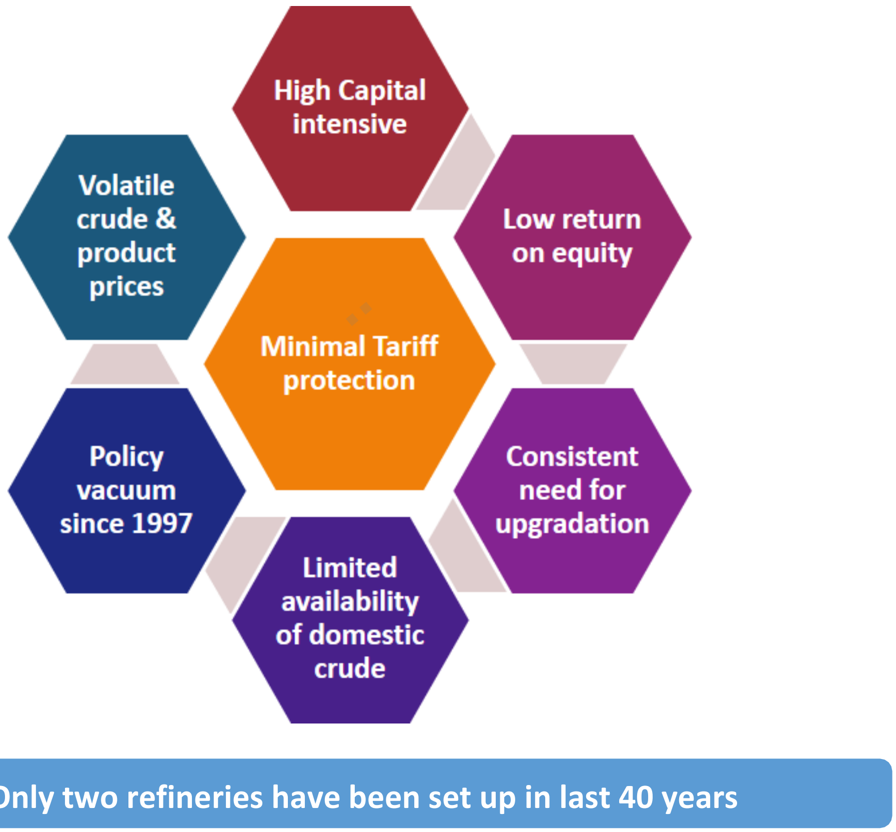


SECTION 3
CHALLENGES IN THE CURRENT REFINING SECTOR OF PAKISTAN

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:



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

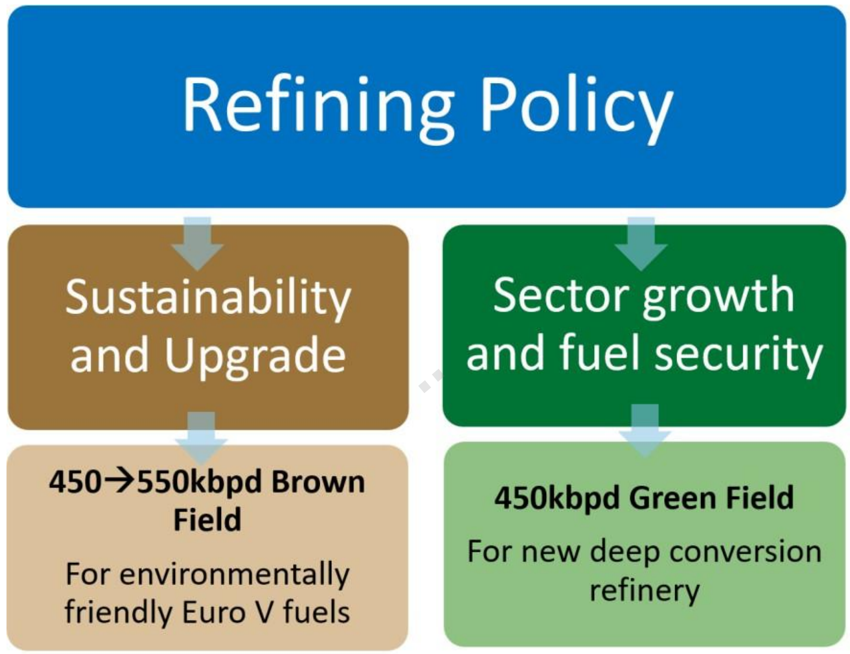
The respective refineries have already initiated feasibility studies for independent upgrades to: meet Euro V specifications; and maximize production of Motor Gasoline and Diesel by minimizing production of Furnace Oil (FO). After these upgrades, the existing refining infrastructure would be similar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

1.2. 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;

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

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

1.5. 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 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, Diesel or other value-added products, if any, 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)			
	Specification (Mogas / Diesel)	MOGAS	Diesel	FO	Specification (Mogas / Diesel)	MOGAS	Diesel	FO
PARCO	Euro-III/III	3,678	5,600	3,290	Euro-V/V	4,023	7,734	1,806
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	4,500	5,000	250
NRL	Euro-V/V	818	3,273	2,253	Euro-V/V	1,000	3,775	1,750
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 based on the Product Review Meetings. There shall be binding agreements between the Refineries and OMCs for sale purchase of major products (Motor Gasoline and HSD) based on the Product Review Meetings to ensure smooth oil supply chain.

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.

6.1.1.4. Refineries shall carry out Environmental study for the upgrade projects on the site.

6.1.2 Fiscal Regime

6.1.2.1. There shall be a minimum customs duty/ regulatory duty of 10%, for a period of 7 years from date of notification of the amendment in the Policy, Motor Gasoline and Diesel imported in the country provided that in the event of any change in the customs duty (including on account of PTA/FTA concessionary rates), an equivalent amount of any other duty/instrument shall be imposed so as to ensure the 10% tariff protection for refineries. 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. 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 7 years from the date of signing of Upgrade Agreement and opening of Refinery Upgradation Account as specified within forty five (45) days of notification of amended Policy. However, 2.5% of the deemed duty on Diesel and 10% on Motor Gasoline (incremental incentive), shall be deposited by refineries in the Refinery Upgradation Account for utilization of Upgrade Projects only. Until the opening of the said account, the incremental incentive shall be deposited in the IFEM. The prevailing 7.5% deemed duty on HSD for sustainability shall continue after the 7 years incentive period for 20 years or till deregulation, whichever is earlier.

6.1.2.3. Any disallowed sales tax, confirmed by FBR, related to refinery operations, due to exempt status of Petroleum products shall continue to be reimbursed through IFEM for FY 2026 and till the validity of Upgrade Agreement(s) to be executed under the amended Policy or any permanent solution of the Sales Tax issue . Equipment to be installed, or material to be used in the Refinery Upgradation Project shall be exempted from sales tax. After upgradation, Refineries dependent on imported crude shall ensure storage capacity equivalent to 20 days of nameplate capacity. Such refineries shall ensure crude oil inventory of 20 days at commissioning of upgraded refinery (10 days physical, 5 days dock at port and 5 days within 750 nautical miles). Refineries dependent on local crude shall ensure storage capacity equivalent to 15 days of nameplate capacity and shall maintain 8 days of crude oil inventory and shall also provide confirmation of crude oil supply from local oil fields for a minimum of 20 days.

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6.1.3 Implementation Mechanism

6.1.3.1 For an existing refinery to be eligible for the fiscal incentives provided in this Policy as amended on February 2024 & August 2026, it shall within forty five (45) days after the notification of amended Policy execute a legally binding Upgrade Agreement with Ministry of Energy (Petroleum Division) through the office of Director General (Oil) or any other designated entity as nominated by Petroleum Division. The said Upgrade Agreement shall include: (i) output and outcome of the committed upgrade including maximum production of Euro V compliant MS and HSD and other value-added products and significant reduction in furnace oil as firmed up in the FEED of the Upgrade Project (ii) the proposed milestones/ deliverables with tentative timelines including Feasibility study, FEED, Financial Close, EPC; (iii) the potential configuration / units / size (while designing project, refineries to plan for eventual rollout of ethanol blended biofuels). (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. Any slippages in timelines beyond Cure Period, as provided in Clause 6.1.4.1, will have to be justified by the refineries to avoid fines/ penalties as determined under the Upgrade Agreement.

6.1.3.2 Refinery defaulting on any government dues (petroleum and climate support levy) on Petroleum Products would not be eligible to avail incentives under this Policy until a legally binding and enforceable (with 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 sign the Upgrade Agreement and start depositing the incremental incentives in the dedicated Refinery Upgradation Account on a prospective basis. The funds available in the Refinery Upgradation Account can only be drawn and used by the respective refinery on the Upgrade Project after payment of all outstanding Government Dues (petroleum and climate support levy) on Petroleum Products.

6.1.3.3 If a refinery defaults in payment of Government Dues (petroleum and climate support 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 Refinery Upgradation Account will be suspended till the time the refinery deposits the outstanding amount along with LPS, if any, provided that in case of Force Majeure, Section 6.1.6 shall apply

6.1.3.4 The Refinery Upgradation Account shall be operated in accordance with the terms and conditions to be specified in the Refinery Upgradation Account operational mechanism, to be developed by Petroleum Division, 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 24.5% of the total Project Cost from the Refinery Upgradation Account whereas, the refineries importing new PME for Upgrade Project, will be allowed to withdraw maximum of 27.5% of the total Project Cost from Refinery Upgradation Account. The release from the Refinery Upgradation Account shall be on a pro-rata basis i.e. a maximum Capped Limit of 24.5% or 27.5% as the case may be, from the Refinery Upgradation Account, and remaining from the refineries' own resources. If upgrade is operationalized within three years of signing of the Upgrade Agreement refineries will be allowed additional withdrawal of 0.5 % incentive for every year saved over and above the Capped Limit against capital expenditure (reimbursement).

(b) The refinery shall provide necessary warranties for new equipment, for the minimum period to be specified in the Upgrade Agreement. For used equipment a strict inspection and operational health determination arrangement would be specified in the Upgrade Agreement. The said operational health determination, to be provided by the refinery, shall be verified by the technical consultants to be appointed by the Ministry of Energy (Petroleum Division) or the designated entity, as the case may be.

(c) The refineries will ensure that the PME has valid insurance during all stages of the Upgrade Project including erection period.

(d) Petroleum Division 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). Cost of any delay will not be disbursed from the Refinery Upgradation Account except as provided in the Upgrade Agreement.

(e) In case the funds deposited in the Refinery Upgradation 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 GoP to meet the shortfall.

(f) The funds from the Refinery Upgradation Account will be available for withdrawal, post financial close and upon completion of 25% physical progress of the Upgrade Project or opening of matching LCs, against expenditure made for each milestone/ deliverables of the respective refinery Upgrade Project. The release from the Refinery Upgradation Account shall be on a pro-rata basis i.e. a maximum of the respective Capped Limit from the Refinery Upgradation Account and remaining from the refineries' own resources.

(g) The interest accrued in the Refinery Upgradation Account will also be used for the respective Capped Limit of the payment of Upgrade Project from the Refinery Upgradation Account, as referred above.

(h) Petroleum Division through the office of Director General (Oil) or any designated entity being signatory of the Upgrade Agreement will have a unilateral right to withdraw funds from the relevant Refinery Upgradation Account pursuant to clause 6.1.4.1.

(i) The deposit in the Refinery Upgradation Account will only be utilized for capital expenditure on the Upgrade Project. The Refinery Upgradation Account will not be used as any charge/lien/ collateral or other instrument of borrowing.

(j) The incremental incentives collected in a given month shall be deposited by refineries in the Refinery Upgradation Account, within the first 10 days of subsequent month.

    (i) In the event the refinery does not deposit the due amount of incremental incentive in the Refinery Upgradation Account as per the time stipulated 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 Refinery Upgradation Account till the time the due amount of incremental incentive along with interest is deposited in the Refinery Upgradation Account.

    (iii) If the default continues beyond 60 days, the Refinery Upgradation Account will be ceased by Petroleum Division and the balance will be confiscated in favor of IFEM and the waiver to produce and market their products shall also stand withdrawn/cancelled. Petroleum Division shall also encash bank guarantee mentioned in clause 6.1.3.6

against the outstanding dues of incremental incentive.

(iv) The cessation 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 j(i) above and on resubmission of a bank guarantee if already encashed by Petroleum Division upon clearance by ECC only.

(k) Petroleum Division will develop SOPs for filing of claims by refineries for payment of funds from the Refinery Upgradation Account and processing of the same within a stipulated time period.

(l) No cheque shall be drawn/ encashed without the signature of the authorized signatory to be nominated by Petroleum Division. Petroleum Division will ensure biannual audit of the record/ book(s) of the Refinery Upgradation Account.

6.1.3.5 Upon the execution of the said Upgrade Agreement, Petroleum Division shall provide a waiver to the respective refinery to produce and continue marketing of its products not complying to Euro-V Specifications until the agreed completion date of the Upgrade Project, which will not be later than five (5) years after the signing of Upgrade Agreement and opening of Refinery Upgradation Account within forty five (45) days of the notification of amendments in this Policy, unless extended by the Cure Period and/ or Force Majeure period. Thereafter, the waiver shall expire, and the license of refinery shall be revoked by OGRA. However, Federal Government may consider further extension of one year in the Upgrade Project Implementation period as per specific terms and conditions on case to case basis subject to plausible justifications provided by respective refinery.

6.1.3.6 Deemed duty on HSD shall be reduced from 7.5% to 5% for refineries which had not signed the Upgrade Agreement (UA) before the deadline i.e., 22nd October, 2024. The differential deemed duty over and above the 5% on HSD shall be surrendered into the Refinery Upgradation Account (net off tax paid on additional held up amount) as per following schedule:

i. 25% on signing of UA
ii. 25% after 3 months of signing of UA

iii. 25% after 6 months of signing of UA

iv. 25% after 9 months of signing of UA.

The refineries will not be allowed to use the incentives out of the Refinery Upgradation Account until the provision of an audit certificate by refineries certifying that all the above mentioned amount due on account of 2.5% deemed duty has been deposited into the Refinery Upgradation Account as per above schedule but not later than 30th June 2027. The deemed duty on HSD shall remain at the level of 5% till the time the Refineries sign the Upgrade Agreement under this amended Policy. Additionally, the deemed duty on HSD shall be reduced to 2.5% for refineries which do not sign the Upgrade Agreement by 1st October 2026. The said deemed duty shall stand fully withdrawn by 15th November, 2026 for refineries which do not sign the Upgrade Agreement.

6.1.3.7 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 Petroleum Division valid till the committed successful commissioning date of the Upgrade Project plus six (6) months. In addition to the bank guarantee of Rs. 1 billion, the refineries shall furnish an irrevocable Letter of Credit (or any equivalent financial instrument) equal to 10% of the amount proposed to be withdrawn from the Refinery Upgradation Account against the relevant milestones, to be increase gradually as project execution proceeds. The refinery will ensure an extension of bank guarantee in case the committed commissioning date of the Upgrade Project is extended by Petroleum Division, whether via a Cure Period, or a Force Majeure Period, or both. The bank guarantee, net off any outstanding obligations due under this Policy, shall be released upon Petroleum Division's satisfaction of successful commissioning of the respective Upgrade Project.

6.1.3.8 In case of non-completion of Upgrade Project within committed timelines, or relinquishment of the Upgrade Project by refinery, Petroleum Division shall encash the bank guarantee. Provided that in case of Force Majeure, Section 6.1.6 shall apply. Further, the refinery (s) shall be liable to pay back into IFEM the amount of incentives disbursed from the Refinery Upgradation Account.

6.1.4 Monitoring Mechanism

6.1.4.1 Petroleum Division will monitor the Upgrade Projects. Failure to meet the timelines committed in the Upgrade Agreement / FEED will initially result in a default notice by Petroleum Division to the respective refinery, with an allowed Cure Period. Petroleum Division may allow a maximum of one-year cumulative Cure Period subject to reduction of 1 % in the maximum Capped Limit of the Project Cost reimbursable from the Refinery Upgradation Account (27.5% or 24.5% as the case may be), along with an automatic extension of waiver for the entire Upgrade Project. The refinery's right to claim expenditure out of Refinery Upgradation Account will be suspended after the lapse of Cure Period. The timelines may also be extended under a Force Majeure period as provided in Section 6.1.6. The monitoring mechanism shall be as follows:

a) Petroleum Division shall engage third-party technical consultant(s) for monitoring/ evaluation of milestones/ deliverables. The technical consultant shall, inter-alia, review the FEED of the proposed Upgrade Project(s) including its cost, planned production slate after the upgrade and reduction in the Furnace Oil. The FEED will be finally approved by the Petroleum Division before execution of the Upgrade Projects. The technical consultant shall also verify compliance/ quantity/ quality of each milestone and associated costs for the Upgrade Project upon payment out of the Refinery Upgradation Account. The technical consultant(s) shall also verify the integrity/ capacity of the installed equipment under the Upgrade Agreement. The third- party consultant should issue project progress report on quarterly basis. Adherence to environment friendly Euro V petroleum products and declared specifications for imported crude oil to be ensured via 3rd party consultants engaged by OGRA approved laboratories i.e., HDIP etc. Spot checks for crude oil imports to be ensured for compliance with assay/ specification.
b) Petroleum Division shall appoint auditor(s) out of the leading audit firms as per list maintained by SBP, who shall carry out a bi-annual audit. Refineries to maintain a separate account for spending their share of funds on the Upgrade Projects for convenience of audit and monitoring. Regular audit of the refineries to be conducted by any firm other than selected for this assignment.
c) The cost of above technical consultants and auditors will be charged to the respective refineries from Refinery Upgradation Account and their scope of work will be recorded in the Upgrade Agreement.

d) *Upon any Delay/Default*: Refinery shall immediately inform Petroleum Division 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* Petroleum Division: In case a refinery does not progress according to the committed milestone/ deliverable even after a lapse of the Cure Period, Petroleum Division shall suspend refinery's right to claim expenditure out of Refinery Upgradation Account of that respective milestone/deliverable till such time the respective milestone/ deliverable is achieved. However, in case the default by refinery continues beyond maximum allowed Cure Period of 1 year for the Upgrade Project, Petroleum Division shall suspend the refinery's right to claim expenditure out of Refinery Upgradation Account and shall encash the bank guarantee as per clause 6.1.3.6 & 6.1.3.7. Provided that if such delay is on account of Force Majeure, whether in whole or part, then to the extent applicable, Section 6.1.6 shall apply.

f) *Project Relinquishment:* If at any stage, a refinery decides to relinquish the Upgrade Project, the funds available in the Refinery Upgradation Account shall be withdrawn by Petroleum Division for utilization in the IFEM pool. The defaulting refinery shall be liable to pay back the amount already withdrawn from the Refinery Upgradation Account and surrender the amount in IFEM pool maintained by OGRA. Provided that if such relinquishment is on account of Force Majeure, then Section 6.1.6 shall apply.

g) After the payment of a maximum of the respective Capped Limit of the expenditure on Upgrade Project, Petroleum Division will withdraw the unspent funds available in the Refinery Upgradation Account for utilization in IFEM pool and close the Refinery Upgradation Account.

h) Refineries will submit a monthly audited report to Petroleum Division with regard to the due amount of incremental incentive required to be deposited in the Refinery Upgradation Account and the actual amount deposited in the said account(s). Petroleum Division shall reconcile the funds deposited in the Refinery Upgradation Account with the refineries on monthly basis.

i) In case any refinery does not deposit the incremental incentive in the respective Refinery Upgradation Account within due date as referred in clause 6.1.2.2 and 6.1.3.4, Petroleum Division 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 Petroleum Division for a settlement in the first instance. For the purposes of interpretation, in the case of any inconsistency between the provisions of the Upgrade Agreement and the Policy, the provisions of the Upgrade Agreement shall prevail and govern.

6.1.5 Policy implementation

6.1.5.1 Subject to Section 6.1.5.3 below, for any dispute arising under the Upgrade Agreement signed pursuant to this Policy, the matter shall be referred to arbitration. The arbitration proceedings shall be conducted by a tribunal consisting of three (3) arbitrators, one (1) each to be appointed by the disputing parties and the third arbitrator, who shall act as the chairman of the tribunal, by the two (2) arbitrators nominated by the disputing parties. The arbitration shall be conducted in accordance with the Arbitration Act, 1940, as amended from time to time or any statutory re-enactment thereof. The seat and venue of arbitration would be Islamabad, Pakistan. International arbitration permission will require approval of Federal Cabinet.

6.1.5.2 Anomaly and removal of difficulties Committee shall be constituted which shall address the issues/ anomalies faced during implementation of this Policy. The committee shall consist of the following:

i. Secretary, Petroleum Division (Chairman)
ii. Secretary, Finance Division
iii. Secretary Law and Justice Division.

The committee will also formulate its TORs.

6.1.5.3 In case of any dispute under the Upgrade Agreement, to be signed pursuant to amended Policy, Petroleum Division and refinery shall try to settle the dispute by mutual consultation failing which Petroleum Division or Refinery may refer the matter to a mediator, to be nominated jointly by Petroleum Division and Refinery, for mediation within thirty (30) days. If the mediator fails to bring the parties to an agreement within the given timeframe or if the outcome of mediation is not acceptable to either party, the matter shall be referred to arbitration under Section 6.1.5.1.

6.1.5.4 A Project Management Unit (PMU) comprising of technical and financial experts shall be constituted at Petroleum Division to ensure smooth implementation of the Policy; this responsibility can also be assigned to any other entity under the administrative control of

Petroleum Division. All expenses related to this matter shall be met from the Refinery Upgradation Account(s).

6.1.6 Force majeure

In addition to any applicable Cure Period, the timelines in this Policy shall be subject to any extensions as may be provided for on account of force majeure, by way of a Force Majeure Period. The conditions and consequences for invoking force majeure shall be as provided in the Upgrade Agreement.

6.1.7 Indemnity

The refineries shall indemnify and hold harmless the Federal Government, Ministry of Energy (Petroleum Division) including the office of Director General (Oil)/ any other designated entity, OGRA and their respective officers, employees, consultants and representatives from and against all losses, claims, damages, liabilities, penalties, costs and expenses arising out of or in connection with Upgrade Projects under this Policy.

6.1.8 Policy consistency

The Policy framework including its incentives as well its timelines shall remain unchanged during the currency of the Upgrade Project.

6.1.9 Opening and maintenance of refinery upgradation account

Ministry of Energy (Petroleum Division) shall open dedicated Refinery Upgradation Account (s) for deposit and withdrawal of incentive amounts to be collected by each refinery under this Policy. A detailed operational mechanism for the said account (s) shall be developed in consultation with relevant stakeholders.

6.1.10 Onshore foreign currency account

A Refinery at its option shall be permitted to open and maintain an onshore foreign currency account(s) and maintaining a foreign currency credit balance as per prevalent policy of State Bank of Pakistan. The said onshore foreign currency account may be fed with the Refinery's export proceeds. The State Bank of Pakistan shall facilitate the refineries in arrangement of foreign exchange for Upgrade Project including foreign exchange forward import cover through commercial banks. Any offshore debt to be arranged will be registered with State Bank of Pakistan. This enablement is critical for timely financial close of the Upgrade Projects.

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 Ministry of Energy (Petroleum Division).

7.2. The Policy shall supersede all previous refining policies.

7.3. All Refineries (regardless of execution of Upgrade Agreement) shall surrender all availed incentives under the Policy, 2023 and would be eligible for incentives afresh for a period of seven (7) years from the date of signing of Upgrade Agreement under the amended Policy.

7.4. 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. “**Capped Limit**” means the maximum amount eligible for withdrawal or reimbursement from the Refinery Upgradation Account in respect of the Upgrade Project, calculated in accordance with the details to be provided in the Upgrade Agreement.
2. **“Cure Period”** means the time period granted to refinery by Petroleum Division to remedy the refinery’s lapse on committed milestone.
3. **“Deep Conversion Refineries”** means Refineries that are equipped with a cracking facility, wherein furnace oil is converted/minimized to produce more Petrol and Diesel.
4. **“Deregulation**” means the pricing regime where refineries are free to set their own price on market competitive basis.
5. “**Environment**” means the Environment as defined under the Pakistan Environmental Protection Act, 1997 (XXXIV of 1997).
6. **“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.
7. “**Exchange Rate**” means the selling rate for US Dollars expressed in Rupees, as published by the National Bank of Pakistan prevailing at the close of the Wednesday that is also a Business Day; and with respect to any Wednesday that is not a Business Day, the said rate prevailing at the close of the last preceding Business Day prior to such Wednesday;
8. “**Existing refinery/ Brownfield Refinery**” means existing refineries already operating under a license issued by OGRA.
9. “**External Auditor**” means the external audit firm amongst one of the audit firms namely PricewaterhouseCoopers, KPMG, Ernest & Young and Yousaf Adil.
10. **“Refinery Upgradation Account (s)**” means an account to be opened for disbursement of incentives to the refineries under this Policy
11. **“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.
12. **“Fiscal Incentive”** bears the meaning as mentioned in Section 6 of the Policy.
13. **“Force Majeure”** as referred at Clause 6.1.6 of the Policy.
14. **“Government Bodies”** means any national agency, authority, departments, inspectorate,

ministry, court, tribunal, either public or statutory.

15. **“Hydro Skimming Refinery”** means the refinery equipped with atmospheric distillation, naphtha reforming and necessary treating processes.
16. “**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.
17. “**License**” means a license granted under Oil and Gas Regulatory Authority Ordinance, 2002 (XVII of 2002) and the rules made thereunder.
18. “**MEPD**” means Ministry of Energy (Petroleum Division).
19. “**Mild Conversion Refinery**” means a refinery equipped with atmospheric and vacuum distillation, naphtha reforming and vacuum gas oil mild hydrocracker.
20. “**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.
21. **“OGRA”** means Oil and Gas Regulatory Authority as defined under the Oil and Gas Regulatory Authority Ordinance, 2002 (XVII of 2002).
22. **“Incremental Incentive”** means as defined in clause 6.1.2.2 of this Policy.
23. “**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.
24. “**Ordinance**” means the Oil and Gas Regulatory Authority Ordinance, 2002 (XVII of 2002).
25. “**Petroleum Products**” means the petroleum products specified under Schedule-III of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016.
26. “**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.
27. **“Policy**” means Pakistan Oil Refining Policy 2023 for upgradation of Existing Refineries (as amended in February 2024 and August 2026, already operating under a license issued by OGRA.
28. “**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.

29. **“Product Slate”** means petroleum products being produced by the respective refinery.
30. “**Project Cost**” means the aggregate eligible cost of the Works, for the purpose of withdrawal from the Refinery Upgradation Account, directly and solely attributable to the Upgrade Project, comprising the Foreign Component and the Local Component, as approved at Financial Close and determined in accordance with the Upgrade Agreement, excluding interest during construction, financing costs, working capital, general overheads, owner’s costs, taxes, fees, charges, non-upgrade expenses.
31. “**Refinery**” means the Refinery as defined under the Oil and Gas Regulatory Authority Ordinance, 2002 (XVII of 2002) and the rules made thereunder.
32. “**Refining**” as defined under Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016.
33. “**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.
34. “**SBP**” means The State Bank of Pakistan as defined under The State Bank of Pakistan Act, 1956 (XXXIII of 1956)
35. “**Specifications**” as defined under Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016 and notified by MEPD from time to time.
36. “**Storage**” as defined under Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016.
37. “**Substandard petroleum product**” as defined under Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016.
38. “**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.
39. “**Technical Standards**” as defined under Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016.
40. “**Upgrade Project**” means projects to upgrade/modernize/expand the existing refineries to produce environment friendly Euro V fuels of minimum Specifications to be notified by Petroleum

Division, maximize production of Motor Gasoline (Petrol), Diesel or other value-added products and reduction of Furnace Oil.

41. "**Upgrade Agreement**" means as defined in clause 6.1.3.1.
42. **"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

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