SENATE OF PAKISTAN

THE SENATE STANDING COMMITTEE

ON

PETROLEUM & NATURAL RESOURCES

REPORT 2

January to June 2005

Presented by

Senator Syed Dilawar Abbas

Chairman

SENATE OF PAKISTAN

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ABBREVIATIONS USED IN THE REPORT

ARL	:	Attock Refinery Limited
COGSCL	:	Chanda Oil & Gas Securitization Company Limited
CDM	:	Computer Data Management
FO	:	Furnace Oil
FOTCO	:	
GOP	:	Government of Pakistan
GST	:	General Sales Tax
	:	
HSD	:	High Speed Diesel
IPP	:	Import Parity Pricing
IFEM	:	Inland Freight Equalization Margin
KM	:	Kilometer
KPC	:	Kuwait Petroleum Company
MD	:	Managing Director
	:	
NLC	:	National Logistic Cell
NRL	:	National Refinery Limited
OCAC	:	Oil Companies Advisory Committee
OGDCL	:	Oil and Gas Development Corporation Limited
OGRA	:	Oil and Gas Regulatory Authority
OPI	:	Orient Petroleum Incorporated.
OMCs	:	Oil Marketing Companies
PARCO	:	
	:	
PPL	:	Pakistan Petroleum Limited
PRL	:	Pak Refinery Limited
PSO	:	Pakistan State Oil
PTCL	:	Pakistan Telecommunication Corporation Limited
RON	:	Reid Octane Number
SECP	:	Securities Exchange of Pakistan
WAPDA	:	Water and Power Development Authority
ZPCL	:	ZAVER Petroleum Corporation Limited

Preface

I am pleased to present the second biannual report of the Senate Standing Committee on Petroleum and Natural Resources for the period January to June 2005. The committee, in its five meetings during the said period discussed and deliberated upon different issues related to Petroleum and Natural Resources sector. Beside the progress and development of petroleum sector in Pakistan, the Committee discussed issues relating to OGDCL, licences to oil and gas exploration companies all over Pakistan, prices of crude and petroleum products, supply of gas to all areas of Balochistan, Sui gas field in Balochistan, Pricing mechanism of petroleum products, Oil refineries, and OGDCL Joint Ventures with special reference to financial responsibilities of the Joint Venture partners. Moreover, the Committee worked to report specifically on prices of petroleum products under a Sub-Committee of the Petroleum & Natural Resources Committee.

As the Natural Resources of the country are still not fully exploited to meet ever-growing needs of our people; therefore it is very important in the larger national interest to continue extraordinary efforts to exploit and develop natural resources of the country. Though government is striving to do the maximum in this area, but Committee feels that still certain areas of country are either not fully exploited or are untapped. It has been noted with interest that Ministry of Petroleum and Natural Resources is working on a tripartite agreement (Iran – Pakistan & India) on gas pipeline to import gas from Turkmenistan through Afghanistan – Iran or onward to India to meet the future gas requirement of the country.

I am grateful to my Senator colleagues on this Committee, whose cooperation and active participation in the committee meetings, discussions, deliberations and proceedings contributed a lot not only in highlighting but also resolving various issues of petroleum and natural resources sector in Pakistan. The Committee will keep on contributing through its recommendations to improve the performance of petroleum and natural resources sector in the country. This contribution in the long run shall be for the economic growth and overall development of Pakistan.

SENATOR SYED DILAWAR ABBAS,
Chairman

Islamabad, October 29 , 2005

SECOND REPORT OF THE SENATE STANDING COMMITTEE ON PETROLEUM AND NATURAL RESOURCES

The Standing Committee of the Senate on Petroleum and Natural Resources has held five meetings with the following agenda items during the period January – June, 2005:-

1) Presentation on exploration and production activities of OGDC, its own and joint ventures with other oil companies;
2) To consider details of the licenses granted to various oil and gas exploration companies all over Pakistan with special reference to licenses granted in Balochistan Province;
3) Presentation by Ministry of Petroleum and Natural Resources on the present crude and petroleum products' prices, their impact on domestic prices and future outlook of country's economic conditions;
4) To discuss the proposal given by Senator Dr. Nighat Agha for supply of gas to all areas of Balochistan.
5) Briefing on recent incident at Sui Gas field- PPL Version.
6) To discuss/review the report of the Sub Committee regarding pricing mechanism of Petroleum Products.
7) Briefing by Oil Refineries and Oil Companies Advisory Committee (OCAC) regarding pricing mechanism of Petroleum Products.
8) To discuss / review the report of the Sub Committee regarding pricing mechanism of Petroleum Products, specially in the present situation when International prices of oil & petroleum products are going higher & higher.
9) Briefing on OGDCL joint ventures with special reference to review financial responsibilities of the joint venture partners.

Presentation on exploration and production activities of OGDC, its own and joint ventures with other oil companies:

2. Mr. Najam K Hyder, Managing Director, OGDCL, gave presentation on the exploration and production activities of OGDCL through out the country.

3. During the presentation of OGDCL, the Chairman gave recommendation regarding the Board of Directors of OGDCL. The Chairman recommended that recognized corporate leaders specially in the field of Petroleum should be there on the Board of Directors of OGDCL for improving the working and performance of the company. Mr. Amanullah Khan Jadoon, Minister for Petroleum & Natural Resources, and Secretary, Petroleum and Natural Resources, also agreed with the Chairman.

4. Senator Dr. Muhammad Ismail Buledi suggested that surveys should also be conducted in the areas of Makran, Buleda and Turbat for exploration of Oil and Gas reserves. Senator Mouhim Khan Baloch enquired about the oil drilling companies in Pakistan with whom the Government of Pakistan has reached agreements for exploration and drilling. He further enquired that on what terms and conditions they were given the work. The Secretary, Petroleum and Natural Resources explained the details to the committee and said that there are different terms and conditions for different locations. He further said that well-head prices can be different at different places/location in the country.

5. Senator Mouhim Khan Baloch further enquired as to weather there was any consideration for extension of expired agreements with the companies. The Secretary informed that agreements are primarily made for five years and then renewals are granted on two year basis. The Secretary Petroleum and Natural Resources further apprised the committee that there is a special Petroleum Concessions Wing in the Ministry to deal with oil companies for agreements of exploration and drilling.

6. Senator Mouhim Khan Baloch suggested that gas should be provided on concessional rate to the people of Balochistan. The Secretary explained that the gas is already provided on subsidized rates to the domestic consumers all over the country. On this the Chairman asked for some details of the gas rates for industrial and domestic consumers.

Consideration of licences granted to various Oil & Gas exploration Companies

7. The Chairman asked for the details of OGDC's joint ventures, with the private drilling and exploration companies. The Secretary Petroleum and Natural Resources apprised the Committee of the details and modus operandi of granting licenses to the oil exploration companies.

8. Mr. Amanullah Khan Jadoon, Minister for Petroleum and Natural Resources, apprised the committee that 12.5% royalty goes to provinces. At least 20% of the royalty should be spent on the area, where the discovery is made so that the people of the area can benefit. He further emphasized that the Committee may recommend the provincial governments to do the needful in this regard.

9. The Chairman emphasized the need for increasing seismic surveys in the country so that more exploration and production companies are attracted. The Ministry agreed to improve the pace of conducting seismic surveys.

Presentation On Crude And Petroleum Products' Prices, Their Impact On Domestic Prices And Future Outlook Of Country's Economic Conditions

10. The Chairman asked the Ministry for presentation on the present crude and petroleum products prices and their impact on domestic prices. During the presentation, difference of opinion emerged among the members of the committee regarding fixing of petroleum products' prices either by OGRA or OCAC. The chairman Senator Syed Dilawar Abbas constituted a Sub-Committee to review and report the prices of petroleum products. The composition of the Committee was as under:-

Senator M. Sarwar Khan Kakar	Convener
Senator Engr. Mrs. Rukhsana Zuberi	Member
Senator Mouhim Khan Baloch	Member
Senator Saeed Ahmad Hashmi	Member
Senator Dr. M. Ismail Buledi	Member

The Sub Committee convened number of meetings to discuss the pricing mechanism and the suitability of either OGRA or OCAC for fixing the petroleum prices in the country. Consequently, the Sub-Committee presented its report with number of recommendations. The contents of the report may be perused at **Annexure-A.**

Briefing on incident at Sui Gas field- PPL Version

11. The Managing Director PPL, stated that company is in the business for last 50 years and the recent issue is one of its unique nature. The Committee was apprised that a lady doctor was allegedly robbed and physically assaulted during the night between 2nd and 3rd January, 2005 in her residence adjacent to the company's hospital within the premises of Sui Gas field. The incident was narrated by the lady doctor to her junior colleague (a female nurse) on the morning of 3rd January, 2005 stating that she had been subjected to physical assault and was robbed of cash amounting to Rs.25,000/- and some jewelry but did not mention about sexual assault. It was reported that there were some injury marks on her forehead and blood spots on lips. Further, she was immediately provided first aid. Since she was under deep shock and trauma therefore she refused to lodge FIR or complaint with the local police and insisted to proceed to Karachi to be with her family. She was first taken to Kandkot and then shifted to Karachi on 5th January, 2005.

12. Senators Amanullah Khan Kanrani and Mouhim Khan Baloch were of the view that why the victim was not transported through direct flight from Sui to Karachi on 3rd January, 2005. The General Manager Human Resources PPL informed the committee that in Sui there is no night landing facilities and her physical/mental condition was not stable to take her immediately to Karachi.

13. On a query by the committee, M.D. PPL stated that Sui installations are a tight security areas and overall security arrangements are looked after by the Defence Security Guards. Senator Amanullah Khan Kanrani enquired the names of the security personnel. It was informed that the four personnel namely; Lt. Col. Abdul Rashid, major Nisar Ahmed, Captain Riaz Fida and Captain Hamad were deputed during the incident.

14. The Committee members showed serious concerns and felt that definitely it was a delayed decision of her shifting to Karachi and tentamounts to very clear mismanagement on part of the Management of PPL. Chairman committee Syed Dilawar Abbas was of the view the most important action which should have been taken immediately was to inform the police authorities of the area or the local administration even if the victim was not prepared to do that because of her physical/mental condition. He further opined that whether FIR was registered or not a memo should have been sent to police by the management of PPL and there should have been more activity expected during January 3 to 7, 2005.

15. Mr. M. Iftikhar, General Manager (Human Resources) PPL informed the committee that she was admitted in a local hospital and her brother to whom she wanted to take into confidence was duly informed about her arrival in Karachi. The family of the doctor requested for provision of security, which was accordingly provided by requesting the Sindh Police. The management submitted that no evidence has been concealed and full cooperation is being extended during the investigations because Company remains conscious of sensitivities involving dignity, social implication and personal security of the employees of the PPL.

16. MD PPL categorically stated that the Company was not under any kind of pressure from any quarter to destroy or to conceal evidence from the site of occurrence of this unfortunate incident. The police has already recorded statement of Dr. Shazia and company will fully cooperate at all stages of the investigations.

17. The Committee showed its serious concern about the initial handling of the incident by the field management. Senators Engr. Rukhsana Zuberi, Mouhim Khan Baloch, Dr. Muhammad Ismail Buledi and Amanullah Kanrani were of the view that company was under pressure and has shown carelessness in handling the situation whereas the colossal damages could have been avoided if the management immediately reported the incident to the local administration. The MD PPL categorically stated that the company was not under any pressure.

18. The Minister of State for Petroleum and Natural Resources, Senator Mir Muhammad Naseer Mengal informed the Committee that the matter has been taken up at a very high level and in this context a judicial inquiry headed by a Judge of the Balochistan High Court is in process alongwith investigation by the local Police. He further informed that three officials of PPL were arrested earlier and now two more have been apprehended.

19. The committee recommended that PPL should demonstrate full cooperation during the investigations by the police to ascertain factual position and there is no second opinion whosoever is responsible should be given exemplary punishment under the law.

20. The committee observed that the management had no experience to handle such situation and when there was no pressure PPL should have been taking actions for handling the situation in a more professional manner. Senator Engr. Rukhsana Zuberi was of the view that company has not fulfilled its responsibilities to handle such an extra-ordinary incident. She stressed that PPL should have carried out internal investigations because every organization has a system and procedures for administrative control and management. She was also of the view that the victim was deliberately kept out of contract from police and her delayed departure to Karachi is beyond perception. She enquired that what would be her legal status of employment and this company have any rehabilitation/monetary compensation plan for her future. The MD PPL replied that she is still employee of the company and company will provide all possible assistance if she intends to carry on her job with PPL.

21. While concluding the meeting Chairman Committee Senator Syed Dilawar Abbas stated that mis-handling at the earlier stage by the PPL management and even the level was not appropriate to handle such a sensitive situation. He was of the view that this unfortunate incident has shattered the social fabric of the society and extended full cooperation and sympathy with the doctor for her rehabilitation. He desired that PPL management should immediately take appropriate action for compensation and early rehabilitation. (Report at Annexure-B)

REVIEW THE REPORT OF SUB COMMITTEE REGARDING PRICING MECHANISM OF PETROLEUM PRODUCTS

22. Senator Syed Dilawar Abbas, Chairman of the Committee welcomed the members of the Committee, representatives of the Ministry and Oil Companies Advisory Committee (OCAC). He said that the prices of petroleum products and crude are going higher and higher everyday in the international market which is not only public concern but is also affecting the lives of people of Pakistan apparently. Neither the Government nor the industry has any control on these prices but still we have to look for some relief somewhere. The members of the Committee are representatives of the public and have always been concerned about it and are committed to play their role to get relief for the people of this country. The Committee had made recommendations in this regard to the Ministry of Petroleum and Natural Resources earlier and at the same time decided to constitute a Sub Committee to further discuss and issue in depth and see if there is more to be added in Committee's recommendations. It has always been the desire of the Committee that the domestic prices of the petroleum products should be kept at a level where the burden of such high prices in international Market on our domestic consumer and economy of Pakistan is lesser and lesser.

23. On the question of Senator Muhammad Ismail Buledi about the absence of Minister from the meeting of the Committee the Chairman informed that he had agreed and let the Minister go to attend another meeting. To start with OCAC, the PSO's presentation given earlier to the Committee covering specially the prices of High Speed Diesel (HSD) and motor gasoline, Senator Rukhsana Zuberi alongwith her points related to prices had some questions with a view to seek clarifications on certain points before committee finalized its report.

24. Senator Rukhsana Zuberi raised the point that in the presentation it was informed that Pakistan State Oil (PSO) since the deregulation of HSD prices, out of 59 fortnightly price announcements, 45 times the PSO import cost was lower than the *ex*-refinery prices announced by the OCAC and this contributed to lower the average price of HSD for the benefit of the

consumers. She asked to explain that what is meant by lower average price of HSD?

25. The Additional Secretary, Ministry of Petroleum and Natural Resources explained that the Diesel price is calculated based on 60% imported volume while 40% is purchased from local refineries. The Oil Marketing Companies (OMCs) work out the weighted average cost of HSD based on imported and local refineries HSD price. The price of locally refined HSD is worked out by OCAC on fifteen days average, prices of HSD published in Arab Gulf Market.

26. Senator Rukhsana Zuberi further enquired about the concept of deregulation policy adopted by the Ministry. Senator Syed Dilawar Abbas the Chairman Committee explained that there is the basic concept of let the market forces play their role without government exerting the control as it is not government job to run the business. This was observed and debated in case of allowing the open price to each and every marketing company there should be different prices in different cities and different areas, especially in Northern areas and far flung areas where the cartage is much higher. However, Senator Rukhsana Zuberi observed that the calculation of *ex*-refinery price by the OCAC is on the higher side.

27. Mr. Saeed Anwar, Director (CDM) stated that the Diesel is our deficit product. To meet the requirement it is imported and the Government has authorized the Oil Marketing Company to fix their price individually on cost competition basis. He further explained that the prices of the local refineries are based on the average of 15 days and the price of the imported product is calculated cargo wise. He advised that mainly the higher prices announced by the OCAC are because the prices of crude and petroleum products are increased in the international market. However, some time in the past the *ex*-refinery price of HSD was less as compared to import price. He gave the dates on which the *ex*-refinery price was lower. On a question of Senator Mouhim Khan Baluch it was informed that the price of local crude oil is also worked out in accordance with the international market price as the Karachi refineries mainly purchase the crude from and on international market price.

28. However, the Committee members were of the view that the Ministry should give an alternate formula/mechanism for the calculation of oil prices with a view to give relief to the public. The Additional Secretary, Ministry of Petroleum and Natural Resources informed that the Government was committed with Refineries and the marketing companies that they would get international price for their products, but still wherever possible they will look into any improvement in the formula from public point of view.

29. Senator Dr. Muhammad Ismail Buledi suggested that the Government should evolve a system that average price of the petroleum products should be worked out on the basis of 3 months instead of 15 days to give stability to the prices. However, it was informed that the prices are calculated on the average of 15 days in view to pass on the impact to the consumers immediately specially the downward revision. The Chairman of the Committee also observed that the oil prices are fluctuating daily with the trend of price rise hence the people feel the pinch and therefore any fall is welcome and must be passed on to the public as early as possible. During the last 6 months the Government has injected over Rs. 48 billion to provide relief to the consumer, otherwise the same amount could have been collected as development surcharge by the Government and you can imagine the impact. The members of Sub Committee were of the view that the Oil and Gas Regulatory Authority (OGRA) may be assigned the job of pricing and Parliament should have its representation in the OGRA. On this the representatives of Government assured that the recommendations of the Committee would be considered by the Government. The Secretary (OCAC) also informed that the industry and Ministry are debating a proposal in which it is moved that freight pool management should be (handled) given in the hands of curtail its impact on the consumer as well as putting the pricing on a daily basis to pass on immediate impact to the consumer.

30. On the question of Senator Mouhim Khan Baluch it was informed by OCAC that the Government/PSO was exporting certain quantity of jet fuel to Afghanistan and was earning foreign exchange. Senator Muhammad Ismail Buledi further suggested that if the dumping of petroleum product is controlled by the Government then the prices will come down to the tune of 3/4 rupees.

31. Mr. Adil Khattak, the Director Attock Refinery, informed that Iran was subsidizing the prices of petroleum products for their own people, whereas exports are made on international prices. He also informed that the Iranian petrol is of inferior quality detrimental to engines. The Secretary, OCAC also stated that it was not in the interest of the marketing companies and refineries to allow the smuggling of oil products and they were taking corrective measures to stop the dumping. He also suggested that perhaps the freight mechanism could be reviewed to lower the price of petroleum product.

32. On the question raised by Senator Mouhim Khan Baloch regarding the internal check in PSO's sales and quality control at petrol pumps in the Balochistan area, the representative of the PSO informed that the marketing department checks the sale and quality control regularly on monthly basis. However, Senator Mouhim Khan Baloch demanded that the PSO should provide the information in writing about the number of PSO petrol pumps in Balochistan and quantum of supply of products on yearly basis for the year 2003-04. The representative of the PSO assured to provide the information within two weeks. The Chairman Committee asked all the representatives of the Oil Marketing Companies to furnish the said information and detailed working on the effect if the prices of petroleum products are not fixed at uniform rate throughout the country. The representatives of Attock Refinery and the Shell also endorsed that the dumping is a serious issue and briefed the Committee on the steps being taken by the industry to control the menace.

33. On the question raised by Chairman Committee the Ministry told that the prices are uniform at 29 depots in the country. However, the Chairman observed it is a political issue whether the Government wants to keep uniformity in the prices throughout the country. While deliberating upon the issue of freight pool deregulation and its impact on the local prices, it was proposed by a representative of industry that if the number of oil depots and locations is curtailed to eight from existing 29 depots across the country, an annual saving of Rs.1.8 billion in freight could be effected. The consumers might see a better price revision I this way.

34. A representative of the Industry also informed that the Industry was proposing to have 08 depots instead of 29 throughout the country. However, the Chairman observed that the depots may be reduced from 29 to 08 if it is feasible and in the interest of the country and the consumers. The Chairman further observed that if the dumping is controlled then the prices could come down to some extent. He was also of the view that the levies like excise duty, sales tax and petroleum development surcharge should be curtailed on petroleum products to give relief to the consumers.

35. On a question of Senator Rukhsana Zuberi regarding the percentage of investment made by the refineries in lieu of incentives given by the Government in the Tariff Protection Formula (TPF), the representatives of the refineries briefed the Committee in details on the investment made by them. Chairman of the Committee expressed his opinion about the investment made by the Refineries in improving the quality. He was not satisfied with the question of investment. Senator Rukhsana Zuberi was of the opinion that formula was valid for three years and after that the formula should be reviewed. It was informed that the prices of the refineries are fixed according to formula given by the Government / Ministry of Petroleum and Natural Resources and the Government did not allow any increase in the prices of petroleum products from May, 2004 to Oct. – Nov. 2004. Therefore, price differential and freight deficit claim became payable to OMCs by the Government. Under the existing formula there is no binding on the refineries to declare more than 50% of their dividend. Senator Rukhsana Zuberi was of the view that PARCO is public sector organization hence should not be given the protection of 25% fix return and the Government of Pakistan should pay it from the budget because they have paid all their loans. However, it was informed that the same was being paid from the budget and it has no impact on oil pricing.

36. On observation of Senator Rukhsana Zuberi that the oil refineries were getting 10% additional on HSD, it was informed that this is a tariff protection and this kind of protection is available to the industry in the third world.

37. Thereafter, the Committee discussed the margins of profitability and premium calculating by the Refineries on HSD and Motor spirit. Senator Rukhsana Zuberi was of the view that refineries are getting undue patronage and

overcharging in the price which is the main factor for higher price. She suggested that by taking corrective measures *i.e.* doing away with the existing Naphtha + US $60 formula and not charging premium on Platt's price and fixing the price at 92 RON instead of 95 RON, prices of POL products could be reduced. She accused OCAC for not using Platts 95 RON since it was published and continuing to use Naphtha + US$60. However, the representative of the Industry clarified that no over charging was being made on any account and that the prices were calculated as per the Government approved formula. The Secretary OCAC stated industry wise presentation to discuss the issue in depth will be arranged at Karachi.

38. On the question of Senator Rukhsana Zuberi regarding import of Furnace Oil by WAPDA it was informed that after deregulation of import of Furnace Oil all OMCs, IPPs, KESC and industrial consumers are allowed to import the deficit Furnace Oil over and above the domestic production of Refinery. The WAPDA had managed to import Furnace Oil to meet its partial requirement. The Senator also added that the WAPDA has informed in response to her letter that price of Furnace Oil imported by WAPDA were lower than the rates of product charged by OMCs as result of which WAPDA has made substantial savings. On the other side WAPDA advised that because of no storage facility of their own and other logistic problems they stopped importing Furnace Oil. The Secretary OCAC also informed that the WAPDA had placed month wise demand to OCAC but they did not consume any quantity during a certain period because they were only producing electricity from Hydel.

39. A representative of the Industry informed that the Industry has been asked to work out a proposal on 95 RON and the Industry is in the process of finalizing of report this week and it will be sent to the Ministry by end of the next week.

40. It was also told that today's diesel price was nearly Rs.24 at cost and the marketing companies were taking the load of Rs.4.70 and Rs.5.50 per liter on diesel and kerosene oil respectively for which the Government was to pay them back. There is no excise duty over diesel and 80 paisa excise duty has been fixed on Motor Spirit. The Government has caped the prices since May 2004 to December 2004 and the burden of the shortfall would have to bear by the Government.

41. The Chairman of the Committee stated that Senator Rukhsana Zuberi has raised two issues regarding prices of Motor Spirit and the Diesel. However, to give the relief to the public the solution can be found between 90 and 95 RON. Senator Rukhsana Zuberi was of the view that the industry was overcharging from the people by using the old formula given by the Government while Platt's prices are available everyday and those should be really the base for fixing the price and save consumers from overpaying billions of rupees. She also stated the Refineries were overcharging extra Rs.1.38/liter from the consumer as it came to light by a letter of Ministry. The Ministry cleared the position and whatever was being charged was as per formula.

42. Summing up the discussion on the issue the Chairman Committee desired that the formula for calculation MS ex-refinery price may be reviewed by calculating its price based on MS 92 RON or MS 95 RON Arab Gulf Market price instead existing Naphtha + $60 price. As the Committee's four recommendations made earlier are with the Ministries of Finance and Petroleum and Natural Resources for consideration, therefore it is expected that some relief should be there for the consumers. One important recommendation of the Committee is to hand over the pricing of petroleum products to OGRA and now there should not be any delay in that. It has to be decided by the Government how much relief can be given to the public by curtailing levies like excise duty and Sales Tax. He also suggested that Petroleum Development Surcharge should be kept at zero till the time prices of crude and products in the international market come down and stabilize.

Briefing by Oil Refineries and Oil Companies Advisory Committee (OCAC) regarding pricing mechanism of Petroleum Products

43. The Chairman OCAC Mr. Farooq Rahmatullah informed the Committee regarding the extraordinary increase in international oil prices due to increase demand of POL products by Chinese and Indian economies, limited refining capacities, demand and supply gaps, and fear element in the oil prices.

44. The Chairman OCAC further added that OCAC has proposed moving towards the practice of announcing the prices on a daily basis, which would reduce the fluctuation in price to 10 to 20 paisas per liter as against the cumulative fluctuation of Re. 1 to Rs.2 per liter or even more on fortnightly.

45. Some of the members of the Committee were of the view that Pakistan may get cheaper products from Iran. It was explained that Iran was subsidizing the price of petroleum products for its own people and where as exports are made on international prices. At present Pakistan is paying international prices and no discounted product is available in international market and if Pakistan was to import from Iran, it would be on prices prevalent in the international market.

46. On the subject of ex-refinery prices, Senator Mrs. Rukhsana Zuberi was of the view that refineries are getting undue patronage and over charging in the price, which is the main factor for higher price. She suggested that by taking corrective measures *i.e.* doing away with the existing Naphtha + US $60 formula and not charging premium on Platt's price and fixing the price at 92 RON instead of 95 RON, prices of POL products could be reduced. She accused OCAC for not using Platts 95 RON since it was published and continuing to use Naphtha + US$60.

47. The Secretary General (OCAC) clarified that OCAC was not overcharging on any account and that the prices were calculated as per the Government approved formula and the Ministry of Petroleum & Natural Resources monitored the same to ensure that there was no overcharging. On a query by Senator Mrs. Rukhsana Zuberi on Premium as quoted in Platts, it was explained to her that the premium quoted in plats referred to an included, trader margin, freight and additional cost due demand-supply position in the region and it did not refer to product quality as understood by her.

48. The Chairman OCAC stated that curtailing the ex-refinery prices is not an easy task and any change affecting the present income streams of the Refineries would bring them closer to the possible collapse of oil refining sector in Pakistan. The Chairman narrated the position Pakistan had come to during the Iran-Iraq war and the country was on hand to mouth. He further said the China and India were looking to tie up strategic reserves around the world now only, as demand for oil would start to surge in the years to come. He said Pakistan should be working to tie up reserves now so that they can be use to us in the years to come. He further added that changing pricing formula at present would be detrimental, as the refineries would shut down. He said the change would also affect the privatization of the National Refinery.

49. The Chairman OCAC informed the Committee about the Industry's contribution in maintaining strategic reserves or Government of Pakistan and huge investments in storage have been made. He said that strategic reserves were the responsibility of the GOP, however at present it was the Oil Industry which was doing so. He further informed that the industry has made an investment of Rs.117 billion on an annual basis while the oil industry's cumulative profits in the year 2004 stood at Rs.9.0 billion.

50. The Chairman OCAC stated that despite the increase in international prices of Diesel, Oil Marketing Companies are subsidizing the price of diesel by Rs. 4.17 per liter during the current fortnight. This subsidy will add to the existing deficit of Rs. 5.0 billion on account of price differential claim. On the issue of dumping Chairman OCAC stated that the industry was working on an improved model, which would reduce the number of depots but eliminate dumping and advantage, some transporters were making out of this issue. He added that under the new proposal the depot would be reduced, to 8 which is still 85% of the total storage of the country. The saving to the consumer would be approximately Rs.1.8 billion annually in freight pool cost and as OMC would be negotiating their freights this could be even higher. The new model will also encourage competition between Oil Marketing Companies.

51. On the subject of OMC and Dealer Margins the Committee was of the view that Oil Industry was making huge profits at consumer's expense. Mr. Farooq Rahmatullah informed the Committee that OMCs margins are the lowest in the region including Far East. He requested the Committee to propose and increase in the dealers margins to four and five percent, respectively as committed earlier by the Government. He highlighted about the OMCs efforts in providing the best international standard facilities to the

consumers at the retail outlets level where they are getting right quality and quantity products.

52. Thereafter, Secretary General, OCAC gave presentation on OCAC Secretariat and its functions. He informed the Committee about the role of OCAC and highlighted the development of 15 years National Energy plan, Development of Standards for the Petroleum Industry, which had been sent to Ministry of Petroleum & Natural Resources and OGRA for review and necessary actions. Managing and providing information to Government and Industry on daily storage position and managing the demand and supply balance.

53. The Committee asked the OCAC to provide the following information on priority:

1) Workings for Motor gasoline on 92 RON and its impact to the Refineries
2) Sales of OMC's in the Baluchistan Province on retail outlets basis for 2003-04 for all OMC's and
3) Pros and cons of daily pricing versus fortnightly pricing.

Review the report of the Sub-Committee regarding pricing mechanism of Petroleum Products, specially in the present situation when International prices of Oil & Petroleum products are going higher & higher

54. The Secretary, Ministry of Petroleum and Natural Resources appreciated the efforts of the Sub Committee for preparing a detail report on the price formula mechanism and stated that the representatives of Oil Marketing Companies and the Refineries will respond the certain issue / queries which could not be cleared so far. He further sought clarification from the members of the Sub Committee to identity Government directive which were not being complied with the Ministry. However, Senator Rukhsana Zuberi distributed a summery of the report focusing on certain issues and desired that the discussion should be focused on that.

55. The Secretary Ministry of Petroleum & Natural Resources while responding to the observation made in the summery "that the people of Pakistan over a period of 5 years have paid in excess of Rs.150 billion approximately which was shared between Refineries, OMC's International Head-quarters of Multinationals and the share holders" stated that cumulative profits of all the oil marketing companies and the industry during the last five years did not come to Rs.150 billion. Therefore, the calculation was incorrect.

FREIGHT POOL

56. The Secretary OCAC stated that in order to keep the prices uniform in the country, IFEM system is being applied at 29 specified depots. Substantial savings have been brought to the Government exchequer since the handing over the Freight Pool to the Industry for self management. He added that under the new proposal the depots would be reduced to 8 which is still 85% of the total storage of the country and overall saving would be 1.5 billion rupees to consumers. The 8 depots would be located at Karachi (Kemari, Port Qasim), Shikarpur, Mehmud Kot, Quetta, Machike, Faisalabad, Chaklala, Sihala then Taru Jabba. If the government decides not to equalize the freight rate then prices of the oil products through out the country would be different. The Secretary Ministry of Petroleum & Natural Resources also stated that it was government policy that products prices all over the country should be kept uniform. He further said that the OCAC has suggested 8 depots, but here it is the concern of the Ministry that because of reduction of 21 deports; the prices will differ at different stations in the country and that will not go will with the public in those areas specially where the prices will be on the higher side.

57. At this juncture, the Chairman endorsed the view point of the Senator Mrs. Rukhsana Zuberi that companies should manage the freight pool in more professional manner. He said although it is being managed by the companies but as there are 29 depots from where the products were being lifted. Resultantly, the prices of products are dept equal throughout the country. He asked the Ministry to evaluate the present system and see that how efficiency can be brought into the system of freight pool by reducing number of depots from 29 to 8 in the country as proposed by OCAC.

58. The DG (Oil) informed that according to the working of the Industry the consumer would get benefit in the range of 5 paisas on motor gasoline and 6 paisas per liter on Diesel.

However, in case of remote areas the will increase from Rs.2 to Rs.3 per liter which shall create an issue and complicate the process for the government.

59. The Committee asked the Ministry to workout the impact on the prices if instead of eight 10 to 12 depots are established against the present 29 depots.

60. On the question of Senator Bibi Yasmeen Shah it was informed by the Secretary Ministry of Petroleum & Natural Resources that prices of petroleum products are paid to the refineries according to international pricing formula subject to some adjustments.

61. On the question of transportation of Senator Azam Khan Swati the Secretary Petroleum & Natural Resources stated that free market forces can't operate as it is done in other countries for transportation of petroleum products. To keep uniformity in prices there has to be a local formula. Psychologically it is not acceptable to the people of Pakistan to have different prices of products in different areas of the country. The Chairman stressed that the Ministry should further examine the issue in the larger interest of the consumers.

OIL MARKETING COMPANIES' MARGINS

62. On the question of OMC's margins, DG (Oil) apprised the Committee that the maximum margin of OMC's on gasoline is 3.5% of ex-depot sale price. The Secretary OCAC also explained that since 1993 when the margins were revised a huge investment was made by marketing companies in availing up the storages, the distribution systems, pipelines and the retails outlets which are of international standards. He was of the view that in case margins are revised downwards the consumers will be affected by adulteration in the petroleum products as a result of overall revision. This margin constitutes only one rupee presently. Senator Rukhsana Zuberi made an observation that the oil industry's cumulative profits in the year 2004 stood at Rs.9 billion where as against the industry overall especially refineries have failed to make investment to bring improvement. The Secretary Ministry of Petroleum also observed that any change in the OMC margin at this stage would sent a very negative signal to investors, especially when the privatization of National Refinery and PSO is being pursued actively.

63. The Chairman Committee observed that the OMC margins have been fixed and the government has taken the responsibility of fixing those margins. However, the Ministry should re-examine the issue and report in writing to the Committee.

ATTOCK REFINERY LIMITED (ARL)

64. It was stated in the summery that ARL has been benefited by Rs.3 billion freight paid for Badin crude transportation. ARL get paid for freight for bringing the crude from South and also included in the products prices of that crude.

65. The representatives of ARL clarified that ARL got the southern crude for processing in the larger interest of the country, as it was not possible to process the southern crude in the Southern Refineries because of the quality of the crude. Since crude is being transported at ARL at Rawalpindi therefore, ARL is only reimbursed the cost of transportation of crude. In case of the movement of products same quality from South to North would have costed more; hence the consumers are benefited by approx. Rs.2.5 billion.

66. At this juncture, the Chairman stated that this point must be very clear that crude explored at Badin in the southern region of Pakistan was not acceptable to the refineries in the South. This proposal was debated many times but it was dropped because bringing the crude from South to a North refinery was not a viable proposition, therefore it was decided to export some quantities and some quality to be supplied to ARL for processing. If the petroleum products were to be moved from Karachi to north, its cost would have been much more what consumers are paying for the southern crude freight so there was a saving of Rs.2.5 million which has already been passed on the consumers by virtue of this crude being processed at ARL.

67. On the question raised by Senator Waqar Ahmed Khan regarding the volume per annum it was informed that the refinery was taking about 16,000 barrels a day.

68. However, Senator Rukhsana Zuberi referred the letter of Ministry of Petroleum issued

in December 1997 wherein it was stated that since Karachi Refineries are near to above oil fields as such above crude oil be delivered to Karachi refineries as its transportation cost is paid by OGDC and Government of Pakistan in their respective shares. The crude was processable by mixing of crude processed by Karachi refineries as per this letter. Secondly it was pointed out by her that the Karachi refineries are losing US $0.56 million because of processing some other local crude oil in lieu of Tando Alam (Bobi's) crude and there could be net saving of US $ 0.84 million. Chairman referred to his earlier details comments; but because of the new point raised comparative figures provided, he asked the representative of ARL to provide update information in writing covering all the points raised by the Senator on the issue.

69. On an observation made in the summary of the report that why the refineries are getting the margin of Middle East as their product are based on import parity. It was informed by the representative of refineries that the crude was being imported from the Middle East region. We are bound to take the products margin of that market from where the crude is being imported. Moreover, product margin is always depends on the supply demand position of the region even for minor products. Chairman of the Committee elaborated the point that all the refineries selling their 5 products in the region are processing the regional crude by their products are sold in international markets on international margins determined by supply and demand.

70. Senator Rukhsana Zuberi further observed that no corrective action was taken by the GOP that the price of imported HSD, which is also a premium product, is lower than the OCAC price. Instead GOP on 30th August 2002 decided that effective 1st September 2002 each oil marketing company will notify the maximum ex-depot sale prices of HSD on cost competition basis. She again pointed out that the prices of oil products are not taken from Platts Oil gram resultantly the cost of the producers are high.

71. It was informed by the representative of the Ministry that as per the GOP policy of deregulation it was to minimize governments involvement in the oil business hence OMCs were authorized to import and notify the price of HSD individually on cost competition basis *w.e.f.* 1-09-2002 to cater for country's demand. There are two sources of supply of HSD *i.e.* imported and locally produced by the refineries. The ex-refinery price of HSD is announced by OCAC as per Government approved formula. Import is as per actual import cost worked out on 5 days average of B/L date. The OMCs then only determine the weighted average cost of supply and announce the ex-depot sale price individually through separate notifications. Every product carry a premium irrespective of the quality. It was further informed that prior to deregulation of HSD, GOP were using KCP premium for calculating the ex-refinery prices of white products. However, under the approved pricing formula the premium of white products, the Secretary OCAC also explained that they are using average of Kerosene and Gas oil premiums being published in Platts Oilgram for all white products *i.e.* MS, HOBC, SKO, HSD, JP-1, JP-4, while for black products (LDO), OCAC is using the quarterly average of actual premium paid by PSO on the imports Furnace Oil. Premiums on MS and HOBC can be the average of the two whichever is lower.

72. Senator Rukhsana Zuberi also referred the Government policy of de-regulation of import of POL products and observed that the approval was on the basis of de-regulation and withdrawal of custom/excise duties which has not yet been done. The anomalies are there in this deregulation policy and there is monopoly of few companies as NLC is the sole freighting company and Fauji Oil Terminal as only Storage Company that denies equal opportunities to private sector companies.

73. The DG (Oil) apprised the Committee that the Summary for the Cabinet dated 15-05-2000 mentioned was draft Summary, which was circulated to various Ministries for their comments on deregulations of import of Fuel Oil only. The Custom/Excise Duty of Rs.35.20/MT and Development Surcharge of Rs.327.90/MT was replaced with 1% Surcharge on Furnace Oil as decided by the Cabinet in its decision dated 14-06-2000. NLC have never been engaged in the transportation of POL products except during emergencies/strikes. The OMCs transport their products on their own through the private carriage contractors. Further imports of deficit products are allowed both at Kemari and Fauji Oil Terminal (Port Qasim). There is no restriction on any importer to import product at any specific port.

74. It was also informed that it is fact that Petroleum Development Surcharge has never been a part of Ex-Refinery price? And still it is not a part of the same. In fact effective 1st July 2002 while doing away from the minimum 10% guaranteed rate of return to NRL, PRL, and ARL, the refineries were given new pricing formula called Tariff Protection Formula, which *interalia* contains the following import duties as deemed duty to work out the ex-refinery prices:-

HSD	10% ad-valorem
Kerosene	5% ad-valorem + 1% import surcharge
LDO	5% ad-valorem + 1% import surcharge
JP-4	5% ad-valorem + 1% import surcharge

However, it was agreed that the refineries would be directed to go for investment in the modernization and up gradation and submit their plan immediately.

75. The Committee unanimously recommended that refineries are getting their margins / premium they must improve the quality and quantity of oil products and make the environment friendly processes by investing funds under tariff protection formula. It was also observed by the Committee that each refinery give detail working in writing to the Committee on their profit / premium gained and the investment in modernization or expansion programme if made after the de-regulation of oil products under the Tariff Protection Formula.

76. The Committee agreed with the suggestion made by the Senator Azam Khan Swati that the monitoring system of the Oil Marketing Companies should be strengthened and to make it transparent by the checking of the Government agencies as far as adulteration and quality of oil products is concerned.

77. The Secretary OCAC and the representative of Oil Marketing Companies apprise the Committee about the checking system maintained by them.

78. On a question raised by Senator Mohim Khan Baloch it was informed that Iran was subsidizing the prices of Petroleum products for their own people and whereas exports are made on international prices. Although Iranian gasoline available in Balochistan on cheaper rates yet it is of inferior quality and detrimental to engines.

79. While discussing the menace of dumping of oil products, Senator Dr. Muhammad Ismail Buledi observed that all officials of the oil marketing companies are involved in dumping of oil products.

Recommendations

80. On the recommendations given in the Executive summary suggesting that regulatory role of fixing of pricing of oil product be given to OGRA, the Ministry informed that issue is under active consideration of Ministry for which a consultant has already been appointed whose report is likely to be received by June 30, 2005. The Chairman Committee observed that the Committee has already recommended to the Government that:-

1) Firstly, the regulatory role fixing of pricing of oil products should be handed over to OGRA. Secondly, those public representatives who have made significant contribution in the Petroleum & Natural Resources fields should be associated with the OGRA to ensure the protection of the consumer's interest.

2) **Import Regulatory Duty be removed as 70% goes to refineries**

While discussing above proposed recommendations the representatives of the refinery observed that the point raised is related with the deemed duty which is the part of Tariff Protection Formula and the formula should not be changed till the refineries are upgraded. However, Senator Mrs. Rukhsana Zuberi observed that the focus of the Committee was on consumer protection as the prices of the oil products were increasing day by day. The subsidy which was due to be paid to the refineries by the Government has been transferred on to the consumers. Due to sale and excise taxed and OMC's margins the prices of 1 liter petrol has been increased upto 22%.

The Chairman Committee observed that the Committee was watching the interest of the consumers. The Ministry had tried and tested couple of formulas since de-regulation of crude and other oil products prices but refineries have not invested in the upgradation of the refineries inline with the understanding given under Tariff

Protection Formula. The Committee was unanimous in its opinion that oil refineries should bring improvement in the quality of their products while investing the funds generated over the period under the government given Tariff Protection Formula be reviewed with a view to give maximum relief to the common man/consumers.

3) **Allowing premium on all the products under the Formula for white and black products**

Senator Mrs. Rukhsana Zuberi was of the view that black & while products can not be the basis of premium as different products have different premiums.

The Secretary OCAC apprised the Committee that prior to de-regulation of HSD, GOP were using KPC premium for calculating the ex-refinery price of white products. However, under the approved pricing formula, the premium of white products as published in Platts, Oilgram was allowed for calculation of ex-refinery prices of white products. The OCAC has explained that they are using average of Kerosene & Gas oil premium being published Platts Oilgram for all white products i.e. MS, HOBC, SKO, HSD, JP-Q, JP-4, while for black products (LDO), OCAC is using the quarterly average of actual premium paid by PSO on the import Furnace Oil. Premium on MS and HOBC can be the average of SKO and Gas Oil. Premium for SKO or Gas Oil to be taken as published or average of the two whichever is lower.

The Committee called upon the government to review the allowed premium on various petroleum products given under the Tariff Protection Formula and the marketing companies should justify those premiums on the basis of the Platts published prices. The Committee also asked the refineries that products report regarding the premium being fixed should be prepared and submitted to the Committee for its perusal.

4) **GST to be reduced, excise duty/custom duty be abolished**

The Chairman Committee stated that the Committee has already recommended that GST, excise duty / custom duty should be decreased or abolished in order to provide relief to consumers.

5) **Gasoline be priced on import parity basis on published prices 95 RON in line with true sprit of import parity**

The refineries was asked that a consolidated and comprehensive report should be prepared highlighting the rational that it was in the interest of the consumers if the prices of the petroleum products are worked out on the basis of 60$ instead of 90.

6) **IFEM be given under impartial body for management**

The Ministry was asked to re-evaluate the proposal and given its report to the Committee in writing.

7) **Diesel Price paid be adjusted by imposing a surcharge and removal of premium till they start producing low sulphur diesel**

The Secretary OCAC explained that the ex-refinery price of HSD is being worked out on the basis of fortnightly average of Arab Gulf market HSD price and average premium of white products as published in daily Platts Oilgram whereas the landed cost of HSD being imported by PSO is based on 5 days average Arab Gulf Market HSD price as published in Platts depending upon the B/L date and premium agreed for 6 months with KPC. Therefore, the HSD ex-refinery price calculated by OCAC and landed cost of HSD prices is higher while in decreasing trend it may be lower than PSO's imported cost. Unfortunately the price trend in the past 18 months have been on continuous increase. That is why the PSO of HSD remained lower on most of the fortnights than the ex-refinery prices of local refineries.

8) **FO be traded on de-regulated basis rather than monopoly of three OMC's be discontinued and regulatory body be assigned this task also**

Senator Rukhsana Zuberi expressed that after import of Furnace Oil was de-regularized in 2000 and taken out of purview of OCAC, WAPDA carried out detailed study and found it more cost effective to import themselves. MP & NR moved a Summary in ECC and WAPDA was stopped to import after 3 quarters. Pakistan requires 180 CST furnace oil which as per Platts is not identified as a premium product.

The DG Oil informed that Furnace Oil was already re-regulated. Ministry of Petroleum & Natural Resources have neither moved any summary to Cabinet / ECC for stopping WAPDA to import Furnace Oil not Ministry of Petroleum restricted them to import Furnace Oil. Further WAPDA was asked to import FO as per their requirement in March, April & May 2004 but they regretted. However, the Chairman Committee directed the DG Oil to rewrite a letter to WAPDA for importing furnace oil if they are needed for the satisfaction of honorable Senator; although WAPDA had advised in writing that why they stopped importing – mainly because of logistics.

9) **Creation of numerous DMD & ED positions and Placement of people from Multinationals Private Concerns be examined and ascertained as whether these were done in accordance of Law**

The Committee observed that the above mentioned matter relates with corporate affairs therefore, the Committee has no concern with it.

The Committee asked the Ministry to submit their report in writing along with relevant documents to the Standing Committee on priority basis:-

1. Approval of 10% deemed duty instead of proposed 5% by the Ministry plus 1% surcharge in the Budget 2002-03.
2. Why excise duty & custom duty was not abolished while it was proposed along with imposition of deemed duty.
3. Why the practice of calculating OMC's commission on volume was changed to value basis.
4. What is freight arrangement for ARL crude from South? What rates are being paid and why the higher cost implications then projected were not monitored?
5. What guarantees are provided to FOTCO & NLC; Contracts for MOU's be provided?

Briefing on OGDCL Joint Ventures With Special Reference to Review; Financial Responsibilities Of The Joint Venture Partners

81. Ministry of Petroleum & Natural Resources while giving presentation stated that the OGDCL is one of the major public sector corporation in Oil & Gas sector and is number two after PTCL in terms of profitability, revenue, OGDCL is producing 34% gas; while in the country's oil production it has 56% share. The profit of the Corporation for the last year was 20 billion and its current profit is 24 billion for the 9th months of the year. It operates 19 concessions and is investor in 16 joint ventures. It is the major organization in the business of oil & gas exploration and production in the country.

82. At the outset the Managing Director, OGDCL who was asked to brief the Committee gave the details of non-operated joint venture concessions and operated joint venture concessions. He advised that non-operated joint ventures are being run by the managements of partner companies while the operated joint ventures are under the Management control of OGDCL. The production figures of various producing oil & gas fields were also presented before the Committee. The financial responsibilities of joint venture partners towards joint operations were highlighted by showing the transparencies which are part of the minutes of the meeting. He briefed that if cash calls are not paid by joint ventures partners then under the terms of the agreement the partner's in default will have to pay an additional sum calculated on the unpaid balance @ 1.5% per month or any fraction of month until paid. It was also advised that there was an outstanding cash call which is to be paid by Orient Petroleum Inc. (OPI) the OGDC's joint venture partner. Due notices have been issued by OGDC to its partner as per terms of agreement though part payment has been received, but one portion of payment is still outstanding. However, the Committee directed the management of OGDCL and Ministry of Petroleum & Natural Resources to follow it up vigorously and submit a report in this regard to the Committee at the earliest.

83. On a query made by the Chairman of the Committee, the MD explained the procedure of recovery to be adopted by the corporation from the joint venture partners in case of default takes place at exploration stage. However, the Chairman and the other members of the Standing Committee made critical observations on the issue of outstanding financial liability of OGCL's joint venture partner and asked OGDC's management to effectively make recovery from those joint venture partners who are defaulting despite of generating very attractive returns from the joint ventures.

84. It was further observed and noticed from the available documents and record including of prospects of public offer of Term Finance Certificate of Rs.250 million out of Rs.1000 million. In this transaction the ZAVER Petroleum Corp Ltd. (ZPCL) will sell and Chanda Oil & Gas Securitization Company Ltd. (COGSCL) (both companies belonging to the same group) will purchase the future receivables for a consideration of 1000 million. So in this case ZPCL as seller of receivable is originator and COGSCL as buyer of receivable. Prime obligators Sui Northern Gas Pipelines, Attock Refinery Ltd, purchaser of LPG, as and when appointed by OGDCL.

Risk Factors and Mitigants

Transaction specific risks

Performance Risk of Zaver

Zaver is not able to perform its obligations pertaining to the Chanda field.

Then the following was noted with interest by the Committee members.

Mitigant

The primary performance risk lies with the operator and hence is not related to ZAVER. However ZAVER is bound to meet its expenditure obligation share (Opex and Capex) of the field under the terms of the exploration license and Petroleum Concession Agreement. These expenditure obligations will be met by ZAVER primarily through the excess funds available to the Originator and from the cash generated by other operating fields of ZAVER.

Performance / Operational Risk of OGDCL / Operator

The operator of the field i.e. OGDCL is not able to meet the production / operations of the Chanda field.

Mitigant

OGDCL is the largest oil and gas E&P Company of Pakistan. The track record

of OGDCL mitigates this risk as company is operator for 35 fields and its own operated fields account for over 80% of its total production volumes in the country; but still if OGDCL willingness & consent is not there for issue of the TFC, it holds a valid position to take a stand and protect its position.

85. Another point was noted with interest that as per OGDCL study the oil and gas production figures were different from the study got conducted by the consultants appointed by ZAVER / Chanda.

As per Oil & Gas Development Company Limited (OGDCL) Study		As per Integrated Petroleum Consultants Private Limited's (IPC) Independent Study	
Total Oil Reserve	**20 MMBOE**	**Total Oil Reserve**	**30 MMBOE**
ZPCL's Share	**2 MMBOE**	**ZPCL;s Share**	**3 MMBOE**
Value @ USD20/barrel	**USD 40 M**	**Value @ USD20/barrel**	**USD 60 M**
Life of Chanda Oilfield is estimated to be around 25 years*			
Chanda Wells are expected to produce 53,00 barrels of oil, 19MMCF of Gas 55 MT of LPG per day*			

**Presently Chanda Oil Fields is producing ground 2500 barrels per day and 12 MMCF of gas and around 25 M. Ton of LGP per day.*

86. Interestingly the production position on ground is different and it is almost less than half of the above figures. But only safety factor for investors is the present prices of crude oil in the international market. If the prices were not that high there would have been an obvious risky situation for the investors – public share holders of this TFC. Member of the Committee noted that exaggerated/ miscalculated production figures presented to the Investors must be prepared an available information and tech. data, if these figures are not correct than how can the future figures be correct; so there is big risk. There Chairman asked managing Director OGDCL to brief the Committee that how could a private party was allowed to float this prospectus for work Rs.1billion TFC on the basis of interpreted data and wrong assumptions of oil & gas production without the consent of their joint venture operator partner – OGDCL.

87. The MD stated that they are not party to raising such TFC and securitizing by COGSCL, they have also their reservation on the issue. The Secretary also stated that the Ministry had similar views and the issue was being discussed with lawyers for taking a legal course. He further stated that OPI used word Chanda will give the wrong impression in the market as if this is joint venture securitized TFC.

88. The Committee took a very serious note of raising such a TFC and securitizing by ZAVER Petroleum Corp. as originator and Chanda Oil & Gas Securitizing company ltd., despite the fact that the operator – partner (OGDC) clearly confirmed that they were not the party and they have their reservations on the issue of such TFC.

89. The MD further informed that the matter has been taken up with SECP; State Bank and the legal position on this issue is being studies their lawyer for further action to be legally covered. However, the Chairman Committee asked Secretary Ministry of Petroleum and Natural Resources to write the Chairman SECP on Boscar refinery were brought into notice of the Committee. The Committee has taken serious note of it and stressed the such financial matter should be looked into properly and where ever needed they should get advice from the Ministry of Petroleum & Natural Resources in case of such TF issue is moved.

90. Senator Amanullah Khan Kanrani drew the attention of MD of OGDCL towards deplorable condition of Dera Allayar – Och Gas Field Road and pointed out that nothing has been done by the Corporation as there was

commitment by the MD at that time in the previous meeting of the Committee. He said the existed road has been totally destroyed by the tankers of the OGDCL.

The Committee directed that the road should be constructed immediately as per the commitment made by OGDCL and report to the Committee accordingly. The MD, OGDCL committed to look after it personally and do their part as early as possible.

91. The Committee made following recommendations:-

1) All companies in Oil & Gas business in Pakistan especially the partners of OGDCL, the government corporation must operate according to the Agreement between the companies.

2) Oil producing companies must honour the petroleum concession agreements and ear mark the agreed amount for the development of the social sector in the area. In case they can do more they should put more money in the social welfare budget or the backward areas. The Ministry and the OGDCL should monitor whether any work has been done by these companies in the social sector or not and also submit a comprehensive report followed by a briefing to the Committee.

3) The OGDCL should setup oil and gas training institute / college where such skills and technical know how is imparted to the youth of the area; which enables them to utilize their skills in the ongoing projects.

4) Employment opportunities should be provided by OGDCL and its partner companies to the people of oil & gas leased exploration areas especially to women and handicapped. The Ministry should take the notice of this and give its report on the action taken by the companies and

5) To make federation stronger the assets / resources of the Provinces should be shared more generously with the people of the provinces to make them prosperous.

92. The report of the Standing Committee on Petroleum and Natural Resources for the period January t June 2005 is hereby presented for circulation in the House.

Senator
(Syed Dilawar Abbas)
Chairman

Annexure-A

REPORT

OF

SUB-COMMITTEE OF SENATE STANDING COMMITTEE

ON

PETROLEUM & NATURAL RESOURCES

REGARDING

PRICING MECHANISM FOR PETROLEUM PRODUCTS

Report of Sub-Committee of Standing Committee on Petroleum & Natural Resources June 4, 2005

Executive Summery Petroleum Products Pricing

The Senators have raised the issue of over increasing oil prices. This standing committee took up an adjournment motion. The Ministry of P&NR was always candid that the prices are linked with the International Prices.

The Senate Standing Committee on Petroleum & Natural Resources then constituted a pricing sub-committee to analyze and understand the pricing mechanism and present it's report to the standing committee for onward submission to the House.

The term of reference for the pricing sub-committee was:

To give it's finding that whether or not fortnightly prices announced by the regulatory body (OCAC) truly reflect the international price change?

After going into minute details our findings are:

The increase in price did not truly represent only the International price. The prices are inflated and people of Pakistan over a period of 5 years have paid in excess of Rs.150 billion approximately. The worst part is that the excess paid by the people of Pakistan was not to the credit of National Exchequer but was shared between Refineries, OMC's, International Headquarters of Multinationals and the shareholders.

1. Freight Pool be monitored by an independent agency till then by the Government Alternatively each marketing company mangers at it's own. OMC's Margin Competition?

2. OMC Margins needs to re fixed. GOP in the ECC allowed 75% raise and that needs to be applied on then prevalent fixed margins on product volume and not increase with rising international prices. OMC's can compete linking incentives with sale of their merchandise.

3. ARL has been benefited by Rs.3 bn freight Pakistan paid for Badin crude transportation. (World Bank report identified and concluded this as uneconomic way and needs to be investigated.) ARL get paid for freight of crude and get freight of product.

- The refineries are getting the margins of Middle East as their products are based on import parity.
- The port charges per ton in pricing mechanism is higher then actual.
- Earnings per share has gone up to 10 times compared to 1999.
- For last four years they are getting finance from public in terms of deemed duty and have not invested in the areas to reconfigure and expand as clearly stated in revitalization summary.

Recommendations

1. Pakistani public will only benefit if following flaws in order of preference/magnitude are rectified.
   a. To hand over the regulatory role to OGRA.
   b. It's members should be impartial.
   c. Also include people who focus to protect the consumer and
   d. Identifies the flaws in the system.
2. Import Regulatory Duty be removed as 70% goes to refineries.

3. Allowing premium on all the product under garb of whiter and

4. Black Products.

5. GST be reduced, excise duty/custom duty be abolished.

6. Imposing GST on retail that includes development surcharge duties etc. These be excluded for GST OMC margin calculations.

7. Gasoline be priced on import parity basis on published price.

8. of Platts 95 RON in line with true sprit of import parity.

9. IFEM be given under impartial body for management

10. Diesel price paid be adjusted by imposing a surcharge and removal of premium till they start producing low sulphur diesel.

11. FO be traded on deregulated basis rather than monopoly of three OMCs be discontinued and regulatory body be assigned this task also.

12. Creation of numerous DMD and ED positions and Placement of people from Multinationals Private Concerns be examined and ascertained as whether these were done in accordance of Law.

Annexure-B

REPORT

OF THE

SENATE STANDING COMMITTEE

ON

PETROLEUM AND NATURAL RESOURCES

ON THE

RECENT INCIDENT AT SUI-GAS FIELD

Presented by:

Syed Dilawar Abbas

Chairman

REPORT OF THE SENATE STANDING COMMITTEE ON PETROLEUM AND NATURAL RESOURCES ON THE RECENT INCIDENT WHICH OCCURRED AT SUI GAS FIELD WITH SPECIAL REFERENCE TO VERSION OF PPL

The Standing Committee on Petroleum and Natural Resources which met under the Chairmanship of Senator Syed Dilawar Abbas on 1st February 2005 at the Parliament House and discussed the resent incident which occurred at Sui Gas Field with special reference to PPL-Version.

2. The following attended the meeting:

1. Senator Syed Dilawar Abbas
   Chairman
2. Senator Muhammad Sarwar Khan Kakar
   Member
3. Senator Mouhim Khan Baloch
   Member
4. Senator Dr. Muhammad Ismail Buledi
   Member
5. Senator Engr. Mrs. Rukhsana Zuberi
   Member
6. Senator Amanullah Kanrani
   Member
7. Senator Mir Muhammad Naseer Mengal
   Member/Minister of State

3. The M.D PPL through his visual presentation (copy available with the secretary committee) apprised the committee that a lady Doctor Shazia was allegedly robbed and physically assaulted during the night between 2nd and 3rd January 2005 in her residence adjacent to the Company hospital within the premises of Sui Gas field. She the victim narrated the incident on the morning of 3rd January 2005 to her junior colleague-female Nurse stating that she has been subjected to physical assault and as robbed of cash amounting to Rs.25,000/- and some jewellery but did not mention sexual assault by someone to whom she could not recognize. This was perhaps she did not have the strength and courage to express herself. In response to many probing questions/comments by the Committee Members, the Committee was informed that the victim doctor was immediately treated, given first aid the required treatment. Since she was under deep shock and trauma she did not agree to lodge FIR or complaint with the local Police and insisted to proceed to Karachi to be with her family. Therefore she was first shifted to Khandkot and then shifted to Karachi on 5th January 2005. Despite the treatment given to her to keep her physical and mental condition stable, she did not respond well.
The Committee Members felt that the decision to shift her to Karachi was a delayed one and there was very clear miss-management in handling the shifting arrangements.

4. Mr. M. Iftikhar, General Manager Human Resources of PPL informed the committee that Dr. Shazia was admitted in a local hospital in Karachi and her brother to whom she wanted to take into confidence was duly informed of her arrival in Karachi. The family of the Doctor requested for providing security at their residence, which was accordingly provided by requesting the Sindh Police. The management further submitted that no evidence has been concealed and full cooperation is being extended to the investigating team. The Company's management remained conscious of sensitivities involving dignity, social status and personal security of the victim.

5. M.D PPL Mr. Munsif Raza categorically stated that the Company was not under any kind of pressure from any quarter to destroy or to conceal evidence from the site of occurrences of this unfortunate incident. The police has already recoded statement of Dr. Shazia on which an FIR has been registered. He assured the Committee that the company will fully cooperate at all stages of the investigation.

6. The Minister of State for Petroleum and Natural Resources, Senator Mir Muhammad Naseer Mengal informed the Committee that the matter has been taken up at a very high level and in this context a judicial inquiry headed by an Honourable Judge of the Balochistan High Court is in process alongwith investigation by the local police. He further informed that three officials of PPL were arrested earlier and now two more persons have been apprehended.

7. The Committee observed that:

i. The PPL Management at site was not only incapable but was also misdirected in handling the issue due to the following:

a. The incident was not taken as an extraordinary incident and as well no senior official took charge of the situation directly.

b. Local Police was not informed which company management should have done immediately in any case.

c. The victim for no justifiable reason was not put in contact with police on grounds her of instable condition.

d. No PPL official called on her family, except for two meetings outside.

ii. Regarding the shifting from Sui to Karachi PPL could not give any satisfactory answer as:

a. Why the shifting was delayed until the 5th of January 2005?

b. There was no strong reason given for taking her to Kandkot instead of flying directly.

Members from Balochistan felt that it was to avoid contact of victim with the police.

iii. There was no investigation done by PPL Management on site; whereas every company has systems and procedures in place for internal administrative control. Committee has asked for internal PPL inquiry report or memos from the date of incident.

iv. The Committee observed that the Sui installation are a tight security area and classified as **Key1A security code** same as **Kahuta Research Laboratory.**

8. The Committee noted that the total work force at the site inclusive of 300 officers in 1785 and there are 530 Defence Security guards of DSG with an Army Col as commending officer. Out of 1785 personnel, more line employees are living in adjoining colonies.

9. The Committee has taken *suo mote* notice of the event and will visit Sui;

i. To ensure Safe working environment for all; specifically ladies working there.

ii. To see and assess the damages to the Sui Installations.

10. The Committee recommends to the Ministry of Petroleum and Natural Resources to be vigilant and more active in dealing with such emergency situation from all angles and watch the performance of the government operated corporation.

11. The Report of the Senate Standing Committee on Petroleum and Natural Resources on the recent incident at Sui Gas Field is placed on the table of the House.

(-sd-)	(-sd-)
	Senator
(Jamil A.Qureshi)	**(Syed Dilawar Abbas)**
Secretary Committee	Chairman

Islamabad the 2nd February 2005

Annexure-C

SPECIFIC RECOMMENDATIONS

OF

SENATE STANDING COMMITTEE

ON

PETROLEUM & NATURAL RESOURCES

Specific Recommendations

1. For increased seismic surveys in the country so that more exploration and production Companies are attracted.

2. MS *ex*-refinery price may be reviewed by calculating its price based on MS 92 RON or MS 95 RON Arab Gulf Market price instead existing Naphtha + $60 price. As the Committee's four recommendations made earlier are with the Ministries of Finance and Petroleum and Natural Resources for consideration, therefore it is expected that some relief should be there for the consumers.

3. One important recommendations is to hand over the pricing of petroleum products to OGRA and now there should not be any delay in that. It has to be decided by the Government how much relief can be given to the public by curtailing levies like excise duty and Sales Tax.

4. Petroleum Development Surcharge should be kept at zero till the time prices of crude and products in the international market come down and stabilize.

5. All companies in Oil and Gas business in Pakistan especially the partners of OGDCL, the government corporation must operate according to the Agreement between the companies.

6. The OGDCL should setup the oil and gas training institute / college where such skills and technical know how is imparted to the youth of the area; which enables them to utilize their skills in the ongoing projects.

7. Employment opportunities should be provided by OGDCL and its partner companies to the people of oil and & gas leased exploration areas especially to women and handicapped. The Ministry should take the notice of this and give its report on the action taken by the companies and

8. To make federation stronger the assets / resources of the Provinces should be shared more generously with the people of the province to make them prosperous.

9. See further recommendations on page 13.