

Govt imposes moratorium on new oil marketing companies

ISLAMABAD: In a sudden move, the government has imposed a moratorium on the establishment of new oil marketing companies (OMCs) until it increases the minimum investment requirement for future investors.

The Ministry of Energy Petroleum Division “has imposed a moratorium on applications for establishment of new OMCs by local investors with effect from Jan 9, 2019, till the new criteria are approved by the Economic Coordination Committee (ECC) of the Cabinet,” announced the Oil and Gas Regulatory Authority (Ogra) on Monday.

The regulator has been “advised” by the Petroleum Division “not to accept any new applications from local investors except foreign investors for issuance of licence in the intervening period”.

Ogra said the division was currently in the process of revising the criteria for setting up of OMCs for which a draft summary has been forwarded to the concerned departments. Officials explained that motive behind the moratorium was a continuous demand by large OMCs to stop non-serious investors from opening marketing companies as it negatively affected their markets as the existing criteria allowed a minimum investment of just Rs500 million.

The Petroleum Division now plans to increase the minimum investment requirement by 12 times to Rs6bn for each licensee.

Also, the authorities noted that around 59 companies had been given licences for the construction of storages — a prerequisite for becoming a full-fledged market operator at retail level — while another 35-40 applications were pending with Ogra. The increase in minimum investment is meant to compel OMCs to create enough storage.

“Small or large — no OMC has enough storage capacity as required under the rules at present”, said an official adding Ogra was also pushing the existing companies to increase their capital. The rules require a minimum of 21 days of storage capacity of sale volume of an OMC.

The official explained that since no law could take effect in retrospect, the existing licensees would also be allowed ample time to expand their storage and the moratorium was necessary to block more applications till a new criteria was approved by the ECC, to avoid more legal rights.

“We are also giving two-week deadlines to applicants in the pipeline to complete their documentation”, the official explained. He said those already granted licence for construction, would be allowed for sales only when they create mandatory storage capacity in their respective province. “They cannot sell products in a province where they do not have 21-day storage capacity”, the official said.

Under a tight timeline, the existing licensees having Rs500m investment would also be required to increase their investment to Rs6bn. The new policy would be based on a comprehensive development plan on the basis of demand in the provinces and regions with details of storages, terminals and other installations.

The ministry has proposed that at the least, Rs6bn was required for a new company to build storage tanks with capacity of at least 20,000 tonnes each for high-speed diesel and petrol or capacity equal to 20 days of average sales, whichever is higher, prior to beginning petroleum sales in the country.

The official said the authorities had been able to create an additional storage capacity of about 100,000 tonnes of petrol and 200,000 tonnes of high-speed diesel storage over the past two years since Ogra rolled out 59 licences for construction of OMCs. The fresh applicants would also be required to have a minimum of 50 per cent equity (Rs3bn) for each licence.

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