DAWN

7th January, 2019

Govt tells refineries to upgrade capacity

ISLAMABAD: The government has notified an 'immediate ban' on import of furnace oil and ordered all the refineries to utilise billions of rupees in annual 'deemed duty' they collect on petroleum products to upgrade their refining facilities.

In a notification issued by the Ministry of Energy to all the refineries and government agencies concerned, the government also ordered immediate reduction in the furnace oil (FO) production to a minimum and enter into commercial agreements with power producers for utilisation of their capacity for FO storage.

"In future, all refineries will ensure that FO production is minimal byproduct of Crude Oil processing," said the notification. It said: "The oil refineries should undertake production of additional storage facilities as well as utilisation of the proceeds of deemed duty for upgradation/modernisation of their facilities."

Ban on import of furnace oil notified

In general terms, the furnace oil is the dirtiest and the most inefficient petroleum product just above crude oil but based on obsolete technologies most of the Pakistani refineries produce up to 30 per cent FO out of their total capacity utilisation. The government has been following a plan for years to replace FO with imported liquefied natural gas (LNG) for cheaper and efficient electricity production.

Also, the notification said the government had "imposed ban on import of FO with immediate effect (i.e. January 2, 2018) except for K-Electric". The ban was earlier also announced by the PML-N government in late 2017 but then allowed an exemption for three months to cope with peak summer electricity demand.

As part of deregulation of the petroleum sector, the Musharraf government had allowed in 2002 about 10pc 'deemed duty' on local production of diesel and petrol and 6pc on other products to ensure price parity with imported products that carried 10pc customs duty, replacing the previous arrangement of guaranteed 10pc return on refining. The 'deemed duty' was linked with the commitment that part of the funds so collected would be utilised by refineries to upgrade their facilities.

The 'deemed duty' on all petroleum products was abolished in 2007-08 except for diesel on which it was reduced to 7.5pc that remains in place even at present. A judicial commission had concluded in 2009 that refineries had collected more than Rs80bn through 'deemed duty' but not spent on improving infrastructure and sought doing away with the duty altogether.

A senior government official said the notification was issued under the orders of the Cabinet Committee on Energy led by Petroleum Minister Ghulam Sarwar Khan. He said the coastal refineries had also been encouraged to export their FO production. He said Byco Refinery had already started the FO export with its first consignment departing last week.

He said National Refinery, Pakistan Refinery and Enar Refinery would also start exporting their product for the time being till such time a big deep conversion refinery near Khalifa Point is completed in a few years by Parco – a joint venture of Pakistan and the UAE – to absorb surplus FO for high-end petroleum products.

Last month, the refineries were asked to export up to 90,000 tonnes of FO and transfer 60,000 tonnes to the storages of power plants to vacate storage tanks of refineries as a short-term measure when it was reported that total furnace oil storage capacity of all the refineries put together stood at 164,000 tonnes, while total stocks had gone beyond 150,000 tonnes, forcing refineries to reduce capacity utilisation to avoid supply chain disruption of petroleum products, including shortage of refined products to defence and aviation sectors, particularly of jet fuel.

The country's six refineries were producing 10,000 tonnes of furnace oil but the power sector has been reducing its consumption because of being the most expensive generation. Power plants had a storage capacity of more than 1.2 million tonnes. The oil marketing companies, mostly the Pakistan State Oil (PSO) had a storage capacity of more than 400,000 tonnes, but they were not interested or capable to meet power sector's demand due to their choked credit lines.

The total receivables of the PSO alone were now in access of Rs340bn, including about Rs261bn, due from the power sector. The officials said the only solution in the medium to long term was to keep exporting around 200,000 tonnes of furnace oil per month and gradually shift all the refineries to hydrocracker units to produce higher quality products instead of furnace oil. The problem, however, was an estimated investment requirement of between $2-3bn over a period of 3-5 years to upgrade all the refineries which wanted subsidies and incentives from the government, including through product prices.

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