

- b) the new package offers inter alia a royalty holiday, a lower tax rate, and cost-recovery through a split of oil and gas profits; and
- c) no import duties or taxes would be applicable during the exploration phase.

To encourage private-sector investment in downstream activities, the new policy offers several incentives to the private sector to set up new refineries or increase the capacity of existing plants. The earlier policy, which restricted profit margins and allowed the GOP to skim away the excess profits, changes the operational parameters under which the refineries can now base their profits on a market-based mechanism without any interference from the government. However, prices of refined products will be based on Singapore mean. The removal of a government-imposed price mechanism will encourage investment in the establishment of new refineries and also help existing plants to initiate BMR programs to enhance their capacity.

Additional incentives include:

- a) levying of import duties at the development stage to determine the percentage of duty;
- b) lowering the tax cap from 50 to 40 percent;
- c) increasing the allowance of expenditure before commencement of commercial production from 10 to 25 percent;
- d) awarding production bonuses to operators once production reaches \$100 million equivalent.

The policy incorporates improvements to the LPG integrated program which are intended to kick start exploration activity and assist in reaching or exceeding a modest investment target of US\$1.5 billion. Currently, refineries are planned to be built both in mid-country and near Karachi, both of which have attracted approximately US\$1 billion commitments from offshore lenders. The completion of a survey off the Balochistan coast is expected to boost the interest of exploration firms.

Several short-term opportunities for Canadian interests in the gas processing and pipeline technologies can be identified. The longer term perspective includes several large projects for Canadian oil and gas exploration firms, gas transmission firms and equipment and services companies. However, the absence of any regulatory framework continues to be a major concern for investors.

Business Environment

The 1994 Petroleum Policy offered a more attractive framework for foreign investors to develop their interests. In the recent past, however, some concerns have been expressed by foreign investors about bureaucratic impediments to investment in the oil and gas sector, including:

- a) decision-making inertia within the Ministry of Petroleum and Natural Resources;
- b) delays in the development of concession areas; and
- c) ambiguities in the application of customs duties and corporate taxes.