

## **Oil and Gas**

### **Opportunity**

The oil and gas sector remains a significant priority for the Government of Pakistan (GOP) where Pakistan currently produces approximately 60 000 barrels of oil and 1.8 billion cubic feet (BCF) of gas per day.

Domestic oil production meets approximately one-sixth of Pakistan's requirements while gas production is barely sufficient to meet current industrial, commercial and domestic requirements. The demand for gas as fuel and feedstock for industries, energy production, commercial and domestic fuel is increasing rapidly and it is estimated that total demand will exceed 2 BCF per day by 1999.

The GOP's Petroleum Policy, announced in 1994, was designed to encourage the private sector to invest in upstream and downstream activity in this sector. The policy offers several incentives for oil and gas exploration and exploitation both on land and offshore. To date, however, response to the policy remains lukewarm for several reasons, including:

- a) a production-sharing formula favouring the GOP;
- b) royalty payments;
- c) high tax rates; and
- d) law and order conditions in several concession areas in western Pakistan.

The Ministry of Petroleum and Natural Resources continues to fine tune its petroleum policy to attract foreign investment in the high risk oil exploration concessions including offshore exploration. Over 18 foreign firms have signed lease concessions with the GOP for oil exploration. These agreements have been made both on a consortium basis and on an individual firm basis with the public sector Oil and Gas Development Corporation (OGDC) as well as with private sector firms. Drilling activity remains low but potentially could accelerate with a major discovery.

The GOP is importing oil and oil products at an annual cost of approximately US\$2.5 billion, which is expected to increase by 10 percent annually. Current estimated potential oil reserves are lower than gas potential, which is evident in the preponderance of gas discoveries in the last three decades.

Pakistan remains a country with ample potential gas reserves. Discovery of new gas fields and enhancing existing gas field capacities still leaves a gap between supply and growing demand for energy from industrial, commercial and domestic consumers. These additional requirements are expected to increase the need for gas processing and production facilities and downstream services and equipment.

The adoption of the 1994 Petroleum Policy attracted some foreign investment in oil and gas exploration as well as in the downstream refining sector. However, foreign firms' interest waned leaving exploration activity at a very low ebb. The GOP has declared its intention to privatize the two gas utilities, Sui Southern Gas Company Limited (SSGCL) and Sui Northern Gas Pipelines Limited (SNGPL) as well as some portions of the Oil and Gas Development Corporation (OGDC). The Privatization Commission, with the assistance of financial and legal consultants, is currently