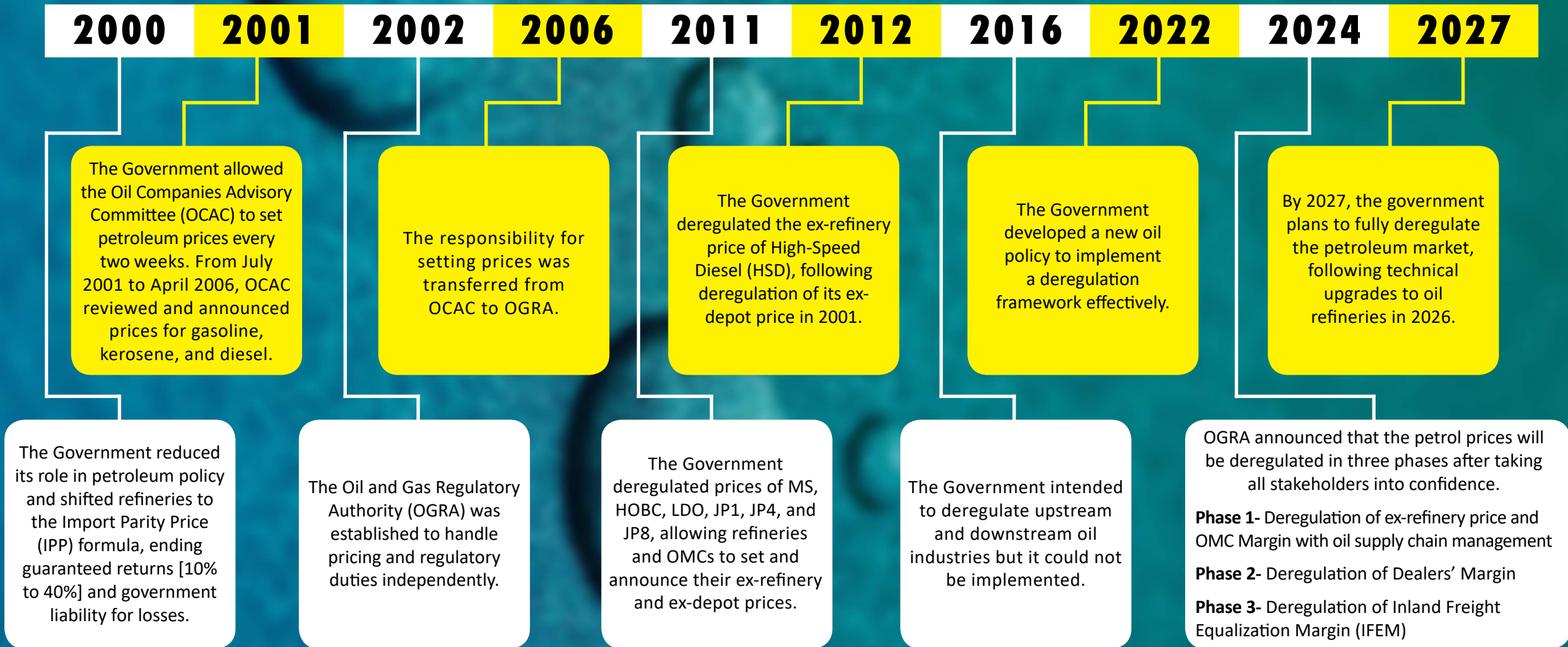


ICMA supports full deregulation of the Petroleum Industry

ICMA's sample analysis of 23 months of petrol price data, from November 2022 to September 2024, using econometric software E-views, suggests that deregulating Pakistan's petroleum sector could lead to reduced petroleum prices. This research supports the government's recent proposal to deregulate the sector under OGRA's supervision, which was previously delayed due to concerns about vulnerable populations. Oil Marketing Companies (OMCs) may now gradually gain the authority to set petroleum prices independently.

History of Deregulation of Petroleum Industry in Pakistan



Reasons behind Deregulation

- The regulated petroleum price widens the fiscal deficit by restraining government revenue.
- Frequent price changes damage government's reputation, while deregulation shifts responsibility away from it.
- More frequent price revisions raise political costs. Deregulation could help reduce these pressures.
- Deregulation shows government's limited role in price-setting, indicating that prices are determined by the market.
- Stable oil prices indicate economic stability. Deregulation can improve this by reflecting market conditions.

OGRA Proposed Deregulation Procedure

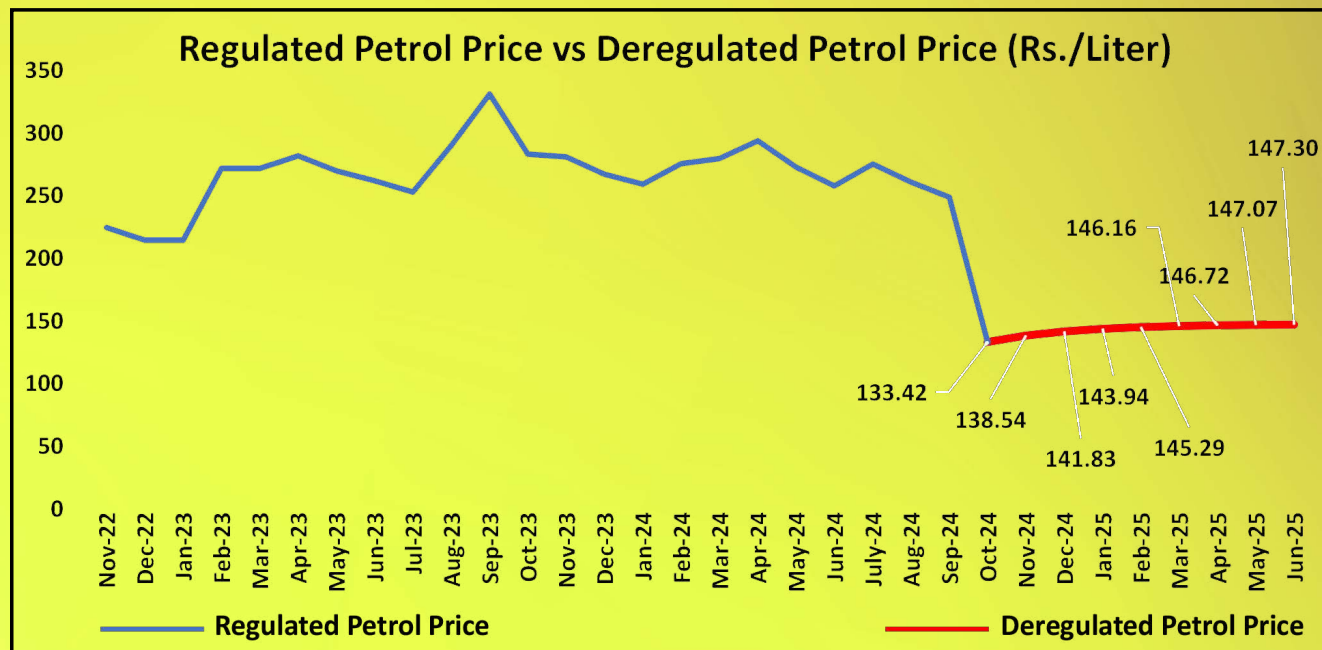
- Refineries and Oil Marketing Companies (OMCs) would be allowed to determine product prices at their discretion i.e. daily, weekly, fortnightly, or monthly—on a competitive basis.
- OMCs can import or procure oil locally as needed, removing the requirement to prioritize local refinery products.
- OMCs may be allowed to set margins for their dealers.
- Refineries and OMCs will adhere to current government policies on storage and minimum stock requirements.
- The oil industry, including refineries, will digitize the entire supply chain for better product transparency.
- Independent retail outlets are to be established to enhance competition with OMC-operated outlets.

ICMA Forecast on Petrol Price Deregulation

- Figure: 1 shows forecasted petrol prices after deregulation, suggesting that market forces could lower prices.
- The **blue line** indicates current prices in Pakistan
- The **red line** shows predicted prices post-deregulation.
- Estimates were made using E-Views software.



Figure: 1



Source: BRENT Oil Price from Business Insider, local petrol price from PSO and Exchange rate from Forex.pk. Forecasting has been estimated using econometric software E-Views.

Methodology of Analysis

- Brent oil prices are used to forecast petrol prices after deregulation.
- Actual petrol prices under current regulations are sourced from Pakistan State Oil (PSO).
- Brent oil prices (\$/barrel) are converted to per litre and then to Pakistani Rupees (Rs.) using the exchange rate from Forex.pk.

The analysis shows that deregulation could lower petrol prices, benefiting the economy by:

- Reducing cost-push inflation
- Attracting investment
- Lowering unemployment

Pros and Cons of Deregulation of Petroleum Industry

CONS

- Competitive pricing due to market forces
- Potential for private sector investment
- Lower prices near refineries and ports
- Reflects global market conditions
- New entrants will increase supply
- Low prices of petroleum products
- Positive impact on the economy
- Opportunities for new entrants
- Creation of new job openings
- Opportunities to Stock Fuel Products
- Efficiency and innovation increases
- More job opportunities

PROS

- Exchange rate volatility that impacts costs of OMCs
- Frequent supply disruptions
- Illegal profiteering by refineries and marketing companies
- Risk of hyperinflation and rising cost of essential goods
- Smuggling of cheaper Iranian diesel oil
- Inadequate government oversight to prevent cartelization
- Loss of control in a vital industry leading to national security concern
- Insufficient infrastructure or storage capacity
- Risk of increased unemployment
- Unequal competition and oligopoly created by the mafias
- Risk of closing down of small and emerging OMCs
- Dumping of fuel and cross-border smuggling

CONCLUSION

POINT 1

ICMA advocates the complete deregulation of the petroleum sector, supported with the forecasting analysis of petrol price deregulation, presented in Figure:1. The analysis revealed that the deregulation is one of the remedy to reduce cost push inflation, enhance competition and employment. **“However, this support depends on the government implementing specific safeguards before moving forward.”**

POINT 2

Countries like the United States, Canada, the United Kingdom, Australia, New Zealand, and Germany have successfully deregulated oil pricing, allowing market forces to set prices without direct government control. But still, they maintain the regulatory frameworks to ensure fair competition and consumer protection.

POINT 3

It's vital to involve all stakeholders, such as Oil Marketing Companies (OMCs), petroleum dealers, and the Oil Companies Advisory Committee (OCAC) in developing a comprehensive deregulation policy. This collaboration will help ensure a smooth transition to achieve more stabilize outcomes.