

ECONOMY WATCH

By: ICMA Research and Publication Department

Pakistan's Refinery Reset: The \$6 Billion Test of Investment and Execution

Pakistan's refinery sector has underutilized capacity compared to the leading countries in the world for refining, especially China, the United States, and India. In 2025, Pakistan is ranked 39th in terms of oil refining capacity, with 474,000 barrels per day. The oil refinery sector comprises five major players, including Pak-Arab Refinery Company Limited (PARCO), Attock Refinery Limited (ATRL), National Refinery Limited (NRL), Pakistan Refinery Limited (PRL), and Cnergyico Pk Limited (Byco Petroleum Pakistan Limited). The sector is playing a critical role in meeting Pakistan's domestic petroleum demand and reducing reliance on imported refined products. Currently, the refining industry has the capacity to process 20 MTPA in Pakistan; however, persistent operational and investment constraints have kept refineries operating below their full potential.

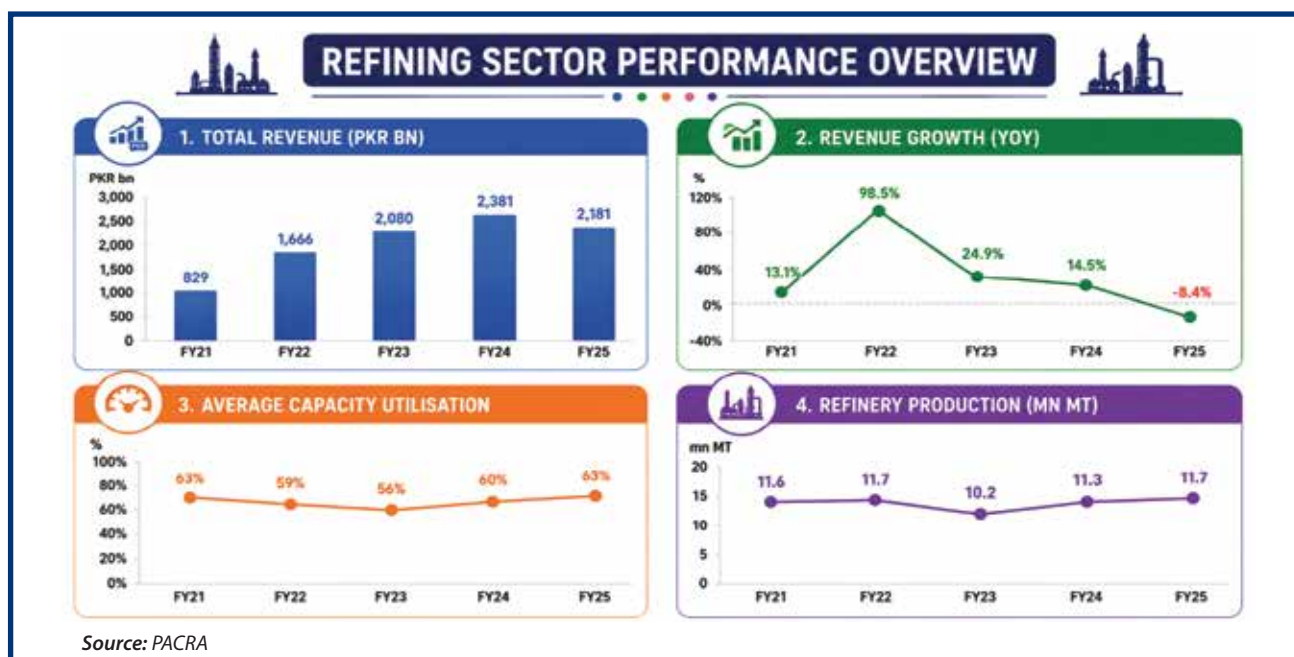
The performance of Pakistan's refining sector remains highly sensitive to movements in international oil markets and geopolitical developments. This volatility is evident in the sector's recent financial performance.

Refinery-sector revenue declined from PKR 2.381 trillion in FY24 to PKR 2.181 trillion in FY25, a reduction of approximately PKR 0.199 trillion (PKR 199 billion), or 8.4%. PACRA attributes the FY25 decline primarily to falling global oil prices, reduced sales volumes, and narrowing refining spreads. However, the subsequent rise in global oil and refined-product prices amid geopolitical tensions demonstrates that higher oil prices do not automatically translate into stronger refinery profitability.

Furthermore, wars and supply disruptions in major oil-producing and transit regions can push crude and refined-product prices higher, while disruptions to shipping routes such as the Strait of Hormuz can increase freight and supply costs. At the same time, periods of weaker global demand or oversupply can exert downward pressure on crude prices.

Refinery Policy Evolution

The importance of local refineries and their contribution to economic growth is clear.



Why Pakistan's Refineries Need Upgrading?

THE CHALLENGE	FINANCIAL IMPACT (FY25)
Pakistan's refinery industry faces a dual challenge: a shortage of modern refining capacity and structural inefficiencies. - Ageing infrastructure based on older hydro-skimming technologies. - Low utilisation of refineries. - Unfavourable product mix: high furnace-oil output and low production of high-value products such as petrol and High-Speed Diesel (HSD).	Sector revenue declined by 8.4% in FY25 due to: - International oil price fluctuations - Reduced sales volumes - Narrower refining spreads - Increased availability of imported petroleum products through informal channels, particularly from Iran. This shows that simply maintaining or increasing utilisation is not enough.
WHY UPGRADING IS ESSENTIAL	
Pakistan needs deep-conversion technologies, refinery upgrades, and cleaner-fuel production to: 1. Improve efficiency 2. Increase the share of high-value products (petrol and HSD) 3. Reduce furnace-oil output 4. Strengthen refining margins 5. Lower dependence on imported POL products 6. Conserve foreign exchange 7. Enhance the country's energy security Upgrading Pakistan's refineries is essential for a stronger, efficient, and energy-secure economy.	

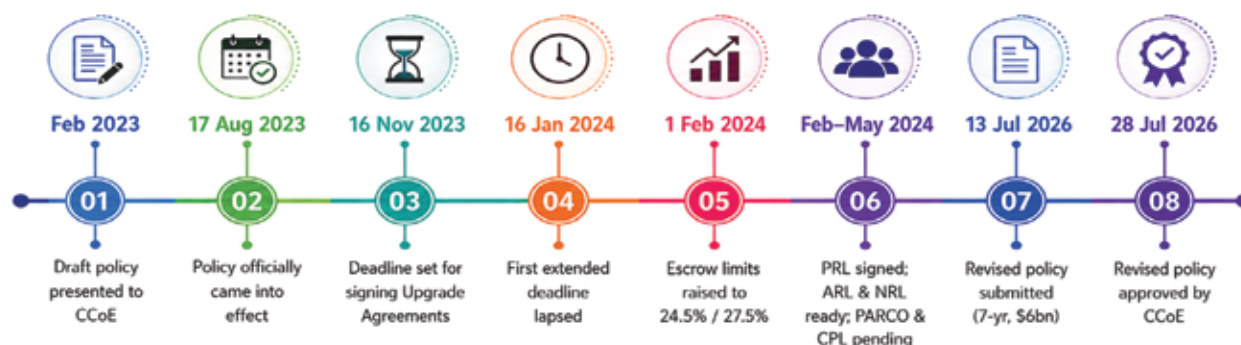
In October 1997, the Government of Pakistan issued the Petroleum Policy 1997, providing key incentives including the refinery pricing formula. Further incentives were introduced in 2007 and 2018, but failed to attract sufficient investment, leaving the sector with ageing infrastructure and limited modernisation. This policy gap eventually led to the introduction of the Pakistan Oil Refining Policy for Upgradation of Existing/Brownfield Refineries in 2023, subsequently amended in February 2024. The policy focuses on upgrading existing refineries to achieve Euro-V fuel standards, increase petrol and HSD production, reduce furnace-oil output, and lower

dependence on imported petroleum products.

The Brownfield Push: Modernising Existing Refineries

Despite the 2023 policy, implementation remained slow because of unresolved issues affecting the commercial viability of refinery-upgrade projects. By 2026, the government renewed efforts to remove these bottlenecks and operationalise the policy, while also proposing further amendments to increase domestic diesel production and strengthen energy security amid heightened global supply risks.

Brownfield Policy from Drafting to Approval



Source: AHL Research

Estimated Cost and Expected Completion Timeline

Estimated Upgrade Cost (USD bn)	Projected Timeline for Completion
0.60 (ATRL)	2029
1.40 (PARCO)	2029
1.70 (PRL)	2028
1.00 (Cynergyico)	2030
1.00 (NRL)	2029

Source: AHL Research

The renewed push is now moving towards implementation: in August 2026, all five major refineries reaffirmed their readiness to sign upgradation agreements, with the government expecting these agreements to unlock more than \$6 billion in investment. The planned upgrades are expected to support domestic production of Euro-V fuels, reduce reliance on imported petrol and diesel, and strengthen Pakistan's energy security.

Key Incentives under the updated policy:

- **Tariff Protection & Deemed Duties**
 - 10% tariff protection
 - Incremental duties
 - 7.5% HSD deemed duty
- **Escrow-Based Financing**
 - 27.5% cap for new machinery
 - 24.5% cap for used machinery
- **Tax & Duty Exemptions**
 - Customs-duty reimbursement
 - Sales-tax exemption
- **Investor Protection & Flexibility**
 - Stability & parity clauses
 - FX accounts
 - Freedom to sell
 - Export permission
- **The Investment Challenge-Ambition vs. Feasibility:** The amended policy calls for \$5-6 billion of new investments for upgrading five existing refineries; however, there is a trouble spot in the investment case that is complicated by a fundamental structural issue. For example, the

installed capacity is approximately twice the throughput. The problem is not the lack of refining capacity, but the mismatch of the product slate, as refineries were set up to make high quantities of furnace oil, a fuel whose local demand has already largely collapsed. The upgrade is not just to expand capacity, however; it reconfigures the product mix to match the actual market demand. The US \$6 billion Financing requirement will pose a formidable challenge. Domestic capital markets lack the depth of funding for projects of this scale; hence, the policy is heavily reliant on foreign capital, long-term debt, and confidence of investors. The Petroleum Division has a mandate to conduct roadshows in Qatar, Saudi Arabia and other Gulf countries in order to bring in foreign investment. However, financing arrangements can take between 6-12 months to finalise, and projects can be affected by exchange-rate volatility and financing risks due to the large equipment requirements for imports, which are also paid in foreign currency.

- **Product-Mix Transformation-Economic Logic and Fiscal Cost:** The policy's core economic rationale lies in shifting the product mix in favour of high-value outputs, while the fiscal cost is related to the costs of the tax. Petrol production is expected to rise by 72 % from 10,700 TPD to 18,400 TPD, while HSD is expected to rise from 21,240 TPD to 29,520 TPD. At the same time, the production of furnace oils will be reduced by 63%, from 15,417 TPD to 5,714 TPD. This reorientation would not only help Pakistan save on the importation of petrol and HSD, which cost about \$1.5–2 billion annually, but would also help the country save foreign exchange significantly as a result of delayed modernisation.

However, these projections rely on successful implementation, which has historically lagged. In addition, this policy offers fiscal incentives such as 10 % tariff protection on MS and HSD for seven years; escrow-based financing capped at 27.5% of project cost for new machinery (24.5% for used); IFEM reimbursement of crude imports; and sales tax exemption on imported equipment in order to increase the viability of projects. Nevertheless, these incentives are a fiscal trade-off, as tariff protection and tax exemptions decrease government revenue; however, they may increase the import-substitution benefits in the future.

- **Stability Clauses and Investor Protection:** This policy has also introduced stability and parity clauses to protect investors from adverse changes or policy decisions related to fiscal, taxation, regulation, and foreign exchange policies, creating a critical feature for lenders who fund long-duration projects, particularly those for refinery modernization, with high capital needs. Also, these provisions address a core barrier, such as that no investor will commit to projects with multi-year payback periods without a steady and foreseeable policy atmosphere. This policy also enables the refineries to supply products to Ogra-licensed OMCs and to export the surplus petroleum products, depending on the domestic demand requirements.
- **The Economic Payoff- What Pakistan Stands to Gain:** The wider economic impact of the policy goes beyond the upgradation and modernisation of refinery projects. The successful upgrade should translate into increased utilisation, increased domestic production of petrol and HSD, reduced furnace oil production, decreased POL imports, and foreign exchange savings. However, the economic benefits can be balanced with the risks of financing, the delay in projects and the fiscal expense of incentives, as well as possible potential market constraints. The key measure of success should be the volume of investment disbursed, project completion, increased production over time, and the volume of import substitution achieved, rather than investment pledges alone. The policy sets the stage for transformation, but this transformation should materialise, relying on private sector willingness and ability to invest capital into the process, the government's capacity to keep the policy stable, and the global financing environment for large-scale industrial projects in emerging markets.

Conclusion

Pakistan's refinery sector stands at a critical juncture, with significant potential to improve efficiency, reduce reliance on imported petroleum products, and strengthen energy security. The amended Brownfield Refining Policy 2026 provides an important opportunity to modernise existing refineries and transform their product mix towards higher-value fuels. However, achieving these benefits will depend on timely investment, effective policy implementation, access to long-term financing, and sustained investor confidence. The success of the policy should therefore be measured not merely by investment commitments, but by completed upgrades, higher utilisation, increased petrol and HSD production, reduced furnace-oil output, and tangible foreign-exchange savings.

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