Pakistan Refinery Sector
Brownfield Policy: Amendments Notified (Aug'26)

11-Sep-2026

REP-300

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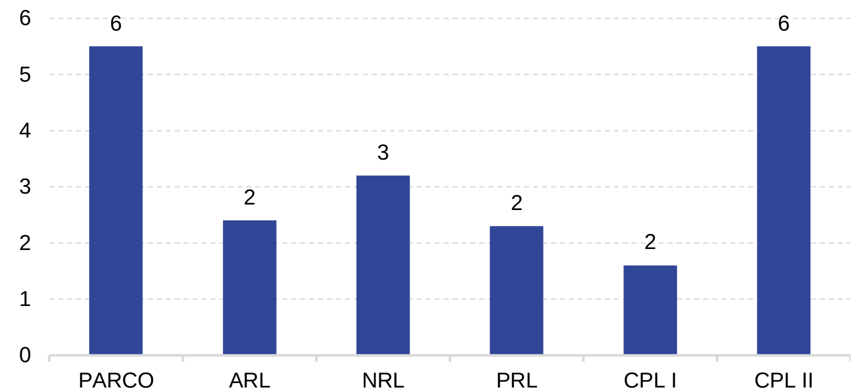
- **Pakistan's refining sector comprises five players, PARCO, ATRL, NRL, PRL, and Cnergyico, with an aggregate refining capacity of 20.5 MTPA (449.4kbpd).**
- **Except for PARCO, which operates a mild-conversion refinery, the sector largely consists of aging hydroskimming refineries that produce a high proportion of FO and lower-quality Euro-II/III fuels. This has limited product flexibility and forced Pakistan to rely on imports of Euro-V gasoline and diesel.**
- **The government has now notified amendments to the Brownfield Refining Policy, 2023, with subsequent amendments in Feb’24 and Aug’26. While most key provisions are broadly in line with recent newsflows, we have highlighted the key points and implications of the amended policy below.**

Refinery Policy Offers Long-Term Earnings Visibility

- **10% tariff protection:** Minimum 10% customs/regulatory duty on imported MS and HSD for 7 years. Any duty above 10% goes to the IFEM pool.
- **Crude duty reimbursement:** Customs duty paid on imported crude will be reimbursed through IFEM.
- **Sales tax relief:** Disallowed sales tax on refinery operations will continue to be reimbursed through IFEM. Upgrade-related equipment is exempt from sales tax.
- **Upgrade Agreement (UA):** Existing refineries must sign a legally binding UA with Petroleum Division within 45 days of the amended policy notification.
- **UA requirements:** Agreement to specify Euro-V MS/HSD targets, reduction in furnace oil, project milestones, FEED/FID/financial close/EPC timelines, configuration and post-upgrade product slate.
- **Crude storage requirements post-upgrade:**

  - Imported-crude refineries: 20 days storage capacity and inventory.
  - Local-crude refineries: 15 days storage capacity and 8 days inventory, plus confirmation of 20-day local crude supply.
- **Upgradation Account:** Incentives are ring-fenced in the Refinery Upgradation Account and can only be used for upgrade capex.
- **Oversight:** Petroleum Division controls the Upgradation Account, claims process and audits, with biannual audits required.

Exhibit: Installed Capacity by Refinery (mtpa)

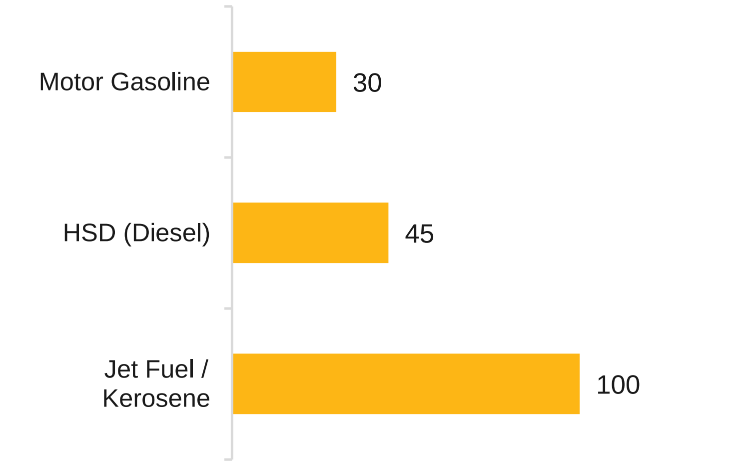


Source (s): 2026 amended policy, AHL Research

Brownfield upgrades to significantly improve product slate

- **Withdrawal limits:**
  - Used equipment: up to 24.5% of project cost.
  - New equipment: up to 27.5%.
- **Early completion incentive:** If the project is operational within 3 years, refinery gets an additional 0.5% withdrawal incentive for each year saved.
- **Access to funds:** Withdrawals only after financial close and 25% physical progress / matching LCs, on a pro-rata basis.
- **Funding shortfall:** Government has no obligation to cover any shortfall if the account balance is below the capped withdrawal amount.
- **Deposit timeline:** Monthly incremental incentives must be deposited within 10 days of the following month.
- **Default penalties:** Late deposits attract 1-month KIBOR + 3%; >30 days makes refinery temporarily ineligible for withdrawals; >60 days can lead to account closure, confiscation of funds and withdrawal of marketing waiver.
- **Upgrade deadline:** Projects must generally be completed within 5 years of UA signing, with Cure/Force Majeure provisions and potentially one additional year subject to govt. approval.
- **Non-compliance:** Failure to complete the upgrade within the allowed period can ultimately result in OGRA licence revocation.
- **HSD deemed duty:** Refineries that had not signed earlier UAs remain at 5% until signing (NRL – PKR 6.2bn after tax and ATRL – PKR 4.4bn after tax have already provided for this in 4QFY26 results). Those failing to sign by 1 Oct 2026 see HSD deemed duty fall to 2.5%, and it is fully withdrawn by 15 Nov 2026.
- **Surrender of past 2.5% incentive:** Relevant refineries must deposit the differential 2.5% HSD deemed duty into the Upgradation Account in four instalments, with the full amount due by 30 Jun’27, before accessing account funds.
- **Bank guarantee:** Each refinery must provide a PKR 1bn unconditional bank guarantee..

Exhibit: Local Refineries' Share of National Demand (%)



Source (s): 2023 amended policy AHL Research

Pakistan’s existing refineries and their capacities

Exhibit: Pakistan’s existing refineries and their capacities

Refinery	Key Years (commissioning/upgrade)	Technology	Capacity (bpd)	Capacity (mtpa)	% of Total Capacity
PARCO	2000; 2010 (Euro II); 2011 (AABU); 2020 (upgrade)	Mild Conversion	120,000	5.5	26.80%
ATRL	1922 (original); 1981 (new); 1999; 2016 (upgrade)	Hydroskimming	53,400	2.4	11.70%
NRL	1966 (lube); 1977 (fuel); 2017-18 (upgrade/revamp); 2021 (enhanced)	Lube Refinery + Hydroskimming	70,000	3.2	15.60%
PRL	1962; 2015 (upgrade)	Hydroskimming	50,000	2.3	11.20%
CPL I	2004 (commissioned); 2008 (revamp/enhanced)	Hydroskimming	36,000	1.6	7.80%
CPL II	2015 (commissioned); 2017 (isomerisation upgrade)	Hydroskimming	120,000	5.5	26.80%
Total Installed Capacity			**449,400**	**20.5**	**100.00%**

Source(s): 2026 amended policy, AHL Research

Eliminating the FO overhang that caps throughput

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Brownfield Upgrades to Significantly Improve Product Slate

- **Under the 2026 amended Refinery Policy, PRL and Cnergyico are expected to undergo the most significant product-slate transformation. However, given its relatively lower capex requirement, strong balance sheet and robust operations, we believe ATRL is best positioned to execute the upgrade and capture the associated benefits.**
- MS production is projected to increase by six-fold for PRL and 86% for Cynergyico, while FO output is expected to decline by 81% and 87%, respectively. In contrast, ATRL's upgrade is more focused on enhancing product quality, with MS production increasing by 24% and diesel being upgraded to Euro-V specifications.

Eliminating the FO overhang that caps throughput

- Historically, furnace oil (FO) was the backbone of Pakistan's power generation, particularly following the 1994 and 2002 Power Policies, which incentivized thermal power projects. As a result, FO accounted for an average of ~33% of the country's power generation, alongside hydropower.
- Over the past decade, however, Pakistan's energy mix has shifted decisively toward indigenous and lower-cost sources, driven by the addition of hydel, nuclear, Thar coal, imported coal, and RLNG-based power plants.
- Despite the collapse in domestic FO demand, Pakistan's aging hydroskimming refineries continue to produce high FO yields (~21% of refinery throughput in FY26), resulting in surplus volumes that are exported at discounted international prices and eroding refinery profitability.
- The FY26 Budget's imposition of PDL and CSL totaling PKR 82,000/ton has further weakened FO's competitiveness, highlighting the need for refinery upgrades under the Brownfield Refining Policy 2026 to reduce FO production, increase MS and HSD yields, and better align refinery output with domestic demand.

Exhibit: The decline in FO over the years

	Unit	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
FO Production	mn tons	2.87	2.22	2.55	2.41	2.06	2.47	2.46	2.37
FO Imports	mn tons	0.42	-	0.77	2.26	0.53	-	-	0
FO Exports	mn tons	-	0.02	-	0.05	0.28	0.96	1.44	1.7
FO Local Sales	mn tons	**3.02**	**1.93**	**2.99**	**4.04**	**2.06**	**1.04**	**0.81**	**0.6**
FO Power Generation	GWh	9,091	4,424	6,270	13,142	5,005	2,429	519	1,316
FO share in Power Generation	**%**	**7.40%**	**3.60%**	**4.80%**	**9.10%**	**3.90%**	**1.90%**	**0.40%**	**1.00%**
FO Throughput	**%**	**27%**	**26%**	**25%**	**23%**	**23%**	**25%**	**23%**	**21%**

Source(s): OCAC, NEPRA, AHL Research

Refinery Sector
Product slate shift- At a glance

Exhibit: Current Capacity vs. post upgradation (Tons/day)

	Current (pre-upgrade)				Post-upgrade (target)				% Change		
Refinery	**Specs (MS/HSD)**	**MS**	**HSD**	**FO**	**Specs (MS/HSD)**	**MS**	**HSD**	**FO**	**MS**	**HSD**	**FO**
PARCO	Euro-III/III	3,678	5,600	3,290	Euro-V/V	4,023	7,734	1,806	9%	38%	-45%
ATRL	Euro-V/III	1,923	2,071	1,024	Euro-V/V	2,379	2,008	908	24%	-3%	-11%
PRL	Euro-V/-	783	1,793	1,350	Euro-V/V	4,500	5,000	250	475%	179%	-81%
NRL	Euro-V/V	818	3,273	2,253	Euro-V/V	1,000	3,775	1,750	22%	15%	-22%
CPL	Euro-V/-	3,500	8,500	7,500	Euro-V/V	6,500	11,000	1,000	86%	29%	-87%
Total		**10,702**	**21,237**	**15,417**		**18,402**	**29,517**	**5,714**	**72%**	**39%**	**-63%**

Source(s): 2026 amended policy AHL Research

Sector FO output to fall from ~15,417 to ~5,714 tons/day (-63%), per the amended 2026 policy, directly addressing the capacity-utilisation gap.

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