INTERMARKET SECURITIES LTD

Pakistan Refineries

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Sector Update

Brownfield Refinery Policy: Stronger enforcement, fresh incentive runway

The Government has notified the amended Pakistan Oil Refining Policy for Upgradation of Existing (Brownfield) Refineries, 2023, originally introduced in August 2023 and amended in February 2024. The latest amendment preserves the core bargain — Euro-V upgrades in return for tariff protection and fiscal support — but materially strengthens enforcement and resets the incentive framework after the prolonged delay in signing Upgrade Agreements (UAs). The revised policy introduces hard signing cliffs, tighter project timelines and greater oversight, while adding targeted reliefs to improve project bankability.

Key takeaways

- **Signing is now effectively mandatory:** Refineries must execute UAs within 45 days of notification. For non-signatories, HSD deemed duty falls from 7.5% to 5%, then to 2.5% from 1 October 2026 and is fully withdrawn from 15 November 2026. This materially raises the cost of continued delay.
- **Retrospective HSD claw back is the key contentious change:** Refineries that had not signed by 22 October 2024 face a reduction in HSD deemed duty to 5%, with the 2.5% differential surrendered into the Refinery Upgradation Account in four instalments over nine months.
- **Incremental incentives remain ring-fenced for capex:** The 10% MS and 2.5% HSD incremental deemed duty will accrue to dedicated Refinery Upgradation Accounts and can only be used for eligible upgrade capex. Reimbursement is capped at 27.5% of project cost for new equipment and 24.5% for used equipment.
- **Project execution is being accelerated:** The maximum upgrade timeline has been reduced to five years, with a grace period (Cure Period) of up to one additional year. Importantly, if the refinery completes the upgrade within three years, it will be eligible to recover an additional 0.5% of the project cost for each year saved.
- **Working capital requirements**: Import dependent refineries will now be required to maintain 20 days of crude inventory, while local refineries need 15 days of storage capacity but only 8 days of inventory. This puts import dependent refineries at a disadvantage, while benefiting local refineries such as ATRL.
- **Targeted reliefs improve project economics.** Upgrade equipment/material is exempt from sales tax, while disallowed sales tax related to refinery operations continues to be reimbursed through IFEM for FY26 and through the validity of the UA. The policy also facilitates onshore FX accounts and FX/forward cover for upgrade funding.
- **Governance is materially tighter.** Petroleum Division will oversee project execution through third-party technical consultants and auditors, with FEED approval, quarterly progress reporting and biannual audits. Refineries must also provide a PKR1bn bank guarantee, alongside a 10% LC/financial instrument against amounts proposed to be withdrawn.
- **Crude-duty reimbursement is carried over, not incremental.** Customs duty on crude remains reimbursable through IFEM; this should therefore not be treated as a new benefit under the 2026 amendment.

Overall, the amendment improves execution certainty but also increases the bureaucratic burden of delivering the upgrade. With stricter timelines, monitoring and compliance requirements, execution risk remains non-trivial. ATRL stands out as the safer play, in our view, given its strong balance sheet and cash position, providing greater capacity to absorb capex and potential implementation delays. Its less ambitious upgrade plan also positions the company well to potentially qualify for the additional 0.5% project cost reimbursement. More importantly, ATRL's relatively higher exposure to MS provides a favourable earnings mix in the current environment, where HSD margins appear increasingly capped, making its product slate relatively more attractive versus peers. Furthermore, its access to local crude supply means ATRL should continue to benefit from lower working capital requirements relative to its peers. We view the amendment as positive for upgrade execution and timing, rather than a step-change in refinery earnings economics.

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Area	Previous (2023 / Feb-24)	Amended (Aug-26)
HSD deemed duty	7.5% sustainability incentive	5% for late signatories, with 2.5% differential surrendered to Upgradation Account
Signing deadline	Existing deadline had lapsed	45 days, with HSD falling to 2.5% / nil thereafter
Incentive period	Existing policy framework	Fresh 7 years from UA signing
Upgradation account	Escrow mechanism	Dedicated Refinery Upgradation Account
Sales tax	No equivalent explicit upgrade relief	Sales-tax exemption on upgrade equipment + IFEM reimbursement
Completion period	6 years	5 years + 1-year Cure Period
Early completion	None	+0.5% of project cost/year saved
Project funding cap	27.50%	27.5% new / 24.5% used equipment
Monitoring	Less extensive	Third-party technical + biannual audit framework
Government dues	Petroleum-related dues	Petroleum + climate support levy
Bank guarantee	PKR1bn	PKR1bn + 10% LC/financial instrument
Sustainability tail	7.5% HSD deemed duty	7.5% explicitly retained for 20 years post seven-year incentive period / until deregulation

Source: Brownfield Policy, IMS Research

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