



▶▶▶ AS GROWTH GIVES WAY TO LIBERALIZATION, PAKISTAN IS PUMPING UP OIL AND GAS PRODUCTION AND OPENING UP TO FOREIGN PLAYERS. SECURING THE COUNTRY'S FUEL FOR THE FUTURE IS A PRIORITY.

MORE THAN 50 AGREEMENTS FOR NEW BLOCKS

## Privatization and new discoveries to increase energy self-sufficiency

Seeking to reduce dependence on imported oil and to prepare to meet future energy demands as Pakistan continues to register astounding year-on-year growth, reaching 8.3% in the last months. President Musharraf's government is undertaking an overhaul of the country's oil and gas sectors. The government is privatizing national assets and promoting new exploration and development. More than 50 agreements for new onshore and offshore blocks have been signed in the past year, according to Federal Minister for Petroleum and Natural Resources, Amanullah Khan Jadoon. He says that the government is spending a great deal of effort on both domestic and international fronts to secure Pakistan's energy future. "Energy is the basis for development, so it is very important to achieve self-sufficiency. If you have a shortfall, you strangle your growth," he remarks. Mr. Jadoon, who recently hosted a conference in the UK to highlight new opportunities in the sector, says that a number of initiatives have been put in place to attract new investment.

Pakistan currently imports over 80% of its oil, which represents 30% of the country's total energy supply. Natural gas, which currently makes up 50% of total energy supply, is abundant in the country, and an increasing focus for the future. New gas discoveries have increased the country's reserves by 60% over the past two years, from 2.2 billion to 3.5 billion cubic feet per day, saving the government some \$700 million in furnace oil imports, according to Ahmad Waqar, Secretary for the Ministry of Petroleum and Natural Resources. Mr. Waqar says the gov-



AMANULLAH KHAN JADOON  
Federal Minister for Petroleum  
and Natural Resources



AHMAD WAQAR  
Secretary for the Ministry of  
Petroleum and Natural Resources

ernment is now running feasibility studies on three different regional pipelines for future gas imports as part of its new 15-year National Energy Security Plan. The plan will transform Pakistan into a vital regional energy transit route taking advantage of the country's ideal location at the crossroads of Central Asia and the Arabian Sea. It also envisions investments of \$600 million in new liquefied natural gas (LNG) re-gasification facilities in Karachi and LNG port facilities at either Gwadar or Karachi.



PAKARAB REFINERY LTD

The new National Energy Security Plan aims to transform Pakistan into a vital energy transit route in Central Asia and the Arabian Sea. The government is undertaking feasibility studies for the building of three regional pipelines for gas imports.

LANDMARK DECISIONS TO LIFT STATE CONTROL

## Record turnover for state oil company as Pakistan aims to raise production

PAKISTAN currently produces just over 60,000 barrels of crude petroleum per day – a figure that the government hopes to raise considerably in the next few years as it pushes for new exploration throughout the country. Current production is centered in the Punjab and lower Sindh province where the Ministry for Petroleum and Natural Resources has recently opened bids for four new blocks. Many of the major international players are operating in Pakistan, including Shell, ENI, BP, BHP, Orient Petroleum and Petronas. A leading firm in the industry is the state-owned Pakistani company, Oil and Gas Development Corporation Limited (OGDCL), which produces nearly half of the country's oil and has 39% of Pakistan's gas reserves. OGDCL made 12 new oil and gas discoveries in 2004, while registering a record-breaking turnover of \$750 million. A 5% stake of the company was sold in a public offering in 2003.

As proof of its commitment to the continuing liberalization of the sector, last year the government also offered up for sale 15% of Pakistan Petroleum Limited (PPL), a public exploration and production company and the largest of its kind in the country. PPL owns the Sui gas fields in Balochistan, as well as exploration interests in 22 blocks, and was award-

ed two new exploration licenses this year. Also on the cards is the sale of a 51% share of the parastatal Pakistan State Oil (PSO), which holds a 60% market share in diesel fuel.

The country's downstream sectors are also in the process of being deregulated. Pakistan is a significant importer of refined petroleum products, and whereas previously all imports were carried out through PSO, the government has made a landmark decision to increase imports by other oil marketing companies and lift state controls. Shell Pakistan Limited is a model of a flourishing multinational in the country's downstream sector and an example of the potential available in the country's petroleum products market. With Shell's retail network of 761 outlets across Pakistan, it is well placed to reap the benefits of Pakistan's economic boom and the subsequent growth in purchasing power in the country (currently only 4% of the population uses motor vehicles).

The government has offered up for sale 15% of Pakistan Petroleum Limited (PPL) and is planning to sell 51% of Pakistan State Oil (PSO)

Shell is the second-largest company in Pakistan's downstream marketing sector, and is also involved in midstream activities with its liquefied petroleum gas (LPG) subsidiary, Shell Gas. LPG use is growing in Pakistan as a reliable energy source for remote areas of the country that are outside the natural gas network.

ORIENT PETROLEUM LOOKS TO EXPAND ITS JOINT-VENTURE SUCCESS

## Making the grade through technology, cost-effectiveness and flexibility

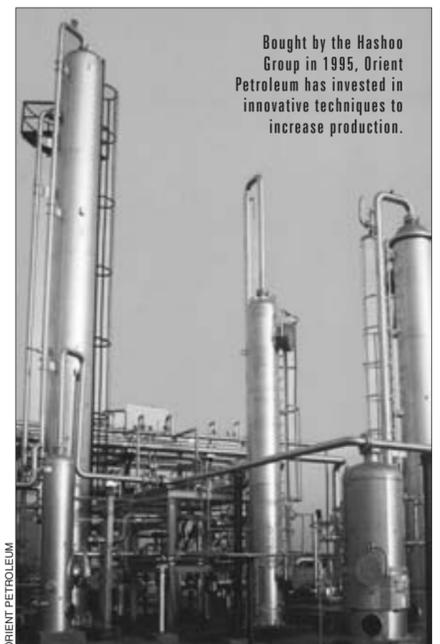
PART of the Hashoo Group of companies, Orient Petroleum has been operating in Pakistan since 1979, when it formed part of Occidental Petroleum. Orient was granted concessions for the Dhurnal, Bhangali and Ratana oil fields – some of Pakistan's highest producing fields at the time – and was bought by the Hashoo Group in 1995. Since then the company has continued to produce oil, gas and liquefied petroleum gas from these fields and has gone on to make a number of new discoveries in the country. Orient has also formed successful joint ventures with some of the larger players in Pakistan, such as state-owned Oil and Gas Development Company Limited, the country's largest producer, Petronas, Zaver Petroleum Corporation and Bow Energy Resources.

As a mid-sized company, Orient Petroleum prides itself on its flexibility and rapid decision-making, as well as its innovative approaches, and has used its size to increase its efficiency and cost effectiveness. Company President Hasan Ali Hashwani, states: "We are able to make quick operational decisions. We want to maximize the return on our investments and move quickly to bring our oil and gas to market, and in this way we capitalize on the flexibility that being a mid-sized company entails." Under the Hashoo Group, Orient has used enhanced oil recovery methods to continue to produce from its original fields, increasing its shares in Dhurnal and Ratana, and has made seven new discoveries on its own in two new blocks in the Sindh province. Again, Orient Petroleum's innovative techniques led to their success there. Mr. Hashwani comments, "By employing new technology from our Houston office, we were able to establish a new producing horizon in the Southern Indus Basin sands."



HASAN ALI HASHWANI  
President of Orient Petroleum

Encouraged by their success in Pakistan and urged on by ever-increasing global prices for oil, the company is now planning its expansion beyond Pakistan's borders. Senior Vice-President Anwar Moin, says that the company is attracted by the potential in the Middle East and Central and East Africa where new opportunities are opening up. He states: "We feel that we have a very strong base in Pakistan, which is where we have built up the company, but now it is time to expand overseas to add to our asset base. With high international oil prices, it is now quite an attractive time to go and explore these areas."



Bought by the Hashoo Group in 1995, Orient Petroleum has invested in innovative techniques to increase production.

**Success beyond measure**

- Largest company in Pakistan with an average turnover of US\$ 3.4 billion.
- Blue-chip organization with market capitalization of around Rs 44 billion (US\$ 755 million), contributing US\$ 875 million to the national exchequer.
- Earnings almost doubled from Rs 2.3 billion to Rs 4.2 billion during the last three years, thus maximizing value for shareholders.
- Strong financial fundamentals with "AAA" credit rating.
- Enjoys market share of around 80% in Black Oil and 60% in White Oil.
- Committed to support ongoing, innovative social and charitable projects in the field of education, health, welfare and women's empowerment.

**Living up to all benchmarks**

**Pakistan State Oil**  
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Interflow

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# Pakistan

Parco's cross-country pipeline network includes a number of pumping and terminal stations.

PAKISTAN STATE OIL (PSO) DOUBLED ITS REVENUES IN FOUR YEARS TO REACH \$3.5 BILLION IN 2004

## Sweeping deregulation policies to obtain transparent and effective systems

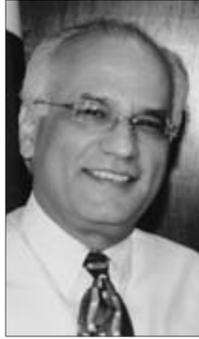
PAKISTAN STATE OIL (PSO) is Pakistan's largest petroleum marketing firm, and the country's largest company in terms of revenues. Market capitalization of PSO is over \$775 million, and the company's broad network of over 3,800 petrol stations stretches throughout Pakistan. Due to its recent restructuring, PSO has set major corporate landmarks that have resulted in the company doubling its revenues over the past four years to \$3.5 billion last year. PSO has a wide customer base, including strategic sectors such as aviation, the steel industry and the Pakistani armed forces. In addition to its retail outlets, PSO also boasts 23 petroleum depots and a trucker-tanker fleet of 8,500.

A key figure in the company's successful transformation was former Managing Director Tariq Kirmani. Working

within the framework of the sector's deregulation since 2000, Mr. Kirmani was instrumental in creating the market-oriented and commercially viable company that PSO is today – a transformation so effective that the company has become a case study for various international universities, such as Pennsylvania's Wharton School of Business. Mr. Kirmani, who is now chairman of Pakistan International Airlines and who has been replaced at PSO by new Managing Director Jalees A. Siddiqui, says that the company's major turnaround was helped considerably by the government's push for a more transparent and effective energy sector. He states: "That was the starting point. From there we implemented a number of changes at PSO in terms of management and began to

make better decisions in terms of corporate governance, human resources policy, and systems and processes. Hence, we were able to come up with new products and services in a very efficient manner."

Those products and services have gone on to give PSO a reputation for quality pioneering in the industry. According to Mr. Kirmani, many of the company's innovative products have still not been replicated by other competitors in the market. It is the case of their card business and their IT quality



**TARIQ KIRMANI**  
Former Managing Director of  
Pakistan State Oil

control systems that ensure that the 2.8 million customers who visit PSO outlets daily receive the most transparent and efficient service. "One could say that we had to invent the wheel locally," comments Mr. Kirmani. "Naturally we are proud of that, and I think that of all the things that we have accomplished the most important is the change in the perception of PSO. The services that our stations offer are amazing. We provide automated

services, so that from the time you swipe your card until the time you get your bill, the system is untouched by human hands. We can even tell you how many kilometers per liter your car is getting each month." The company has also implemented customer service centers and automated feedback registration systems, as well as putting in place a number of total quality control systems across the spectrum of their receipt, storage, transportation and delivery activities. Not surprisingly, PSO's market share has grown remarkably throughout the past few years to reach 45% today, and the company has been assigned a credit rating of AAA and A+1, the highest available ratings from the Pakistan Credit Rating Agency.

PSO is also active in social development projects throughout the country. As well as being involved in rural empowerment programs, PSO has created educational scholarships and conducts internships for students and special management courses for professionals.



PARCO'S COMPETITIVE ADVANTAGE CARRIES ON

## Refining and transport profits in the pipeline

THE PAK-ARAB Refinery Limited (Parco) is a flagship company in Pakistan's downstream industries. A joint venture between the government of Pakistan and the Emirate of Abu Dhabi established in 1974, Parco is today a fully integrated energy company that maintains a competitive advantage in the refining, transportation, storage and marketing of petroleum products in Pakistan.

The company's \$886 million Mid-Country Refinery at Mahmood Kot has a capacity of 100,000 barrels per day of throughput – by far the highest capacity of any refinery in the country, and Parco's 761-mile cross-country pipeline network, which includes a number of cross-country pumping and terminal stations, carries close to six million tons of crude oil and refined products from Karachi to inland destinations. One of the company's greatest successes has been its 507-mile White Oil Pipeline, which represented an investment of \$480 million and is designed to carry refined petroleum products from Karachi to Mahmood Kot with an annual capacity of 12 million tons.

The pipeline has been able to meet the needs of the central and northern regions of Pakistan, which account for nearly 60% of the country's total population of 150 million people. Finally, since its refinery operations came on stream in late 2000, Parco has begun marketing its own fuel products, such as lubricants, as well as liquefied petroleum gas (sold under the brand Pearl). The

company also has a rapidly expanding network of Total Parco petrol and compressed natural gas stations throughout the country, which the two companies hope will reach a total of 500 stations within the next fifteen years. Deputy Man-

aging Director of Operations Muhammad Rasheed Jung states: "Parco as an energy company is the key building block in Pakistan's strategic oil supply and its logistics. With the synergy of a comprehensive and expanding oil pipeline network, integrated with a significant and modern refining capability and countrywide storage facilities, Parco has emerged as the strategic fuel supplier to the country."

**The 507-mile White Oil Pipeline represented an investment of \$480 million and meets the energy needs of 60% of the country's population**



Pakistan State Oil (PSO) is the country's largest petroleum marketing firm and also its highest revenue earner. The company bases its leadership on offering cutting-edge, automated services to its 2.8 million customers.

*Thriving and self-sufficient Pakistan...  
Our Common Goal*

We, the market leaders in the energy sector, have been among the major players in moving Pakistan along the road to prosperity and self-reliance.

Our continuous endeavours to strengthen the economy of the country have led us to explore fresh avenues of energy supplies and provide the people of Pakistan with uninterrupted and cleaner fuels.

**Together we aim for a progressive Pakistan.**

## In Quest of Energy

Orient Petroleum proudly exercises its obligations toward exploring the subsurface treasures of energy in Pakistan.

### Profile

- "A" / "A-1" Financial Rating from the Japanese Credit Rating Agency (JCR-VIS)
- Pakistan's Largest Private Sector Operator
- Over 25 Years of Operating Experience
- Executed the Fastest Development Plan in Pakistan

OPI has recently made seven hydrocarbon discoveries. This is in addition to seven other discoveries which were made by Pakistan's OGDC as operator in Sinjoro Block and Petronas as operator in the Mehar Block, where OPI is a Joint Venture Partner.

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