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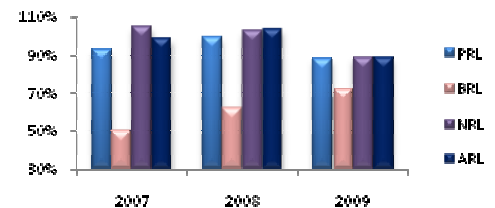
ENERGY CRISIS HAS BEEN CRUCIAL ISSUE FOR THE COUNTRY WHICH WAS NOT SUITABLY OVERCOME BY ADMINISTRATION. MOREOVER, AN OIL CALAMITY IS GEARED UP TO OCCUR.

Pakistan has five main oil refineries, with the subsequent designed capacities: Attock Refinery Limited (ARL), 14 %, Pakistan Refinery Limited (PRL), 17 % , National Refinery Limited (NRL), 22 %, Bosicor Pakistan Limited (BPL), 10 % and Pak Arab Refinery Limited (Parco) 35 % encompass total country's refining capacity. Collective capacity is 280,500 BPD approximately while demand is over 400,000 BPD. It is manifested from the most recent balance sheets of the five refineries that with the miserable refining margins in the wake of global economic meltdown and unresolved issue of circular debt, the refineries will not be able to continue their operations further. Oil refinery a major source to reduce the burden of importing the higher value adding refined products, thereby saving the country's foreign exchange. However, The business milieu offered to the local refineries revolves around a pricing formula.

Refineries Parameter:

Last year was most turbulent in the history of oil refining. The price of crude oil rose to its highest level, and then crashed, as the world economy collapsed around the banking crisis. It was an extremely difficult time for the refining sector to operate profitably while maintaining commitments to supply the Pakistan fuels market. Harms of refineries are further provoked by the fact that Pakistan State Oil (PSO) continues to default in its payment of product bills to local refineries thus resulting in very high financial charges. Default by PSO on its payment obligation is second major issue confronting the refineries. Some concerns are the amount of past due payables to refineries is being utilized by PSO to either finance its increasing imports of petroleum products at the expense of local refineries loss of production or these funds are blocked as a bad commercial debt of PSO. This Issue has been communicated within refineries and Govt but no act has been taken by the government yet to hoard precious foreign exchange by providing a favorable environment to increase production from the refineries and lowering imports via PSO. In addition to the issue of non-payment of overdue payables by PSO and negative GRMs, refineries' profitability has also been affected by the negative impact of depreciation of Pak rupee versus the US dollar. Ogra uses historical average of exchange rate prevailing in the previous months; while refineries make payment to the crude oil suppliers based on spot exchange rate prevailing at the date of payment.

Capacity Utilization



Pricing formula and impact:

The Supreme Court of Pakistan is likely to considering of removing variances in the oil pricing formula on the last day of the year 2009 after the cessation of the time limit given to committee of the Government to resolve the issue. The formula, however, does not take into account the price of feedstock, crude oil, which is the most crucial element in the making of gross margin for a refinery (GRM), based on a set of product pricing. The fluctuation of crude oil and products prices remain consistent with each other thus keeping the GRMs all the more constant. The impact on refineries, of removing the deemed duty on diesel with a processing fee on refined crude, will be better stabilization in earnings. Profitability of refineries has been very impulsive over the last few years due to fluctuation in gross refining margins. As there will be a permanent fee is expected stabilize in earnings of the sector.