

Regulation and Deregulation of Petroleum Downstream Markets

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Webster (2b):

Regulation – a rule or order having the force of law issued by an executive authority of the Government.

Why regulate?

Price Controls

– Perceptions

- Consumer Protection
- Protection for the poor
- Limits profits of OMCs
- Uniform pricing across regions
- Political gains

Drawbacks of Regulation

Price Controls

– Reality

- Prices are higher when controls are in effect;
- Prices meet requirements of NOC – excess profits resulting in higher profits for IOCs;
- “Stabilization” Funds
- Distortions in pricing/Adulteration
- Little/No transparency (tax revenues)
- No signal to consumers/revisions not automatic
- Easier to knock on the door than compete

About de-regulation

- Petroleum Downstream Activity is not a natural monopoly;
 - Many players and potential players
 - IOCs, Local firms, Independents
 - Newcomers innovative, creative
 - Consumer Oriented
 - Transparent pricing
 - Measurement of efficiency -- netbacks

Barriers to Entry

- Licensing
- Up-front obligation to invest, Guarantees
- Industry to vet new entrants
- Access to infrastructure
- Regional service obligations
- Restrictions on supply sourcing (local refinery)
- Collusive practices against new entrants

Benefits of Market Pricing

- Integration with international oil markets
- Transparency of retail prices
- Little, if any, scope for subsidies
- Service-based competition
- System depoliticized -- market trends
- Predictable tax revenues
- Government focuses on policy!

Risks of Market Pricing

- Price fixing/collusion
- Vertical Integration?
- Market Power /product/region
- Illicit trade practices
- Unserved areas

What to Regulate

- Competition/Third Party Access
- Environment
- Products Specifications
- Safety
- Weights and Measures
- Strategic Stocks
- Legal Basis
- Norms and Standards
- Implementing Agency
- Enforcement powers
- Penalties

Competition Law/TPA

- Policy Formulation
- Legal Basis
- Agency, Autonomy
- Skills
- Enforcement Powers

About Pakistan

- Considerable Progress over past 7 years
 - Creation of OGRA
 - Elimination of Leaded Gasoline
 - Considerable Growth in Natural Gas Market/CNG
 - Deregulation of FO and LPG Markets
 - Fortnightly revision of petroleum product prices
 - Notification of Prices at (some) retail outlets

About Pakistan (2)

- Remaining Agenda
 - Eliminate 1% S HSD (anticipated by 1/1/2008)
 - Freight Equalization Margin
 - Differential MS-HSD too high
 - Taxation of MS too high (vs HSD, CNG, LPG)
 - Differential HSD-SKO too high

About Pakistan (3)

- And ... deregulate the market
 - Complete regulatory framework
 - Abolish collusive practices (technical coordination committee)
 - Make subsidy to refineries transparent during transition period
 - Promote third party access
 - Enforce competition

Thank You

Shukrya