April 2026

Special Edition: *Deregulation*

PAKISTAN DOWNSTREAM INTELLIGENCE

MOUNTAIN VENTURES

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Special Edition

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Foreword

The Bridge and the Destination

Something rare has happened in Pakistan's petroleum sector. The conversation has moved.

For two decades, deregulation was a destination everyone agreed was correct, that no one was prepared to begin walking towards. Within a single weekend in late April, the Petroleum Division and the refineries negotiated a new diesel pricing formula, voluntarily, IMF-endorsed. The minister has, in three public statements, named full deregulation as the destination. The institutional resistance that defined the previous twenty years has softened materially, and quickly.

This Special Edition takes that moment seriously. What follows is not a brief for deregulation. The case has been made. The destination is no longer in dispute. What follows is an answer to the question that now matters: how does Pakistan get there, and in what order?

The argument can be stated plainly. Petrol can be deregulated now. It is a consumer fuel. Competition between OMCs delivers consumer savings without systemic risk. The infrastructure is ready. Diesel needs the bridge first. It sits inside the unit cost of almost every good consumed in Pakistan. The new HSD formula is the test bench, three months extendable.

India did exactly this, petrol in 2010, diesel in 2014. The four-year gap was deliberate. The reform has survived three changes of government.

The risks are real and worth naming. Each is addressable through legislative design, not avoidable through delay. The risks of the status quo have already materialised.

The minister has named the destination. The bridge is being built. The only question now is whether parliament will write the route into law before the political cycle takes the moment back.

Zeeshan Tayyeb & Zain Jaffery
Mountain Ventures
27 April 2026

Deregulation

Mountain Ventures Position Paper

The Government Sets the Price. The Industry Delivers the Product.

Pakistan's petroleum pricing is not regulated, it is constructed. OGRA builds the retail price component by component: ex-refinery cost, customs duty, petroleum levy, climate support levy, inland freight equalisation, OMC margin, dealer margin. Every rupee is notified. Nothing is left to the market.

The result of crisis management in 2026 speaks for itself. Unfunded subsidies, PDL revisions, overnight shocks, reversals. The IMF, which had tacitly accepted subsidy as a crisis concession, has since called for the removal of petroleum pricing distortions as a matter of urgency. This is not a debate about ideology. It is a confrontation with outcomes.
The petroleum minister has, within the last fortnight, named full deregulation as the policy destination. The new diesel pricing formula, agreed voluntarily between the Petroleum Division and refineries and endorsed by the IMF, is positioned by the minister himself as a transitional bridge. **The destination is no longer in dispute. What this paper sets out is how to get there, and in what order.**

Deregulation does not mean abandoning all oversight. Customs duty, the petroleum levy, and the climate support levy are fiscal instruments. They stay, ideally as fixed per-litre amounts announced in the federal budget and unchanged for twelve months. What changes is everything downstream: OMC margins, dealer margins, and ultimately the retail price itself. These should be set by competition, not by notification.

Deregulation

Tame the Cliff, Not the Price

The strongest argument against deregulation has always been volatility. The answer is not a price cap. A cap set below market-clearing cost simply recreates the PDC problem, accumulates liabilities, and delivers a larger shock later. March and April proved this conclusively.

The better mechanism is a circuit breaker: **a maximum permitted movement per weekly revision, Rs 10–15/L in either direction**. A $30/bbl spike would transmit over three to four weeks rather than arriving overnight. Crucially, the circuit breaker must be symmetric. When international prices fall, the consumer receives the benefit at the same measured pace, preventing the government from absorbing the downside through levy adjustments, as it did consistently throughout 2024 and 2025. **The consumer experiences a slope, not a cliff.**

Let Freight Find Its Price

The Inland Freight Equalisation Margin is the most consequential design decision in any deregulation framework. IFEM pools freight costs so that a litre of petrol costs the same in Karachi as in Chitral. The intention is equitable. The effect is distortive: it removes any price signal for infrastructure investment and discourages OMCs from expanding into remote areas since the margin is identical regardless of the cost to serve.

Mountain Ventures recommends a hybrid transition: retain IFEM but cap it at Rs 5/L and publish a statutory schedule reducing it by Rs 1/L per year until it reaches zero. **Geographic price variation emerges gradually.** Remote-area consumers receive a soft landing. OMCs have a predictable glide path. The government has a credible exit.

Fix the Measurement Before Fixing the Market

OGRA already conducts a supply allocation exercise, certifying domestic refinery output before approving import volumes. The sequencing principle exists. Its enforcement does not.

The reason is a structural anomaly in Pakistan's measurement standards. Petroleum is bought and sold internationally at a reference temperature of 60°F. Pakistan's terminals and depots operate at 85°F. Petroleum expands with heat: across this 25-degree differential, motor spirit yields approximately 2% more volume per metric tonne received than the international standard records. For every import cargo, OMCs capture this surplus at zero additional cost, a hidden margin that does not accrue to OMCs procuring from domestic refineries, whose product is measured at local ambient conditions with no equivalent arbitrage.

Deregulation

The practical consequence is that imports are structurally preferred over refinery offtake, even when domestic pricing is competitive on paper. The OMC retains the volumetric gain. The measurement mismatch is inadvertently subsidising import preference, and that cannot have been the policy intent.

The fix is twofold. First, update import standards to 85°F temperature reference consistent with actual storage and delivery conditions. Second, mandate a framework under which OMCs must execute long-term supply agreements with domestic refineries before being allocated import volumes beyond the certified deficit. Government should not prescribe commercial terms; price, volume, tenor, and specification are matters for bilateral negotiation. What it must establish is the **contractual foundation**: local refinery output has first claim on the market, backed by signed commitments, not administrative allocation.

The critical qualifier: **guaranteed offtake is conditional on refineries meeting commercial terms**. This framework does not protect Pakistani refineries from competition. It removes a measurement distortion that makes competition impossible. A refinery that delivers below specification or prices above import parity earns no protection. One that performs commercially deserves a market that is not rigged against it.

The longer-term obligation flows in both directions. Committed offtake provides the revenue certainty refineries need to justify upgrading investment. Euro-V conversion, which is the quality gap that currently gives imported product an additional advantage, becomes a bankable proposition when downstream demand is secured by contract. OGRA should make Euro-V compliance a condition of the long-term offtake framework, with a defined transition timeline. The measurement reform and the offtake mandate together do not merely correct a current distortion — they create the conditions under which Pakistan's refinery sector can invest its way to competitiveness.

Deregulation

Sequence Matters

Petrol First. Diesel When the Bridge Holds.

Deregulation is not one decision. It is two, taken in the right order.

Petrol is a consumer fuel. Two-wheelers, three-wheelers, ride-hailing vehicles, small private cars, urban commuting. Demand is price-sensitive but bounded by absolute affordability. Most of the country's petrol volume passes through outlets in catchments where two or three OMCs already compete on service, location, and dealer quality. Margin deregulation in this segment delivers consumer savings through competition without systemic risk to the wider economy. A petrol price that varies by Rs 2–3/L between OMCs at the same intersection is a competitive market doing its job.

Diesel is everything else. Freight. Agriculture. Construction. Inter-city movement of food, manufactured goods, and raw materials. Small industry. The price of a litre of diesel sits inside the unit cost of almost every good consumed in Pakistan, including by households that do not own a vehicle. An unmanaged diesel price increase passes through to inflation in ways that a petrol increase does not. Deregulating diesel before the system has been tested on petrol invites a pass-through shock that would discredit the entire reform agenda within a single quarter.

The minister has, perhaps inadvertently, set up the right sequence. **The new HSD pricing formula is the test bench for diesel**. Crack capped at $41.89/bbl, floor at $11.33/bbl, anchored to a five-year weighted average of $6.16/bbl. Three months in the first instance, extendable by consent. That is a controlled environment in which diesel pricing discipline can be observed, refined, and made durable.

Petrol does not need a bridge. It can be deregulated now, in parallel with the diesel formula trial. The institutional infrastructure is ready: OGRA continues to publish a weekly reference price as a benchmark, not a ceiling. The digitisation push closes the cross-dumping channel that would otherwise be the long tail's escape route. The measurement reform creates a level procurement playing field. By the time the diesel formula completes its trial cycle, the system will have twelve months of evidence on petrol margin deregulation to draw on.

This is not a Mountain Ventures invention. **India deregulated petrol in 2010 and waited four years to deregulate diesel**. The four-year gap was deliberate. The result was a structural reform that has now survived three changes of government. Pakistan's market is smaller, but the political logic is identical. **Sequence the reform, and it endures. Bundle it, and it does not.**

Deregulation

Deregulation cannot happen overnight, but the crisis is the right moment to commit and legislate. **A statutory eighteen-month roadmap, sequenced petrol-first:**

Months 1–6: Petrol deregulation begins

Legislate the framework through parliament. Petrol margin deregulation begins; OMCs and dealers set retail margins competitively. OGRA publishes a weekly petrol reference price as a transparency benchmark. Diesel continues under the new HSD formula.

Fix all levies in the FY27 budget at per-litre amounts unchanged for twelve months. Diesel formula trial period extended for a second three-month cycle subject to ECC review. Petrol price variation between OMCs and across cities becomes routine and uncontroversial.

Months 7–12: Petrol IFEM taper begins

Begin the petrol IFEM taper, Rs 1/L reduction in the cap on schedule. Diesel formula refined based on six months of evidence; the question of permanent diesel framework versus full deregulation taken to ECC. OGRA shifts visibly from price-setter to market regulator on petrol; the institutional muscle for diesel deregulation is built in parallel.

Months 13–18: Diesel deregulation begins

Diesel margin deregulation begins, supported by twelve months of petrol evidence. Full petrol market pricing established. Diesel circuit breaker mechanism deployed at Rs 15–20/L per cycle, calibrated wider than petrol given the freight and agricultural pass-through risk.

Beyond Month 18: Diesel IFEM taper begins

Diesel IFEM taper begins. OGRA focused entirely on quality, competition, and access. Pakistan moves to the regulatory posture every successful deregulated market has adopted: police competition, not prices.

The risks of deregulation — cartel pricing, remote-area supply withdrawal, political reversal — are manageable with the right legislative design. **The risks of the status quo have already materialised.**

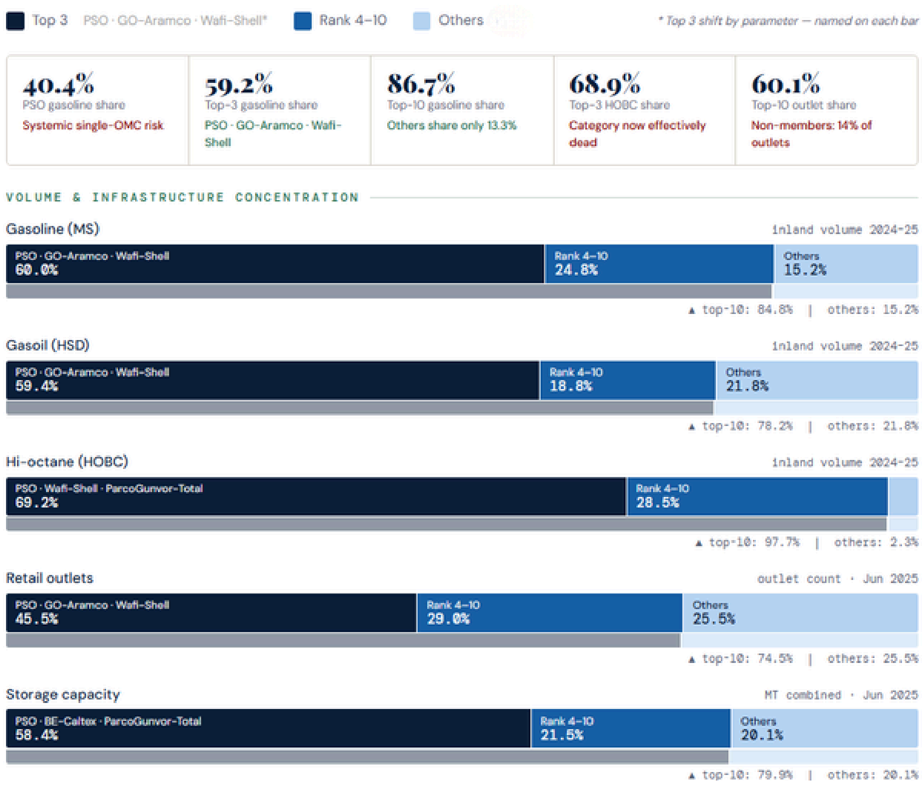
Deregulation

Licensed to Exist. Not to Compete.

Pakistan has 40+ OMCs. The top ten run the country's fuel supply. The rest are a collective drain on the sector's credibility, its capital, and its future.

The data is unambiguous. The top ten OMCs account for an overwhelming majority of sales, storage capacity and retail infrastructure. The rest only occupy space. The industry presents itself as a collective of 40+ players when it is, in practice, a market of ten with two dozen stragglers attached. During the Hormuz crisis, the supply that kept Pakistan running came from a handful of players. Deregulation will not fix this on its own, but it will accelerate the inevitable.

The market will do what the regulator has been too cautious to: clear the field.



BEYOND THE FIVE PARAMETERS — CONCENTRATION RUNS DEEPER

Jet fuel (JP-1) — PSO monopoly

PSO holds virtually 100% of aviation fuel supply in Pakistan. No other OMC operates at this level. Deregulation without addressing aviation supply is structurally incomplete.

COCO sites — 255 sites, top-4 hold 88%

Company-Owned Company-Operated sites — the highest quality, highest throughput outlets — are overwhelmingly concentrated. PSO (33), Attock (44), GO-Aramco (63), and Wafi-Shell (44) account for 184 of 255 national COCO sites.

EV charging — 15 points, 3 OMCs

Total EV infrastructure across all OMCs stands at just 15 charging points nationally. PSO leads with 7, GO-Aramco has 3, Attock has 2. All others have zero — the EV transition is a top-3 conversation only.

CNG facilities — 313 total, top-3 hold 83%

Cnergyico leads CNG with 121 facilities, followed by Attock (106) and GO-Aramco (32). Tail OMCs have negligible or zero CNG infrastructure. CNG investment requires scale that only top-tier OMCs can sustain.

Source: OCAC Pakistan Oil Report 2024–25 · Mountain Ventures Analysis

Deregulation

Spartans and Stragglers

Consider the economics. An OMC with 50 retail outlets, each moving 2,000 litres a day, is running a business on regulated margin applied to roughly 100,000 litres of daily throughput. Annualised, that is the **salary of an international oil industry executive**. **From this pool, the same obligations apply as to a player ten or twenty times the size.**

The fixed cost base does not scale down. A credible ERP system. Safety compliance across 50 outlets, storage inspections, environmental audits, is a standing expense regardless of volume. Head office functions, finance, HR, operations, regulatory affairs, quality assurance, cannot be run on a skeleton. Digitisation mandates, ATGs, station controllers, live connectivity to OGRA, each carry **capital and recurring costs that are indifferent to how little fuel passes through the forecourt**.

Then come the cash demands. A single **refinery lifting requires advance payment** or a bank guarantee. A small **imported cargo requires a letter of credit** backed by working capital lines. PDC reimbursements; the OMC must carry the gap. None of this is available to a company whose annual revenue, net of product cost and taxes, cannot meaningfully cover head office salaries.

The business has outgrown this model. Whatever worked a decade ago, a handful of outlets, relationship-based supply, manual records, minimal overhead, no longer clears the bar the sector has been asked to meet. Regulation, compliance, digital infrastructure, and working capital requirements have all moved in one direction: upward. **Scale is no longer a competitive advantage; it is the entry ticket.**

Oil marketing is a game for those who can carry the weight.

Deregulation

FAQs

- **What does deregulation actually mean for pump prices?** It means OMCs and dealers set their own retail margins competitively, rather than receiving government-notified margins. The government retains the petroleum levy, customs duty, and climate support levy. The ex-refinery price remains market-linked as it is today. What changes is everything downstream: competition determines what consumers pay, not a fortnightly notification.
- **Why deregulate petrol before diesel?** Petrol is a consumer fuel; competitive pressure delivers consumer savings without systemic risk. Diesel sits inside the unit cost of almost every good consumed in Pakistan. An unmanaged diesel price increase passes through to inflation in ways a petrol increase does not. India deregulated petrol in 2010 and diesel in 2014 — the four-year gap was deliberate, and the reform endured. Sequence matters.
- **What about the new HSD formula? Doesn't it conflict with deregulation?** No. The formula is the bridge, not the destination, and the petroleum minister has said as much in his own words. The three-month trial provides a controlled environment to refine diesel pricing discipline before margin deregulation. Petrol does not need this bridge and can be deregulated in parallel with the diesel formula trial.
- **Will prices go up if the market is deregulated?** Not necessarily, and not permanently. In competitive markets, OMCs with lower cost structures pass savings to consumers to gain volume. What deregulation eliminates is the pattern of artificial suppression followed by violent correction, which is far more damaging than gradual market movement. **The Rs 135/L overnight shock of April 2026 was a product of regulation, not of a free market.**
- **What stops prices from swinging wildly every week?** A circuit breaker, a maximum permitted price movement per weekly revision, proposed at Rs 10–15/L for petrol and Rs 15–20/L for diesel once it deregulates. International shocks transmit gradually rather than arriving overnight. The mechanism is symmetric: when prices fall internationally, consumers receive the benefit at the same measured pace.
- **Does deregulation mean petrol prices will differ by city?** Eventually, yes, and that is rational. Freight costs differ by location, and price should reflect that. Mountain Ventures recommends a transition: retain IFEM but cap it at Rs 5/L and reduce it by Rs 1/L per year on a statutory schedule. Karachi may be marginally cheaper than Lahore; Gilgit marginally more expensive than both. This is how every functioning deregulated market works.
- **What happens to consumers in remote areas?** The IFEM taper provides a gradual adjustment, not an abrupt withdrawal. Licensing conditions should require OMCs to maintain minimum geographic coverage as a condition of operating licences — the model used in telecoms. **Supply obligations, not cross-subsidies, are the right instrument for ensuring remote-area access.**
- **What is the government's role after deregulation?** It collects revenue, petroleum levy, customs duty, and climate support levy, at the import and refinery gate. OGRA shifts from price-setter to market regulator: licensing, fuel quality enforcement, short-dispensing, competition oversight, and data transparency. The digital infrastructure being built, ATGs, track-and-trace, becomes the enforcement backbone. **Enforce quality and compliance, not price.**
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Deregulation

FAQs (Cont'd)

- **What happens to the taxes if prices are deregulated?** Taxes stay, but must be fixed as a per-litre amount in the federal budget, unchanged for twelve months, not adjusted fortnightly as a fiscal shock absorber. **Predictable taxes are compatible with deregulation. Variable levies used to manage fiscal shortfalls are not.**
- **Why does Pakistan's measurement standard matter for procurement?** International petroleum cargoes are measured at 60°F. Pakistan's terminals operate at 85°F. Petroleum expands with temperature, motor spirit by approximately 2% over this differential. **OMCs importing product capture this volumetric surplus at no cost; OMCs lifting from domestic refineries do not.** The result is a structural import preference that has nothing to do with genuine price competitiveness. Correcting the measurement standard is a precondition for a level procurement playing field.
- **Are Pakistani refineries protected under deregulation?** No, and they should not be. Protection is not the objective. The objective is to remove the measurement distortion that makes imports artificially attractive regardless of underlying economics. Under a corrected framework, refineries earn committed offtake by meeting commercial terms, on price, quality, and reliability. Those that do should be guaranteed first claim on the market through long-term supply agreements. Those that do not compete commercially earn no protection.
- **Will deregulation push refineries to upgrade to Euro-V?** It should, and the offtake framework is the mechanism. Committed offtake under long-term supply agreements gives refineries the revenue certainty to present a bankable Euro-V investment case. OGRA should make Euro-V compliance a condition of the long-term offtake framework, with a defined transition timeline. **Deregulation and refinery modernisation are not in tension, they are mutually reinforcing if the policy is designed correctly.**
- **Has deregulation worked elsewhere in the region?** India is the closest precedent and the most instructive. Petrol deregulated in 2010, diesel four years later in 2014. Daily pricing from 2017. State and central taxes retained at over 50% of pump price; commercial pricing freed. **The reform survived three changes of government because it was sequenced, legislated, and gave the political system time to adapt to each step.** Pakistan's market is smaller; the structural logic is identical.
- **What is the single biggest risk of deregulation?** Political reversal. Every previous pricing reform in Pakistan has been unwound under pressure. The mitigation is legislative architecture: enshrine the circuit breaker, the IFEM taper schedule, the petrol-first sequence, and the levy-fixing commitment in statute, not executive notification. Make deviation subject to parliamentary approval, not ministerial discretion. **The framework must be harder to reverse than it was to create.**

Deregulation

Country Precedents & Principles

India

- Deregulated petrol in 2010, diesel in 2014; OMCs set prices with fortnightly revisions, subsequently moved to daily pricing from 2017
- Retained central and state taxes at over 50% of pump price, fiscal tools preserved, commercial pricing freed
- **Phased approach: petrol first, diesel (politically sensitive) four years later**
- Result: subsidy burden reduced materially; private sector re-entered the market; no supply crisis attributable to deregulation

France

- Fuel prices were government-controlled until 1981, when they were fully liberalised
- Retained excise duties as fixed fiscal instruments; retail price competition entirely market-driven since

United States

- Fully deregulated; prices vary by state, county, and station, geographic variation is the norm, not the exception
- Government role limited to quality standards, environmental compliance, and competition law enforcement

Australia

- Free market pricing with monitoring for collusive behaviour and publishing weekly price benchmarks as a transparency tool, not a ceiling
- Geographic variation accepted; remote-area supply maintained through licensing obligations

Morocco & Philippines

- Among the only lower-middle income countries with fully deregulated fuel prices; demonstrate that deregulation is not exclusively a high-income-country outcome

The Principles Every Successful Case Shares

- **Taxes stay, margins go**, fiscal revenue tools retained; commercial pricing freed
- **Phased transition,** sensitive products deregulated last, with a published schedule
- **Transparency over control,** regulators publish reference prices and benchmarks
- **Competition policed, not prices,** antitrust oversight replaces price notification
- **Legislation over notification**, reforms enacted through statute, making reversal politically costly
- **Countries that froze prices rather than deregulated consistently reported fuel shortages, smuggling, and black-market activity, the cost of inaction is documented and severe.**

Deregulation

The Bridge and The Destination

The petroleum minister has named the destination. **The new HSD formula is the bridge. Petrol does not need one.**

The institutional resistance to letting OMCs set prices has softened materially in the last fortnight. The IMF has endorsed the diesel formula change and called for the removal of pricing distortions. The refineries negotiated a settlement rather than being coerced into one — a model the IPP and LNG legacy did not produce. The Petroleum Division has demonstrated, in real time, that pricing reform can be done by agreement.

The risks are real and worth naming. Cartel pricing if the top three coordinate. Remote-area supply withdrawal if licensing obligations are not enforced. Political reversal under the next pressure cycle. **Each of these is addressable through legislative design, not avoidable through delay.** The risks of the status quo have already cost consumers a Rs 135/L overnight shock, refineries are now subject to a crack cap because the previous formula generated windfalls that Mountain Ventures estimates at more than Rs140 Billion, and the government an IMF-flagged pricing system that has stopped working.

The reform also provides the cleanest path to the consolidation Pakistan's OMC sector needs. Petrol margin deregulation puts immediate pressure on the long tail without disturbing the diesel chain. The discounters lose their arbitrage. The cross-dumpers face the digitisation push at the same time. The regulator does not need to wield a stick. **The market clears the field.**

The minister has named the destination. The bridge is being built. **The only question now is whether parliament will write the route into law before the political cycle takes the moment back.**

More Information?

Mountain Ventures

Mountain Ventures is an investment and advisory practice with offices in Dubai, Lahore, and London, founded by experienced partners with deep expertise in oil & gas, energy transition, and technology. The firm has executed landmark transactions in Pakistan's downstream sector and operates across three divisions: Energy (oil marketing, EV charging, renewables), Technology (AI, analytics, computer vision), and Advisory (M&A, corporate finance, strategy). Mountain Ventures combines hands-on execution experience with global partnerships, bridging the gap between policy, capital, and technology to help clients and investors capture opportunities in high-growth markets.

Contact

For additional information beyond this overview, including company-specific analysis, market data, or tailored strategic guidance, please contact us using the details below:

Zeeshan Tayyeb
Partner
zt@mvglobal.net
+971 50 702 7696
+44 776 675 7696

Zain Jaffery
Partner
zj@mvglobal.net
+971 50 434 3677
+92 322 402 0020

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Most see the slope.
We see the range.
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