Expl-7(3) (TIP Complaint ENI)/2022
Government of Pakistan
Ministry of Energy, Petroleum Division
Directorate General of Petroleum Concessions
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Islamabad, 11th October 2022

Transparency International-Pakistan,
Plot 72-F/2\, 1st Floor, 9th Street,
Jami Commercial Phase-7, DHA,
Karachi

Subject: COMPLAINT AGAINST M/S ENI PAKISTAN LIMITED DEFAULTED ITS COMMITMENT TO 15 YEARS AGREEMENT OF SUPPLYING 11 MILLION TONS LNG TO PAKISTAN.

Please refer to your letter No. TIP 2022/0901/1A dated 1st September 2022 on the above subject.

2. The Complaint No-1 pertains to default of M/s Eni Pakistan Limited with respect to LNG. It is stated that M/s Eni Pakistan Limited, M/s Eni Pakistan (M) Limited and M/s Eni Pakistan (AEP) Limited are working in Pakistan in upstream petroleum sector and they are party to the Petroleum Concession Agreements (PCAs) signed with the President of Pakistan. Whereas, M/s Eni S.P.A, Italy is not working in upstream petroleum sector of Pakistan and is not party to any PCAs. It is clarified that M/s Eni S.P.A is incorporated in Italy and it is responsible for business of LNG. There is no provision in the petroleum rules which links the actions of companies that are not party to a PCA with those of concession holders.

3. With regard to LNG supply by M/s Eni S.p.A, comments are as under;

a. Eni S.p.A, Italy has been delivering LNG cargoes under its Master Sales and Purchase Agreement (MSPA) signed in 2017. The company has supplied 51 cargoes of LNG in accordance with the said contract but has defaulted on supply of 8 cargoes since January 2021.

b. The MSPA between Pakistan LNG Limited (PLL) and Eni governs the provisions of seller's failure to deliver the LNG. In case of seller's failure to deliver, following option are available with the Parties under the contract:

   i. Rescheduling of cargo quantity to a later date, with mutual consent; or

   ii. Buyer to claim damages under the contract

c. The decision regarding adopting any of the above options would be taken considering the situation in the international energy markets and the requirements of gas in future months in Pakistan and protecting the contractual rights of PLL.

4. Complaint No-2 pertains to the sale and purchase of the entire assets of the three M/s Eni companies in Pakistan i.e M/s Eni Pakistan Limited, M/s Eni Pakistan (M) Limited and M/s Eni Pakistan (AEP) Limited to M/s Prime International Oil & Gas Company Limited (PIOGCL). The Petroleum Division has thoroughly examined the case both technically and

financially. According to the applicable petroleum rules and policies, the Government is to ensure that the seller has fulfilled its financial obligations and the buyer has the technical and financial strength to fulfil the minimum work commitments and other financial obligations as mentioned in the PCAs. The actual value of Eni assets is a commercial matter between the buyer and seller and does not fall within the ambit of this Division nor required under the rules. Furthermore, due diligence has been conducted with respect to financial strength and technical capabilities of M/s PIOGCL. It is clarified that M/s PIOGCL is a local company comprising of 50% ownership by M/s HUBCO and 50% by Employees Buy Out Group (EBO Group) of Eni. It has a management team which is qualified and technically experienced, with proven track record of overseeing and managing operations pertaining to upstream oil and gas industry. As regard to the financial capabilities, M/s HUBCO shall provide all financial support to PIOGCL.

5. The response on the recommendations made by TIP is as under:

Complaint No-1:

i. Addressed at para-3 ante.

Complaint No-2:

i. The evaluation of assets of M/s Eni is a commercial matter between the buyer and seller and does not fall within the ambit of this Division. According to FBR there is no due tax liability pending on part of M/s Eni. FBR has also stated that the difference in sale value of share sold and fair market value of the shares and consequent capital gain tax if any, will be determined during audit in response to filing of return by M/s Eni Pakistan during audit/ amendment proceedings.

ii. The requirement of the petroleum rules has already been taken care of as explained at para-4 ante.

iii. FBR has stated that M/s Eni has paid withholding tax of Rs. 397,465,968/ and there is no due tax liability pending on part of M/s Eni. FBR has also issued NOC for the said change of effective control from M/s Eni to M/s PIOGCL. It is to clarify that OGDCL is an E & P company and doesn't have any authority to approve the said deal.

(Hassan Mehmood Yousafzai)
Additional Secretary (A)

<u>Cc :</u>

- Additional Secretary-II, Prime Minister's Office <u>Islamabad</u>. | w.r.t U.O No. 4(26)/DS(EA-I)/2022/2,dated 28-09-2022

- Secretary, Cabinet Division, Islamabad.
- Staff Officer to Finance Minister, Islamabad