



Which petroleum company recently expressed its intention to leave Pakistan?

Which petroleum company recently (June 2023) expressed its intention to leave Pakistan?

- A. Pakistan Petroleum Company
- B. Shell Pakistan
- C. Attock Petroleum
- D. Pakistan State Oil (PSO)

Show Answer...

Correct Answer: B (Shell Pakistan)

Explanation:

The recent news reveals that Shell Pakistan's parent company, **Shell Petroleum Company Ltd, has decided to exit the country**. The reasons behind this decision are multifaceted and extend beyond the current economic slowdown. However, it is evident that both multinational corporations and foreign investors have encountered significant challenges while conducting business in Pakistan due to various governmental decisions over the past year.

Shell Has Been Trying To Exit Pakistan For The Last Five Years

The government's measures, such as restrictions on profit repatriation, foreign exchange purchase, and letter of credit issuance, have severely disrupted economic activities. Moreover, the government's inability to restore confidence in the economy has deterred local businesses and foreign investors alike.

This situation emphasizes the importance of foreign investment for Pakistan's growth and development. The government must make every effort to convince foreign individuals and firms to maintain their investments in the country. Rather than relying on force and authority, it is crucial to align with global economic



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norms and uphold a democratic process that facilitates socioeconomic evolution.

While Shell Petroleum may have its own reasons for exiting Pakistan, it should raise concerns among decision-makers that a prominent foreign investor no longer sees value in a business that has been operating in the country since its inception. This highlights the urgent need for structural reforms and a conducive business environment to attract and retain foreign investment in Pakistan.

Important events/facts:

- Shell started operations in the subcontinent (including Pakistan) in 1903.
- Shell's disinvestment from Pakistan includes selling its 77% stake and 26% ownership of Pak-Arab Pipeline Co.
- In 2021, a Dutch court ordered Shell to decrease its carbon emissions by 45% by 2030, in line with the Paris Agreement.
- Shell has been divesting from other countries like Russia, Nigeria, Australia, and Brazil.
- Pakistan is seeking investments in renewable energy aligned with its Nationally Determined Contributions (NDC) and national energy policies.

Shell, a major petroleum company, has announced its decision to disinvest from Pakistan, causing shock among many Pakistanis. Since its establishment in 1903, Shell has played a significant role in the region's economy, particularly in creating a market for fossil fuels. However, the company's pioneering role has diminished over time as it failed to capitalize on opportunities for transitioning to renewable energy or achieving net zero emissions. The reasons behind Shell's decision are not explicitly stated, but three main factors can be identified: challenges in Pakistan's operating environment, internal corporate dynamics to address historical issues, and global pressure to diversify its portfolio.

CHALLENGING BUSINESS ENVIRONMENT:

Shell's primary business in Pakistan has mainly been in downstream sectors such as retail marketing, lubricants, and aviation. The company is selling its 77% stake and 26% ownership of Pak-Arab Pipeline Co. The decision to disinvest raises concerns about the stability of Pakistan's economic landscape, reflecting the country's economic crisis and the unannounced ban on repatriating profits due to a shortage of foreign exchange reserves. Shell's exit could have a ripple effect on



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the economy, including job losses and reduced foreign investment. It's worth noting that Shell is also divesting from other countries like Russia, Nigeria, Australia, and Brazil.

HISTORICAL BAGGAGE:

Shell was one of the first major oil companies to research climate change as early as the 1970s. However, it has been criticized for not making its findings readily available to stakeholders and the public. An internal study in 1986 warned about the impacts of the greenhouse effect, which were projected to be larger than any in the past 12,000 years. The report acknowledged that carbon dioxide concentration resulted primarily from fossil fuel burning and deforestation. The fossil fuel industry, including Shell, has been accused of suppressing information on climate change and supporting climate denial campaigns, leading to delays in global climate action.

INTERNAL DYNAMICS:

In 2021, a Dutch court ordered Shell to reduce its carbon emissions by 45% by 2030, making it the first ruling of its kind in line with the Paris Agreement. The company has acknowledged its responsibility to reduce emissions but has filed an appeal against the verdict. Shell has faced pressure to invest more in clean energy due to criticism of its carbon emissions. The rapid adoption of electric vehicles and other technological innovations pose threats to its downstream and retail businesses. Shell is now focusing on expanding its low- or no-carbon businesses, which include solar and wind energy, biofuels, hydrogen, carbon capture and storage, and nature-based offsets.

GOING FORWARD:

Pakistan, seeking investments aligned with its Nationally Determined Contributions (NDC) and national energy policies, has not been successful in convincing Shell to invest in renewable energy projects. On the other hand, Shell has not found Pakistan's market mature or large enough for its investments in these areas. Shell's recent investments in renewable energy have been significant, such as a \$1.6 billion investment in the Indian renewable power developer Sprng Energy platform. Pakistan needs to develop a long-term investment plan that offers opportunities for upstream investments in renewable



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energy to attract companies like Shell and promote climate-smart development.

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