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Research Paper

Balancing Cost, Security, and Diplomacy: The Pakistan-US Oil Deal in Context

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Executive Summary

Pakistan has secured its crude oil import deal with the United States, marking a significant shift in its energy procurement strategy. This policy brief assesses the strategic, economic, and geopolitical implications of the U.S. deal compared to oil imports from traditional suppliers. It provides an analysis of trade terms, monetary costs, and strategic insights to guide Pakistan's energy diversification efforts. The brief discusses the U.S. oil deal by evaluating the involved strategic, economic, and geopolitical options, offering a clear comparison with Pakistan's existing oil import sources and supplier countries. It examines the economics of the trade terms, the financial costs, and the potential risks, delivering a comprehensive analysis of how this diversification could affect Pakistan's energy security. The brief also examines energy sourcing, taking into account the stability of supply, price volatility, and long-term geopolitical stability. Finally, it presents policy considerations to shape Pakistan's energy diversification plan, aiming for a secure, resilient energy future less vulnerable to external political and economic influences.

- ## Background

Cnergyico is one of Pakistan's biggest privately owned refineries to have signed an agreement through which it will import 1 million barrels of West Texas Intermediate (WTI) crude per barrel, arriving in October 2025[1]. This historic agreement is based on the emerging dynamics of the global market and the shifting interests in Pakistan's energy security strategy. The deal, with Vitol, a global commodity trader, marks the first time U.S. oil has entered Pakistan's supply mix. Such an import aligns with broader bilateral economic cooperation discussed during Prime Minister Shehbaz Sharif's meeting in the United States, where trade enhancement and energy cooperation were priorities[2].

The US has also shown interest in assisting the development and improvement of Pakistan's strategic petroleum reserves and infrastructure to bolster long-term energy resilience. The transaction is significant both economically and geopolitically. It comes at a time when Pakistan faces delicate relations with traditional oil sources in the Middle East, while also exploring low-cost oil imports from Russia and potential gas sources from Iran. Importing U.S. oil diversifies Pakistan's energy mix and fosters stronger trade and diplomatic ties with the American government[3]. Although U.S. crude is more expensive than Russian or Iranian alternatives, it offers stability, technological compatibility, and prospects for downstream investment. This strategic move reflects the broader geopolitical considerations of balancing diverse needs and interests[4].

- ## Strategic Advantages of the U.S. Oil Deal

This is not the only strategic advantage of Pakistan's diversification into the import of crude oil in the United States. To begin with, the incorporation of the U.S. oil into the Pakistani energy portfolio would reduce the historical dependence and over-reliance of the Pakistani energy sector on Middle Eastern and Russian suppliers, which would in turn increase geographical and political risk mitigation in the Pakistani energy security. Considering the volatility in the world and the tension in some regions, this diversification would help Pakistan to be more resistant to supply disruption and price shock. Second, the West Texas Intermediate (WTI) crude is best suited to the current refining set-up of Pakistan. The refineries, such as Cnergyico, can process WTI without any further blending or alteration, and this saves costs to the organisation and makes it efficient in its operations. Third, the direct oil trade with the U.S. places Pakistan in a better position to bargain in the international market as it will obtain better terms with the other suppliers. This stronger position in a bargaining situation promotes better pricing transparency and a competitive environment in the market. Moreover, the agreement can help in attracting U.S. investment into the Pakistani energy sector, with a downstream focus on the refinery capacity and strategic petroleum reserves[5]. These forms of technological and capital inflow play vital roles in modernising the infrastructure and cutting down on long-term

[1] Reuters. 2025. "Pakistan to Buy First-Ever U.S. Oil Cargo." Reuters.
[2] "1m Barrels of US Oil to Arrive in Oct." Dawn, August 2, 2025. https://www.dawn.com/news/1928182.
[3] Srinivasan, Chandrashekar. "Donald Trump Snubs India, Signs Oil Deal With Pak. What Does This Mean?" NDTV, July 31, 2025. https://www.ndtv.com/world-news/donald-trump-snubs-india-signs-oil-deal-with-pak-what-does-this-mean-8990365.
[4] Shahid, Ariba, and Sudarshan Varadhan. "Exclusive: Pakistan to Buy First-Ever U.S. Oil Cargo in Cnergyico Deal with Vitol." Reuters, August 1, 2025. https://www.reuters.com/business/energy/pakistan-buy-first-ever-us-oil-cargo-cnergyico-deal-with-vitol-2025-07-31/.
[5] "Pakistan Set to Get Its First US Oil Shipment After Trump's 'Massive' Oil Reserves Claims." The Economic Times, August 1, 2025. https://economictimes.indiatimes.com/news/international/global-trends/pakistan-set-to-get-its-first-us-oil-shipment-after-trumps-massive-oil-reserves-claims/articleshow/123034030.cms.

dependence on imports. Finally, the U.S. oil transaction makes Pakistan a more resilient energy consumer and a strategically aligned member of the international trade network.

- ## Is the U.S. Deal a Wise Policy Decision?

To determine whether the oil deal between the U.S. and Pakistan will be a wise action or not, one must consider some of its economic as well as logistical limitations. Positively, the contract will strengthen Pakistan in terms of energy security because the diversification of supply chains will limit any possible overdependence on politically sensitive regions. It also enhances economic and strategic relationships with the United States of America, which is among the most crucial global powers whose backing can be useful in international conferences and development funding. In addition, the transaction helps enhance the geopolitical capital of Pakistan, which now stands as a more unbiased player in the region.

But there are a number of negatives to balance this scenario. U.S. crude is also expensive, so the cost is estimated to be between 65-68 dollars per barrel, which is higher par discounted Russian oil or other sources. Moreover, transporting WTI out of the U.S. to another destination has more freight expenses and extended delivery schedules. Moreover, the present volume of 1 million barrels is an experimental shipment, i.e., the deals that can be implemented in future greatly rely on the operational results and affordability. All these make the future of U.S. oil as a central source of supply to Pakistan unpredictable.

A comparative summary of pros and cons is outlined below:

Pros	Cons
Enhances energy security	Higher per-barrel cost
Strengthens ties with the U.S.	Increased freight and logistical costs
Improves geopolitical balance	Limited to test cargo; uncertain long-term commitment
Opens future investment and tech partnerships	Risk of cost inefficiency if volumes remain low

Supplier	**Product Type**	**Price/ Unit (06-08-2025)**	**Estimated Cost (1M bbl/equivalent)**	**Shipping Distance (Approx. Nautical Miles)**	**Avg. Shipping Time to Pakistan**	**Avg. Price Volatility***	**Payment Flexibility**	**Political Risk Rating****	**Strategic Payoff**
United States (WTI)	Crude oil (WTI)	~$66.35 per barrel	$66–70 million	~8,000–14000	35–40 days	Moderate	Mostly spot, limited deferred	Low–Moderate	Transparent market, refinery-compatible, strategic U.S. alignment, higher cost
Russia (Urals)	Crude oil (Urals)	~$64.04 per barrel	~$64-66 million	~7,000–12000	30–35 days	High (due to sanctions)	Barter/spot; limited deferred	High	Deep discounts due to sanctions, legal risks and blending required
Saudi Arabia	Crude oil (Arab Light)	~$70.67 per barrel	~$70-75 million	~2,000–2,500	7–10 days	Low–Moderate	Deferred payment common	Low	Largest oil supplier; longstanding diplomatic, labour, and financial ties
United Arab Emirates	Crude oil (Murban)	~$69.69 per barrel	~$70-75 million	~1,000–1,500	3–5 days	Low–Moderate	Deferred payment common	Low	Key supplier, provider of deferred payment deals; significant trade and remittance channel

All these figures are from OilPrice.com[6]
Approx distance and Avg Shipping Time are from Sea-distance.org[7]
*Avg. Price Volatility – based on historical monthly price fluctuations over the last 5 years.
** Political Risk Rating – qualitative assessment: Low (stable relations and low sanctions risk), Moderate (some geopolitical sensitivity), High (sanctions, conflict risk, or strained relations).

[6] "Oil Price Charts." OilPrice.com. Accessed August 7, 2025. https://oilprice.com/oil-price-charts/.
[7] "SEA DISTANCES / PORT DISTANCES." SEA-DISTANCES.ORG. Accessed August 11, 2025. https://sea-distances.org/.

This comparison reinforces the need for Pakistan to maintain a diversified energy policy, balancing cost-efficiency, legal compliance, and strategic alignment in its import decisions.

- ## Could U.S. oil serve as a "bridge fuel" until renewables scale?

The current analysis, despite focusing on the cost and geopolitical factors, highlights the importance of the U.S. oil role in Pakistan's energy transition in the long term. Pakistan's Alternative & Renewable Energy (ARE) Policy aims to reach 20% and 30% renewable energy by 2025 and 2030 (excluding large hydro). The government is also committed to significantly decarbonising the power mix, reflected in its updated Nationally Determined Contribution (NDC) up to 2030. In this context, U.S. oil, particularly light, sweet WTI, could serve as a transitional fuel in the transportation sector, enabling the production of Euro-V–grade fuels and reducing local pollutants, especially as the government implements its Electric Vehicle (EV) Policy, which targets 30 percent of new cars and 50 percent of two- and three-wheelers to be electric by 2030. However, oil should not serve as a bridge in the power sector, since policy and the least-cost expansion plans under the Indicative Generation Capacity Expansion Plan (IGCEP) prioritise grid modernisation, integration of renewable sources, and generation flexibility over fossil fuel expansion. Any U.S. oil imports should be limited and secured only until 2030, contingent on refinery upgrades that reduce furnace oil output, and must be paired with investments in rapid grid capacity, storage, and renewables. This approach will allow U.S. oil to contribute to energy security in the short term without undermining Pakistan's trajectory towards a cleaner and more resilient energy future.

- ## Geopolitical Impact on Middle Eastern Relations

This choice on importing oil in the U.S. may land Pakistan in a situation where its ties with important suppliers in the Gulf, especially Saudi Arabia and the UAE, may suffer. These nations have traditionally offered favourable oil credit lines and also accommodated a huge number of Pakistani expatriate labourers who remit highly needed remittances. Any perceived change of direction on Gulf oil may be seen as a reassessment of affiliations, and thus, Riyadh and Abu Dhabi may get worried. Nevertheless, the change may also be associated with a decrease in prices or improved conditions since the local energy market in Pakistan will be more active, and historic suppliers will compete to maintain their shares.

To reduce the chances of a diplomatic backlash, Pakistan would have to pursue a middle ground foreign policy strategy, i.e. to make its energy diversification out to be less of a political snub and more of an economic imperative. High-level work, trade integration and soft diplomacy will be necessary in sustaining the inflows of remittances, sustaining the labour export contracts and continuous support by the Gulf financial institutions. Although Pakistan has a diversified strategy that will surely place it in a better position, it must strike a perfect balance between diplomacy and the unintended consequences of maintaining relations with the Middle East.

- ## Impact on Gulf Suppliers: Saudi Arabia, UAE, and Qatar

The history of Pakistani historical relations with Saudi Arabia, the UAE and Qatar has been based on the terms of favourable oil trade relations, such as discounting oil imports, as well as substantial inflows of remittances through Pakistani expatriates. But this may put pressure on these relations as Pakistan relies more on the U.S. to import oil. Countries in the Gulf might relate this to a change in the geopolitical orientation of Pakistan, and one could still expect more competitive pricing, or they could review decades-old trade agreements. Notwithstanding these possible tensions, one should adopt the attitude in the diversification strategy of Pakistan

as an economic need instead of a political shift. The maintenance of a balanced foreign policy, along with the perpetuation of diplomatic activities, is advisable to reduce the possible fallout and save the energy relations of Pakistan with the Gulf states.

- ## Geopolitical Consequences: Pakistan and China relations

China has proven to be the biggest economic and strategic ally of Pakistan, especially in the energy industry. This step, however, can be a major blow to Sino-Pakistani relations as Pakistan is taking a shift towards U.S. oil. China, which has significant interests in the Pakistani energy market, could view such a shift as a threat to its hegemony in the region, especially considering that it invests in the energy infrastructure, such as the China-Pakistan Economic Corridor CPEC. The potential Chinese response would take the form of making more investments in the Pakistani energy industry but might extend to trying to offset U.S. influence by some other metrics that include contract deals or closer collaboration with the present suppliers of Pakistani energy systems.

Risk	Description	Likelihood*	Severity**	Priority Level
Gulf diplomatic backlash	Strained relations with Saudi Arabia/UAE are leading to reduced favourable credit terms or labour remittance channels.	Medium	High	High
Chinese perception of U.S. tilt	China views U.S. oil imports as a strategic drift, possibly reducing cooperation on CPEC energy projects.	Medium	High	High
Russian retaliation	Reduction of discounted oil offers or trade leverage loss due to decreased imports from Russia.	Medium	Medium	Medium
Political instability in the U.S.	Policy shifts affecting oil export policies or diplomatic stance toward Pakistan.	Low	High	Medium
Shipping disruption	Disruption of long shipping routes due to geopolitical tensions (e.g., Suez Canal blockages).	Low	Medium	Low

* **Likelihood scale:** Low = <30% probability in the next two years; Medium = 30–60%; High = >60%. Based on HM Treasury (2020), *The Orange Book: Management of Risk – Principles and Concepts*, UK Government, and aligned with **ISO 31000**: *Risk Management – Guidelines*.

** **Severity scale:**

- Low = Minimal impact on energy security (minor supply delays, manageable cost impact)
- Medium = Manageable with contingency measures (temporary disruption or moderate cost increases)
- High = Significant economic/strategic impact (long-term supply disruption, major cost or diplomatic fallout)

Severity definitions adapted from **International Energy Agency (IEA)** (2018), *Energy Security Risk Assessment Manual*, and **U.S. Department of Energy** (2015), *Energy Security Risk Index Methodology*.

- ## U.S. vs Russia Oil Trade Comparison

A specific observation of the U.S. oil agreement and continuous movements in oil trade with Russia brings out important economic and strategic differences. The U.S. oil, or more precisely, West Texas Intermediate (WTI), is a low-density oil whose compatibility with the Pakistani refining system is high. Contrastingly, Russia exports Urals oil, which usually needs blending or further refinements to adjust to local setups. Given the consideration in dollars, U.S. oil is sold at a premium of between $65 to 68/ barrel, but the Russian oil is sold at a well-discounted

rate of approximately $64-65/barrel. In financial terms, this would give a cost advantage to Russian imports because Pakistan has limited foreign exchange reserves.

But Russian oil purchases involve great geopolitical and compliance risks because of international sanctions. This trade is usually carried out through barter systems or in less transparent deals and poses more danger to Pakistan, both in terms of image and legal challenges. Conversely, oil acquisition in the U.S. takes place in open, market-driven processes that complement foreign reputation and induce future investment.

This parallels the fact that although Russian oil provides short-term, cost-effective opportunities, it is bought at the cost of legal uncertainty and long-term reputation. U.S. oil may be more expensive, but it will guarantee closer set with international standards, refinery efficiency and potential diplomatic and investment returns.

- ## Monetary Comparison: U.S. vs Russia

Considering the financial side of the crude oil and gas purchases in the United States, Russia, and Iran, some trade-offs can be seen on different levels, including price, magnitude, and strategic connotations. The price of the U.S. oil, namely West Texas Intermediate (WTI), is between $65-68/barrel. In the shipment size of 1 million barrels, this will translate to a cost of around $65-68 million. This is indeed the most costly choice that is available, but it has strategic benefits attached, that is, market-based transparency, the compatibility of the refinery, and a more robust diplomatic outreach to a global superpower. Possible returns of a long nature relating to foreign investment, political goodwill, and technological cooperation can be obtained from these factors.

Compared to the Russian oil, however, this price is much lower and estimated at approximately $64-65 per barrel, as a result of which the price of 1 million barrels decreases to around $64-65 million. But this carries with it a lot of geopolitical risk. Since the Russian exports are under global watch and sanctions, an importation of goods will put Pakistan at the crossroads of compliance, fame, and even repercussions to the western partners. Also, it is possible that Russian Urals crude might not be as compatible with the systems Pakistan refineries have available to them as WTI requires blending or processing expenses.

Although U.S. oil is a premium expense, it has much reliability and strategic payoff. The economically advantageous, geopolitically unstable, yet diplomatically restricted, is the Russian oil. The monetary comparison is as follows in the table:

- ## Conclusion

Importing of the U.S. crude oil can be deemed as a strategic shift in Pakistan's energy policy. Although already more expensive than other alternatives, such as ones offered in Russia and Iran, the U.S. oil deal offers Pakistan improved energy security, transparency and long-term investment options. It also aids in the transition of Pakistan to a diversified, multi-polar energy mix, increasing the risk of being overdependent on any individual supplier. But economic feasibility, geopolitical balance and infrastructure preparedness are other major issues. Pakistan has to tread carefully the diplomatic sensitivities of such diversification, particularly when it comes to the allies in the Gulf region and the established trade agreements with Russia and Iran.

To transform this strategic move into long-term energy security and economic resilience, the following practical policy considerations are put forward:

- Have a national energy diversification framework with the guidelines explicit on the sourcing of oil and gas multi multi-partners on cost, reliability, and geopolitical stability.
- Develop oil storage capacity to cope with imports at high prices and with the risk of disruptions in the world supply by bottling up imports and cushioning against the delay in the global freight.
- Use the shipments coming by ship to negotiate a medium- to long-term contract to allow its flexibility in pricing or the payment process.
- Calm down Gulf countries and conventional suppliers that the diversification is an economic need, instead of a political shift. Seek parallel agreements to maintain corridors of remittance and labour.
- Refurbish older refineries to deal with diverse sources of crude. This will help improve the flexibility of the refineries, ensuring they can handle varying qualities of crude and meet the growing demand for diverse petroleum products.

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