

Regulations of the People's Republic of China on Exploitation of On-shore Petroleum Resources in Cooperation with Foreign Enterprises

(Promulgated by Decree No.131 of the State Council of the People's Republic of China on October 7, 1993, and amended in accordance with the Decision of the State Council on Amending the Regulations of the People's Republic of China on Exploitation of On-shore Petroleum Resources in Cooperation with Foreign Enterprises on September 23, 2001)

Chapter I General Provisions

Article 1 These Regulations are formulated for the purpose of ensuring the development of the petroleum industry and promoting international economic cooperation and technical exchange.

Article 2 All activities involving Chinese-foreign cooperative exploitation of on-shore petroleum resources within the territory of the People's Republic of China must comply with these Regulations.

Article 3 The petroleum resources within the territory of the People's Republic of China are owned by the People's Republic of China.

Article 4 The Government of China protects, in accordance with law, the cooperative exploitation activities, investments, profits and other lawful rights and interests of foreign enterprises participating in the cooperative exploitation of on-shore petroleum resources.

Activities within the territory of the People's Republic of China involving the cooperative exploitation of on-shore petroleum resources shall comply with the relevant laws, administrative regulations and rules of the People's Republic of China and shall be subject to supervision and administration by the relevant organs of the Chinese Government.

Article 5 The State will not requisition the investments and earnings of foreign enterprises participating in the cooperative exploitation of on-shore petroleum resources. Under special circumstances, based on the social or public interests, the State may requisition part or all of the petroleum due to the foreign enterprise in connection with cooperative exploitation according to legal procedures and give appropriate compensation.

Article 6 The department designated by the State Council shall be responsible for demarcating cooperation blocks, determining the forms of cooperation, organizing for the formulation of relevant plans and policies, and examining and approving overall development programs for oil(gas) fields in cooperation with foreign enterprises in the areas of cooperation approved by the State Council.

Article 7 The China National Petroleum and Natural Gas Corporation Group and the China National Petroleum and Chemicals Corporation Group (hereinafter referred to as the "Chinese petroleum companies") shall be responsible for business of exploiting on-shore petroleum resources in cooperation with foreign enterprises, and for negotiating, entering into and implementing contracts for the cooperative exploitation of on-shore petroleum resources with foreign enterprises. The Chinese petroleum companies shall have the exclusive right to conduct petroleum exploration, development and production in cooperation with foreign enterprises in areas approved by the State Council for exploitation of on-shore petroleum resources in cooperation with foreign enterprises.

Article 8 Following invitations for bids or negotiations, the Chinese petroleum companies shall enter into contracts with foreign enterprises for the cooperative exploitation of on-shore petroleum resources based on the cooperation blocks demarcated in the areas approved by the State Council for exploitation of on-shore petroleum resources in cooperation with foreign enterprises. Such contracts shall be effective only after they are approved by the Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China.

In addition to the contracts referred to in the preceding paragraph, the Chinese petroleum companies may also enter into other cooperation contracts with foreign enterprises in respect of areas approved by the State Council for cooperative exploitation of on-shore petroleum resources. Such contracts must be filed with the Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China for the record.

Article 9 After a foreign cooperation block is announced, no enterprise may enter such block to prospect for petroleum or may enter into an economic and technical cooperation agreement with foreign enterprises for

petroleum exploitation in such block except for the Chinese petroleum companies engaging in cooperative exploitation of on-shore petroleum resources with foreign enterprises.

Any enterprise that has entered and is prospecting for petroleum (at the stage of area appraisal prospecting) prior to the announcement of a foreign cooperation block shall withdraw from such block when the Chinese petroleum companies and the foreign enterprise have entered into a contract. The Chinese petroleum companies shall be responsible for selling the prospecting data obtained by such withdrawing enterprise, so as to appropriately compensate the enterprise for its investment. After an oil (gas) field with commercial exploitation value is discovered in such block, the enterprise that withdraws from the block may participate in development through an investment.

The department designated by the State Council shall, in the light of the circumstances of the conclusion and execution of the contracts, periodically make adjustments to the foreign cooperation blocks that have been so defined.

Article 10 In the exploitation of on-shore petroleum resources in cooperation with foreign enterprises, the principle of taking both central and local interests into consideration shall be observed. Local interests shall be appropriately taken into accounts by such methods as attracting funds from the place where an oil (gas) field with commercial exploitation value is located for investment in the development of such field.

The relevant local people's governments shall protect normal production and operating activities in cooperation areas in accordance with law and shall render effective assistance in respect of land use, road access and living amenities, etc.

Article 11 In the cooperative exploitation of on-shore petroleum resources, taxes and royalties shall be paid in accordance with law.

Employees of enterprises engaged in the cooperative exploitation of on-shore petroleum resources shall pay tax on their income according to law.

Article 12 Reduction or exemption of taxes on equipment and materials imported for the purpose of implementing contracts, or other preferential treatment in respect of taxation shall be granted in accordance with relevant provisions of the State. Specific measures shall be formulated by the Ministry of Finance jointly with the General Administration of Customs.

Chapter II Rights and Obligations of Foreign Contractors

Article 13 To cooperate in the exploitation of on-shore resources, the Chinese petroleum companies and the foreign enterprise must enter into a contract. Unless laws, regulations or the contract specifies otherwise, the foreign enterprise entering into the contract (hereinafter referred to as the "foreign contractor") solely shall provide the investment for the exploration, be responsible for the exploration operations and bear all exploration risks. After the discovery of an oil (gas) field with commercial exploitation value, the foreign contractor and the Chinese petroleum companies shall jointly invest in cooperative development. The foreign contractor shall undertake the development and production operations, until production operations are taken over by Chinese petroleum companies as stipulated in the contract.

Article 14 Foreign contractors may, in accordance with the contracts, recover their investment and expenses, and obtain remuneration from the petroleum produced.

Article 15 Foreign contractors may, in accordance with relevant provisions of the State and the stipulations of contracts, transport abroad petroleum due to them and purchased by them, and may also remit abroad the investment recovered by them, their profits and their other lawful gains in accordance with law.

If a foreign contractor sells the petroleum due to it within the territory of the People's Republic of China, in general, such petroleum shall be purchased by the Chinese petroleum companies. A foreign contractor may also sell such petroleum in other forms agreed upon by the parties to the contract. However, it shall not violate the provisions of the State on sale of petroleum products in the territory of the People's Republic of China.

Article 16 Where foreign contractors open foreign exchange accounts and handle other matters related to foreign exchanges, they shall abide by the Regulations on Foreign Exchange Control of the People's Republic of China and other provisions of the State on foreign exchange control.

A foreign contractor shall use U.S. dollars or other convertible currencies for an investment.

Article 17 Foreign contractors shall establish branches, subsidiaries or representative offices within the territory of China according to law.

The establishment place for the agencies referred to in the preceding paragraph shall be agreed upon through consultation between foreign contractors and Chinese companies.

Article 18 In the course of implementing the contract, foreign contractors shall promptly and accurately report on the petroleum operations to the Chinese petroleum companies, obtain complete and accurate data, records, samples, vouchers and other original information in respect of all petroleum operations, and submit information, samples and various reports in respect of technical, economic, financial, accounting and administrative circumstances to the Chinese petroleum companies in accordance with the provisions.

Article 19 After a foreign contractor has been compensated for its investment in accordance with the contract or after the period for production of the oil (gas) field has expired, title to all assets purchased and manufactured by the foreign contractor according to the plan and the budget for performance of the contract, except for equipment leased from third parties, shall vest in the Chinese petroleum companies. During the term of the contract, the foreign contractor may use such assets in accordance with the contract.

Chapter III Petroleum Operations

Article 20 The operator must formulate an overall development program for oil (gas) fields in accordance with the provisions of the State on exploitation of petroleum resources, and shall conduct development and production operations upon approval by the departments designated by the State Council.

Article 21 The personnel required for petroleum operations may be stipulated in petroleum contracts and operators may give preference to the employment of Chinese citizens.

Article 22 In carrying out petroleum operations, operators and subcontractors shall observe the laws, regulations and standards of the State on environment protection and operational safety, conform to international practice, protect farmland, aquatic resources, forest reserves and other natural resources, and prevent pollution of and damage to the atmosphere, seas, rivers, lakes, groundwater and other land environments.

Article 23 The use of land in the course of petroleum operations shall be handled in accordance with the Law of the People's Republic of China on the Administration of Land and other relevant provisions of the State.

Article 24 Title to all data, records, samples, vouchers and other original information in respect of all petroleum operations as referred to in Article 18 of these Regulations shall vest in the Chinese petroleum companies.

The use, assignment, donation, exchange, sale, publication, and transport or transmission out of the People's Republic of China, of data, records, samples, vouchers and other original information as mentioned in the preceding paragraph must comply with the relevant provisions of the State.

Chapter IV Settlement of Disputes

Article 25 Any dispute between the parties to a contract for the cooperative exploitation of on-shore petroleum resources that arises from the execution of the contract shall be resolved through consultation or mediation. If the parties are not willing to resolve the dispute through consultations or mediation or if the consultation or mediation is unsuccessful, the dispute may be submitted to a Chinese arbitration institution or other arbitration institutions for arbitration in accordance with the arbitration clause in the contract or a written arbitration agreement entered into subsequently.

If the parties have neither concluded an arbitration clause in their contract nor reached a subsequent written arbitration agreement, a lawsuit may be brought before a people's court of China.

Chapter V Legal Liability

Article 26 Anyone who violates these Regulations in any of the following ways may be ordered to make corrections within a prescribed time limit or be imposed on a warning by a department designated by the State Council in accordance with its functions and powers and, if the corrections are not made within the prescribed

time limit, the violator may be ordered to suspend his petroleum operations; if the violation constitutes a crime, criminal liability shall be investigated according to law.

(1) in violation of the first paragraph of Article 9 of these Regulations, entering without authorization a cooperation block opened to foreign cooperation to prospect for petroleum or signing without authorization a cooperation agreement with a foreign enterprise for petroleum exploitation in a cooperation block;

(2) in violation of Article 18 of these Regulations, in the course of performance of the contract, failing to promptly and accurately report on petroleum operations to the Chinese petroleum companies or failing to submit information, samples and various reports in respect of technical, economic, financial, accounting and administrative aspects to the Chinese petroleum companies in accordance with provisions;

(3) in violation of Article 20 of these Regulations, carrying out development and production operations on one's own without approval of the overall development program for the oil(gas) field; or

(4) in violation of the second paragraph of Article 24 of these Regulations, making unauthorized use of data, records, samples, vouchers or other original information on petroleum operations, or assigning, donating, exchanging, selling or publishing the same without authorization, or transporting or transmitting the same out of the People's Republic of China without authorization.

Article 27 Anyone who violates Article 11, 16, 22 or 23 of these Regulations, shall be punished by the relevant competent departments of the State in accordance with relevant laws and regulations. If the violation constitutes a crime, criminal liability shall be investigated according to law.

Chapter VI Supplementary Provisions

Article 28 The terms used in these Regulations are defined as follows:

(1) "petroleum" means crude oil and natural gas that is deposited underground or is being or has been extracted;

(2) "on-shore petroleum resources" means underground petroleum resources any where within the on-shore area (including sea beaches, islands and marine areas extending from the on-shore area up to a water depth of 5 meters);

(3) "exploitation" means the exploration for and the development, production and sale of petroleum, as well as activities in connection therewith;

(4) "petroleum operations" means exploration, development and production operations carried out in order to perform a contract, as well as activities in connection therewith;

(5) "exploration operations" means all work carried out to find oil-bearing traps by various means such as geological, geophysical and geochemical means, including the drilling of exploration wells, as well as all work carried out to determine whether a discovered petroleum trap has commercial value, such as the drilling of appraisal wells, feasibility studies and preparation of overall development programs for the oil(gas) field;

(6) "development operations" means all designing, manufacturing, installation and drilling projects, and the corresponding research, carried out as from the date of approval of the overall development program for the oil (gas) field for the purpose of realizing petroleum production, including production activities carried out prior to the commencement of commercial production;

(7) "production operations" means all operations carried out for the purpose of petroleum production from the date of commencement of the commercial production of an oil(gas) field as well as all activities in connection therewith.

Article 29 Articles 4, 11, 12, 15, 16, 17 and 21 of these Regulations shall be applicable to foreign subcontractors.

Article 30 The exploitation of coalbed methane resources in cooperation with foreign enterprises shall be exclusively operated by the China United Coalbed Methane Corporation Ltd. with reference to these Regulations.

Article 31 These Regulations shall be effective as of the date of promulgation.