

PETROLEUM LAW OF THE MONGOLIAN PEOPLE'S REPUBLIC

January 18, 1991

Ulaanbaatar

CHAPTER ONE GENERAL PROVISIONS

Article 1. Purpose of the Law

The purpose of this law is to regulate the operations of Mongolian and foreign entities or individuals involved in the exploration for and the protection, processing, transportation, storage and marketing of petroleum originating in Mongolia.

Article 2. Definitions

1. "Petroleum" means liquid petroleum and different compounds of hydrocarbons occurring under the surface of the earth and which may be extracted in a liquid, gaseous or solid state individually or in combination.
2. "Petroleum operations" means the operations related to the exploration for and protection, production, processing, transportation, storage and marketing of petroleum.
3. "Petroleum administration" means an organization authorised by the MPR Government to enter into contracts related to petroleum operations and to supervise their implementation.
4. "Contractor" means Mongolian or foreign entity or individual who has entered into a contract with the petroleum administration to carry out petroleum operations in the territory of the MPR.

Article 3. Ownership of Petroleum

All petroleum occurring under the surface of the earth in MPR shall belong to the State.

Article 4. State management of petroleum operations

1. Petroleum related operations within the territory of Mongolia shall be carried out only in accordance with the permissions issued by the Central Administrative Authority in charge of petroleum. [The provisions of this paragraph shall come into force on the day when the Licencing Law of Mongolia on Business Activities is enforced] *(The article was re-edited by Law of November 30,2001)*

2. The MPR Government may decide to prohibit or restrict production of petroleum in any part of its territory for reasons of national security or to prevent damage to natural oil reserves, the population, or to protect relics of historical and cultural importance.

3. The petroleum administration shall have the sole right to draw up a work programme for petroleum exploration and supervise its implementation.

4. The MPR Government shall adopt the regulation for implementation of this law.

Article 5. Status of Foreign Contractors

Unless the international treaties to which MPR is a party provide otherwise, foreign contractors shall be protected by and obliged to obey the laws of MPR and to fulfil their obligations under their contracts in the same manner as any legal person or citizen of the MPR.

CHAPTER TWO

PETROLEUM OPERATIONS

Article 6. Basic requirements of petroleum contracts

Petroleum contracts shall meet the following basic requirements:

1. machinery and technology capable to extracting not less than 20 percent of a field's resources occurring under the surface of the earth shall be used;

2. there shall be consistency with the establishment and development of the petroleum processing industry in MPR;

3. programmes for the training of qualified personnel and for the employment of foreign citizens shall be developed;

4. machinery and technology of high economic efficiency shall be used in petroleum operations and the ecological balance of the affected environment shall not be disturbed;

5. all original information, data and reports related to petroleum operations shall be submitted to the petroleum administration;

6. any measures necessary to provide for the safety of the population, the protection of the life and health of staff, the prevention of accidents, the avoidance of damage to property, natural resources, soil, subsoil, and ecology, and for the restoration of areas used shall be taken.

Article 7. Grant of tenure to Contractors

1. In order to enable the conduct of petroleum operations, local authorities shall grant land tenure permits and the Government shall grant mine tenure permits.
2. Exploration for and production of petroleum beyond the boundaries of permitted tenures shall be prohibited.

Article 8. Term of Contractors' operations

1. The term of exploration period shall be up to 5 years.
2. The petroleum administration and a contractor agree on the relevant terms and conditions, the petroleum administration may extend the period for exploration twice for two years each time.
3. The period for oil-field development shall be up to twenty years beginning on the day the petroleum administration grants permission for the production of petroleum.
4. If a contractor sets up additional industrial infrastructure, such as by building processing plants or oil or natural gas pipelines, the petroleum administration may extend the period for oil-field development twice for not more than five years each time.

Article 9. Royalties, taxes levied on contractors

1. Contractors shall pay royalties to the State in respect of the production of petroleum. The MPR Government shall fix the amount of royalties. In the case production-sharing contracts, the amount of royalty for production of petroleum may be included in production-sharing calculations.
2. Contractors carrying out petroleum operations shall be liable for tax in accordance with the rates provided in the laws of the MPR.
3. The MPR Government shall establish methods for the payment of royalties and taxes in respect of the production of petroleum, taking into account the recommendations of contractors and the petroleum administration.

Article 10. Production-sharing

1. Contractors shall share the remainder of the total production with the petroleum administration after royalties for production and an amount of petroleum for cost recovery have been deducted. The percentage shares shall be negotiated by reference to the daily production rate and recorded in the petroleum contract.

2. Contractors may export their share of petroleum.
3. The petroleum administration may request contractors to provide their share of petroleum for the domestic consumption of the MPR.

Article 11. Cost recovery

If contractors begin commercial production of petroleum, they may recover their petroleum operations costs. The amount of petroleum that contractors may allocate for recovery of those costs shall not exceed 40 per cent of their total annual production.

(Article 12 was invalidated by Law of January 15, 1998)

CHAPTER THREE

ARBITRATION AND LIABILITIES

Article 13. Arbitration Clause

1. Unless a petroleum contract provides otherwise, any property dispute arising out of or in the course of petroleum operations shall be settled by the MPR courts in accordance with the laws of the MPR.
2. Upon request of the parties concerned, any dispute related to a petroleum contract, such as modification of its terms or its cancellation may be settled in accordance with the UNCITRAL Arbitration Rules.

Article 14. Liabilities

1. If any person conducts petroleum operations arbitrarily or without permissions, the MPR through authorised organizations, shall confiscate in favor of the State the equipment used in those operation, the property, the petroleum produced and income of the person involved. If those operations are of a criminal nature, the matter shall be subject to the jurisdiction of the courts of the MPR.
2. If a contractor undertakes any operations in breach of the provisions of this law or other relevant laws of the MPR, and such breaches result in losses to an entity, organization or individual, the contractor shall be liable in accordance with the laws of the MPR.
3. Any losses resulting from a breach of contractual obligations by any contractor shall be recovered from the offending party in compliance with the Civil Code of Mongolia.

Article 15. Entry into force

This Law shall come into force on the day it is ratified by the President of the MPR.

CHAIRMAN OF THE BAG A HURAL
OF THE MPR

R.GONCHIGDORJ

SECRETARY OF THE BAG A HURAL
OF THE MPR

B.CHIMID

Note: *The President of the MPR ratified this Law on February 13, 1991*