Regulations of the PRC on Sino-Foreign Cooperative Exploitation of Offshore Petroleum Resources

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Unofficial English translation prepared for reference only. The official Chinese text prevails.

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Chapter I — General Provisions

Article 1 — These Regulations are formulated for the purpose of promoting the development of the national economy and expanding international economic and technological cooperation, and, on the premise of safeguarding national sovereignty and economic interests, permitting foreign enterprises to participate in the cooperative exploitation of offshore petroleum resources of the People's Republic of China.

Article 2 — All petroleum resources in the inland waters, territorial sea and continental shelf of the People's Republic of China and in all sea areas within the limits of national jurisdiction of the People's Republic of China are owned by the People's Republic of China.

All buildings and structures set up and vessels operating to exploit petroleum in the sea areas referred to in the preceding paragraph, as well as the corresponding onshore oil and gas terminals and bases, shall be under the jurisdiction of the People's Republic of China.

Article 3 — The Government of the People's Republic of China shall protect, in accordance with the law, the investments, profits and other lawful rights and interests of foreign enterprises participating in the

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cooperative exploitation of offshore petroleum resources, and shall protect, in accordance with the law, the cooperative exploitation activities and the lawful rights and interests of foreign enterprises.

All activities for the cooperative exploitation of offshore petroleum resources within the scope of these Regulations shall be subject to the laws and decrees of the People's Republic of China and shall be under the supervision and control of the relevant competent authorities of the State. All enterprises and individuals participating in petroleum operations shall be subject to the laws of the People's Republic of China and shall accept inspection and supervision by the relevant competent authorities of the Chinese Government.

Article 4 — The Ministry of Petroleum Industry of the People's Republic of China shall be the competent authority in charge of the exploitation of offshore petroleum resources, and shall determine the forms of cooperation and delineate the areas of cooperation in accordance with the long-term state economic plans formulated by the State; and shall formulate plans for the exploitation of offshore petroleum resources and formulate policies for the administration of exploitation operations, and examine and approve the overall development plans for oil and gas fields.

Article 5 — The China National Offshore Oil Corporation (CNOOC) shall have the overall responsibility for the exploitation of offshore petroleum resources in the People's Republic of China in cooperation with foreign enterprises.

CNOOC is a state enterprise with the status of a legal person, and shall have the exclusive right to prospect for, develop, produce and market petroleum within the zones of cooperation with foreign enterprises.

CNOOC may, as needed, establish regional corporations, specialized corporations and resident offices abroad to carry out the tasks assigned by the Corporation.

Article 6 — CNOOC shall, by means of entering into petroleum contracts, cooperate with foreign enterprises in the exploitation of offshore petroleum resources. Unless otherwise specified in these Regulations or in the petroleum contracts, the foreign enterprise that is a party to a petroleum contract (hereinafter referred to as the "foreign contractor") shall provide the investment for prospecting, be responsible for prospecting operations, and bear all prospecting risks. After a commercial oil or gas field is discovered, both the foreign contractor and CNOOC shall invest in the cooperative development, and the foreign contractor shall be responsible for the development operations and production operations until CNOOC takes over the production operations in accordance with the provisions of the petroleum contract. The foreign contractor may, in accordance with the provisions of the petroleum contract, recover its investment and expenses from the petroleum produced and receive remuneration.

Article 7 — The foreign contractor may, in accordance with the provisions of the petroleum contract, export the petroleum due to it and remit abroad the investment recovered by it, its profits and its other lawful income.

Article 8 — All foreign contractors operating in the sea areas of the People's Republic of China shall abide by the relevant Chinese laws and regulations and shall accept the inspection and supervision of the relevant competent authorities of the Chinese Government.

Chapter II — Rights and Obligations of Parties to Petroleum Contracts

Article 9 — Foreign enterprises that wish to participate in the cooperative exploitation of offshore petroleum resources shall submit applications to CNOOC, and those that are selected by CNOOC after examination shall be eligible to sign petroleum contracts.

Article 10 — Petroleum contracts and other documents relating to the cooperative exploitation of offshore petroleum resources shall be subject to approval by the Ministry of Commerce of the People's Republic of China before they become effective.

CNOOC shall take effective measures to ensure that the petroleum contracts entered into are performed.

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Article 11 — Except as otherwise provided in these Regulations or in the petroleum contracts, the parties to a petroleum contract shall have the following rights and obligations:

(1) Each party shall have the right to independently carry out petroleum operations within the zones of cooperation in accordance with the provisions of the petroleum contract, and no party may interfere with the operations of the other party;

(2) Each party shall be obliged to cooperate with the other party in accordance with the provisions of the petroleum contract and to complete the petroleum operations in accordance with the work procedures and technical specifications;

(3) The foreign contractor shall be obliged to report the relevant data, records, samples, vouchers and other original materials of the petroleum operations to CNOOC in a timely manner, and shall submit complete technical and economic reports to CNOOC on a regular basis;

(4) The foreign contractor shall set up a branch or representative office within the territory of the People's Republic of China and perform the registration formalities in accordance with the law; and

(5) The foreign contractor shall open a bank account and handle tax registration in accordance with the relevant provisions.

Article 12 — In case of a dispute between the foreign contractor and CNOOC arising from the interpretation or performance of a petroleum contract, the parties shall first resolve the dispute through friendly consultations or mediation; if no resolution can be reached, the dispute shall be settled through arbitration or judicial proceedings in accordance with the provisions of the arbitration clause in the petroleum contract or the written arbitration agreement subsequently reached between the parties.

Article 13 — In petroleum contract zones, after the foreign contractor has recovered its investment in accordance with the provisions of the petroleum contract, all the assets purchased, constructed or installed by the foreign contractor for the performance of the petroleum contract shall become the property of CNOOC in accordance with the provisions of the petroleum contract.

Article 14 — The petroleum contract shall clearly stipulate the respective rights and obligations of the parties, and shall include the following main contents:

(1) the geographical location and area of the zones of cooperation;

(2) the term of the contract, including the prospecting period, development period and production period;

(3) the minimum prospecting workload and prospecting expenses;

(4) the proportions of investment and cost recovery for development operations;

(5) the distribution of petroleum produced;

(6) the standards and time limits for asset ownership transfer;

(7) the operating organization and management structure;

(8) the work procedures and operating standards;

(9) the settlement of accounts and auditing;

(10) the assignment of rights and obligations;

(11) the provisions on environmental protection and safety;

(12) the provisions on personnel training and technology transfer;

(13) the applicable law and dispute resolution procedures; and

(14) other important matters.

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Article 15 — The rights and obligations of the parties to a petroleum contract may be assigned with the consent of the other party and subject to approval by the Ministry of Commerce. However, CNOOC shall have the preemptive right to acquire the assignment.

Chapter III — Petroleum Operations

Article 16 — The operator shall, in accordance with the provisions of the petroleum contract, formulate the overall development plan for the oil or gas field and the annual work plan and budget, and implement them after approval by CNOOC.

Article 17 — The foreign contractor shall give preference to the procurement of equipment, materials and services within the territory of the People's Republic of China when conditions are the same, and shall give preference to the engagement of Chinese personnel for the design, engineering construction and services relating to the petroleum operations.

Article 18 — The foreign contractor shall be obliged to transmit technology and provide training to the Chinese personnel, and shall gradually increase the proportion of Chinese personnel in various positions in the course of the petroleum operations.

Article 19 — The foreign contractor shall submit the following materials to CNOOC in the course of the petroleum operations:

(1) the data, records, samples, vouchers and other materials obtained from the prospecting, development and production operations; and

(2) the technical and economic reports on the prospecting, development and production operations, including the analysis and evaluation of the data and materials referred to in the preceding subparagraph.

The ownership of all the aforesaid data, records, samples, vouchers and other original materials shall belong to CNOOC, and their use, transfer, exchange, sale, publication and transmission outside the territory of the People's Republic of China shall be handled in accordance with the relevant provisions of the Chinese Government.

Article 20 — The foreign contractor and the operator shall observe the relevant Chinese laws, regulations and standards on environmental protection and safe operation during petroleum operations, and shall protect fishery resources and other natural resources in accordance with the law, and prevent pollution and damage to the atmospheric environment, marine environment, and other natural resources.

Article 21 — The petroleum produced in the zones of petroleum cooperation shall be landed in the territory of the People's Republic of China or may be exported from an oil and gas terminal outside the territory of the People's Republic of China with the approval of the competent authorities. The petroleum due to the foreign contractor may be exported in accordance with the provisions of the petroleum contract.

Article 22 — Where a commercial oil or gas field has been discovered but no development is to be carried out for the time being, CNOOC shall have the right to separately develop the oil or gas field or to develop it in cooperation with a third party after obtaining the consent of the foreign contractor.

Article 23 — CNOOC shall have the right to send personnel to the operating organization to participate in the management and supervision of the petroleum operations in accordance with the provisions of the petroleum contract.

Article 24 — CNOOC and the foreign contractor shall, in the course of petroleum operations, comply with the relevant laws, regulations and provisions on labor safety and health of the People's Republic of China and protect the personal safety and health of the workers.

Article 25 — CNOOC and the foreign contractor shall, in the course of petroleum operations, purchase insurance in accordance with the relevant provisions of the Chinese Government.

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Article 26 — After the termination of a petroleum contract, the foreign contractor shall, in accordance with the provisions of the petroleum contract, dispose of all the facilities and equipment in the petroleum contract zones, and restore the environment. Where oil or gas wells are to be abandoned, the foreign contractor shall bear all the expenses for plugging and abandoning the wells.

Chapter IV — Supplementary Provisions

Article 27 — Where a petroleum contract involves petroleum resources extending across the boundary line of the zones of cooperation, the petroleum contract shall include provisions on the joint development of such resources.

Article 28 — The foreign contractor shall pay taxes in accordance with the law and pay royalties for the exploitation of petroleum resources.

The employees of the foreign contractor shall pay individual income tax in accordance with the law.

Article 29 — The fees for the use of sea areas in the zones of petroleum cooperation shall be paid in accordance with the relevant provisions of the State.

Article 30 — For the purposes of these Regulations:

(1) "petroleum" means crude oil and natural gas deposited underground, currently being extracted or already extracted;

(2) "exploitation" means the activities of prospecting for petroleum, developing oil and gas fields, and producing and marketing petroleum;

(3) "petroleum contract" means a contract entered into by CNOOC and a foreign enterprise for the cooperative exploitation of offshore petroleum resources of the People's Republic of China, including the exploration, development and production of petroleum;

(4) "zones of cooperation" means the geographical areas delineated in a petroleum contract for the cooperative exploitation of petroleum resources;

(5) "petroleum operations" means all prospecting, development and production operations and other related activities carried out for the performance of a petroleum contract;

(6) "prospecting operations" means all work done to locate the petroleum-bearing traps by means of geological, geophysical and geochemical methods and including the drilling of exploration wells and other activities, and all work done to determine the commerciality of the discovered petroleum traps, including the drilling of appraisal wells, feasibility studies and the preparation of the overall development plan for any oil or gas field;

(7) "development operations" means all work done from the date of approval by CNOOC of the overall development plan for an oil or gas field, including the designing, construction, installation, drilling and other related research work, for the purpose of bringing about petroleum production, as well as production activities, including the commencement of commercial production;

(8) "production operations" means all work done to produce petroleum and to deliver it from the zones of cooperation, including activities such as extraction, injection, stimulation, treatment, storage, transportation and lifting; and

(9) "foreign contractor" means a foreign enterprise that has entered into a petroleum contract with CNOOC for the cooperative exploitation of offshore petroleum resources.

Article 31 — These Regulations shall come into force as of the date of promulgation.

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