

# THE LAW ON PETROLEUM

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 related operations" means the operations of exploration for and protection, production, processing, transportation, storage and marketing of petroleum.
3. "Petroleum authority" means an organization authorised by the Government of Mongolia to enter into contracts on petroleum related operations and to supervise their implementation.
4. "Contractor" means Mongolian or foreign entity or individual who has entered into a contract with the petroleum authority to carry out petroleum related operations in the territory of Mongolia.

#### **Article 3. Ownership of Petroleum**

Petroleum occurring under the surface of the earth in Mongolia is the property of State only.

#### **Article 4. State management of petroleum related operations**

1. Petroleum related operations within the territory of Mongolia shall be carried out only in accordance with the license issued by the Central Administrative Authority in charge of petroleum. *(The article was re-edited by Law of November 30, 2001)*
2. The Government of Mongolia may decide to prohibit or restrict production of petroleum in particular part of its territory for purpose 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 authority shall have the sole right to draw up a work programme for petroleum exploration and supervise its implementation.
4. The Government of Mongolia shall adopt the regulation for implementation of this law.

## **Article 5. Status of Foreign Contractors**

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

## **CHAPTER TWO**

### **PETROLEUM RELATED 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 Mongolia;
3. there shall be a solution of issues on training of qualified personnel and the employment of foreign citizens;
4. machinery and technology that has high economic efficiency in petroleum related operations and that has no effect the ecological balance of the affected environment shall be used;
5. all full original information, data and reports on petroleum related operations shall be submitted to the petroleum administration;
6. 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 the restoration of areas used shall be provided

## **Article 7. Grant of tenure to Contractors**

1. The permission of land tenure that is purposed for carrying out petroleum related operations shall be granted by local authorities. The permission of mine tenure shall be granted by government.
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 authority may extend the term of exploration twice for two years each time on the basis of agreement on terms and conditions with contractor.

If the contractor propose a proposal to extend the term of exploration operation, the Government shall decide whether or not to extend the term of exploration up to 5 years by taking into account the progress of contract implementation and need to future exploration activity.

*(The article was re-edited by Law of December 11, 2003)*

3. The term of oil-field mining shall be up to twenty years beginning on the day the petroleum authority 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 authority may extend the term of oil-field mining 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 Government of Mongolia 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 account.

2. Contractors carrying out petroleum related operations shall be liable for tax in accordance with the rates provided in the legislations of the Mongolia.

3. The Government of Mongolia shall establish type for the payment of royalties and taxes in respect of the production of petroleum on the basis of the recommendations of contractors and the petroleum authority.

#### **Article 10. Production-sharing**

1. Contractors shall share the remainder of the total production with the petroleum authority 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 state in the petroleum contract.

2. Contractors may export their share of petroleum.

3. The petroleum authority is entitled to request contractors to provide their share of petroleum for the domestic consumption of Mongolia.

#### **Article 11. Cost recovery**

If contractors begin commercial production of petroleum, they are entitled to recover their petroleum related 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. invalidated by Law of January 15, 1998**

### **CHAPTER THREE**

#### **DISPUTE SETTLEMENT AND LIABILITIES**

#### **Article 13. Dispute settlement 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 courts of Mongolia in accordance with the laws of Mongolia.
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 Rule of UNCITRAL

#### **Article 14. Liabilities**

1. If any person conducts petroleum operations arbitrarily or without permissions, the authorised organizations of Mongolia 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 Mongolia.
2. If a contractor undertakes any operations in breach of the provisions of this law or other relevant laws of Mongolia, and such breaches result in losses to an entity, organization or individual, the contractor shall be liable in accordance with the laws of Mongolia.
3. Any losses arise from a breach of contractual obligations by any party of contract shall be recovered from the party who is guilty 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 Mongolia.

CHAIRMAN OF THE BAGA HURAL  
OF THE MPR

R.GONCHIGDORJ

SECRETARY OF THE BAGA HURAL  
OF THE MPR

B.CHIMID