

KURDISTAN REGION – IRAQ
PRESIDENCY OF THE REGION
THE PRESIDENT
IN THE NAME OF THE PEOPLE
DECISION
NO. (28) – 2007

OIL AND GAS LAW OF THE KURDISTAN REGION – IRAQ

Pursuant to the authorities granted to the Presidency of the Kurdistan Region in accordance with the provisions of Article 10(1) of Law No. (1) - 2005 (amended) and pursuant to the legislation enacted by the Kurdistan National Assembly - Iraq under its extraordinary session

No. (8) Dated 6/8/2007 we have decided to issue:

OIL AND GAS LAW OF THE KURDISTAN REGION - IRAQ

Law No. (22) - 2007

CHAPTER ONE

DEFINITIONS

Article 1:

The following terms shall have the meanings hereunder for the purposes of this Law:

1. **Federal Government:** the Federal Government of the Republic of Iraq;
2. **Federal Constitution:** the constitution of the Federal Republic of Iraq;
3. **Region:** the Kurdistan Region - Iraq;
4. **President of the Region:** the President of the Kurdistan Region - Iraq;
5. **Parliament:** the Kurdistan National Assembly - Iraq;
6. **Regional Government:** the Government of the Kurdistan Region-Iraq;
7. **Council of Ministers:** the Council of Ministers of the Regional Government - Iraq;
8. **Regional Council:** the Regional Council for the Oil and Gas Affairs of the Kurdistan Region - Iraq;
9. **Ministry:** the Ministry of Natural Resources of the Region;
10. **Minister:** the Minister of Natural Resources of the Region;
11. **Petroleum:** any natural hydrocarbons, or any mixture of natural hydrocarbons, whether in a gaseous or liquid state; including hydrocarbons that have been returned to a Reservoir;
12. **Crude Oil:** all liquid hydrocarbons in their unprocessed state or obtained from Natural Gas by condensation or any other means of extraction;
13. **Natural Gas:** all gaseous hydrocarbons and inerts, including wet gas, dry gas, casing head gas and residue gas remaining after the extraction of liquid hydrocarbons from wet gas, but not Crude Oil;
14. **Associated Natural Gas:** any gas produced in association with Crude Oil under reservoir conditions
15. **Petroleum Field:** a Reservoir or group of Reservoirs within a common geological structure or feature from which Petroleum may be commercially produced under the prevailing technical and economic conditions;
16. **Current Field:** a Petroleum Field that has been in Commercial Production prior to 15 August 2005;

17. **Future Field:** a Petroleum Field that was not in Commercial Production prior to 15 August 2005, and any other Petroleum Field that may have been, or may be, discovered as a result of subsequent exploration;
18. **Petroleum Operations:** activities including prospecting, exploration for, development, production, marketing, transportation, refining, storage, sale or export of Petroleum; or construction, installation or operation of any structures, facilities or installations for the transportation, refining, storage, and export of Petroleum, or decommissioning or removal of any such structure, facility or installation;
19. **Asset:** any item of immovable property, whether public or private;
20. **Prospecting Authorisation:** an Authorisation granted by the Minister pursuant to Article 22 of this Law;
21. **Access Authorisation:** a notification or approval granted by the Minister pursuant Article 25 of this Law;
22. **Authorisation:** a Petroleum Contract, a Prospecting Authorisation or any agreement made in respect of such an Authorisation or Contract, issued by the Minister;
23. **Person:** a natural person, or other legal entity;
24. **Authorised Person:** in respect of a Petroleum Contract, a Contractor; or the Person to whom the responsibility has been granted in accordance with the Authorisation and Access Authorisation;
25. **Contractor:** a Person with whom the Ministry has entered into a Petroleum Contract in the petroleum sector;
26. **Commercial Production:** a daily production of no less than five thousand (5,000) barrels over any twelve (12) month period;
27. **Petroleum Contract:** a contract, licence, permit, or other authorisation made or given pursuant to Article 24 of this Law;
28. **Contract Area:** the area granted under a Petroleum Contract;
29. **Production Sharing Contract:** a model Petroleum Contract that may be promulgated and revised from time to time by the Ministry, which contains, *inter alia*, commercial and technical risk undertaken by the Contractor in exchange for a share of production, and which may be used as the basis for negotiations for a Petroleum Contract between the Regional Government and Persons who have expressed an interest in carrying out Petroleum Operations;
30. **Revenue:** Regional Government revenue from Petroleum Operations including Petroleum sales, Royalty, signature and production bonuses related to Petroleum Contracts with foreign and local companies, profit petroleum, and the Regional Government's share of revenue from petroleum operations in the rest of Iraq;
31. **Royalty:** the percentage of Petroleum produced and saved from the Contract Area allocated for the Regional Government;
32. **Delivery Point:** the point, after extraction, at which the Crude Oil and Natural Gas is ready to be taken and sold, consistent with international practice; the point at which a Person may acquire title in the Region to Petroleum in accordance with Article 3(7) of this Law;
33. **Environment Fund:** the fund, administered by the Regional Government, to which Revenues will be allocated pursuant to this Law, and to which Contractors are required to Oil and Gas Law of the Kurdistan Region-Iraq 3 of 29 contribute pursuant to the terms of a Production Sharing Contract, as specified in Article 37 of this Law;

34. **Control:** direct or indirect control of the majority of the voting rights of the applicable entity at the shareholders meetings;
35. **Operator:** an Authorised Person or other Person named in an Authorisation to manage Petroleum Operations;
36. **Reservoir:** a subsurface rock formation containing an individual and separate natural accumulation of producible Petroleum characterized by a single natural pressure system; and
37. **Well:** a perforation in earth's surface dug or bored through subsurface rock formations for the purpose of exploring for, inspecting, or producing Petroleum.

CHAPTER TWO

MATERIAL SCOPE OF THE ACT

Article 2:

First: This Law applies to:

- (a) Petroleum Operations, whether carried out by public companies or by private sector companies, whether Iraqi or foreign; and
- (b) All activities related to Petroleum Operations.

Second: Pursuant to Article 115 and paragraphs (1) and (2) of Article 121 of the Federal Constitution, no federal legislation, and no agreement, contract, memorandum of understanding or other federal instrument that relates to Petroleum Operations shall have application except with the express agreement of the relevant authority of the Region.

CHAPTER THREE

TITLE TO PETROLEUM AND GOVERNMENT RIGHTS

Article 3:

First: Petroleum in the Region is owned in a manner consistent with Article 111 of the Federal Constitution. The Regional Government is entitled to a share from the revenues from producing fields, consistent with the share of all Iraqi people, in accordance with this law and Article 112 of the Federal Constitution.

Second: The Regional Government is entitled to a share from the revenues obtained from fields producing after 15 August 2005 in accordance with the provisions of this law.

Third: The Regional Government shall, together with the Federal Government, jointly manage Petroleum Operations related to producing fields according to the provisions of Article 112(1) of the Federal Constitution.

Fourth: The Regional Government shall oversee and regulate all Petroleum Operations, pursuant to Article 115 of the Federal Constitution and in a manner consistent with Article 112 of the Federal Constitution. The Minister may after obtaining the approval of the Regional Council licence Petroleum Operations to third parties to maximise timely returns from the Petroleum resources of the Region.

Fifth: The Regional Government shall oversee and regulate the marketing of the Regional Government's share of the extracted Petroleum from the Delivery Point where that

Petroleum has been extracted from Petroleum Operations, and may licence the marketing of that share to third parties.

Sixth: The Regional Government shall receive its share of all revenue derived from Petroleum Operations for the benefit of the people of the Region subject to Article 15 of this Law, and consistent with Article 112 of the Federal Constitution.

Seventh: A Person may acquire title to Petroleum exclusively at the Delivery Point.

Article 4:

The Regional Council shall be established as follows:

First: The Prime Minister - President;

Second: The Deputy Prime Minister - Deputy President;

Third: The Minister of Natural Resources - Member;

Fourth: The Minister of Finance and Economy - Member; and

Fifth: The Planning Minister - Member.

Article 5:

The Regional Council shall perform the following functions:

First: formulate the general principles of petroleum policy, prospect planning and field development, and any modifications to those principles, in the Region;

Second: approve Petroleum Contracts; and

Third: limit production levels in the Region consistent with the provisions of Article 112 of the Federal Constitution.

CHAPTER FOUR

COMPETENCIES OF THE MINISTER AND THE MINISTRY

Article 6:

The Ministry or its nominee shall:

First: oversee and regulate Petroleum Operations. The responsibilities of the Ministry include the formulation, regulation and monitoring of Petroleum Operation policies, as well as the regulation, planning, implementation, supervision, inspection, auditing and for enforcement of all Petroleum Operations by all Persons and all activities relating thereto, including the marketing of Petroleum; and

Second: negotiate, agree, and execute all Authorisations, including Petroleum Contracts, entered into by the Regional Government.

Article 7:

The Minister shall exercise his powers and discharge his functions under this Law, including under Authorisations made hereunder, in such a manner as:

First: to ensure sound management of the petroleum industry; and

Second: to ensure that the petroleum industry is developed in a way that minimises damage to the natural environment, is economically sustainable, promotes further

investment and contributes to the long-term development of the Region; and is reasonable and consistent with good oil industry practices.

(Infrastructure and downstream activities)

Article 8:

The Ministry shall:

First: oversee and regulate all infrastructure used directly or indirectly for Petroleum Operations, including Assets for production, refining, transportation including pipelines, valve stations, pump stations, compressor stations and associated installations, and distribution, including all centres and buildings, to optimise Petroleum exploration and production;

Second: oversee and regulate all downstream Petroleum Operations, including refining, transportation, storage, and the production of petrochemicals;

Third: provide the necessary assistance to the Federal Government and all other producing regions and governorates for use of the infrastructure according to this Law for the benefit of all the people of Iraq, consistent with the federal policy of Iraq as agreed upon between the Federal Government and the Regional Government; and

Fourth: make any pipeline network with spare capacity available to any Persons lawfully conducting petroleum activities in Iraq, and access to such capacity shall be agreed by the Minister on terms to be defined by contract.

(Encouragement of investment)

Article 9:

The Ministry shall:

First: encourage public and private sector investment in Petroleum Operations to ensure efficient management of the Petroleum resources of the Region to provide maximum timely returns to the people of the Region and Iraq; and

Second: encourage the construction of all new downstream operations, including pipelines and refineries, where possible by, or in partnership with, the private sector.

CHAPTER FIVE

ESTABLISHMENT OF PUBLIC ENTITIES

Kurdistan Exploration and Production Company (KEPCO)

Article 10:

First: The Kurdistan Exploration and Production Company (KEPCO) is hereby established as a public company being a legal entity with independent finance and management.

Second: Members of the Board of KEPCO shall be appointed by the Council of Ministers, and approved by an absolute majority of the Parliament. Members shall be

independent of the Ministry, and shall have petroleum or other technical and management qualifications.

Third: The appointment of all KEPCO Board members shall be for a fixed five (5) year term, renewable by the Parliament by an absolute majority.

Fourth: KEPCO may, subject to the approval of the Regional Council:

- (1) Compete with other companies to obtain Authorisations regarding Future Fields;
- (2) Enter into joint ventures and similar contractual arrangements, whether in the Region, in other parts of Iraq or abroad; and
- (3) Create operating subsidiaries for particular Petroleum Operations in respect of Future Fields.

Fifth: The Council of Ministers may, with the consent of an absolute majority of the Parliament, convert KEPCO ownership and offer its shares to Iraqi citizens.

Kurdistan National Oil Company (KNOC)

Article 11:

First: The Kurdistan National Oil Company (KNOC) is hereby established as a public company being a legal entity with independent finance and management.

Second: Members of the Board of KNOC shall be appointed by the Council of Ministers, and approved by an absolute majority of the Parliament. Members shall be independent of the Ministry, and shall have petroleum or other technical and management qualifications.

Third: The appointment of all KNOC Board members shall be for a fixed five (5) year term, renewable by the Parliament by an absolute majority.

Fourth: KNOC may, with the approval of the Regional Council:

- (1) compete with other companies to obtain Authorisations regarding the management of Current Fields;
- (2) enter into joint ventures with reputable and experienced international petroleum companies for Petroleum Operations to enhance production from Current Fields, to maximise early returns; and
- (3) on a case by case basis, compete to obtain Authorisations regarding Future Fields.

Kurdistan Oil Marketing Organisation (KOMO)

Article 12:

First: The Kurdistan Oil Marketing Organisation (KOMO) is hereby established as a public company being a legal entity with independent finance and management.

Second: Members of the Board of KOMO shall be appointed by the Council of Ministers. Members shall be independent of the Ministry, and shall have petroleum or other appropriate technical and management qualifications.

Third: The appointment of all KOMO Board members shall be for a fixed five (5) year term, renewable by the approval of the absolute majority of the Parliament.

Fourth: KOMO may market or regulate the marketing of the production from Petroleum Operations, and may, with the agreement of a Contractor to a Production Sharing Contract, market the Contractor's share of Petroleum.

Kurdistan Organisation for Downstream Operations (KODO)

Article 13:

First: The Kurdistan Organisation for Downstream Operations (KODO) is hereby established as a public company being a legal entity with independent finance and management.

Second: Members of the Board of KODO shall be appointed by the Council of Ministers, and approved by an absolute majority of the Parliament. Members shall be independent of the Ministry, and shall have petroleum or other appropriate technical and management qualifications.

Third: The appointment of all KODO Board members shall be for a fixed five (5) year term, renewable by the approval of the absolute majority of the Parliament.

Fourth: KODO may:

- (1) Manage all Regional Government-owned infrastructure related to Petroleum Operations referred to in Article 8 Paragraph First of this Law, and shall make available such infrastructure, including main pipeline networks, to all relevant public and private sector entities operating in the Region.
- (2) compete with other companies for Authorisations after obtaining the approval of the Regional Council, in its own right create operating subsidiaries for particular Petroleum Operations, and enter into joint ventures and similar contractual arrangements, whether in the Region, or in other regions and governorates;
- (3) participate with international oil companies or with the local private sector for new downstream Petroleum Operations, with the approval of the Regional Council; and
- (4) license the management of any of its infrastructure to third parties with the approval of the Regional Council.

Public Entity Regulations

Article 14:

First: The Ministry is responsible for regulating the operations of:

- (1) The Kurdistan Exploration and Production Company (KEPCO);
- (2) The Kurdistan National Oil Company (KNOC);
- (3) The Kurdistan Oil Marketing Organisation (KOMO); and
- (4) The Kurdistan Organisation for Downstream Operations (KODO).

Second: The Board of Directors of each entity referred to in Paragraph First of this Article shall establish its own organisation structure, assign authorities, and determine the manner in which its functions are discharged.

Third: The Minister may recommend the creation of other public entities for Petroleum exploration, development, production, refining and for the supply and procurement of services to facilitate the effective conduct of Petroleum Operations.

CHAPTER SIX
REVENUE MANAGEMENT AND SPECIAL ALLOCATIONS
Kurdistan Oil Trust Organisation (KOTO)

Article 15:

First: The Kurdistan Oil Trust Organisation (KOTO) is hereby established as a public company being a legal entity with independent finance and management.

Second: Members of the governing body of KOTO shall be appointed by the Council of Ministers, and approved by an absolute majority of the Parliament. The powers and accountabilities of KOTO shall be defined by law.

Third: The Ministry shall provide all necessary financial information on Authorisations and Contracts to KOTO.

Fourth: KOTO shall, consistent with the entitlement defined in Articles 112 and 115 of the Federal Constitution, receive Revenues from Petroleum Operations from Current Fields and Future Fields on behalf of the people of the Region, according to the provisions stated in this Law.

Fifth: Until such time as the conditions of Article 19 of this Law are implemented, KOTO shall maintain two accounts: one for Revenues from Petroleum Operations in respect of Current Fields (the Current Fields Account); and one for Revenues from Petroleum Operations in respect of Future Fields (the Future Fields Account). Both accounts shall be part of the general revenue of the Region and shall be subject to monitoring of the Parliament.

Sixth: The Current Fields Account and the Future Fields Account shall be subject to regular independent audit, which shall be available for public viewing. In all other respects, KOTO shall discharge its responsibilities consistent with the Principles and Criteria of the Extractive Industries Transparency Initiative (EITI) as set out in the EITI Source Book of March 2005.

Article 16:

The functions of KOTO shall be regulated by law for the purpose of managing those revenues and their distribution consistent with the highest international standards of transparency and responsibility.

Article 17:

The functions of KOTO shall be subject to oversight by the Parliament.

CHAPTER SEVEN

COOPERATION WITH FEDERAL GOVERNMENT

Article 18:

The Regional Government, consistent with the conditions stated in Article 19 of this Law, shall:

First: agree with the Federal Government in the joint management of oil and gas extracted from Current Fields in the Region;

Second: cooperate with the Federal Government in formulating strategic policies to develop the Petroleum resources of the Region in a balanced manner compared with the other Petroleum activities throughout the country, and in a way that achieves the highest benefit to the Iraqi people using the most advanced techniques of market principles and encouraging investment, consistent with the provisions of Article 112 of the Federal Constitution;

Third: cooperate with an intergovernmental federal oil and gas council (“the Federal Oil and Gas Council”), the composition of which is to be agreed with the Regional Government, to establish the standards, model contracts, and commercial terms for negotiations and contract award procedures in Iraq; and

Fourth: agree that all the Revenues obtained by the Region from Petroleum Operations be deposited to a general petroleum revenue fund for Iraq.

Article 19:

The basis of cooperation and permissions referred to in Article 18 of this Law shall have the following conditions:

First: a general petroleum revenue fund must receive all of Iraq’s petroleum revenue, to be managed by a general joint commission pursuant to Articles 106, 112 and 121 of the Federal Constitution, and maintained at a reputable international bank, with a sub-account for the Regional Government, into which an agreed share for the Region is deposited, through KOTO, to be under the absolute authority of the Regional Government, the details of which arrangements are to be regulated by a federal law accepted by the Regional Government;

Second: the petroleum industry in Iraq must be restructured in all of Iraq, with a fair role for an Iraq National Oil Company, to encourage private investment into Iraq consistent with the requirements of Article 112(2) of the Federal Constitution, to generate maximum revenues in a timely manner for the benefit of the people of Iraq;

Third: the Regional Government and the Federal Government must jointly manage Current Fields provided that the Regional Government shall have a proportional role on the Federal Oil and Gas Council, and shall be a partner in the management of the Iraq National Oil Company, consistent with Article 105 of the Federal Constitution;

Fourth: the Federal Government must not practise any new Petroleum Operations in the disputed territories without the approval of the Regional Government until such time as the referendum required by Article 140 of the Federal Constitution is conducted; and

Fifth: any activities in the disputed territories related to Petroleum Operations carried out in contradiction to Paragraph Fourth of this Article shall be dealt with according to the provisions of this Law and Article 112(2) of the Federal Constitution once the decision is made to rejoin these territories to the Region under the provisions of Article 140 of the Federal Constitution.

Article 20:

Until the conditions set out in Article 19 of this Law are met implemented in full, the Regional Government shall proceed with its rights on the basis of Articles 112, 115, and 121(3) of the Federal Constitution, with Revenues received by KOTO pursuant to Article 15 of this Law.

**CHAPTER EIGHT
AUTHORISATIONS**

(Division into Parcels of Land)

Article 21:

For the purposes of this Law, the territory of the Region, or parts of the territory of the Region, shall be divided into parcels of land by the Ministry from time to time, and shall be defined by Universal Transverse Mercator (UTM) and geographic coordinates.

(Prospecting)

Article 22:

First: The Minister may grant a Prospecting Authorisation after obtaining the approval of the Regional Council, in respect of a specified area and a specified period, to a Person or a group of Persons.

Second:

(1) The holder of a Prospecting Authorisation has a right to perform geological, geophysical, geochemical and geotechnical surveys in the Authorisation area.

(2) The Prospecting Authorisation shall require the Authorised Person as to report on the progress and results of such prospecting, and to maintain confidentiality with respect to such prospecting.

(3) Nothing in a Prospecting Authorisation authorises the holder to drill a Well or to have any preference or right to make a Petroleum Contract.

Third:

(1) The holder of a Prospecting Authorisation shall notify the Ministry that it has fulfilled all its defined obligations so that the Authorised Person may terminate its obligations under the Authorisation.

(2) If the holder has not complied with a condition to which the Prospecting Authorisation is subject, the Minister may terminate it by written notice to the holder, after obtaining the approval of the Regional Council.

Article 23:

No Authorisation may be granted in respect of an area that is the subject matter of a Petroleum Contract or Prospecting Authorisation where the grant is inconsistent with the rights of the existing Authorised Person.

(Exploration and Development)

Article 24:

First: The Minister may, after obtaining the approval of the Regional Council, conclude a Petroleum Contract for exploration and development in respect of a specified area, with a Person or a group of Persons, provided that if a group, such group enters into a joint operating agreement approved by the Minister under Article 30 of this Law. The Person, or group of Persons, may include private companies in the Region and other parts of Iraq or foreign petroleum companies.

Second: A Petroleum Contract may be based on a Production Sharing Contract, or on other contracts which the Minister considers to provide good and timely returns to the people of the Region, as stated in Chapter 10 of this Law.

Third: In order to be eligible to enter into a Petroleum Contract, a Person must demonstrate:

(1) the financial capability, and the technical knowledge and technical ability, to carry out the Petroleum Operations in the Contract Area, including direct experience in carrying out similar petroleum operations, and to submit reliable documents as proof; and

(2) A record of compliance with principles of good corporate citizenship, and a commitment to the Ten Principles of the Global Compact, launched by the United Nations on 26 July 2000.

Fourth:

(1) Without prejudice to Article 25, a Petroleum Contract grants to the Contractor the exclusive right to conduct Petroleum Operations in the Contract Area.

(2) The Petroleum Contract may be limited to Crude Oil, Natural Gas or other constituents of Petroleum.

Fifth: A Contractor shall:

(1) Give written notice to the Minister within forty eight (48) hours whenever any Petroleum is encountered in the Authorisation area; and

(2) Provide in a timely manner such information relating to the discovered Petroleum to the Minister consistent with oil industry practices.

Sixth: A Petroleum Contract shall oblige the Contractor to carry on Petroleum Operations only in accordance with work programs, plans and budgets approved by the Minister or as otherwise specified in the Contract.

Access

Article 25:

First: The Minister, after obtaining the approval of the Regional Council, may grant an Access Authorisation, in respect of a specified area, to a Person or a group of Persons to:

(1) Construct, install and operate structures, facilities and installations; and

(2) Carry out other works.

Second:

(1) An Access Authorisation may be surrendered by the holder by written notice to the Ministry, provided that the Authorised Person has fulfilled all its obligations thereunder and has obtained a relevant certificate of work completion.

(2) An Access Authorisation may be terminated by the Minister at any time by written notice to the holder, if the holder has not complied with a condition to which the Authorisation is subject.

(3) The Minister shall provide written notice of the surrender or termination to any Authorised Person in whose Authorisation area operations were authorised to be carried on by the Access Authorisation concerned.

Third: The Minister may give a direction to the holders of Access Authorisations and to other Authorised Persons regarding the coordination of their respective Petroleum Operations.

Fourth: Every Petroleum Contract and Access Authorisation shall ensure that the needs of others are met within the Contract Area on reasonable terms and conditions.

(Invitations and Awards)

Article 26:

First:

(1) The Ministry may invite, by public notice, applications for Authorisations.

(2) The Minister may, where it is in the public interest to do so, elect to award Authorisations through direct negotiation.

Second:

(1) An invitation shall specify the area of the Authorisation, the proposed activities, the criteria upon which applications will be assessed, the applicable fees to be paid with the application, and the date and the manner in which the applications may be made.

(2) Unless the invitation otherwise states, the Ministry is not obliged to award an Authorisation to any of the applicants.

Third:

An application for an Authorisation shall include conditions for:

(1) Securing the health, safety and welfare of persons involved in or affected by the Petroleum Operations;

(2) Protecting the environment, preventing, minimising and remedying pollution, and other environmental harm from the Petroleum Operations;

(3) Training of, and giving preference in employment in the Petroleum Operations to, citizens of the Region and other citizens of Iraq; and

(4) The acquisition of goods and services from Persons based in the Region and other parts of Iraq.

Fourth: The Ministry shall not grant an Authorisation in respect of an area until it has given due consideration to all applications made in response to, and in compliance with, an invitation.

CHAPTER NINE

RIGHTS AND RESPONSIBILITIES OF AUTHORISED PERSONS

Article 27:

First: Production of Petroleum shall take place:

(1) In such a manner that as much as possible of the Petroleum in place in each individual Petroleum deposit, or in several deposits in combination, will be produced;

(2) in accordance with good oil field practice and sound economic principles as described in Article 37 of this Law; and

(3) In such a manner that waste of Petroleum or Reservoir energy is avoided.

Second: An Authorised Person shall carry out regular evaluation of Petroleum production strategy and technical solutions and shall take the necessary measures in order to achieve the objectives of Paragraph First of this Article.

Article 28:

First: The existence of Petroleum Authorisations in force in a given area does not prevent permissions for the exploration and development of natural resources other than Petroleum, provided that such other activity does not seriously hinder the proper performance of the Petroleum Operations.

Second: In the event, that exercise of the rights and obligations referred to in Paragraph First of this Article are incompatible, the Regional Council shall decide which of the

rights and obligations shall prevail and under what terms, without prejudice to any compensation which may be due to the holders of the rights thereby overridden.

Article 29:

First:

(1) Regardless of the terms of an Authorisation, an Authorised Person shall not use any of the following:

- (a) Public Asset without the consent of the responsible authority;
- (b) Private Asset of the Regional Government without the consent of the responsible authority; or
- (c) private Asset without payment of fair and reasonable compensation to the owner.

(2) The owner of any Asset in an Authorisation area retains rights to the use of its Asset except in so far as the use interferes with Petroleum Operations.

(3) An Authorisation may limit the use by an Authorised Person of public infrastructure, and the consumption of other natural resources, including trees, sand, gravel, rock and water.

(4) An Authorisation does not constitute a waiver of the Authorised Person's obligations regarding the rules and regulations of the Region, unless the consent of the responsible authority has been obtained.

Second:

(1) The Authorised Person is liable to pay fair and reasonable compensation if, in the course of Petroleum Operations, it:

- (a) disturbs the rights of the owner of any Asset, or causes any damage thereon; or
- (b) demonstrably interferes with any other lawful activities.

(2) If the Authorisation value has been increased because of violations under Paragraph Second (1) of this Article, compensation payable by the Authorised Person must not be less than the amount of the loss.

Third: The Ministry shall estimate and decide a fair and reasonable compensation payable by the Authorised Person under this Article, after having considered representations by interested parties. The Authorised Person shall be entitled to arbitration in accordance with any arbitration provisions and the affected Person shall be entitled to rely on the specialist courts in the Region to object to a compensation decision.

Article 30:

An Authorisation shall specify the rights of the Minister to approve, or be notified of:

First: joint operating agreements, lifting arrangements and any other agreement related to the Petroleum Operations, as well as amendments to such agreements;

Second: any changes in Control of an Authorised Person; and

Third: any assignment, transfer, conveyance, novation, merger, encumbrance or other similar dealing in respect of the Authorisation.

Article 31:

If there is more than one Authorised Person in respect of a particular Authorisation, the obligations and liabilities of the Authorised Person under an Authorisation are the obligations and liabilities of them all, jointly and severally.

Article 32:

First: The Region shall have title to all data and information, whether raw, derived, processed, interpreted or analysed, regarding Petroleum in the Region.

Second: Notwithstanding Paragraph First of this Article, Authorised Persons may retain copies of data and information obtained pursuant to an Authorisation and may use some or all for the purposes of the Authorisation according to the terms of a relevant Authorisation but shall have no title to such data after the termination of the Authorisation.

Third: Data and information acquired during the course of Petroleum Operations may, with the permission of the Minister, be freely exported by Authorised Persons provided that the Minister may require that an original, or in the case of a core, rock, fluid or other physical sample, a usable portion of the original, of all data and information, both physical and electronic, be kept in the Region.

Article 33:

The General Inspector in the Ministry shall oversee the Authorised Person. On request, an Authorised Person shall make its books and accounts available for auditing.

Article 34:

First:

- (1) The Minister shall have the power to terminate an Authorisation as set out in the Authorisation and shall notify the Regional Council accordingly.
- (2) Termination of an Authorisation without prejudice to rights and obligations expressed in the Authorisation which shall survive after the termination.

Second: If there is more than one Authorised Person in respect of a particular Authorisation and circumstances arise in which the Minister may terminate an Authorisation, the Minister may elect to terminate the Authorisation, or terminate the Authorisation only in respect of those Authorised Persons whose acts or omissions have led to such circumstances, and shall so notify the remaining Authorised Persons.

Third: In the event that the Minister elects to terminate an Authorisation pursuant to Paragraph Second of this Article, the interest of those Authorised Persons whose Authorisation has been terminated shall revert to the Minister and shall be used for the best interests of the people of the Region.

Article 35:

First: An Authorised Person shall defend, indemnify, and hold harmless the Regional Government from all claims by third parties resulting, directly or indirectly, from Petroleum Operations.

Second: An Authorised Person shall maintain insurance in respect of the potential liability under Paragraph First of this Article for such amount as the Ministry requires from time to time.

Article 36:

First: An Authorised Person shall remove from the Contract Area everything used in the Petroleum Operations and clean up the Contract Area (decommission) under the following Circumstances:

- (1) Termination or at the end of the period of the Authorisation; or
- (2) When no longer required for Petroleum Operations.

Second: Without prejudice to any criminal liability, a Person who engages in Petroleum Operations without an Authorization shall:

- (1) Make restitution to the Region of an amount equal to the market value of Petroleum developed, produced or exported, together with late payment interest thereon at a rate not to exceed the legal rate of interest to be determined by the Minister;
- (2) Either forfeit all infrastructure and equipment used in engaging in those Petroleum Operations, or remove such infrastructure and equipment or be liable for the payment of the costs of such removal; and
- (3) clean up pollution resulting from those Petroleum Operations, or reimburse the costs of clean-up to the Region.

Third: The liabilities under Paragraph Second of this Article of Persons who, together, are engaged in, or have engaged in, Petroleum Operations are the liabilities of them all, jointly and severally.

**CHAPTER TEN
PRODUCTION SHARING CONTRACT
(Contract Terms)**

Article 37:

First: A standard Production Sharing Contract shall include the following terms.

- 1) An initial exploration term of a maximum of five (5) years, divided into two sub periods, of three (3) years and two (2) years, extendable on a yearly basis for up to a maximum total of seven (7) years;
- 2) Relinquishment of twenty-five percent (25%) after the initial exploration term, with a further twenty-five percent (25%) of the remaining area at the end of each renewal period. If these percentages of relinquishments can only be achieved by including part of the area of a discovery, these percentages shall be reduced to exclude the discovery area. Voluntary relinquishment at the end of each Contract year is permitted.
- 3) An exploration commitment, which shall be negotiable, involving the purchase and interpretation of all existing data, including seismic data, where available, and seismic acquisition in the first sub-period, with exploration drilling in the second sub period and a Well in each of the annual extensions.

- 4) A development period, following discovery, to be twenty (20) years, with a right of the Contractor to a five (5) year extension, on the same terms and conditions, with possible further extensions to be negotiated.
- 5) Royalty, at a rate of ten percent (10%), and paid in accordance with Article 41 of this Law.
- 6) Cost recovery from a portion of production after deduction of the Royalty, to a maximum not exceeding forty-five percent (45%) for Crude Oil; and not exceeding sixty percent (60%) for Natural Gas.
- 7) Production sharing from remaining production after Royalty and allowable cost recovery according to a formula which takes into account cumulative revenues and cumulative petroleum costs and provides the Contractor with reasonable returns.
- 8) Annual surface rental during exploration and development phases.
- 9) Regional Government participation for a direct working interest in exploration, development and production with participation terms which must be fixed and defined in each Contract.
- 10) A commitment to the payment of an agreed amount into an Environment Fund, to be administered by the Regional Government for the exclusive benefit of the natural environment of the Region.
- 11) Provisions for securing the health, safety and welfare, environmental protection, training, and acquisition of goods and services, consistent with international standards and with the proposals made in accordance with Article 26 of this Law.

Second: For any Production Sharing Contract that the Minister considers to involve a high commercial risk or to require a high amount of up-front capital, the minimum Royalty percentage stated in Paragraph First (5) of this Article may be reduced and the cost recovery percentage stated in Paragraph First (6) of this Article may be increased according to the risk involved, after obtaining the approval of the Regional Council.

Third: For any Production Sharing Contract that the Minister considers to involve a low element of commercial risk, a Royalty percentage may be increased to a higher amount than that stated in Paragraph First (5) of this Article, and a cost recovery percentage may be reduced to a lower amount than that stated in Paragraph First (6) of this Article can, after obtaining the approval of the Regional Council.

Fourth: The terms of a Production Sharing Contract shall include good oil field practice and procedures employed in the petroleum industry worldwide by prudent and diligent operators under conditions and circumstances similar to those experienced in connection with the relevant aspect or aspects of the Petroleum Operations, principally aimed at ensuring:

- (1) conservation of Petroleum resources, which implies the utilization of adequate Methods and processes to maximise the recovery of hydrocarbons in a technically and economically sustainable manner, with a corresponding control of reserves decline, and to minimise losses at the surface;
- (2) operational safety, which entails the use of methods and processes that promote occupational security and the prevention of accidents; and

(3) environmental protection, that calls for the adoption of methods and processes which minimise the impact of Petroleum Operations on the natural environment.

Article 38:

First: A Petroleum Contract shall define the applicable terms with respect to Associated and non-Associated Natural Gas to facilitate the development of a Natural Gas industry in the Region.

Second: Those terms shall include provisions for the optimal utilisation of surplus volumes of produced Natural Gas, and terms to minimise the flaring of Natural Gas, consistent with international standards in the industry.

Third: The Minister may, by regulation or in a Petroleum Contract, specify a method for the valuation of Natural Gas that shall be consistent with international standards in the industry and shall ensure the maximum returns to the people of the Region and Iraq.

Article 39:

The Ministry may enter into service contracts, field management contracts, supply and installation contracts, construction contracts, consulting contracts, or any other types of contracts to efficiently manage the Petroleum resources of the Region. Such other contracts may contain some element of risk to reward the contractor for performance, timely completion, and achieving high value targets.

Taxation

Article 40:

First: A Contractor, Authorised Person or other Person associated with Petroleum Operations is liable for any applicable taxes of the Regional Government, including:

- 1) surface tax;
- 2) personal income tax;
- 3) corporate income tax;
- 4) customs duties and any other similar taxes;
- 5) windfall profits or additional profits tax; and
- 6) any other tax, levy or charge expressly included in its Petroleum Contract.

Second: A Petroleum Contract may exempt a Contractor from tax by law.

Third: Applicable taxes of the Regional Government shall be the only taxes that apply to Petroleum Operations.

(Other Conditions)

Article 41:

First: The volume of Petroleum constituting the Royalty shall be calculated by applying the percentage specified in the Petroleum Contract.

Second: The Minister, after obtaining the approval of the Regional Council, may require from time to time that the Royalty be paid in kind or in cash, and the Royalty shall be paid quarterly or monthly as provided for in the Petroleum Contract.

Third: Where there is no independent third party sale on an arm's length basis, the Contractor shall pay the Royalty on the international market price.

Article 42:

A Contractor is obliged to sell and transfer to the Regional Government, upon written request of the Minister, any amounts of Crude Oil that the Regional Government shall deem necessary to meet the internal consumption requirements of the Region. The sales price of Crude Oil shall be established pursuant to the applicable Petroleum Contract, or in the absence thereof, fair market value.

Article 43:

The Minister may, in a Petroleum Contract, waive on behalf of the Region any claim on to sovereign immunity with regard to legal proceedings and the enforcement of judgments.

**CHAPTER ELEVEN
LOCAL PARTICIPATION**

Article 44:

First: An Authorised Person shall give preference to:

- (1) competent local companies from the Region and other parts of Iraq, which must
 - (a) be bona fide companies not related to any public officer, directly or indirectly,
 - (b) have adequate resources and capacity to enhance the Petroleum Operations carried out by the Authorised Person, and
 - (c) be approved by the Minister, according to clear criteria which he shall prescribe by regulation;
- (2) the employment of persons from the Region and other parts of Iraq to the extent such personnel have the qualifications, competence and experience required to perform the work; and
- (3) the purchase of local products and services from the Region and other parts of Iraq, wherever they are competitive in terms of price, quality and timely availability.

Second: The Minister may give preference to an Authorised Person who partners with local companies.

Article 45:

First: An Authorisation shall include clearly defined training programs for local employees of the Authorised Person, which may be carried out in the Region, other parts of Iraq, or in foreign countries, and may include scholarships and other financial support for education.

Second: An Authorisation shall include, where possible, a commitment by the Authorised Person to maximise knowledge transfer to the people of the Region, and to establish in

the Region any necessary facilities for technical work, including the interpretation of data obtained from Petroleum Operations.

Article 46:

A Contractor shall establish an office in the Region.

CHAPTER TWELVE

UNITISATION

(Unitisation of Reservoirs within the Region)

Article 47:

First: If a Reservoir lies entirely within the Region, any unitisation of the Reservoir shall be the responsibility of the Minister after obtaining the approval of the Regional Council, and shall be consistent with international standards in the petroleum industry.

Second: A Reservoir that lies partly within a Contract Area, and partly in another Contract Area, shall be unitised as follows:

- (1) The Minister may require by written notice the Contractors to enter into a joint unitisation agreement with each other for the purpose of securing more effective and optimised production of Petroleum from the Reservoir; and
- (2) if no joint agreement has been reached within a reasonable period of time from receipt of written notice stated in Paragraph Second (1), the Minister shall decide on the unitisation; and
- (3) if the Contractors do not agree with the Minister's decision, the Contractors shall be entitled to arbitration pursuant to the provisions of Article 50 of this Law.

Third: A Reservoir that lies partly within a Contract Area and partly in an area that is not the subject of any other Petroleum Contract, shall be unitised as follows:

- (1) The Minister may require by written notice the Contractor to enter into a joint unitisation agreement with the Minister for the purpose of securing the more effective and optimised production of Petroleum from the Reservoir; and
- (2) if no agreement has been reached within a reasonable period of time from receipt of written notice as required in Paragraph Third (1) of this Article, the Minister shall decide on the unitisation; and, if the Contractor does not agree with the Minister's decision, the Contractor shall be entitled to independent arbitration, or the decision shall be according to the conditions of the Petroleum Contract where such a process is provided for under the Petroleum Contract.

Fourth: Any unitisation agreement reached shall define the amount of Petroleum in each area covered by the agreement, and shall appoint the Operator responsible for production of the Petroleum covered by the agreement.

Fifth: The Minister may approve the development or production of Petroleum from the Reservoir only after it has approved or decided the unitisation agreement.

Sixth: Any changes to the unitisation agreement shall be subject to prior approval by the Minister.

Unitisation of Reservoirs across a Region border, within Iraq

Article 48:

First: If a Reservoir lies across a Region border into other areas that are part of Iraq, the unitisation of the Reservoir shall be the responsibility of the Minister after obtaining the approval of the Regional Council; and the Minister shall endeavour to reach agreement with the Federal Government or the other concerned parties to achieve the highest benefit to the people of the Region and all of Iraq using the most advanced techniques and market principles to encourage investment, consistent with Article 112 of the Federal Constitution.

Second: Such an agreement may specify that the unitised Reservoir be administered by a joint management body which shall comprise representatives of the Regional Government and the Federal Government or the other concerned parties.

Third: If no agreement is reached as described in the Paragraph above, the Minister shall submit, with the representative of the Federal Government and the other concerned parties, the matter to an expert to be appointed by all the concerned parties. If no agreement is reached, the matter shall be dealt with according to the Federal Constitution.

Unitisation of Reservoirs across international borders

Article 49:

If a Reservoir lies across a Region border into areas that are part of the domain of a neighbouring country, the Reservoir shall be unitised in coordination with the Federal Government according to the provisions of the Federal Constitution and by agreement with the concerned neighbouring country to ensure a complete equitable benefit for both parties from the development of Petroleum from the Reservoir, and subject to the approval of the Kurdistan Parliament.

CHAPTER THIRTEEN

RESOLUTION OF DISPUTES

Article 50:

First:

The Minister may inquire into and decide all disputes involving Persons engaged in Petroleum Operations, including disputes:

- (1) Among the Persons themselves, where agreements between them do not specify a dispute resolution mechanism; or
- (2) In relation to other parties (other than the Regional Government) not so engaged.

Second:

- (1) If a dispute arises relating to the interpretation and/or application of the terms of an Authorisation between an Authorised Person and the Minister, the parties shall attempt to resolve that dispute by means of negotiation.

- (2) If the dispute cannot be resolved by negotiation, either party may submit the dispute to arbitration.
- (3) Any arbitration between the Minister and an Authorised Person shall be conducted, by agreement between the Parties, in accordance with either:
- (a) The 1965 Washington Convention, or the regulations and rules of the International Centre for the Settlement of Investment Disputes (ICSID) between States and Nationals of other States;
 - (b) The rules set out in the ICSID Additional Facility adopted on 27 September 1978 by the Administrative Council at the ICSID between States and Nationals of other States, whenever the foreign party does not meet the requirements provided for in Article 25 of the Washington Convention;
 - (c) The Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL);
 - (d) The arbitration rules of the London Court of International Arbitration (LCIA);
- or
- (e) Such other rules of recognised standing (as agreed by the Parties, in respect of the conditions for implementation, including the method for the designation of the arbitrators and the time limit within which the decision must be made).
- (4) The obligations of the Minister and the Authorised Person under the Authorisation shall continue pending the resolution of any matter submitted to arbitration.

CHAPTER FOURTEEN ADVERTISEMENTS AND PUBLICATIONS

Article 51:

First: The Minister shall publish:

- (1) Invitations for applications for Authorizations; and
- (2) Notice of the grant and termination of Authorizations.

Second: The Minister shall publish invitations for applications for Authorisations in the media and via the Ministry internet website, in such manner as is required by regulation.

Article 52:

First:

- (1) The Minister shall make available to the public:
 - (a) Details of all Authorisations and amendments thereto, whether current, modified or terminated;
 - (c) Information regarding unitisation agreements.
- (2) The Minister shall make available to any member of the public, within a reasonable period of time of a request having been made by that person, summary details of:
 - (a) The Authorisations (and amendments, whether or not terminated) and unitisation agreements;
 - (b) An approved Development Plan; and
 - (c) All assignments and other dealings consented to in respect of Authorizations, Subject to their commercial terms and conditions; and
 - (d) Petroleum Operations.

Second: Within ten (10) business days of a request having been made, the Minister shall publish brief reasons for:

- (1) Granting an Authorisation subsequent to an invitation;
- (2) Approving a Development Plan under a Petroleum Contract; and
- (3) Making any decision or granting any approval that, under an Authorization, requires publication.

Third: Companies shall report on their compliance with requirements under this Law and Authorisations in such manner and detail as required by their Authorization and as provided by regulation, and the Minister shall make available such reports to the public.

Fourth: The Minister shall publish the relevant reports related to Authorized Persons on payments relating to Petroleum Operations made to the Regional Government as are required by law.

Fifth: The information contemplated in this Article shall be available to any Person on payment of the required fee, to be provided by regulation.

CHAPTER FIFTEEN REGULATIONS

Article 53:

The Minister may make regulations under this Law relating to the following:

First: graticulation of the territory of the Region;

Second: Petroleum exploration and production;

Third: the use and disclosure of data, information, records, and reports;

Fourth: the measurement and sale or disposal of Petroleum;

Sixth: protection and restoration of the environment;

Seventh: resources management;

Eighth: structures, facilities and installations;

Ninth: clean-up operations and other appropriate methods to remedy and remove the effects of the escape of Petroleum;

Tenth: abandonment and decommissioning;

Eleventh: work programs and budgets;

Twelfth: the auditing of an Authorised Person and of its accounts and records;

Thirteenth: reporting by Authorised Persons on compliance with obligations set out in the Law and Authorisations, including in relation to:

- (1) the training and employment of Region citizens and other citizens of Iraq,
- (2) procurement of Region and other Iraqi goods and services,
- (3) occupational health and safety,
- (4) protection and restoration of the environment.

Article 54:

First: All agreements related to Production Sharing Contracts entered into by the Regional Government prior to the entry into force of this Law, shall be subject to review by the Regional Council to make them consistent with the provisions of this Law, taking into consideration the prevailing conditions when these agreements were entered into. The decisions of the Regional Council in this regard shall be final and may be published.

Second: All authorisations and memoranda of understanding related to oil and gas which were signed by the Regional Government prior to the entry into force of this Law shall be null and void unless they are approved by the Regional Council.

**CHAPTER SIXTEEN
NON-COMPLIANCE PROVISIONS**

Article 55:

First: It is prohibited for public officer or his or her spouse or child or any Person for his benefit to acquire:

- (1) A benefit or an interest, whether direct or indirect, in an Authorisation; or
- (2) Any direct or indirect interest or share in a corporation (or an affiliate of it) that holds an Authorisation, unless as part of a transparent process of privatisation of a Regional Government-owned entity.

Second: The Minister shall require, by regulation that all public officers in the Ministry be subject to the filing of financial disclosure statements, which, in the case of senior public officers, shall be made public.

Article 56:

First: An Authorised Person shall be liable to the penalties set out in Paragraph Second of this Article if that Person:

- (1) Breaches legislation of the Region concerning corruption; or
- (2) Directly or indirectly, by any means, hinders the work of the General Inspector; or
- (3) In, or in connection with, any application or report under this Law, knowingly or recklessly gives information that is materially false or misleading; or
- (4) holds, sells, buys, or otherwise transfers, receives or deals in data and information to which the Region has title, pursuant to Article 32 of this Law, unless that Person obtains a licence from the Minister, or does so pursuant to the terms of an Authorisation;

Second: Where the Minister determines that an Authorised Person has engaged in any activities referred to in Paragraph First, in addition any punishment proceedings, the Minister shall:

- (1) Cancel the Authorisation or part of the Authorisation;
- (2) cancel the right of the Authorised Person to participate in public tenders concerning Petroleum Operations, in particular those regarding Authorisations and the procurement of goods and services;
- (3) Subject the Authorised Person an embargo on any construction works, in such cases as they may result in damage to relevant public interests;
- (4) prohibit the Person from practising activities related to Petroleum Operations for a period not less than two (2) years; and
- (5) Publish details of the activities.

CHAPTER SEVENTEEN FINAL AND TRANSITIONAL PROVISIONS

Article 57:

First: A percentage from the Petroleum Revenues shall be used to protect the rights of the future generations, to fund strategic projects in the Region, to protect the environment, to support the families of the martyrs, and to support the necessary needs of the citizens of Kurdistan to achieve fairness amongst its religious and ethnic composition and this shall be regulated by law.

Article 58:

The Regional Government shall take into consideration the development of the areas where Petroleum Operations are carried out and shall support their local and provincial councils and shall compensate the land owners according to the laws to ensure fairness.

Article 59:

First: All legislation or decisions that are inconsistent with the provisions of this Law are invalid.

Second: The provisions of the Law of Investment of the Kurdistan Region (Law No. 4 of 2006) do not apply to Petroleum Operations.

Article 60:

The Minister shall issue the necessary regulations for the implementation of the provisions of this Law.

Article 61:

This Law enters into force upon the date of its issue, and shall be published in the Official Gazette of the Region (*Waqaa 'e Kurdistan*).

Necessitating reasons

This Law was issued to develop the petroleum wealth of the Region in a way that achieves the highest benefit to the Kurdistan people and all Iraqi people, using the most advanced techniques of market principles and encouraging investment, in a manner consistent with the provisions of Articles 111, 112, and 115 of the Federal Constitution, to promote and adhere to the highest standards of transparency, accountability, and fairness in the petroleum sector, to provide special petroleum revenue allocations for all citizens of the Region, for the future generations of the Region, for those who suffered as a result of the previous regime in Iraq for the natural environment of the Region; and to facilitate cooperation on petroleum management with the Federal Government provided that revenue is shared equitably, as required by the Federal Constitution.