

**COUNCIL OF MINISTERS
OIL AND ENERGY COMMITTEE**

**REPUBLIC OF IRAQ
DRAFT IRAQ OIL AND GAS LAW
NO. _____ OF 2007**

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PREAMBLE

WHEREAS the Republic of Iraq has entered a new era after the adoption of the Constitution In 2005;

WHEREAS, Article 111 of the said Constitution declares that Oil and Gas are owned by all the people of Iraq in all the Regions and Governorates;

WHEREAS, Articles 110, 112, 114 and 115, seen in the light of Article 111, broadly define the authorities and responsibilities of the Federal, Regional and Governorate Authorities including those in the Petroleum sector;

WHEREAS, the Iraq Republic is endowed with rich Oil and Gas resources, a great portion of which is already discovered and ready for Development whilst more Petroleum resources are yet to be discovered;

WHEREAS, Iraq's Production capacity during the last decades has been low and at great disparity with its exceptionally rich Oil and Gas resources;

WHEREAS, the Iraqi people find themselves at the crossroad to a new and more prosperous future which will require quick and substantial funding of reconstruction and modernization projects;

WHEREAS revenues from Oil and Gas represent the most important basis for redeveloping the country in general and the Iraqi economy, in particular on sustainable and robust basis in a planned and coordinated manner that takes into consideration the objectives of the Constitution, including the unity of the Iraq Republic, the exhaustible nature of Petroleum resources, the need for preserving the environment;

To help the Iraqi Ministry Of Oil focus on its main duties of creating policies, planning, and supervision, while achieving the necessary upgrading to enhance operational quality, the oil activates operated solely by the Ministry of Oil have to be transferred to technical and commercial entities and institutions including an independent Iraq National Oil Company, to provide authorities to the Regions and Producing Governorates;

WHEREAS, the rehabilitation and further development of the Petroleum industry will be enhanced by the participation of international and national investors of recognized technical, managerial and operational skills as well as robust capital resources to help upgrade and develop national expertise and efficiency in the Petroleum sector;

WHEREAS, the national private industry directly and indirectly related to the Petroleum sector are in need of proactive encouragement and support to play a prominent role in the development of the sector;

WHEREAS, the positive interplay between the Federal and Regional authorities requires appropriate legislative and institutional framework conditions to ensure efficient co-ordination;

WHEREAS, the introduction of a variety of national and international players in the

development of the Petroleum sector calls for clear legislative, institutional and operational framework conditions to ensure co-ordination and efficiency between the relevant Iraqi authorities and the commercial players as well as among these players;

WHEREAS, the development of the petroleum sector must be closely coordinated and harmonized with the development of the society and the national economy in a manner that maintains sustainable development for the economy and the environment and in the long term decreases dependence on Oil and Gas revenues;

WHEREAS, the conditions for regulating the Petroleum sector are of great importance to the whole nation as well as to all Investors in the sector, there is a need for a clear, fair, transparent and efficient system of governance that inspires confidence, efficiency and co-operation among all participants in the petroleum sector, including governmental authorities at Federal, Regional and Governorate level, and among national and international actors;

THEREFORE THIS LAW IS ENACTED:

CHAPTER I: FUNDAMENTAL PROVISIONS

Article 1: Ownership of Petroleum Resources

Oil and gas are owned by all the people of Iraq in all the Regions and Governorates.

Article 2: Scope of Application

- (a) This law applies to Petroleum Operations in all the territory of the Republic of Iraq, including the soil and subsoil on land, as well as inland waters and territorial waters.
- (b) The scope of this Law excludes the refining of Petroleum, its industrial utilization as well as the storage, transport, and distribution of Petroleum Products.

Article 3: Purpose

- (a) This law establishes the regime for the management of Petroleum Operations in the Republic of Iraq, taking into account the existing international treaties between the Republic of Iraq and other countries on Crude Oil transportation.
- (b) The law aims to build upon existing co-operation between the relevant Ministries in the Federal Government administration, in addition to building a base for coordination and discussions among the Federal, Regional, and Producing Governorates' authorities.

Article 4: Definitions

For the purposes of this law, the following terms and expressions shall have the meaning indicated as follows, unless the context in which used requires a different meaning:

1- "Discovery": the first Petroleum encountered in a Reservoir by drilling that is recoverable at the surface by conventional petroleum industry methods;

2- "Commercial Discovery": a Discovery which has been deemed to be commercial for Development purposes by the holder of Exploration and Production;

3- "Region": the Kurdistan Region or any other Region created in Iraq after issuing this law according to the Constitution of Iraq;

4- "Good Oilfield Practices": all those practices related to Petroleum Operations that are generally accepted by the international petroleum industry as good, safe, environmentally friendly, economic and efficient in exploring for and producing Petroleum;

5- "Good Pipeline Practices": all those practices related to transportation by pipelines including the design, construction, commissioning, maintenance, operation and decommissioning of pipelines that are generally accepted in the international petroleum industry as good, safe, environmentally friendly, economic and efficient in transporting Petroleum;

6- "Production": the extraction and disposal of Petroleum;

7- "Petroleum": all Crude Oil or Natural Gas, or other hydrocarbons produced or capable of being produced from Crude Oil, Natural Gas, oil rocks or tar sands;

8- "Development": the activities carried out by the holder of Exploration and Production based on either the Field Development Plan or the Main Pipeline Development Plan, which aim at Production and transportation of Petroleum;

9- "Exploration": the search for Petroleum by geological, geophysical and other means including drilling of exploration and appraisal wells;

10- "Field": an area consisting of a single Reservoir or multiple Reservoirs connected to the same individual geological structural feature or stratigraphic condition. The field name refers to the surface area, although it may refer to both the surface and the underground productive formations.

11- "Field Pipeline": a pipeline, including valve stations, pump stations, compressor stations and associated installations, collecting Crude Oil or Natural Gas from a Field or a group of Fields and delivering it to a transfer point for further transportation;

12- "Pipeline": an entity that consists of a linear pipeline accompanied with other components on the ground level including stations of pumping, valves, compression, and other accompanied accessories for gauging, supervision, telecommunications, remote control, for the purposes of transporting Crude Oil and Natural Gas from the Transfer Point to the Delivery Point.

13- "Main Pipeline": the principal pipeline, including valve stations, pump stations, compressor stations and associated installations built by the Transporter, for the transportation of Crude Oil or Natural Gas from one or several Fields or sources inside or outside Iraq;

14- "Field Development Plan": a scheduled programme and cost estimate specifying the appraisal and Development activities required to develop and produce Petroleum from a specific Field or group of Fields by the holder of an Exploration and Production contract, prepared in accordance with this law and the relevant provisions in the Regulations for Petroleum Operations and the Exploration and Production Contract covering that contract Area;

15- "Main Pipeline Development Plan": a scheme and cost estimate specifying all activities to be carried out by the transporter for the transportation of Petroleum by pipeline inside Iraq and across the territory of neighbouring States, prepared in accordance with this Law, the relevant provisions in the regulations for Petroleum Operations and the Exploration and Production Contract covering that Contract Area and any relevant bilateral agreements;

16- "Decommissioning Plan": a scheme for the closure of Petroleum Operations and restoration of the operating environment including the removal and disposal of all installations;

17- "Iraqi Person": any citizen with Iraqi nationality or any company or institution with legal personality established and registered pursuant to Iraqi legislation, with its headquarters in Iraq and having at least fifty percent (50%) of its share capital held by national citizens or by Iraqi public or private companies or institutions;

18- "Foreign Person": any non-Iraqi citizen or any company or institution with legal personality established and registered pursuant to Iraqi legislation, and having less than fifty percent (50%) of its share capital held by national citizens or by Iraqi public or private companies or institutions;

19- "Petroleum Operations": all or any of the activities related to Exploration, Development, Production, separation and treatment, storage, transportation and sale or delivery of Petroleum at the Delivery Point, Export Point or to the agreed Supply Point inside or outside Iraq, and includes Natural Gas treatment operations and the closure of all concluded activities;

20- "Natural Gas": all hydrocarbons which are in a gaseous state at atmospheric conditions of temperature and pressure, that might be associated or not with liquid hydrocarbons, as well as the residue gas remaining after the extraction of liquid hydrocarbons from the Reservoir;

21- "Associated Natural Gas": Natural Gas which under Reservoir conditions is either in solution with liquid hydrocarbons or as gas-cap gas which overlies and is in contact with Crude Oil;

22- "Non-associated Natural Gas": the free Natural Gas other than Associated Natural Gas;

23- "Operator": the entity designated by the Designated Authority, in consultation with the

holder of Exploration and Production right, to conduct Petroleum Operations on behalf of the latter;

24- "Producing Governorate": any Iraqi Governorate that produces Crude Oil and natural gas continually on rates more than one hundred and fifty thousand (150,000) barrels a day;

25- "Reservoir": a separate accumulation of Petroleum in a geological unit limited by rock characteristics, structural or stratigraphic boundaries, contact surfaces between Petroleum and water in the formation; or a combination of these, so that Petroleum Production from any portion of the accumulation will affect the pressure in the accumulation as a whole;

26- "Contract Area": the area within which the holder of an Exploration and Production right is authorized to explore for, develop and produce Petroleum;

27- "Development and Production Area": a part of the Contract Area which following a Commercial Discovery has been delineated according to the terms and conditions of the Exploration and Production Contract;

28- "Crude Oil": all hydrocarbons, regardless of specific gravity, which are produced and saved from the Field in liquid state at atmospheric pressure and temperature, including asphalt, tar and the liquid hydrocarbons known as distillates or condensates obtained from Natural Gas within the Contract Area;

29- "Transporter": the entity designated by the Council of Ministers to receive Crude Oil or Natural Gas from the holder of Exploration and Production right at the Transfer Point and deliver Crude Oil for export or Natural Gas to the holder of Exploration and Production right at the Delivery Point;

30- "Production Measurement Point": the place(s) at which volumes and qualities of Crude Oil or Natural Gas to be transferred at the Transfer Point are measured;

31- "Transfer Point": the inlet flange(s) of the outgoing Pipelines from the Production Measurement Point, where the Transporter shall receive Crude Oil or Natural Gas from the holder of Exploration and Production right;

32- "Delivery Point": the point(s) of the loading facility at which Crude Oil reaches the inlet flange of the receiving tank-ship or such other point inside or outside Iraq, as agreed to under the Exploration and Production Contract. In the case of Gas it is the flange of the inlet to the receiving installation for Natural Gas;

33- "Supply Point": the place at which Crude Oil or Natural Gas is transferred from a Main Pipeline or a Field Pipeline to a different type of transport, processing or use;

34- "The Ministry": is the Ministry of Oil in the Republic of Iraq and other companies and organizations specifically authorized by it;

35- "Designated Authority": the Ministry of Oil, the Iraq National Oil Company, or the Regional Authority;

36- "Regional Authority": the authorized ministry in the Regional Government;

37. “Federal Oil and Gas Council”: the Council which is formed by the Council of Ministers according to Article 5D of this law to exercise the authorities designated to it according to the provisions of this law; and

38. “Panel of Independent Advisors”: the panel of experts that is appointed by the Federal Oil and Gas Council, according to the provisions of this law.

CHAPTER II: MANAGEMENT OF PETROLEUM RESOURCES

Article 5: Competence of Authorities

(a) The Council of Representatives

First: The Council of Representatives shall enact all Federal legislation on Crude Oil and Natural Gas.

Second: The Council of Representatives shall approve all international petroleum treaties related to Petroleum Operations that Iraq signs with other countries.

B. The Council of Ministers

First: The Council of Ministers shall be responsible for recommending proposed legislation to the Council of Representatives on the development of the country's Petroleum resources.

Second: The Council of Ministers is the competent authority to formulate Federal Petroleum policy and supervise its implementation. It also administers the overall Petroleum Operations including the formulation of Federal policy on all matters within the scope of this law, including Exploration, Production, Transportation, Marketing, the proposal of Petroleum legislation, and the approval of such regulations as may be necessary from time to time on the said matters.

Third: In carrying out the above functions, the Council of Ministers shall ensure that the Federal Oil and Gas Council and the Ministry adopt appropriate and effective mechanisms for consultation and co-ordination with the Regional and Producing Governorate authorities in accordance with the provisions of this law.

C. The Federal Oil and Gas Council

First: To assist the Council of Ministers in creating Petroleum policies and related plans, arranged by the Ministry in coordination with the Regions and Producing Governorates, and to put important legislation for Exploration and Production based on Article 9 of this law the Council of Ministers shall create an entity to be named “the Federal Oil and Gas Council”. The Prime Minister or his nominee shall be the president of this Council, and the Council

shall include:

- 1- the Federal Government's Ministers of Oil, Finance, and Planning;
- 2- the Director of the Iraq Central Bank;
- 3- a Regional government minister representing each Region;
- 4- a representative from each Producing Governorate not included in a Region;
- 5- the Chief Executives of important related petroleum companies including the Iraq National Oil Company and the Oil Marketing Company; and
- 6- Experts in petroleum, finance, and economy, with their number not exceeding three (3), to be appointed for a period not exceeding five (5) years based on a resolution from the Council of ministers.

The formation of the Federal Oil and Gas Council shall take into consideration a fair representation of the basic components of the Iraqi society.

Second: The Federal Oil and Gas Council holds the responsibility of putting Federal Petroleum policies, Exploration plans, Development of Fields and main pipeline plans inside Iraq, and this has the right to approve any major changes in such plans and policies.

Third: The Federal Oil and Gas Council reviews and changes the Exploration and Production contracts that give the rights of Petroleum Operations according to Article 10 of this Law, and what might be relevant to the Republic of Iraq.

Fourth: The Federal Oil and Gas Council approves the types of, and changes to, model Exploration and Production contracts, according to the criteria defined in this Law, and selects appropriate model contract types according to the nature of the Field or Exploration area to provide maximum returns to the people of Iraq.

Fifth: The Federal Oil and Gas Council sets the special instructions for negotiations pertaining to granting rights or signing Development and Production contracts, and setting qualification criteria for companies.

Sixth: To assist the Federal Oil and Gas Council in reviewing Exploration and Production contracts and Petroleum Fields' Development plans, the Council relies on the assistance of a panel called the "Panel of Independent Advisors" that includes oil and gas experts, Iraqis or foreigners. The Council shall decide their number. They should be qualified and have a good reputation and long practical experience in Exploration and Production operations and in Petroleum contracts, and they should be chosen by a unanimous decision of the Council and contracted for a year, which can be extended. The Panel of Independent Advisors gives its recommendations and advice to the Federal Oil and Gas Council on issues related to contracts, Field Development plans, and any other related issues requested by the Federal Oil and Gas Council.

Seventh: The Federal Oil and Gas Council is the competent authority to approve the transfer of rights among holders of Exploration and Production rights and associated amendment of

contracts provided this does not adversely affect the national content including the percentage of national participation.

Eighth: The Federal Oil and Gas Council and the Ministry are responsible for ensuring that Petroleum discovered resources are developed, and produced in an optimal manner and in the best interest of the people in accordance with legislation, regulations and contractual conditions as well as recognised international standards.

Ninth: Members of the Federal Oil and Gas Council can suggest policies and law drafts to the Federal Oil and Gas Council.

Tenth: The Federal Oil and Gas Council may create entities necessary for the implementation of its duties.

Eleventh: The Federal Oil and Gas Council shall adopt an internal procedure to regulate its internal processes to take its decisions by a two-thirds (2/3) majority on setting Petroleum policies, planning, model contracts and guidelines for negotiations of contracts.

D. The Ministry of Oil

First: The Ministry is the competent authority for proposing Federal policy, laws and plans.

Second: The Ministry creates legislation as well as issuing regulations and guidelines to implement the Federal plans.

Third: The Ministry undertakes the necessary monitoring and supervisory actions in co-ordination with the Regional Authorities and Producing Governorates, to ensure their proper, coordinated, and uniform implementation throughout Iraq.

Fourth: On the basis of policies, regulations, guidelines and requirements under Article 5D First, and 5D Second, and in accordance with the overall economic and social policies of the Federal Government, the Ministry shall in consultation with the Regional Authorities and Producing Governorates draw up Federal policies and plans on Exploration, Development and Production on an annual or as needed basis. Such policies and plans shall address both the short term as well as the long term requirements. The geographical distribution and timing of actions and projects shall comprise proposals from the Regions and Governorates in accordance to Annex Nos. 1, 2, 3 and 4. The suggestions for petroleum policies and related plans are to be submitted to the Federal Oil and Gas Council to be reviewed and decided upon.

Fifth: The Ministry is the competent authority to represent the Iraqi Republic in regional and international forums.

Sixth: The Ministry is empowered to negotiate with other countries and organizations multilateral and bilateral treaties related to Oil and Gas, subject to approval in accordance with the Constitution.

Seventh: The Ministry is responsible for monitoring Petroleum Operations to ensure adherence with the laws, regulations, and contracting terms. In addition to its administrative

and technical monitoring duties, the Ministry shall carry out verification of costs and expenditures incurred by the holders of rights to ensure correct and justified cost recoveries for the purpose of determining revenues accruing to the Government. The Ministry shall through inspection, technical audits and other appropriate actions verify conformance with legislation, regulations, contractual terms and internationally recognised practices. The Ministry must coordinate with Regional Governments and Producing Governorates to create specialized entities that carry out the above responsibilities instead of the Ministry.

Eighth: The Ministry has the right to execute contracts related to Oil and Gas supply services other than those covered by Exploration and Development Contracts and according to other applicable legislation.

E. The Iraq National Oil Company

First: The Iraq National Oil Company (INOC), in accordance with Article 6 of this Law, can participate in Exploration and Production operations inside Iraq on behalf of the Government. INOC is obligated to sell its share of Crude Oil to the Oil Marketing Company based on the delivery price that covers the cost in addition to a reasonable profit that would facilitate the company's development in Exploration and Production.

Second: The tasks and scope of operation of INOC shall include carrying out Oil and Gas Exploration, Development, Production, Transportation, Storage, Marketing and sales down to the Delivery Point in accordance with the rights and obligations under this law including the necessary contracts, permits and approvals applicable to all other holders of rights.

Third: INOC shall have the right to participate as a commercial partner in international projects related to the transportation, marketing and sale of Oil and Gas. It may also participate in Exploration and Production contracts outside the Republic of Iraq subject to approval by the Council of Ministers.

Fourth: INOC shall form fully owned Subsidiary companies in selected areas in Iraq based on the location of Fields, size of Petroleum reserves, Production capacity and cost benefit analysis, or based on rearrangements and task management of existing companies based on its work capacity leading to better efficiency based on appropriate bylaws and procedures to be issued for the purpose.

Fifth: INOC shall have the right to establish in association with others affiliated companies or acquire shares in existing companies inside the Republic of Iraq. INOC may also undertake the same outside the Republic of Iraq subject to the approval of the Council of Ministers.

Sixth: INOC shall have the right to acquire tangible and intangible assets belonging to natural or legal entities for the purpose of achieving its objectives and in accordance with the law.

F. Regional Authority

The Regional Authorities shall have the following competencies:

First: The Regional Authorities shall undertake the necessary preparations in order to propose

to the Federal authorities activities and plans on behalf of the Region to be included in the Federal plans for Petroleum Operations. It shall further assist the Federal Authorities in discussions leading to the finalisation of the Federal plan as required.

Second: Carry out the licensing process regarding activities within its respective Region related to Exploration and Production of discovered but undeveloped Fields mentioned in Annex No. 3 according to mechanisms mentioned in Article 9 and based on contracting types prepared by the Federal Oil and Gas Council and in accordance to regulations issued by Federal Oil and Gas Council with qualified international oil companies on the bases put forward by the Federal Oil and Gas Council.

Third: Be represented in discussions carried out by the Federal Oil and Gas Council in accordance with Article 5 of this Law.

Fourth: Collaborate with the Ministry to undertake the monitoring and supervision of Petroleum Operations to ensure adherence to legislation, regulations, guidelines and the specific terms of the relevant Exploration and Production Contracts. Such functions shall be carried out in close coordination and harmonisation with the Ministry to ensure uniform and consistent implementation throughout the Republic of Iraq.

Article 6: Creating the Iraq National Oil Company

A- The Iraq National Oil Company (INOC) is a holding company fully owned by the Iraqi Government and based in Baghdad. INOC is financially and administratively independent and runs on commercial bases.

B- Its scope of operations shall include:

First: Managing and operating existing producing Fields mentioned in Annex No. 1, and both the North Oil Company and the South Oil Company are linked to it.

Second: Participation in the Development and Production of discovered and yet not developed Fields mentioned in Annex No. 2.

Third: Carrying out for Exploration and Production operations in new areas outside its respective areas in adherent to this law through applying for Exploration and Production rights in the new areas on a competitive basis.

Fourth: INOC shall also own, manage and operate the Main Oil and Gas Pipeline Network and the export ports in the Republic of Iraq and enter into contracts with existing and future shippers of Oil and Gas in accordance with this Law. The company continues its responsibilities in operating the Main Oil and Gas Pipeline Network and the export ports in Iraq during a transitional period not exceeding two years until the reorganization of the companies in the Ministry is completed. Then, the Federal Oil and Gas Council shall decide the entity responsible of operating the Main Oil and Gas Pipeline Network and the export ports in Iraq based on a proposal submitted by the Ministry after coordinating with the INOC in adherence to this Law and after the approval of the Council of Ministers.

Fifth: To ensure and develop the coordination and collaboration with Regions and Producing

Governorates, INOC establishes subsidiary companies which it owns in total and which will undertake the Petroleum Operations in the Regions and Producing Governorates. These subsidiary companies will be represented on the INOC board and will be paid for the cost they incur in addition to a specific reasonable profit in order that they can develop and enhance their operations

Sixth: The board of the INOC oversees the INOC and its subsidiary companies; in accordance to the INOC law, the board includes members from the Federal Government, the Regions, and the Producing Governorates.

Article 7: Reorganising the Ministry of Oil

A- The Ministry, pursuant to a law, must create the important institutional and methodology changes to reflect its new responsibilities and duties. In particular, the Ministry shall create a new department as soon as possible specialized in planning, developing, and following up the process of obtaining rights. This new department must consist of members of the Ministry trained and specialized in the bidding process and conduct professional negotiations with oil companies to sign contracts of Exploration and Production rights in accordance with the Ministry's authorities and in accordance with Article 9 of this Law. In addition, this department must include in each and every negotiations representatives from the related Producing Governorates. It is permissible that the negotiation and rights teams include expert advisers with a distinguished international reputation and experience.

B- The law of reorganization of the Ministry of Oil must include the suggested mechanisms that will be the basis of re-structuring the relationship between the Ministry and other related companies and regulating entities in a way that guarantees a full separation between, on the one hand, the Production and oil services companies, and, on the other hand, the regulatory, monitoring, and supervisory departments in the Ministry. In addition, there must be separation yet integration between the producing units and the services departments in a way that guarantees increasing productivity and maximizing profits.

Article 8: Field Development and Oil and Gas Exploration

A- Regarding the priorities aimed at restoring and increasing Production related to existing Fields, INOC is the Operator and is authorized to directly sign services contracts or administrative contracts with appropriate oil or services companies, in case this was needed to accelerate reaching to the goals stated in this Article.

B- The Ministry, and after coordinating with Regions and Producing Governorates, and in adherence to Article 9 of this Law, is to propose to the Federal Oil and Gas Council the best methods to develop the discovered but yet not developed Fields.

C- The Ministry prepares model Exploration and Production contracts to be approved by the Federal Oil and Gas Council and to be appended to this law. These model contracts must guarantee the best levels of coordination between the Oil Ministry, INOC, and the Regions each according to their specific responsibility in relation to both this Law and the international oil companies.

D- Utmost effort must be put into ensuring speedy and efficient Development of the Fields discovered but partially or entirely not yet developed when this law is enacted, and it is permissible to develop these Fields in collaboration with reputable oil companies that have the efficient financial, administrative, technical, operational capabilities according to the contracting terms and the regulations issued by the Federal Oil and Gas Council.

E- The Federal Oil and Gas Council, the Oil Ministry, INOC, and the Regional Authorities have to carry out an exploratory program in Iraq to assess the Oil and Gas resources and to compensate Production, and to add new reserves.

F- The Ministry must provide the Federal Oil and Gas Council with a comprehensive proposal for Oil and Gas Exploration throughout the Republic of Iraq in coordination with the Regions and the Producing Governorates, sorting out the areas according to their Oil and Gas potential, implemented within a short time table in order to guarantee increasing reserves and continuing Production and Development.

Article 9: Grant of Rights

A- The rights for conducting Petroleum Operations shall be granted on the basis of an Exploration and Production contract. The contract shall be entered between the Ministry (or the Regional Authority) and an Iraqi or Foreign Person, natural or legal, which has demonstrated to the Ministry or the Regional Authority the technical competence and financial capability that are adequate for the efficient conduct of Petroleum Operations according to the guidelines of the Federal Oil and Gas Council and as mentioned in Article 5C Fifth, and in accordance with the mechanisms of negotiations and contracting stated in Article 10 of this Law.

B- The licensing process shall be based on transparent and accountable tendering and shall take into account recognised practices by the international petroleum industry. It shall adhere to the following principles and procedures:

First: Competitive licensing rounds based on clearly defined terms and terms of application as well as the criteria to be used in the selection of successful candidates.

Second: The contractual terms offered to applicants shall be specified in model contracts accompanying the letter of invitation.

Third: The form and terms of the model contract shall take account of the specific characteristics and requirements of the individual area, Field or prospect being offered, including whether the resources are discovered or not, the risks and potential rewards associated with the investments under consideration, and the technological and operational challenges presented.

Fourth: All model contracts shall be formulated to honour the following objectives and criteria:

1- National control;

2- Ownership of the resources;

3- Optimum economic return to the country;

4- An appropriate return on investment to the investor; and

5- Reasonable incentives to the investor for ensuring solutions which are optimal to the country in the long-term related to

- a- improved and enhanced recovery,
- b- technology transfer,
- c- training and development of Iraqi personnel,
- d- optimal utilisation of the infrastructure, and
- e- environmentally friendly solutions and plans.

Fifth: The Model Contracts may be based upon Service Contract, Field Development and Production Contract, or Risk Exploration Contract provided they are adapted to best meet the objectives and criteria under Article 9B above which serve the best interest of the Republic of Iraq.

Sixth: Only pre-qualified companies by the Ministry or the Regional Authority shall be considered in any licensing round. The criteria for prequalification shall be specified in the invitation to bidding according to the regulation and instructions issued by the Federal Oil and Gas Council.

Seventh: Evaluation of pre-qualified applicants shall aim at establishing a short list of successful candidates for negotiations.

Eighth: The selection and ranking of successful applicants shall be on the basis of the quality and relevance of the proposed work plan and the anticipated economic return to Iraq.

Ninth: The overall allocation of Exploration and Production rights throughout the Republic of Iraq shall aim at achieving variety among oil companies and Operators with different background, expertise, experience and approach so as to enhance efficiency through positive competition, benchmarking of performance and transparency. The possibility of using consortia of selected companies, particularly in large Fields, should be considered.

Tenth: Not later than two (2) months after the endorsement of approval of Exploration and Production contracts, the contract must be published.

C- The granting of rights for the activities referred to in Article 9A shall always respect national interests, for example those related to defense, navigation, research and development, conservation, health and safety and a high level of environmental protection.

D- The Designated Authority is to regulate the form and manner in which rights are granted under this Article in a manner consistent with this law and the regulations of the Federal Oil and Gas Council.

Article 10: Mechanisms of Negotiations and Contracting

A- The Ministry, the INOC, or the Regional Authority, based on their respective specialties and responsibilities, and after completing initial procedures for granting rights as indicated in Article 9 there will be an initial signing of Exploration and Production contracts with the selected contractor.

B- The Exploration and Production contracts mentioned in Article 10A must include the following: “the contract is valid with no objection from the Federal Oil and Gas Council according to the provisions of the Oil and Gas Law No. ____ of 2007 including the contractual guidelines on negotiations and model contracts and any amendments to these that might be issued by the Federal Oil and Gas Council”.

C- The initial contract mentioned in Article 10B must be submitted to the Federal Oil and Gas Council within thirty (30) days from the day of the initial signing or it is considered cancelled.

D- The Federal Oil and Gas Council must adhere to the following steps when deciding on the contracts submitted to it by Ministry, INOC, or the Regional Authority:

First: Submit the initial contract stated in Article 10C, if the Federal Oil and Gas Council finds it advisable, to the Panel of Independent Advisors for analysis on the extent of its compliance with the model contracts approved by the Federal Oil and Gas Council and its regulations pertaining to Exploration and Production rights in accordance with Article 9.

Second: In case the initial contract has serious discrepancies as compared to the model contracts and guidelines issued by the Federal Oil and Gas Council, the Federal Oil and Gas Council will make a decision on the contract relying on the opinion of the Panel of Independent Advisors, which decision shall require a two-thirds (2/3) majority of the members in attendance.

Third: The Ministry, INOC, or the Regional Authority must be informed of the objection of the initial contract in accordance to the legal reasons within sixty (60) days of receipt of the initial contract by the Federal Oil and Gas Council, and the contract remains valid in case no objection is made by the Federal Oil and Gas Council within the stated period. In case the Federal Oil and Gas Council cannot hold a meeting within sixty (60) days of receiving the initial contract due to extraordinary reasons, the Council must take a decision regarding the contract within forty five (45) days using all the possible means. The contract remains valid in case no decision is made by the Federal Oil and Gas Council within the stated period.

C- The Ministry, INOC, or the Regional Authority shall address the reasons for objection issued by the Federal Oil and Gas Council by amending the initial contract and submitting it again according to the steps mentioned in this Article.

Article 11: Petroleum Revenues

A- According to the Constitution of Iraq (Articles 106, 111, 112 and 121(3)) regarding the ownership of Oil and Gas resources, the distribution of its revenues, and the monitoring of federal revenue allocation, the Council of Ministers must submit a draft federal revenue law to the Council of Representatives regulating these matters in adherence to the sections of this Article.

B- The oil revenues include all the government revenues from Oil and Gas, royalties, signing bonuses and production bonuses of Petroleum contracts with foreign or local companies.

C- The revenues mentioned in Article 11B must be deposited in an account called “the Oil Revenue Fund” established for this purpose, and the federal revenue law shall regulate the Oil Revenue Fund and ensure its fair distribution according to the Constitution.

D- Another fund must be created under the name “The Future Fund”, and a certain portion of the Oil Revenue Fund must be deposited in the Future Fund and be regulated by the law.

Article 12: State Participation

A- The Republic of Iraq shall aim at achieving real national participation in the management and Development of its Petroleum resources in adherence to Article 111 of the Constitution.

B- The Exploration and Production rights with regard to existing producing Fields are hereby given to INOC, and also the granting of additional Exploration and Production regarding not yet developed Fields to be implemented by the Federal Oil and Gas Council in accordance with Article 6 and Annex No. 2 of this Law.

C- The Main Pipeline network inside Iraqi territories is hereby assigned to INOC or any specialized company created for this purpose. The formal procedure for this assignment and necessary approvals shall be established by the Federal Oil and Gas Council in accordance with Article 21 this Law.

D- The Republic of Iraq reserves the right to participate in Petroleum Operations in any phase of Petroleum Operations on terms and conditions that are established by contract.

E- The Federal Oil and Gas Council is authorised to designate INOC to exercise the Republic of Iraq's participation share in accordance with Article 15E of this law.

CHAPTER III: FIELD EXPLORATION AND FIELD DEVELOPMENT OPERATIONS

Article 13: Exploration and Production Contracts

A- An Exploration and Production Contract shall give the holder an exclusive right to conduct Petroleum Exploration and Production in the Contract Area. In addition, the contract shall give the holder the right of transportation in accordance with Article 21A of this Law.

B- Except if additional time is needed to complete the operations to assess a Discovery, the exclusive Exploration and Production right shall be granted as follows:

1- A First Period shall be a maximum of four (4) years.

2- Subject to having fulfilled all commitments by the holder, the Designated Authority may grant a Second Period of two (2) years provided however that a substantial work program is committed to under this period.

C- A Third Period of Exploration can for special considerations of continuity be granted by the Designated Authority provided however that such extension is justified by the quality and substance of the work program and does not exceed two (2) years.

D- All extensions shall be subject to the provisions concerning the relinquishment of Contract Areas in adherent to the Petroleum regulations.

E- In the event of a Discovery, the exclusive Exploration and Production right may be retained by the holder for the purposes of completing the operations initiated within a specified area to assess or determine the commercial value of a Discovery for an additional period of two (2) years or, in the case of a non-associated Natural Gas Discovery, for an additional period not to exceed four (4) years.

F- On the basis of a Field Development Plan prepared and approved in accordance with this Law and the relevant contract, INOC and other holders of an Exploration and Production right may retain the exclusive right to develop and produce Petroleum within the limits of a Development and Production Area for a period to be determined by the Federal Oil and Gas Council varying from fifteen (15) to twenty (20) years, not exceeding twenty (20) years dating from the date of approval of the Field Development Plan, depending on considerations related to optimal oil recovery and utilisation of existing infrastructure. In cases which for technical and economic considerations warrant longer Production period, the Federal Oil and Gas Council, on newly negotiated terms, has the authority to grant an extension not exceeding five (5) years. The remaining acreage outside the Development and Production Area shall be relinquished at the end of the Exploration and Production right.

G- The appointment of an Operator shall be approved by the Designated Authority, and the procedures for such appointment are stated in the initial Contract, and according to the guidelines issued by the Federal Oil and Gas Council, and the Operator should be named in the initial Contract.

Article 14: Obligations of the Holders of Exploration and Production Rights

A holder of Exploration and Production right is obliged, *mutatis mutandis*, to:

A- Conduct Petroleum Operations in accordance with the terms of this law, the Regulations for Petroleum Operations as well as other applicable legislation and Good Oil Field Practices;

B- Promptly report any Discovery within the Contract Area to the Designated Authority;

C- Conduct the necessary delineation and evaluation of the Discovery with a view to determining its commercial potential and keep the Designated Authority fully informed of progress and results;

D- In the event of a Commercial Discovery, prepare and submit to the Designated Authority, in accordance with the Regulations for Petroleum Operations, a Field Development Plan for the Discovery:

E- Prepare and submit a revised Field Development Plan for any material amendment to the original Plan for approval by the Designated Authority;

F- Implement the Field Development Plan or the revisions thereto once these have been approved by the Designated Authority;

G- Submit a Decommissioning Plan to the Designated Authority, not later than two (2) years before the planned termination of Production;

H- Compensate the Injured parties for any losses or damages resulting from the conduct of the Petroleum Operations as provided by law;

I- When the national interest so requires, give preference to the Designated Authority in the acquisition of Petroleum produced in the Contract Area, and access to pipeline transportation, in accordance with terms and conditions to be agreed upon with the Designated Authority;

J- Provide the greatest possible support for required research and development activities in connection with Petroleum Operations and endeavour to carry out as much of these activities by Iraqi institutions;

K- Collect, organise and maintain in good condition usable data from all phases and on all aspects of Petroleum Operations in accordance with this Law and with Petroleum regulations, and

L- At no cost, supply the Ministry and affiliated companies, with, all data collected and assembled from Petroleum Operations, in accordance with Article 19 of this Law.

Article 15: Competence Building and Local Content

A- The Republic of Iraq aims at the development of a competent and effective Iraqi private sector capable of substantial participation in Petroleum Operations including the acquisition, alone or together with international companies, of Exploration and Production rights. Such development shall however adhere to the objectives of professional competence in accordance with this Law. Towards this end holders of Exploration rights are encouraged to pursue cooperation and association with serious and qualified Iraqi private initiatives.

B- INOC and other holders of Exploration and Production rights shall give preference to the purchase of Iraqi products and services whenever they are competitive in terms of price, comparable in terms of quality and available on a timely basis in the quantity required.

C- INOC and other holders of Exploration and Production rights shall to the maximum reasonable extent undertake to employ Iraqi citizens having appropriate qualifications and shall undertake to train and prepare potential candidates towards this objective.

D- INOC and other holders of Exploration and Production rights shall maximise to the greatest reasonable extent, training and technology transfer opportunities for Iraqi nationals, at all levels of Petroleum Operations including management.

E- INOC and other holders of Exploration and Production rights are required to diligently seek and develop associations, affiliations, joint ventures and other forms of partnership and or co-operation in order to promote the rapid growth of an Iraqi private sector capable of assisting and enhancing Petroleum Operations to the mutual benefit of the said holders and the nation.

Article 16: Unitisation

A- A Petroleum Discovery which is located partly in one Contract Area and partly in another Contract Area shall be developed and operated jointly pursuant to a unitization agreement which shall be submitted for approval by the Federal Oil and Gas Council to be approved. Should the right-holders fail to reach agreement on the modalities of unitisation, the Federal Oil and Gas Council has the right to decide on the terms six (6) months after serving notice to the parties to this effect.

B- A Petroleum Discovery which extends from areas authorized for Production into areas not authorized for Production shall be developed only after consultation with the Federal Oil and Gas Council about the measures necessary to protect the interests of the Republic of Iraq.

C- The Council of Ministers shall adopt the necessary measures to protect the interests of the Republic of Iraq in Petroleum Discoveries extending beyond the borders of the Republic. In such cases efforts shall be made to seek joint solutions with the said neighbouring countries.

Article 17: Conservation

A- The extraction of Petroleum resources shall aim at the avoidance of waste, including preventing leakages from Pipelines, and the optimal maintenance of energy in the Reservoir in accordance with Good Oilfield Practices and Good Pipeline Practices.

B- INOC and other holders of an Exploration and Production right shall diligently apply the latest technologies and oilfield practices that lead to optimum recovery from the individual Reservoir or a group of Reservoirs that are targeted under the Field Development Plan(s).

C- The Field Development Plan shall be based on thorough investigations of alternative extraction strategies in order to select a solution that combines the highest level of Petroleum recovery with acceptably high levels of Production and as low cost as possible.

D- Subsequent to the approval of a Field Development Plan, INOC and other holders of Exploration and Production right shall continue to improve Reservoir understanding through optimal data collection and Reservoir monitoring and shall accordingly seek to identify and implement actions that would improve Petroleum recovery.

Article 18: Access to Main Pipelines and Field Pipelines

A- The Main Pipelines are the property of the Federal Government.

B- INOC as the Transporter with respect to Main Pipelines and the holder of Exploration and Production right under Article 18A with respect to Field Pipelines have the obligation to transport, without any discrimination and on reasonable commercial terms, the Petroleum of third parties, provided in general that:

- 1- capacity is available in the Field Pipeline;
- 2- there are no insurmountable technical problems that prevent such utilisation of the Field Pipeline.

C- Details shall be provided for the modalities of the system of access by third parties to Field Pipelines in regulations to be made by the Ministry in coordination with the Regions and Producing Governorates.

D- Whenever there is a dispute concerning the commercially reasonable terms for the transport of Petroleum in a Main Pipeline or a Field Pipeline for Crude Oil or for Natural Gas, the availability of uncommitted capacity in the pipeline in question or a proposed increase of its capacity, the dispute shall be first referred to the Ministry for resolution, the Ministry must work in coordination with Regions and Producing Governorates. Thereafter, resolution shall be sought according to the procedures set out in Article 30 of this Law.

Article 19: Ownership of Data

A- All data obtained pursuant to any Contract provided for under this Law is the property of the Iraqi Government, and shall not be published, reproduced or exported without the prior approval of the Ministry.

B- The terms and conditions for the exercise of rights in respect of primary, differentiated, processes, interpreted and analysed data related to Oil and Gas in Iraq including but not limited to geological and geophysical reports, engineering data, samples, logs and well surveys, shall be established in data supply obligations in the relevant contract and by regulations.

C- The Ministry submits copies of the current available Petroleum data to the INOC and to the Regions, and the INOC and Regions must take the responsibility of supplying the Ministry with new data and updates resulted from the Petroleum Operations implemented by them in a continues and periodic fashion.

D- Anyone who has the information in his possession or sells, buys, transfers, receives, deals with any of the information or data mentioned in this article shall be considered in violation, unless the contract terms states otherwise, and shall be prosecuted under the Iraqi criminal and civil law. No one has the right to own such data and information.

E- Without prejudice to section D of this Article, it is allowed for someone to have a permission from the Designated Authorities to own, buy, sell, transfer, or receive data and information indicated in section F of this Article under the condition of supplying the Designated Authorities with copies of the data, and his permission should not be revoked without logical reasons.

F- Old Data, for the purposes of this law, mean all primary, differentiated, processes, interpreted and analysed data and information related to Oil and Gas in the Republic of Iraq indicated in section B of this Article.

Article 20: Restrictions on Production Levels

In the event that, for national policy considerations, there is a need to introduce limitations on the national level of Petroleum Production, such limitations shall be applied in a fair and equitable manner and on a pro-rata basis for each Contract Area on the basis of approved Field Development Plans.

CHAPTER IV: TRANSPORTATION

Article 21: Main Pipelines

A- INOC, or the specialized company created by the Ministry, shall own all Main Pipelines. Such Pipelines shall be constructed and operated by the INOC subsidiary representing Transporter for the purpose of transporting Crude Oil or Natural Gas to specified Delivery Points for Crude Oil and Natural Gas respectively. The Ministry in co-ordination with INOC and in consultation with Operators shall ensure that the Main Pipeline network is optimally designed, operated and maintained so as to serve the overall requirement for Petroleum transportation in the Republic of Iraq.

B- The construction and operation of Main Pipeline or any major modification thereof shall be subject to approval by the Ministry on the basis of a Main Pipeline Development Plan outlining the proposed work. If the proposed work is undertaken by the INOC subsidiary company specialized company representing Transporter in association with Iraqi or Foreign Persons, the agreement between the parties shall accompany the Main Pipeline Development Plan. Such agreement shall outline the terms of financing, implementation, and the modalities of utilisation and operation of the new or modified Main Pipeline.

C- INOC and other holders of Exploration and Production right shall deliver Crude Oil and Natural Gas to the Main Pipeline at appropriate Transfer Point(s) In accordance with Article 13A. The transportation of Crude Oil or Natural Gas beyond the Transfer Point shall be carried out by the Designated Authority representing Transporter on the basis of a contract.

D- All the above activities shall be carried out in accordance with Good Pipeline Practices.

E- The co-ordination of tasks related to the transport of Crude Oil through new Pipelines outside the Iraqi territories is the responsibility of the Ministry. The follow up of operations subsequent to the approval of the necessary bilateral agreements shall be the responsibility of INOC in accordance with the said bilateral agreements and any specific instructions from the Ministry.

Article 22: Rights and Obligations Regarding Pipelines

A- The Exploration and Production Contract shall provide a non-exclusive right to access Main Pipelines on reasonable commercial terms. It shall also confer the right to construct and operate Field Pipelines to deliver Crude Oil or Natural Gas from the Contract Area to the Transfer Point, for further transportation through the Main Pipeline to the Delivery Point.

B- INOC and of her holders of Exploration and Production right shall implement the Field Development Plan and construct Field Pipelines connected to the Main Pipeline or the modifications thereto following approval of such plans have been approved by the Ministry.

C- INOC and other holders of Exploration and Production right shall prepare and submit a revised Field Pipeline Development Plan for any material amendment to the original Plan for approval by the Ministry.

D- INOC and other holders of Exploration and Production right shall negotiate with INOC or the specialized company as the Transporter for the right to use the Main Pipeline. The Ministry Is to be kept informed on the progress of these negotiations.

E- INOC and other holders of Exploration and Production right shall submit a Decommissioning Plan to the Ministry, not later than two (2) years before the planned termination of Production.

CHAPTER V: GAS

Article 23: Exploitation of Gas

A- Natural Gas is a valuable Petroleum resource of increasing importance in the economic development of the Republic of Iraq and the Middle East. It shall be utilised to generate additional revenues through optimal utilisation partly through improving oil recoveries by gas injection into suitable Reservoirs; through utilisation for power generation, utilisation in petrochemical and chemical industries, utilisation for domestic purposes, utilisation in Industrial processes, utilisation for export and/or through the replacement of fluid fuels. The latter will have the additional benefit of reducing the impact on the environment while at the same time maximising revenue by freeing more crude and fuel oil for export.

B- INOC and other holders of Exploration and Production rights shall diligently pursue all alternatives for optimal utilisation of surplus volumes of produced gases in accordance with the objectives of Article 23A above. Should they fail to identify commercial utilisation, the volumes of surplus Natural Gas shall be offered after treatment to Government at no cost at the Field's outlet. The cost incurred by the holder of Exploration and Production rights shall be recoverable under the respective contract.

Article 24: Associated Gas

A- INOC and other holders of Exploration and Production right are entitled to use, free of charge, the quantity of Associated Natural Gas necessary for Petroleum Operations.

B- INOC and other holders of Exploration and Production rights shall in the Field Development Plan propose optimal plans for the utilization or disposal of Associated Natural Gas.

C- All Associated Natural Gas produced from a Reservoir which is neither used in Petroleum Operations, utilised or re-injected in the Field, shall be offered for delivery free of charge to the Ministry in accordance with Article 23B above.

Article 25: Flaring of Gas

A- Flaring of Natural Gas is only permitted for the purposes of commissioning, testing of installations, safety precautions or while awaiting the completion of transportation facilities provided the flared volumes are strictly kept to a minimum and the Ministry is promptly notified.

B- The flaring of Associated Natural Gas shall be kept to a minimum. It shall not be permitted beyond a maximum period of one (1) year during which measures shall be completed to utilise the gas or deliver it to a nominated government entity in accordance with Article 23B above.

Article 26: Non-associated Gas

A- The Development and Production of Natural Gas or liquid components thereof from a Non-associated Natural Gas Discovery shall be subject to the approval of the Ministry of a Field Development Plan supported by signed agreement(s) for the sale of Natural Gas from the Discovery and approved by the Council of Ministers. In the event that only liquid Petroleum is to be produced, a scheme for the re-injection of Natural Gas or other acceptable schemes for its disposal shall be presented in the Field Development Plan.

B- The flaring of Non-associated Natural Gas may only be permitted in accordance with Article 25B.

CHAPTER VI: REGULATORY MATTERS

Article 27: Regulations for Petroleum Operations

The Ministry, in coordination and collaboration with the INOC, Regions, and Producing Governorates, shall approve regulations for Petroleum Operations and submit them to the Federal Oil and Gas Council to be approved.

Article 28: Use and Benefit of Land and Rights of Way

A- Land use and benefit for the purpose of conducting Petroleum Operations is regulated by the legislation on land use and benefit, without prejudice to the following provisions.

B- For the purpose of conducting Petroleum Operations, the duration of the right of use and benefit of the land shall be the same as the duration of the Contract.

C- The land where installations are located, and a strip of land, to be defined by regulation, surrounding those Installations, are considered to be a zone of partial protection in accordance with the legislation on land use and benefit.

D- INOC and other holders of a right to conduct Petroleum Operations who, by virtue of the exercise of Petroleum Operation rights in the Contract Area, causes damage to crops, soils,

building and improvements or requires the relocation of the legal users or occupants of the land within the respective Contract Area, has the obligation to compensate the holders of title to the assets and the persons relocated.

E- Subject to the payment of the compensation that are due, the holder of the right to conduct Petroleum Operations may require the right of way in accordance with the legislation in force, in order to have access to the locations where Petroleum Operations are conducted.

F- In cases where lands and rights of way are owned by an Iraqi Person, the land shall be either rented or bought by the relevant state owned company, according to the applicable laws and regulations.

Article 29: Access to Zones Subject to Maritime Jurisdiction

The access to Petroleum Operations sites located in interior waters, the territorial waters, and other zones subject to maritime jurisdiction is regulated by law, and any relevant international agreements.

Article 30: Inspection

A- The Designated Authority, or its authorized representatives, has the right to inspect sites, including buildings and installations, where Petroleum Operations are being conducted, as well as all assets, records and data kept by INOC and other holders of Exploration and Production right relating to Petroleum Operations.

B- The Designated Authority may designate an independent entity or a commission created for this purpose, to any out the inspection.

C- The terms and conditions pursuant to which the Inspection is carried out shall be established by regulations.

D- In carrying out its inspections, the Designated Authority shall not unreasonably interfere with the Petroleum Operations.

Article 31: Environmental Protection and Safety

In addition to carrying out their Operations in accordance with Good Oil Field Practices, INOC and other holders of Exploration and Production rights shall conduct Petroleum Operations in accordance with environmental and other applicable legislation of the Republic of Iraq to prevent pollution of air, lands and waters. They shall also conduct Petroleum Operations so as to comply with the environmental management standards of the ISO 14000 series, as amended. In general, they shall carry out Petroleum Operations in order to:

1- Ensure that there is no ecological damage or destruction caused by Petroleum Operations, but where unavoidable, ensure that measures for protection of the environment are in accordance with internationally acceptable standards. For this purpose, INOC and other holders of a right shall prepare and submit to the relevant authorities for approval an

environmental impact assessment, including environmental impact mitigation measures, for each major operation in the Contract Area;

2- Notify the Ministry and other specified authorities immediately in the event of an emergency or accident affecting the environment;

3- Control the flow and prevent the escape or loss of Petroleum discovered or produced within the Contract Area;

4- Avoid damage to Petroleum Reservoirs;

5- Avoid destruction to land, the water table, trees, crops, buildings or other Infrastructure and goods;

6- Clean up the sites after the closure of Petroleum Operations and comply with the environmental resolution requirements;

7- Ensure the health and safety of personnel in the planning and conduct of Petroleum Operations, and take preventive measures if their physical safety would be at risk;

8- Report to the competent entity within the government on the amounts of operational and accidental discharge, leakage and waste resulting from Petroleum Operations, and

9- Provide compensation for damages to State and private property in accordance with the applicable laws and regulations.

B- INOC and other holders of a right under this Law shall act in a secure and effective manner when conducting Petroleum Operations. In order to guarantee the disposal of polluted water and waste oil in accordance with approved methods, as well as the safe plugging of all boreholes and wells before these are abandoned.

Article 32: Transfer of Ownership and Decommissioning

A- On completion of the Exploration and Production Contract or Main Pipeline Contract the ownership of all works and facilities shall be transferred to the Designated Entity. The properties shall be transferred to the relevant federal state enterprise or to the Ministry in actual operating condition and in a satisfactory state of work at the time of the transfer.

B- All site relinquishment and related costs that become due at the time of transfer with regards to any works and facilities shall be payable by INOC and other holders of Exploration and Production right according to a Decommissioning Plan, submitted in accordance with Article 9F [sic] of this Law.

C- An outline Decommissioning Plan shall be included in the Field Development Plan submitted by the Contractor to the Council of Ministers.

CHAPTER VII: FISCAL REGIME

Article 33: Taxation

A- INOC and its subsidiary companies as well as other Individual and collective persons who are holders of a right to conduct Petroleum Operations are, subject to the payment of the following fiscal impositions:

- 1- Royalty;
- 2- Property Contribution and the Property Transfer Tax (SISA) as established in accordance with the law;
- 3- municipal and local taxes due; and
- 4- the taxes provided for in the Income Tax Code.

B- The appropriate monitoring authority is authorised to establish a law regulating methods of taxation, the rates, tax exemptions applicable to Petroleum Exploration, Development and Production activities.

C- The Commission of Financial Audit has the authority to audit the income derived from Petroleum Operations.

D- A Foreign Person may repatriate its exports proceeds in accordance with the foreign exchange regulations in force at the time. It may freely transfer shares in accordance with Article 5C Seven.

Article 34 - Royalty

A- INOC and other holders of an Exploration and Production right shall pay a royalty on Petroleum produced from the Development and Production Area, at the rate of twelve point five percent (12.5%) of Gross Production measured at the entry flange to the Main Pipeline.

B- The collection of Royalty shall be in kind or in cash at the option of the Ministry.

C- Where the royalty is paid in cash, it shall be calculated according to the prevailing Market Price in accordance with Petroleum Regulations.

Article 35: Maintaining Records

A- Holders of Exploration and Production right can transfer any net profits from Petroleum Operations to outside Iraq after paying taxes and fees owed.

B- INOC and other holders of Exploration and Production right shall maintain proper records and books in both Arabic and English of accounts in accordance with the provisions of the Contract enabling the relevant calculations to be performed, and in compliance with the requirements of the laws relevant to the taxes referred to in Article 33. INOC and other holders shall prepare and submit to the specialised entity annually, or quarterly, a statement of accounts.

CHAPTER VIII: MISCELLANEOUS PROVISIONS

Article 36: Transparency

A- All activities related to Oil and Gas, while occurring, have to be transparent and responsible. To ensure this transparency and give the Iraqi people the chance to hold governmental entities responsible for their activities and actions, different sorts of information must be published. This information includes but is not limited to the following:

1- All the revenues, payments and receipts that are delivered to any governmental unit, or entity run by the government, from activities related to Oil or Gas. This includes but is not limited to the income of selling Oil, Gas and their products, signing and production rewards, royalties, revenue of selling assets, taxes, fees, customs and taxes, public services fees, share of profits from oil and gas cartels, commercial activates related to Oil and Gas (and their products) contracts, oil and gas revenue investment yield, and any other payments resulted from or related to commercial Production of hydrocarbons;

2- The revenues of oil and gas usage and distribution, including distribution among governmental entities;

3- All of the financially significant contracts related to Exploration, Development, processing and marketing of oil and gas resources in Iraq;

4- All of the financially significant contracts related to importing or exporting services and goods for the Oil and Gas industry or by any governmental unit or entity controlled by the government;

5- The annual report of the Federal Oil and Gas Council;

6- The annual and quarterly reports of the INOC, the subsidiary companies, and the entities controlled by the government including the budgets audited according to international accounting standards;

7- All other information necessary for understanding the operations and activities carried out by any governmental unit or entities controlled by the government related to oil and gas;

8- Any information that must be declared in accordance to laws and regulations;

9- Any condition or secret agreement aimed at blocking or trying to block access to documents and information that must be made public in accordance to this Article in considered in violation of the law and is considered void.

B- Publicizing the information stated in Section A of this Article does not extend to and has no effect on the Oil and Gas industry royalties that must be kept secret in accordance to the national or international laws except for financial information.

C- Any person or governmental entity obligated to publish information mentioned in Section A of this Article shall publish it in publicly accessible media.

D- The Ministry shall issue the regulations needed for implementing the laws of this Section including the legal basis covering what should be included and an exempted as mentioned in Section B of this Article.

Article 37: Implementing Anti-corruption Laws

A- Any contractual right shall be considered void if it is in violation of any of the laws of the Republic of Iraq, particularly the Iraqi anti-corruption laws.

B- The authorized person's violation of the Iraqi anti-corruption may lead to the cancellation of his rights contract, in whole or in part. Each rights contract shall include terms indicating these conditions.

C- Any person who violates the Iraqi anti-corruption laws may be prosecuted under the criminal law active in Iraq.

Article 38: Competitive Public Bidding

A- All oil companies working in the Republic of Iraq shall submit public bids on a competitive basis in order to offer any goods or services, and this should occur in accordance to the general bidding laws and the Federal Oil and Gas Council shall determine the maximum amount that can be excluded from the bidding process.

B- Bidding by the holders of Petroleum Operations rights stated in this Law shall be competitive and in accordance with the Petroleum laws and with the special terms of the related contracts.

C- All public bidding must be allowed to the public within a reasonable timeframe, must declare thereafter the reasons for selecting the chosen bid, the complete results of the bidding call must also be published, and competitors must be given the opportunity to raise objections.

D- Any contract that is signed in violation of the regulations set by this Article shall be considered void and inactive.

Article 39: Resolution of Disputes

A- Any disputes arising from the interpretation and application of this Law, the Regulations for Petroleum Operations and the terms and conditions of contracts shall in the first instance be attempted to be resolved in good faith by means of negotiation among the parties.

B- If the dispute cannot be resolved by agreement, the matter shall be referred to the Minister to resolve through discussions with senior officers of the holders of rights concerned. Failing resolution through these discussions the matter of dispute may be submitted to arbitration or to the competent judicial authority.

C- If the dispute relates to a technical, engineering, operational or accounting matter relative to Petroleum Operations and is of a kind that is readily subject to resolution by an expert in the relevant field, the parties may refer the dispute to an independent technical expert for a recommendation as to the resolution of the dispute. If a party does not accept the recommendation of the expert, it may initiate arbitration proceedings according to Article 39D below.

D- Arbitration between the State of Iraq and foreign investors shall be conducted as follows:

1. In accordance with the Rules of Procedure for Arbitration Proceedings of Paris, Geneva or Cairo for the Settlement of Disputes between States and Nationals of other States and based on the Iraqi law.
2. The rules of such other international instances of recognised standing as agreed by the parties to the contracts referred to in this law, provided that the parties have expressly defined in the contract the conditions for Implementation including the method for the designation of the arbitrators and the time limit within which the decision must be made.

Article 40: Existing Contracts

A. The Designated Authority in the Kurdistan Region will take responsibility to review all existing Exploration and Production contracts with any entity before this law enters into force to ensure harmony with the objectives and general provisions of this law to obtain maximum economic returns to the people of Iraq, taking into consideration the prevailing circumstances at the time at which those contracts were agreed, and in a period not exceeding three (3) months from the date of entry into force of this law. The Panel of Independent Advisors will take responsibility to assess the contracts referred to in this Article, and their opinion shall be binding in relation to these contracts.

B. Except for the provision of paragraph A above, the Ministry shall review all the existing Exploration and Production contracts with any entity before this law enters into force to ensure harmony with the objectives and general provisions of this Law. These contracts must then be submitted to the Federal Oil and Gas Council, to ensure and to validate the maximum economic return for the people of Iraq, in a period not exceeding three (3) months from the time the Federal Oil and Gas Council issues model contracts and related regulations. The Federal Oil and Gas Council shall take a decision on the accuracy of the review and validity of the contracts.

Article 41: Changes in Administrative Borders

In the case of changes in borders of Regions or Producing Governorates, or in the case of establishing new Regions, the new affected places shall be dealt with in accordance to the provisions of this Law regarding to granting rights and Petroleum Operations.

Article 42: Relationship to Existing Legislation

Any Article in prejudice to this Law shall cease to be effective on adoption of this Law.

Article 43: Entry into Force

This Law enters into force thirty (30) days after publication in the Official Gazette.