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Iraq

Matthew Culver, Bob Palmer and Hadeel Hassan

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General

- 1 Describe, in general terms, the key commercial aspects of the oil sector in your country.

Historic background

Iraq's oil industry began in the 1920s with exploration and production by a number of companies acting through the Turkish Petroleum Company (later the Iraq Petroleum Company). The Iraqi National Oil Company (INOC) was formed in 1966 and the nationalisation of oil was completed in 1975. The Iraqi oil industry had been plagued by instability, wars and conflict, including the Iraq-Iran war, the first and second Gulf Wars and international sanctions such as the UN embargo following the invasion of Kuwait, but is now in a period of new exploration, redevelopment and improvement.

Reserves and production

Iraq has the world's fifth-largest proven oil reserves (after Venezuela, Saudi Arabia, Canada and Iran). Iraq revised its estimate of proven oil reserves from 115 billion barrels in 2011 to 141 billion barrels as of 1 January 2013. In April 2013, it was further announced that its proven oil reserves had increased to 150 billion barrels. Iraq has over 80 oilfields, including nine 'super-giant' fields (with over 5 billion barrels in reserve) and 22 'giant' fields (with over 1 billion barrels in reserve) spreading across the Zagros and Mesopotamian basins. The majority of Iraq's oil resources are concentrated in the south-eastern part of the country with a smaller proportion of the resources being concentrated in Kurdistan.

In April 2012, production in Iraq surged to its highest level since 1979, passing 3 million barrels per day (bbl/d), and by the end of the year had passed Iran as OPEC's second-largest crude oil producer. Iraq is the eighth-largest producer of oil globally. The recent surge in production is linked to the higher recovery levels associated with the recent redevelopment of existing fields following two recent oil licensing rounds in June and December 2009 and increased production under oil contracts in Kurdistan. Current reports indicate that Iraq is targeting production of close to 4 million barrels per day by the end of 2013.

Export and infrastructure

Iraq exports approximately 82 per cent of its current oil production and relies heavily on the transportation system available in the country to export beyond its borders. However, various routes of transportation are currently in substandard condition and have been damaged by insurgent attacks. Oil is exported from Iraq via two tanker terminals, the Al-Basrah Oil Terminal (formerly Mina al-Bakr) and the Khor Al-Amaya Terminal, with an estimated combined capacity of 1.7 million bbl/d. Other export routes include the Kirkuk-Ceyhan Pipeline to Turkey (estimated at 500,000 bbl/d) and via tanker truck routes to Jordan's Zarqah refinery (estimated at 10,000 bbl/d). There is also a strategic internal pipeline currently

operating in Iraq (Haditha-Rumaila-Basra) and the Zubair-Fao pipeline and storage project. In addition, the Iraqi government is planning a new \$18 billion pipeline from southern Iraq to the port of Aqaba in Jordan and a further pipeline linking the newly discovered oilfields of 1 bbl in Missan to storage depots in the Al-Fao terminal. Furthermore, there are attempts to create a unique integrated upstream-downstream project in Nasriya to boost production and refining capacity.

Iraq has four refineries in Baiji, Basrah, Daura and Erbil, and is further supported by seven smaller distillation units. There are plans for an extra four refineries to be built, subject to funding, by 2017, and contracts for the engineering and design of these refineries have already been awarded.

Industry participants

The industry is currently divided between three INOC subsidiaries: North Oil Company; South Oil Company; and Missan Oil Company. Iraq's oil licensing rounds in 2009 successfully awarded 10 contracts to producing and development fields in an ambitious plan to increase the country's production up to 12 million bbl/d by 2020. Since the first licensing round in 2009, there have been three further licensing rounds, and service contracts have been signed with international oil companies (IOCs), including foreign national oil companies (NOCs), by the Ministry of Oil. Such service contracts include a state partner with a 25 per cent interest in each case. Current IOCs with service contracts in Iraq include BP; CNPC; Lukoil; Eni; Occidental; Kogas; Shell; ExxonMobil; Petronas; Sonangol; Kuwait Energy; Dragon Oil; TPAO; Japex; Gazprom; and Total.

- 2 What percentage of your country's energy needs is covered, directly or indirectly, by oil as opposed to gas, electricity, nuclear or non-conventional sources? What percentage of the petroleum product needs of your country is supplied with domestic production? What are your country's energy demand and supply trends, especially as they affect crude oil usage?

Over 90 per cent of Iraq's domestic energy consumption needs are covered by crude oil, with the rest being supplied by natural gas and hydroelectricity. Iraq's refineries are currently operating at approximately half of their potential capacity due to inefficiency and damage, leading to an increased reliance on imports for around 30 per cent of gasoline and 17 per cent of gasoil requirements.

The trend in Iraq's energy needs has largely been upwards since 2003, with petroleum, electricity and total energy consumption rising sharply over the same period. The exception to this trend is natural gas, as the unavailability of the necessary infrastructure currently leads to flaring of over 40 per cent of natural gas produced. The country should be able to meet this increased energy demand with local supply as production increases.

The demand for electricity is set to rise in the future with an estimated demand of 22,000 MW by the end of 2013, whereas the current ability of the generating stations to supply Iraq is limited to between 7,000 MW and 8,000 MW. The Iraqi Ministry of Electricity has announced a number of tenders for new power plants to meet the increasing demand, and although some power plants may rely on gas rather than oil, until the supply and transportation of gas in Iraq improves, Iraq will continue and increase its reliance on oil. Due to such a shortage of electricity supply, many areas of Iraq rely on smaller generating units attached to homes, offices, factories and facilities, which also require an increasing supply of oil or diesel to operate.

3 Does your country have an overarching policy regarding oil-related activities or a general energy policy?

In order to meet the rising consumption and demand for energy within the internal market of Iraq and to be able to generate a sufficient amount of revenue for the government budget, the improvement of infrastructure, investment in new technologies and increasing production capabilities will take immediate priority in an overarching energy policy. To achieve this goal, the Ministry of Oil has attracted investment from IOCs and foreign NOCs and will require further investment to be made by many other companies in the oil and gas sector.

4 Is there an official, publicly available register for licences and licensees?

The competent ministry for maintaining the licenses and licensees register is the Ministry of Oil. There is no publicly available register of licenses and licensees. However, the Ministry of Oil usually publishes the results of the oil licensing rounds.

Regulation overview

5 Describe the key laws and regulations that make up the general legal framework regulating oil activities. Are there any legislative provisions that allow for expropriation of a licensee's interest and, if so, under what conditions?

A draft Hydrocarbon Law was proposed in 2007; however, agreement on this draft law has been stalled for a number of reasons. In its absence, several existing laws govern the general legal framework regulating oil activities in Iraq. Key laws and regulations include:

- Law No. 80 of 1961 (initiated the nationalisation of Iraq's petroleum);
- Law No. 97 of 1967 (assigned areas of development for INOC);
- Law No. 123 of 1967 (restructured INOC);
- Resolution No. 864 of 24 September 1980 (created the Supreme Technical Board);
- Law No. 9 of 2006 (import and sale of oil derivatives); and
- Law No. 64 of 2008 (private investment in refineries).

Law No. 97 of 1967 granted INOC exclusive hydrocarbon exploration rights throughout Iraq. Article 3 of the 1967 Law provides that INOC can contract others to exploit the hydrocarbons if this is deemed prudent, but under no circumstances shall INOC be able to grant concessions to other companies. Article 4 of the 1967 Law provides that any geological or geophysical data or materials shall pass to INOC without any consideration being given in exchange.

The hydrocarbon laws of Iraq also need to take account of the Iraqi Constitution, which refers to the oil and gas wealth of the country and provides for the rights of the Iraqi people to the oil.

Except for contractually agreed termination rights, there are no legislative provisions that allow for the expropriation of a licensee's interest. Common provisions of the template Technical Services

Contract provide that in the event of the contract being declared invalid or voided by any competent Iraqi authority under the applicable Iraqi law, the government's party under the contract shall indemnify and hold the contractor harmless for any and all costs actually incurred by the contractor, as well as remuneration fees accrued but not paid.

Kurdistan regional government laws

In late 2007, the Kurdistan regional government (the KRG) passed its own Oil and Gas Law (No. 22 of 2007) and has since signed more than 49 production sharing agreements (PSAs) based on this law with local and foreign oil companies, including IOCs. However, PSAs concluded by the KRG have not been approved at the federal level or by Iraq's Ministry of Oil, and are disputed by the federal government. The federal government concluded that KRG contracts with firms currently producing oil for national consumption and signed prior to February 2007 will be considered valid further to national review and approval. KRG contracts signed after February 2007 are deemed 'illegal' by the federal government until they have been reviewed and approved by it.

The lack of agreement on the legitimacy of the KRG signed contracts has led to disagreement as to the payment of profits to companies producing oil under the PSAs and these disputes have, at times, led to the cessation of production in the Kurdistan region. Although production has resumed, the issue as to the legal validity of the PSAs in Iraq remains unresolved. The difference in the terms offered by the two regions plays a significant role in widening the dispute. Since the first oil bidding round in 2009, the Ministry of Oil has undertaken technical services agreements with the IOCs, whereby each barrel of oil produced at agreed levels is compensated by relatively low service fees. The IOCs were willing to accept such terms due to the abundant reserves Iraq holds. In contrast, the KRG has offered PSAs under terms that would appear to be more attractive to oil companies, notwithstanding that the total reserves are much lower.

6 Identify and describe the government regulatory and oversight bodies principally responsible for regulating oil activities.

Iraq's Ministry of Oil has central control over oil and gas production and development in Iraq and operates through the following Iraqi NOCs (noting their responsibilities):

- Oil Projects Company – approvals of project plans and designs;
- Oil Exploration Company – oil and gas exploration activities;
- Oil Tankers Company – marine transportation of crude;
- Oil Pipelines Company – pipeline transportation of crude;
- State Oil Marketing Organisation (SOMO) – export of crude from Iraq;
- Oil Products Distribution Company – distribution of LPG and oil products;
- Iraqi Drilling Company – well drilling, workover and completion;
- North Oil Company – oil production in Kirkuk, Nineveh, Erbil, Baghdad, Diyala and part of Hilla and Kut;
- South Oil Company and Missan Oil Company – oil production in the rest of Iraq;
- North and South Gas Companies – utilisation of natural gas available in Iraqi gas fields;
- Gas Filling Company – treatment of gas received from the North and South Gas Companies;
- North, Midland and South Refineries Companies – refinement of crude oil; and
- Heavy Engineering Equipment State Company – provision of heavy equipment to the Ministry of Oil Companies.

The KRG's Ministry of Natural Resources exerts control over the Kurdish region through the following entities:

- Kurdistan National Oil Company;
- Kurdistan Oil Trust Organisation;

- Kurdistan Exploration and Production Company;
- Kurdistan Organisation for Downstream Operations; and
- Kurdistan Oil Marketing Organisation.

7 What government body maintains oil production, export and import statistics?

Statistics on oil production, export and domestic consumption are maintained by the Ministry of Oil and provided monthly on its website.

Natural resources

8 Who holds title over oil reservoirs? To what extent are mineral rights on private and public lands involved? Is there a legal distinction between surface rights and subsurface mineral rights?

In accordance with the Constitution, title to oil reservoirs vests with the people, regions and governorates of Iraq via the Ministry of Oil. The legal framework is based on the Constitution and existing legislation specific to oil and gas. Specifically, this requires the Council of Representatives' approval of contracts that deal with the country's oil. There remains some debate about whether service contracts signed by the Ministry of Oil in the first and second licensing rounds need to be approved by the Council of Representatives since they are tendered service contracts and do not give any ownership in the oil to the IOCs.

9 What is the general character of oil exploration and production activity conducted in your country? Are areas off-limits to exploration and production?

Ministry of Oil

Oil production is focused onshore in Iraq, with potential future exploration possibilities available in the western regions of the country. A number of development and exploration service contracts have been granted during the second licensing round. This is largely due to the quality of data that was used to delineate Iraq's oilfields geographically, some of which are over 25 years old and based on two-dimensional seismic studies.

There are generally no restrictions on limits of production activity imposed by the Ministry of Oil. Due to the knowledge of the current locations of Iraq's existing oil reservoirs, the activities may only be limited by the individual considerations of IOCs in respect of the field area for which they are under contract.

KRG's Ministry of Natural Resources

The KRG's Ministry of Natural Resource considers that it is responsible for all of the exploration, development and production activities in the Kurdistan region of Iraq. Several onshore exploration, development and production projects are currently under way in Kurdistan. At present, there are no restrictions on the limits of such activity.

The current split of PSAs between exploration, development and production phases is two, seven and 28 years respectively. This offers some reasoning behind the need for the KRG to offer PSAs, which are generally considered to be more lucrative to foreign oil companies by allowing them to book reserves.

10 What government body regulates oil exploration and production in your county? How are rights to explore and produce granted? What is the procedure for applying to the government for such rights?

Oil exploration and production is governed by the Ministry of Oil; however, in Kurdistan the KRG exerts control through the Ministry of Natural Resources. The level and nature of regulation varies between the two bodies overseeing activities.

Ministry of Oil

Since 2009, the Ministry of Oil has held four licensing rounds following which a number of technical services contracts (TSCs) for producing fields and development and production services contracts (DPSCs) for development and producing fields were granted to the winning bidders, in the first and second round respectively, with a third and fourth round focused on gas fields only. Iraq is planning to announce its fifth licensing round in 2013.

Under the terms of the TSCs, the IOCs work as unincorporated joint ventures with the Iraqi NOC, where the Iraqi NOC maintains at least a 25 per cent participating interest in each project as the state partner. The TSCs further provide that Iraq will compensate the IOCs at an agreed rate per barrel (currently varying from \$1.4 to \$6) subject to conditions such as the attainment and maintenance of target production levels over set periods of time. Iraq will receive initial revenue from the contract signing fees paid by the IOCs and subsequent revenue from joint venture fees paid to Iraqi NOCs by way of taxes on the per barrel fee paid to the IOC as well as revenues from the sale of oil.

The terms of the DPSCs vary, as the IOCs can form incorporated joint ventures with the Iraqi NOCs at the Iraqi NOCs' discretion. The only other variant of the DPSCs consists in the timing of remuneration of the IOCs.

Production levels may be subject to adjustments if Iraq has to fall back within the OPEC quota limits.

KRG's Ministry of Natural Resources

The Ministry of Natural Resources has signed more than 49 PSAs with IOCs. Terms of such PSAs are generally more lucrative as the IOCs receive remuneration based on the level of risk associated with the area (high, medium or low). Similarly to the TSCs and DPSCs, the stake maintained by the KRG in each PSA ranges between 20 per cent and 25 per cent.

11 Does the government have any right to participate in a licence? If so, is there a maximum participating interest it can obtain and are there any mandatory carry requirements for its interest? Does the government have any right to participate in the operatorship of a licence?

The Iraqi federal government has the right under Iraqi law to participate in TSCs through state companies. According to the State Companies Law No. 22/1997, there are no statutory restrictions on state companies participating in an exploration and production agreements such as TSCs. In practice, this has been seen on a number of TSCs through the award of 25 per cent carried interest in contractor consortiums to Iraqi state entities. The PSAs entered into by the KRG generally provide for KRG participation (via a carried interest).

12 If royalties are paid, what are the royalty rates? Are they fixed? Do they differ between onshore and offshore production? Aside from tax, are there any other payments due to the government? Are there any tax stabilisation measures in place?

There are no royalty provisions under the current Iraqi legislation or the Ministry of Oil's TSCs and DPSCs.

The draft Hydrocarbon Law provides for a 12.5 per cent royalty at a federal level; however, this has not yet been approved by Iraq's Council of Representatives. TSCs entered by the Iraqi federal government included a tax stabilisation provision ensuring that taxes are capped at 35 per cent.

The royalty provisions under the KRG's model PSA are set at 10 per cent for export crude oil and natural gas. However, it is possible for individual PSAs to provide for different terms.

13 What is the customary duration of oil leases, concessions or licences?

It is customary for the Ministry of Oil's TSCs and DPSCs to have a 20-year term.

The KRG's Ministry of Natural Resources model PSAs have terms ranging from five to 37 years, depending on the stage that the field is at and the number of extensions sought. Generally, the exploration stage of the field will have a term of five years, which may be extended by a maximum of two years. At the production stage the term is 20 years, with a five-year extension as an automatic right and a further discretionary five-year extension.

14 For offshore production, how far seaward does the regulatory regime extend?

There is no known offshore production in Iraq.

15 Is there a difference between the onshore and offshore regimes? Is there a difference between the regimes governing rights to explore for or produce different hydrocarbons?

Given that there is no known offshore production in Iraq (block 18 is a new offshore block in the Arabian Gulf and will be announced soon by the Ministry of Oil), Iraqi law does not provide a distinct legal regime for offshore production. However, there are some differences in the responsibility and the scope of work between inside the battery limit, which is responsibility for within production facilities only, and outside the battery limit, which includes responsibility for utilities and piping, depots, power generation, water treatment etc.

There are some differences in applicable provisions relating to the exploration and production of oil as opposed to gas resources. This can be noted mainly in the different contractual obligations found in the service contracts awarded to IOCs in the past few years. They are governed by the protocol as set by the Ministry of Oil and affect the remuneration factor.

16 Which entities may perform exploration and production activities? Describe any registration requirements. What criteria and procedures apply in selecting such entities?

Exploration and production activities may be performed by Iraqi NOCs, IOCs and other NOCs on behalf of the Ministry of Oil, subject to approval by the Ministry of Oil. Non-Iraqi entities are commonly contractually required to establish a presence in Iraq within a short period as of the effective date of their relevant contract with the government. Common establishment options for IOCs include the registration of a local branch. In the case of the Kurdish region, IOCs may conduct such activities with approval from the KRG's Ministry of Natural Resources. Companies pre-qualify to bid in the oil licensing rounds to undertake exploration and production activities. Although the bidding processes for the first three rounds were conducted in a transparent way, via tender protocols available to all bidders, the final details of the contracts were provided to the public on an ad hoc basis.

Due to the political tension between the national government and the KRG in relation to the oil in the Kurdistan region, any company that was a participant in the territory of Kurdistan was automatically blacklisted and prevented from bidding for any of the Ministry of Oil licences.

17 What is the legal regime for joint ventures?

The legal regime for joint ventures varies under the terms of the first and second round licences awarded by the Ministry of Oil.

First oil licensing round

Under the TSCs granted in the first round, the parties were required to establish an unincorporated joint venture between the successful

bidders and their state partner. The unincorporated joint venture would be the operator, with a lead contractor designated for supervision and management of the operating entity. The unincorporated joint venture is in turn governed under the supervision of a joint management committee (JMC).

Second oil licensing round

The DPSCs awarded in the second licensing round followed a staged structure. The first seven years of the DPSC followed the same structure as the TSC model. However, once the applicable rate of return factor is achieved, the Iraqi NOC has the discretion to rearrange the structure of the joint venture and it would be converted to an incorporated limited liability company formed under the laws of Iraq. The supervisory function will in turn be transferred from the JMC to the board of directors of the incorporated entity. However, it is highly likely that the effective control of the entity will follow the JMC structure, where effective control of operations is maintained by the Ministry of Oil through its state oil entities.

Third licensing round

Since the first two licensing rounds did not award any contracts over gas fields, a third licensing round was held subsequently and covered solely gas fields. Three fields were included in this round:

- Ukaz (located in the Anbar Governorate), which is the largest among the three fields awarded to KOGAS (50 per cent), and KazMunaiGas (50 per cent);
- Al-Seeba (located in the Basrah Governorate), awarded to Kuwait Energy (60 per cent) and TPAO (40 per cent); and
- Al-Mansouria (located in the east of Iraq), awarded to TPAO (50 per cent), Kuwait Energy (30 per cent) and KOGAS (20 per cent). The estimated reserves in the three fields exceeds 11 trillion cubic feet of gas, which constitutes around 10 per cent of the Iraqi confirmed reserve of natural gas.

Fourth licensing round

The Ministry of Oil held its fourth round in June 2012. There were 12 fields on offer, seven of which were gas fields and the remaining ones oil fields. Out of the 12 exploration blocks on offer, only four were awarded (one of them only had prospects of gas). The results of the four licences were as follows:

Field	Oil/gas	Remuneration US\$ per barrel	Operator	Partner
Diyala & Wasit	Gas	5.4	Pakistan Petroleum (100%)	–
Basra	Oil	6.2	Kuwait Energy (70%)	Dragon Oil (30%)
Muthanna & Thiqr	Oil	6.0	Lukoil (60%)	Inpex Corp (40%)
Muthanna & Najaf	Oil	5.0	Bashneft (70%)	Premier Oil (30%)

Kurdistan PSAs

The structure of joint ventures under the PSAs signed with the KRG does not provide for a set structure to be adopted by the licensees. Accordingly, the licensees will decide on the structure that will most appropriately align their interests in terms of risk and other commercial factors. The most notable incorporated joint venture is TTOPCO between Genel Enerji and Addax Petroleum in the producing Taq Taq field. However, a number of other incorporated and unincorporated joint ventures have successfully bid for KRG licences.

Any incorporation option exercised by joint ventures in Iraq would fall under the Iraqi Companies Law No. 21 of 1997, as amended by CPA Order No. 64 of 2004.

- 18** How does reservoir unitisation apply to domestic and cross-border reservoirs?

Unitisation is dealt with in the draft Hydrocarbon Law (not yet agreed) and the KRG Oil and Gas Law of 2007. Unitisation can apply to domestic (either within Kurdistan or in Iraq), cross-border and cross-regional (ie, between Iraq and Kurdistan) reservoirs.

The proposed position under article 16 of the draft Hydrocarbon Law is that the Federal Oil and Gas Council will be required to approve any proposed unitisation measures sought in respect of domestic and cross-regional unitisations.

Cross-border unitisations shall be dealt with by the Council of Ministers of Iraq to ensure that the interests of Iraq are adequately protected.

Article 47 of the KRG Oil and Gas Law of 2007 has also provided a legal position in relation to unitisation that would be of significant relevance to the PSAs awarded by the KRG.

The KRG's involvement varies depending on the situation and the proposed unitisation. The KRG minister may be solely responsible in terms of domestic unitisation, whereas the minister will need the approval of the KRG for cross-regional unitisation, and the KRG and federal government will be required to negotiate on cross-border unitisations.

- 19** Are parental guarantees or other forms of economic support common practice? Are security deposits required in respect of any work commitment or otherwise?

Parent company guarantees are commonly required under TSCs. Publicly available templates indicate that the parent company shall unconditionally and irrevocably guarantee its relevant affiliate in the performance and fulfilment of its obligations under the contract.

Transfers to third parties

- 20** Is government consent required for a company to transfer its interest in a licence, concession or production sharing agreement? Does a change of control require similar approval? What is the process for obtaining approval? Are there any pre-emptive rights reserved for the government?

Given the contractual nature of the TSCs, there are no statutory provisions that can be entirely relied upon to provide a comprehensive view of required consents and pre-emptive rights. Any such assessment must be made on a case-by-case basis depending on the relevant contractual terms. As a common practice, it is expected that major transfers of interests under TSCs would require some form of political approval, even if such approval would be obtained internally by the relevant state entity.

Under applicable Iraqi laws, there is no clear and comprehensive legal system governing the transfer of interests or control. This is largely governed by the provisions of the service contracts granted by the Ministry of Oil and by the protocol.

- 21** Is government consent required for a change of operator?

Given the contractual nature of the TSCs, this government consent for a change of operator requires a case-by-case assessment depending on the relevant contractual terms.

Decommissioning

- 22** What laws or regulations govern abandonment and decommissioning of oil and gas facilities and pipelines? In summary, what is the obligation and liability regime for decommissioning? Are there any other relevant issues concerning decommissioning?

Decommissioning of oil and gas facilities and pipelines is governed by the laws of the general contracting regulations issued by the

Iraqi Ministry of Planning. Additionally, in recently granted service contracts, common contractual obligations provide that on the termination of the contract or relinquishment of part of the contract area, the IOC or contractor shall remove all equipment and installations in a manner agreed with the relevant national oil company (eg, South Oil Company) pursuant to an abandonment plan, which is to be agreed. The IOC also has to issue preliminary acceptance certificates and final acceptance certificates in relation to the completion of projects to the national oil company. This process may occasionally involve third parties, including insurers such as SGS or Lloyd's.

- 23** Are security deposits required in respect of future decommissioning liabilities? If so, how are such deposits calculated and when does their payment become due?

There are no known statutory or publicly known contractual requirements for the provision of security deposits in respect of future decommissioning liabilities under the contracts entered by the Iraqi federal government.

Transportation

- 24** How is transportation of crude oil and crude oil products regulated within the country and across national boundaries? Do different government bodies and authorities regulate pipeline, marine vessel and tanker truck transportation?

The transportation of crude oil and associated products is by pipeline, marine vessel and tanker trucks owned and maintained by the Oil Pipelines Company, a state entity under the Ministry of Oil. Pipelines are also overseen by the Ministry of Natural Resources in Kurdistan, but are ultimately owned by the state entity. There are currently no published regulations in relation to the transportation of crude oil. Contractors engaged by the Ministry of Oil will rely on their contracts to govern the regime in relation to the transportation.

- 25** What are the requisites for obtaining a permit or licence for transporting crude oil and crude oil products?

There are currently no known requisites for obtaining a permit, as all transportation is undertaken by the state entity. Permitting requirements are, at times, ad hoc and based on instructions received from governmental offices, and require follow up with the Ministry of Oil and, potentially, other ministries.

Health, safety and environment

- 26** What health, safety and environment requirements apply to oil-related facility operations? What government body is responsible for this regulation; what enforcement authority does it wield? Are permits or other approvals required? What kind of record-keeping is required? What are the penalties for non-compliance?

Iraq

For the most part, petroleum sector operating companies impose health, safety and environmental (HSE) requirements on their contractors, which are in contractual conformity with best international petroleum industry practice, as well as Iraqi legislation. This requires the implementation of comprehensive occupational safety programmes as well as environmental impact studies. Rules governing drilling rigs, production platforms, refineries, pipelines and service stations are largely the responsibility of the Ministry of Oil. Violations can result in denials of permits to operate. Environmental clearance from Iraq is required before any new modernisation or expansion project for petroleum operations may take place. The government must also provide approval for the operator's contingency

plan for dealing with any crude oil spill, fires, accidents and emergencies prior to conducting any drilling activities.

Kurdistan region of Iraq

The majority of HSE requirements are found in the PSAs, which oblige contractors to use reasonable endeavours to comply with prudent international petroleum industry practice. The KRG's Oil and Gas Law of 2007 requires that applicants for a PSA include conditions for securing the health, safety and welfare of persons involved in or affected by the petroleum operations as well as provisions for protecting the environment and preventing, minimising and remedying pollution, and other environmental harm from the petroleum operations. IOCs are also required to commit to the payment of an agreed amount into an environment fund administered by the KRG for the exclusive benefit of its natural environment.

- 27** What health, safety and environmental requirements apply to oil and oil product composition? What government body is responsible for this regulation; what enforcement authority does it wield? Is certification or other approval required? What kind of record-keeping is required? What are the penalties for non-compliance?

Iraq

Under the Iraqi Law of Environmental Protection and Improvement (Law No. 27 of 2009), before any activity is carried out that may affect the environment, consent must be obtained from the Ministry of Environment. Operators are forbidden to permit hazardous waste, and they must conduct activities with due care to prevent serious and irreversible damage to the environment, taking all steps necessary to minimise the pollution of soil, air, water and groundwater basins. Furthermore, operators must dispose of the saline water that accompanies the extraction of raw oil in an environmentally secure way and provide the Ministry of Environment with information relating to any fires, explosions, raw oil and gas leakages that occur from the wellhead or pipelines, as well as the procedures taken for remediation. Any organisation found to be polluting the environment will face sanctions that may range from forced closure of the offending facility; or fines of up to 10 million dinar or imprisonment, or both.

The minister of the environment may appoint an environmental inspector to assess sites, buildings and installations where petroleum operations are being conducted, as well as assets, records and data kept by the holders of exploration and production rights relating to petroleum operations.

Kurdistan region of Iraq

Under the KRG Law of Environmental Protection and Improvement (Law No. 8 of 2008), all organisations performing an activity that affects the environment must produce an environmental impact study and report it to the KRG Ministry of Environment prior to commencing such an activity. While there are provisions in the Law to incentivise the development of ideas to improve the environment, there are also sanctions available to the Ministry when organisations find themselves to be in breach of the law. These include forced closure of the facility; or fines of up to 10 million dinar or imprisonment, or both.

Labour

- 28** What government standards apply to oil industry labour? How is foreign labour regulated and restricted? Are there anti-discrimination requirements? What are the penalties for non-compliance?

Iraq is a member of the UN International Labour Organization (the ILO) and follows the published resolutions and guidelines that are promoted by the ILO. The Iraq Labour Code (Law No. 71 of 1987) and the Civil Service Law (Law No. 24 of 1960), which governs

public sector employees, apply. The basic provisions of the Labour Code stipulate that the contract of employment should:

- be made in Arabic;
- allow for a minimum of 20 days' paid annual leave;
- allow for at least one rest day per week; and
- allow the employee a minimum of 30 days' paid sick leave.

The Labour Code guarantees the right to work to all citizens without any discrimination based on sex, race, religion or language.

Foreign workers are eligible to work in Iraq after successfully applying for a work permit, which is granted by the Iraqi Ministry of Labour and Social Affairs. Breaches of the Labour Code in relation to foreigners (non-Arab) can lead to a prison sentence and a fine, whereas breaches of the Labour Code in relation to Arab workers will make a person or entity liable to fines only.

The general direction in Iraq is towards increasing the ratio of Iraqi employees versus foreigners; however, there remains no clear indication on how this will be implemented in practice. Certain visa and work permit restrictions are starting to limit the inflow into Iraq of foreign labour, particularly foreign personnel who arrive in Iraq without having first secured a job. The Ministry of Interior requires any company seeking visas for their foreign employees to make a declaration guaranteeing that the relevant employees shall continue to be employed only by the relevant company and shall not seek to work with any other company while in Iraq. Additional restrictions may apply to certain nationalities due to security concerns and would require higher level of approvals (and thus additional delays) in order to issue visas.

Taxation

- 29** What is the tax regime applicable to oil exploration, production, transportation, and marketing and distribution activities? What government body wields tax authority?

Iraq

The corporate tax rate for an oil and gas company in Iraq is set at 35 per cent; this rate also applies to subcontractors and supporting companies working in the oil and gas sector of Iraq. Other potentially applicable taxes include:

- capital gains – 15 per cent;
- interest charged at the applicable income tax rate – 35 per cent for oil and gas companies;
- stamp fees imposed on any contract – 0.2 per cent of the contract value; and
- social security contribution for employers in the oil and gas sector – 25 per cent.

There are also specified depreciation rates for different types of assets of oil and gas companies, for example, for high-pressure vessels, electrical systems technology, machinery and equipment, liquid gas tanks, precision equipment and bulldozers.

Relief on losses is available and such losses can be offset against future profits (subject to 50 per cent of taxable income) for a period of five years. However, no losses can be offset against previous income receipts.

Iraq has entered into double tax treaties with Egypt, Jordan, Libya, Somalia, Sudan, Syria, Tunisia and Yemen.

Kurdistan region of Iraq

In Kurdistan, the KRG's model PSA provides for a corporation tax rate not above 40 per cent, in line with the KRG's Law of Taxation (Law No. 5 of 1999). The KRG's Oil and Gas Law provides for a number of other tax charges, which include:

- surface tax;
- personal income tax;
- corporate income tax;
- customs duties and any other similar taxes;

- windfall profits or additional profits tax; and
- any other tax or levy or charge expressly provided for in a petroleum contract.

Commodity price controls

- 30** Is there a mandatory price-setting regime for crude oil or crude oil products? If so, what are the requirements and penalties for non-compliance?

There is no current price-setting regime, as the export and sale of all crude oil and crude oil products within Iraq, the territory of Kurdistan and internationally fall under the authority of SOMO. Iraq is a member of OPEC but is not currently subject to OPEC’s production and export quotas.

Competition, trade and merger control

- 31** What government bodies have the authority to prevent or punish anti-competitive practices in connection with the extraction, transportation, refining or marketing of crude oil or crude oil products?

There are generally no government bodies regulating anti-competitive practices within the market. The oil and gas industry is operated by Iraqi NOCs.

- 32** What is the process for procuring a government determination that a proposed action does not violate any anti-competitive standards? How long does the process generally take?

See question 31.

International

- 33** To what extent is regulatory policy or activity affected by international treaties or other multinational agreements?

Although a member of OPEC, Iraq is not subject to the organisation’s production and export quota. Iraq’s ambition of reaching a 12 million bbl/d production target may prove to be a sticking point during negotiations with OPEC if Iraq is to become part of the OPEC production quota system. OPEC intends to discuss Iraq’s compliance with the quota system when oil production reaches 4 million to 5 million bbl/d, and the decision will be up to

Update and trends

Over the past year, Iraq has witnessed increased tension between the federal government and the Kurdistan regional government, particularly in respect of payments claimed by the KRG regarding their share of oil revenues and the recent direct export of hydrocarbons from the Kurdish regions to Turkey without going through the federal downstream company SOMO. These circumstances have been complicated by moves that have been made by major oil companies in expanding their Iraqi operations for the first time to the northern semi-autonomous region, and entering into contracts with the KRG against the wishes of the federal government. These developments remain interesting areas for continuing monitoring.

Additionally, the federal government announced in March 2013 that a fifth licensing round might be held later this year with a major focus on areas having the potential of gas discoveries and development.

the 12 member states. However, this is unlikely to happen before 2013 or 2014.

Iraq is also a member of the following organisations which may affect regulatory policy: the Arab League; the Arab Monetary Fund; the Council of Arab Economic Unity; the International Atomic Energy Agency; the International Monetary Fund; and the Organization of Arab Petroleum Exporting Countries.

- 34** Are there special requirements or limitations on the acquisition of oil-related interests by foreign companies or individuals?

Foreign companies are generally able to invest freely in corporate interests that may be oil-related by incorporating an Iraqi legal entity or establishing a branch office if they have a contract with a state entity (either directly or indirectly).

There are also specific requirements outlined in the Law of Private Investment in Crude Oil Refining (Law No. 64 of 2007), which was implemented by Instruction No. (1) of 2009, including:

- the investor company may be granted a lease of up to 40 years for land used for the refinery;
- Iraqi personnel shall comprise 75 per cent of the investor company’s workforce;



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- the investor company shall construct (at its own expense) a pipeline from the nearest appropriate delivery point;
- the investor company is prohibited from trading in crude oil and the oil products; and
- products of the refinery shall comply with all environmental and industrial safety laws and regulations.

35 Do special rules apply to cross-border sales or deliveries of crude oil or crude oil products?

Any sales (whether domestic or export) are made by SOMO, which is the only legal entity permitted to trade in oil under Iraqi law. Due to this monopolisation of the export market of crude oil, there are no special rules that apply in this instance.

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