Management on Mining Rights of Oil and Gas in China

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Outline

1. Laws and regulations concerning the management of mining rights of oil and gas in China
2. Concepts and types of management of mining rights of oil and gas in China
3. Rights and obligations of prospecting and mining rights holder
4. Legal conditions for obtaining the mining rights of oil and gas
5. Establishment of the mining rights of oil and gas by the administration authority
6. Policies of supervision and stimulation in management of mining rights of oil and gas
7. Present status of management of mining rights of oil and gas in China
8. Approaches for foreign oil companies to participate in Chinese oil and gas exploration and production
Laws and regulations related to mines resources

- Relevant provisions of Constitution of PRC and Criminal Law of PRC
- Mines Resources Law of PRC (1996, as amended)
- Acts of Exploration Block Registration in Mineral Resources (Feb. 12, 1998)
- Ordinance of International Cooperation on Exploitation of Offshore Oil Resources of PRC 2001
- Ordinance of International Cooperation on Exploitation of Onshore Oil Resources of PRC 2001

Laws and regulations related to mineral resources (cont.)

- Ordain on the management of the collection of compensation for mineral resources 1994
- Interim acts on resources tax of PRC 1993
- Ordain on the management of geological data (2002)
- Interim acts on the management of supervision of mineral resources (1987)
- Other laws, regulations, rules related to mineral resources
Special provisions concerning the management of oil and gas exploration and exploitation

• Management system of central registration. Oil and gas exploration and exploitation licences and consequent transfer of licences shall be approved by MLR.
• Qualification system for application for oil and gas exploration and exploitation.
• Administerial system of central penalty. Illegal behaviors by oil and gas right holders will be punished by MLR according to relevant laws and regulations.

Special provisions concerning the management of oil and gas exploration and exploitation (cont.)

• Progressive exploration and production system for oil and gas
• Test production system of oil and gas exploration
• Public announcement system of the application for oil and gas exploration
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Management contents for registration on petroleum exploration and exploitation

- Registration management for geological survey.
- Registration management for exploration
- Registration for international cooperative exploration
- Progressive exploration and production
- Registration management for exploitation.
- Registration for international cooperative exploitation
- Assessment and transfer for oil and gas exploration and exploitation rights

Licence for geological survey
Licence for exploration
Test production management
License for exploitation
Main types for registration of oil and exploration and exploitation

• **Registration for geological survey.**

  **Licence for geological survey**
  The holder is granted the right to conduct oil and gas geological survey in the approved region without any payment of fee, which is not exclusive. The work area is not limited. The holder doesn’t enjoy the right granted to exploration licence holder.

Main types for registration of oil and gas exploration and exploitation (cont.)

• **Registration for exploration**

  **Licence for exploration**
  **Exploration right** is the right for mineral resources exploration in approved area. **Exploration right holder** is the person who holds the licence.
Legal characteristics of oil and gas exploration rights

- Work area shall be within the territory of PRC.
- The unit for block registration includes block, quarter block and district block.
- Exploration area must be less than 2,500 basic units.
- Exploration area must be continuous.
- Exploration right is exclusive. The overlapping of work area is not allowed in theory.
- The duration is up to seven years but can be altered, extended and transferred.
- Exploration must be conducted within approved area. Test production can be carried out with appropriate approval.
- The right can be applied for reservation but should only be within the area for production.

Concepts of block registration

- Basic unit block long 1 minute × lat. 1 minute
- Quarter block long 30 seconds × lat. 30 seconds
- District block long 15 seconds × lat. 15 seconds
- Block is the basic unit for oil and gas exploration and production (the minimal unit is 15 seconds).
Main types for registration of oil and gas exploration and exploitation (cont.)

- **Registration management for exploitation**
- **Licence for exploitation**

**Exploitation right** is the right of mineral resources exploitation and possession in approved area.

**The exploitation right holder** is the person who holds the licence.

Legal characteristics for oil and gas exploitation right

- Work area shall be within the territory of PRC.
- The unit for block registration includes block, quarter block and district block.
- Exploration area usually is less than 2,500 basic units.
- Exploration area must be continuous.
- Exploration right is exclusive. The overlapping of work area is not allowed in theory.
- The duration is up to thirty years but can be altered, extended and transferred.
- The right holder can conduct oil and gas production within approved area.
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Rights of the oil and gas exploration right holder

- the right to explore pursuant to the duration and object set forth in the licence
- the right to set up new lines of power, water and communication in work area and its adjacent region without affect or damage the existing lines
- the right to transport in work area and its adjacent region.
- The right to temporarily use land when required by the project
Rights of the oil and gas exploration right holder (cont.)

- the priority to explore newly-discovered mines in work area
- the exploitation priority for mineral resources in work area
- the right to sell the mineral production which is produced from the legal work area except that purchased by appointed persons by the State Council
- the right to transfer the exploration rights

Obligations of the oil and gas exploration rights holder

- The holder shall start work in six months after obtaining the exploration licence and completes the work in the period set forth by the licence.
- The holder shall report the construction circs to the registry or the relevant MLR agency. Reports and provides the relative information when under the administrative investigation. False reports, hiding and refusal for investigation are forbidden. Submits annual report to the registry in time.
Obligation of the oil and gas exploration rights holder (cont.)

- Exploration right fee shall be paid in time with 100 yuan per sq.km per year for the initial three years and from the fourth year on, 100 yuan per sq.km per year more than the last year which under no circumstance is more than 500 yuan per sq.km. per year.
- Construction must be conducted strictly according to the project design and exploration scheme.
- Comprehensive exploration and appraisal to symbiosis or associated mineral resources are required when determining the main mineral species.

Obligations of the oil and gas exploration rights holder (cont.)

- The material results concerning mineral resources exploration must be submitted pursuant to the relevant provisions of the State Council.
- The holder shall abide by the relevant laws and regulations of HSE.
- The left wells shall be filled up or enveloped to keep it safe after the exploration is completed.
- Cancellation shall be made in time after the exploration right is expired.
Rights of the oil and gas exploitation right holder

- the right to produce oil in approved range and period.
- the right to sell the mineral production which is produced from the legal work area except that purchased by the authorized person by the State Council.
- the right to build the infrastructure necessary for the living and production of the area.

Rights of the oil and gas exploitation right holder (cont.)

- The right to obtain the land use right if necessary for the production.
- Other rights granted by laws and regulations.
Obligations of the oil and gas exploitation right holder

- The holder shall conduct oil field construction or exploitation in the approved period.
- Mineral resource shall be effectively protected, reasonably exploited and synthetically utilized.
- Use fee, resources tax (8-30 yuan per tons for oil and 2-15 yuan per thousand cubic meters) and compensation fee (one percent) shall be payable.
- The holder shall report the relative circs and submit annual reports to the registry in time and be supervised by the registry.

Obligations of the oil and gas exploitation right holder (cont.)

- The holder shall abide by relevant laws and regulations on HSE.
- The holder shall apply for the cancellation of exploitation right in 30 days following the close of the oil and gas field.
- The holder shall be supervised by the governing mineral resources administration. Reserves reports and production reports shall be submitted.
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Qualifications for the applicant

- Applicants who involve in oil and gas exploration and production shall be approved by the State Council. At present in China, only CNPC, SINOPEC, CNOOC and YCPCW have got the approval.
- Applicants shall be corporations other than natural persons.
- Applicants shall be both technically and financially qualified.
Qualifications for the applicant (cont.)

- Applicants shall provide the authorized documents for the setup of the oil company or oil and gas exploration and production.
- The certificate of corporation shall be provided.
- The qualification document for geological exploration shall be provided.

Requirements of the application for exploration right

1. Application form for prospecting right (three originals, one more copy when involves one more province.)
2. The inflexion coordinate and numbering table for exploration blocks (three sealed originals, one more copy when involves one more province.)
3. Business license of applicants and the authorization documents for oil and gas exploration and production by the State Council in the valid period (one copy, application for the coal seam gas is not required).
4. Qualification certificate for exploration (one copy).
Requirements of the application for exploration right (cont.)

5. Scheme for mineral resources exploration [three originals or copies with seal]
6. Planning assignment or certificate of fund [three originals or copies]
7. Maps of the exploration location, degree, arrangement and comparison with relevant projects [three copies]
8. Other materials applicants deemed necessary [three originals or copies]
9. Undertaking Letter of applicants
10. List of application materials

Requirements of the application for exploitation right

1. Application form for exploitation rights [three originals, one more copy when involves one more province.]
2. The inflexion coordinate and numbering table for exploitation blocks [three original with seal, one more copy when involves one more province.]
3. Business license of applicants and the authorization documents for oil and gas exploration and production by the State Council in the valid period [one copy, application for the coal seam gas is not required]
4. Schemes of mineral resources exploitation and utilization (three originals with seal)
Requirements of the application for exploitation right (cont.)

5. Reserves reports and documents which are approved by relevant department of reserves management (one copy)
6. Reports of the effect and appraisement on the environment and opinion letter of the relevant governmental body of environment protection (one copy).
7. Planning assignment or certificate of fund (one copy)
8. Maps of the work area location, plane map of ground building, production curves and comparison with relevant projects (three originals)

Requirements of the application for exploitation right (cont.)

9. The Licence of exploration and inflexion coordinate table if the applicant has the right to explore in that area (one copy)
10. Undertaking letter of exploitation right by the applicant if mining rights other than oil and gas exploitation right have been established in the same area (one original)
11. Other materials if deemed to be necessary by the applicant (one original or copy)
12. List of application materials
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The administration of geological exploration and its management framework for petroleum exploration and exploitation in China

[Diagram showing the administration process]
Registration & management departments of mining rights of oil and gas

Ministry of Lands and Resources

Legal ways for application of petroleum mining rights

- It can be sold by the government via application or bidding. Considering the present circumstance in China, we think that application is better for petroleum while both application and bidding are used for other mines.
- It also can be acquired via transfer. The previous individual can transfer after approved by government and then the new applicant can become new individual who possess mining rights. Detailed ways include sale, evaluate and support, cooperation, regroup, present, inherit, exchange and so on.
**Governmental management for petroleum mining rights**

- Accept, examine and issue for certificate concerning petroleum exploration and exploitation via the legal procedure.
- Accept, examine and approve for production testing on petroleum.
- Accept, examine and approve for change, postpone, reserve and cancel the exploration and exploitation certificates.
- Accept, examine and approve for the transfer application of petroleum mining rights.
- Confirm the qualification of geological exploration on petroleum company.

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**Governmental management for petroleum mining rights (cont.)**

- Confirm the qualification for rights evaluation organization, examine and confirm the evaluation results fund by country.
- Bulletin or inquiry should be given in time after accept the application.
- Disputes relate to the range of exploration or mine area should be solved legally.
- Project name, individual, block range, valid period and relative information should be notified to the department of county government in charge of geological survey.
Governmental management for petroleum mining rights (cont.)

- Publish the circs for certificate of mining rights regularly.
- Collect any payment concerning the mining rights.
- Accept, examine and approve for the application of fee-free on mining rights.
- Organize for bidding of mining rights.
- Supervise and examine the individual obligation, punish the illegal action, e.g. the minimal funds on exploration.
- Examine and approve the application of cooperative petroleum exploration.
- Accept, examine and issue the certificate of petroleum geological survey.

Program for accepting /inspection /certificate of mining rights

- accepting
- inspection
- Re-examine
- auditing
- co-auditing with other departments

- signed by minister
- notification
- certification
- Put on records
- bulletin
• Person specially will be assigned for the application of geological survey, exploration and exploitation rights.
• The program of accepting as follows. Check material, register respectively, receive the registration fee, set up the application file, commission to the inspection department and provide the enquiry to applicant.

General program for accepting/inspection/certificate of mining rights

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Outline for Inspection

- Is the application format same to the ruled one?
- Is the filling of application same to the ruled one? Is the attachment all ready? Does the contents of implication is detailed?
- Qualification of the applicant.
- As for application concerning cooperative exploration, the contract and its approval document issued by Ministry of Foreign Trade and Economy should be provided.

Outline for Inspection (cont.)

- Whether the application range for exploration is over 2500 basic blocks. Whether the inflexion coordinate and relative maps are right.
- Whether the application range is overlap the previous area. If the range is not clear, the applicant for exploration right should provide the promises.
Outline for Inspection (cont.)

• Whether the application range is overlapped with the forest urban conservation area, military affairs forbidden zone and other area which preserved by laws and regulations.
• Whether the project of actualization or development is in accordance with the relative laws and regulations.
• The result should be examined during the individual apply for the exploration rights of transfer, reservation and cancellation.

Outline for Inspection (cont.)

• Status of the reserves examined and approved.
• Is there any opinion answered by environmental administration relate to the application of exploitation? Is there any approved document concerning petroleum development?
• Did the applicant evaluate the price of exploration and exploitation rights if funded by country? Have the results of estimate been confirmed by Ministry of Land and Resources? Have the treatment ways been approved by the relative department?
• Supervisor should put the relative information into the management system of petroleum exploration and exploitation.
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General regulations

- In order to make sure the quality of inspection, the re-examine work will be carried on following the legal procedure.
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The job concerning auditing are in charged by the director of Special Mine Division.
The auditing contents include whether the approved documents and certificate meet the ruled demands, whether the maps concerning block are reasonable, and whether the calculation and number of block are right.
Special problem will be deal with during auditing, ask for discussion in department meeting if necessary.
Any jobs relate to auditing must be finished before co-auditing conference.
General program for accepting /inspection /certificate of mining rights

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General regulations

- Rights of exploration and exploitation should also be co-audited.
Work program

- After acceptance of the application, the co-auditing form will be sent to different bureaus in 5 days.
- The co-auditing form should be feed back in 5 days.
- Detailed material concerning the co-auditing will be provided for reference.
- Bureau of Geological Exploration will gather all the opinions and give the primary opinion.
- Co-auditing meeting will be hold by charge minister or client, and the co-auditing department must attend.
- Answer approved and registration will be finished by Bureau of Geological Exploration according to the decision of co-auditing and legal procedure.

General program for accepting/inspection/certificate of mining rights

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General regulations

- After sign on co-auditing meeting, the examiner should number and print the certificate and relative documents.
- The administration should announce the applicant for taking certificate.

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General regulations

- When the applicant get the notification for certificate of exploration and exploitation, they should pay the relative fees.
- The applicant can be called the individual of exploration or exploitation rights if they hold the certificate.

General program for accepting /inspection /certificate of mining rights

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- callback
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Put on records in MLR

- The examiner should put one copy concerning the application, inspection material, certificate copy, inflexion coordinate table and relative documents on records.
- Up to now, the MLR have kept near 10,000 files on mining rights since August, 1998.

Put on records in administration of Province

- The examiner will take charge of the job.
- The contents including one copy of application and its attachment, the announcement of certificate, inflexion coordinate table and copied license.
Put on records in administration of County

- This job will be finished by the examiner and the administration of province who will transmit the relative files to the manager of county for putting on records.
- What should be put on records are the notification of certificate, inflexion coordinate table and copied license.

General program for accepting /inspection /certificate of mining rights

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General regulations

• According to item 11 of exploration means and item 31 of exploitation means.
• Mining rights concerning petroleum have been announced many times in Land and Resources newspaper, it is generally twice every year.

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Objectives of the petroleum mining rights supervision

- Enhance the regular and field supervision of petroleum exploration in production process.
- Maintain the legal rights of individual of mining rights.
- Supervise and urge the individual to take the obligations
- Assure petroleum exploration and exploitation being carried out legally, orderly and healthily.

Personnel and institution for supervision

- The supervisor concerning the petroleum is the base, the MLR and administration of provinces make up of the co-management in China.
- Supervisor system and relative office must be set up if the provinces /regions / cities have the oil-gas fields. The supervisors are 2 or 3 person from administration of province, they are part-time or full-time members. The position will be appointed if someone pass the training and get certificate.
Responsibility of supervisors

- They have to realize circs concerning the minimal funds, annual report, payment, production order and relative the individual of mining rights.
- They need to in time and actually report the problem during exploration and development, they also hand in the special report and annual supervision report.
- They will specially deal with some problems, for example, producing without approval and so on. They need to report to MLR or relative administration in time if illegal action is very serious.

Policies for development of western China

- According to the relative laws and regulations, the petroleum exploration and development in western and offshore China are encouraged and supported, and mining rights is free of charge.
Degree for payment decrease or free in mining rights

- As to exploration rights fees, the first year is free, the second to third year is half payment, the fourth to seventh years is three-quarter payment.
- As to exploitation rights fees, the first production year is free, the second and third production year is half payment, the fourth to seventh years is three-quarter payment, the payment of that year is free if the mine closed.

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Introduction of management of mining rights of oil and gas in China

• After twenty years hard work, the great progression have been got in management of mining rights of oil and gas in China.
• The framework of corresponding laws and regulations have been setup successfully. the management system of mining rights, which is in accordance with the rules of market economy, has been established.
• The management system of mining rights of oil and gas for government have been formed stably.
• The application of computer technology make the continuous development and update of management information system possible.

The register status of petroleum exploration and exploitation in China (including coal seam gas)

By the end of 2003, the followings have been setup in China.

Certificates for Prospect rights, 1135
Exploration area, 4,230,469.9 sq.km.
Certificates for Mining rights, 675
Exploitation area, 719,436 sq.km.
Total certificates, 1,810
Total area, 43,024,135 sq.km.
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Brief Introduction of Chinese-foreign Cooperative Exploitation of Petroleum Resources

- The first cooperative activity was carried out at the end of 1970s.
- Byelaws concerning the Chinese-foreign cooperative exploitation of petroleum resources on offshore was promulgated by State Council of China in Jan. 1982.
- In 1985, the State Council of China made a decision to open the south of China, including ten provinces/regions, for cooperative exploitation of petroleum resources on land. In order to extend the fields of cooperation, in Jan. 1993, northern China, concerning partly provinces/region, also have been opened, thus, the framework of Chinese-foreign cooperative exploitation of the petroleum on land were formed.
- Byelaws concerning the Chinese-foreign cooperative exploitation of petroleum resources on land was promulgated by State Council of China in Oct. 1993.
- Byelaws above mentioned were modified in 2001 base on the rules of WTO.
Systems of Chinese-foreign cooperation on petroleum exploitation

- The basic manner for Chinese-foreign cooperation are ensured by the above two byelaws, that is, CNOOC has the cooperative rights with foreign on the offshore petroleum resources, CNPC and SINOPEC have rights on land. China United Coalbed Methane Corporation (CUCMC) has the international cooperation rights in coal seam gas.

- In the aspect of mining rights management, firstly, the above companies need to apply for holding self-support rights of prospect and mining, after authorized by the relative department, they can sign contracts with foreign oil companies. The contracts need to be confirmed by Ministry of Commerce. Then, possessing the relative documents, Chinese petroleum companies can alter self-support rights to cooperative rights of prospect and mining in Ministry of Lands and Resources.

- Being the individual of mining rights, the Chinese petroleum companies should be charged with obligations. Foreign petroleum companies also have the relative obligations and rights according to the contracts.

- Any activities concerning the mining rights of Chinese-foreign cooperative exploitation on petroleum resources must abide by corresponding laws and regulations of mines resources.
Thanks for your attention.