



The Essential Need to Develop Petroleum and Natural Gas Legislation

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- I. Background
- II. Current Laws and Regulations on Petroleum and Natural Gas
- III. The Essential Need to Develop Petroleum and Natural Gas Legislation

I. Background

- Economic system
- Government–enterprise relationship
- Administrative measures
- Resource status
- Petroleum and natural gas industry

Economic reform

- Planned economy period
(1949–1978)
- Transition period from planned economy
to market economy (1978–1998)
- Market economy period
(1998–present)

Reform on government–enterprise relationship

- The period of poorly defined functions between the two entities
- The period of partial separation of functions
- The period of ultimate detachment

Reform on administrative measures

- Policy, administrative order, law and regulation
- Policy, law, regulation and administrative order
- Policy, law and regulation

Resource status

It is predicted that China's exploitable oil reserve is 15 billion tons and exploitable natural gas 14 trillion cubic meters, ranking the sixth and fifth respectively in the world.

By the end of 2005, the accumulated volume of proved exploitable oil was 6.906 billion tons, and the rest of exploitable volume was 2.441 billion tons. The figures for natural gas were 310 million cubic meters and 270 million cubic meters respectively.



Oil and gas industry

The proportion of oil and gas in energy consumption :

Petroleum :	21.2%
Natural gas :	2.8%
Coal :	68.7%
Primary power :	7.3%

Evaluation

Basically, national regulation on petroleum industry in different period has accommodated the then condition and development call.

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II Evaluation on current laws and regulations on petroleum and natural gas

Legislative body has promulgated the following laws since 1978:

- The *Marine Environmental Protection Law of the People's Republic of China* (enacted on 1st March, 1983)
- The *Mineral Resources Law of the People's Republic of China* (enacted in 1986 and amended in 1996)
- The *Environmental Protection Law of the People's Republic of China* (enacted on 26th December, 1989)
- The *Law of the People's Republic of China on Safety in Mines* (took effect on 1st May, 1993)
- The *Law on the Exclusive Economic Zone and the Continental Shelf of China* (enacted on 26th June, 1998)
- The *Land Administration Law of the People's Republic of China* (enacted in 1986 and revised in 1998 and 2004)
- The *Law on the Management of the Maritime Zones Use of the People's Republic of China* (enacted on 1st January, 2002)



Development of the *Mineral Resources Law of the People's Republic of China* (amended in 1996)

- The body exercising the ownership of mineral resources
- The mining policy pivoting on the rights of mining and exploitation
- Unified registration and administration in exploiting zone
- Qualification and status of mining party
- Acquisition with compensation and the legal transfer of exploration and mining rights belongs to property right

The Chinese government has enacted over 20 supporting regulations on mineral resources

- *Regulations of the People's Republic of China on the Exploitation of Offshore Petroleum Resources in Cooperation With Foreign Enterprises* (amended in 1982 and 2006)
- *Regulations of the People's Republic of China Concerning the Exploitation of On-shore Petroleum Resources in Cooperation With Foreign Enterprises* (amended in 1993 and 2001)
- *Measures for the Area Registration Administration of Mineral Resources Exploration and Survey* (1998)
- *Measures for the Registration Administration of Mineral Resources Exploitation* (1998)
- *Measures for the Administration of Transfer of Mineral Exploration Right and Mining Right* (1998)
- *Tentative Measures on Supervision and Administration of Mineral Resources* (1987)
- *Provisions Concerning the Payment of Royalties for the Exploitation of Offshore Petroleum Resources* (Ministry of Finance, 1989)
- *Provisions on the Administration of Collection of the Mineral Resources Compensation*
(amended in 1994 and 1997)
- *Regulations on Administration of Geological Information* (2002) [*Measures on Administration of National Geological Information* (1988) is invalid]

Upstream pipeline transportation

Several Rules for Dealing with the Relationship between Petroleum Pipeline, Natural Gas Pipeline and Highway (for trial) by the Ministry of Communications (MOC) and the Ministry of Petroleum (MOP) in 1978

Several Rules for Relationship between Crude Oil and Natural Gas Long-distance Pipeline and Trunk Railway in 1987

Regulations on the Protection of Oil and Gas Pipelines (revised in 2001) by the State Council in 1989

Interim Provisions for Supervision and Administration of Oil and Gas Pipelines by the State Economic and Trade Commission (SETC) in 2000



The State Council has permitted 4 companies to engage in the exploration of petroleum and natural gas (including exploiting and mining rights):

CNPC

SINOPEC

CNOOC

SHAANXI YANCHANG PETROLEUM GROUP

CNPC and SINOPEC stick to the principle of focusing both on upstream and downstream areas while operating in petroleum and natural gas exploitation, petroleum & chemical industry, crude oil and refinery oil trade and wholesale of refined oil.

Upstream laws

Basic policies of the *Mineral Resources Law of the People's Republic of China*

- State ownership policy
- Policy on registration of exploitation and development
- Paid-to-use policy
- Policy on legal transfer of exploitation and mining rights
- Special polices on petroleum and natural gas exploitation and development

Special policies for oil and gas

- Special mineral resource policy
- First grade registration and administration on exploitation and development
- Exploitation and development approval by primary authority
- Scroll exploitation and development
- Exploitation on a trial basis during exploitation period
- Exploitation application and public notice
- First grade administrative punishment

Basic laws and policies for overseas petroleum cooperation

- 1 Conferring CNOOC, CNPC and CINOPEC the exclusive right of overseas cooperation
- 2 Cooperation field should be approved by primary authority
- 3 Cooperate through tendering and overseas agreement.
- 4 Overseas contracting party is in charge of risky exploitation. If newly discovered fields can be used for commercial purpose, both Chinese and foreign parties should jointly invest and develop them.
- 5 Geological materials belong to China
- 6 Foreign contracting party gets fair economic returns from petroleum and must pay taxes according to law.
- 7 Government keeps a certain part of economic returns and the rest belongs to the two contracting parties.

Basic laws and policies for pipeline transportation

Pipeline protection

Settling problems when pipelines meet or are adjacent to each other



Downstream area mainly includes petroleum & chemical industry and petroleum operation

It is regulated by administrative rules such as approval, notice and decision made by the State Council and notice and measures taken by ministries to standardize import of crude oil and refined oil, operation, storing and retail of refined oil, price management of crude oil, natural gas and refined oil.

Comment on the current laws and regulations

The current laws and regulations on petroleum and natural gas were carried out during the transition period from planned economy to market economy. In the past two decades, they have met the industrial and socioeconomic needs. Particularly, the upstream legislation properly handles the relationship between the use of oil and natural gas, rectifies exploitation and development order, facilitates reasonable use and protection of oil and natural gas and safeguards the state ownership and legitimate rights and interest of the mining right owner.



Comment on the current laws and regulations

- Relatively complete
- To be improved
- To be established

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III. The Essential Need to Develop Petroleum and Natural Gas Legislation

- To adapt to the development trend of oil and gas
- To improve legislation on oil and gas

Problems

- Huge supply gap
- Massive environmental pressure
- Facility protection to be improved
- Low use efficiency of oil
- Weakening administration

Acute problem in supply and demand

1993 : A net oil importer

2000 : The third largest oil consumer devouring around 200 million tons annually

2003 : The second largest oil consumer, gobbling nearing 250 million tons

2005 : The output of crude oil was 181 million tons, natural gas 50 billion cubic meters. The total consumption of crude oil was 317 million tons, natural gas 50 billion cubic meters. Foreign dependence degree of crude oil was 43%.

Output, demand and gap predictions of oil and natural gas 2010– 2020

Year	Crude oil (million tons)				Natural gas (billion cubic meters)			
	output	demand	gap	foreign dependence (%)	output	demand	gap	foreign dependence (%)
2010	190	370	180	49	80	120	40	33
2020	200	450	250	56	120	200	80	40

Massive environment pressure

- The international community has attached great importance to global warming and environmental pollution;
- Public awareness on environmental protection has improved;
- The public has higher demands for environment;
- Production and application technologies of oil and gas are backward;
- Enterprise's Investment fund on environmental protection is insufficient;
- Security and environmental protection work is unbalanced.

Facility protection is to be improved

Due to unbalanced development of China, in some areas, oil and natural gas is stolen and facilities are damaged for short-term benefits, even pipelines are destroyed, which severely threatened production and public security. Therefore, we must clearly define responsibility.

Low use efficiency of oil and gas

The energy consumption per GDP in China is three times of the world average. Crude oil Consumption on per 10,000 yuan GDP is 0.42 ton, which is 2.3 times of the amount consumed by APEC members and even higher than that of Brazil and India. Low use efficiency of oil aggravates oil shortage.

Weakening administration

Relative regulatory bodies:

- National Development and Reform Commission (NDRC)
- Ministry of Land and Resources (MLR)
- Ministry of Finance (MOF)
- State Administration of Work Safety (SAWS)
- State Environmental Protection Administration (SEPA)

Major administrative bodies :

There is no major bodies like the Ministry of Petroleum or the Ministry of Energy



To improve China's legislation on petroleum and natural gas

- To learn from foreign legislation mode;
- To improve the current domestic legislation;
- To use favorable legislative conditions.



To improve China's legislation on petroleum and natural gas — using foreign legislation modes

- Focusing on upstream legislation;
- Separate law for upstream and downstream areas;
- Comprehensive legislation for the whole industry.



To improve China's legislation on petroleum and natural gas — foreign legislation modes

Precondition: relative to the comprehensive legislation for the whole industry

- Legislation is not systematic. Basic principles and policies on Petroleum Law are scattered
- Legislation is unbalanced and inefficient
- Legislation structure is incomplete and key laws are absent
- Legislative regulations are not mature
- Legislation cannot match deepening economic reform

To improve China's legislation on petroleum and natural gas —using favorable legislative conditions

- China's oil legislation work began in the 1990s
- During the Third Session of the Tenth NPC in last March, oil legislation proposal was formerly listed into NPC proposals
- Legislation work of *Energy Law* was launched in 2006, which will push forward the oil legislation work
- Legislative and judiciary practice and effective management system accumulated in the past two decades will substantially contribute to the will-be *Oil and Natural Gas Law*
- We are also well positioned to draw upon foreign experience in legislation

The legislation should focus on the flowing key problems and laws

- The relationship between the *Energy Law* and *Oil and Natural Gas Law*
- Whether it should be Oil and Natural Gas Law or separate laws for each resource
- Whether the Law should focus on upstream, downstream area or the whole industry
- The relationship between the Law and other relevant laws
- The relationship between the Law and the *Law on the Protection of Oil and Gas Pipelines*
- Supervision and administration system
- International cooperation
- National oil reserve
- Facility protection

Rough framework of *Oil and Natural Gas Law*

- Chapter 1 General rules
- Chapter 2 Oil plan and development
- Chapter 3 Oil production
- Chapter 4 Oil operation
- Chapter 5 Oil zone protection
- Chapter 6 International cooperation on exploitation
- Chapter 7 National oil reserve
- Chapter 8 Legal responsibility
- Chapter 9 supplementary articles



Thank you!