

**PETROLEUM ACT  
OF THE KURDISTAN REGION OF IRAQ**

**FOR SUBMISSION TO THE PARLIAMENT OF THE KURDISTAN REGION**

**Council of Ministers draft**

**22 OCTOBER 2006**

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**LAW NO.X OF 2006****PETROLEUM ACT OF THE KURDISTAN REGION OF IRAQ****PREAMBLE**

*Whereas*, the Parliament is the legislative authority of the Kurdistan Region and consists of the representatives of the people chosen through free and fair elections;

*Whereas*, the Parliament wishes to develop the petroleum wealth of the Kurdistan Region in a way that achieves the highest benefit to the people of the Kurdistan Region and all of Iraq, using the most advanced techniques of market principles and encouraging investment, consistent with Article 112 of the Constitution of Iraq;

*Whereas*, the Parliament wishes to develop the petroleum wealth of the Kurdistan Region in a manner that promotes and adheres to the highest standards of transparency, accountability, and equity, and that provides special allocations for all citizens of the Kurdistan Region, for the future generations of the Kurdistan Region, for those who suffered as a result of the previous regime in Iraq, for the special needs of ethnic and religious minorities and for the natural environment of the Kurdistan Region;

*Whereas*, in accordance with the Constitution of Iraq, the prevailing law of the Kurdistan Region is the law of that Region, except with regard to a matter wholly within the exclusive jurisdiction of the Government of Iraq;

*Whereas*, the development of petroleum wealth in the Kurdistan Region shall be consistent with Articles 111 and 112 of the Constitution of Iraq, concerning oil and gas resources; and

*Whereas*, the Government of the Kurdistan Region has established, by Act of the Parliament, a Ministry of Natural Resources in the Kurdistan Region, with responsibility for all natural resources except for water, and forestry;

The Parliament enacts as follows:

**CHAPTER I - DEFINITIONS AND GENERAL PROVISIONS****Article 1: Citation**

This Act may be cited as the “Petroleum Act”.

**Article 2: Definitions**

In this Act:

“Access Authorisation” means an authorisation granted pursuant to Article 31 of this Act;

“Act” means this Petroleum Act, as amended or modified from time to time, and regulations made and directions given under it;

“Affiliate” means, as regards any of the companies or entities constituting a Contractor, a company or other legal entity which:

- (a) controls an entity constituting the Contractor; or
- (b) is controlled by an entity constituting the Contractor; or
- (c) controls or is controlled by a company or entity which controls an entity constituting the Contractor;

“Asset” means any item of immovable property, whether public or private;

“Associated Natural Gas” means any gaseous Petroleum produced in association with Crude Oil under reservoir conditions;

“Authorisation” means an Access Authorisation, a Petroleum Contract, a Prospecting Authorisation or any agreement made in respect of such an Authorisation or Contract, issued by the Minister;

“Authorised Area” means the area that is from time to time the subject of an Authorisation;

“Authorised Person” means:

- (a) in respect of a Petroleum Contract, a Contractor; and
- (b) in respect of any other Authorisation, the Person to whom the Authorisation has been granted;

“Commercial Production” means a daily production of no less than five thousand (5,000) barrels over any twelve (12) month period;

“Constitution of Iraq” means the permanent constitution of Iraq approved by the Iraqi people in the general referendum of 15 October 2005;

“Contract Area” means the Authorised Area under a Petroleum Contract;

“Contractor” means a Person with whom the Ministry has entered into a Petroleum Contract;

“Control” means direct or indirect control of the majority of the voting rights of the applicable entity at the shareholders meetings or their equivalent;

“Council of Ministers” means the Council of Ministers of the Regional Government;

“Crude Oil” means all liquid hydrocarbons in their unprocessed state or obtained from Natural Gas by condensation or any other means of extraction;

“Current Field” means a Petroleum Field that has been in Commercial Production prior to 15 August 2005;

“Decommission” means, in respect of an Authorised Area or a part of it, as the case may be, to abandon, decommission, transfer, remove and/or dispose of structures, facilities, installations, equipment and other property, and other works, used in Petroleum Operations in the Authorised Area, to clean up the Authorised Area and make it good and safe, and to protect the environment;

“Delivery Point” means the point, after extraction, at which the Crude Oil and Natural Gas is ready to be taken and sold, consistent with international practice, and the point at which a Person may acquire title to Petroleum in accordance with Article 5 of this Act;

“Discovered Petroleum” means Petroleum encountered in a Reservoir in a Contract Area which has not previously been found, and which is recoverable at the surface in a flow measurable by accepted petroleum industry testing methods;

“Disputed Territories” means the disputed territories including Kirkuk referred to in Article 58 of the Law of Administration for the State of Iraq for the Transitional Period and Article 140 of the Constitution of Iraq;

“Environment Fund” means the fund, administered by the Regional Government, to which Revenues will be allocated pursuant to Article 19 of this Act, and to which Contractors are required to contribute pursuant to the terms of a Production Sharing Contract, as specified in Article 46 of this Act;

“Federal Petroleum Committee” means any institution established by the Government of Iraq with competencies set out in Annex B of this Act;

“Future Field” means a Petroleum Field that was not in Commercial Production prior to 15 August 2005, and any other Petroleum Field that may have been, or may be, discovered as a result of subsequent exploration;

“Good Oil Field Practice” means such practices and procedures employed in the petroleum industry worldwide by prudent and diligent operators under conditions and circumstances similar to those experienced in connection with the relevant aspect or aspects of the Petroleum Operations, principally aimed at ensuring:

- (i) conservation of Petroleum resources, which implies the utilization of adequate methods and processes to maximise the recovery of hydrocarbons in a technically and economically sustainable manner, with a corresponding control of reserves decline, and to minimise losses at the surface;
- (ii) operational safety, which entails the use of methods and processes that promote occupational security and the prevention of accidents;
- (iii) environmental protection, that calls for the adoption of methods and processes which minimise the impact of Petroleum Operations on the natural environment;

“Government of Iraq” means the Federal Government of the Republic of Iraq, which holds office under the Constitution of Iraq;

“Governorate” has the same meaning as in the Constitution of Iraq;

“Inspector” has the meaning in Article 42 of this Act;

“Kurdistan Region” means the Kurdistan Region of Iraq recognised by the Constitution of Iraq pursuant to Article 117 of that Constitution, and shall include any Disputed Territories where the citizens in those Disputed Territories, in the referendum required by Article 140 of the Constitution of Iraq, decide that those Disputed Territories are to be part of the Kurdistan Region;

“Minister” means the person appointed by the Prime Minister of the Kurdistan Region, and approved by the Parliament, to direct the Ministry;

“Ministry” means the Ministry of Natural Resources of the Kurdistan Region;

“Model Production Sharing Contract” means a model Petroleum Contract that may be promulgated and revised from time to time by the Ministry, which contains, *inter alia*, an element of commercial and technical risk undertaken by the Contractor in exchange for a share of production, and which may be used as the basis for negotiations for a Petroleum Contract between the Regional Government and Persons who have expressed an interest in carrying out Petroleum Operations;

“Natural Gas” means all gaseous hydrocarbons and inerts, including wet gas, dry gas, casing head gas and residue gas remaining after the extraction of liquid hydrocarbons from wet gas, but not Crude Oil;

“Operator” means an Authorised Person or other Person named in an Authorisation to manage Petroleum Operations;

“Other Contract” means any contract other than a Petroleum Contract;

“Parliament” means the Parliament of the Kurdistan Region;

“Person” means a natural person, a corporation or other legal entity, whether Iraqi or foreign, or public or private;

“Petroleum” means:

- (i) any naturally occurring hydrocarbon, whether in a gaseous or liquid state;
- (ii) any mixture of naturally occurring hydrocarbons, whether in a gaseous or liquid state; or
- (iii) any Petroleum (as defined in paragraphs (i) and (ii) above) that has been returned to a Reservoir;

“Petroleum Contract” means a contract, licence, permit or other authorisation made or given pursuant to Article 30 of this Act;

“Petroleum Field” means a Reservoir or group of Reservoirs within a common geological structure or feature from which Petroleum may be commercially produced under the prevailing technical and economic conditions;

“Petroleum Operations” means activities in the Kurdistan Region for the purposes of:

- (i) prospecting for Petroleum;
- (ii) exploration for, development, production, marketing, transportation, refining, storage, sale or export of Petroleum; or

- (iii) construction, installation or operation of any structures, facilities or installations for the development, production, transportation, refining, storage, and export of Petroleum, or decommissioning or removal of any such structure, facility or installation;

“Prospecting Authorisation” means an authorisation granted pursuant to Article 29 of this Act;

“Public Entity” means the Kurdistan Exploration and Production Company (KEPCO), the Kurdistan National Oil Company (KNOC), the Kurdistan Oil Marketing Organisation (KOMO), the Kurdistan Organisation for Downstream Operations (KODO), the Kurdistan Oil Trust Organisation (KOTO), the Contract Evaluation Committee, and any other company, organisation or body established by law for activities related to Petroleum Operations;

“Public Officer” means a civil servant, including a member or employee of a Public Entity, a member of the Parliament or a member of the Regional Government;

“Region” means the Kurdistan Region, or any other Region of Iraq which may be created pursuant to Article 118 and 119 of the Constitution of Iraq, and laws passed under that Constitution;

“Regional Government” means the Government of the Kurdistan Region, which holds office under the Constitution of the Kurdistan Region;

“Reservoir” means a subsurface rock formation containing an individual and separate natural accumulation of producible Petroleum characterised by a single natural pressure system;

“Revenue” means, unless otherwise specified, Regional Government revenue from Petroleum Operations including, but not limited to, bonuses, Royalty, profit petroleum, taxation and, where Petroleum is bought by the Kurdistan Region for internal consumption, the sales price or fair market value of that Petroleum, and the Regional Government’s share of revenue from petroleum operations in the rest of Iraq;

“Royalty” means the percentage of Petroleum produced and saved from the Contract Area allocated for the Regional Government;

“State Oil Marketing Organisation” or “SOMO” means any organisation established by the Government of Iraq to export and market, or to regulate the export and marketing of, produced Petroleum that falls within the authority of the Government of Iraq, pursuant to Article 112 of the Constitution of Iraq;

“State Oil Trust Organisation” or “SOTO” means any organisation established by the Government of Iraq to receive revenues from petroleum operations that fall within the authority of the Government of Iraq pursuant to Article 112 of the Constitution of Iraq;

“Well” means a perforation in the earth’s surface dug or bored through subsurface rock formations for the purpose of exploring for, inspecting or producing Petroleum; and

“Wellhead” means the point where the Well and associated systems intersect the earth’s surface.

### **Article 3: Territorial scope of Act**

This Act applies to the territory of the Kurdistan Region.

### **Article 4: Material scope of Act**

Section 1: This Act applies to Petroleum Operations, whether carried out by public companies or by private sector companies, whether Iraqi-owned or foreign.

Section 2: All activities related to Petroleum Operations shall be governed by this Act.

Section 3: Pursuant to Article 115 and Section 3 of Article 121 of the Constitution of Iraq, no legislation or other law, and no agreement, contract, memorandum of understanding or other instrument shall have application to Petroleum Operations except with the express agreement of the Regional Government and pursuant to the provisions of this Act.

Section 4: For the avoidance of doubt, the Law of Investment of the Kurdistan Region (Law No. 4 of 2006) does not apply to Petroleum Operations.

### **Article 5: Title to Petroleum and Government rights**

Section 1: Petroleum in the Kurdistan Region is owned in a manner consistent with Article 111 of the Constitution of Iraq. The Regional Government shall share Revenue derived from Petroleum with all the people of Iraq, pursuant to Article 112 of the Constitution of Iraq and this Act.

Section 2: The Minister shall oversee and regulate all Petroleum Operations, pursuant to Article 115 of the Constitution of Iraq and in a manner consistent with Article 112 of the Constitution of Iraq. The Minister may licence Petroleum Operations to third parties to maximise timely returns from the Petroleum resources of the Kurdistan Region.

Section 3: The Minister shall oversee and regulate the marketing of the Regional Government's share of all extracted Petroleum from the Delivery Point where that Petroleum has been extracted from Petroleum Operations, and may licence the marketing of that share to third parties.

Section 4: The Regional Government shall receive its share of all Revenue derived from Petroleum Operations for the benefit of the people of the Kurdistan Region subject to Article 17 and Annex A of this Act, and consistent with Article 112 of the Constitution of Iraq.

Section 5: A Person may acquire title to Petroleum only at the Delivery Point.

### **Article 6: Infrastructure and downstream activities**

Section 1: The Minister shall oversee and regulate all infrastructure used directly or indirectly for Petroleum Operations located in the Kurdistan Region, including but not limited to Assets for production, refining, transportation including pipelines, valve stations, pump stations, compressor stations and associated installations, and distribution, including all centres and buildings, to optimise Petroleum exploration and production in the Kurdistan Region.

Section 2: The Minister shall oversee and regulate all downstream Petroleum Operations, including but not limited to refining, transportation, storage, and the production of petrochemicals.

Section 3: The Minister shall make all infrastructure referred to in Section 1 of this Article available, pursuant to the provisions of this Act, to the Government of Iraq and to all other producing Regions and Governorates for the benefit of all the people of Iraq, to integrate with agreed Iraq national policy for export and distribution.

Section 4: The Minister shall make any pipeline network with spare capacity available to any Persons lawfully conducting petroleum activities in Iraq, and access to such capacity shall be agreed by the Minister on terms to be defined by contract.

## **CHAPTER II - THE MINISTRY**

### **Article 7: General competencies**

Section 1: The Minister is the competent official of the Regional Government to oversee and regulate Petroleum Operations. The responsibilities of the Ministry include, but are not limited to, the formulation, regulation and monitoring of Petroleum Operation policies, as well as the regulation, planning, implementation, supervision, inspection, auditing and enforcement of all Petroleum Operations by all Persons and all activities relating thereto, including the marketing of Petroleum.

Section 2: The Minister is responsible for negotiating, agreeing and executing all Authorisations, including Petroleum Contracts, entered into by the Regional Government, as well as for amending the terms of any Authorisation to ensure that Petroleum Operations are carried out for the benefit of the people of the Kurdistan Region and Iraq.

### **Article 8: Public Entity regulation**

Section 1: The Minister is responsible for regulating the operations of:

- (a) the Kurdistan Exploration and Production Company (KEPCO), as set out in Article 12 of this Act;
- (b) the Kurdistan National Oil Company (KNOC), as set out in Article 13 of this Act;
- (c) the Kurdistan Oil Marketing Organisation (KOMO), as set out in Article 14 of this Act;
- (d) the Kurdistan Organisation for Downstream Operations (KODO), as set out in Article 15 of this Act, and
- (e) the Minister is also responsible, under the supervision of the Parliament, for overseeing the operations of the Kurdistan Oil Trust Organisation (KOTO), as set out in Article 17 of this Act.

Section 2: The Minister may recommend the creation of, and regulate the operations of, other Public Entities for Petroleum exploration, development, production and for the supply and procurement of services to facilitate the effective running of Petroleum Operations.

### **Article 9: Encouragement of investment**

Section 1: The Minister shall encourage public and private sector investment in Petroleum Operations in a manner that ensures efficient management of the Petroleum resources of the Kurdistan Region to provide maximum timely returns to the people of the Kurdistan Region and Iraq.

Section 2: The Minister shall encourage the construction of all new downstream operations and plants, including pipelines and refineries, and shall encourage them to be built, where possible, by, or in partnership with, the private sector.

### **Article 10: Organisation of the Ministry**

Section 1: The Minister may organise the Ministry, and appoint such staff as he may deem necessary, including Directors-General, Officers, and advisers who are citizens of the Kurdistan Region, citizens of Iraq, or foreign advisers, in any way that is compatible with modern standards and management structures.

Section 2: The Minister may organise or reorganise all present organisations, offices, centres and institutions directly or indirectly under the authority and control of the Regional Government that have responsibilities for Petroleum Operations in the Kurdistan Region, taking into account the responsibilities set out in this Chapter.

Section 3: All positions in the Ministry shall be filled on the basis of appropriate qualifications, capability and experience.

Section 4: The Minister shall, wherever possible, fill available positions with citizens of the Kurdistan Region and other citizens of Iraq. The Minister may, where he deems it necessary, employ or retain persons who are not citizens of Iraq.

Section 6: The Minister may establish representative offices outside the Kurdistan Region to promote investment in Petroleum Operations.

### **Article 11: Exercise by the Ministry of its powers and functions**

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

- (a) to ensure sound resource management;
- (b) to ensure that Petroleum is developed in a way that minimises damage to the natural environment, is economically sustainable, promotes further investment and contributes to the long-term development of the Kurdistan Region; and
- (c) is reasonable and consistent with Good Oil Field Practice.

Before exercising any such power or discharging any such function, the Minister may give opportunity to Persons likely to be affected to make timely representations to it, and shall give consideration to such relevant representations received by it, provided that the interests of the people of the Kurdistan Region and Iraq are not thereby adversely affected.

### **CHAPTER III - THE PUBLIC ENTITIES**

#### **Article 12: Establishment and competencies of KEPCO**

Section 1: The Kurdistan Exploration and Production Company (KEPCO) is hereby established.

Section 2: KEPCO is a public company.

Section 3: Members of the Board of KEPCO shall be appointed by the Council of Ministers, and approved by a two-thirds majority of Parliament. Members shall be independent of the Ministry, and shall have petroleum or other appropriate technical and management qualifications.

Section 4: Subject to an agreement pursuant to Article 24 of this Act, an additional Board member may be appointed by the designated institution of the Government of Iraq.

Section 5: The appointment of all KEPCO Board members shall be for a fixed five (5) year term, renewable by Parliament by a two-thirds majority.

Section 6: KEPCO may, subject to the approval of the Council of Ministers on a case by case basis:

- (a) compete for Authorisations for Future Fields;
- (b) enter into joint ventures and similar contractual arrangements, whether in the Kurdistan Region, in other Regions and Governorates of Iraq or abroad; and
- (c) create operating subsidiaries for particular Petroleum Operations in respect of Future Fields.

Section 7: KEPCO shall be governed by this Act, the regulations issued by the Minister, and other applicable laws and rules of the Kurdistan Region.

#### **Article 13: Establishment and competencies of KNOC**

Section 1: The Kurdistan National Oil Company (KNOC) is hereby established.

Section 2: KNOC is a public company.

Section 3: Members of the Board of KNOC shall be appointed by the Council of Ministers, and approved by a two-thirds majority of Parliament. Members shall be independent of the Ministry, and shall have petroleum or other appropriate technical and management qualifications.

Section 4: Subject to an agreement pursuant to Article 24 of this Act, an additional Board member may be appointed by the designated institution of the Government of Iraq.

Section 5: The appointment of all KNOC Board members shall be for a fixed five (5) year term, renewable by Parliament by a two-thirds majority.

Section 6: KNOC may compete for Authorisations for Current Fields.

Section 7: Subject to the approval of the Council of Ministers, KNOC may enter into joint ventures with reputable and experienced international petroleum companies for Petroleum Operations to enhance production from Current Fields, to maximise early returns. Subject to an agreement pursuant to Article 24 of this Act, such a joint venture may also be subject to the approval of the designated institution of the Government of Iraq.

Section 8: KNOC may, subject to the approval of the Council of Ministers on a case by case basis, compete for Authorisations for Future Fields.

Section 9: KNOC shall be governed by this Act, the regulations issued by the Minister, and other applicable laws and rules of the Kurdistan Region.

#### **Article 14: Establishment and competencies of KOMO**

Section 1: The Kurdistan Oil Marketing Organisation (KOMO) is hereby established.

Section 2: KOMO is a public company.

Section 3: Members of the Board of KOMO shall be appointed by the Council of Ministers. The Chairman of KOMO shall be the Minister.

Section 4: The appointment of all KOMO Board members, with the exception of the Minister, shall be for a fixed five (5) year term, renewable by the Council of Ministers.

Section 5: KOMO shall be governed by this Act, the regulations issued by the Minister, and other applicable laws and rules of the Kurdistan Region.

Section 6: KOMO may market and regulate the marketing of the Regional Government's share of Petroleum from Petroleum Operations, and may, with the agreement of a Contractor to a Production Sharing Contract, market the Contractor's share of Petroleum.

#### **Article 15: Establishment and competencies of KODO**

Section 1: The Kurdistan Organisation for Downstream Operations (KODO) is hereby established.

Section 2: KODO is a public company.

Section 3: Members of the Board of KODO shall be appointed by the Regional Government, and approved by a two-thirds majority of Parliament. Members shall be independent of the Ministry, and shall have petroleum or other appropriate technical and management qualifications.

Section 4: The appointment of all KODO Board members shall be for a fixed five (5) year term, renewable by Parliament by a two-thirds majority.

Section 5: The Minister may assign some of the Government's downstream rights in respect of Petroleum Operations to KODO.

Section 6: KODO shall be governed by this Act, the regulations issued by the Minister, and other applicable laws and rules of the Kurdistan Region.

Section 7: KODO may manage all Regional Government-owned infrastructure related to Petroleum Operations referred to in Article 6 of this Act, and shall make available such infrastructure, including main pipeline networks, to all relevant public and private sector entities operating in the Kurdistan Region and offer on a first-come first-served basis for available capacity, and in a manner that integrates producing Regions and Governorates of Iraq with Iraq national policy for export and distribution.

Section 8: KODO may, subject to the approval of the Minister, compete for Authorisations, in its own right create operating subsidiaries for particular Petroleum Operations, and enter into joint ventures, and similar contractual arrangements, whether in the Kurdistan Region, or in other Regions and Governorates.

Section 9: KODO may enter into partnership with international oil companies or with the local private sector for new downstream Petroleum Operations, subject to the approval of the Regional Government.

Section 10: KODO may licence the management of any of its infrastructure to third parties with the approval of the Minister.

#### **Article 16: Application of company law**

KEPCO, KNOC, KOMO, and KODO shall each be subject to the general company law of the Kurdistan Region, and held accountable as commercial enterprises and subject to the same rules, regulations and obligations.

#### **Article 17: Establishment and competencies of KOTO**

Section 1: The Kurdistan Oil Trust Organisation (KOTO) is hereby established.

Section 2: KOTO shall be supervised by the Parliament.

Section 3: Members of the governing body of KOTO shall be appointed by the Council of Ministers, and approved by a two-thirds majority of Parliament. The powers and accountabilities of KOTO members shall be defined in detail by law.

Section 4: Consistent with Article 115 of the Constitution of Iraq, all Revenues from Petroleum Operations that are the subject matter of this Act shall be received by KOTO on behalf of the people of the Kurdistan Region, subject to Article 21 of this Act and any agreement pursuant to Article 24 of this Act.

Section 5: All revenues from petroleum operations that shall be remitted by the Government of Iraq to the Kurdistan Region shall be received by KOTO on behalf of the people of the Kurdistan Region.

Section 6: KOTO shall maintain two accounts: one for Revenues from Petroleum Operations in respect of Current Fields (the Current Fields Account); and one for Revenues from Petroleum Operations in respect of Future Fields (the Future Fields Account). Both accounts shall be part of the general revenue of the Kurdistan Region under the authority of the Parliament.

Section 7: KOTO shall make the Current Fields Account and the Future Fields Account subject to regular independent audit, and such audit shall be available to the public. In all other respects KOTO shall discharge its responsibilities consistent with the Principles and Criteria of the Extractive Industries Transparency Initiative (EITI) as set out in the EITI Source Book of March 2005.

## **CHAPTER IV - REVENUE MANAGEMENT AND SPECIAL ALLOCATIONS**

### **Article 18: Petroleum Revenue Management Act**

Section 1: The Parliament shall, in due course, promulgate a Petroleum Revenue Management Act to regulate KOTO and the management of Revenue in the Kurdistan Region, consistent with the highest international standards for transparency and accountability.

Section 2: The Parliament shall establish a Parliamentary Committee to make recommendations on a Revenue management framework and policy for the Kurdistan Region, and recommendations as to how that framework can promote decentralisation and the local delivery of government services.

### **Article 19: Special allocations**

The Parliamentary Committee referred to in Article 18 of this Act shall propose efficient, cost-effective means to make the following guaranteed special allocations of Revenue received by KOTO, to be established by law:

- (a) an allocation of ten percent (10%) to be distributed as an annual dividend to each and every citizen of the Kurdistan Region;
- (b) an allocation of not less than seven percent (7%) to an investment fund for future generations of citizens of the Kurdistan Region, managed by trustees appointed by Parliament, and invested on the basis of sound economic principles so as to become a significant source of income for the Kurdistan Region at such time as the petroleum wealth of the Kurdistan Region and Iraq declines;
- (c) an allocation of not less than one point five percent (1.5%) to be distributed as an annual dividend for citizens of the Kurdistan Region who suffered, or who suffer, extraordinary hardship as a result of the policies and practices of the previous regime in Iraq, including but not limited to veterans, dependents of those killed, and those who suffered physical or psychological disability or who suffered great loss of property;

- (d) an allocation of not less than one point five percent (1.5%) for the Environment Fund, for projects to restore and rehabilitate the natural environment of the Kurdistan Region, including but not limited to reforestation, de-mining, anti-pollution measures, the creation of urban green spaces, national parks, and the preservation of wildlife; and
- (e) an allocation or allocations, to be distributed annually, in an amount or amounts to be recommended by the Parliamentary Committee, for any elected bodies of citizens of the Kurdistan Region who are members of an ethnic or religious minority, including Arabs, Turkomen, Chaldeans, Assyrians, Syriacs, Armenians, Sabean-Mandeans, Yazidis, Shabak, Kakai, Jews, Baha'i, and other minorities, to support the special social, cultural and governmental needs of the Kurdistan Region's minorities within the Kurdistan Region.

## **CHAPTER V - COOPERATION WITH FEDERAL AUTHORITIES**

### **Article 20: Strategic policy formulation**

The Regional Government shall, together with the Government of Iraq, formulate strategic policies to develop the Petroleum wealth of Iraq in a way that achieves the highest benefit to the Iraqi people using the most advanced techniques of market principles and encouraging investment, consistent with Article 112 of the Constitution of Iraq.

### **Article 21: Revenue sharing**

The Regional Government shall share Revenue pursuant to the provisions of Annex A of this Act, and subject to Article 24 of this Act.

### **Article 22: Restructuring of the industry in Iraq**

The Regional Government shall cooperate with the Government of Iraq to restructure the petroleum industry of Iraq pursuant to Annex B of this Act, and subject to Article 24 of this Act.

### **Article 23: Regional role of federal institutions**

The Regional Government shall agree that the two upstream federal institutions referred to in paragraph (g) of Annex B of this Act shall have a role in the Kurdistan Region, subject to Article 24 of this Act.

### **Article 24: Conditional cooperation**

Section 1: Without prejudice to the constitutional rights of the Kurdistan Region, the cooperation of the Regional Government referred to in Article 21, Article 22, and Article 23 of this Act is conditional upon:

- (a) the conclusion of an agreement between the Regional Government and the Government of Iraq on the fair and equitable revenue sharing, distribution and administration of extracted Petroleum as set out in Annex A of this Act;
- (b) the modern restructuring the petroleum industry of Iraq in accordance with Annex B of this Act; and
- (c) the establishment of the role for federal institutions in the Regions pursuant to Annex C of this Act.

Section 2: If the conditions set out in Section 1 of this Article are not met in full then, consistent with this Act, including Articles 4, 5 and 6 of this Act, and consistent with the rights of the Kurdistan Region as specified in the Constitution of Iraq, the Kurdistan Region shall retain exclusive control of Petroleum Operations, including the marketing of the Regional Government's share of Petroleum. In those circumstances, the Kurdistan Region shall also retain exclusive management and control of Revenue, which shall be administered by KOTO pursuant to Section 7 of Article A1, and Section 8 of Article A2, of Annex A of this Act.

## **CHAPTER VI - ANTI-CORRUPTION PROVISIONS**

### **Article 25: Restrictions to rights of Public Officers**

Section 1: A Public Officer shall not acquire, attempt to acquire or hold:

- (a) an Authorisation or an interest, whether direct or indirect, in an Authorisation; or
- (b) any direct or indirect share in a corporation (or an Affiliate of it) that holds an Authorisation, unless as part of a non-discriminatory transparent process of privatisation of a Regional Government-owned entity.

Section 2: Any instrument that grants or purports to grant, to a Public Officer, an interest, whether direct or indirect, in an Authorisation shall, to the extent of the grant, be void.

Section 3: The acquisition or holding of an Authorisation, interest or share by the minor children or spouse of a Public Officer shall be deemed to be an acquisition or holding by the Public Officer.

Section 4: The Minister shall require, by regulation, that all Public Officers be subject to the filing of financial disclosure statements, which, in the case of senior Public Officers, shall be made public.

Section 5: The laws of the Kurdistan Region concerning corruption shall apply to all Public Officers.

### **Article 26: Application of corruption laws**

Section 1: If any Authorisation is obtained in violation of the laws of the Kurdistan Region, including laws concerning corruption, the Authorisation is void *ab initio*.

Section 2: An Authorised Person who is in breach of the laws of the Kurdistan Region concerning corruption may lose the Authorisation or part of the Authorisation and a clause to this effect shall be included in all Authorisations.

### **Article 27: Criminal law**

A Person who is in breach of the laws of the Kurdistan Region concerning corruption may be prosecuted according to the applicable criminal laws of the Kurdistan Region.

## **CHAPTER VII - AUTHORISATIONS**

### **Article 28: Division into parcels of land**

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

### **Article 29: Prospecting**

Section 1: The Minister may grant a Prospecting Authorisation, in respect of a specified area, to a Person or a group of Persons.

Section 2:

- (a) A Prospecting Authorisation grants a right to perform geological, geophysical, geochemical and geotechnical surveys in the Authorised Area.
- (b) The Prospecting Authorisation may require the Authorised Person to report on the progress and results of such prospecting, and to maintain confidentiality with respect to such prospecting.
- (c) Nothing in a Prospecting Authorisation authorises the holder to drill a Well or to have any preference or right to make a Petroleum Contract.

Section 3: Prior to granting a Prospecting Authorisation in respect of an area that is the subject of an existing Authorisation, the Minister shall give written notice to the holder of the existing Authorisation.

## Section 4:

- (a) The holder of a Prospecting Authorisation may surrender it at any time by written notice to the Minister, provided that the Authorised Person has fulfilled all its obligations under the Authorisation.
- (b) If the holder has not complied with a condition to which the Prospecting Authorisation is subject, the Minister may terminate it by written notice to the holder.

### **Article 30: Exploration and Development**

Section 1: The Minister may conclude a Petroleum Contract for exploration and development in respect of a specified area, with a Person or a group of Persons, provided that if a group, such group enters into a joint operating agreement approved by the Minister under Article 38 of this Act. The Person, or a group of Persons, may include private companies in the Kurdistan Region and other Iraqi private companies, as well as foreign private petroleum companies.

Section 2: A Petroleum Contract may be based on a Model Production Sharing Contract, or on other contracts which the Minister considers to provide good and timely returns to the people of the Kurdistan Region. The fiscal terms to be contained in a Production Sharing Contract are specified in CHAPTER IX of this Act. In no circumstances shall a Petroleum Contract purport to guarantee a rate of return to the Contractor.

Section 3: In order to be eligible to enter into a Petroleum Contract, a Person must demonstrate:

- (a) the financial capability, and the technical knowledge and technical ability, to carry out the Petroleum Operations in the Contract Area, including direct experience in carrying out similar petroleum operations; and
- (b) a record of compliance with principles of good corporate citizenship, and a commitment to the Ten Principles of the Global Compact, launched by the United Nations on 26 July 2000.

## Section 4:

- (a) Without prejudice to Article 31 (Access) of this Act, a Petroleum Contract grants to the Contractor the exclusive right to conduct Petroleum Operations in the Contract Area.
- (b) The Petroleum Contract may be limited to Crude Oil, Natural Gas or other constituents of Petroleum.

## Section 5:

- (a) A Contractor shall give written notice to the Minister within forty eight (48) hours whenever any Petroleum is encountered in its Authorised Area.
- (b) The Contractor shall provide in a timely manner such information relating to the Petroleum as requested by the Minister.

Section 6: A Petroleum Contract shall oblige the Contractor to carry on Petroleum Operations only in accordance with work programs, plans and budgets approved by the Minister.

### **Article 31: Access**

#### Section 1:

- (a) The Minister may grant an Access Authorisation, in respect of a specified area, to a Person or a group of Persons.
- (b) The Minister may not grant an Access Authorisation in respect of an area that is the subject of a Petroleum Contract or a Prospecting Authorisation until it has taken into account any submissions made by the holders of such Authorisations in such a way that there is no undue interference with the rights of that other Authorised Person.

#### Section 2:

- (a) An Access Authorisation, while it remains in force, authorises the holder to do one or more of the following:
  - (i) construct, install and operate structures, facilities and installations; and
  - (ii) carry out other works;

as specified in the Authorisation in the Authorised Area.

- (b) Nothing in an Access Authorisation authorises the holder to drill a Well.

#### Section 3:

- (a) An Access Authorisation:
  - (i) may be surrendered by the holder by written notice to the Minister, provided that the Authorised Person has fulfilled all its obligations thereunder; and
  - (ii) may be terminated by the Minister at any time by written notice to the holder, if the holder has not complied with a condition to which the Authorisation is subject.
- (b) The Minister shall provide written notice of the surrender or termination to any Authorised Person in whose Authorised Area operations were authorised to be carried on by the Access Authorisation concerned.

Section 4: The Minister may give a direction to the holders of Access Authorisations and to other Authorised Persons regarding the coordination of their respective Petroleum Operations.

### **Article 32: Third party access**

Every Petroleum Contract and Access Authorisation shall require that third party access be granted on reasonable terms and conditions.

### **Article 33: Establishment and competencies of the Contract Evaluation Committee**

Section 1: The Contract Evaluation Committee is hereby established.

Section 2: The purpose of the Committee is to ensure that Petroleum Contracts meet the requirements set out in this Act for transparency, anti-corruption, the financial and technical abilities of a Contractor, and the maximisation of Regional Government Revenue.

Section 3: Members of the Committee shall be appointed by the Parliament.

Section 4: The appointment of all Committee members shall be for a fixed three (3) year term, renewable by Parliament.

Section 5: Subject to an agreement pursuant to Article 24 of this Act, an additional member of the Committee may be appointed by the designated institution of the Government of Iraq.

Section 6: The Committee shall, pursuant to Article 34 of this Act, evaluate and report to the Minister on proposed Production Sharing Contracts.

### **Article 34: Invitations and awards**

Section 1:

- (a) The Minister may invite, by public notice, applications for Authorisations.
- (b) The Minister may, where it is in the public interest to do so, elect to award Authorisations through direct negotiation.
- (c) The invitation may stipulate that applications be submitted in Kurdish, Arabic, or English.

Section 2:

- (a) An invitation shall specify the area of the Authorisation, the proposed activities, the criteria upon which applications will be assessed, the applicable fees to be paid with the application, and the date and the manner in which the applications may be made.
- (b) Unless the invitation otherwise states, the Minister may choose not to award an Authorisation to any of the applicants.

Section 3:

- (a) An application for an Authorisation shall include proposals for:
  - (i) securing the health, safety and welfare of persons involved in or affected by the Petroleum Operations;
  - (ii) protecting the environment, preventing, minimising and remedying pollution, and other environmental harm from the Petroleum Operations;
  - (iii) training of, and giving preference in employment in the Petroleum Operations to, citizens of the Kurdistan Region and other citizens of Iraq; and
  - (iv) the acquisition of goods and services from Persons based in the Kurdistan Region and other parts of Iraq.
- (b) An Authorisation awarded to an applicant obliges it to comply with its proposals set out in Section 3(a) of this Article.

Section 4: The Minister shall not grant an Authorisation in respect of an area until it has given due consideration to all applications made in response to, and in compliance with, an invitation.

Section 5: The Minister shall not grant any Authorisation which is a Production Sharing Contract, until he or she has:

- (a) received a formal report from the Contract Evaluation Committee; and
- (b) obtained the approval of the Council of Ministers.

## **CHAPTER VIII – CONDUCT OF PETROLEUM OPERATIONS**

### **Article 35: Work practices**

Section 1: Production of Petroleum shall take place:

- (a) in such a manner that as much as possible of the Petroleum in place in each individual Petroleum deposit, or in several deposits in combination, will be produced;
- (b) in accordance with Good Oil Field Practice and sound economic principles; and
- (c) in such a manner that waste of Petroleum or Reservoir energy is avoided.

Section 2: Authorised Persons shall carry out regular evaluation of Petroleum production strategy and technical solutions and shall take the necessary measures in order to achieve the objectives of Section 1 of this Article.

### **Article 36: Petroleum development**

Section 1: The existence of Petroleum Authorisations in force in a given area does not prevent permissions for the exploration and development of natural resources other than Petroleum, provided that such other activity does not seriously hinder the proper performance of the Petroleum Operations.

Section 2: In the event that exercise of the rights and obligations referred to in Section 1 of this Article are incompatible, the Minister shall decide which of the rights and obligations shall prevail and under what terms, without prejudice to any compensation which may be due to the holders of the rights thereby overridden.

### **Article 37: Restrictions on exercise of rights**

Section 1:

- (a) An Authorised Person shall not exercise any of the rights granted under an Authorisation or under this Act for the following or similar cases:
  - (i) on any public Asset without the consent of the responsible authority;

- (ii) on any private Asset of the Regional Government without the consent of the responsible authority; or
  - (iii) on any private Asset without payment of fair and reasonable compensation to the owner.
- (b) The owner of any Asset in an Authorised Area retains rights to the use of its Asset except in so far as the use interferes with Petroleum Operations.
  - (c) An Authorisation may limit or otherwise control the use by an Authorised Person of public infrastructure, and the consumption of other natural resources, including trees, sand, gravel, rock and water.
  - (d) An Authorisation does not constitute a waiver of the obligation to seek the written consent of responsible authorities.

#### Section 2:

- (a) The Authorised Person is liable to pay fair and reasonable compensation if, in the course of Petroleum Operations, it:
  - (i) disturbs the rights of the owner of any Asset, or causes any damage thereon; or
  - (ii) demonstrably interferes with any other lawful activities.
- (b) If the value of any rights have been enhanced by the Petroleum Operations because of violations under Section 2(a) of this Article, compensation payable in respect of such rights shall not exceed any amount which would be payable if the value had not been so enhanced.

Section 3: The Minister shall estimate and decide a fair and reasonable compensation under this Article, after having considered representations by interested parties. The Authorised Person shall be entitled to arbitration by an independent international expert appointed by the Minister and the Authorised Person, or otherwise in accordance with any arbitration provisions stipulated in the Authorisation.

### **Article 38: Approvals**

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

- (a) joint operating agreements, lifting arrangements and any other agreement related to the Petroleum Operations, as well as amendments to such agreements;
- (b) any changes in Control of an Authorised Person;
- (c) any assignment, transfer, conveyance, novation, merger, encumbrance or other similar dealing in respect of the Authorisation.

### **Article 39: Joint and several liability**

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

### **Article 40: Title to data**

Section 1: The Kurdistan Region shall have title to all data and information, whether raw, derived, processed, interpreted or analysed, regarding Petroleum in the Kurdistan Region.

Section 2: Notwithstanding Section 1 of this Article, Authorised Persons may retain copies of data and information obtained pursuant to an Authorisation and may freely use some or all pursuant to the terms of a relevant Authorisation but shall have no title to such data after the termination of the Authorisation.

Section 3: Data and information acquired during the course of Petroleum Operations may, with the permission of the Minister, be freely exported by Authorised Persons provided that the Minister may require that an original, or in the case of a core, rock, fluid or other physical sample, a usable portion of the original, of all data and information, both physical and electronic, be kept in the Kurdistan Region.

### **Article 41: Unlicensed handling of data**

Section 1: It shall be an offence for a Person to hold, sell, buy, or otherwise transfer, receive or deal in data and information described in Section 1 of Article 40 of this Act, except pursuant to the terms of an Authorisation. Such a Person is liable to criminal and civil prosecution under the laws of the Kurdistan Region. Such a Person shall not be entitled to hold an Authorisation under this Act.

Section 2: Notwithstanding the provisions of Section 1 of this Article, a Person may obtain a licence from the Minister to hold, sell, buy, licence or otherwise transfer, receive or deal in historical data as defined in Section 3 of this Article, on condition that such data and information, or a copy of such data and information, is provided to the Minister. Such a licence shall not be unreasonably withheld.

Section 3: For the purposes of this Article, “historical data” means any data and information described in Section 1 of Article 40 of this Act that was produced before this Act entered into force.

### **Article 42: Audit and inspection**

Section 1: The Minister may appoint a person to be an inspector for the purposes of this Act (an “Inspector”). The Inspector, who shall be an official of the Ministry, will have the powers and rights provided to him in the regulations.

Section 2: On request, an Authorised Person shall make its books and accounts available to the Minister for auditing.

### **Article 43: Termination of Authorisations**

Section 1:

- (a) Termination of an Authorisation for any reason is without prejudice to rights and obligations expressed in this Act or the Authorisation to survive termination, or to rights and obligations accrued thereunder prior to termination, and all provisions of an Authorisation reasonably necessary for the full enjoyment and enforcement of those rights and obligations survive termination for the period so necessary.
- (b) The Minister shall have the power to terminate an Authorisation as set out in the Authorisation.

Section 2: If there is more than one Authorised Person in respect of a particular Authorisation and circumstances arise in which the Minister may terminate an Authorisation, the Minister may elect to terminate an Authorisation only in respect of those Authorised Persons whose acts or omissions have led to such circumstances, and shall so notify the remaining Authorised Persons.

Section 3: In the event that the Minister elects to terminate an Authorisation pursuant to Section 2 of this Article, the interest of those Authorised Persons whose Authorisation has been terminated shall revert to the Minister and shall be used for the best interests of the people of the Kurdistan Region.

### **Article 44: Indemnification of the Regional Government and Minister**

Section 1: An Authorised Person shall defend, indemnify and hold harmless the Regional Government and Minister from all claims by third parties resulting, directly or indirectly, from Petroleum Operations.

Section 2: An Authorised Person shall, unless the Minister is satisfied, after consultation with the Authorised Person, that the potential liability under Section 1 of this Article can be covered by other means, maintain insurance in respect thereof on a strict liability basis for such amount as the Minister requires from time to time.

### **Article 45: Decommissioning and Restitution**

Section 1: An Authorised Person shall Decommission on the earlier of:

- (a) termination of the Authorisation; and
- (b) when no longer required for Petroleum Operations;

and, in either case:

- (i) except with the consent in writing of the Minister and in accordance with the conditions of the consent; or
- (ii) unless the Authorisation otherwise provides.

Section 2: Without prejudice to any criminal liability, a Person who engages in Petroleum Operations other than pursuant to an Authorisation shall:

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

cumulatively or not, as is determined to be appropriate by the Minister in order to place the Kurdistan Region in the position in which it would have been were it not for the Petroleum Operations engaged in other than pursuant to an Authorisation.

Section 3: The liabilities under Section 2 of this Article of Persons who, together, are engaged in, or have engaged in, Petroleum Operations are the liabilities of them all, jointly and severally.

## **CHAPTER IX - CONTRACT TERMS**

### **Article 46: Production Sharing Contract terms**

Section 1: The terms defined in Sections 2, 3 and 4 of this Article shall apply to any Contractor, whether Iraqi-owned or foreign.

Section 2: The terms of a standard Production Sharing Contract shall include the following:

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

- (d) a development period, following discovery, to be twenty (20) years, with an automatic right of the Contractor to a five (5) year extension, on the same terms and conditions, with possible further extensions to be negotiated;
- (e) Royalty, with a minimum rate at seven point five percent (7.5%) for oil with a gravity up to fourteen (14) degrees American Petroleum Institute (API), eight point five percent (8.5%) for oil between fourteen (14) and twenty (20) degrees API, ten percent (10%) for oil between twenty (20) and thirty (30) degrees API, and twelve point five percent (12.5%) for oil over thirty (30) degrees API; and with a minimum rate of five percent (5%) for Natural Gas, increasing based on daily production, and paid in accordance with Article 50 of this Act;
- (f) cost recovery from a portion of production, to a maximum not exceeding seventy percent (70%) for oil with a gravity up to fourteen (14) degrees American Petroleum Institute (API), sixty-five percent (65%) for oil between fourteen (14) and twenty (20) degrees API, sixty percent (60%) for oil between twenty (20) and thirty (30) degrees API, and fifty-five percent (55%) for oil over thirty (30) degrees API; and with a maximum rate of seventy percent (70%) for Natural Gas;
- (g) production sharing from remaining production after Royalty and allowable cost recovery according to a formula which takes into account cumulative revenues and cumulative petroleum costs and provides the Contractor with reasonable returns; but that formula shall not guarantee a rate of return to the Contractor;
- (h) annual surface rental during exploration phases;
- (i) Regional Government participation for a direct working interest in exploration, development and production with participation terms which must be fixed and defined in each Contract, and which shall be kept to a minimum;
- (j) a commitment to the payment of a prescribed amount into an Environment Fund, to be administered by the Regional Government for the benefit of the natural environment of the Kurdistan Region, and
- (k) provisions for securing the health, safety and welfare, environmental protection, training, and acquisition of goods and services, consistent with international standards and with the proposals made in accordance with Section 3 of Article 34 of this Act.

Section 3: For any Production Sharing Contract that the Minister considers to involve an unusually high element of commercial risk (such as a Production Sharing Contract involving frontier exploration) or to require an unusually high amount of up-front capital (such as major integrated upstream and downstream projects), the minimum Royalty percentage stated in Section 1(e) of this Article may be reduced to zero percent (0%) and the cost recovery percentage stated in Section 1(f) this Article may be increased to one hundred percent (100%).

Section 4: For any Production Sharing Contract that the Minister considers to involve an unusually low element of commercial risk (such as a Production Sharing Contract for a Contract Area in which there is Discovered Petroleum), a Royalty percentage up to the maximum, and a cost recovery percentage down to the minimum, may be applied.

### **Article 47: Natural Gas**

Section 1: Any Petroleum Contract shall clearly define the applicable terms with respect to Associated and non-Associated Natural Gas in such a manner to facilitate the development of a Natural Gas industry in the Kurdistan Region.

Section 2: Those terms shall include provisions for the optimal utilisation of surplus volumes of produced Natural Gas, and terms to minimise the flaring of Natural Gas, consistent with international standards in the industry.

Section 3: The Minister may, by regulation or in a Petroleum Contract, specify a method for the valuation of Natural Gas that shall be consistent with international standards in the industry and shall ensure the maximum returns to the people of the Kurdistan Region and Iraq.

### **Article 48: Other Contracts**

The Minister may enter into Other Contracts, which may include service contracts, field management contracts, supply and installation contracts, construction contracts, consulting contracts, or any other types of contracts that the Minister may from time to time require to efficiently manage the Petroleum resources of the Kurdistan Region. Such Other Contracts may contain some element of risk to reward the contractor for performance, timely completion, and achieving high value targets.

### **Article 49: Taxation**

Section 1: A Contractor, Authorised Person or other Person associated with Petroleum Operations may be liable for any applicable taxes of the Regional Government, including:

- (a) surface tax;
- (b) personal income tax;
- (c) corporate income tax;
- (d) customs duties and any other similar taxes;
- (e) windfall profits or additional profits tax; and
- (f) any other tax, levy or charge expressly included in its Petroleum Contract.

Section 2: A Petroleum Contract shall clearly state the taxation liability of a Contractor. This provision shall apply notwithstanding any commitment by the Regional Government to pay that liability on behalf of the Contractor and to issue taxation certificates to the Contractor to that effect.

Section 3: A Petroleum Contract may contain a tax stabilisation agreement.

Section 4: The Parliament shall, in due course, promulgate a Petroleum Operations Taxation Act, in which any taxes of the Regional Government applicable to Petroleum Operations shall be clearly stated.

Section 5: Pursuant to Article 115 and Section 2 of Article 121 of the Constitution of Iraq, applicable taxes of the Regional Government shall be the only taxes that apply to Petroleum Operations.

#### **Article 50: Royalty payment**

Section 1: A Contractor with a Production Sharing Contract shall pay a Royalty to the Regional Government in the amount set forth in their Petroleum Contract. Unless the Royalty has been fixed at zero percent (0%) pursuant to Section 3 of Article 46 of this Act, the Production Sharing Contract shall provide for levels of Royalty increasing above the minimum rate defined in Section 2 of Article 46 of this Act based on incremental daily production rates.

Section 2: The volume of Petroleum constituting the Royalty shall be calculated directly by applying the percentage specified in the Petroleum Contract for a given level of daily production to the total amount of Petroleum produced and saved as from the date the relevant level of daily production is reached.

Section 3: The Minister may require from time to time that the Royalty be paid in kind or in cash, fully or partially. Unless otherwise required, it shall be understood that the Minister has elected to receive the Royalty in full and in cash and the Royalty shall be paid at least quarterly or more frequently as provided for in the applicable Petroleum Contract.

Section 4: When the Minister elects to receive the Royalty in cash, the producing Contractor shall pay such Royalty on the basis of the sales price of the Petroleum or, where there is no independent third party sale on an arm's length basis, on the international market price.

#### **Article 51: Disputed Territories**

Section 1: The Minister may, together with the Government of Iraq, jointly regulate and administer Petroleum Operations in Disputed Territories until such time as the future of the Disputed Territories is decided in the referendum required by Article 140 of the Constitution of Iraq.

Section 2: The Minister may, prior to the referendum required by Article 140 of the Constitution of Iraq, approve agreements concluded by the Government of Iraq related to petroleum activities in the Disputed Territories.

Section 3: The Minister may, in the event of a decision of the citizens of the Disputed Territories that those Disputed Territories are to be part of the Kurdistan Region, declare invalid an agreement referred to in Section 2 of this Article which has not been approved by the Minister.

#### **Article 52: Kurdistan Region consumption requirements**

A Contractor is obliged to sell and transfer to the Regional Government, upon written request of the Minister, any amounts of Petroleum that the Regional Government shall deem necessary to meet the internal consumption requirements of the Kurdistan Region. The sales price of

Petroleum shall be established pursuant to the applicable Petroleum Contract, or in the absence thereof, fair market value.

### **Article 53: Government Revenue and Contractor returns**

Section 1: When concluding any Petroleum Contract, the Minister shall conduct his own inquiry into the likely Contractor compensation from the proposed Petroleum Operations, to ensure that Revenue is maximised, but allows the Contractor terms which are fair and consistent with international standards.

Section 2: Where the Minister is concluding a Petroleum Contract for areas that contain proven Petroleum, the Minister shall ensure that the Petroleum Contract provides maximum Revenue, while allowing a reasonable return to the Contractor.

### **Article 54: Sovereign immunity**

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

## **CHAPTER X - LOCAL PARTICIPATION**

### **Article 55: Local content**

Section 1: An Authorised Person shall give preference to partnering with competent local companies owned by Persons from the Kurdistan Region and other parts of Iraq. Such a local partner must:

- (a) be a bona fide company not related to any Public Officer, directly or indirectly;
- (b) have adequate resources and capacity to add value to the Petroleum Operations carried out by the Authorised Person, and
- (c) must be approved by the Minister, according to clear criteria which the Minister shall prescribe by regulation.

Section 2: An Authorised Person shall give preference to the employment of persons from the Kurdistan Region and other parts of Iraq to the extent such personnel have the qualifications, competence and experience required to perform the work.

Section 3: An Authorised Person shall give preference to the purchase of local products and services from the Kurdistan Region and other parts of Iraq, wherever they are competitive in terms of price, quality and timely availability.

Section 4: The Minister may give preference to an Authorised Person who partners with local companies.

### **Article 56: Training and technology transfer**

Section 1: An Authorisation shall include a clearly defined training program for local employees of the Authorised Person, which may be carried out in the Kurdistan Region, other parts of Iraq, or in foreign countries, and may include scholarships and other financial support for education.

Section 2: An Authorisation shall include, where possible, a commitment by the Authorised Person to maximise knowledge transfer to the people of the Kurdistan Region, and to establish in the Kurdistan Region any necessary facilities for technical work, including the interpretation of data.

### **Article 57: Contractor offices in the Kurdistan Region**

A Contractor shall maintain an office in the Kurdistan Region.

## **CHAPTER XI - UNITISATION**

### **Article 58: Unitisation of Reservoirs within the Kurdistan Region**

Section 1: If a Reservoir lies entirely within the Kurdistan Region, any unitisation of the Reservoir shall be the responsibility of the Minister.

Section 2: The unitisation of Reservoirs within the Kurdistan Region shall be consistent with international standards in the petroleum industry.

Section 3: If a Reservoir lies partly within a Contract Area, and partly in another Contract Area,

- (a) The Minister may require by written notice the Contractors to enter into a joint unitisation agreement for the Reservoir with each other for the purpose of securing the more effective and optimised production of Petroleum from the Reservoir; and
- (b) if no joint agreement has been reached within a reasonable period of time from receipt of written notice stated in paragraph (a) above, the Minister shall decide on the unitisation; and
- (c) if the Contractors do not agree with the Minister's decision, the Contractors shall be entitled to arbitration pursuant to the provisions of Article 61 (Resolution of disputes) of this Act.

Section 4: If a Reservoir lies partly within a Contract Area and partly in an area that is not the subject of any other Petroleum Contract:

- (a) The Minister may require by written notice the Contractor to enter into a joint unitisation agreement for the Reservoir with the Minister for the purpose of securing the more effective and optimised production of Petroleum from the Reservoir; and

- (b) if no agreement has been reached within a reasonable period of time from receipt of written notice as required in paragraph (a) above, the Minister shall decide on the unitisation; and
- (c) if the Contractor does not agree with the Minister's decision, the Contractor shall be entitled to independent arbitration, or the decision shall be according to the conditions of the Petroleum Contract where such a process is provided for under the Contract.

Section 5: Without limiting the matters to be dealt with in the unitisation agreement, any agreement reached shall define the amount of Petroleum in each area covered by the unitisation agreement, and shall appoint the Operator responsible for production of the Petroleum covered by the unitisation agreement.

Section 6: The Minister may approve the development or production of Petroleum from the Reservoir only after it has approved or decided the unitisation agreement.

Section 7: Any changes to the unitisation agreement shall be subject to prior approval by the Minister.

#### **Article 59: Unitisation of Reservoirs across a Kurdistan Region border, within Iraq**

Section 1: If a Reservoir lies across a Kurdistan Region border into other areas that are part of Iraq, the unitisation of the Reservoir shall be the responsibility of the Minister.

Section 2: For any Reservoir described in Section 1 of this Article, the Minister shall endeavour to reach agreement with the Government of Iraq or the concerned Region or Governorate to manage the Reservoir as a single entity for development purposes.

Section 3: Any such agreement shall achieve the highest benefit to the people of the Kurdistan Region and all of Iraq using the most advanced techniques and market principles to encourage investment, consistent with Article 112 of the Constitution of Iraq.

Section 4: In reaching such an agreement, the Minister shall, if necessary, submit, with the Government of Iraq or with the concerned Region or Governorate, the matter to arbitration by an independent international expert to be appointed by the Minister and representatives of the Government of Iraq, or the concerned Region or Governorate.

Section 5: Such an agreement may specify that the unitised Reservoir be administered by a joint management body which shall comprise representatives of the Minister and the Government of Iraq.

#### **Article 60: Unitisation of Reservoirs across international borders**

Section 1: If a Reservoir lies across a Kurdistan Region border into areas that are part of the domain of a neighbouring country, the unitisation of the Reservoir shall be the responsibility of the Minister.

Section 2: For any Reservoir described in Section 1 of this Article, the Minister shall endeavour to reach agreement with the neighbouring country to treat the Reservoir as a single entity for management and development purposes.

Section 3: Any such agreement shall lead to a complete equitable benefit for both parties from the development of Petroleum from the Reservoir.

Section 4: If it becomes necessary, the Minister may assign to the Government of Iraq the right to represent the interests of the Kurdistan Region in any such agreement.

Section 5: Any agreements leading to the development of Petroleum from such a Reservoir shall require the prior approval of the Minister and ratification by the Parliament and the President of the Kurdistan Region.

## **CHAPTER XII - RESOLUTION OF DISPUTES**

### **Article 61: Resolution of disputes**

Section 1:

- (a) The Minister may inquire into and decide all disputes involving Persons engaged in Petroleum Operations, including disputes:
  - (i) among the Persons themselves, where agreements between them do not specify a dispute resolution mechanism; or
  - (ii) in relation to other parties (other than the Regional Government) not so engaged.
- (b) The Minister may refuse to decide any dispute referred to it and, if it does so, it shall notify the parties to the dispute in writing.
- (c) The Minister may, taking into account all relevant circumstances, give any direction which may be necessary for the purpose of giving effect to its decision in proceedings pursuant to this Article, including ordering the payment, by any party to a dispute, to any other party to the dispute of such compensation as may be fair and reasonable.

Section 2:

- (a) If a dispute arises relating to the interpretation and/or application of the terms of an Authorisation between an Authorised Person and the Minister, the parties shall attempt to resolve that dispute by means of negotiation.
- (b) If the dispute cannot be resolved by negotiation, either party may submit the dispute to arbitration.
- (c) Any arbitration between the Minister and an Authorised Person shall be conducted, by agreement between the Parties, in accordance with either:

- (i) the 1965 Washington Convention, or the regulations and rules of the International Centre for the Settlement of Investment Disputes (ICSID) between States and Nationals of other States; or
  - (ii) the rules set out in the ICSID Additional Facility adopted on 27 September 1978 by the Administrative Council at the ICSID between States and Nationals of other States, whenever the foreign entity does not meet the requirements provided for in Article 25 of the Convention; or
  - (iii) the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL); or
  - (iv) the arbitration rules of the London Court of International Arbitration (LCIA); or
  - (v) such other rules of recognised standing (as agreed by the Parties, in respect of the conditions for implementation, including the method for the designation of the arbitrators and the time limit within which the decision must be made).
- (d) The obligations of the Minister and the Authorised Person under the Authorisation shall continue pending the resolution of any matter submitted to arbitration.

### **Article 62: Exemption from or variation of conditions**

The Minister may exempt an Authorised Person from complying with the conditions of its Authorisation, and may also agree to vary or suspend those conditions, either with or without conditions and either temporarily or permanently.

## **CHAPTER XIII – PUBLIC INFORMATION**

### **Article 63: Publications by Minister**

Section 1: The Minister shall publish:

- (a) notice of the grant of Authorisations,
- (b) invitations for applications for Authorisations; and
- (c) notice of the termination of Authorisations.

Section 2: The Minister shall publish invitations for applications for Authorisations in the media, in such manner as is required by regulation.

Section 3: Publications of the Minister required by this Act shall, wherever possible, be issued on a searchable website maintained by the Minister.

## **Article 64: Information available to public**

### Section 1:

- (a) The Minister shall make available to the public:
  - (i) details of all Authorisations and amendments thereto, whether or not terminated;
  - (ii) details of exemptions from, or variations or suspensions of, the conditions of an Authorization; and
  - (iii) copies of all unitisation agreements.
- (b) The Minister shall make available to any member of the public, within a reasonable period of time of a request having been made by that person, summary details of:
  - (i) the Authorisations (and amendments, whether or not terminated) and unitisation agreements;
  - (ii) an approved Development Plan; and
  - (iii) all assignments and other dealings consented to in respect of Authorisations, subject to commercial confidence as to the commercial terms.
- (c) The Minister shall make available to the public, within a reasonable period of time of a request having been made, the summary details pertaining to Petroleum Operations.

Section 2: Within ten (10) business days of a request having been made, the Minister shall publish brief reasons for:

- (a) granting an Authorisation subsequent to an invitation;
- (b) granting an Authorisation without inviting applications;
- (c) approving a Development Plan under a Petroleum Contract;
- (d) granting an exemption from, or agreeing to a variation or suspension of, the conditions of an Authorisation; and
- (e) making any decision or granting any approval that, under an Authorisation, requires publication.

### Section 3:

- (a) Companies shall report on their compliance with requirements under the Act and Authorisations in such manner and detail as required by their Authorisation and as provided by regulation.
- (b) The Minister shall make available such reports to the public.

Section 4: The Minister and Public Authorities shall make available to the public such reports by Authorised Persons on payments relating to Petroleum Operations made to the Regional Government as are required by law.

Section 5: The information contemplated in this Article shall be available to any Person on payment of the required fee, to be provided by regulation.

## **CHAPTER XIV – REGULATIONS AND DIRECTIONS**

### **Article 65: Regulations**

Section 1: The Minister may make regulations under this Act relating to the following:

- (a) graticulation of the territory of the Kurdistan Region;
- (b) Petroleum exploration and production;
- (c) the use and disclosure of data, information, records and reports;
- (d) the measurement and sale or disposal of Petroleum;
- (e) health and safety;
- (f) protection and restoration of the environment;
- (g) resources management;
- (h) structures, facilities and installations;
- (i) clean-up operations and other appropriate methods to remedy and remove the effects of the escape of Petroleum;
- (j) abandonment and decommissioning;
- (k) the control of movement into, within and out of the Kurdistan Region of persons, aircraft, vehicles and any other man-made structures;
- (l) work programs and budgets;
- (m) the control of tariffs charged for any third party access;
- (n) the auditing of an Authorised Person and of its accounts and records;
- (o) reporting by Authorised Persons on compliance with obligations set out in the Act and Authorisations, including in relation to:
  - (i) the training and employment of Kurdistan Region citizens and other citizens of Iraq,
  - (ii) procurement of Kurdistan Region and other Iraqi goods and services,
  - (iii) occupational health and safety, and
  - (iv) environmental protection.
- (p) fees to be paid, including by applicants for Authorisations, Authorised Persons, and Persons wishing to inspect the public register; and
- (q) any other matters relating to this Act.

Section 2: The Minister shall publish regulations.

### **Article 66: Directions**

In addition to its power to give directions under Article 30 (Exploration and Development) of this Act and Article 61 (Resolution of disputes) of this Act, the Minister may give directions to an Authorised Person:

- (a) relating to any matter set out in Article 65 of this Act; or
- (b) otherwise requiring compliance with this Act or an Authorisation.

## **CHAPTER XV – PENALTY PROVISIONS**

### **Article 67: General law**

The provisions of this Chapter are without prejudice to criminal and civil liability under the general law of the Kurdistan Region.

### **Article 68: Unauthorised activities**

Section 1: Whoever engages in any Petroleum Operations other than pursuant to an Authorisation shall be prosecuted and may face punishment under the laws of the Kurdistan Region.

Section 2: Notwithstanding the provisions of Section 1 of this Article, the Minister may also impose a fine commensurate with the damage and inconvenience caused.

### **Article 69: Danger to people, property and environment**

Whoever, by conduct that contravenes the provisions of this Act, endangers the life or physical integrity of a person, endangers any property of high value, or gravely endangers the environment, may be punished by:

- (a) appropriate punishment under the laws of the Kurdistan Region and the punishment level shall depend on whether the conduct and the creation of the danger are malicious, or arising from negligence; or
- (b) fine by the Minister proportionate to the danger caused.

### **Article 70: Hindering the exercise of powers by the Inspector**

Section 1: Whoever, directly or indirectly, in any measure or by any means, hinders, or leads someone else to hinder, the exercise of powers and rights by the Inspector, may be punished under the laws of the Kurdistan Region, and attract a fine by the Minister.

Section 2: An attempt to hinder may be punishable under laws of the Kurdistan Region.

### **Article 71: Misleading information**

Section 1: Whoever, in, or in connection with, any application under this Act, knowingly or recklessly gives information that is materially false or misleading; or in any report, return or affidavit submitted under any provision of this Act or an Authorisation pursuant to this Act, knowingly or recklessly includes or permits to be included, any information which is materially false or misleading; may be punished under the laws of the Kurdistan Region and may also attract a fine by the Minister.

Section 2: An attempt to mislead is punishable.

### **Article 72: Accessory penalty for non-compliance with regulations or directions**

Section 1: Where a Person fails or neglects to comply with a regulation to which Article 65 of this Act refers, and/or with a direction to which Article 66 of this Act refers, the Minister may cause to be done all or any of the things required by the regulation or direction to be done at the cost and expense of that Person.

Section 2: Costs and expenses incurred by the Minister under Section 1 of this Article, together with interest thereon at a rate to be determined by the Minister, shall be a debt due to the Regional Government.

### **Article 73: Accessory penalties**

In relation to the offences provided for in the Act, the following accessory penalties may be applied:

- (a) Temporary deprivation of the right to participate in public tenders concerning Petroleum Operations, in particular those regarding Authorisations and the procurement of goods and services;
- (b) Embargo of any construction works, in such cases as they may result in irreversible damage to relevant public interests;
- (c) Disability, up to a maximum of two (2) years, of the exercise of activities, if the Person has, within the period of one (1) year starting from the date of the first contravention, contravened this Act, or regulations or directions issued thereunder;
- (d) Termination of Authorisations;
- (e) Good conduct bond;
- (f) Disability of rights to subsidies awarded by public entities or services;
- (g) Publication of the sentence; and/or
- (h) Other writs of prevention which are adequate taking into account the circumstances of the case in question.

### **Article 74: Liability of legal persons, corporations and other legal entities**

Section 1: Legal persons, corporations or any other legal entities, including those without juridical personality, are liable for offences provided for in this Chapter when committed by its organs or representatives in its name.

Section 2: The liability is excluded where the agent has acted against express orders or instructions properly issued.

Section 3: The liability of the entities mentioned in Section 1 of this Article does not exclude the individual liability of the respective agents.

Section 4: The entities mentioned in Section 1 of this Article are jointly and severally liable, as provided for in civil law, for the payment of any fines or compensations, or for the fulfilment of any obligations, derived from the facts or with incidence on matters covered by the scope of this Act.

### **Article 75: Fines to legal persons, corporations and other legal entities**

Section 1: In the case of legal persons, corporations or any other legal entities, including those without juridical personality, the daily rate for fines corresponds to an amount between five United States Dollars (USD \$5.00) and ten thousand United States Dollars (USD \$10,000.00), as determined by the Minister, taking into account the economic and financial situation and burdens of the legal person, corporation or other legal entity.

Section 2: If the fine is applied to an entity without juridical personality, its payment will be guaranteed by the entity's assets and, in the event of non-existence of such assets or under-capitalisation, jointly and severally, the assets of each of the associates.

### **Article 76: Inspection**

It is the competency of the Minister and the Inspector, as well as any other organs of the public administration to whom such competency is delegated, in accordance with law and regulations, to ensure the inspection of compliance with the provisions of this Act, without prejudice to competencies which the law confers upon other public authorities.

### **Article 77: Extrajudicial writ of execution**

For purposes of coercive collection under general law, a certification issued by the Minister in relation to a debt constituted, or amount due, as a result of the application of the provisions of this Act, which is not paid within a reasonable period to be determined by the Minister, and which shall be notified in writing to the debtor, constitutes an extrajudicial writ of execution.

### **Article 78: Subsidiary legislation**

The general criminal law of the Kurdistan Region, both substantive and adjectival, as well as relevant administrative legislation, are applicable in a subsidiary manner, with the required adaptations, to the extent necessary to give effect to the provisions of this Chapter.

## **CHAPTER XVI – FINAL PROVISIONS**

### **Article 79: Transitional provisions: Kurdistan Region agreements**

Section 1: Any agreement related to Petroleum Operations entered into by the Regional Government prior to the entry into force of this Act, and approved by the Minister, shall remain in force.

Section 2: For the purposes of this Chapter, an “agreement” includes a contract, license, permit, memorandum of understanding, or other legal act or dealing of any sort.

**Article 80: Transitional provisions: Government of Iraq agreements**

Section 1: The Minister shall consult the Government of Iraq and review all agreements concluded by the Government of Iraq prior to the date of entry into force of this Act with respect to Petroleum Operations located in the Kurdistan Region, to bring those agreements into conformity with this Act.

Section 2: Such agreements shall be invalid unless they are assigned to, and come under the exclusive control of, the Regional Government. If deemed necessary by the Regional Government, those agreements may remain in force with some continuing technical and administrative assistance from the Government of Iraq, to be approved by the Regional Government.

**Article 81: New agreements**

Any agreements related to Petroleum Operations located in the Kurdistan Region that are concluded after the date of entry into force of this Act shall be invalid unless approved by the Regional Government and concluded according to this Act.

**Article 82: Annexes**

The Annexes of this Act are integral parts of this Act, and may be amended by the Minister with the approval of the Council of Ministers.

**Article 83: Interpretation**

Section 1: Notwithstanding the jurisdiction of the courts of the Kurdistan Region, the Minister shall have authority to resolve all questions related to the interpretation of this Act and the regulations.

Section 2: All legislation inconsistent with the provisions of this Act is hereby revoked.

**Article 84: Entry into force**

This Act enters into force upon publication in the Official Gazette of the Kurdistan Region.

## ANNEX A UNDER ARTICLES 21 AND 24 OF THIS ACT: REVENUE SHARING

### Article A1: Current Fields revenues

Section 1: Notwithstanding the provisions of Article 5 and Article 17 of this Act, and consistent with Article 112 of the Constitution of Iraq, the Regional Government may, subject to Section 2 of this Article, enter into agreements with the Government of Iraq for all revenues from Petroleum Operations from Current Fields to be directly received by the SOTO on behalf of the Government of Iraq.

Section 2: Consistent with Article 112 of the Constitution of Iraq, any agreement concluded pursuant to Section 1 of this Article shall clearly require SOTO by law, on behalf of the Government of Iraq, to:

- (a) distribute AA percent of the total revenues received by the Government of Iraq from Current Fields in Iraq to KOTO; and
- (b) distribute, for a period of N years, an additional BB percent of the total revenues received by the Government of Iraq from Current Fields in Iraq to KOTO, which amount is an allotment for a specified period in recognition that the Kurdistan Region is a damaged region which was unjustly deprived of revenues by the former regime; and
- (c) define the percentage share of revenues for Kirkuk and each of the other Disputed Territories where the Kurdistan Region is a party to the dispute (collectively being CC% for all the areas that, under the referendum required by Article 140 of the Constitution of Iraq, are likely to agree to become part of the Kurdistan Region); and
- (d) clearly define the percentage share for the Government of Iraq, for each Region other than the Kurdistan Region, and each Governorate, in a fair and equitable manner consistent with Article 112 of the Constitution of Iraq.

Section 3: The symbols “AA”, “BB” and “CC” represent fair and reasonable percentages, and the symbol “N” represents a fair and reasonable period of time. The percentages represented by “AA”, “BB”, “CC” and the period “N” are to be determined in the agreement and are to be acceptable to the Regional Government.

Section 4: Consistent with Articles 112 and 140 of the Constitution of Iraq, any agreement concluded pursuant to this Article shall clearly require SOTO, on behalf of the Government of Iraq, to add the percentage share of revenues for Kirkuk and all other Disputed Territories where the Kurdistan Region is a party to the dispute to the percentages stated in Section 2(a) and (2(b) of this Article at such time as any of those Disputed Territories become part of the Kurdistan Region.

Section 5: Any agreement concluded pursuant to this Article shall also require SOTO to pay all payments due to any Authorised Person operating in the Kurdistan Region and the Disputed Territories where the Kurdistan Region is a party to the dispute under the applicable terms of the Authorisation, including any payment for Petroleum lifted.

Section 6: If an agreement pursuant to this Article is in force, the Regional Government may, with the approval of Parliament, licence the Government of Iraq to regulate the marketing of extracted Petroleum from Current Fields after the Delivery Point, for a fee or any other arrangement.

Section 7: Consistent with Article 115 of the Constitution of Iraq, if an agreement pursuant to this Article is at any time not in force, or if payments to KOTO are withheld for any reason, KOMO may carry out all sales of the Regional Government's share of Petroleum from Current Fields in the Kurdistan Region, and, pursuant to Article 17 of this Act, KOTO may retain all proceeds in the Current Fields Account. In those circumstances, KOTO will determine the extent of the Kurdistan Region's entitlement to revenue from Petroleum from Current Fields in all of Iraq and, where the proceeds are greater than the entitlement, pay the net balance to SOTO. In determining the net balance, the percentage of revenues payable to SOTO shall be based on the formula  $[1-(AA + BB+CC)]$  as the case may be.

Section 8: Royalties, revenues from the sale of profit Petroleum, signature bonuses and interim bonuses, taxes where applicable, and all other moneys received by a government from petroleum operations shall constitute revenue for the purposes of this Article.

### **Article A2: Future Fields revenues**

Section 1: Notwithstanding the provisions of Article 5 and Article 17 of this Act, and the supremacy in the Kurdistan Region of Kurdistan Region law as recognised by Article 115 of the Constitution of Iraq, the Regional Government may, at its discretion and subject to Section 2 of this Article, enter into agreements with the Government of Iraq for revenues from Petroleum Operations from Future Fields to be directly received by SOTO on behalf of the Government of Iraq.

Section 2: Any agreement concluded pursuant to Section 1 of this Article shall have an initial term of five (5) years. Such an agreement shall be automatically renewed for further terms of five (5) years.

Section 3: Any agreement concluded pursuant to Section 1 of this Article shall clearly require SOTO by law, on behalf of the Government of Iraq, to:

- (a) distribute XX percent of the total revenues received by the Government of Iraq from Future Fields in Iraq to KOTO; and
- (b) distribute, for a period of N years, an additional YY percent of the total revenues received by the Government of Iraq from Future Fields in Iraq to KOTO, which amount is an allotment for a specified period in recognition that the Kurdistan Region is a damaged region which was unjustly deprived of revenues by the former regime; and
- (c) define the percentage share of revenues for Kirkuk and each of the other Disputed Territories where the Kurdistan Region is a party to the dispute (collectively being ZZ% for all the areas that, under the referendum required by Article 140 of the Constitution of Iraq, are likely to agree to become part of the Kurdistan Region); and
- (d) clearly define the percentage share for the Government of Iraq, for each Region other than the Kurdistan Region, and each Governorate, in a manner consistent with Article 112 of the Constitution of Iraq.

Section 4: The symbols "XX", "YY" and "ZZ" represent percentages, and the symbol "N" represents a period of time, to be accepted by the Regional Government. The percentages represented by "AA", "BB", "CC" and the period "N" are to be determined in the agreement.

Section 5: Consistent with Article 140 of the Constitution of Iraq, any agreement concluded pursuant to this Article shall clearly require SOTO, on behalf of the Government of Iraq, to add the percentage share of revenues for Kirkuk and all other Disputed Territories where the Kurdistan Region is a party to the dispute to the percentages stated in Section 2(a) and 2(b) of this Article at such time as any of those Disputed Territories become part of the Kurdistan Region.

Section 6: Any agreement concluded pursuant to this Article shall also require SOTO to pay all payments due to any Authorised Person operating in the Kurdistan Region and the Disputed Territories under the applicable terms of the Authorisation, including any payment for Petroleum lifted.

Section 7: If an agreement pursuant to this Article is in force, the Regional Government may, with the approval of Parliament, licence the Government of Iraq to regulate the marketing of extracted Petroleum from Future Fields after the Delivery Point, for a fee or any other arrangement. Any such licence shall have an initial term of five (5) years, and shall be automatically renewed for further terms of five (5) years.

Section 8: Consistent with Article 115 of the Constitution of Iraq, if an agreement pursuant to this Article is at any time not in force, or if payments to KOTO are withheld for any reason, KOMO may carry out all sales of the Regional Government's share of Petroleum from Future Fields in the Kurdistan Region, and, pursuant to Article 17 of this Act, KOTO may retain all proceeds in the Future Fields Account. In those circumstances, KOTO will determine the extent of the Kurdistan Region's entitlement to revenues from Petroleum in all of Iraq from Future Fields and, where the proceeds are greater than the entitlement, pay the net balance to SOTO. In determining the net balance, the percentage of revenues payable to SOTO shall be based on the formula  $[1 - \frac{XX+YY+ZZ}{XX+YY+ZZ}]$  as the case may be.

Section 9: Royalties, revenues from the sale of profit Petroleum, signature bonuses and interim bonuses, taxes where applicable, and all other revenues received by a government from petroleum operations, shall constitute revenue for the purposes of this Article.

### **Article A3: Accounting between the Kurdistan Region and Iraq**

Section 1: All moneys owed by the Regional Government to the Government of Iraq pursuant to Articles A1 and A2 of this Annex shall be accounted for monthly and paid to the Government of Iraq within seven (7) days of the end of each calendar month.

Section 2: Any agreement concluded pursuant to Articles A1 and A2 of this Annex shall specify that, where moneys are owing by the Government of Iraq to the Regional Government, they shall be accounted for monthly and paid to the Regional Government within seven (7) days of the end of each calendar month.

Section 3: Any agreement pursuant to Articles A1 and A2 of this Annex shall be without prejudice to the entitlement of the Kurdistan Region, pursuant to Section 3 of Article 121 of the Constitution of Iraq, to an equitable share of non-petroleum federal revenues, including revenues to be distributed by a commission described in Article 106 of the Constitution of Iraq.

**Article A4: Agreements with other Regions and Governorates**

The Regional Government may enter into an agreement described in Articles A1 and A2 of this Annex with other Regions and Governorates.

**ANNEX B UNDER ARTICLES 22 AND 24 OF THIS ACT:  
RESTRUCTURING OF THE INDUSTRY IN IRAQ**

Notwithstanding the rights of the Kurdistan Region as set out in this Act, and in Articles 111, 112 and 115 of the Constitution of Iraq, the Government of Iraq may participate in the administration of Petroleum Operations in the Kurdistan Region in the terms set out in Annex C of this Act, provided that the Government of Iraq:

- (a) concludes agreements with the Regional Government on Petroleum revenue sharing in the terms specified in Annex A of this Act; and
- (b) concludes an agreement with the Regional Government on a federal policy on downstream activities, particularly with respect to exports; and
- (c) concludes an agreement with the Regional Government on the exchange of information and data related to Petroleum in the Kurdistan Region; and
- (d) guarantees the free use and availability of foreign exchange for all Authorised Persons; and
- (e) establishes by law a Federal Petroleum Committee, which shall have
  - (i) Regional and Governorate representation, and unanimous decision-making procedures; and
  - (ii) competency to develop modern, forward-looking and free-market strategic policies for Iraq's petroleum sector to achieve the highest returns to the Iraqi people, decide all Iraq petroleum policy, to continually investigate and address allegations of corruption, and take all other appropriate measures to ensure transparency and fairness for all Iraqi people; and
  - (iii) competency to establish quotas, within the overall quota for Iraq agreed with the Organisation of the Petroleum Exporting Countries (OPEC), for the federal institutions set out in paragraph (g) below, and quotas for the producing Regions and Governorates; and
  - (iv) competency, under the supervision of the Council of Representatives, to oversee SOTO, which shall be regulated by law and by agreement with the producing Regions and Governorates, managed by independent trustees, and shall receive all revenues from petroleum activities in Iraq to which the Government of Iraq is entitled; and
- (f) concludes an agreement with the Regional Government on the regulatory role of the Iraq Ministry of Oil, including the administrative role of the Ministry of Oil in relation to SOMO, OPEC membership, and any other competencies that should appropriately be assigned to it; and
- (g) establishes by law two federal institutions for upstream activities, one for Current Fields, and another for the exploration and development of Future Fields, and

- (h) establishes by law a third federal institution for all petroleum activities other than exploration and production, with a view to restructuring and modernising those activities with the involvement of the private sector; and
- (i) establishes by law that the Boards of Directors of each of the federal institutions referred to in paragraphs (g) and (h) above consist of the Chief Executive Officers of any Regional and Governorate petroleum companies, including in the case of the Kurdistan Region, KEPCO, KNOC and KODO, as well as independent professionals, and with the Chief Executive Officers of the three federal institutions to be appointed by the Council of Representatives of Iraq.

**ANNEX C UNDER ARTICLES 23 AND 24 OF THIS ACT:  
REGIONAL ROLE OF FEDERAL INSTITUTIONS**

Provided that the Government of Iraq concludes agreements for revenue sharing pursuant to Annex A of this Act, and satisfies the conditions set out in Annex B of this Act, the Regional Government shall agree that the two upstream federal institutions referred to in paragraph (g) of Annex B of this Act shall have competency to:

- (a) prepare and allocate in a fair manner budgets and production targets within the overall OPEC quotas to each Region and Governorate; and
- (b) assist with the preparation of field development plans in each Region and Governorate; and
- (c) appoint a member to the governing body of Regional and Governorate public entities, including in the case of the Kurdistan Region, KEPCO, KNOC and the Contract Evaluation Committee; and
- (d) jointly with the Regions and Governorates, prepare sample model Authorisations, including contracts for services and risked Petroleum Contracts to be entered into by Regional and Governorate petroleum companies, including in the case of KEPCO and KNOC, Production Sharing Contracts, provided that any such model Authorisation be acceptable to the Regional Government; and
- (e) in the case of the federal institution for Current Fields, and under licence from the Regional Government, together with the Regional or Governorate petroleum company, jointly approve Production Sharing Contracts or any short term or long term Petroleum Contracts of a similar nature for Current Fields; and where such licence shall have an initial term of five (5) years, and shall be automatically renewed for further terms of five (5) years, unless terminated by the Regional Government for breach of the terms of the licence; and
- (f) in the case of the federal institution for Future Fields, provide advice on Petroleum Contract terms and conditions, but only where requested to do so by the Region or Governorate, and with the Region or Governorate retaining exclusive power to negotiate and approve any such Petroleum Contract.