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THE LAW ON PETROLEUM, STATE POLICY ON PETROLEUM SECTOR DEVELOPMENT, AND ITS ACTION PLAN /2018-2027/



Ulaanbaatar
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BOOKLET

ULAANBAATAR
2019

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LAW OF MONGOLIA
ON PETROLEUM

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July 01, 2014 Ulaanbaatar City

ON PETROLEUM

(Restated Law)

CHAPTER ONE
GENERAL PROVISIONS

Article 1. Aim of the Law

1.1. The aim of this law is to regulate matters pertaining to petroleum and unconventional petroleum prospecting, exploration, and exploitation within the territory of Mongolia.

Article 2. Legislation on petroleum

2.1. Legislation on petroleum consists of this law and other legislative acts issued in conformity therewith.

2.2. If a clause of this law conflicts with a clause of an international treaty to which Mongolia is a party, the respective clause of the treaty shall prevail.

Article 3. Scope of the Law

3.1. This Law shall apply to the petroleum and unconventional petroleum relations within the territory of Mongolia.

Article 4. Definitions

4.1. The following terms used in this law shall have the meaning below:

4.1.1. “petroleum” means hydrocarbon compounds occurring in a solid, liquid, or gaseous state in the subsoil at the ordinary atmospheric pressure and temperature (crude oil, natural gas);

4.1.2. “crude oil” means hydrocarbon compounds occurring in a liquid state in the subsoil at ordinary atmospheric pressure and temperature;

4.1.3. “natural gas” means hydrocarbon compounds occurring only in a gaseous state in the subsoil at the ordinary atmospheric pressure and temperature;

4.1.4. “unconventional petroleum” means natural bitumen, oil shale, tar sand, gas-rich shale, gas sand, and coal bed methane;

4.1.5. “coal bed methane” means gas accumulated in coal during the process of carbonization;

4.1.6. “petroleum operations” means activities pertaining to petroleum and unconventional petroleum prospecting, exploration, exploitation, storage, transporting, sales, and dismantling;

4.1.7. “prospecting” means geological, geochemical, and geophysical survey works to be performed for the purpose of determining the prospects of petroleum and unconventional petroleum in a certain region;

4.1.8. “exploration” means geological, geochemical, geophysical, drilling, and extraction testing works to be performed for the purpose of finding an oilfield and establishing an amount of the reserves;

4.1.9. “evaluation” means work to be performed for the purpose of determining whether or not an occurrence discovered by a discovery well is of a commercially viable;

4.1.10. “exploration area” means a field announced for exploration by the state administrative body in charge of petroleum matters;

4.1.11. “contractor” means a company that entered into a contract to conduct petroleum exploration or production within the territory of Mongolia;

4.1.12. “operator company” means a company registered and paying taxes in Mongolia that will conduct contractor’s petroleum exploration or production;

4.1.13. “subcontractor” means a legal entity registered and paying taxes in Mongolia that has concluded a contract with a contractor or operator company to perform a certain part of its petroleum operations;

4.1.14. “production sharing contract” means a contract to conduct petroleum exploration or production that has been made between the state administrative body in charge of petroleum matters and a contractor;

4.1.15. “production area” means a field for which a production operations permit has been issued by the state central administrative body;

4.1.16. “production” means development and extraction operations for producing a petroleum and unconventional petroleum deposit;

4.1.17. “development” means erecting petroleum extraction structures, transmission pipelines, and infrastructure up to a delivery point;

4.1.18. “extraction” means all operations of extracting except for the development;

4.1.19. “dismantling” means operations connected with completely restoring the environment and dismantling and moving buildings and structures that have been installed upon expiry of an exploration and exploitation contract;

4.1.20. “discovery well” means a well that has discovered a petroleum occurrence;

4.1.21. “discovery” means a petroleum occurrence established by an exploration well;

4.1.22. “extraction testing” means extraction done during the period provided in clause 22.4 of this law performed for the purpose of establishing economic profitability;

4.1.23. “petroleum deposit” means one or several reservoirs containing structure or stratum with a petroleum occurrence that formed in the subsoil under geological changes and evolution of which the quality and reserves have been established;

4.1.24. “commercial discovery” means an reservoir having a petroleum occurrence that is economically profitable when exploited at the current technical and technological levels;

4.1.25. “delivery point” means a point within territory of Mongolia where petroleum oil shall be measured and split between the Government of Mongolia and contractor in accordance with the agreement;

4.1.26. “royalty” means the fees imposed on extracted petroleum;

4.1.27. “exploration work cost” means costs incurred in

connection with operations specified in clause 4.1.8 of this law;

4.1.28. “development cost” means costs incurred in connection with operations specified in clause 4.1.17 of this law;

4.1.29. “operating costs” means costs incurred in connection with petroleum extraction except for the costs incurred in connection with the development and dismantling on an production area;

4.1.30. “dismantling costs” means costs incurred in connection with completely restoring the environment, closing the extraction wells, and dismantling and moving buildings and structures upon expiry of an exploration and production contract;

4.1.31. “cost recoverable expenses” means the sum of exploration work costs, development costs, operating costs and dismantling costs.

4.1.32. “cost oil” means petroleum calculated by the percentage specified in clause 32.4 of this law intended to recover the costs specified in clause 4.3.31 of this law from crude oil;

4.1.33. “profit oil” means petroleum divided between the Government and a contractor after deduction of the petroleum specified in clauses 4.1.26 and 4.1.32 of this law from the total petroleum measured at a delivery point.

Article 5. Ownership of petroleum

5.1. Petroleum and unconventional petroleum existing in subsoil or on surface in its natural state shall be the property of the State.

5.2. The State shall exercise its ownership title by means of issuing petroleum and unconventional petroleum exploration and exploitation licenses.

CHAPTER TWO
THE AUTHORITY OF STATE AND LOCAL SELF-GOVERNING BODIES

Article 6. The powers of State Great Hural (Parliament)

6.1. The Parliament shall exercise the following powers pertaining to petroleum:

6.1.1. approving the government policy to develop the petroleum sector;

6.1.2. resolving on issues of signing contracts to conduct petroleum exploration, or exploitation within the state special protected areas; and

6.1.3. restricting or prohibiting petroleum prospecting, exploration, or exploitation in certain areas as represented by the Cabinet or on its own initiative.

Article 7. The powers of Cabinet

7.1. The Cabinet shall exercise the following powers pertaining to petroleum:

7.1.1. ensuring the implementation of legislations on petroleum operations;

7.1.2. promoting investment in the petroleum sector in accordance with the laws and regulations of Mongolia;

7.1.3. resolving the issue of exploration and exploitation operations in special use areas other than those specified in clause 6.1.2 of this law;

7.1.4. approve regulations on “Payment, allocation and spending of royalty and license payment”, ”Petroleum accounts and calculations” and “Regulating exploration and production of unconventional petroleum”;

/*This clause was amended by the law dated January 23, 2015*/

7.1.5. receive the royalty and petroleum allotted to the Government in cash and petroleum oil or unconventional petroleum products as mutually agreed with a contractor;

7.1.6. in the event that a petroleum refinery is installed within the territory of Mongolia, enjoying the right to preemptively purchase at the market price the petroleum allotted to the contractor and the cost oil;

7.1.7. in the event an accumulation of petroleum deposit or oil reservoir was discovered and it extends beyond the national border, regulating this matter by an inter-governmental treaty;

7.1.8. giving a permission to approve or terminate a production sharing contract, deciding the matter of transferring the rights and obligations of a contractor under a production sharing contract;

7.1.9. deciding on issue of petroleum and unconventional petroleum prospecting, exploration, and exploitation operations within the national border areas;

7.1.10. in the event that a petroleum exploration or production area overlaps with an exploration or mining area for an another mineral, resolving the matter by priority of social and economic significance;

7.1.11. issuing permits on installing a petroleum transmission pipeline intended for selling the petroleum.

7.1.12. approving a template of the product sharing contract;

7.1.13. approving a template of contract specified in clause 11.2.17 of this law.

Article 8. Functions of the State central administrative body[1] in charge of petroleum matters

8.1. The State central administrative body in charge of petroleum matters (the 'state central administrative body', henceforth) shall perform the following functions with regards to petroleum matters:

8.1.1. drafting the government policy for developing the petroleum sector;

8.1.2. ensuring the implementation of petroleum legislations and of decisions of the Cabinet pertaining to the implementation thereof;

8.1.3. approving regulations on "Selection of a contractor", "Requirements for petroleum resource and reserve estimate report", ''Requirements on primary and result reports on petroleum and unconventional petroleum exploration and exploitation'', ''Requirements on operation program of a petroleum deposit" and on "Returning and commissioning a prospecting, exploration or production area of petroleum oil or unconventional petroleum oil";

8.1.4. announcing an open tender for exploration areas;

8.1.5. issuing, extending, suspending, and terminating exploration and production licenses;

8.1.6. submitting reserve estimate reports and operating projects to the Professional Council for Mineral Resources for discussion and assessment;

8.1.7. inspecting the implementation of the operations related to petroleum oil together with relevant government bodies;

8.1.8. jointly with the state central administrative body in charge of environment, approving procedures for accepting the results of environmental restoration work affected by petroleum

[1]Currently, Ministry of Mining and Heavy Industry

and unconventional petroleum prospecting, exploration, and extraction operations;

8.1.9. approving labor safety and health regulations to be enforced in petroleum and unconventional petroleum prospecting, exploration, and production operations;

8.1.10. granting professional degrees in the petroleum and unconventional petroleum industry;

8.1.11. presenting to the Cabinet a proposal to build a transmission pipeline intended for selling the petroleum.

Article 9. Functions of the State administrative body in charge of petroleum matters[2]

9.1. The state administrative body in charge of petroleum matters ('state administrative body' henceforth) shall implement the following functions regards to petroleum oil matters:

9.1.1. ensuring the implementation of petroleum legislations and of decisions of the Cabinet and state central administrative body;

9.1.2. receive application for an exploration area, select a contractor, enter into a production sharing contract pursuant to clause 7.1.8 of this law;

9.1.3. approve an annual plan and budget of prospecting, exploration and production works for petroleum oil or unconventional petroleum oil, and oversee their implementation;

9.1.4. advising and giving direction on matters pertaining to the implementation of the rights and obligations of license holders;

9.1.5. monitor the changes in petroleum and unconventional petroleum reserves and have them registered with the integrated database of minerals reserves of Mongolia;

[2] Currently, Mineral Resources and Petroleum Authority of Mongolia

9.1.6. define and agree with a contractor on a size of the production area and its border coordinates;

9.1.7. issuing a proposal and assessment as to whether or not to grant a petroleum or unconventional petroleum production license;

9.1.8. examining and consolidating annual statements of the investment, costs, royalties, and petroleum extracted and sold by a contractor;

9.1.9. timely collect to the state budget the revenues of the Government earned from the sales of petroleum allotted to the Government, the payments, bonuses and service fees stated in Articles 30, 31 and 34 herein;

9.1.10. accepting and reviewing primary data, reports, and materials concerning on petroleum and unconventional petroleum geology, geophysics, hydrogeology, geochemistry, drilling, exploration, and production performed in an exploration or production area;

9.1.11. discussing and accepting statements of the results of petroleum and unconventional petroleum prospecting, exploration, and production work;

9.1.12. approving and enforcing the regulation on preparing a report of the results of petroleum prospecting, exploration, and production work;

9.1.13. organizing the return of exploration and production areas in whole or in parts;

9.1.14. issuing permits for storing petroleum in a space of a reservoir of petroleum in its natural state;

9.1.15. issuing a professional recommendation or opinion about transporting petroleum or unconventional petroleum;

9.1.16. ensuring the review and evaluation of designs for

petroleum structures and pipelines by a professional organization;

9.1.17. revising the technical requirements for work to be performed by subcontractors;

9.1.18. in the event a petroleum deposit or oil accumulation extends across two or more exploration or production areas, regulate the matter in accordance with clauses 25.5 and 25.6 of this law;

9.1.19. developing and having approved the standards, rules, regulations, and instructions for carrying out petroleum operations, monitoring the implementation thereof;

9.1.20. temporarily stopping the petroleum operations of a license holder in whole or in part on the grounds stipulated in the law upon reporting the decision in advance to the state central administrative body;

9.1.21. proposing amendments to production sharing contract to the state central administrative body;

9.1.22. if contractor didn't perform its obligation to explore natural gas during the exploration, announce an open tender for natural gas on the same area;

9.1.23. other functions specified in the law.

Article 10. The rights and obligations of local governing bodies

10.1. Local governing bodies shall exercise the following powers with regards to petroleum matters:

10.1.1. organizing the implementation within their territories of Government decisions issued in connection with petroleum legislation and the implementation thereof.

10.2. The Citizen's Representative Hural of a province or capital city shall exercise the following powers with regards to

petroleum matters:

10.2.1. discuss and issue an opinion as set forth in this law, regarding a notice from the state administrative body about an upcoming announcement of a bid for petroleum oil exploration;

10.2.1. when issuing an opinion specified in clause 10.2.1 herein, refuse only on the grounds set forth in the law;

10.2.2. participate and collaborate in activities of a commission for accepting the results of demobilization and reclamation works.

10.3. A Governor of a soum or district shall exercise the following powers with regards to petroleum matters:

10.3.1. ensuring that areas granted under a license on his/her jurisdictional territories are used for the stated purpose, monitoring the use of such lands, and in case of a violation halting such use and ensuring the remedy of the breach; and

10.3.2. protecting and rehabilitating the environment, protecting the health of the population, monitoring how license holders are fulfilling their legal obligations.

10.4. Local self-governing and local administrative bodies are prohibited from imposing the following requirements on license holders:

10.4.1. requiring any investment to be made that is not specified in this law, the exploration and exploitation contract, or cooperation agreement concluded with the Governor of a soum or district;

10.4.2. demanding or requesting any endowment, donation or assistance for purposes other than humanitarian; or

10.4.3. requiring any financial assistance for the purpose of financing political activities.

CHAPTER THREE
CONTRACTOR RIGHTS AND OBLIGATIONS, CONTRACT EVALUATION, TRANSFER, AND TERMINATION

Article 11. The rights and obligations of a contractor

11.1. A contractor shall have the following rights:

11.1.1. dispose of the petroleum allotted to it in accordance with the contract, except for those specified in clauses 7.1.5 and 7.1.6 of this law;

11.1.2. transfer its contractual rights and obligations to another party in accordance with this law;

11.1.3. when necessary, amend the annual plan and budget with approval of the state administrative body;

11.1.4. if fully met its contractual obligations in accordance with clause 13.1 of this law, receive back the funds deposited in the escrow account;

11.1.5 in the event it has fully met its obligations to protect and restore the environment, return the exploration area in whole or in part;

11.1.6. the administrative costs of the contractor shall be up to five percent of the cost recoverable expenses for a respective year.

11.2. A contractor shall have the following obligations:

11.2.1. observe Mongolian legislation, rules, regulations, and standards, perform its contractual obligations;

11.2.2. carry out only those operations that are specified in the contract;

11.2.3. submit for approval to the state administrative body and performing its annual budget and plan;

11.2.4. in the event the Government exercises its preemptive right specified in clause 7.1.6 of this law, supply its products at international market prices and conditions;

11.2.5. when selecting a subcontractor for goods and services give the first priority to a domestic entity registered and paying taxes in Mongolia;

11.2.6. handling all investment and sales revenue transactions through commercial banks registered in Mongolia and fully reflecting the same in transparent and open financial statements;

11.2.7. collaborate with the state administrative body to create a public awareness about its operations and their results when introducing the latest technologies, hiring and training Mongolian specialists and professional staff;

11.2.8. set up equal salaries, wages and bonuses for domestic and foreign employees performing same duties and work, and protect their rights and interests;

11.2.9. deposit a cash amount equal to 3% of investment to the exploration work of the relevant year, or to 1% of its profit-bearing oil during an production phase for that year respectively into an escrow account annually in a bank operating in Mongolia within 60 days from the approval of its plan and budget as a guarantee of contractor's full performance of its obligation for environmental rehabilitation and demobilization of exploration or production buildings and facilities;

11.2.10. provide expenses for complete the environmental rehabilitation and demobilization of exploration and production buildings and facilities;

11.2.11. give to the state administrative body the information about types, quantity and unit prices of imported machinery, equipment, materials, raw materials, spare parts and

petroleum oil products required for the petroleum oil exploration and production operations as well as a design, drawings and technical documents of buildings and facilities to be constructed in the territory of Mongolia;

11.2.12. not to give primary or final statements or materials pertaining exploration or production to a third party without permission of the state administrative body;

11.2.13. produce an estimate of petroleum resource movement each year for review by the state administrative body;

11.2.14. prepare accurately its financial statements, a report on expenditures which are cost-recoverable and calculation of petroleum oil for splitting according to the procedures specified in clause 7.1.4 of this law and submit them to the state administrative body;

11.2.15. if a historical and cultural item or antique artifact was found, stop the operations in the concerned area and immediately notify the relevant authority pertaining to the area and immediately inform any relevant institutions;

11.2.16. produce and hand over any information associated with its investment, ownership, and operations at request of the Cabinet;

11.2.17. make an agreement on voluntary provision of support to environmental protection and local development with a governor of soum or district where the production license area is located;

11.2.18. have a full time staff in charge for regularly informing the state administrative body on environment, restoration, and dismantling the exploration and production structures and facilities;

11.2.19. the contractor’s exploitation programs plan must contain detailed information on types of roads to connect the

deposit products to local, state or international roads, and on funding for the environmental restoration and dismantling the exploration and production structures and facilities;

11.2.20. inform the state central administrative body about any technical accidents, stoppage, financial difficulties or losses persisting long time, halt of operations due to force majeure circumstances, a court decision or by the state inspector, or stop of exploration or production operations, development or exports;

11.3. If a contractor is not able to perform its obligations specified in clause 11.2.5 of this law because of shortage of sub-contracting Mongolian companies or them not meeting the requirements for the specified work and such contractor has presented a proof of such inability, it may be freed in whole or in part from this obligation by decision of the state administrative body may release the contractor from this obligation wholly or partially.

11.4. An operator company shall undertake the obligations specified in clauses 11.2.1-11.2.8, 11.2.12-1.2.20, in addition to the rights and obligations specified in the Company Law.

11.5. A subcontractor shall undertake the obligations specified in clauses 11.2.1, 11.2.7, 11.2.10–11.2.12, and 11.2.15 in addition to the rights and obligations specified in the Company Law.

Article 12. Termination of the contract

12.1. A production sharing contract may be terminated by a Cabinet decision on following grounds:

12.1.1. serious damage has been caused to the health of the population, environment, livestock, or wild animals, or the obligation to protect and restore the environment has been repeatedly ignored;

12.1.2. relevant agencies determined after entering into the contract that the contractor’s documents submitted during

the application or the contract negotiation process were illegal;

12.1.3. the competent government agency determined that false data, information, or reports on petroleum operations submitted by the contractor have caused a significant damage to the country;

12.1.4. the contractor has transferred its rights and obligations to carry out exploration or production operations to others illegally, or when the contractor has transferred its rights and obligations to carry out exploration or exploitation operations specified in clause 34.7 and 34.8 of this law, the payment for such transferring has not been made within the period provided in clause 14.6 of this law;

12.1.5. the contractor never performed its obligation, breached its contractual obligations seriously or repeatedly;

12.1.6. the contractor has falsely reported the amount of the payment specified in clause 14.7 of this law.

12.2. Contractor may propose to the state administrative body to terminate the contract in case the contractor considers its petroleum or unconventional petroleum production to be economically not profitable, or if the event of emergency or force majeure circumstance that the contractor incurred continue for one or more years.

12.3. The state administrative body shall review the request specified in clause 12.2 of this law within 30 days of receipt, make an assessment and submit its opinion to the state central administrative body.

12.4. The state central administrative body shall review the assessment specified in clause 12.1 of this law within 30 days of receipt and submit a respective proposal to the Cabinet.

12.5. In the event an exploration or production license has been terminated on grounds provided in clause 12.1 of this

law, the exploration or production costs incurred shall not be reimbursed and the money deposited in the escrow account as specified in clause 11.2.9 of this law shall be used for complete environmental rehabilitation and, if required, for demobilization of buildings and facilities used for exploration and production, and a remaining balance of the cash shall be returned to the contractor.

Article 13. Evaluating the performance of the contract

13.1. Upon expiry of a contract, or else in the event an exploration or exploitation license has been terminated on the grounds specified in Article 12 of this law, the state administrative body shall evaluate the performance of the contract on the following criteria:

13.1.1. whether or not the contractor met its contractual obligations;

13.1.2. whether or not the contractor fully completed environmental restoration;

13.1.3. whether or not the contractor paid the taxes, fees, and royalties due in accordance with legislation;

13.1.4. whether or not the contractor resolved the matter of the ownership of assets;

13.1.5. whether or not the contractor resolved the matter of dismantling buildings and structures used for exploration or production; and

13.1.6. fulfillment of the obligations specified in clause 11.2.10 of this law.

13.2. The state administrative body shall include representatives from respective state bodies when evaluating the fulfillment of the contract.

13.3. The rights specified in clause 11.1.4 shall be established upon evaluation that the fulfillment of the contract was satisfactory.

Article 14. Transfer of a contractor's rights and obligations to others

14.1. A contractor shall have no right to transfer whole or one third or more percentage of its rights and obligations under a production sharing contract to others without permission from the Cabinet.

14.2. A contractor shall submit its request to transfer one third or more percentage of its rights and obligations to the state administrative body.

14.3. The state administrative body shall review the request specified in clause 14.1 of this law within 30 days of receipt and prepare its proposal and submit to the state central administrative body.

14.4. The state central administrative body shall review the proposal specified in clause 14.2 of this law within 30 days of receipt and submit its proposal to the Cabinet for its decision.

14.5. In the event the Cabinet approves the transfer of rights and obligations under a production sharing contract, the contactor, the state administrative body, and the third party to whom the contractual rights and obligations are being transferred, shall make a trilateral agreement.

14.6. The contractor shall pay the fees specified in clause 34.7 and 34.8 of this law within 90 days of the issuance of a Cabinet decision approving the transfer of a third or more percentage of the rights and obligations.

14.7. The contractor and the third party receiving the contractual rights and obligations shall honestly report the amount of payments paid for transferring those rights and obligations.

14.8. When issuing the proposal specified in clause 14.2 of this law, the state administrative body shall take into account a reference of the State central administrative body in charge of

environment and the respective local administrative body as to whether or not it the contractor fully met its obligation to protect and restore the environment during the period that exploration was carried out.

CHAPTER FOUR
PROSPECTING

Article 15. Petroleum and unconventional petroleum oil prospecting

15.1. A legal entity shall carry out petroleum or unconventional petroleum oil prospecting upon making a contract with the state administrative body.

15.2. Petroleum or unconventional petroleum oil prospecting can be carried out in the areas of the state and local special needs status, except for the areas under the status of “strictly protected by the State”.

15.3. A size of a petroleum and unconventional petroleum oil prospecting area to be granted to one legal entity shall be defined by the state administrative body depending on the geological formation of the basins.

15.4. Drilling can be carried out during unconventional oil prospecting.

/This clause was restated by the law dated July 09, 2015/

Article 16. Applying to prospect for petroleum or unconventional petroleum

16.1. A legal entity shall submit its application to prospect for petroleum and unconventional petroleum to the state administrative body.

16.2. The following items shall be specified in the application specified in clause 16.1 of this law:

16.2.1. the location and size of the prospecting area;

16.2.2. the general work project for the period of prospecting;

16.2.3. technical capability, human resource capacity;

16.2.4. financial resources and their sources for financing the planned work; and

16.2.5. the prospecting work plan and budget to be performed during the respective year.

16.3. The state administrative body shall review a prospecting application for a period of 30 days and issue its decision.

16.4. In the event two or more legal entities have filed a prospecting application for a given area, the state administrative body shall perform a comparative assessment and issue its decision.

16.5. The state administrative body shall take the following into account when concluding a prospecting contract:

16.5.1. whether or not the applicant has [the requisite] technical, professional, and financial capability and the technology;

16.5.2. whether or not the methods and methodology of the prospecting work meet international standards; and

16.5.3. the environmental protection and restoration program.

16.6. A contract to prospect for petroleum or unconventional petroleum oil shall be concluded for a period of up to three years pursuant to the decisions specified in clauses 16.3-16.4 of this law.

16.7. Rights and responsibilities under a prospecting contract may not be transferred to others.

Article 17. The results of prospecting work, product sharing contract

17.1. A party performing petroleum or unconventional petroleum prospecting shall give the primary materials and reports and information on the results of its prospecting work to the state administrative body for assessment.

17.2. A body which concluded prospecting shall present its request to enter into a “production sharing contract” pertaining to the petroleum or unconventional petroleum area prospected within 60 days from the date the state administrative body issued its assessment of contractor’s report on prospecting work results.

17.3. The party that performed prospecting shall prepare a draft production sharing contract containing the conditions and submit it to the state administrative body:

17.3.1. the percentage of profit oil allotted to the Government;

17.3.2. the percentage of royalties;

17.3.3. the limit of the percentage of cost oil;

17.3.4. the amount of exploration investment;

17.3.5. the amount of funds spent on environmental restoration;

17.3.6. the amount of the premium for instruction/training;

17.3.7. the amount of a bonus for signing the contract;

17.3.8. the amount of a bonus for beginning extraction;

17.3.9. the amount of a bonus for increasing the extraction;

17.3.10. the amount of a bonus for local development;

17.3.11. operational support of the representative office;

17.3.12. other profitable conditions proposed to the Government.

17.4. Upon receiving the draft specified in 17.3 of this law, the state administrative body shall hold negotiations with the party specified in clauses 17.3, 21.2, and 26.3 of this law regarding the

draft contract in 60 days of receipt of the draft, and shall submit the finally agreed draft to the state central administrative body.

17.5. The state central administrative body shall review the draft contract specified in clause 17.4 of this law, and if it considers the draft contract appropriate to conclude, it shall deliver its proposal to this effect to the Cabinet, and the Cabinet shall issue a decision as to whether or not to conclude a contract, within 60 days of receipt of the proposal.

17.6. If the Cabinet has granted the authority to conclude a contract, the state administrative body shall conclude a contract within 30 days and shall notify the respective local administrative body about this contract.

17.7. If the parties to reach an agreement in the course of negotiations according to clause 17.4, the petroleum prospecting area shall be announced an exploration area pursuant to clause 19.1 of this law.

17.8. In the event that petroleum and unconventional petroleum exploration and production are carried out in the same area, there may be one contractor who shall obtain a license for each mineral and make a contract pertaining to each mineral.

CHAPTER FIVE
EXPLORATION

Article 18. Granting and extending the term of an exploration license

18.1. A contractor specified in clause 17.6 of this law shall submit its application for an exploration license to the state central administrative body.

18.2. The following documents shall be appended to the application for an exploration license:

18.2.1. a copy of the production sharing contract;

18.2.2. an environmental impact assessment;

18.2.3. a draft of the work project and plan to be performed during the respective year; and

18.2.4. proof of deposit of the funds specified in clause 11.2.9 of this law.

18.3. The state central administrative body shall review the documents specified in clauses 18.1 and 18.2 of this law and issue or extend the term of an exploration license to a body mentioned below for a period of exploration:

18.3.1. an production sharing contract concluded outright based on the results of prospecting work; or

18.3.2. upon holding an open tender pursuant to Article 19 of this law, a contract concluded pursuant to Article 21 of the this law.

18.4. A term for petroleum exploration shall be up to 8 years, and state administrative body may extend twice this period by up to 2 years.

18.5. A term for unconventional petroleum exploration shall be up to 10 years, and state administrative body may extend this period once by up to 5 years.

18.6. An exploration term shall be counted beginning from a day a production sharing contract was made.

18.7. A term of an exploration work plan and budget shall be continue for and calculated in calendar years.

18.8. The state administrative body shall approve the exploration work plan within 120 days of concluding the production sharing contract, and starting from the next year - within the first quarter of a successive year.

18.9. The state central administrative body may extend the term of an exploration license specified in clause 18.3 of this law

for a period of up to 2 years twice, and in this event the contractor shall provide the following documents for submission to the state central administrative body through the state administrative body:

18.8.1. a report on work performed during the term of the exploration license;

18.8.2. a report on environmental protection and restoration; and

18.8.3. a draft of the work plan and budget to be performed during the period of the extension.

18.10. The state central administrative body shall examine the documents specified in clause 18.9 of this law, and if it deems the grounds for extension of the term are present, it shall extend the term as provided in this law.

18.11. The state administrative body shall notify the respective local administrative body that an exploration license has been issued or extended.

18.12. In case the minimum exploration work obligations were not performed two or more times, the exploration term shall not be extended.

Article 19. Announcing an exploration area

19.1. The state administrative body shall announce an open tender on the following exploration areas:

19.1.1. on which the exploration has been performed with the government funding or the areas specified by state administrative body;

19.1.2. for which the party that performed prospecting has refused to conclude a production sharing contract;

19.1.3. for which a party that previously received an exploration license refused to perform exploration and returned the area, or for which its license was revoked by a competent authority due to repeated violations;

19.1.4. the exploration license has got expired and the area was returned;

19.1.5. one revoked under the provisions of clause 9.1.23, 11.1.5, 17.7 or 12 of this law;

19.1.6. as otherwise provided in the law.

19.2. The state administrative body shall announce notification that an exploration area has been declared for open tender on its webpage and through the daily press and mass media no fewer than three times.

19.3. A size of a petroleum or unconventional petroleum exploration area shall be defined by state administrative body depending on the geological formation.

Article 20. Accepting exploration area bids

20.1. The period for accepting bids to participate in an open tender specified in Article 19 of this law shall be up to 60 days, and the state administrative body shall arrange and announce the end of the period to accept exploration area bids within five days of acceptance of a first bid for the exploration area.

20.2. Bids shall be submitted to the state administrative body sealed, and the following documents shall be appended thereto:

20.2.1. documents evidencing a bidder’s legal status;

20.2.2. a prospectus for the bidder and its investment;

20.2.3. the full name, position, address, phone number, fax number, and email address of a person representing the bidder, evidence proving that the right of representation has been granted to that person;

20.2.4. documents evidencing the bidder’s technical, equipment, and professional capabilities;

20.2.5. a guarantee of the funds to be spent on exploration work;

20.2.6. a work plan and budget to be performed during the exploration term;

20.2.7. proof that the service fee for the exploration area bid specified in clause 34.5 of this law has been paid;

20.2.8. if a bidder is a consortium, the obligations of each party in exploration and production operations and the percentage and amount of their participation.

20.3. The bidder shall be notified in writing within five business days as to whether or not its bid has been accepted from the state administrative body.

20.4. The state central administrative body or the state administrative body shall not disclose information on the bidders to a third party until such time as a contract has been concluded.

Article 21. Issuing the results of a tender

21.1. The state administrative body shall evaluate bids in accordance with the regulation on “selecting a contractor under the tender process” and define the bidder that submitted the most profitable proposal from the main conditions specified in clause 17.3 of this law, and the tender participants shall be notified of this effect.

21.2. The state administrative body shall agree with a tender winner specified in clause 21.1 of this law a draft of a production sharing clause, and enter into this agreement as set forth in clause 17.6 of this law if a decision specified in clause 17.5 is made.

Article 22. Evaluation and extraction tests

22.1. If petroleum is discovered from an exploration well during exploration work, the contractor shall officially notify the state administrative body to this effect within 15 days and register the well.

22.2. The contractor shall, within 90 days of registration of the well, perform experimental analysis on that well to determine whether or not it is a discovery well and register it with the state administrative body, and have the evaluation and project approved by state administrative body within 90 days of registration of a discovery well.

22.3. The contractor shall implement the evaluation project and establish whether or not it is a profitable discovery, and shall submit a work report, which shall include a reserve evaluation, to the state administrative body within 90 days of completion of the evaluation work.

22.4. An extraction testing period of a well shall not exceed 180 days.

22.5. Crude oil extracted through extraction testing may be sold or exported, and the amounts of applicable royalty and of the profit oil shall be regulated by a production sharing contract.

22.6. After the expiry of the period for extraction testing, extraction from a given well shall be stopped until production begins.

Article 23. Resource evaluations and reserve estimates

23.1. When issuing the results of exploration work, a contractor shall produce a resource evaluation and reserve estimate and report on the same requirements in accordance with the procedures specified in clause 8.1.3 of this law.

23.2. A contractor shall submit the reserve estimate to the state administrative body 90 days before the expiry of the exploration period for review, hold discussion of it by the Mineral Resources Council of the state central administrative body, and seek issuance of a decision by the state central administrative body as to whether or not to accept the reserves.

23.3. The state central administrative body shall approve a

plan of operations for a petroleum deposit on the basis of the assessment of the Mineral Resources Council.

23.4. The contractor shall be liable for the costs incurred in connection with having an assessment made by a professional independent body or expert on the reserve estimate, economic evaluation, or petroleum deposit production project at request of the contractor or state administrative body.

CHAPTER SIX
PRODUCTION

Article 24. Granting and extending the term of an production license

24.1. Within 30 days of the state central administrative body issuing a decision accepting the reserves, a contractor shall apply for a production license.

24.2. A contractor shall obtain a production license before start of production and the production period shall start on a day of issue of the license.

24.3. The state central administrative body shall issue a production license in accordance to the relevant laws.

24.4. A contractor shall submit the following documents to state central administrative body when applying for a production license:

24.4.1. a decision of state central administrative body registering the petroleum reserve;

24.4.2. a draft of the work plan and budget for the respective year;

24.4.3. a deposit mining operations plan;

24.4.4. the detailed environmental impact assessment current for the production period;

24.4.5. an image on which the coordinates of the corner

points of the production area are marked in degrees and seconds on a topographical map of a design proposed by the competent state authority;

24.4.6. a proof of deposit of the funds specified in clause 11.2.9 of this law.

24.5. A contractor shall submit the following documents to the state central administrative body through state administrative body when extending the terms of a production license:

24.5.1. a request to extend the term of the production license, the grounds for such extension;

24.5.2. a report on work performed during the term of the production license;

24.5.3. a report on environmental protection and restoration;

24.5.4. a draft of the work plan and budget to be performed during the respective year.

24.6. The boundaries of the production area shall be measured pursuant to clause 24.4.5 of this law and the work of placing boundary markers shall be performed by the respective professional body within 90 days of the issuance of the production license.

24.7. The state central administrative body shall notify a respective local administrative body that a production license has been issued or extended.

Article 25. Petroleum production

25.1. If within 90 days after the end of exploration period the contractor did not submit application for engaging in production, the production sharing contract shall be terminated and the area shall be announced as an open area pursuant to articles 20 and 26 of this law

25.2. The term of petroleum production shall be up to 25 years, and in the event a contractor applied for an extension of

the production term, the state administrative body may extend it twice by up to 5 years.

25.3. The term of unconventional petroleum production shall be up to 30 years, and in the event a contractor applied for an extension of the production term, the state administrative body may extend it once by up to 5 years.

25.4. When carrying out construction during the development stage, a contractor shall obtain the appropriate licenses and permits from relevant ministries and agencies.

25.5. In the event that a reservoir having an oil deposit or petroleum occurrence is located so as to extend across two or more exploration or production areas, the contractors shall conclude a joint production agreement and draft a consolidated extraction plan and budget for approval by the state administrative body.

25.6. In the event a contractor refused to implement the provisions of clause 25.5 of this law, the state administrative body shall resolve the matter of further exploitation of this reservoir on the basis of relevant laws, regulations and scientific methods.

25.7. A contractor shall submit the first year's production plan and budget to the state administrative body for approval within 60 days of the issue of an production license.

25.8. Beginning from the second year of production, a contractor shall submit a draft of production plan and budget for a given year to the state administrative body 90 days before end of a preceding calendar year.

25.9. A contractor shall carry out production operations from certified reserves but this shall not apply to extraction testing.

25.10. A contractor shall introduce advanced technology and techniques to exploit a petroleum deposit reserve.

Article 26. Conducting an open tender for a production area

26.1. In the following events an open tender shall be announced for an production area:

26.1.1. a production license holder refused an exploitation license after receipt of a decision of the state central administrative body regarding reserve acceptance;

26.1.2. exploration has been performed and a reserve established with the State financing;

26.1.3. a previous production license holder refused to carry out production and returned the field;

26.1.4. through legal violations of the previous production license holder its production license was revoked and the field taken back;

26.1.5. the term of an production license has expired and the field returned;

26.1.6. a court decision has been issued revoking the production license.

26.2. An open tender shall be held for an area specified in clause 26.1 of this law in accordance with the procedures specified in clause 8.1.3 of the Law and the contractor determined.

26.3. The draft of a production sharing contract shall be agreed upon with the winner of the tender specified in clause 26.2 of this law, and submitted by the state administrative body to the state central administrative body.

26.4. A production sharing contract shall be concluded pursuant to clauses 17.5 and 17.6 of this law with a legal entity specified in clause 26.2 of this law and an production license issued.

Article 27. Amount and value of petroleum

27.1. Delivery points for extracted petroleum shall be established by mutual agreement of the state administrative body and the contractor.

27.2. If the parties are unable to come to an agreement on the location of a delivery point within 30 days, the delivery point shall be established by the state administrative body.

27.3. Measurements shall be made at a delivery point by an independent professional body.

27.4. The state administrative body may set up a measure control point.

27.5. The state administrative body and the contractor shall set a price of the extracted petroleum on the basis of the price of petroleum of the same character as sold on the world market.

27.6. Extraction test petroleum or petroleum extracted during the extraction stage shall be measured by metering equipment approved by a competent body licensed by the Mongolian Agency for Standardization and Metrology at a petroleum delivery point and measure control point.

27.7. If a metering equipment broke or measured with errors, the error period shall be accounted from a day in the middle of a period from the date this equipment was last inspected to the date the erroneous measurement was discovered.

27.8. An independent professional organization shall work for the purpose of ensuring and monitoring the integrity and regular operations of the metering equipment, and the contractor shall be liable for all associated expenses and fees.

Article 28. Petroleum storage

28.1. Extracted petroleum may be stored in the following manner:

28.1.1. using an installed petroleum storage structure;

28.1.2. upon obtaining a permission from the state administrative body in case of petroleum is to be stored using a space of a petroleum reservoir existing in its natural form in the license area.

28.2. When draining or returning petroleum in the space specified in clause 28.1.2 of this law, the petroleum shall be measured pursuant to this law and other relevant rules and regulations.

Article 29. Petroleum transportation

29.1. Extracted petroleum shall be transported by railroad, special purpose vehicle, or transmission pipeline.

29.2. In the event a contractor transports petroleum by special-purpose vehicle, it shall comply with the road types and standards approved by the relevant state authority.

29.3. Within the production area a contractor may install a transmission pipeline for production, and such pipeline shall be the property of the contractor during the term of the contract, and upon expiry of the contract a decision shall be made pursuant to clause 39.1 of this law.

29.4. If a contractor wishes to build a pipeline for the purpose of selling petroleum, it shall present its request to the state central administrative body.

29.5. The state central administrative body shall submit its proposal to the Cabinet for issuance of an appropriate decision within 6 months of receipt of the application specified in clause 29.4 of this law.

CHAPTER SEVEN
FEES, COSTS, COST RECOVERY AND PRODUCT SHARING

Article 30. License fees and their allocation

30.1. A contractor shall pay the license fee every year during petroleum exploration and production.

30.2. The annual license fee during the term of petroleum exploration shall be an amount in tugrugs equal to three American dollars per square kilometer of the contracted area.

30.3. In the event the term of an exploration license is extended, the annual license fee shall be an amount in tugrugs equal to eight American dollars per square kilometer.

30.4. The annual license fee during the term of petroleum production shall be an amount in tugrugs equal to 100 American dollars per square kilometer.

30.5. In the event the term of an production license is extended, the annual license fee shall be an amount in tugrugs equal to 200 American dollars per square kilometer.

30.6. Ten percent of the license fee shall be allocated to the soum or district containing the licensed field, 20 percent to the province or capital city, and 70 percent to the State budget, respectively.

30.7. License fees shall be paid within 30 days of beginning of a respective year.

30.8. If the license fee has not been paid within the period provided in clause 30.7 of this law, a fine equal to one-third of the amount specified in clauses 30.2–30.5 of this law shall be added for each day of delay.

Article 31. Royalties and their allocation

31.1. The amount of petroleum and natural gas royalties shall be 5–15 percent of the crude oil or natural gas extracted.

31.2. The amount of unconventional petroleum royalties shall be 5–10 percent.

31.3. Thirty percent of the royalties shall be allocated to the consolidated local development fund and 70 percent to the State budget.

~~31.4. Three percent of the annual sales revenue of crude oil allocated to the Government shall be collected in a fund to develop the petroleum sector.~~

/This clause was amended by the law dated January 23, 2015/

Article 32. Measuring the cost recovery expenses and cost oil

32.1. Contractor shall bear responsibility itself for all costs necessary for carrying out petroleum operations.

32.2. Cost recovery expenses shall be verified by the Supreme Audit Institution and shall be recovered by the cost oil in the amount specified in a production sharing contract.

32.3. The amount of cost oil shall be up to 40% of the oil remaining after deducting the oil for which the royalty shall be paid, from the total oil extracted in a given year. For the unconventional petroleum the amount of cost oil shall be determined by the relevant regulation specified in this law.

32.4. Once the term of exploitation ends, the contractor shall not be granted the portion of cost recoverable expenses that remains unrecovered.

32.5. Costs of test extraction during the exploration shall be part of exploration costs.

32.6. The fees specified in clauses 30.2–30.5, 30.8, 31.1-31.2, and 34 of this law shall not be regarded the cost recovery expenses.

32.7. In case the cost recovery expenses reported by contractor could not be verified by financial documents, such costs and expenses shall not be deemed cost recovery expense.

32.8. Government shall not pay any interest on the contractor's accumulated expense for cost recovery.

Article 33. Product sharing

33.1. The Government shall share the profit oil with the contractor as agreed in the production sharing contract.

33.2. The amount of profit oil allocated to the Government shall be determined and specified in the contract in relation to daily extraction volume.

Article 34. Other royalties, bonuses, and service fees

34.1. Bonuses for signing the contract, beginning the extraction, increasing extraction, and training shall be included in the contract at the rate proposed by the bidder as set forth in clause 17.3 of this law.

34.2. A contractor shall pay the fees except for the training and local development bonuses and representative office operational support into the state budget.

34.3. The training bonus and representative office operational support shall be transferred to the state administrative body.

34.4. The local development bonus shall be transferred to the local development fund.

34.5. The service fee for an exploration area bid, an amount in

tugrugs equal to 20,000 American dollars, shall be deposited into account of the state administrative body.

34.6. A contractor shall pay an amount in tugrugs equal to 100,000 American dollars to the state budget when increasing the size of an exploration area, and 250,000 American dollars when increasing the size of a production area, respectively.

34.7. A contractor shall pay an amount in tugrugs equal to 20,000 American dollars to the state budget when transferring its contractual rights and obligations before a discovery has been established on the exploration area, and 50,000 American dollars after a discovery has been established.

34.8. If the rights and obligations have been transferred during the production period, an amount in tugrugs equal to 100,000 American dollars shall be paid to the state budget.

CHAPTER EIGHT
REPORTS, STATEMENTS AND MONITORING

Article 35. Information materials and reports of results

35.1. A contractor shall hand over to the state administrative body reports and primary information and data materials on the results of its exploration or production work within 90 days after the end of the respective calendar year.

35.2. Upon permission from state administrative body, a contractor may send rock samples, petroleum, gas, and primary information materials abroad for studying, refining, reporting, laboratory tests, and analysis.

35.3. A contractor shall hand over reports and results of the analysis of petroleum, gas, liquids and rock samples and primary data of the study to the state administrative body within 90 days after the end of a respective calendar year’s work.

Article 36. Issuing a financial statement

36.1. A contractor shall submit information on the amount of investment, incurred costs, paid royalties, the amount of extracted and sold petroleum, taxes paid into the State and local budgets, and the amount of the fees, bonuses, and service fees specified in Article 34 of this law to the respective state agencies and the state administrative body by the first quarter of the succeeding year, and shall notify the public thereof through the mass media.

36.2. A contractor shall fully include in its accounting books and report on all petroleum operations being performed on a licensed area pursuant to the Accounting Law.

Article 37. Financial inspection and certification

37.1. The Supreme Audit Institution shall, together with other relevant bodies, inspect the works performed by the contractor in accordance with the approved plans and budget, its primary accounting register documents and the investment and financial statements every year.

37.2. The total amount of a contractor's investment and cost recovered or cost recoverable expenses, as well as a calculation and allocation of petroleum export and sales revenue, shall be examined and certified by the inspection specified in clause 37.1 of this law.

37.3. The Supreme Audit Institution shall hold a tender for a professional, independent, and neutral auditor to perform the financial inspection work specified in clause 37.1 of this law.

37.4. A contractor shall have the obligation to produce all information, data, statements, and materials necessary to the inspection without hindrance.

CHAPTER NINE
MISCELLANEOUS

Article 38. Emergencies and force majeure events

38.1. In case the state of emergency was declared in a whole territory or in some regions of Mongolia, the government may mobilize, with grant of compensation, to use the petroleum or unconventional petroleum allotted to a contractor, building and facilities, equipment and machinery in whole or in part.

38.2. In case the state of war or the conditions of war occur in Mongolia, a contractor may be required to increase its extraction up to a maximum level allowed by the equipment, technologies and production safety conditions of that time.

38.3. In case operations of a contractor are delayed for a period of more than one year due to a force majeure circumstance, the state central administrative body may add this period of delay to a term of exploration or production.

Article 39. Transferring ownership titles

39.1. The matter of ownership of contractor's technology, equipment, machinery, goods, and immovable property that were imported into Mongolia for the purpose of use in petroleum or unconventional petroleum exploration or production shall be decided pursuant to the contract.

39.2. In the event the Government refuses to accept transfer of the assets specified in clause 39.1 of this law after expiry of a production sharing contract, the contractor shall demobilize and dismantle them at own expense.

Article 40. Compensating property damage

40.1. A contractor shall fully reimburse the damage caused to wells, winter, autumn or spring herding homesteads, private or public buildings, other constructions, facilities, historical and

cultural artifacts during its exploration and production operations, to their respective owners or possessors.

40.2. If the buildings, structures, and property specified in clause 40.1 of this law are to be moved, the contractor shall be fully liable for the costs associated therewith.

40.3. If a contractor refuses to meet the obligations specified in clause 40.1 of this law, liabilities shall be imposed on it pursuant to the Civil Code.[3]

Article 41. Insurance

41.1. A contractor or its subcontractor may have its petroleum operations, property, and interests insured by an authorized Mongolian insurance company in accordance with the law of Mongolia.

41.2. In the event that an authorized Mongolian insurance company refuses insurance as specified in clause 41.1 of this law, insurance may be obtained from an insurance company of a foreign country.

Article 42. Occurrence of other minerals, overlapping of areas

42.1. In the event natural gas is found during petroleum exploration work, the contractor shall notify the state administrative body within three business days and may conclude a separate production sharing contract for natural gas.

42.2. If a contractor discovers another mineral besides petroleum or unconventional petroleum during the term of exploration or production, the state administrative body shall be notified within 15 business days, and the matter of exploring and producing such mineral shall be regulated by the relevant laws.

42.3. If exploration or production operations for petroleum oil, unconventional petroleum oil and other minerals are overlapping,

[3]Civil Code — published in State Gazette No. 7 (2002).

the license holders shall establish mutual agreements and operate without causing interference and obstacles to each other.

42.4. If it is not possible to operate under the provisions of clause 42.3 of this law, this matter shall be decided pursuant to clause 7.1.10 of this law.

42.5. If a decision with regards to the circumstance specified in clause 42.4 of this law resulted in a complete halt of operations of one party, all exploration and production expenses of this license holder shall be paid off fully by the party which received a license.

Article 43. Dispute resolution

43.1. If it is not possible for the state administrative body and the contractor to amicably resolve property or other disputes arising during petroleum operations and there is an arbitration agreement, it shall be settled by arbitration. In other cases, they may file a suit in court.

/This clause was amended by the law dated January 26, 2017/

Article 44. Liabilities for people who breached legislation

44.1. If the action of an official which violates this law is not criminal in nature the liability as specified in the Law of Mongolia on Civil Service shall be imposed.

44.2. Liabilities as set forth in the Criminal Code and the Law on Infringement shall be imposed upon the individuals or legal persons those who violated this law.

44.3. If a license holder has been imposed with a liability specified in the Criminal Code or liabilities specified in the Law on Infringement twice, the license shall be revoked, and no exploration or production license shall be granted to a legal body, formed by the license holder or its executive officers, directors of the board, or any equivalent legal body with same founders or shareholders, for 5 years since such revocation.

/This article was restated by the law dated December 04, 2015/

Article 45. Entry into force

45.1. For the contracts concluded before this law comes into force or concluded in accordance with the Law on Petroleum approved on 18 January, 1991, fees, costs, cost recovery, and product sharing stated in clauses 17.3.1, 17.3.6–17.3.11, 30.2, 30.4, 32.2, 32.3, 33.1 and 33.2, of this law, shall be applicable in amounts and percentages stated in those contracts, and for the contracts which do not specify royalties payable as per clause 17.3.2 in this law, the royalty amount shall be set upon negotiation between the state administrative body and contractor.

SPEAKER OF THE STATE GREAT HURAL OF MONGOLIA
Z.ENKHBOLD

STATE POLICY ON PETROLEUM SECTOR DEVELOPMENT /2018-2027/

RESOLUTION OF THE GOVERNMENT OF MONGOLIA

No. 169

APPROVAL OF THE STATE POLICY ON PETROLEUM SECTOR DEVELOPMENT

Pursuant to provisions 8.4 and 8.5 of the Law on Development Policy Planning, the Government of Mongolia is RESOLVING to:

1. Approve the “State Policy on Petroleum Sector Development until 2027” (as to annex)

2. The Minister of Mining and Heavy Industry D.Sumiyabazar shall be responsible for approval and enforcement of the action plan to implement the “State Policy on Petroleum Sector Development” and oversight of its implementation.

3. Assign the Minister of Finance Ch.Khurelbaatar, the Minister of Mining and Heavy Industry D.Sumiyabazar and governors of the aimags and the capital city to reflect the actions to be taken within the scope of the “State Policy on Petroleum Sector Development” in the general guidelines on economic and social development of Mongolia annually and to finance them by allocating required funding sources needed for this purpose in national and local budgets, channeling the foreign loans and aid or arranging it within public-private partnership.

Prime Minister of Mongolia U.KHURELSUKH

Minister of Mining and Heavy Industry D.SUMIYABAZAR

Appendix to the Government Resolution
#169 dated 2018

STATE POLICY ON PETROLEUM SECTOR DEVELOPMENT (2018-2027)

One. General provisions

In Mongolia, as of 2017, petroleum and unconventional oil exploration activities are conducted on 18 oil blocks (10 petroleum, 5 coal bed methane layer, and 3 oil shale blocks) under exploration contracts and exploration and production activities are conducted in 25 blocks (22 oil exploration and 3 oil production blocks) under production sharing contract (PSC). During the past period, gravity research was conducted in 391.000sq.m area, the 2D seismic survey in 33494 km length and 3D seismic survey in 6274 sq.m area and 1534 wells were drilled.

As a result of the oil prospecting and exploration works 332.6 million tons of proven oil reserve and 43.2 million tons of production-proof oil reserves were identified and registered in the mineral resources reserve database of Mongolia. During the year 1996-2017, roughly 49.2 million barrels (6.6 million tons) oil was extracted and exported; as a result, 1.3 trillion MNT contributed to the state budget.

The Clause 2.70 of the 'Government Action Plan 2016-2020 of Mongolia', approved by the State Great Hural Resolution #45 in 2016, states to 'Steadily increase oil extraction and construct an oil refinery'. For this purpose, with the Government resolution #92 of 2017, the "Mongolian Oil Refinery" state-owned company was established to implement the oil refinery plant EPC project and conducted a feasibility study to build a crude oil refinery capable of processing 1.5 million tons of crude oil per year.

The oil extraction forecast of Mongolia in 2016 is 1.1 million tons, in 2017 is 960 million tons and further expected to extract around 1.0 million tons of oil per year. To supply the oil refinery

with the raw material it is necessary to intensify the oil prospecting and exploration works to increase the extraction and increase the proven reserve size. Due to the deficiency of the domestic oil refinery plant, Mongolia imports 100% of its demand for the petroleum products from RF, PRC, and ROK and roughly 1.3 million tons of fuel imported every year.

The petrol consumption of Mongolia is growing year by year and forecasted to reach 1.6 million tons in 2016, 1.9 million tons in 2022, and 2.4 million tons in 2027. If classified by the fuel type, in the last 10 years the consumption of A80 type petrol is continually reducing, and the import of (AI)-92 and 95 type petrol is steadily increasing; although the volume of diesel import is fluctuating due to the mining sector activities, in the long run, its demand is expected to grow. Currently, while the country is solely dependent on the external supply of petroleum products, due to the global price fluctuation, supply, and exchange rate volatility, the likelihoods of petroleum deficits, wholesale and retail price increase are high; consequently, it has a tendency to affect the economic stability of our country negatively.

Within the frameworks of the ‘extended financing facility’ implemented by the cooperation of the Government of Mongolia and the International Financial Corporation, the special tax rate for the diesel fuel is agreed to be raised in steps. Although this serves as a price increase factor in the retail market, the Government is spending efforts such as adjusting the excise tax rate, extending the tax application period and allowing the petroleum reserve establishment for the business entities to maintain the retail price of the petroleum products.

The Government Action Plan 2016-2020, clause 2.17.6 states “to improve the quality control structure during the retail, wholesale, storage, manufacturing, and import of petroleum products”, clause 4.3.2 of the “National program on air pollution reduction” states “support the import and consumption of the Euro-5 standard compliant petroleum products, take step-by-

step measures to prohibit the use and import of non-qualifying petroleum products, and improve the quality control structure", and the clause 3.2.2 of the implementation plan of this program also states "to establish state-owned certified laboratory in order to control the import of the non-qualifying petroleum products". Therefore, it is necessary to establish a state inspection laboratory for the petroleum products and stabilize its operation, hence, mandatory to allocate a budget for this action.

There are a total of 97 warehouses, 1252 petroleum stations, and 10 gas stations (warehouses) of liquefied gas, and 78 gas charging stations are operating throughout Mongolia, serving in the wholesale and retail markets.

Moreover, the consumption of the liquefied gas is increasing lately in Mongolia, importing from RF, ROK, and PRC. Additionally, the buildings powered by the gas in forms other than the liquefied gas are being established, and its use is introduced into our lives. In connection with this development, it is mandatory to improve the relevant legal environment, develop safety rules and regulations for using gas and gas equipment.

Furthermore, it is necessary to issue a new state policy document in the petroleum sector of Mongolia by considering above-discussed justifications and other circumstances and maintaining the principles of the "Petroleum sector development policy up to 2017" policy document to increase the investments in this sector and improve the capacity of the national human resources capacity trained and specialized in the sector.

Two. Purpose and objective of the policy document

2.1. Purpose of the policy

The purpose of the State policy on petroleum sector development (henceforth 'Policy") is to intensify the oil prospecting and exploration works in Mongolia, increase the volume of the identified reserve and increase the extraction, and building the oil refinery, and as a result to be able to sustainably supply the

petroleum product domestic demand.

2.2. Policy objectives:

2.2.1. Intensify the petroleum (oil) and unconventional oil prospecting, exploration and production;

2.2.2. Build an oil-refinery plant, and develop manufacturing sector of petroleum products;

2.2.3. Establish sustainable supply system of the petroleum product to meet the consumer demand and improve the quality monitoring structure;

2.2.4. Prepare the human resource for the sector, have them specialized and increase the number of workplaces;

2.2.5. During the oil sector operations, ensure the environment protection, rehabilitation, and support the green and domestic development; and

2.2.6. Establish and develop state-owned and/or state associated companies in the oil sector.

2.3. The actions to implement the policy objectives:

2.3.1. Within the framework of intensifying the prospecting, exploration and production of petroleum, and unconventional oil:

2.3.1.1. Conduct the petroleum and unconventional oil prospecting, exploration and production activities by leveraging the production sharing agreements, tax-royalty and other contractual principles;

2.3.1.2. Improve the cooperation of and coordination between the central and local government bodies and agencies within the framework of the oil exploration and production works;

2.3.1.3. Support and protect the investments in the petroleum sector;

2.3.1.4. Improve and renew the operational standard, rules, and regulations of the sector, and to take awareness raising and outreach activities;

2.3.1.5. Perform petroleum and unconventional-oil prospecting and exploration works and identify further trends;

2.3.1.6. Intensify the oil basin production and increase

petroleum extraction to the maximum potential volume, develop the infrastructure in the oil basin areas, and improve transportation management; and

2.3.1.7 Supply the crude oil extracted within the territory of Mongolia to the domestic oil-refinery plants as a priority.

2.3.2. Within the framework of building an oil-refinery and developing petroleum product manufacturing:

2.3.2.1. Build and commission the state-owned oil refinery to process the petroleum, crude oil extracted within the territory of Mongolia;

2.3.2.2. Support the petroleum product industry with the favorable tax policy;

2.3.2.3. Conduct research on crude oil transportation and oil pipeline transfer;

2.3.2.4. Develop the norms, standards, rules, and regulations related to the safe operations, construction, equipment, techniques, and technology for the oil-refinery construction and the crude oil transfer pipeline construction;

2.3.2.5. Support the manufacturing of the other petroleum products, in compliance with the standards using the internationally patented technology;

2.3.2.6. Provide policy coordination to integrate coal processing and liquidated coal production sector policy to the policy of oil, petroleum product supply; and

2.3.2.7. Support the research, development, and production activities to process liquidated and gaseous fuels from unconventional raw minerals (coal bed methane layer, shale, natural bitumen, and oil sands etc.).

2.3.3. Within the frameworks of a sustainably supplying the petroleum products to the consumer and improving the quality control structure:

2.3.3.1. Ensure sustainable supply of petroleum products to consumers that meet the quality requirements;

2.3.3.2. Coordinate the state and business entities to set

up petroleum reserve and study the necessity of establishing a risk fund and have resolved by authorized entities to stabilize the petroleum price volatility;

2.3.3.3. Improve and renew the operational standards, norms, rules, and regulations of the petroleum sector related to the technical production, storage, transportation, operation and use of oil products, and organize actions to disseminate the information;

2.3.3.4. Ensure the sustainable supply by concluding the inter-governmental agreements with oil and gas exporting countries, and synergize import sources with the domestic production capacity;

2.3.3.5. Ensure the safety of the oil and gas distributing stations through the adoption of advanced technologies and equipment;

2.3.3.6. Establish a certified laboratory to monitor the petroleum product quality under the State administrative body in charge of the petroleum matters; and

2.3.3.7. Develop the inflammable gas sector with the aim to reduce air pollution and increase eco-friendly fuel consumption.

2.3.4. Within the framework of preparing the human resource for the sector, specializing and increasing the number of workplaces:

2.3.4.1. Train and re-train national experts and help them specialized in their respective areas, and increase workplaces based on the labor market researches

2.3.4.2. Allocate the training incentive allowances to undertake advanced and specialized trainings, researches, advanced technology adoptions in priority-defined fields; and

2.3.4.3. Increase the number of local skilled workforce and employment in the petroleum sector, with phased approaches

2.3.5. Within the framework of environment protection, rehabilitation, and support the green and domestic development, during the oil sector operations:

2.3.5.1. Promote green development and introduce eco-friendly advanced techniques and technologies, international best practices and standards;

2.3.5.2. Support the local development by promoting local employment, procurement and infrastructure development policies in the stages of unconventional oil extraction lifecycle such as exploration, extraction, production, storage, transportation, and sale;

2.3.5.3. Establish legal environment to allocate a certain share of the royalty and license fees to the local budget where the petroleum activities are carried out; and

2.3.5.4. Protect the environment, use advanced technique and technology to recover, and reduce the soil deterioration, and implement the responsibility principle that requires the faulty party to pay and perform the recovery.

2.3.6. Within the framework to establish and develop state-owned and/or state associated company:

2.3.6.1. Establish a state owned enterprise and/ or companies with state interests and operate on a basis of corporate governance principles;

2.3.6.2. Develop a petroleum sector research and development center in line with international best practices;

2.3.6.3. Establish an information, research and development center that is capable of administering initial processing of oil exploration samples, analyzing the rock and oil samples, processing general reports of the industry, and conducting scientific research and thematic study; and

2.3.6.4. Create and maintain a petroleum sector database compliant to international standards.

Three. Implementation phases of the policy

3.1. The policy will be implemented between 2018 and 2027 in following phases:

Phase I: Between the years 2018-2021 the legal and policy

environment of the petroleum sector shall be updated, and improvement of the infrastructure and the establishment of the state-owned and state associated companies shall improve the competitiveness and impact on the socio-economic situation of the country.

Phase II: During the year 2022-2027, shall establish the foundation of national industrial evolution by building the oil-refinery and enhancing human resources capability, intensifying the strategically important oil prospecting and exploration works and increasing the crude oil reserve and extraction to supply the petroleum demand sustainably

Four. The impacts of the policy and indicators of the objectives

4.1. The following indicators are specified for the policy measures and the statistical information of the year 2017 taken as a base line.

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Development policy document indicators

№	Objective	Indicator	Measurement unit	Base level	Objective level		Information resource
				2017	2022	2027	
1	2.2.1. To intensify the petroleum (oil) and non-conventional oil prospecting, exploration and production	Petroleum exploration works	exploration blocks	Assigned 22 blocks under the production sharing contract.	Sign production sharing contracts on 3 new blocks.	Sign production sharing contracts on 2 new blocks.	National Statistics Office, Statistical information of MRPAM
		Crude oil extraction	mil. barrel	7.7	8.8	10.3	National Statistics Office, Statistical information of MRPAM
2	2.2.2. To build an oil-refinery plant, and develop manufacturing sector of petroleum products	2.1 Output of the of the petroleum products	mil. tons	Developing a feasibility study	The oil refinery shall be put into operation.	Shall supply at least 50% (min 1.2 million tons) of the domestic petroleum product demand.	MMHI, MRPAM, 'Mongolian Oil Refinery (MOR)' SOLLC
		2.2 Production of synthetic gas and other sub-products	mil.m^3	Conducted a feasibility study.	The plant for the production of synthetic gas from coal gasification shall be in operation.	Shall fully supply the domestic demand of the synthetic gas.	MMHI, the project unit of 'building a plant for the production of synthetic gas from coal gasification'
3	2.2.3. To establish sustainable supply system of the petroleum product to accommodate the consumer demand and improve the quality monitoring structure	The volume of petroleum products	mil. tons	1.5	1.9	2.4	MRPAM, GCD (General Customs Department)
		Quality and ecology index, k5	percentage	7.7	50	80	

4	2.2.4. To prepare the human resource for the sector, have them specialized and increase the number of workplaces;	The professional human resource and workforce	number of personnel	10000	15000	20000	National Statistical Office
		Workplaces	workplace count	6000	9000	12000	
5	2.2.5. During the oil sector operations, ensure the environment protection, rehabilitation, and support the green and domestic development;	The expense for the environment protection and rehabilitation		The budget planned in environmental protection measures of the environmental management plan shall be spent during the exploration and production phases.	The budget planned in environmental protection measures of the environmental management plan shall be spent during the exploration and production phases.	The budget planned in environmental protection measures of the environmental management plan shall be spent during the exploration and production phases.	MMHI, MET, local administrations, and relevant NGOs
		Investment into supporting the infrastructure, local development and advanced technology		Allocate the fund stated in the PSC for the local/rural area development fund	Allocate the fund stated in the PSC for the local/rural area development fund	If a new reserve is identified and the block is transferring to the production, infrastructure (road construction and power supply line) development shall be reflected into the reserve exploitation plan	

6	2.2.6. Establish and develop state-owned and state associated companies in the oil sector.	The company and a research and development center that corresponds to the international standards shall be established.	State-owned and state associated companies, research and development	The research and development center project is under consideration.	- At the initial stage perform works by using the rented equipment, registered under the company and individuals; -Shall establish and maintain a consolidated database of the petroleum prospecting, exploration and production, petroleum product imports, and supply; -Shall be able to read and perform initial processing of the seismic tape cartridge.	-Shall establish independent companies for the oil exploration, research and development, extraction, production and processing; -Shall be able to analyze the rock and oil samplers; -Shall produce consolidated report and conduct research works, -Shall conduct thematic researches; -Shall have research staffs.	MMHI, MRPAM, "MOR" SOLLC	

Five. Financing of the policy implementation activities

5.1. The actions implemented in accordance with the State policy on petroleum sector development will be financed from the following financial sources:

5.1.1. state budget;

5.1.2. foreign loan, assistance;

5.1.3. domestic and foreign investments; and

5.1.4. other financing options.

Six. The monitoring and evaluation of the policy implementation

6.1. The policy implementation shall be monitored every two-years by the State central administrative body in charge of petroleum matters, and the external audit shall be organized every four years, and the results shall be presented at the Cabinet meeting of the Government of Mongolia.

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ACTION PLAN TO IMPLEMENT THE STATE POLICY ON PETROLEUM SECTOR DEVELOPMENT /2019-2027/

ORDER OF THE MONGOLIAN MINISTER OF MINING AND HEAVY INDUSTRY

August 8, 2019 No. A/163 Ulaanbaatar

On approval of the Action Plan to implement the State Policy on Petroleum Sector Development (2018-2027)

Pursuant to the Article 24 and paragraph 24.2 of the Law on the Mongolian Government and based on the Article 2 of the Government Resolution No. 169 in 2018 respectively, the Minister is ORDERING to:

1. Approve the “Action Plan to implement the State Policy on Petroleum Sector Development 2018-2027” (as to annex).
2. The Strategic Policy and Planning Department (E.Batbold) and Heavy Industry and Petroleum Policy Implementation Coordination Department (B.Ankhbayar) shall be responsible for providing professional, methodological and policy support for the implementation of this action-plan.
3. The Monitoring, Evaluation and Internal Audit Department (D.Gankhuu) shall be responsible for monitoring and evaluation processes of implementation of this action-plan and provide the Government with results in accordance with the relevant procedures.

Minister D.SUMIYABAZAR

Annex to the decree #... in .... (YYYY)
of the Minister of Mining and Heavy Industry

ACTION PLAN TO IMPLEMENT
THE STATE POLICY ON PETROLEUM SECTOR DEVELOPMENT
(2019-2027)

Goal		**Goal of the policy and action plan**				
Outcome (its indicator)		Main goal of the State Policy on Petroleum Sector Development from 2019 through 2027 (hereinafter referred as "Policy") is to intensify the oil prospecting and exploration works in Mongolia, increase proven oil reserves and upgrade petroleum production, establish oil refinery plants, and as a result to be able to sustainably supply the petroleum product to meet domestic demand.				
#	Activities	Outputs	Indicators	Main Implementing organizations	Partner Implementing organizations	Implementation period
One. Intensify the petroleum (oil) and non-conventional oil prospecting, exploration and production;						
1	1. Conduct the petroleum and non-conventional oil prospecting, exploration and production activities by leveraging the production sharing agreements, tax-royalty and other contractual principles;	1. Exploration agreements established for prospecting petroleum and unconventional oil reserves	Number of agreements applied for the requested sites	MRPAM[1]	MMHI[2]	2019-2027
2		2. PSAs concluded for petroleum prospects on a tendering basis	Number of established PSAs[3]	MRPAM	MMHI	2019-2027
3		3. PSAs for petroleum exploration established for potential prospects	Number of established PSAs	MRPAM	MMHI	2019-2027
4		4. Regulatory framework established to implement tax-royalty regime on unconventional oil exploration and extraction	Enabling legal environment;	MMHI, MRPAM	MOJHA[4], CABINET SECRETARIAT [5]	2019-2027

[1] Mineral Resources and Petroleum Authority of Mongolia (MRPAM)
[2] Ministry of Mining and Heavy Industry (MMHI)
[3] Production Sharing Agreement (PSC)
[4] Ministry of Justice and Home Affairs (MOJHA)
[5] Cabinet Secretariat of Government of Mongolia

5		5. Regulatory framework established for aligning other contractual principles to unconventional oil exploration and extraction that are internationally applied.	Enabling legal environment;	MMHI, MRPAM	MOJHA, CABINET SECRETARIAT	2024-2027
6	2. Improve the cooperation of and coordination between the central and local government bodies and agencies within the framework of the oil exploration and production works;	1. Promoted public outreach campaigns and increased public awareness and understanding of petroleum prospects	- Number of public meetings with affected communities - Number of women and men attendees - Number of meetings held among government agencies, civil society organizations and petroleum contractors	MMHI, MRPAM	Local governing bodies, contractors	2019-2027
7		2. Enhanced interagency coordination and communication between government organizations	- Number of interagency meetings and discussions held in a year - Number of decisions (decrees) by central government agencies, achieved through improved interagency communication and collaboration	MMHI, MRPAM	CABINET SECRETARIAT , MOF[6], MLSP[7], MET[8], MRTD[9], ME[10] and other relevant organizations	2019-2027
8		3. Local Cooperation Agreements (LCAs) on Environmental Protection and Local Development support are in place, as per the Law of Mongolia on Petroleum, 7.1.13 and 11.2.17 provisions	Number of concluded LCAs	MRPAM	CABINET SECRETARIAT, MMHI	2020-2027
9		4. Updated and approved LCA template on Environmental Protection and Local Development support	Updated and available LCA template	MMHI, MRPAM	CABINET SECRETARIAT	2020-2027

[6] Ministry of Finance
[7] Ministry of Labor and Social Protection
[8] Ministry of Environmental and Tourism
[9] Ministry of Road and Transportation Development
[10] Ministry of Energy

10	3. Support and protect the investments in the petroleum sector;	1. Leveraged petroleum investing through the use of tax and non-tax incentives	Number of business entities, benefitted from tax and non-tax incentives	MMHI, MOF	MRPAM	2019-2027
11		2. Legal support provided to secure a stabilization of previously signed PSAs	Existence of stabilization clauses on petroleum PSAs	MMHI, MOF	MRPAM	2019-2027
12	4. Improve and renew the operational standard, rules, and regulations of the sector, and to take awareness raising and outreach activities	1. Benchmarking studies completed to learn from international standards, rules, norms and regulations.	Number of reviewed standards, norms, rules and regulations	MRPAM	MMHI, MASM[11]	2019-2027
13		2. Integration of public opinions in regulatory processes through public consultations	Number of public opinions reflected in rules and regulations	MMHI, MRPAM	Contractors, NGOs, researchers	2019-2027
14		3. Newly approved standards, rules, and regulations, that are tailored to the Mongolian context	Number of newly approved standards, norms, rules and regulations	MMHI, MRPAM	MASM	2019-2027
15		4. Proper legal dissemination and improved awareness on petroleum regulations, rules and standards	Number of conducted trainings, awareness raising activities	MMHI, MRPAM, Contractors	MASM	2019-2027
16		5. Increased transparency in extractive industries.	Inclusion of clauses on effective EITI implementation in petroleum legislations; Number of entities engaged in EITI implementation	MMHI, MRPAM	CABINET SECRETARIAT, MMHI, EITI[12]	2020-2027
17		6. Promoted gender equality	Inclusion of gender equality related clauses in sectoral regulatory documents (e.g. National Program on Gender	MMHI, MRPAM	Secretariat of NCGE[13]	2020-2027

[11] Mongolian Agency for Standard and Metrology
[12] Extractive Industries Transparency Initiative
[13] National Committee of Gender Equality

			Equality And /MMHI gender-responsive policy)			
18	5. Perform petroleum and non-conventional-oil prospecting and exploration works and identify further trends;	1. Petroleum reserve estimation done for petroleum and unconventional oilfields upon making PSAs.	- Number of area with petroleum and oil occurrences - Volume of proven oil reserves	MMHI, MRPAM and contractors	CABINET SECRETARIAT	2019-2027
19		2. Private investments mobilized for exploration of petroleum and unconventional oil resources	An increased percentage of private investing in petroleum an oil exploration	MMHI, MRPAM and contractors	CABINET SECRETARIAT	2019-2027
20		3. Government funds mobilized for exploration of petroleum and unconventional oil reserves	- Percentage of government funding in petroleum and oil exploration; - Number of exploratory works invested by the government fund	MMHI, MRPAM	CABINET SECRETARIAT , MOF	2019-2027
21	6. Intensify the oil basin production and increase petroleum extraction to the maximum potential volume, develop the infrastructure in the oil basin areas, and improve transportation management	1. Yearly approvals and amendments of deposit mining plans;	- Conclusion by Mineral Council on deposit mining operations plans; - Amendments or renewals of deposit mining plans if necessary	MRPAM	Contractors	2019-2027
22		2. Approval of detailed plan of annual operations in conformity with the deposit mining plans	Number of approved plans of annual operations	MRPAM	Contractors	2019-2027
23		3. Increased extraction that meets annual targets	Increased percentage of production;	MRPAM	Contractors	2019-2027
24		4. Improved performance of PSAs for petroleum and oil extractions	Performance evaluation percentages of PSAs	MMHI, MRPAM	CABINET SECRETARIAT, SGKh[14]	2019-2027

[14] State Great Khural

25		5. Compliance assurance of petroleum site infrastructures to its pre-approved design	Existence of official conclusions by relevant working groups	MMHI, MRPAM	MRTD, ME, GASI, MCUD	2019-2027
26		6. Efficient and environmentally sustainable transportation system ensured	- Number of measures taken to ensure OHS[15] - Reduced number of road accidents	MMHI, MRPAM	MRTD, ME	2019-2027
27	7. Supply the crude oil extracted within the territory of Mongolia to the domestic oil-refinery plants as a priority.	1. Actions taken to ensure preemptive supply of crude oil, extracted from the territory of Mongolia to domestic oil refinery plants, in pursuant with 7.16 and 11.2.4 provisions of the Petroleum Law of Mongolia.	Number of measures taken	MRPAM, Contractors	MMHI, "Mongol Refinery" LLC [16]	2019-2027
28		2. Ensured compliance of 16 and 11.2.4 provisions of the Petroleum Law of Mongolia, to supply domestically-produced crude oil at the international market price, allotted to the contractor and the oil cost;	Percentage of domestic supply of crude oil that produced in Mongolia	MRPAM, Contractors	MMHI, "Mongol Refinery" LLC	2023-2027
TWO. BUILD AN OIL-REFINERY PLANT, AND DEVELOP MANUFACTURING SECTOR OF PETROLEUM PRODUCTS;						
29	1. Build and commission the state-owned oil refinery to process the petroleum, crude oil extracted within the territory of Mongolia;	1. Completed Feasibility Study to the establishment of the state-owned Oil Refinery Plant	Detailed Feasibility Study	MMHI	"Mongol Refinery" LLC	2018-2019
30		2. Selection of a Project Management Consulting Firm for the establishment of oil Refinery Plant	Selected management consultancy service	MMHI	"Mongol Refinery" LLC	2019-2020

[15] Occupational Health and Safety
[16] "Mongol Refinery" State Owned LLC

31		3. Identified capital investment strategies for the establishment of an oil refinery plant.	Presence of agreement on capital investment of the oil refinery plant	MMHI, "Mongol Refinery" LLC	MOF, DB[17]	2018-2019
32		4. Construction of external infrastructure facilities of the oil refinery plant	Number of infrastructure development works	MMHI, "Mongol Refinery" LLC	MOD[18], MRTD, MCUD [19], ME, DB, UR[20]	2019-2020
33		5. Enacted regulations, standards, rules and guidelines, related to the petroleum and oil productions	Number of approved regulatory documents: standards, rules, and guidelines	MMHI, MRPAM "Mongol Refinery" LLC	MASM, GASI[21], Petroleum operator entities	2019-2020
34		6. Commissioned state-owned oil refinery plant	Oil refinery plant is operational	MMHI, "Mongol Refinery" LLC	CABINET SECRETARIAT and other relevant organizations	2022-2023
35	2. Support the petroleum product industry with the favorable tax policy;	1. Research undertaken in creating beneficial tax regime	Number of studied documents	MMHI MRPAM	MOF, MTA[22], CGA[23], SGKh and CABINET SECRETARIAT	2019-2023
36	3. Conduct research on crude oil transportation and oil pipeline transfer;	1. Research undertaken on pipeline transportation of crude oil	Access to evidence-based research findings	MMHI, MRPAM "Mongol Refinery" LLC	MCUD, MRTD, DB	2019-2023
37		2. Capital investment proposal developed for the establishment of crude oil pipeline project	Decisions on the capital investment proposal;	MMHI, MRPAM "Mongol Refinery" LLC	MOF, DB	2019-2023

[17] Development Bank
[18] Ministry of Defense
[19] Ministry of Construction and Urban Development
[20] Ulaanbaatar Railway
[21] General Agency for Specialized Inspection
[22] Mongolian Tax Administration
[23] Customs General Administration

38		3. Crude oil pipeline system commissioned	Crude oil pipeline system is in place	MMHI, "Mongol Refinery" LLC	CABINET SECRETARIAT, MRPAM and other relevant organizations	2022-2023
39	4. Develop the norms, standards, rules, and regulations related to the safe operations, construction, equipment, techniques, and technology for the oil-refinery construction and the crude oil transfer pipeline construction	1 Standards, norms, rules and procedures established to regulate design, construction, technologies, and safe maintenance of oil refinery plants	Number of standards, norms, rules, and regulations	MMHI, MRPAM "Mongol Refinery" LLC	MASM, GASI, and other responsible organizations	2019-2027
		2. Standards, norms, rules and procedures established to regulate design, construction, technologies, and safe maintenance of crude oil pipeline system	Number of standards, norms, rules and regulations	MMHI, MRPAM "Mongol refinery" State owned LLC	MASM, GASI, and other petroleum organizations	2019-2027
40	5. Support the manufacturing of the other petroleum products, in compliance with the standards using the internationally patented technology	1. Feasibility studies on petroleum production conducted and approved that applied internationally patented technologies;	Presence of approved Feasibility Studies	MMHI	MRPAM, Petroleum entities, that performed Feasibility Studies for olifield development	2019-2027
41		2. Granted special licenses for petroleum productions	Number of granted licenses	MMHI	MRPAM, Entities, that applied for petroleum production licenses	2019-2027
42		3. Policy framework provided to establish plants/factories for oil and petroleum manufacturing	Number of entities benefited from the policy support	MMHI	MRPAM, Entities that obtained the license for oil and petroleum product production	2019-2027

43	6. Provide policy coordination to integrate coal processing and liquidated coal production sector policy to the policy of oil, petroleum product supply; and	1. Feasibility studies of coal processing entities are formulated and approved	Number of approved Feasibility studies	MMHI	MRPAM, Coal processing entities	2019-2027
44		2. Policy coordination provided for petroleum productions	Existence of coordinated policy framework	MMHI	MRPAM, Coal processing entities	2019-2027
45	7. Support the research, development, and production activities to process liquidated and gaseous fuels from non-conventional raw minerals (coal bed methane layer, shale, natural bitumen, and oil sands etc.	1. Studies and researches undertaken on feasibilities of liquid and gaseous fuel productions from unconventional oil	Number of conducted studies and researches;	MMHI MRPAM	Unconventional oil processing and production entities	2019-2027
46		2. Policy support provided for liquid and gaseous fuel processing	Number of entities benefitted from the favorable policy support	MMHI MRPAM	Unconventional oil processing and production entities	2019-2027
THREE. ESTABLISH SUSTAINABLE SUPPLY SYSTEM OF THE PETROLEUM PRODUCTS TO MEET THE CONSUMER DEMAND AND IMPROVE THE QUALITY MONITORING STRUCTURE;						
47	1. Ensure sustainable supply of petroleum products to consumers that meet the quality requirements;	1. Decisions released to regulate sustainable supply chain of petroleum products 2. Improved fuel standard requirements in accordance with internationally applied ecological classification	- Number of government decisions made	MMHI, MRPAM, Professional associations	CGA, GASI, MASM, AFCCP[24]	2019-2027
48	2. Coordinate the state and business entities to set up petroleum	1. Petroleum reserves established at state and private levels	Quantities of petroleum products reserves, established at corporate and state levels	MMHI, MRPAM, Petroleum producers and		

[24] Authority for Fair Competition and Consumers' Right Protection

	reserve and study the necessity of establishing a risk fund and have resolved by authorized entities to stabilize the petroleum price volatility			petroleum distributors	MOF	2019-2027
49		2. Policy proposals developed on potential revenue streams to the Risk Fund as for state response to the petroleum price volatility and associated working groups established involving government-non government organizations	- Number of working groups established; - Number of policy proposals developed	MMHI, MRPAM	MOF, Petroleum producers, exporters and distributors, and Professional Associations	2019-2023
		3. Legal researches done for establishing the Risk Fund	Availability of evidence-based research findings	MMHI, MRPAM	MOJHA, MOF, Professional associations	2019-2022
50		4. Regulatory framework enabled for the establishment of Risk Fund	Number of applicable legal provisions pertaining to the Risk Fund	MMHI, MRPAM	SGKh, CABINET SECRETARIAT, MOJHA, MOF, Professional associations	2021-2023
51		5. Regulation on administering the Risk Fund formulated and approved	Approval of the regulation	MMHI, MRPAM	CABINET SECRETARIAT, MOF, MOJHA	2023-2017
52		6. The Risk Fund is launched and administered	Number of petroleum entities, engaged by the Risk Fund	MMHI, MRPAM	Petroleum entities and Professional Associations	2023-2027
53		2 Legal review and translations done for relevant standards, norms and rules	Number of studies and document translations made	MMHI, MRPAM, Professional associations	MASM, Petroleum Entities,	2019-2027

54	3. Improve and renew the operational standards, norms, rules, and regulations of the petroleum sector related to the technical production, storage, transportation, operation and use of oil products, and organize actions to disseminate the information;	3. Standards, norms, rules and regulations developed and adopted, which are tailored to the Mongolian context	Number of approved standards, norms, rules and regulations, which are tailored to the Mongolian context	MMHI, MRPAM, Professional Associations	CABINET SECRETARIAT, MOJHA, MASM	2019-2027
55		Regulatory awareness raising activities organized to ensure compliances with standards, norms, rules and regulations on petroleum production, storage, transportation, operation and safe maintenance	Number of outreach and legal awareness raising activities organized	MMHI, MRPAM, Professional associations	Petroleum Entities, and educational and Media organizations	2019-2027
56	4. Ensure the sustainable supply by concluding the inter-governmental agreements with oil and gas exporting countries, and synergize import sources with the domestic production capacity;	1. Improved intergovernmental negotiation and collaboration with neighboring and other countries to ensure sustained import and supply of petroleum and oil products	Number of policy proposals, reflected in intergovernmental agreements;	MMHI, MRPAM	MOFA[25]	2019-2027
57		2. Annual meetings with oil and gas exporting companies organized with a sustained basis to make needed negotiations and agreements.	z	MMHI, MRPAM	Petroleum Entities	2019-2027
58		3. Ensured safety at cross-border points and terminals for oil and gas transportation	Number of border points and ports that are compliant with safety requirements of oil and petroleum transportation	MMHI, MRPAM	MOF, MRTD, CGA, GABP[26], Petroleum Importers and Distributors	2019-2027
59		4. Increased import sources for oil and petroleum products through improved international market researches and trade agreements	Number of active import sources and concluded trade agreements;	MMHI, MRPAM, Entities that have petroleum import license and a retail and wholesale license	MOF, MOFA	2019-2027

[25] Ministry of Foreign Affairs
[26] General Authority for Border Protection

60		5. Improved coherence policy between import and domestic production /coordinated order of foreign contracts/	Proportion between petroleum import and domestic production numbers	MMHI, MRPAM, "Mongol refinery" LLC	Petroleum Entities	2023-2027
61	5. Ensure the safety of the oil and gas distributing stations through the adoption of advanced technologies and equipment,	1. Policy proposals developed to update its safety requirements and standards for gas and liquefied petroleum stations, which are located within the urban settlement zones, and to introduce advanced technologies and equipment	Number of policy proposals developed	MMHI, MRPAM	Petroleum Entities, and Professional Associations	2019-2027
62	6. Develop the inflammable gas sector with the aim to reduce air pollution and increase eco-friendly fuel consumption	1. Policy implemented to increase domestic consumption of liquefied gas through the establishment of nationwide network of LP gas stations	Increased volume of LP gas consumptions	MMHI, MRPAM	Petroleum Entities,	2019-2020
63		2. Relevant studies conducted and policy implemented to exempt auto gas and associated equipment from excise taxes;	Number of studies and calculations completed to implement the tax exemption policy	MMHI, MRPAM	SGKh, GoM[27], MOJHA, MOF, Petroleum Entities, and Professional Associations	2020-2027
64		3. National program and projects implemented on the liquefied gas sector development	Number of projects and programs implemented;	MMHI, MRPAM	SGKh, GoM, MOJHA, MOF, Petroleum Entities, and Professional Associations	2020-2027
65		4. Awareness raising and advocacy measures taken on the safety handling of gaseous fuel and gas equipment,	Number of advocacy and awareness raising activities	MMHI, MRPAM	Professional Associations,	2019-2027

[27] Government of Mongolia

		including the relevant standards, rules, instructions and guidelines.			Training centers, Petroleum Entities	
FOUR. IMPROVE SECTORAL HUMAN RESOURCE MANAGEMENT AND INCREASE WORKPLACE						
66	1. Train and re-train national experts and help them specialized in their respective areas, and increase workplaces based on the labor market researches	1. Women and men employees trained by vocational centers in the petroleum sector	Number of professional and vocationally educated female and male employees	MMHI, MRPAM	MECSS[28], MUST[29], NUM[30], VTPC[31], Professional Associations	2019-2027
67		2. Professional development trainings delivered based on the training needs identified for women and men specialists in the petroleum industry	Comprehensive training programs with phased approaches offered for women and men specialist in the petroleum industry	MMHI , MRPAM,	MECSS, MUST, NUM, VTPC, Professional Associations	2019-2027
68	2. Allocate the training incentive allowances to undertake advanced and specialized trainings, researches, advanced technology adoptions in priority-defined fields	1. Renewed regulation on training incentive allowances	Existence of approved regulation	MMHI, MRPAM	MOJHA, Professional Associations	2021-2023
69		2. Policy supports provided to encourage enrollment of women and men professionals in post graduate degree programs (master and PhD courses and to introduce their research works into the industry practice	Gender disaggregated number of scholarship recipients, who enrolled in postgraduate degree courses	MMHI, MECSS, MRPAM	MECSS, MUST, NUM, VTPC, Professional Associations	2019-2027
70	3. Increase the number of local skilled workforce and employment in the petroleum sector, with phased approaches	1. Improved employment for university graduates from the Mongolian tertiary education institutions and workforce participation rates	Number of students achieved graduate employability, by an annual and contracts types basis	MMHI, MRPAM	MLSP, GALWS[32], MECSS, MUST, NUM, VTPC, Professional	2019-2027

[28] Ministry of Education, Culture, Science and Sports
[29] Mongolian University of Science and Technology
[30] National University of Mongolia
[31] Vocational Training and Production Center
[32] General Agency for Labor Welfare Services

	/e.g. geologists, geophysicists, drill engineers and environmental specialists etc./				Associations, Petroleum sector entities	
71	Employee training incentive plan formulated and implemented to promote job retention and re-employment through retraining and active labor market	Presence of gender-sensitive workplace survey and plans	MMHI, MRPAM		MLSP, MECSS, GALWS, Petroleum entities	2019-2020
72	3. Professional development programs, mentoring and coaching designed to develop their skills as knowledgeable professionals in the field of oil & gas industry.	Presence of gender-sensitive workforce survey and database	MMHI, MRPAM, "Mongol refinery" LLC		MLSP, MECSS, GALWS, Petroleum entities	2020-2027
73	4. Collaboration with international petroleum research and training centers maintained and expanded	Number of partnerships maintained	MMHI, MRPAM		Professional Associations	2019-2027
74	5. National workforce representation in decision making levels promoted in the petroleum sector	Number of local man and women employees in technical and managerial positions.	MMHI, MRPAM		Petroleum entities	2020-2027
75	6. Gender equality strategy in the petroleum sector put in place	Presence of Gender auditing survey results	MMHI, MRPAM		Petroleum entities	2020-2027
76	7. Family friendly work/life policy advocated and encouraged for employees in the petroleum industries	Number of measures taken to implement family friendly (women and children favorable) policies	MMHI, MRPAM "Mongol refinery" State owned LLC		Petroleum entities	2020-2027

FIVE. ENVIRONMENTAL PROTECTION, REHABILITATION, GREEN DEVELOPMENT AND LOCAL DEVELOPMENT SUPPORT IN THE COURSE OF PETROLEUM SECTOR OPERATIONS						
77	1. Promote green development and introduce eco-friendly advanced techniques and technologies, international best practices and standards;	1. Shared experiences among stakeholders on introducing environmentally- and socially-friendly advanced technologies, international best practices and standards in the sector	- Number of meetings with stakeholders - Number of actions taken	MMHI, MRPAM	Petroleum entities	2019-2027
78	2. Support the local development by promoting local employment, procurement and infrastructure development policies in the stages of non-conventional oil extraction lifecycle such as exploration, extraction, production, storage, transportation, and sale	1. Decisions agreed with the contractors on a negotiation basis to support to and collaborate for the local development by increasing the input of local employment, (women and men workers) goods and services (purchase locally manufactured products and foods)	- Number of women and men hired locally - Number of goods and services, purchased from men and women owned local businesses and suppliers;	MMHI, MRPAM and Governor's Offices of Capital City and Aimags	Petroleum entities	2019-2027
79		2. Community baseline assessments and social impact assessments conducted	Number of impacts assessment undertaken	Governor's Offices of Capital City and Aimags	MMHI, Contractor companies, entities	2020-2027
80		3. Local consultation , monitoring and evaluation and grievance mechanisms and platforms are in place	- Number of consultations and public meetings organized; - Number of complaints handled	Governor's Offices of Capital City and Aimags	MMHI, Contractor companies, entities	2020-2027
81		4. Gender-sensitive resettlement plan for community members implemented	Presence of gender sensitive plan	Governor's Offices of Capital City and Aimags	MMHI, Contractor companies, entities	2020-2027

82		5. Local development initiatives employed that both women and men equally would benefit from it	Number of gender-responsive local economic development initiatives	Governor's Offices of Capital City and Aimags	MMHI, Contractor companies, entities	2020-2027
83		6. Women economic empowerment fostered for local development	Presence of women empowerment program at local levels	Governor's Offices of Capital City and Aimags	MMHI, Contractor companies, entities	2020-2027
84	3. Establish legal environment to allocate a certain share of the royalty and license fees to the local budget where the petroleum activities are carried out	1. Collaboration and coordination with local governments improved to ensure an effective monitoring and law enforcement	Proportion and percentage of royalty and license fees paid to local budgets;	MOF, MMHI, MRPAM, Governor's Offices of Capital City and Aimags	MOF, MMHI , MRPAM, Petroleum entities	2018-2027
SIX. ESTABLISHMENT AND DEVELOPMENT OF STATE-OWNED ENTERPRISE AND/OR COMPANY WITH STATE INTEREST						
85	1. Establish a state owned enterprise and/or companies with state interests and operate on a basis of corporate governance principles;	1. A petroleum enterprises which is state owned and/or with state interests founded	Number of permits and licenses granted for the establishment of state-owned enterprise	MMHI, MRPAM	GoM, Agency for Policy Coordination on State property	2020-2027
86		2. Petroleum exploration, extraction and production prospected in compliance with technological l requirements (Geological and geophysical surveys done on contractor's fund or state budget. /Gravity, Magnetic, Vibrator method, Drilling etc./)	Number of exploration projects undertaken by private and public finances	MMHI, MRPAM, "Mongol refinery" State owned LLC, other state owned oil companies	GoM, Agency for Policy Coordination on State property	2020-2027

87		3. Oil extractions launched and implemented	Number of extracted/active oilfields, defined in the result of exploration activities	MMHI, MRPAM, "Mongol refinery" State owned LLC, other state owned oil companies	GoM, Agency for Policy Coordination on State property	2025-2027
88		4. Permanent and reliable supply of oil and petroleum products ensured	Quantity of supplied oil and petroleum products	MMHI, MRPAM, "Mongol refinery" LLC, other state owned oil companies	Petroleum entities	2023-2027
89		1. Oil and gas laboratory and research center established under the state owned (or with state interests) company (processing primary materials obtained as a result of oil exploration, testing in rock and oil samples, delivering sectoral reports, undertaking scientific and thematic researches on a constant basis, creation of online databases in conformity with international standards/	- Number of special permits granted - Number and types of tested samples	MMHI, MRPAM, "Mongol refinery" State owned LLC, other state owned oil companies	MECSS, Professional associations, Petroleum entities	2020-2027
90	2. Develop a petroleum sector research and development center in line with international best practices;	2. Scientific and research center established with international aids and donor financing processing primary materials obtained as a result of oil exploration, testing in rock and oil samples, delivering sectoral reports, undertaking scientific and thematic researches on a constant basis, creation of online databases in conformity with international standards/	Number of scientific researches and thematic studies undertaken	MMHI, MRPAM, "Mongol refinery" State owned LLC, other state owned oil companies	MECSS, Professional Associations, and Petroleum entities	2019-2027

91	3. Establish an information, research and development center that is capable of administering initial processing of oil exploration samples, analyzing the rock and oil samples, processing general reports of the industry, and conducting scientific research and thematic study;	1. Scientific and research center established and operational	Number of sectoral reports and scientific researches conducted	MMHI, MRPAM, "Mongol refinery" State owned LLC, other state owned oil companies	MECSS, Professional Associations, petroleum entities	2019-2022
92	4. Create and maintain a petroleum sector database compliant to international standards	Central online database created and administered for oil and petroleum exploration, extraction, production, petroleum import and supply	Number of visitors to online databases	MMHI, MRPAM, "Mongol refinery" State owned LLC, other state owned oil companies	MECSS, Professional Associations, petroleum entities	2019-2027

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