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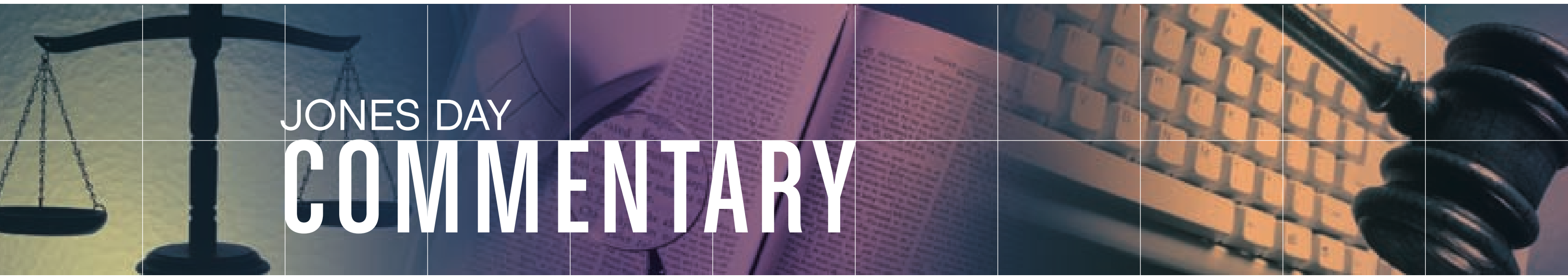

CHINA ISSUES NEW REGULATIONS OPENING THE MARKET FOR OIL PRODUCTS

The Regulation on the Administration of the Oil Product Market (the "Regulation") was issued by the Ministry of Commerce ("MOFCOM") on the December 4, 2006, and will come into force on January 1, 2007.

The Regulation was published mainly to fulfill China's WTO commitment to open its wholesale market for oil products by the end of 2006. Presently, the wholesale market for oil products is monopolized by China Petrochemical Corporation ("Sinopec") and China National Petroleum Corporation ("CNPC"). Once the Regulation comes into force, both foreign companies and private domestic companies will be permitted to enter the wholesale oil product market as long as the requirements set forth in the Regulations are met.

Compared with the Interim Regulation on the Administration of the Oil Product Market issued by MOFCOM in 2004, the focus of the Regulation is as follows:

- Opening of the domestic oil products market.
- Requirements for oil product licenses.
- Strengthening of the examination and approval process.
- Implementation of supervision and inspection by government authorities.

According to the Regulation, a license system will be implemented to regulate the operation of the domestic oil product market in China, including oil product wholesale license ("OPWL"), oil product storage license ("OPSL"), and oil product retail license ("OPRL"). OPWL, OPRL, and OPSL are together here referred to as Oil Product Licenses. The scope of "oil products" has been extended to cover gasoline, kerosene, diesel, and other replacing fuel such as ethanol fuel and biodiesel. MOFCOM remains the government authority in charge of drafting and implementing the relevant laws and regulations as well as supervising their enforcement.

OIL PRODUCT WHOLESALE LICENCES

Enterprises applying for OPWL must meet the following requirements:

(1) Long-term and stable supply of oil product, which means
    (a) having a refinery plant that has the capacity for processing crude oil of more than 1,000,000 tons and annual production of gasoline and diesel of more than 500,000 tons; or
    (b) having an oil product import license; or
    (c) entering into a supply contract of more than a one-year term with an enterprise that has OPWL and annual sales of more than 200,000 tons; or
    (d) entering into a supply contract of more than a one-year term with an import enterprise that has annual import of oil product of more than 100,000 tons;

(2) Being a Chinese legal person with registered capital of no less than RMB 30 million;

(3) If the applicant is a branch company, its headquarters should have an OPWL;

(4) Having a storage warehouse with capacity of no less than 10,000 m^3; and

(5) Having access to pipelines, dedicated railway, road transportation, or port (with capacity of more than 10,000 tons) for transportation of oil product.

OIL PRODUCT RETAIL LICENSES

An Enterprise applying for OPRL shall meet the following requirements:

(1) Compliance with local development planning and relevant technical standards for retail stations;

(2) Long-term and stable supply of oil product, and a supply contract of more than three-year term with an enterprise that has obtained an OPWL;

(3) The design and construction of retail stations shall meet relevant national standards including public security, fire safety, environment protection, etc.; and

(4) Having special technical staff for oil product inspection, measurement, storage and transportation, fire safety and safety production, etc.

OIL PRODUCT STORAGE LICENSES

Enterprises applying for OPSL must meet the following requirements:

(1) Having an oil product storage warehouse with capacity of no less than 10,000 m^3, and the construction of the warehouse must comply with city planning and must pass relevant examinations by government authorities;

(2) Being a Chinese legal person with registered capital of no less than RMB 10 million;

(3) Having access to pipelines, dedicated railway, road transportation, or port (with capacity of more than 10,000 tons) for transportation of oil product; and

(4) If the applicant is a branch company, its headquarters should have obtained an OPSL.

APPLICATION PROCESS

Enterprises applying for Oil Product Licenses must submit the following documents to the relevant government authority:

(1) Application form

(2) Business license

(3) Approval certificate for foreign invested enterprises

(4) Hazardous Chemical Operation Permit issued by the safety supervision department

(5) Ownership document for oil storage warehouse, retail station, and relevant facilities, and approval or certificate issued by the relevant government authority including land and resources, safety production, fire safety, environment protection and quality inspection, etc.

(6) Legal document or material regarding long-term and stable oil product supply channel (for OPWL)

(7) Legal document or material regarding long-term and stable oil product supply channel and confirmation letter for the planning as well as land use right for the site of retail station issued by the relevant government authorities (for OPRL)

(8) Confirmation documents for the planning as well as land use right for the site of oil storage warehouse issued by the relevant government authorities (for OPSL)

(9) Other documents required by the approval authority

Applications for OPWL and OPSL must be submitted to the department in charge of commerce of the relevant provincial government for preliminary examination, and the final approval will be made by MOFCOM. Application for OPRL must be submitted to the department in charge of commerce of the relevant local government for preliminary examination, and the final approval will be made by the department in charge of commerce at the provincial level.

The Regulation also stipulates detailed examination and approval procedures of the government authority as well as the issuance and amendment of the Oil Product Licenses. The department in charge of commerce of the relevant provincial government will be responsible for the annual inspection of the Oil Product License.

CONCLUSION

The Regulation will open the door for foreign oil companies to enter the Chinese wholesale oil product market as mandated by China's WTO commitments. The wholesale business has traditionally been dominated by the two on-shore Chinese oil companies, Sinopec and CNPC. The Regulation opens up this business to foreign companies for the first time. While foreign companies can now undertake wholesale operations in China, the fact that separate import and export licenses are still required will nevertheless make it difficult for foreign companies to independently operate in the wholesale market until such time as the licenses for import and export are relaxed.

Further, the previously proposed requirement to have a certain number of wholly owned or controlled retail stations in order to conduct wholesale business has been removed, and accordingly, the future development of the wholesale business of a foreign oil company will not be restricted by its existing retail business.

While this opening will encourage diversification in oil product supply, the road ahead for foreign oil companies in China remains challenging. As the saying goes in China: The future is bright whilst the way is difficult.

LAWYER CONTACTS

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