



**THE LEGISLATIVE BRANCH  
LAW N° 779**

**WHICH MODIFIES THE LAW OF HYDROCARBONS N° 675 OF THE REPUBLIC OF PARAGUAY, BY WHICH THE LEGAL REGIME FOR THE PROSPECTING, EXPLORATION AND EXPLOITATION OF PETROLEUM AND OTHER HYDROCARBONS IS ESTABLISHED.**

**THE CONGRESS OF THE PARAGUAYAN NATION SANCTIONS WITH FORCE OF LAW.**

**TITLE 1**

**CHAPTER 1  
GENERAL DISPOSITIONS**

**Article 1°.** - The deposits of solid, liquids and gaseous hydrocarbons, which are in natural state in the territory of the Republic belong to the State and private property and are inalienable, unseized and imprescribe. The State may grant the prospecting, exploration and exploitation of the locations of hydrocarbons for limited period of time.

**Article 2°.** – For the purpose of this Law, the following definitions established:

a) Prospecting or surface reconnaissance: The group of surface technical used to locate deposits of hydrocarbons.

b) Exploration: The drilling of wells and any other work for to performed in order to determine the oil possibilities of a determined area, including the drilling of stratigraphic wells.

c) Exploration Well: The one to investigate hydrocarbons stratigraphic traps, whenever it is performed in a structure where a productive well was not previously drilled, based in geological, geographical data infrastructure. Technological investigations and interpretive models will be performed in order to delimit the reservoirs and identify the economical feasibility of a determined field.

d) Exploitation: The drilling of development wells, seismic work, construction of storage, plants and facilities to separate fluids, primary recovery, improved recovery and in general, all activity in the surface and in the sub-surface dedicated to the production, compilation, separation and storage of hydrocarbons to obtain its development. The primary recovery corresponds to all the exploitation activities, established for the recovery of the hydrocarbons with natural energy and characteristic of the deposit. The improved recovery implies the injection of additional energy in the field.

e) Refining: The process which transforms hydrocarbons from its natural their natural state to products generically called liquid or gaseous fuels, lubricant, greases, paraffin's, asphalt's, solvents and the by-products which produces said process.

f) Industrialization: All those transformation process of products of the refining of hydrocarbons. It includes the petrochemistry, which may also use hydrocarbons in natural state.

g) Transportation: The group of different ways and extra facilities used to storage and transport by pipelines from one plane to the other, hydrocarbons of its by-products, or the transportation via terrestrial, fluvial or maritime or by air, through the usage of tanks or other containers.

h) Commercialization: All activities related to selling, exchange or any form of transference of hydrocarbons, refining products and by-products, petrochemical industrial products, including the storage and distribution corresponding to this phase.

i) Hydrocarbons: Any organic compound of the carbon and hydrogen, gaseous, liquid or solid.

j) Petroleum: The liquid hydrocarbons in normal conditions of temperature and pression. This denomination refers to the mixture of liquid hydrocarbons, which is obtained in the process of separation of associated or condensed gas.

k) Natural Gas: The hydrocarbons which in normal conditions of temperature and pression are presented in gaseous state.

l) Associate (or combined) Gas: The gaseous fragment of hydrocarbons which results from the process of separation of liquids and gaseous in the production of hydrocarbons.

m) Concessionaire: Any individual or juridical person who has signed a concession contract with the State or any nature stipulated in the present Law for the exploration and exploitation of hydrocarbons.

n) Permissionaire: Any individual or juridical person who has signed a contract for prospection with the State.

o) Subcontractor: Any individual or juridical person, national or foreign, who provides services excluding those provided in relation of dependence, for the Permissionaire or Concessionaire, related directly with the prospecting, exploration and exploitation of hydrocarbons works.

Subcontractors are also individual or juridical persons, national or foreign, who provide services in the Permissionaire or Concessionaire direct benefit through another subcontractor.

**Article 3°.** - The prospection, exploration and subsequent exploitation of hydrocarbons deposits could be done, directly for the State or the entity that to such an effect and under its dependence you will create, or for the licensees or concessionaires by means of permits or concessions granted by the State to physical or juridical, national or foreign, private or public people, in accordance with the dispositions of the present Law.

**Article 4°.** – The individual or juridical person, who requests permits or concessions, shall comply with the following requirements:

a) Established domicile in the Country and designate legal representative.

b) Demonstrate and justify financial and technical solvency, give enough guarantee of fulfillment of the concession contract, according to the requirements established in the present law and regulations.

c) Present a work plan of activities and minimum amount to be investments during prospecting and exploration phases.

d) Present a map with the geographic coordinates to locate and identify the requested area with the respective expert report. The map will be presented with two copies of map, duly signed by an engineer or licensed surveyor.

**Article 5°** - All the permits and the concessions granted according to this Law, will be subject without restrictions, to the laws of the Republic. The request of the permit or concession implies the renouncement to all intervention and diplomatic reclamation.

The differences which shall from the performance, fulfillment an any controversy in general, related to the permits or concession contracts and any matter to relative one to activities established by this Law, will be submitted to the ordinary tribunals of the Republic of the Paraguay, or to the national or international arbitrage according to the concession contract.

**Article 6°** - The concessions shall be granted or transferred to those fulfil the requirements and conditions requested by this Law for concessionaires, previous authorization of the Executive Power. The transferee will be responsible before the State of the assumed obligations by the transferee, unless the transference of granting is 100% (a hundred percent) of the rights and obligations assumed by the concession contract.

It may be request to the Executive Power the authorization stipulated in this article before the subscription of the respective transference document, in this case the authorization should be subject to this subscription. In any case, the authorization shall be granted with the only proven technical and financial solvency according to the regulation.

## **TITLE 2**

### **CHAPTER 2**

#### **SURFACE RECONNAISSANCE OR PROSPECTION**

**Article 7°** - The application for a prospection permit and exploration concession and subsequent exploitation, will be presented to the Ministry of Public Works and Communications, drawing up and execute a certificate of this request at the General Secretary of the Ministry, during the reception of it, setting forth in the same record the date, hour and minute, for rigorous precedence order. The permits and concessions shall be granted according to the presentation order, whenever the legal requirements and regulations are fulfilled.

**Article 8°** - The term of the permit shall be one (1) year, which be may be extended upon petition by the permissionaire for one (1) additional year before due data, which will be established if the permissionaire has fulfilled the obligation.

The maximum surface of the area for prospecting or surface reconnaissance shall be of 2.400.000 hectares. (Two millions four hundred thousand hectares) and shall include free areas of permits or concessions.

**Article 9°** - The initiation of the prospecting works shall start the first six (6) months, following the date of the contract.

The Ministry of Public Works and Communications shall control permanently the works performed by the permissionaire. The permissionaire shall provide to the Ministry of Public Works and Communications, every three months, a complete report about the progress of his works.

**Article 10°** - The permissionaire of surface reconnaissance or prospecting shall not:

a) To perform surface reconnaissance in areas already granted to other permissionaire for prospection or concessionaires for exploration and subsequent exploitation, except for expressed consent given by them and the Ministry of Public Works and Communications.

**Article 11°** - The permissionaire shall be required to compensate any damages to third parties or to the State as a result of the works performed.

As a guarantee of fulfillment of this obligation, the permissionaire will deposit in the name of the Ministry of Public Works and Communications, in cash, an equivalent amount of 10.000 (ten thousand) minimum journals for various activities not specified in the Capital, or

shall issue during the permit, for the same amount, a duly endorsement policy of insurance, or bank guarantee, in any of the cases in favor the Ministry of Public Works and Communications. The permissionaire obligation is not limited to amount of this guarantee.

**Article 12°** - The permissionaire shall have priority for the selection of one or more exploration lots within the prospection area, established by Article 15° of the present Law.

### **TITLE 3**

#### **CHAPTER 3 CONCESSIONS IN GENERAL**

**Article 13°** - The concession for the exploration, and subsequent exploitation of hydrocarbons related to a surface or determined area shall be granted by Law, previous subscription of a contract approved contract by Decree from the Executive Power.

The interested party shall subscribe jointly with the State the prospecting contract jointly with the exploration and subsequent exploitation concession contract submitting both for the authorization of the National Congress.

### **TITLE 4**

#### **CHAPTER 4 EXPLORATION**

**Article 14°** - The concession for exploration offers the exclusive right to explore the granted area for a term of four (4) year, extended for a term no more than two (2) years, time in which the concessionaire shall be obligated to fulfil minimum work plan and investment. During the first four years, the concessionaire shall drill exploratory well as minimum, and if the extension is granted, one (1) additional well per each year or extended period of time. The main technical characteristics of said wells should be defined in the concession contract.

The initiation of the exploratory period shall be considered from the effective date of the concession Law or from the date of Resolution given by the Ministry of Public Works for which approved the selection of the first lot, in case a prospection or surface reconnaissance permit proceeded to the exploration concession.

**Article 15°** - The exploration concessions shall be granted in lots of 40.000 hectares. (Forty thousand hectares) each one, up to a maximum area of 800.000 hectares. (Eight hundred thousand hectares).

Each of these lots is denominated "Exploratory Lot". These lots shall be selected by the permissionaire, according to Article 12° of the present Law, or determined by the applicant of an exploration concession and subsequent exploitation whenever these concessions are requested.

The Ministry of Public Works and Communications shall grant the exploration lots.

**Article 16°** - The location of the exploration lots shall be contiguous or not, within the are subject of the prospection permit, in case the exploration and subsequent exploitation contract is requested directly, the lots shall be contiguous. The shape of each lot shall be squared or rectangular with the sides directed North to South, and East to West. If it is rectangular the maximum ratio between the sides shall be one to four (1:4).

**Article 17°** - The exploration concession grants the inherent right the concessionaire, to select, in any moment of the original term or its extensions, one or more exploitation lots within each exploration lot, just a right to continue selecting other exploration lots until completing or not the maximum surface established in the Art. 15°.

It grants at the same time the right to continue with prospection works in all prospecting area, whenever the permit has not due and in the exploration area.

**Article 18°** - The exploration contract shall be subscribed previous presentation of the following sureties:

a) The voucher evidencing the deposit in "Special Account" to the Ministry of Public Works and Communications, as guarantee of fulfillment of the Contract, the amount of 0,10 U\$S (ten cents of American dollar) for hectare. The Ministry shall accept the security bond by an equivalent amount issued by a bank institution or a policy issue by an insurance company endorsed to its name.

b) The receipt of the deposit in the "Special Account" to the Ministry of Public Works and Communications, opened with the Central Bank of Paraguay, the amount of 0,10 U\$S (ten cents of American dollar) per hectare on the area of the selected exploration lots.

Likewise, the guarantee established in Article 11° shall be kept during the concession term.

The requested guarantees in the present Article and Article 11°, shall be presented in the case of prospection and exploration and subsequent exploitation contract.

**Article 19°** - The deposit, security or policy performed according to Article 18° and Article 11°, shall be returned to the applicant if the concession is denied.

**Article 20°** - The guarantees mentioned in the Article 18° should be returned to the concessionaire whenever the term of the concession is due if the concessionaire has fulfilled the corresponding obligations. If the concessionaire relinquished the concession, the return of the guarantee indicated in Article 18° shall not be done.

The cancellation of the concession and the non-fulfillment of the legal obligation by the concessionaire, determine the loss of the deposit of this guarantee in favor of the State and in the right to demand the fulfillment of the security or insurance policy by the concessionaire.

**Article 21°** - When the exploration concession is transformed to another concession of exploitation, the concessionaire shall duplicate the amount of the guarantee indicated in the Article 18°, based on the selected exploitation lots, which will subsist during the term of the exploitation concession. Said guarantee shall be used by the concessionaire for the fulfillment of the obligations established by the Law and the concession contract.

Likewise, in order to guarantee compensation of damages caused to third or the State, the concessionaire will deposit to the order of the Ministry of Public Works and Communications, in cash, an amount equivalent to 35.000 (thirty and five thousand) minimum legal journals for various activities not specified in the Capital, or shall issue during the term of the concession, for said amount, a bank guarantee or endorsed insurance policy, in any of the cases to the name of the ministry of Public Works and Communications.

The guarantee shall be update each year according to the variations of the amount of the minimum journal, set for various activities specified in the Capital and shall subsist during the term of the exploitation concession.

**Article 22°** - The exploration concessionaire shall utilize all scientific methods in his operations; to build and employ any means transportation and communication by air, land and water; establish field camps, buildings, terminals and port works, exploratory drilling and, in general, to perform the necessary activities for the complete exercise of its right, according to the Law and its regulations.

**Article 23°** -The concessionaire of exploration who has discovered in any of the concessions, the substances to which this Law shall be able to use them freely in the proper operations of exploration within the concession area.

**Article 24°** - Within fifteen (15) days following the presentation of the exploration application, the Ministry of Public Works and Communications shall verify if the applicant meets

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the requirements set forth in chapter I of this Law. If it meets, shall arrange the publication of the request of concession in two well known local newspapers of great diffusion of the Capital, during a term of ten days in order that third parties having a right to it may file their opposition.

**Article 25°** - Any claim shall be handled and decided by Ministry of Public Works and Communications within the term of twenty (20) days. This resolution could be rendered by the latter may be appealed at the Tribunal de Cuentas (Court of Appeal for Administrative Matters), within fifteen (15) after the rendering of the decision.

**Article 26°** - The granting of an exploration concession requires to the grantee to delimit the area, to perform the necessary works to locate hydrocarbons in accordance with the most efficient techniques and to perform the minimum investments stipulated for each phase of the concession.

If the investment performed in any of these periods is less than the one stipulated, the State should make effective the guarantee of fulfillment established in the Article 18°, except force major. If some technical difficulties arise, the Ministry of Public Works and Communications shall authorize the substitution of this payment with the increase of the established compromises for the following period, the same original amount that was no invested.

If in any of the periods, the investments corresponding to work technically acceptable are higher than the amount originally stipulated, the concessionaire may reduce in the same amount of the remaining the investments corresponding to the following period, whenever this doesn't affect performance of the works necessary for the effective exploration of the area.

**Article 27°** - The concessionaire shall start the exploration works within a year following the date of the Decree granting the concession or the entry into stage, according to the case. If this is not the case, the granted concession will no be into effect.

## **TITLE 5**

### **CHAPTER 5 EXPLOITATION.**

**Article 28°** -The exploitation concession authorizes to perform within the limits established in the respective contract, the works of searching and extraction of hydrocarbons according to the most rational and efficient techniques, within those limits and to construct and operate plants treatment and refining, communications systems and of general or special transportation for hydrocarbons, buildings, deposits, field camps, freight station and, in general, any other works and necessary construction and operations for the development of its activities

**Article 29°** - The exploitation concessionaire shall communicate in writing to the Ministry of Public Works and Communications, the extension and location of the select area for exploitation attached to a general exploration concession map and special maps of each select for exploitation. The maps shall indicate the characteristics and specifications detailed in the regulation. The communication and the planes shall be submitted at any time during the exploration period or its extension.

**Article 30°** - The exploitation lots shall be of an extension no less than 20 hectares. (Twenty hectares) neither bigger than 5.000 hectares (Five thousand hectares). Its shape shall be rectangular with ratio of 1:4 (one at four) and direct from North to South, astronomical direction.

Whenever such lots are surrounded by natural boundaries, one of the angles or vertexes shall be referred to a stationary or known point the ground.

A licensed land surveyor or engineer who has drawn up the map or has directed on the spot the survey operations shall certify the maps.

Whenever the concession has been granted, the concessionaire has available a term of one year to submit the respective plan. Certified copies of the plans shall be delivered to the concessionaire.

**Article 31°** - The concessions for exploitation shall be granted for a term of up to 20 (twenty) years starting the following date of give authorization by the Congress or the date entered in said stage according to the case.

The executive Power shall extend them, as per the concessionaire request until for 10 (ten) years in condition established in the concession contract and whenever the concessionaire has fulfilled with all the corresponding obligations established in the contract, presenting the respective request with an anticipation no less than six (6) months before the concession area.

If the concessionaire discovers a deposit with commercial exploitation possibilities, shall communicate to the State and shall have the right to select the date to enter into the exploitation period, selecting the first exploitation lot, which must be done during the initial period or its extension in case of suspension.

If, in order to exploit the discovery deposit commercially by the concessionaire it is necessary to build installation to collect, process and to transport hydrocarbons or solve unfavorable conditions in order to begin the exploitation period, the concessionaire shall notify the government the selection of the first exploitation lot and to request temporary suspension of the term to start the exploitation period until adequate markets are found and built the necessary installation which shall allow the recollection, treatment, processing, transportation and sale of the hydrocarbons or until the unfavorable conditions are solved. If the concessionaire request is justified, the State shall establish a suspension term of the beginning of the exploitation period by Decree issued by the Executive Power, which shall not be more than two (2) years for an additional period of one more year.

The suspension as well as the additional period of extension shall be granted by Decree issued by the Executive Power, whenever the concessionaire has fulfilled with all the obligations during the exploration phase.

**Article 32°** - The concessionaire shall be requested to sell and deliver to the state or to the existent refineries in the country, at its main storage its corresponding proportional quantity of hydrocarbons, considering the total production, in order to satisfy the internal consumption of the country, quantity which shall be determined annually jointly by the Ministry of Public Works and communications with the Ministry of Industry and Commerce.

Said sale shall be made according to the world present prices at the well site for hydrocarbons of similar characteristic, plus the cost of transportation between the production and the delivery location, plus the handling and storage cost.

The concessionaire shall not have obligations to sell or deliver hydrocarbons in Paraguay in larger quantities than those stipulated in this Article.

**Article 33°** - The concessionaire shall be requested to provide to the Ministry of Public Works and Communications all the technical and statistics data quarterly relating to the investigation, exploration and exploitation work, data which shall be kept for the term of two (2) years, but it may be published if the concessionaire agrees before that term.

**Article 34°** - The exploitation concessionaire shall be requested to perform, within the terms established in this contract, the necessary investments for the performance of the works which requests the development of all the surface granted by the concession with the characteristics and largeness of the proven reservoir, insuring the maximum production of hydrocarbons suitable with the adequate exploitation and economical of the field and the observance of criteria which guarantee a convenient conservation of the reservoir.

**Article 35°** - The concessionaire shall have term of five- (5) year, -starting the selection of the first exploitation lot to complete the selection of all the exploitation lots.

**Article 36°** - After 10 (ten) years of beginning of exploitation concession, the concessionaire shall have under exploitation the totality of the selected lots. Starting that date, the non-exploitation of an exploitation lot more than 3 (three) year consequently, alternate or uninterrupted is a justified reason for an automatic transference of the lot to the State.

## **TITLE 6**

### **CHAPTER 6**

#### **CONCESSION OF MANUFACTURE, REFINING, TRANSPORTATION, STORAGE AND COMMERCIALIZATION**

**Article 37°** - The concessionaire of exploitation shall manufacture, refine, storage, transport and sell, in the country or outside with the limits stated by this Law, the substances mentioned in Article first. For this reason, besides the regulation of the current law, it shall fulfilled other regulation of other laws and dispositions which regulate these activities as well as those related with the environment protection and its impact.

**Article 38°** - The concessionaire shall have the right to transport the substances mentioned in this Law; to construct special highways, deposits, buildings, to operate machinery's, vessels, and other vehicles, and in general, to build and operate all the ways and works required for the transportation of the substances. The concessionaire shall also acquire from third the substances in order to transport them.

**Article 39°** - When the exceeding capacity of the plants and facilities and means of transportation permits it, the concessionaire of exploitation shall refine, storage and to transport the petroleum and by products delivered to it by the State or third parties for said purpose, charging the prices list stipulated considering the international market prices. At no time can the concessionaire be compelled to build or establish work or additional installation for the refining, transportation and storage the petroleum and its by-products coming from third parties or from the State. He can not also be compelled to receive or deliver the substances extracted and/or the products in stations or points other than those already existent, or to transport or store them, whenever they are of different characteristic features from those of the substances, refined, store or to do in different manner form how it is usually done.

## **TITLE 7**

### **CHAPTER 7**

#### **SUPERVISION AND REGULATION OF THE HYDROCARBONS SECTOR**

**Article 40°** - The Ministry of Public Works and Communications shall regulate and supervise exclusively the prospection, exploration and exploitation of hydrocarbons activities.

For this purpose, the attributions of the Ministry of Public Works and Communications are:

a) Perform and fulfil the established by the Executive Power for the hydrocarbons sector.

b) Grants permits for the prospection of hydrocarbons.

c) Negotiate and subscribe the exploration and exploitation contracts for hydrocarbons, according to Article 13° of the present Law.

d) Preserve that the exploitation operation be performed under concepts and regulations established for the rational exploitation, considering the conservation of the resources of hydrocarbons in the country.



e) Guarantee that operations of hydrocarbons are performed according to the high techniques and efficiency norms, getting a recovery and good process of hydrocarbons.

f) Control the activities related with prospection, exploration and exploitation of hydrocarbons.

g) Establish a permissionaires register, concessionaires and subcontractors existing in the country, as well as the corresponding contracts and database of the activities of prospection, exploration and exploitation of hydrocarbons.

h) Promote the investment in the activities of prospection and exploration of hydrocarbons.

i) Apply the sanctions granted by this Law and the respective contract.

j) Propose the prices of hydrocarbons at the well site, according to legal regulation in force, rules and international practices used in the hydrocarbons sector, for the payment of royalties. These prices shall be approved by Decree by the Executive Power.

k) Propose the prices of transportation and distribution by pipelines, according to legal regulation in force, rules and international practices used in the hydrocarbons sector and submitted for the approval from the Executive Power.

l) Sponsor and perform economical and technical studies with reference to the subjects of its competence, recollecting for this purpose the necessary information and considering the statistics of development and evolution of the hydrocarbons sector.

m) Rule according to this Law all the matters with reference to the determination of the limits of the areas, common structures, passages and other common ways of usage and to resolve the controversies arisen from this matter, and;

n) Coordinate with the corresponding authorities the fulfillment of the regulations related to the preservation of the environment.

## **TITLE 8**

### **CHAPTER 8**

#### **CANON, ROYALTIES AND TAXES**

**Article 41°** - With exception of taxes, the prospection and the exploration activities are exempted from any government and municipal taxes, including the request of prospection permits and of concession, as well as the respective contracts.

**Article 42°** - During the exploitation period the concessionaire shall pay to the state the following:

- a) An initial tax of 0.30 U\$S (thirty cents of American dollar) per hectare;
- b) A yearly exploitation tax per hectare as follows:
- |                      |           |            |
|----------------------|-----------|------------|
| From the 1st to the  | 5th year  | 0.20 U\$S. |
| From the 6th to the  | 10th year | 0.60 U\$S. |
| From the 11th to the | 15th year | 1,60 U\$S. |
| From the 16th to the | 20th year | 2,00 U\$S. |

**Article 43°** - During the exploitation period the concessionaire shall pay the State the following royalty on the gross production of crude petroleum:

a) From a hundred (100) daily barrels up to 5.000 (five thousand) barrels per day, 10% (ten percent);

b) From 5.001 (five thousand one) daily barrels up to 50.000 (fifty thousand) barrels per day, 12% (twelve percent); and,

c) From 50.001 (fifty thousand one) barrels per day from now on 14% (fourteen percent).

In order to understand the royalty established in this Article, the barrel shall be understood to be of forty-two (42) American gallons, at fifteen and half (15° ½) centigrade.

On gaseous, compressed and liquefied hydrocarbons, it shall be paid twelve percent (12%) on the total gross production; and on the production of any other solid and semisolid hydrocarbons in natural state, it shall be paid fifteen percent (15%).

**Article 44°** - The royalty of the State stipulated in Article 43° of the present Law, the payment shall be made in cash, within the ten days after the reception of the liquidation, in American dollars or any other currency of free exchange according to the State. The State could accept to receive the payment in specie.

**Article 45°** - In order to established the royalty of the State, the volume of hydrocarbons used by the concessionaire in its own exploration and exploitation within the concession area shall be excluded, whenever it has been proven authentically and notified to the State, with (90) ninety days of anticipation, the estimated volume for this purpose, with exception for the transportation of petroleum and the refining, there of commercial purpose, such consumption being exempted from all taxation.

**Article 46°** - The royalty of the natural gas extracted shall be limited to the natural gas sold by the concessionaire. The royalty the natural gas treated in plants for the extraction of natural gasoline, or the gas intended for industrial treatments, shall be stipulated by special agreement between the State and the concessionaire for a fixed term, which can not exceed 15 (fifteen) years, considering the treatment costs. Until said agreement, the royalty of the State shall be equivalent of 11% (eleven percent) of the value of the product or by-product originated from the treatment to which it has already been subjected, after deducting the cost of such treatment.

The State shall not receive any royalty neither on the gas returned to the deposit or used in any process, the purpose of which is to stimulate the production of petroleum, nor on the gas which cannot be used, which must be burned in special burners.

**Article 47°** - The services performed to the grantees of prospection permits and exploration concessions, related directly or indirectly to prospection and exploration activities, by subcontractors, individual or juridical persons, are exempted for any fiscal, government and municipal tax, except the taxes and Income Tax which shall be paid according to the Income system, establishing for this purpose 6% (six) percent on the amount of invoiced performed works.

**Article 48°** - During the exploitation period, the grantee of the exploitation concession, shall be exempted, with exception of the tax and Income Tax, of any other kind of tax fiscal, government and municipal contribution, including those taxes which exception shall be mentioned in the law, according to the conditions stipulated in the following Articles and of the Aggregated Value Tax (IVA) whenever is of general application and not discriminatory for the petroleum industry.

**Article 49°** - The exploitation concession grantee shall be required to the payment of the Income Tax according to net profits. The Income Tax the concessionaire shall be of 30 (thirty) annual percent on the net profits determined by this Law.

**Article 50°** - For the purpose of the Income Tax payment, the Tax Return sheet of the operation shall be drawn up accordance with well known standards of accounting used in the petroleum industry, and any accounting system generally accepted in the said industry can

applied proving that it is used from year to year without any substantial change. The accounting shall be kept in Spanish.

Every year as operation expenses the amounts of all or any of the following items for the fiscal year can deducted, expenses for prospecting and exploration whiting the national territory; intangible costs of drilling and/or drilling cost of dry hole or wells producing volumes which can not be exploited in commercial amounts, or at the capital account for the fiscal year.

**Article 51°** - By net profit it shall be understood the amount of income obtained by the company from the sale of its products and the accessory operations of manufacture, storage, transportation and/or marketing of the petroleum and other hydrocarbons, less the general administration expenses (overhead), the write off by depreciation of tangible assets and the amortization of the intangible asset and any of the costs and expenses as may be necessary to obtain said income, including operation losses and losses originated from damages, destruction, going astray or losses of property. Regarding the last four cases, the pertinent credit shall be made when collecting the insurance.

Furthermore, it must be deducted by way of depletion factor an amount free from any tax which shall be equal to 15% (fifteen percent) of the gross value of the production of the petroleum, natural gas, natural asphalt's and other substances extracted and marketed. Said 15% (quince percent) shall be applied after having deducted the expenses for transportation of hydrocarbons from the place of sale. The depletion factor deduction shall have as maximum limit 50% (fifty percent) of the net profit set forth in the respective yearly balance sheet of the Company.

**Article 52°** - For the purpose of the payment of the Income Tax, all the properties belonging to the concessionaire subject of depreciation used in the granted concession by the government, shall be depreciated in direct proportional line to tax of 25% (twenty-five percent) yearly.

**Article 53°** - The services granted to the grantee of an exploitation concession of hydrocarbons by subcontractors, shall have the same fiscal treatment stipulated in Article 49°.

**Article 54°** - The capitals incorporate to the State by the concessionaire, shall be amortized according to it, per year and not higher than 20% (twenty percent), starting the date of the commercial exploitation of the substances subject of this contract.

**Article 55°** - All machinery, equipment, materials which are not manufactured in the country as may necessary for the prospecting, exploration, exploitation, industrialization and commercialization of the petroleum and other hydrocarbons, are exempted from import duties and from any other fiscal, government and municipal tax, during the concession term. All the imported properties according to the exceptions mentioned in this Article shall be taken out of customs and ports with a legal statement without any other requirement.

These importation shall be regularized according to the pertinent legislation within 90 (ninety) days after the equipment was staked out of customs. Furthermore, the obtain petroleum, its by-products and its transportation are exempted of any fiscal, government and municipal tax and from any exportation right, under any established manner during the concession contract.

## TITLE IX

### CHAPTER IX RIGHTS OF THE CONCESSIONAIRE

**Article 56°** - All concessionaires may do the following:

a) Relinquish one or more license or concessions by means of notice submitted to the Minister of Public Works and Communications, after the established obligations were fulfilled. After the relinquishment has been accepted, the tax shall be paid on the remaining number of concessions.

- b) Produce, transport, refines and sells hydrocarbons and its by-products.
- c) Install storage facilities and all facilities inherent in the petroleum industry within the area of its concession.
- d) Build, acquire and exploit of its own service, telegraph and phone installation, subject to the present laws and regulations.
- e) Build, acquire and exploit railroads, navigation channels, highways, in accordance with the regulation dictate by Executive Power, being understood that y they are made available for public services they must subject themselves to the general rules enacted on each field.
- f) Encumber with easements (servitude's), in accordance with the Civil Code, the land of private property or neighboring concessionaires as may be necessary for the oil industry.

**Article 57°** - The concessionaires who subscribed contracts in accordance with the current Law, have guarantee granted by the State of the free availability of holdings as exportation entry, once the obligations stipulated in this Law were fulfilled.

## **TITLE 10**

### **CHAPTER 10** **OBLIGATIONS OF THE CONCESSIONAIRE**

**Article 58°** - In addition to the obligations contemplated in the foregoing provisions, all concessionaire must do the following:

- a) Facilitate to Inspectors and Government experts, duly authorized, the permanent inspection of their wells and installation and to facilitate the following of all the work performed by the concessionaire.
- b) Pay the taxes and royalties to whom they are subjects in accordance with the terms established by this Law, under pain of cancellation of their concession.
- c) Keep they're accounting in accordance with this Law and in the corresponding laws.
- d) Take without delay the necessary precautions in order to avoid damages to the well sites, caused by the drilling, operation, conservation, or abandon of wells, and report immediately to the authorities.
- e) Avoid any unnecessary waste of hydrocarbons; if the loss is caused by negligence, the concessionaire shall be responsible for damages caused to the State and/or third parties.
- f) Adopt the necessary precaution to avoid any damages to agriculture and cattle activities, fishing, the fauna and the flora, and to communications systems.
- g) Take without delay the necessary precaution in order to avoid the porosity, permeability or integrity of the napes, aquifer or other similar accidents occurred during the drilling, and communicate immediately to the Ministry of Public Works and Communications.
- h) Adopt the necessary security precaution given by the practices accepted in this matter, in order to avoid any kind of sinister, giving notice to the Ministry of Public Works and Communications, within the following 48 (forty eight) hours.

i) Plug the unproductive wells, and the event that only produce gas, to suitable precautions to prevent the migratory movement of the water from one horizon to another or the escape of gas, all this in accordance with the Ministry of Public Works and Communications.

j) Report to the Ministry of Public Works and Communications every time a well enters into products, within the following 5 (five) days.

k) Provide, quarterly, to the Ministry of Public Works and Communications and other authorities of the Government require for the objectives, all the technical and economical information obtained from the prospection permit and performance of the concession contract, especially during the exploration and exploitation. During the permit term or contract, any data or information, related to the development, shall be maintained strictly confidential, by means that its content under any aspect shall be divulged to third parties, total or partially, without previous written approval from the other part, for the term of one year. The employees, public officers, agents, representatives, mandatary and subcontractors will be subjected to the same obligations of confidentiality established in the current Article.

l) Provide to the Ministry of Public Works and Communications all the information on the existence of mineral, hydro and other wealth's, obtained as a result of its operations, within (15) fifteen days after the knowledge of the fact.

m) Permit, during the performance of the contract, the training of public officer from the Ministry of Public Works and Communications, whenever their work are related with to the hydrocarbons industry, under the conditions stipulated in the respective contracts.

n) Promote, during the performance of the contract, the training of public officer from the Ministry of Public Works and Communications, whenever their duties are related with to the hydrocarbons industry, under the conditions stipulated in the respective contracts.

ñ) Adopt industrial security precaution, in accordance with the accept international rules and the regulation established in specific laws.

o) Fulfil all the requirements established in the current laws and Regulations, in order to avoid the contamination of the environment and the alteration of the ecological balance in the in the concession areas.

**Article 59°** - The concessionaires shall be requested to present, during the month of January of each year, a report related to the previous year with plans, photographs and statistics. This report shall contain the following:

a) A list of the concessions held, specifying their type, stage of development; or condition and location, indicating those, which have been purchased, transferred, abandoned or relinquished during the year.

b) A list of the drilling operations performed during the year.

c) A list of the refining and transportation operation performed during the same period.

d) A report on the total amount of the taxes paid during the year, setting forth the reasons for such payment and the amounts still owed.

e) A report on the number of employees and workers, their nationalities, salaries or wages received, medical assistance and educational services provided, as well as on their living conditions and the work provided by them.

**Article 60°** - The work plan for the following year shall be submitted during the month of November of each year.

CHAPTER 11  
NULLITY, CANCELLATION AND EXTINCTION

**Article 61°** - Are null:

a) The permits, concessions and cession granted to disqualified or unable persons to acquire them in accordance with the provisions of this Law and other current laws, as well as those performed without the required authorization by this Law.

b) The permits and concessions acquired in a different way to the prescribed in this Law and which do not fulfil the main requirements mentioned in this Law.

c) The permits and concessions, which overlap upon other concession already, granted but only as to the area in which they overlap.

**Article 62°** - The cancellation of the permits or concessions will occur if:

a) If work has not begun within the terms stipulated.

b) Due to the shutdown of prospecting, exploration or exploitation works for the term of 6 (six) months, except in case of force major.

c) Due to non-performance of the contract and the rules of this law and its regulation.

**Article 63°** - The permits and concessions shall extinct:

a) Due to the expiration of the terms stipulated.

b) Due to the grantee relinquish, which can refer to the entire or part of the respective area, in this case the proportional to this matter, whenever it is agreed with the Ministry of Public Works and Communications criteria.

In order to relinquish to the permit or concession, the permissionaire or concessionaire shall previously cancel all the taxes owed to the Fisco and the debts, which were no paid yet.

**Article 64°** - Upon the reversion of a concession of exploitation stipulated in the previous Article, the concessionaire shall cede to the state, without any obligation, the wells, permanent work structure of operation and maintenance thereof, any permanent process of exploitation, with exception of the main pipelines, refineries, plants of gasoline and movable equipment.

**Article 65°** - In cases of nullity or cancellation of the concessions, after the reason were proven by the Ministry of Public Works and Communications, the executive Power shall issue the corresponding Decree declaring such nullity or cancellation and it shall be notified directly to the concessionaire.

The interested party may claim to the "Tribunal de Cuentas" (Court of Appeal for Administrative Matters).

**Article 66°** - Whenever the resolution of any of the concession contracts stipulated in this Law occurs, because of the non-fulfillment by the concessionaire or the conclusion of the stipulated term, the following shall be considered:

a) If the resolution of the Contract occurs during the exploration phase the concessionaire shall cede to the Paraguayan Government, the contract area and will submit without any cost the wells sites, and other work structures related directly to the extraction of hydrocarbons which are within the contract area.

b) If the resolution of the concession Contract occurs during or at the end of the exploitation period, the concessionaire shall cede to the Paraguayan State the contract area and shall submit without any cost, the well sites, plants, recollection network, equipment, tools, machinery's and installation which were acquired or built for the extraction of hydrocarbons.

The concessionaires are not allowed to transfer, to encumber or give away during the term of the concession contract, part of the properties, which are mentioned in previous clauses a) and b) without authorization of the Ministry of Public Works and Communications. The loss and destruction of the mentioned properties, which belong to the State, shall carry civil and penal responsibilities according to the laws.

All the termination of the concession Contract, by means of non-fulfillment of the term or the contract or current Law, the restitution ipso fact of the contract areas shall be performed.

**Article 67°** - For the purposes of this Law, the concepts of "act of God" and "force major" are defined as meaning any act of nature which are not under the reasonable control and which do not occur by any of the parties fault or negligence.

The "force major" cases including, but not limited to: nature disaster, as earthquakes or floods; navigation disaster; fires; hostility; wars (declared or not); blockades; seizures; labor disturbances; strikes; insurrections; civil sabotage; national emergency; impossibility of to obtain or to use any material, teams or required services; abnormal condition in drilling or any other event similar or not, to the specification indicate, which are not under reasonable control and which do not occur by the party's fault or negligence.

In the case of "force major", the rights and obligations arise from the contracts shall be suspended during said causes. Each party shall notify this circumstance to the other party, informing the duration and extension of the suspension, if it shall be total or partial and its nature. Whenever the cause disappears, the party's obligations, which have been suspended as it was mentioned previously, shall be in force notifying this fact to the other party.

Any "force major" shall not be considered in order to extend the due date of the development and production phase.

In no case the "force major" shall be considered to affects an obligation to deliver payment stipulated in the contract.

## TITLE 12

### CHAPTER 12 FINES

**Article 68°** - Any infringement of the concessionaires legal and ruling obligation specially stated in this Law, shall be punished with a fine ranging from 5.000 (five thousand) to 10.000 (ten thousand) American dollars, according to its respective reglamentation, whenever the fine is not established exclusively in this Law and without prejudice in the cancellation case and other corresponding sanctions.

**Article 69°** - The concessionaires are subject to fines stipulated by the Article 68°, whenever they do not exercise due vigilance in order to avoid the loss of the substances produced and order to carry out their operations so as not to result in any waste of such substances, and they shall be liable for the damages to the State or third parties by this reason.

**Article 70°** - The refusal or opposition of the concessionaire in any manner whatsoever, to permit the examination or inspection contemplated in this Law shall be punished by fine of 3.000 U\$S (three thousand American dollars) each time.

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**Article 71°** - The Ministry of Public Works and Communications, shall impose the sanctions stipulated in this Chapter, without prejudice to the penalties imposed by other legal disposition or rules and of civil, penal or fiscal actions which may be proper.

**TITLE 13**

**CHAPTER 13**

**USAGE OR SURFACE AND SUB-SURFACE, SERVITUDE AND EXPROPRIATION**

**Article 72°** - The hydrocarbon concessions, refers essentially to sub-surface works, shall not affect the owner's rights. The usage of the land shall have predominance upon any other existing third parties' right and subject to the expropriation and indemnification in accordance with the Article 109° of the National Constitution.

**Article 73°** - All prospection or concession permit shall be notified by the concessionaire to the owner or legal occupant affected by the concession, in order to provide him information on the work to be performed by the permissionaire or concessionaire. The permissionaire or concessionaire shall indemnify any damage caused to the owner or legal occupant by different reason as a result of the permit or concession, shall be indemnified by the permissionaire or concessionaire.

**Article 74°** - If the owner and concessionaire do not arrive to an agreement for the constitution of servitude to occupy the private land under a temporary basis, the Ministry of Public Works and Communications shall have the right to constitute administratively the servitude, stating term, objective, reaches and determining the indemnification to be paid by the concessionaire to the owner.

If the parties (concessionaire and owner) do not agree with the fixed compensation, they shall claim to the Judicial Power its revision. The claim shall not prevent that the concessionaire uses the servitude of temporary occupation established administratively. When the definitive sanction is known, if the concessionaire does not reply during the term of 8 (eight) days, the servitude established shall extinguished.

The juridical decision as well as the verdict will refer exclusively to the amount of the indemnification.

**Article 75°** - The concessionaire may request to the National Congress through the Executive Power, the sanction of the corresponding Law, to expropriate private properties, according to the necessity of work in the cases of opening of galleries, drilling and extra, installation of pipelines, camps, storage places, deposits, refinery plants, industries, terrestrial communication systems, maritime or aerial transportation, terminals and ports, and for this effect, it is declared of public benefit the prospection, exploration and exploitation. The request shall be processed just if exists a justified necessity to the Ministry of Public Works and Communications to build installations projected by the concessionaire, who shall be in charge of the corresponding expenses of the expropriations authorized by Law, having the concessionaire obligated to pay the corresponding indemnification to the owner according to the article 109° of the National Constitution.

**TITLE 14**

**CHAPTER 14**

**PROTECTION OF THE ENVIRONMENT**

**Article 76°** - The individual or juridical person, who develops activities related with hydrocarbons, shall be fulfilled with the regulations on protection of the environment and the environmental impact. In case of non-fulfillment of said regulation the Ministry of Public Works and Communications shall apply the sanctions established in this Law which correspond, without



prejudice to those established in special legislation, which may determine the cancellation of the concession. These sanctions shall not discharge the concessionaire of his responsibilities emerged by situations and which mean damages and prejudices to the environment.

**TITLE 15**

**CHAPTER 15  
MIXED SOCIETIES AND CONCESSIONS GROUP**

**Article 77°** - The prospection, exploration and exploitation may also be done through Mixed Society, established by individual, juridical, national or foreign persons, private or public, whenever the contribution is agreed. The contract of social constitution shall be based on the regulations of the present Law, considering that in any case the State could relinquish to its part of royalties and contributions established in the present Law.

**Article 78°** - Societies, association and dotted common enterprises end be formed for the prospection, exploration and exploitation activities by individual or juridical, private or public, national or foreign.

The previous associations may be concessionaires, permissionaires or subcontractors under the same conditions than the other individual or juridical persons in accordance with the authorization given by the Executive Power, and shall follow the regulation of the current Law.

**TITLE 16**

**CHAPTER 16  
TEMPORARY PROVISIONS**

**Article 79°** - The concessionaires who have signed prospection, exploration, exploitation contracts or extra contracts with the State previous to the promulgation of this Law, shall request top up-date their contracts in order to follow the regulation applicable in this Law, within 60 (sixty) days of its promulgation. In case these concessionaires do not request during the established term, their contracts shall follow the legislation in force at the time of their signature.

**TITLE 17**

**CHAPTER 17  
FINAL PROVISION**

**Article 80°** - The executive Power shall regulate the present Law.

**Article 81°** - The laws 675/60 and 1.078/65, and the Decrees Nrs. 19.604/66, 10.701/74, 5.615/90 and 15.989/92, shall be applicable exclusively to the prospection, exploration and exploitation of hydrocarbons, subscribed previously to the validity of the present law.

**Article 82°** - Be communicated to the Executive Power.

Approved by the Honorable Camera of Senators, August of the year sixteen a thousand nine hundred ninety five and for the Honorable Camera of deputies, being sanctioned the Law, November of the year twenty a thousand nine hundred ninety five.

Signed for:

- Juan Carlos Ramirez Montalbetti, President Camera of Deputies
- Milciades Rafael Casabianca, President Camera of Senators
- Juan Carlos Rojas Coronel and Artemio Castillo, Secretaries Parliamentary
- Carlos Facetti, Minister of the MOPC
- Juan Carlos Wasmosy, President of the Republic.



**OBS.:** THIS DOCUMENT IS A FAITHFUL COPY OF THE LAW OF HYDROCARBONS N° 779/95, CARRIED OUT IN THE DEPARTMENT OF HYDROCARBONS OF THE DIRETION OF MINERAL RESOURCES - M.O.P.C. 15 - October - 1.998