DRAFT UNITED NATIONS CONVENTION
ON
THE INTERNATIONAL SEABED AREA

Working Paper

The attached draft of a United Nations Convention on the International Seabed Area is submitted by the United States Government as a working paper for discussion purposes.

The draft Convention and its Appendices raise a number of questions with respect to which further detailed study is clearly necessary and do not necessarily represent the definitive views of the United States Government. The Appendices in particular are included solely by way of example.
APPENDIX A

TEAMS AND PROCEDURES
APPLYING TO ALL LICENSES IN THE INTERNATIONAL SEABED AREA

I. Activities Requiring a License or a Permit

1.1. Pursuant to Article 13 of this Convention, all exploration and exploitation operations in the International Seabed Area which have as their principal or ultimate purpose the discovery or appraisal, and exploitation, of mineral deposits shall be licensed.

1.2. There shall be two categories of licenses:

(a) A non-exclusive exploration license shall authorize geophysical and geochemical measurements, and bottom sampling, for the purposes of exploration. This license shall not be restricted as to area and shall grant no exclusive right to exploration nor any preferential right in applying for an exploitation license. It shall be valid for two years following the date of its issuance and shall be renewable for successive two-year periods.

(b) An exploitation license shall authorize exploration and exploitation of one of the groups of minerals described in section 5 in a specified area. The exploitation license shall include the exclusive right to undertake deep drilling and other forms of subsurface entry for the purpose of exploration and exploitation of minerals described in paragraphs 5.1(a) and 5.1(c). The license shall be for a limited period and shall expire at the end of fifteen years if no commercial production is achieved.

1.3. The right to undertake deep drilling for exploration or exploitation shall be granted only under an exploitation license.

1.4. Deep drilling for purposes other than exploration or exploitation of seabed minerals shall be authorized under a deep-drilling permit issued at no charge by the International Seabed Resource Authority, provided that:

(a) The application is accompanied by a statement from the Sponsoring Party certifying as to the applicant's technical competence and accepting liability for any damage that may result from such drilling;

(b) The application for such a permit is accompanied by a description of the location proposed for such holes, by seismograms and other pertinent information on the geology in the vicinity of the proposed drilling sites, and by a description of the equipment and procedures to be utilized;
The proposed drilling, including the methods and equipment to be utilized, complies with the requirements of this Convention and is judged by the Authority not to pose an uncontrollable hazard to human safety, property, and the environment;

(d) The proposed drilling is either not within an area already under an exploitation license or is not objected to by the holder of such a license;

(e) The applicant agrees to make available promptly the geologic information obtained from such drilling to the Authority and the public.

2. General License Procedures

2.1. An Authorizing or Sponsoring Party shall certify the operator's financial and technical competence and shall require the operator to conform to the rules, provisions and procedures specified under the terms of the license.

2.2. Each Authorizing or Sponsoring Party shall formulate procedures to ensure that applications for licenses are handled expeditiously and fairly.

2.3. Any Authorizing or Sponsoring Party which considers that it is unable to exercise appropriate supervision over operators authorized or sponsored by it in accordance with this Convention shall be permitted to authorize or sponsor operators only if their operations are supervised by the International Seabed Resource Authority pursuant to an agreement between the Authorizing or Sponsoring Party and the International Seabed Resource Authority. In such event fees and rentals normally payable to the International Seabed Resource Authority will be increased appropriately to offset its supervisory costs.

3. Exploration Licenses -- Procedures

3.1. All applications for exploration licenses and for their renewal shall be accompanied by a fee of from $500 to $1,500 as specified in an Annex and a description of the location of the general area to be investigated and the kinds of activities to be undertaken. A portion (a figure between 50% and 66-2/3%) will be inserted here of the fee shall be forwarded by the Authorizing or Sponsoring Party to the Authority together with a copy of the application.

3.2. The Authorizing or Sponsoring Party shall transmit to the Authority the description referred to in paragraph 3.1 and its assurance that the activities will not be harmful to the marine environment.

3.3. The Authorizing or Sponsoring Party may require the operator to pay and may retain, an additional license fee not to exceed $3,000, to help cover the administrative expenses of that Party.
3.6. Exploration licenses shall not be renewed in the event the operator has failed to conform his activities under the prior license to the provisions of this Convention or to the conditions of the license.

4. Exploitation Licenses -- Procedures

4.1. All applications for exploitation licenses shall be accompanied by a fee of from $5,000 to $15,000, per block, as specified in an Annex. A portion of a figure between 50% and 66-2/3% will be inserted here of the fee shall be forwarded by the Authorizing or Sponsoring Party to the Authority together with a copy of the application.

4.2. Pursuant to section 5 below, applications shall identify the category of minerals in the specific area for which a license is sought.

4.3. When a license is granted to an applicant for more than one block at the same time, only a single certificate need be issued.

4.4. The Authorizing or Sponsoring Party may require the operator to pay, and may retain, an additional license fee not to exceed $30,000, to help cover the administrative expenses of that Party.

4.5. The license fee described in paragraph 4.1 shall satisfy the first two years' rental fee.

5. Exploitation Rights -- Categories and Size of Blocks

5.1. Licenses to exploit shall be limited to one of the following categories of minerals:

(a) Fluids or minerals extracted in a fluid state, such as oil, gas, helium, nitrogen, carbon dioxide, water, geothermal energy, sulfur and saline minerals.

(b) Manganese-oxide nodules and other minerals at the surface of the seabed.

(c) Other minerals, including category (b) minerals that occur beneath the surface of the seabed and metalliferous muds.

5.2. An exploitation license shall be issued for a specific area of the seabed and subsoil vertically below it, hereinafter referred to as a "block". The methods for defining the boundaries of blocks, and of portions thereof, shall be specified in an Annex.

5.3. In the category described in paragraph 5.1(a) the block shall be approximately 500 square kilometres, which shall be reduced to a quarter of a block when production begins. Each exploitation license shall apply to not more than one
block, but exploitation licenses to a rectangle containing as many as 16 contiguous blocks may be taken out under a single certificate and reduced by three quarters to a number of blocks, a single block, or a portion of a single block when production begins. The relinquishment requirement shall not apply to licenses issued for areas of one quarter of a block or less.

5.4. In the category described in paragraph 5.1(b) the block shall be approximately 40,000 square kilometers, which shall be reduced to a quarter of a block when production begins. Each exploitation license shall apply to not more than one block, but exploitation licenses to a rectangle containing as many as four contiguous blocks may be taken out under a single certificate and reduced to a single block, or to a portion of a single block comprising one-fourth their total area, when production begins. The relinquishment requirement shall not apply to licenses issued for areas of one quarter of a block or less.

5.5. In the category described in paragraph 5.1(c) the block shall be approximately 500 square kilometers, which shall be reduced to one eighth of a block when production begins. Each license shall apply to not more than one block, but exploitation licenses to as many as 8 contiguous blocks may be taken out under a single certificate and reduced to a single block, or to a portion of a single block comprising one eighth their total area, when production begins. The relinquishment shall not apply to licenses issued for one-eighth of a block or less.

5.6. Applications for exploitation licenses may be for areas smaller than the maximum stated above.

5.7. Operators may at any time relinquish rights to all or part of the licensed area.

5.8. Commercial production shall be deemed to have commenced or to be maintained when the value at the site of minerals exploited is not less than $100,000 per annum. The required minimum and the method of ascertaining this value shall be determined by the Authority.

5.9. If the commercial production is not maintained, the exploitation license shall expire within five years of its cessation, but when production is interrupted or suspended for reasons beyond the operator’s control, the duration of the license shall be extended by a time equal to the period in which production has been suspended for reasons beyond the operator’s control.
6. Rental Fees and Work Requirements

Rental Fees

6.1. Prior to attaining commercial production the following annual rental fees shall be paid beginning in the third year after the license has been issued:
(a) $2 - $10 per square kilometer, as specified in an appropriate Annex, for the category of minerals described in paragraph 5.1(a); $2 - $10 per 100 square kilometers for the category of minerals described in paragraph 5.1(b) of Appendix A; $2 - $10 per square kilometer for the category of minerals described in paragraph 5.1(c).

6.2. The rates in paragraph 6.1 shall increase at the rate of 10% per annum, calculated on the original base rental fee, for the first ten years after the third year, and shall increase 20% per annum for the following two years, calculated on the original base rental fee.

6.3. After commercial production begins, the annual rental fee shall be $5,000-$25,000 per block, regardless of block size.

6.4. The rental fee shall be payable annually in advance to the Authorizing or Sponsoring Party which shall forward a portion (or a figure between 50% and 66-2/3%) of the fees to the Authority. The Authorizing or Sponsoring Party may require the operator to pay, and may retain, an additional rental fee, not to exceed an amount equal to the amount paid pursuant to paragraphs 6.1 - 6.3, to help cover the administration expenses of that Party.

Work Requirements

6.5. Prior to attaining commercial production, the operator shall deposit a work requirement fee or post a sufficient bond for that amount, for each license at the beginning of each year.

6.6. The minimum annual work requirement fee for each block shall increase in accordance with the following schedule:

<table>
<thead>
<tr>
<th>Para. 5.1(a) and (c) minerals</th>
<th>Para. 5.1(b) minerals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Years</strong></td>
<td><strong>Amount per annum</strong></td>
</tr>
<tr>
<td>1-5</td>
<td>$ 20,000</td>
</tr>
<tr>
<td>6-10</td>
<td>180,000</td>
</tr>
<tr>
<td>11-15</td>
<td>200,000</td>
</tr>
<tr>
<td>$ 2,000,000</td>
<td></td>
</tr>
</tbody>
</table>

The minimum annual work requirement for a portion of a block shall be an appropriate fraction of the above, to be specified in an Annex.
6.7. The work requirement fee shall be refunded to the operator upon receipt of proof by the Authorizing Party or Sponsoring Party that the amount equivalent to the fee has been expended in actual operations. Expenditures for on-land design or process research and equipment purchase or off-site construction cost directly related to the licensed block or group of blocks shall be considered to apply toward work requirements up to 75% of the amount required.

6.8. Expenditures in excess of the required amount for any given year shall be credited to the requirement for the subsequent year or years.

6.9. In the absence of satisfactory proof that the required expenditure has been made in accordance with the foregoing provisions of this section, the deposit will be forfeited.

6.10. If cumulative work requirement expenditures are not met at the end of the initial five-year period, the exploitation license shall be forfeited.

6.11. After commercial production begins the operator shall make an annual deposit of at least $100,000 at the beginning of each year; or shall post a sufficient bond for that amount, which shall be refunded in an amount equivalent to expenditures on or related to the block and the value of production at the site.

6.12. If production is suspended or delayed for reasons beyond the operator's control, the operator shall not be required to make the deposit or post the bond required in subparagraph 6.11.

7. Submission of Work Plans and Data Under Exploitation Licenses Prior to Commencement of Commercial Production

7.1. Exploitation license applications shall be accompanied by a general description of the work to be done and the equipment and methods to be used. The licensee shall submit subsequent changes in his work plan to the Sponsoring or Authorizing Party for review.

7.2. The licensee shall furnish reports at specified intervals to the Authorizing or Sponsoring Party supplying proof that he has fulfilled the specified work requirements. Copies of such reports shall be forwarded to the Authority.

7.3. The licensee shall maintain records of drill logs, geophysical data and other data acquired in the area to which his license refers, and shall provide access to them to the Authorizing or Sponsoring Party on request.

7.4. At intervals of five years, or when he relinquishes his rights to all or part of the area or when he submits a production plan as described in Section 8, the operator shall transmit to the Authorizing or Sponsoring Party such maps, seismic
sections, logs, assays, or reports as are specified in an Annex to this Convention. The Authorizing or Sponsoring Party shall hold such data in confidence for ten years after receipt, but shall make the data available on request to the Authority for its confidential use in the inspection of operations.

7.5. The data referred to in paragraph 7.4 shall be transmitted to the Authority ten years after receipt by the Authorizing or Sponsoring Party, and made available by the Authority for public inspection. Such data shall be transmitted to the Authority immediately upon revocation of a license.

8. Production Plan and Producing Operations

8.1. Prior to beginning commercial production the licensee shall submit a production plan to the Authorizing or Sponsoring Party and through such Party to the Authority.

8.2. The Authorizing or Sponsoring Party and the Authority shall require such modifications in the plan as may be necessary for it to meet the requirements of this Convention.

8.3. Any change in the licensee's production plan shall be submitted to the Authorizing or Sponsoring Party and through such Party to the Authority for their review and approval.

8.4. Not later than three months after the end of each year from the issuance of the license the licensee shall transmit to the Authorizing of Sponsoring Party for forwarding to the Authority production reports and such other data as may be specified in an Annex to this Convention.

8.5. The operator shall maintain geologic, geophysical and engineering records and shall provide access to them to the Authorizing or Sponsoring Party on its request. In addition, the operator shall submit annually such maps, sections, and summary reports as are specified in Annexes to this Convention.

8.6. The Sponsoring or Authorizing Party shall hold such maps and reports in confidence for ten years from the time received but shall make them available on request to the Authority for its confidential use in the inspection of operations.

8.7. Such maps and reports shall be transmitted to the Authority and shall be made available by it for public inspection not later than ten years after receipt by the Sponsoring or Authorizing Party.

9. Unit Operations

9.1. Accumulations of fluids and other minerals that can be made to migrate from one block to another and that would be most rationally mined by an operation
under the control of a single operator but that lie astride the boundary of adjacent blocks licensed to different operators shall be brought into uniform management and production.

9.2. With respect to deposits lying astride the seaward boundary of the International Trusteeship Area, the Operations Commission shall assure unit management and production, giving the Trustee and Sponsoring Parties and their licensees a reasonable time to reach agreement on an operation plan.

10. Payments on Production

10.1. When commercial production begins under an exploitation license, the operator shall pay a cash production bonus of $500,000 to $2,000,000 per block, as specified in an Annex to this Convention, to the Authorizing or Sponsoring Party.

10.2. Thereafter, the operator shall make payments to the Authorizing or Sponsoring Party which are proportional to production, in the nature of total payments ordinarily made to governments under similar conditions. Such payments shall be equivalent to 5 to 40 per cent of the gross value at the site of oil and gas, and 2 to 20 per cent of the gross value at the site of other minerals, as specified in an Annex to this Convention. The total annual payment shall not be less than the annual rental fee under paragraph 6.3.

10.3. The Sponsoring Party shall forward all payments under this section to the Authority. The Authorizing Party shall forward a portion of the figure between 50% and 66-2/3% will be inserted here of such payments to the Authority.

11. Graduation of Payments According to Environment and Other Factors

11.1. The levels of payments and work requirements, as well as the rates at which such payments and work requirements escalate over time, may be graduated to take account of probable risk and cost fo the investor, including such factors as water depth, climate, volume of production, proximity to existing production, and other factors affecting the economic rent that can reasonably be anticipated from mineral production in a given area.

11.2. Any graduated levels and rates shall be described and categorized in an Annex in such a way as to affect all licensees in each category equally and not to discriminate against or favor individual Parties or groups of Parties, or their nationals.

11.3. Any increases in such levels of payments or requirements shall apply only to new licenses or renewals and not to those already in force.
12. Liability

12.1. The operator and his Authorizing or Sponsoring Party, as appropriate, shall be liable for damage to other users of the marine environment and for clean-up and restoration costs of damage to the land environment.

12.2. The Authorizing or Sponsoring Party, as appropriate, shall require operators to subscribe to an insurance plan or provide other means of guaranteeing responsibility, adequate to cover the liability described in paragraph __________.

(Note: More detailed provisions on liability should be included.)

13. Revocation

13.1. In the event of revocation pursuant to Article 52 of this Convention, there shall be no reimbursement for any expense incurred by the licensee prior to the revocation. The licensee shall, however, have the right to recover installations or equipment within six months of the date of the revocation of his license. Any installations or devices not removed by that time shall be removed and disposed of by the Authority, or the Authorizing or Sponsoring Party, at the expense of the licensee.

14. International Fees and Payments

14.1. The Authority shall specify the intervals at which fees and other payments collected by an Authorizing or Sponsoring Party shall be transmitted.

14.2. No Contracting Party shall impose or collect any tax, direct or indirect, on fees and other payments to the Authority.

14.3. All fees and payments required under this Convention shall be those in force at the time a license was issued or renewed.

14.4. All fees and payments to the Authority shall be transmitted in convertible currency.
APPENDIX B

TERMS AND PROCEDURES APPLYING TO LICENSEES IN THE INTERNATIONAL SEALED AREA BEYOND THE INTERNATIONAL TRUSTEESHIP AREA

1. Entities Entitled to Obtain Licenses

1.1. Contracting Parties or a group of Contracting Parties, one of which shall act as the operating or sponsoring Party for purposes of fixing operational or supervisory responsibility, are authorized to apply for and obtain exploration and exploitation licenses. Any Contracting Party or group of Contracting Parties, which applies for a license to engage directly in exploration or exploitation, shall designate a specific agency to act as operator on its behalf for the purposes of this Convention.

1.2. Natural or juridical persons are authorized to apply for and obtain exploration and exploitation licenses from the International Sealed Resource Authority if they are sponsored by a Contracting Party.

2. Exploration Licenses — Procedures

2.1. Licenses shall be issued promptly by the Authority through the Sponsoring Party to applicants meeting the requirements specified in Appendix A.

3. Exploitation Licenses — Procedures

3.1. The Sponsoring Party shall certify as to the technical and financial competence of the operator, and shall transmit the operator's work plan.

3.2. An application for an exploitation license shall be preceded by a notice of intent to apply for a license submitted by the operator to the Authority and the prospective Sponsoring Party. Such a notice of intent, when accompanied by evidence of the deposit of the license fee referred to in paragraph 4.1 of Appendix A, shall reserve the block for one hundred and eighty days. Notices of intent may not be renewed.

3.3. Notices of intent shall be submitted sealed to the Authority and opened at monthly intervals at previously announced times.

3.4. Subject to the compliance with these procedures, if only one notice of intent has been received for a particular block, the applicant shall be granted a license, except as provided in paragraphs 3.6. - 3.8.

3.5. If more than one notice of intent to apply for a license for the same block or portion thereof is received at the same opening, the Authority shall notify the applicants and their Sponsoring Parties that the exploitation license to the block or portion thereof will be sold to the highest bidder at a sale to be held one hundred and eighty days later, under the following terms:
(a) The bidding shall be on a cash bonus basis and the minimum bid shall be twice the license fee;
(b) Bids shall be sealed;
(c) The bidding shall be limited to such of the original applicants whose applications have been received in the interim from their sponsoring Parties;
(d) Bids shall be announced publicly by the Authority when they are opened. In the event of a tie, the tie bidders shall submit a second sealed bid to be opened 28 days later;
(e) The final award shall be announced publicly by the Authority within seven days after the bids have been opened.

2.6. In the event of the termination, forfeiture, or revocation of an exploitation license to a block, or relinquishment of a part of a block, the block or portion thereof will be offered for sale by sealed competitive bidding on a cash bonus basis in addition to the current license fee. The following provisions shall apply to such a sale:
(a) The availability of such a block, or portion thereof, for bidding shall be publicly announced by the Authority as soon as possible after it becomes available, and a sale following the above procedures shall be held within one hundred and eighty days after a request for an exploitation license on the block has been received;
(b) The bidding shall be open to all sponsored operators, including, except in the case of revocation, the operator who previously held the exploitation license to the block or to the available portion thereof;
(c) If the winning bid is submitted by an operator who previously held the exploitation right to the same block, or to the same portion thereof, the work requirement will begin at the level that would have applied if the operator had continuously held the block.

2.7. Blocks, or portions thereof, contiguous to a block on which production has begun shall also be sold by sealed competitive bidding under the terms specified in paragraph 3.6.

2.8. Blocks, or separate portions thereof, from which hydrocarbons or other fluids are being drained, or are believed to be drained, by production from another block shall be offered for sale by sealed competitive bidding under the terms specified in paragraph 3.7, at the initiative of the Authority.
2.2. Geologic and other data concerning blocks or portions thereof open for bidding pursuant to paragraphs 3.6 - 3.8, which are no longer confidential shall be made available to the public prior to the bidding date. Data on blocks, or separate portions thereof, for which the license has been revoked for violations shall be made available to the public within 30 days after revocation.

2.3. Exploitation licenses shall only be transferable with the approval of the Sponsoring Party and the Authority, provided that the transferee meets the requirements of this Convention, is sponsored by a Contracting Party, and a transfer fee is paid to the Authority in the amount of $250,000. This fee shall not apply in transfers between parts of the same operating enterprise.

4. Duration of Exploitation Licenses

4.1. If commercial production has been achieved within fifteen years after the license has been issued, the exploitation license shall be extended automatically for twenty additional years from the date commercial production has commenced.

4.2. At the completion of the twenty-year production period referred to in paragraph 4.1, the operator with the approval of the Sponsoring Party shall have the option to renew his license for another twenty years at the rental fees and payment rates in effect at the time of renewal.

4.2. At the end of the forty-year term, or earlier if the license is voluntarily relinquished or expires, pursuant to paragraph 5.9 of Appendix A, the block or blocks, or separate portions of blocks, to which the license applied shall be offered for sale by competitive bidding on a cash bonus basis. The previous licensee shall have no preferential right to such block, or separate portion thereof.

5. Work Requirements

5.1. The annual work requirement fee per block shall be specified in an Annex in accordance with the following schedule:

<table>
<thead>
<tr>
<th>Paragraph 5.1(a) and (c) minerals</th>
<th>Paragraph 5.1(b) minerals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Years</strong></td>
<td><strong>Amount per annum</strong></td>
</tr>
<tr>
<td>1-5</td>
<td>$20,000 - 60,000</td>
</tr>
<tr>
<td>6-10</td>
<td>120,000 - 340,000</td>
</tr>
<tr>
<td>11-15</td>
<td>200,000 - 600,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$2,000,000 - 6,000,000</td>
</tr>
</tbody>
</table>

The minimum annual work requirement for a portion of a block shall be an appropriate fraction of the above, to be specified in an Annex.
5.2. Work expenditures with respect to one or more blocks may be considered as meeting the aggregate work requirements on a group of blocks originally licensed in the same year, to the same operator, in the same category, provided that the number of such blocks shall not exceed sixteen in the case of category 5.1(a) of Appendix A; four in the case of category 5.1(b) and eight in the case of category 5.1(c).

5.3. Should the aggregate work requirement expenditure of $2,000,000 to $6,000,000 be spent prior to the end of the thirteenth year, an additional work requirement of $25,000 - $50,000 as specified in an Annex, shall be met until commercial production begins or until the expiration of the fifteen-year period.

5.4. After commercial production begins the operator shall at the beginning of each year, deposit $100,000 to $200,000 as specified in an Annex, or with the Sponsoring Party post a bond for that amount. Such deposit or bond shall be returned in an amount equivalent to expenditures on or related to the block and the value of production at the site. A portion [a figure between 50% and 66-2/3% will be inserted here] of any funds not returned shall be transmitted to the Authority.

6. Unit Management

The Operations Commission shall assure unit management and production pursuant to Section 9 of Appendix A, giving the licensees and their Sponsoring Parties a reasonable time to reach agreement on a plan for unit operation.