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Legal Protection of Overseas Petroleum Cooperation and Development in the Context of the "Belt and Road"

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Abstract. The in-depth promotion of the Belt and Road Initiative provides a historic opportunity for oil cooperation and development between China and the Middle East. This paper systematically examines the legal environment characteristics of major resource-rich countries in the Middle East, deeply analyzes the institutional, compliance and remedial risks faced by China's petroleum cooperation, and evaluates the effectiveness of the existing multiple protection mechanisms. The study finds that the legal environment of Middle East oil cooperation shows deep differences on a common basis, and there is a structural imbalance between "hard law" and "soft law" in the current protection mechanism. Based on this, this paper proposes to construct a dynamic adaptive protection framework that runs through the whole investment process, integrates treaty empowerment, contract foundation building, and relationship stability maintenance, and puts forward differentiated strategies and institutional innovation suggestions for different countries. This study is helpful to enrich the legal guarantee theory of energy cooperation along the Belt and Road and provide a decision-making reference for Chinese enterprises to improve the risk prevention and control capabilities of Middle East oil cooperation and for government departments to improve the legal support system for overseas energy cooperation.

Keywords: Overseas petroleum cooperation, legal protection, Belt and Road

1. Introduction

The Belt and Road Initiative is proposed by China to promote new types of international cooperation and global connectivity, providing a historic opportunity for deepening international energy cooperation, especially the development of overseas oil and gas resources. As one of the world's most important strategic resources, oil is directly related to the energy security and economic development of various countries. However, overseas oil cooperation and development have the characteristics of huge investment amount, long cycle, complex technology and strong asset exclusivity, and the success of cooperation is highly dependent on a stable and predictable legal and policy environment. Although the Middle East region has superior resource endowments, there are significant differences in legal systems, investment access, contract models, sovereign guarantees, tax policies, environmental standards, labor rules, and dispute settlement mechanisms in various countries. At present, most of the existing research focuses on energy strategy, economic cooperation, or geopolitical analysis, and the results of focused and systematic legal protection

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research on the development of oil cooperation in the Middle East from the perspective of law, especially in combination with the new paradigm of "Belt and Road" cooperation, are not sufficient [1, 2].

In this context, this paper aims to analyze the main legal risks faced by China in oil cooperation and development in the Middle East based on the basic principles and goals of the "Belt and Road" cooperation and co-construction, and to deeply analyze the main legal risks faced by China in oil cooperation and development in the region, systematically evaluate the effectiveness and limitations of the existing international law and domestic law protection mechanisms, and put forward targeted suggestions for improving the legal risk prevention and control and rights protection system based on international practice and Chinese experience. In order to provide valuable academic references and decision-making basis for deepening the rule of law cooperation in the energy sector of the "Belt and Road" initiative, and to help achieve long-term, stable, and sustainable development of overseas energy cooperation.

2. Literature review

Existing literature mainly revolves around three levels. Firstly, at the level of international law and bilateral agreements, scholars generally focus on the protective effectiveness of international investment agreements on energy investments. Studies indicate that these agreements provide fundamental legal protection for Chinese investors, but there are differences in the interpretation of these clauses, and their enforceability is also subject to the host country's sovereign actions and international political dynamics [3]. Secondly, at the level of host country domestic law, research focuses on analyzing the oil and gas laws, foreign investment laws, tax regulations, and environmental protection regulations of major resource countries in the Middle East. The consensus is that the laws of each country differ significantly in terms of resource sovereignty, contract models, and localization requirements, and frequent amendments and ambiguous interpretations constitute major sources of compliance and policy risks. Lastly, existing literature emphasizes mitigating risks through contract design, investment insurance, and corporate governance structures. Some studies combine case analyses to examine the practical effects of specific contract clauses in responding to political turbulence [4].

Although progress has been made, core disputes and gaps remain prominent. One school of thought advocates concluding tighter bilateral or multilateral treaties and relying on international arbitration; another school believes that within the context of Arab legal culture, building long-term trust and political mutual trust through the "Belt and Road" cooperation framework is more effective than purely legal clauses. Secondly, most existing research lacks studies that systematically integrate the "Belt and Road" initiative with China's overseas investment protection legal system. Literature often focuses on traditional war risks, while indirect expropriation actions by host countries using environmental or labor standards, as well as secondary legal risks triggered by extraterritorial sanctions such as those imposed by the United States on Iran, are rarely analyzed from the perspective of Chinese investors in a practical strategic manner [5].

In summary, existing research clarifies the legal risks and basic protection tools in Middle East oil cooperation, but gaps remain in systematic and advanced risk response. Therefore, future research needs to explore how to construct a trinity of "treaty-contract relationship" dynamic adaptive protection framework under the principle of joint consultation and construction of the "Belt and Road" initiative.

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3. Review of the legal environment of Middle East oil cooperation and development

The legal sources in the Middle East present diverse and composite characteristics, with Islamic law, civil law, and common law systems intermingling to form the legal foundation for oil cooperation and development. Islamic law is the spiritual underpinning of the Middle Eastern legal system and has a profound influence on oil legislation. In terms of resource allocation, Islamic law emphasizes that resources belong to all people, with the state acting as a trustee, a concept directly incorporated into the constitutions and oil laws of various countries [6]. For example, Article 44 of the Iranian Constitution stipulates that oil resources are state-owned and prohibits wholly foreign-owned control. In contract ethics, the principle of "prohibition of interest" constrains financial arrangements; Iranian Petroleum Contracts (IPC) must avoid interest clauses through service fees and profit-sharing, while principles of honesty, good faith, and fair dealing also deeply influence contract interpretation and performance supervision [7].

The principle of resource sovereignty is the fundamental institutional constraint of Middle East oil cooperation. After the wave of nationalization in the 1970s, this principle was established in the legislation of various countries, emphasizing that the state enjoys permanent sovereignty over natural resources within its territory. Iran, Iraq, and Saudi Arabia all explicitly state in their constitutions or petroleum laws that oil resources are owned by the state. Foreign investors can only participate in a limited way through concession agreements, joint ventures, service contracts, etc., and cannot acquire ownership or controlling rights. These countries have established ministries of petroleum or national oil companies to strictly approve the entire process of exploration, extraction, and sales. This system ensures that the host country always controls the resources, while foreign investors remain in a subordinate position, which is also the basic premise for identifying legal risks and designing protection strategies [8].

4. Analysis of major legal risks in overseas oil cooperation

4.1. Institutional risks

Institutional risk refers to the type of risk in which foreign investors' legitimate rights and interests are damaged due to changes in the host country's legal system or policy adjustments, among which nationalization and expropriation risks, as well as contract stability risks, are most prominent. Venezuela once implemented full nationalization of foreign oil companies, forcibly reclaiming oilfield interests held by foreign capital, triggering large-scale international arbitration. Although the Middle East has not experienced a large-scale wave of nationalization, some countries have achieved de facto expropriation through legal revisions, which is also worth caution. Iraq revised tax provisions in oil contracts in 2009, imposing a minimum corporate tax of 35% on foreign oil companies, effectively reducing contract expected returns; Iran adjusted the settlement exchange rate for buyback contracts in 2018, causing foreign companies to face exchange losses. Such actions that indirectly alter contract returns through legal amendments, though not depriving ownership, essentially constitute indirect or gradual expropriation.

Contract stability risk originates from the retroactive effect of the host country's legal amendments. Oil contracts typically span 20-30 years, during which the host country may revise tax law, environmental law, or labor law. If the new law is retroactive or imposes additional obligations on existing contracts, it will seriously affect the economic expectations of the contracts. Iraq has revised tax and export duty clauses in oil contracts multiple times, increasing the tax burden on foreign enterprises and squeezing profit margins. After the Islamic Revolution, Iran abolished all

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petroleum concessions signed by the previous government, constituting a typical case of contract stability risk. To address this issue, international oil contracts generally include stabilization clauses stipulating that changes in the host country's laws during the contract period do not apply to existing contracts, or that the host country compensates investors for losses. However, the effectiveness of stabilization clauses depends on the host country's respect for international arbitration awards. In practice, host countries often claim that stabilization clauses violate domestic constitutions based on public policy and national sovereignty, exposing the contract's stability to legal challenges.

4.2. Compliance risk

Compliance risk refers to the risk of penalties for enterprises violating laws and regulations on anti-corruption, international sanctions, environmental protection, labor standards, and other legal norms in investment operations. Anti-corruption compliance risk is particularly prominent in the Middle East. Some Middle Eastern countries have relatively severe corruption issues, and their rankings in Transparency International's Corruption Perceptions Index have long been at a low level. Many aspects of oil cooperation may involve frequent interactions with government officials, making Chinese enterprises prone to compliance traps. What is even more complicated is that extraterritorial laws such as the U.S. Foreign Corrupt Practices Act (FCPA) have long-arm jurisdiction, meaning that even if bribery occurs in the Middle East, as long as it involves U.S. dollar settlements or participation of U.S. companies, the U.S. Department of Justice can initiate investigations against Chinese enterprises. When cooperating in the Middle East, companies need to establish a strict compliance review mechanism, implement full-process control at all stages, and prevent the risk of violating anti-corruption laws.

International sanctions risk is another major compliance challenge in the Middle East oil cooperation. U.S. secondary sanctions on Iran have typical extraterritorial effect, meaning that any company trading with Iran's oil sector, as long as it uses U.S. dollar settlements or has links to the U.S. financial system, may be included on the sanctions list, facing consequences such as asset freezes, prohibition on U.S. dollar settlements, and restrictions on access to the U.S. market [9]. When Chinese enterprises cooperate with Iranian oil companies, theoretically, settling in RMB can avoid the risk of U.S. dollar settlements, but they still face liability under U.S. secondary sanctions related to Iran. In recent years, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) has imposed sanctions multiple times on Chinese enterprises involved in Iranian business, freezing their assets in the U.S [10]. In response to this risk, companies need to establish a sanctions compliance system, conduct comprehensive screening of trading partners, transaction targets, and settlement methods, and if necessary, build a legal firewall to isolate sanctions risk by setting up offshore special purpose companies or using non-U.S. dollar settlements.

4.3. Legal transformation of geopolitical and security risks

Geopolitical and security risks are not legal risks in themselves, but they can transform into legal risks such as contract invalidity, asset damage, and inability to obtain remedies through events like regime changes and armed conflicts. The impact of regime change on the validity of existing contracts has typical cases in the Middle East. After the 2011 regime change in Egypt, the new government attempted to renegotiate or annul contracts signed by the previous government with foreign oil companies, claiming that "contracts signed by the former government harmed national interests" [11]. Although some contractual validity was preserved through diplomatic negotiation and international arbitration mechanisms, contract performance was interrupted, and renegotiation

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took several years, causing significant losses to investors. Similar risks are common in politically transitioning countries in the Middle East. When a new government comes to power, it may review contracts signed by the previous government under various pretexts, requiring investors to relinquish benefits or modify key terms. This cyclical political risk to contract stability cannot be completely avoided through contract clauses and requires protection under the "umbrella clauses" in bilateral investment treaties as well as sustained diplomatic support.

The legal protection vacuum during armed conflicts is a unique challenge in high-risk Middle Eastern countries. During the Yemeni civil war, Chinese oil projects were forced to completely suspend operations due to the conflict [12]. After Chinese personnel were evacuated, oilfield facilities and equipment faced the risk of destruction. In an armed conflict environment, the host country's judicial system is paralyzed, and investors cannot assert property rights through local courts or international arbitration mechanisms, relying only on war-risk insurance from multilateral investment guarantee agencies (MIGA) or China Export & Credit Insurance Corporation (Sinosure) for claims. However, insurance claim assessment standards are complex and the payout cycles are long. The more fundamental difficulty lies in the fact that armed conflicts themselves may alter national borders and the nature of regimes, rendering existing international investment agreements ineffective, creating a 'legal vacuum' in terms of protection. To address such risks, in-depth geopolitical risk assessments must be conducted before investing, higher risk premiums should be set for high-risk countries, and preference should be given to cooperation with countries that are politically stable and have relatively sound legal systems.

5. Recommendations for improving the legal protection system for the Middle East oil cooperation

5.1. Categorized protection strategy based on national differences

There are significant differences among Middle Eastern countries in political stability, level of legal development, and exposure to sanctions risk, so legal protection strategies must be tailored and differentiated. For countries like Saudi Arabia and the UAE, which are politically stable and have relatively sound legal systems, the focus should be on meticulous compliance management and protection under investment agreements. Chinese enterprises should establish a detailed compliance management system, focusing on preventing compliance risks in areas such as anti-corruption, environmental protection, and labor. During the contract negotiation phase, efforts should be made to include the fair and equitable treatment clauses and umbrella clauses from the "China-Saudi Arabia Bilateral Investment Agreement" and the "China-UAE Bilateral Investment Agreement" in contracts, clearly stipulating that changes in host country laws do not affect contract stability. In case of disputes, priority should be given to initiating international arbitration under bilateral investment agreements, using the procedural conveniences and substantive protection provisions of the agreements to safeguard interests.

For high-risk countries like Iraq, a tiered contract structure and a multilateral investment guarantee strategy should be adopted. It is recommended to use a tiered contract structure: distinguish between core clauses and ancillary clauses, with core clauses such as taxes, dividends, and stability terms being governed by international law or the law of a third country (e.g., Swiss law or British law), and explicitly stipulate submission to international arbitration for dispute resolution; ancillary clauses such as localization requirements and environmental standards should adapt to changes in host country laws. This layered design protects core commercial interests from being affected by changes in host country laws while allowing flexibility in ancillary clauses, thereby

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reducing negotiation obstacles. At the same time, priority should be given to using multilateral investment guarantee agencies (MIGA) or Sinosure's political risk insurance to transfer risks such as expropriation, war, and foreign exchange restrictions to professional insurers.

For countries like Iran under international sanctions, enterprises should establish compliance review and risk isolation mechanisms to effectively prevent secondary U.S. sanctions risks. Chinese enterprises involved in Iranian business face risks such as financial sanctions and asset freezes. Countermeasures include: establishing offshore special purpose vehicles (SPVs) as cooperative entities to isolate sanctions risk through multi-tiered equity structures; using non-U.S. dollar settlement methods (e.g., RMB, Euro, digital currencies) to avoid fund flows through the U.S. financial system; and establishing an independent sanctions compliance review team to dynamically screen counterparties and transaction targets.

5.2. Institutional innovation: from passive defense to active shaping

In response to the complex legal environment in the Middle East, reliance solely on passive defense is insufficient; institutional innovation is needed to shift from risk response to environment shaping. Promoting the establishment of regional investment dispute prevention and mediation centers under the "Belt and Road" framework is an important direction for institutional innovation. The specific establishment path includes: relying on the "Belt and Road" international commercial dispute resolution mechanism, cooperating with judicial and arbitration institutions of Middle Eastern countries, and setting up branch centers in Dubai or Abu Dhabi to specifically handle disputes in oil cooperation. Before disputes arise, services such as contract review and compliance guidance are provided to resolve conflicts at the nascent stage; after disputes occur, fast and low-cost mediation procedures are offered to avoid directly entering confrontational international arbitration. The mediation center can establish a linkage mechanism between mediation and arbitration, which can not only reduce the cost for investors to protect their rights but also safeguard the host country's judicial sovereignty, achieving a win-win situation. Assisting host countries in enhancing legal certainty through the building of rule-of-law capabilities is a fundamental way to optimize the legal environment from the source.

Specific measures include leveraging the Gulf Cooperation Council (GCC) platform for legal training aimed at judicial personnel and legislative officials of Middle Eastern countries, introducing best practices in international investment law, energy contracts, international arbitration, and other fields; signing judicial cooperation agreements with major resource countries in the Middle East. Through building rule-of-law capacity, host countries can improve oil legislation and enhance the predictability and stability of the law. Activating strategic countermeasure functions is the last line of defense against unfair treatment.

Against unreasonable nationalization or expropriation acts by host countries, multi-level countermeasures can be taken. At the legal level, fully utilize the retaliatory provisions in bilateral investment treaties to initiate countermeasure procedures against actions that violate agreements and infringe on investors' rights. At the diplomatic level, coordinate solutions through diplomatic channels and, if necessary, bring dispute issues into bilateral high-level dialogue agendas, using diplomatic resources to safeguard the legitimate rights and interests of enterprises. At the national level, domestic legal tools such as the "Anti-Foreign Sanctions Law" can be explored to take reciprocal measures against countries implementing unreasonable expropriation or infringing China's overseas investment rights, creating a fairer and more orderly international legal environment for overseas cooperation along the "Belt and Road."

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6. Conclusion

The research finds that the legal environment for Middle Eastern oil cooperation presents deep differences based on common foundations: countries vary significantly in oil contract models, foreign investment access barriers, judicial independence, and acceptance of international arbitration, as evidenced by Saudi legal reforms, Iran's IPC contract arrangements, and the autonomous legislation of the Kurdish region in Iraq. More importantly, the existing legal protection mechanisms are structurally imbalanced—over-reliance on "hard law" paths such as bilateral investment treaties and international arbitration not only faces issues like abstract clauses and difficult enforcement of rulings but also easily triggers host country sovereignty backlash; while relying solely on "soft law" paths such as political trust is insufficient to address external shocks such as regime changes, policy rollbacks, and international sanctions. Although China's foreign-related legal system provides new tools for protecting overseas interests, its actual effectiveness will be significantly reduced if there is a conflict with the host country's laws without clear bilateral agreement linkage. Based on this, this paper believes that transcending the binary opposition of "hard law" and "soft law" and constructing a dynamic adaptive protection framework that runs through the entire investment process, integrates treaty empowerment, builds contracts as a foundation, and maintains relationships is a practical choice to cope with the complex legal environment in the Middle East.

Due to objective constraints, this study has certain limitations: access to legislative texts and model contracts from some Middle Eastern countries is limited, and the research primarily relies on secondary literature; the region's geopolitical situation is continuously changing, so the temporal snapshot captured in the study may not fully reflect the latest policy adjustments; and the depth of interdisciplinary integration still needs to be strengthened.

Based on these conclusions, this paper proposes the following recommendations: the academic community should promote the development of country-specific legal studies in the region, strengthen detailed research on the legal systems of Middle Eastern countries, and advance the theoretical construction of the interaction mechanisms between 'hard law' and 'soft law'; practitioners should establish a legal risk prevention and control system covering the entire project lifecycle, conduct thorough country-specific due diligence in the early investment stage, strengthen compliance management during the mid-investment stage, and effectively utilize insurance tools and diplomatic coordination in the post-investment stage; policymakers should promote the establishment of a China-Middle East Investment Dispute Prevention and Mediation Center, accelerate negotiations to upgrade bilateral investment agreements, and assist host countries in enhancing legal certainty through rule-of-law capacity-building cooperation, achieving a strategic shift from passive risk defense to active environment shaping, thereby providing robust legal protection for Belt and Road overseas oil cooperation.

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