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SEMINAR ON THE NEW HYDROCARBON LAW

VIEWS AND PROPOSALS FOR IMPROVING THE DRAFT PETROLEUM LAW

by

Tariq Shafiq and Farouk Al-Kasim

GENERAL COMMENTS

1. Is the law necessary? The answer is Yes. But only if the law could unify efforts towards serving the common interest of the nation.
2. The draft should be reviewed by prominent Iraqi and international lawyers to remove loopholes and improve clarity in text.
3. The term "in all parts of the Iraqi Republic" in Article 2 on Scope is unnecessarily restrictive especially as it seems to preclude application of the law to the management of pipelines and unitised fields outside Iraq. International practice allows such application as long as it is permitted by a bilateral treaty. It is therefore proposed to amend Article 2 A so that the Law "applies to all activities related to Petroleum Operations related to Petroleum resources that are subject to Iraqi jurisdiction".
4. It is proposed to refer large Exploration and Production Contracts to the Representatives Council for approval. Will revert to this later.
5. To secure the best operators, it is proposed that the final approval of Operators is left to the Federal Oil and Gas Council (FOGC).

THE NECESSITY FOR PETROLEUM REGULATIONS

- 1. It is considered necessary to prepare Petroleum Regulations parallel with, or before preparing model contracts.**
- 2. Such regulations must contain all general requirements on petroleum operations so as to avoid them being the subject of negotiations from contract to contract.**
- 3. The early issue of regulations will improve efficiency and speed in negotiations. It will also enhance national supervision of operations and ensure harmonious implementation.**

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REPRESENTATIVES COUNCIL

1. As mentioned earlier, it is proposed that the Representatives Council sets a suitable limit for Major Contracts which has to be approved by it.
2. It is therefore proposed to amend Article 5.B.1 as follows:
"The Council of Ministers shall recommend to the Council of Representatives proposals on laws concerning the development of Iraqi oil and gas resources as well as Exploration and Production contracts where the unrisks size of the resources in the underground exceeds 1200 mill.bbl in STOIP or where the total envisaged investment exceeds \$600 mill.

FEDERAL OIL AND GAS COUNCIL

1. There must not be any doubt that the Council has the right to "review and amend" all contracts except those that must be referred to the Representatives Council.
2. It is proposed that decisions are reached by 50% majority instead of the proposed two thirds majority.
3. In its current composition the Council has unfortunately lost its ability to reach decisions quickly. Its composition should be reconsidered to restore it as an executive authority capable of reaching decisions when required.
4. It is recommended that the Council relies on studies and professional recommendations that are prepared by the Federal Ministry of Oil in consultation and co-operation with the Provinces and the Governorates. It is therefore proposed to avoid the creation of entities within the Council that would either weaken or duplicate the tasks of the Ministry.

FEDERAL OIL AND GAS COUNCIL

5. The objective of the Panel of Independent Advisors is to ensure professionalism, objectivity and transparency. It is proposed that the Panel consists of 9 members so as to include all essential professional disciplines.
6. It is proposed to select the Panel by a simple majority of 50% instead of by unanimous vote. It is also proposed that the Council is given the right to comment on what it considers important to public interest and to submit an annual report to ensure transparency and accountability.

The Iraqi National Oil Company

- Appendix 3 contains 26 fields that have been omitted from those ear-marked to INOC. The intention has been and still is to initially ear-mark all discovered fields to INOC.

DEVELOPMENT AND EXPLORATION PRIORITIES

- 1. First priority goes to rehabilitation of the petroleum infrastructure and to increasing production in an optimal manner.**
- 2. The discovered reserves of 115 bill.bbls is sufficient to sustain production at 10 mill.bbl/day for few decades.**
- 3. Exploration is therefore a secondary priority which must be pursued prudently and without haste. Plans for exploration must be established aiming at gradually improving the geological assessment of prospects. Thereafter, the drilling of few wildcat wells will further enhance the assessment as well as pave the way for replenishing reserves to offset production.**
- 4. It should be borne in mind that the ability to assess resources ahead of licensing is fundamental to reaching the best terms in contracts.**

ARTICLE 9 : GRANT OF RIGHTS

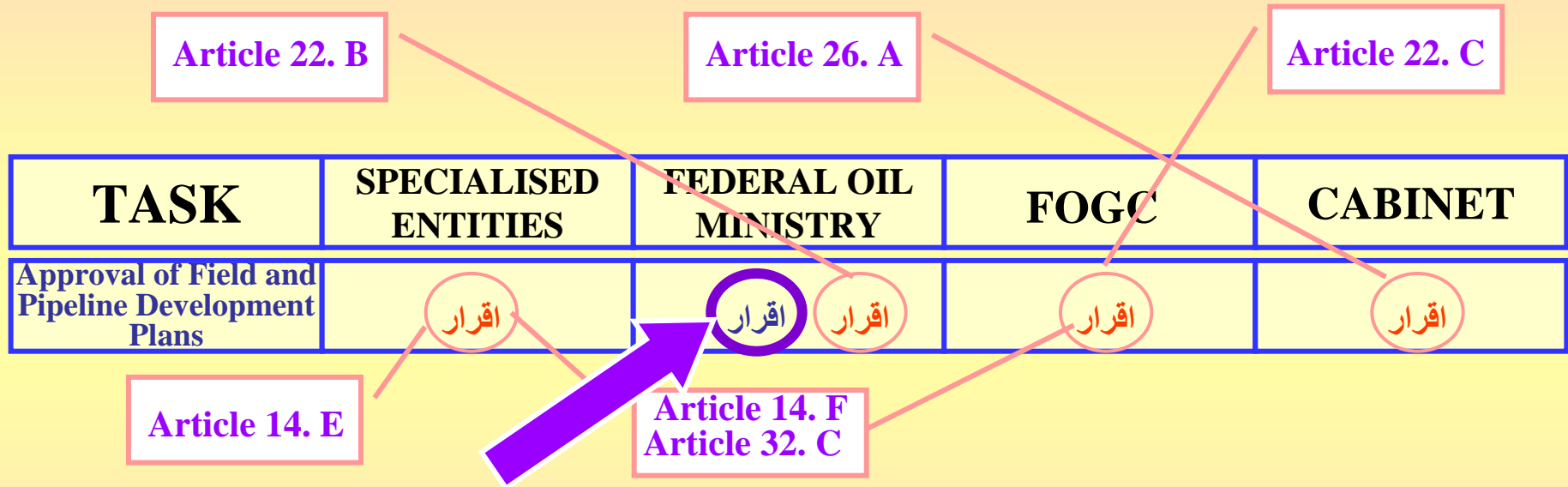
1. Pre-qualification of applicants should be entrusted to the Federal Ministry of Oil in order to ensure professional quality and uniform approach.
2. It is proposed to add the following two sentences to Article 9. B. Sixth:
” Any Person undertaking Petroleum activities pursuant to an award or assignment of Petroleum rights, or a contract pursuant to such rights under this law, shall be incorporated or registered in, and manage such interests from, a jurisdiction fully transparent to Iraqi authorities. Third party financing shall be subject to approval by the Ministry [possibly the Federal Oil and Gas Council].”
3. It is also proposed to look seriously into including the following
"The Ministry may require that Persons obtaining Petroleum rights pursuant to this law should be organized and staffed with personnel located in Iraq who are competent and authorized to independently manage all Petroleum rights obtained pursuant to the law for conducting Petroleum Operations.”

GRANT OF RIGHTS

4. In order to evaluate offers by oil companies accurately, it is proposed to add the following text to the end of Article 9 B Eight: "supported by realistic and accurate cash flow calculations on profitability".
5. Consortia shall take the form of unincorporated joint venture:
 - This means that each company in the joint venture is responsible to the government for its respective share of the rights and obligations and will be represented in the management and technical committees created by the Operator to manage petroleum operations.
 - Conversely, would an incorporated joint venture would mean that the shareholders form one company which is responsible towards the government and contacts the government authorities through the operator.

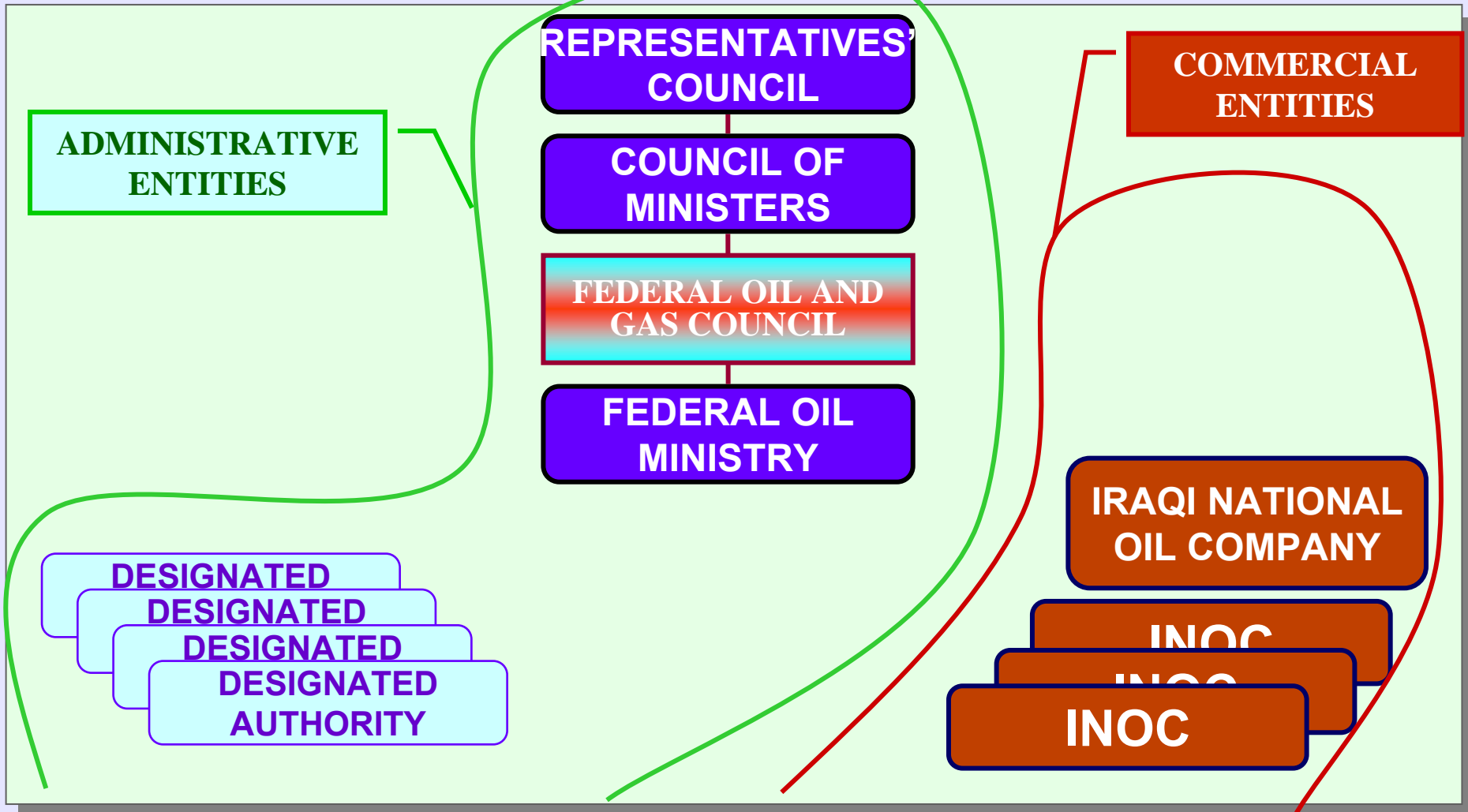
OBLIGATIONS OF HOLDERS OF EXPLORATION AND PRODUCTION RIGHTS

1. There are discrepancies among the various articles as to which government authority shall approve field and pipeline development plans.



2. As these plans are of vital importance in the relationship between oil companies and government and as they are highly technical it is proposed that they are approved by the Federal Oil Ministry. Being the specialised authority it would ensure professional and harmonised practices for the benefit of all parties. This would of course mean that the Ministry would co-operate as much as possible with the provincial and governoratorial authorities concerned.

GOVERNMENT PETROLEUM ADMINISTRATION



ROLE ALLOCATION WITHIN THE PETROLEUM ADMINISTRATION

Representatives council	Federal Oil and Gas Council	Federal Oil Ministry	Designated entities	TASK
	approval			Legislation and Policy
	approval			Exploration and Development Plans
	approval			Licensing Rounds
		approval		Pre-qualification
		approval		Operator Approval
approval	approval			E&P Contract Approval
		approval		Approval of FDP
	approval			Approval of Assignments
	approval			Approval of 3rd Party Financing
	approval			Decommissioning and Transfer of rights

Proposed Modifications

IT IS ASSUMED THAT INOC CONCENTRATES ENTIRELY ON COMMERCIAL TASKS

ROLES WITHIN THE PETROLEUM ADMINISTRATION

Representatives council	Federal Oil and Gas Council	Federal Oil Ministry	Designated entities	TASK
Approval of some legislation	Recommendation + approval	Proposal + consultation + implementation	Proposal + consultation + implementation	Legislation and Policy
Guidance + general supervision	Approval and Supervision	Consultation + co-ordination + preparation + implementation	Proposal + consultation + implementation	Exploration and Development Plans
General supervision	Approval and supervision	Proposal + preparation + implementation + supervision	Proposal + implementation	Licensing Rounds
Information	General Supervision	APPROVAL	Preparation + recommendation	Pre-qualification
Information	General Supervision	APPROVAL	Preparation + recommendation	Operator Approval
Approval of largest contracts	Review + Approval + recommendation	Negotiation + recommendation + signature	Negotiation + recommendation + signature	E&P Contract Approval
Information	General supervision	Study + consultation + approval + supervision	Study + comment + recommendation + supervision	Approval of FDP
Information	Approval	Study and recommendation	Transfer request w. recommendation	Approval of Assignments
Information	Approval	Study + recommendation	Transfer request w. recommendation	Approval of 3rd Party Financing
Information	Approval	Study + recommendation	Recommendation	Decommissioning and Transfer of rights

IT IS ASSUMED THAT INOC CONCENTRATES ENTIRELY ON COMMERCIAL TASKS