

The Legal Nature of Petroleum Agreements

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Abstract— *The petroleum generating nations around the globe have sought to broaden their influence over agricultural assets and have tried by contract papers or laws to regulate this profitable industry. The oil business engaged elevated danger, elevated costs and capital and could not be managed by any group. The sides can decrease the danger and discuss the expenses needed for exploring, growth and manufacturing operations by joining into a suitable agreement. Contract understanding and contract analysis are essential for assessing and mitigating the hazards in the oil company. The lease agreement, the agreement for manufacturing distribution, the agreement for delivery and the joint enterprise agreements, are examples of popular agreements established and employed by the guest country (HS) and global oil firms (IOCs) in the petroleum sector. This paper discusses the characteristics and kinds of four prevalent global oil agreements and highlights the contract's significance in maintaining the host state's (HS) and global petroleum businesses.*

Keywords: *Concession, petroleum, production-sharing, joint-venture contract, service-contract.*

I. INTRODUCTION

There have been several distinct buildings in the oil sector and its agreements with overseas firms. While some controversy arises regarding kinds of petroleum agreements, scientists have found that four main prevalent kinds of contract were encountered in the development and exploitation of oil resource assets [8], [21]. (1) Concession contract. Concession contract. (2) The Contract for the Share of Production (3) the contract of service and (4) the contract of joint venture. This section analyzes the kinds, ideas and primary characteristics of the agreements and seeks to disclose them.

II. CATEGORIES OF PETROLEUM-(I) CONCESSION-CONTRACTS

The background of the petroleum concessions started with the entry into the Middle East of international oil companies, beginning with an Englishman, William Knox D'Arcy's renowned D'Arcy concession, given by the Persian state (May 28, 1901). The D'Arcy agreement began the period of leases and a variety of other concession agreements were soon pursued. As a result of the concession, concessions between the producer States and overseas petrol firms have been rapidly proliferating all around the globe such as Iraq concession in 1925, Saudi-Arabia subsidy in 1933 and Kuwaiti concession in 1934 [6].

There are several ideas in the concession word. The freedoms and freedoms granted by the government in

carrying out the procedure are usually applicable. The term "subsidy" is very hard to describe in its legal context, as it relates primarily to the occurrence of external involvement that concerns permits or licences, particularly those exclusive of the power [6].

In the case of [7], the state granted exclusive development rights to the proprietor of the loan contract (such as construction licenses) and special development and proper production (lease or award), for each company creation, whereas in [5], it stated in the petrol reservation contract that concession s are contractual agreements.

III. FEATURES AND LEGAL FRAMEWORK OF A PETROLEUM CONCESSION CONTRACT

The concession contract stipulates that, in return for compensation of all expenses and charges for the exploration of petroleum, the foreign concession corporation and the host state have been granted a privilege, in the case of manufacturing being started, to the concessionary person or corporation, which is called a mineral duty or a mining licence [1]. Besides expenses, the business receives a royalty and income tax.

The mining rights of the concessionaire shall become merely an authorisation to investigate and generate in accordance with the Concession Contracts; the minerals are still State ownership until they are manufactured. The equivalent of the freedoms thus given to the concession owner is the duty of the concession owner to "spend" an option, i.e. a royalty which is an accepted manufacturing proportion [3].

Concession contracts are commonly known as: 1. 1. The HS gives the IOC the exclusive right for a certain span of moment to conduct exploring, growth and manufacturing activities in a limited region; 2. The IOC receives machinery, oil and natural gas titles; 3. Titles. The IOC safeguards the economic and business risks and 4. In the development and exploitation stages, the IOC decides to reward rewards, ground charges, royalties and more [17].

IV. TRADITIONAL CONCESSION CONTRACTS (TCC)

HS awarded the patent to the TCC and stabilization of HS freedoms and commitments was ensured for the contract era (countries, primary characteristics and patterns for petroleum and mining contracts, 1983). Since there is not a normal type of the standard concession regime, traditional concession agreements seem to differ from country to country. They all nonetheless agree on the whole and have similar conditions

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[6]. Common issues occurred in traditional grants:

- i. The grants: Normally, the whole national territory or the major parts of the territory, without abandoning one area, is protected by the area specified by the Treaty [3].
- ii. The duration: The length of the contract is an important part of the contract. It is about 90 years to be completed in Kuwait, for example Wilson.
- iii. Equipment and plant ownership: The petroleum business equipment and installations are transferred, at the end of the concession, to the HS [3].
- iv. Royalty: The IOC provides the host nation credits (HS) according to the amount of petroleum production.
- v. Oil reserves: The possession of petroleum protected intended for the concession region shall go to the IOC exclusively.
- vi. Assets and property: The IOC would make available to immediate equity (countries; alternative systems for petroleum growth: A guideline for government policymakers and negotiators, 1982) the money and resources needed to explore and establish the lease contract. It would be made accessible by the IOC as a particular investor.

Generally, there are no provisions in traditional lease agreements for the renegotiation of circumstances and no provisions are made for HS to participate in research and production activities.

It has been noted that traditional concessions between the host state and the global petroleum company struggled to obtain an equilibrium and continuous stabilization and shared concerns. This is one of the factors why the use of conventional concession agreements decreased during the second quarter of the 20th millennium, resulting in a fresh age of concession agreements.

V. THE MODERN CONCESSION CONTRACT

In the second quarter of the 20th millennium the Modern Concession Contract (MCC) came into being because of drastic political and financial developments that have taken place between nations. The Modern Concession Treaty (MCC) emerged during the second quarter of the 20th millennium due to the drastic political and financial changes that happened in relations between the nations. The advent of the Modern Concession Contract (MCC) took place in the 2nd quarter of the 20th millennium due to the drastic political and financial developments that have happened in relation to the different nations.

The MCC, however, is an arrangement which retains the fundamental legislative structure of the Traditional Concession Contract (TCC), but (MCCs) have gradually omitted these characteristics, which have a serious disadvantage for the guest country [3].

VI. MAIN INCORPORATES OF MODERN-CONCESSION-CONTRACTS

The characteristics of MCC are generally:

- i. The Modern Concession Contract deals with the large powers problem. Divided a small amount of components of the domestic estate;
- ii. If the oil is still produced at commercial quantities at the end of the period but is not found, but the concession contract

is terminated in 12 years, the term of the modern concession contract may be extendable;

iii. Modern concession contracts ensure guest government jobs, e.g. the IOC must hire citizens of the HS, and the HS drills some supervisory procedures on the employees carried into the nation;

iv. The financial benefits of the HS include production-based payments in the form of royalties according to the value of the production.

v. Certain concession contracts also include bonuses paid upon agreement confirmation, unsuccessful oil exploration or achieving certain manufacturing concentrations.

vi. The host countries (HSs) have been greater notified of the activities and choices of the IOCs than in the conventional concession contracts;

vii. Host States (HSs) are authorized to evaluate and monitor the choices of the IOCs, for instance by requesting a program of minimal development, involvement in decision-making and acceptance of cost and expenditures for development;

viii. Most modern concessions included the duty of surrender [4].

ix. Form the HS perspective; two good features are created by the surrender clauses: X. They discourage the connection between the region accessible for state or third parties to be explored;

x. Form the HS viewpoint; the resignation provisions create two excellent characteristics:

xi. They prevent the binding of the area for government or third party exploration;

In general terms, MCC enables IOC to explore and use guest state inventory and to provide the company with significant power over most development elements [6]. This contract also provides HS with more active authority to track and control concessionaire selection by requiring, for example, minimum construction and exploration costs, on-site approvals and property development plans, and government participation opportunities [18].

VII. PRODUCTION SHARING CONTRACTS (PSC)

The Production Sharing contract is a fresh form of oil contract that has launched a fresh age of oil sector agreements [12]. The Contract for Share of Production is a collaboration agreement between a domestic petroleum company (NOC) and an internal or foreign oil business. Under a PSC, the guest country is in charge of oil activities by the domestic petroleum business [13]. In [6] given the most detailed overview of PSC by saying that the rental agreement was the agreement by which the host government business/ its national petroleum company, which worked in the abroad, gathered its manufacturing costs each year. A national or international oil company conducts excavation and manufacturing operations for a State enterprise, such as the Minister of Petroleum or the National Petroleum Company (NOC) in a PSC within that region (the contract region) in accordance with the contract laws. PSC discovery and

development of petroleum are now considered common.

VIII. CONCEPT AND NATURE OF THE PSCS & RESULT

The bulk of oil producing countries have nationalized mineral assets during the last half of the twenty-first century, yet for some foreign oil companies the gate of exploring and manufacturing has not shut. The PSC provides a global business for the provision of technical and economic facilities for research and growth activities by the target country as the proprietor of the oil assets [2].

The buyer is allowed to reimburse the employer (IOC) for a part of the petroleum generated referred as (costen regeneration) and the buyer is allowed to a reimbursement in the project, if the construction and manufacturing are effective and the business decision has been created.

A PSC relies on shared values for development and manufacturing partnership sides (HS & IOC). The freedoms and responsibilities of the respondent are determined according to the agreement itself in such a manner as to make the connection legal and to raise the question of constitutional and legal liability. It should be observed that PSC works in such a manner that the guest country simultaneously maintains its domestic officials and responsibilities and complies with its overseas shareholder (IOC) commitments. Therefore, PSCs ' legal stance can be described as a danger to exchange manufacturing freedom [6].

The IOC would pay the public tax on income manufacturing in its most fundamental type of PSC. The IOC is allowed, after charging the royalty, to a predetermined price restoration portion of manufacturing. There is a specified percentage of the profit oil between the host state and the IOC. Subsequently, the company (IOC) should pay the income tax for its benefit petroleum exchange. The host state holds both funds and the machinery, and operates the activities through its companies, the National Oil Company, or the Oils Minory, according to [2], is responsible for the full PSC development danger. In anderen terms, in comparison to other oil agreements the function of the IOC and of the NOCs is obviously recognize d in the PSC.

IX. FEATURES OF PRODUCTION-SHARING CONTRACTS

A Production-Sharing Contract's "Contract framework" increases a few characteristics shown as follows:

1. The host state joins an IOC as a contracting party through its businesses (National Oil Company or Oil Ministry);
2. The company (IOC) operates the research and manufacturing activities at its own risk and cost;
3. If manufactured, the host state has right to the quantity of oil;
4. The IOC shall be entitled to pay for recovering its expenses for a part of the manufacturing in the contract field;
5. Both the guest country and the international oil company share a predetermined manufacturing quantity;
6. The PSC includes a tax clause; the IOC is responsible to income tax under this clause;

7. All exploration and manufacturing equipment and installations are part of the HS [3].

The PSC recognizes that the notion of productive collaboration obviously promotes the shared interest in interactions and represents this notion [6]. The PSC provides a secure reciprocal connection on both sides. The guest government is responsible for the ownership and management of real assets, while the PSC acknowledges that the olive petroleum company in other nations is of fundamental significance.

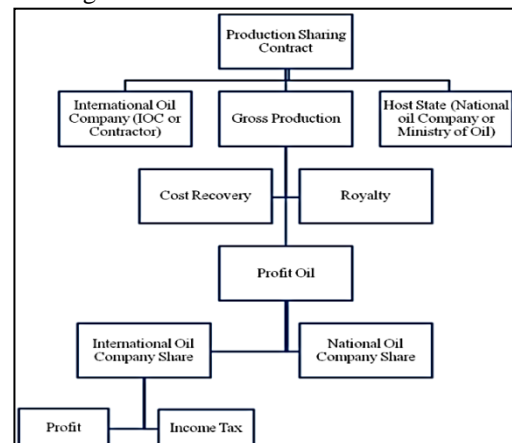


Fig. 1: Key features of PSCs [2]

X. THE SERVICE-CONTRACTS

Some oil-producing nations sought to reinforce mutual partnerships with the IOC in an attempt to achieve more domestic power over both oil assets and activities at once and to maintain minimum levels of global participation in them. In consequence, the contract of concession and contract of production sharing emerged in the second half of the twentieth millennium.

Service contracts exist because the touring countries are generally unhappy with their relation to public businesses through the agreement on concessions and shares. The oil producers have primarily developed countries that have not been able to begin exploring or manufacturing activities socially and technically and have therefore developed a means under which global companies are responsible in exchange for bonuses or production levels for the expenses and risks involved [6].

In [7] has described a business contract "through which the contractor (IOC) undertakes to inspect hydrocarbons on basis of the National Petroleum Company (NPC) at its own risk and expense through an arrangement to reimburse and reward them for their accomplishment in cash."

A service agreement has several designations, including "Agency Agreement" and "Operational Contract" [3]. A service agreement has many similar designations. Two overall classifications of service agreements can be categorized:

i) Risk-Service-Contract (RSC)

The company (IOC), also known as shareholder, decides under this classification to allow for the expansion and growth danger of all assets and facilities. The IOC pays in money or purchase money for the price and purchase of the fuel and pays for its facilities [6].

ii) Non-Risk Service-Contract

It is also recognized as a "delivery agreement" of this sort. In this agreement, the IOC performs a particular job on behalf of a guest country; it would pay a fixed premium in exchange, and the IOC has no exploring danger as it is shown by the title of this class. The host state shall incoherently bear all risks and costs [6].

XI. CONCEPT AND LEGAL NATURE OF THE SERVICE CONTRACT

The characteristics and design of service agreements are comparable if not identical to manufacturing exchange agreements. The largest distinction between them is improved in the price recovery and consultants' (IOC) remuneration scheme [3]. The main distinction is that the service contract refunds cash to the contractor, not artificial petroleum [21]. The main distinction between a service contract with a percentage of manufacturing.

A money reward will be given to the contractor for the operation of generating petroleum assets. Although the visiting nation is in all manufacturing chocolates, the firm (IOC) is required to provide the necessary funds for studies and development [10]. If development attempts are effective, the contractor will be paid a premium depending on a proportion of the oil generated [11]. A Service Contract ensures the legal position of the host state as the resource proprietor and acts as a global petroleum contractor for a domestic petroleum company. Consequently, neither as a concessionary nor as a spouse would be described as the company (IOC) [8]. Thus, a service contract's legal essence is a danger without petroleum name [6].

In brief, the Service Contract can be designed to meet the financial, technological and expert demands of certain oil producing countries. Simultaneously, the oils can be accessed by the foreign oil companies.

XII. THE MAIN FEATURES OF A SERVICE CONTRACT

While there are prevalent goals of a service contract with a concession and production sharing agreement, it does have specific characteristics such as:

- i. The host state is fully owned by the oil resources and all properties under a Service Contract (Nations, Principals of Petroleum and Mines and Trends, 1983).
- ii. In other phrases, a Service Contract ensures the highest domestic monitoring over the growth of oil while ensuring international supplier collaboration; Economically, the host state has exclusive power over production and generates higher revenues than other petroleum contracts;
- iii. The tax scheme is less complicated than other oil agreements, in particular, as regards tax and royalty clauses, which are traditional areas of controversy, because of a composition of the service contract;
- iv. A service contract is technically simpler and clearer to administer. Here, it is likely true to state that in the course of the execution of the agreement the monitoring and administrative processes have been lowered to prevent corruption [6].

In brief, a service contract is an apparatus which can be designed with the financial, technological and expert demands

of some oil producing countries. At the same moment, overseas petroleum businesses have connections to petroleum.

XIII. JOINT-VENTURE-CONTRACTS (JVC)

The Contract between joint venture and international oil companies is a popular way of doing things. The Joint Venture Agreement (JVC) has an extra mix framework that enables a more efficient relationship and generates a more stable environment between the sides, which we will address specifically in the scholarly job in subsequent sections as an equilibrium of concerns between the sides and their mechanisms. In addition, the Joint Venture Contract provides the host country with greater control over oil projects, compared to the Concession and Production Sharing Contract [5].

While economic and technical requirements are required in a petroleum venture, there is rational reason to implement joint venture contracts, which is to spread and minimize different hazards (geological, technical, growth, economic and political hazard) connected to an oil activity [19].

XIV. CONCEPT OF A JOINT VENTURE CONTRACT

The host state sees an option to a joint venture agreement. Under this type of contract, the Guest Government or its domestic petroleum company stocks the capital and the worldwide oil company in joint operations to explore, develop and produce petroleum resources (Nations, Alternative Petroleum Development Arrangements: A Guide for Government Policymakers and Negotiators, 1982); A co-entrepreneurial arrangement generates a collaboration contract that suits the rights and responsibilities of petroleum enterprise in some way with the interests of both parties. If the company finding falls, the host state will be responsible for damages that are not the situation under the concession and joint manufacturing agreements [5].

XV. TYPES OF JOINT VENTURE CONTRACTS

Two JVC designs are available:

1. The Joint Venture: Created by the creation of a distinct legal organization which creates and manages both sides' joint ventures. The benefits are based on the involvement of each party in the joint undertaking (nations, petroleum alternative treaties, 1982).
2. A collective contract could also be created without a separate legal institute [5], the single enterprise joint venture. The JVC is the true connection between the guest country and oil, which is comprised of the guest government and oil company of the combined oil management company [8]. It often has a legal nature; a risk with the title of a management and production exchange [6].

XVI. THE LEGAL NATURE OF INTERNATIONAL PETROLEUM CONTRACTS

In global legislation, the validity of global petroleum agreements is contentious. It has very significant legal



information to explain the role of international oil contracts. There are no unanimous judgements and scholarly opinions on the presence of worldwide oil contracts. Some lawyers, particularly European lawyers, believe that the position of petroleum contracts is a global agreement, and global legal rules therefore apply [9]. According to other academics, such agreements should be governed by domestic law in the guest country under the provisions of private international law [6]. It became apparent from the assessment of the four agreements presented that petroleum agreements cover both personal and public policy aspects such as governmental command, national necessities, State involvement (public policy components) and financial and financial consequences of operations (personal law components). We could therefore claim that an oil agreement has a dual legal character, a combination of public and personal law. It retains its private shape, according to lawyers, although there are no public law elements of a concession contract. The project is a private enterprise since it generally covers legal principles for private agreements (Libyan American Oil Co. (Liamco) against the Libyan Arab Republic administration in 1981) [6]. The problem is, does it sound like a petroleum deal? According to [16], the arrangement is not like the treaty because an overseas personal company is part of the contract. It appears that one state cannot use its own collective legislation as a Treaty between two sovereign countries to change its mutual engagements towards another State.

XVII. OBSERVATIONS

Over the 20th millennium, the different kinds of oil agreements are proven to be a true manifestation of political, even financial, cultural growth. But they all cope individually with ownership of oil and gas property, surplus power over operations, the magnitude of the national oil company's participation, and the risk held by each of the sides to the contract. The purpose of oil contracts is to achieve the same prevailing objectives.

The host state performs a basic part in many agreements implemented in the second quarter of the last millennium through its domestic oil business. A thorough evaluation of the distribution of manufacturing, facilities and joint venture arrangements shows that petroleum and gas operations can be controlled by national petroleum companies [20]. In countries with poor growth in the oil industry, a concession arrangement was used to encourage global spending and more efficient participation was accomplished through utilities and production sharing agreements. In the meantime, a Joint-Venture Contract is implemented to distribute danger and address equity and equipment deficits.

Based on these results, there is a cooperation contract between the target nation and the global oil corporation. Under the concession contract, a concessionaire operates fundamentally for himself. The international oil company operates as a government contractor under agreements for the distribution of delivery and manufacturing. A foreign oil firm works under the Joint Venture Contract with a state-owned oil business [6].

In this regard, we can say that the PSC is the most appealing agreement of the feasible contracts merely because it can balance to the greatest point feasible the two sides' main aspirations and goals. The scheme provides both sides

in oil activity with the required adaptability and flexible. Under this scheme, HS maintains general management legally, but, in reality, daily monitoring of the IOC is practiced. Its flexible allows the State to organize the manufacturing unit according to a theoretical model that incorporates a reasonable level of exchange for the contractor and a reasonable proportion of the enhanced income from increasing government rates.

More significantly, connections to crude oil between the two sides exist. PSC is an excellent way to connect HS to OC across the board. The benefits and happiness of this agreement are found on both parties. Oil industry experts expect "PSC will be more widespread in that it fulfills the desire of both guests and customers" [6].

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