FUTURE RELATIONS BETWEEN KUWAIT PETROLEUM CORPORATION AND THE INTERNATIONAL OIL COMPANIES:

SUCCESS OR FAILURE?

Master of Arts in Law and Diplomacy Thesis

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Future Relations between Kuwait Petroleum Corporation and the International Oil Companies: Success or Failure?

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Table of Contents

Executive Summary

The global petroleum industry today is dominated by National Oil Companies (NOC's) and International Oil Companies (IOCs). The NOC's own 90 percent of worldwide petroleum reserves while the IOCs help in the exploration, production, refining, and marketing of that petroleum. In Kuwait, the IOCs have not been involved in the oil industry for the past 25 years. However, the implementation of "Project Kuwait" may offer an opportunity for IOCs to participate in increasing oil production.

This study looks at the history of the relationship between Kuwait and the IOCs, the structure of Kuwait's petroleum industry, and the possibility of involving the IOCs in developing Kuwaiti petroleum. The constitutional clauses that regulate the use of Kuwait's natural resources will be looked at along with the interests and positions of the Kuwaiti Parliament, Kuwait Petroleum Corporation (KPC), and the IOCs. Analysis of cooperative arrangements in Norway, Qatar, and Abu Dhabi will demonstrate the different options in involving IOCs in a national oil industry.

Finally, this study will lay out the two different options for Kuwait:

1. Finalizing the Operating Service Agreements with the IOCs to start joint operations.
2. Breakdown of talks between KPC and the IOCs due to lack of parliamentary agreement.

The pros and cons of each option will be analyzed and the first option will be recommended. Cooperation between KPC and the IOCs will improve the productivity, efficiency, and technical expertise of KPC while allowing the IOCs to invest in a stable, productive, and low risk operation.

Introduction

Around the world, the relationship between International Oil Companies (IOCs) and oil producing countries ranges from animosity to cooperation; the relationship with Kuwait lies somewhere between these two extremes. Currently, the Kuwait Petroleum Corporation (KPC) is looking towards cooperation with the IOCs, while the Kuwaiti Parliament is wary of allowing IOC participation in Kuwait's only industry. Is there any room for agreement in this economic venture that involves Kuwait's national wealth and sovereignty, and if so, what type of agreement will emerge with the IOCs, KPC, and the Kuwaiti Parliament as players?

This thesis will outline the historical relationship between Kuwait and the IOCs and will explore the positions and interests of the IOCs, KPC, and the Kuwaiti Parliament. It will then look at the arrangements that Norway, Abu Dhabi and Qatar have with the IOCs as possible templates for Kuwait. Finally, it will conclude with possible solutions that would meet the needs of the IOCs and KPC with the blessing of Parliament.

Origins of Kuwaiti Statehood

Kuwait was inhabited in the early 1700's by nomads from Saudi Arabia, Iraq, and Iran, who used the outlet to the Arabian Gulf to facilitate their trade to India and Africa. Although the bulk of the inhabitants of the region were Bedouins, Kuwait's inhabitants became wealthy and well-traveled merchants. In order to tend to their business, the big powerful merchant families agreed in the early 1800's to delegate the responsibility of local governance to another big family not involved in trade, the Al-Sabahs. Thus the Al-Sabahs became the rulers of the Emirate with the support of the prominent merchant families. To ensure protection from Ottoman dominance the Emir Mubarak Al-Sabah and the merchant families agreed to become a British protectorate in

1899. With Britain conducting its international relations and the Al-Sabahs tending to domestic politics, the founding families of Kuwait continued to profit from pearl diving and trading.

Since they held the financial base of the Emirate, the merchant families were always consulted and their approval was always sought when any major decision was taken. When the discovery of oil meant an alternative financial base for the state, a legislative council was formed in 1938 so that the prominent families and tribal leaders can consult the Emir on how to administer state revenues. Fearing that the people were gaining too much political power, Emir Ahmad al Jaber dissolved the council one year later, causing uproar in all sectors of the population, from tribes to wealthy families. Although the council was not a truly representative body as it was not elected by the people, it did represent each major tribe and prominent merchant family, giving the general population a feeling that decision making was not limited to the ruling family. Kuwaitis were accustomed to influencing local politics through their tribal leaders or members of the powerful families on the council and were angered by this denial of their democratic rights. Eleven years later, they reclaimed their political voice with the new Emir.

Sheikh Abdullah al Salim, known as the father of democracy in Kuwait, took power in 1950 with a desire to modernize and democratize the Emirate. He created an education system, a social infrastructure, and a National Assembly that was composed of members of Kuwait's prominent merchant families and tribal leaders. A constitution had not yet been established, and thus there were no voting procedures, so a caucus was held between the ruling family and the major tribes and merchant families to decide the composition of the new National Assembly. This assembly only solidified the power that the wealthy merchant class already had in state matters. As founders of Kuwait in the early 1800's, the merchant class had historically been involved informally in all important matters. Now these prominent Kuwaitis had a forum to express their desires for Kuwait's progress and development.

When Kuwait achieved its independence from Britain in 1961, Emir Abdullah instituted a Constitutional Commission composed of a select few highly educated Kuwaitis to formulate the new state's constitution. Thus on November 11, 1962 the Emir ratified Kuwait's Constitution presented to him by the Constitutional Commission. Soon after, the first Kuwaiti Parliament was elected by Kuwaiti males aged 21 years and older, mirroring the strength of its predecessor, the National Assembly. Although the Parliament is not only composed of the prominent merchant or tribal families, it is not truly representative as it is elected by only the 15 percent of the population that qualify to vote. Thus, Kuwait's Emirs along with the National Assembly and then the Parliament shaped the history of oil development in Kuwait and its relations with IOCs and consumer countries.

History of Relationship

Historically, Kuwait granted concessions to the oil companies that were starting to explore for oil around the Middle East. The Emir, Sheikh Ahmad Al-Jaber Al-Sabah, granted the first concession in 1934 to the Kuwait Oil Company Ltd. (KOC), a joint venture between Anglo-Persian Oil Company (now British Petroleum or BP) and Gulf Oil (now part of ChevronTexaco Corporation). The concession granted KOC exclusive ownership of all petroleum produced as well as its derivatives. It had the right to explore, drill for, and produce petroleum, natural gas, asphalt and cognate substances throughout the entire country, including all islands and territorial waters. The concession also granted KOC the right to refine and transport petroleum, and to either export it or sell it for use within the State of Kuwait. The terms of the concession gave KOC the exclusive right to explore for oil for the next seventy-five years, with another seventeen years added on in 1951 with modified terms.[1] Sheikh Ahmad received $178,000 up front and $35,000 a year until the first oil export and $94,000 after oil had been exported.[2] Although the terms were later modified in favor of Kuwait as oil production expanded, they were typical of most concessions in the Middle East at the time.

The terms of the concessions evolved throughout the decades, as a result of Kuwait's realization of their resource's desirability, the changing leadership in Kuwait and the National Assembly's strength, and the cooperation between oil producing states that culminated in the formation of the Organization of Petroleum Exporting Countries (OPEC).

While Sheikh Ahmad was negotiating the 1934 concession, he could not demand control over oil prices and policies since exploration risks were still high. Therefore, Kuwait received only 13 cents per barrel, much less than the 22 cents per barrel that Saudi Arabia, Iran, and Iraq were receiving at the time. Before oil was actually discovered in 1938, the Emir was satisfied to get the huge sums he was getting from the oil companies as he was unsure of the profitability of the venture. Moreover, this revenue was much needed as the Kuwaiti economy, until now based on natural pearl exports, had collapsed once the Japanese Mikimoto successfully developed and sold cultured pearls. With cultured pearls replacing the natural pearls found at the depths of the Arabian Gulf, the Kuwaiti economy had to target another resource.

Shifting terms

The terms of the concessions shifted in favor of Kuwait because in the 1950's oil producing nations were realizing how abundant and valuable their natural resource was in light of increasing dependence on oil. Britain and the rest of Europe joined the United States in increased consumption of petroleum especially for transportation purposes. Penrose explains

[1] Al-Attar Comparative study
[2] Crystal

that, “First and foremost was the extraordinary value to the Companies of the oil discoveries outside the US in the light of the rapidly rising demand of the industrialized world and the rising costs of production in the US…And the Companies were willing to concede improved terms in the Middle East when it became clear that governments there would insist on better terms than those offered under the existing concessions.”[3]

Moreover, now that oil had been discovered, the risk of exploration was gone and it was obvious that the investment in Middle East oil was profitable. Well aware of the guaranteed profits from their fields, Kuwait and other Middle Eastern countries were more confident in demanding higher stakes in the concession. Sheikh Ahmad and his successor Sheikh Abdullah were more careful in insisting on state participation when granting smaller concessions to Aminoil in 1948 and the Arabian Oil Company (AOC) in 1959.

In response to the rising confidence of oil producers, the IOCs in the 1950’s changed the terms of the concessions with many countries to 50/50 profit-sharing arrangements where the oil revenues were divided between the companies and the governments. The companies saw this as a commitment on their part to appearing fair, as this was a tangible increase in payments to the producer countries. Although fairness was not the central issue to the IOCs, they had to alter the terms in favor of the host governments so they would not risk losing the whole concession.

Meanwhile the producing nations were increasingly aware of their desirability and their newfound ability to change the balance to their favor. A facet of their increased bargaining power was that with the recently acquired oil revenues, oil producing nations, especially Kuwait, were developing and vastly improving their infrastructure throughout the 1940’s and 1950’s. Penrose writes, “With this development came the growth of political, economic, and

[3] Penrose

administrative expertise which progressively decreased the inequality between the governments and the Companies in the bargaining process."[4]

Change in Kuwait's leadership

Not only did Kuwait's political, economic, and administrative strength increase, but the change of leadership also affected Kuwait's relationship with the IOCs. Sheikh Abdullah was more confident of his nation's security as it was no longer dependent on British protection. Moreover, he was confident of the desirability of Kuwaiti crude. An example of the increase in Kuwait's bargaining power occurred when the new Emir capitalized on the Iranian oil boycott in response to Iran's Premier, Muhammad Mussadeq's, nationalist policies, by compensating with increased Kuwaiti production. Now with Kuwait's rising importance, Abdullah changed the terms of the original agreement. In 1951 Abdullah achieved a 50/50 agreement that would give the state half of KOC's export profits. This new agreement increased the state's revenues and gave Abdullah more leverage but also extended the life of the concession by seventeen years. His next step in 1955 was to pressure KOC to give up half of its initial concession area.

Abdullah's bold moves were reflections of international changes in the dynamics between oil producers and IOCs. For example, Venezuela had already changed the terms of their concessions to a profit sharing arrangement as opposed to fixed per-barrel revenues.[5] In the 1950's Kuwait tried to use the Arab league, which was then trying to create oil policy, to establish a united negotiating front with the IOCs. Jill Crystal points out that,

> In order to gain control over pricing, it was necessary for Kuwait to join forces with other oil-producing states. In the first years of oil production this was not possible but by the postwar period the international economic and political environment had begun to change. More countries were becoming independent and political and economic organization among them was now possible."[6]

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[4] Penrose
[5] Crystal
[6] Crystal

One of the reactions to their newfound strength and commonality was the formation in 1960 of OPEC.

OPEC: a community of nations

This community of producing nations with similar interests further increased these nations' confidence and bargaining power. After much effort and leadership in organizing this community, Kuwait was in an organization with other countries that were unsatisfied with their concession agreements. OPEC started out as a union between five countries —Iraq, Iran, Venezuela, Saudi Arabia and Kuwait—but as its members grew, so did its power in shaping oil policies. The organization's main goal was to keep oil prices at acceptable levels and to renegotiate concessions with companies primarily in terms of price and production levels as well as how to divide profits. Kuwait was, from the beginning, an active and integral member of OPEC leading the way to a changing relationship with the IOCs. With this union, individual oil producers gained strength in facing up to the IOCs.

Although not all OPEC members went all the way to nationalization, the momentum in Kuwait led the country to nationalize its natural resources. Within Kuwait, the National Assembly was quite instrumental in pushing Kuwait to this end. Despite the fact that the head of Kuwait's royal family is the Emir who enjoys executive power, the National Assembly has always been a powerful force as the legislative power often initiating extreme changes in the country. Kuwait's government is the equivalent of a cabinet composed of the Prime Minister appointed by the Emir, and the rest of the ministers appointed by the prime minister. All the ministers in the government are ex-officio members of the National Assembly, which is currently called the Parliament. According to Crystal, "The assembly also devoted considerable attention to other oil-related issues: the marketing of oil in Kuwait, payment schedules, production levels, gas flaring, and employment and training of Kuwaitis. Oil soon became the assembly's key concern and a major source of conflict between it and the government."[7]

One of the first clashes between members of the National Assembly and the Emir on an oil related issue was in 1964 when the Emir agreed to the new OPEC arrangement of expensing royalties at the discounted price. This would mean that the oil companies would register the royalties they give to the host governments as an expense before allowing them to be taxed, thus reducing the revenues for the governments. Crystal describes that the assembly "balked, refusing to ratify it, and called instead for the expensing of royalties without discount off posted prices."[8] A year later, twelve assembly members resigned because of the government's oil policy. Although Kuwait never went through a strong anti-colonial sentiment, oil was now a nationalistic force used to define local and international politics. The Kuwaiti press, young at the time but free, extensively covered the rift between the government and the assembly on oil related matters. Thus, oil negotiations became a popular matter no longer limited to the Emir and politically active assembly members.

<u>The era of the National Assembly</u>

As the National Assembly gained strength in helping formulate oil policy, KOC continued to concede certain issues to the state. Crystal writes,

> [KOC] agreed to refer tax disputes to the Kuwaiti courts, it agreed to a government investigation of production costs, and it gave the government the option of taking its royalties in either oil or cash. The company also gave more attention to hiring Kuwaitis; by the early 1980's about half of KOC's staff, including high level management and skilled labor was Kuwaiti.[9]

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[7] Crystal
[8] Ibid
[9] Crystal

The next step was the formation of OAPEC, the Organization of Arab Petroleum Exporting Countries, a move meant to unify the political voice of the Arab producing countries. OAPEC coordinated the 1973 production cuts by Arab countries to boycott the United States and the Netherlands, inciting the rest of the oil producing countries to join the price hikes by lowering their production levels. The price increases strengthened Kuwait's power in negotiating pricing and production levels. Production levels were problematic from the beginning for Kuwait. Under KOC's management overproduction caused some damage to the Burgan field, and Kuwait's production levels were raised and lowered to balance international supply and demand over time. It was not until the 1970's, when Saudi Arabia assumed the role of swing producer, that Kuwait regulated its own production.

The most drastic change the National Assembly spearheaded was creating distrust for the IOCs and then severing relations with them. Kuwait's National Assembly was frustrated by the oil companies' practice of flaring off the natural gas that emerged with the oil. In oil extraction, it is common for gas called "associated gas" to emerge with the oil. In fact, in many oil fields, it is the pressure of the gas that pushes the oil upwards to be extracted. There are four ways to deal with associated gas: 1) flare it; 2) find a market that needs it; 3) reinject it back into the reservoir, a procedure that is very expensive and may cause problems; 4) stop producing oil.

The companies chose the first option as it was the most realistic and economically feasible approach. The National Assembly, on the other hand, wanted national control of the associated gas in order to develop the country's infrastructure, specifically electric power generation and water desalinization. Since the National Assembly was already moving in the direction of reducing and ultimately eliminating the IOCs' role, the gas dispute was a convenient catalyst for nationalization. Thus, the Assembly nationalized Kuwaiti gas in 1971, weaning the country away from the IOCs. Crystal explains that, "As a result the utilization of gas rose from 33 percent in 1970 to 70 percent in 1977." [10] It is unknown whether the National Assembly asked KOC to develop gas utilization infrastructure or whether the IOCs would have responded to such a request, but regardless of KOC's gas utilization capabilities, the National Assembly was determined to nationalize as a bold statement of ownership of the country's natural resources.

Final steps of nationalization

The next step was oil. The Assembly, in 1973, disapproved of an agreement with the IOCs that gave the government a minority share of the company. This led to the government purchasing 60 percent of KOC from Gulf Oil and BP in 1974. Finally, the remainder of the company was bought out in 1976. The terms of the requisition were that the Kuwaiti Government would pay Gulf and BP for their shares and turn KOC into a national company. This was a mutual agreement between Kuwait and Gulf and BP that allowed for a gradual increase in Kuwait's shares until the whole industry became fully owned and controlled by Kuwait. Although the companies would not have preferred to leave since their investments were heavily geared towards Kuwaiti crude, they agreed to the buy out in order to receive money for their shares rather than losing all their capital investment. What once was a concession that favored the IOCs turned into a commercial contract where Gulf and BP had to purchase oil from Kuwait.

The Emirate also established the Supreme Petroleum Council to oversee Kuwait's interests, nationalized other smaller private oil companies (e.g., Aminoil), and took over parts of the concession area of other companies (e.g., Arabian Oil Company) operating in the country.

[10] Crystal

These drastic changes were made to ensure that Kuwaiti oil was in Kuwaiti hands.[11] Aside from the political importance, this move gave the nation the confidence that it could run a sustainable and independent economy. At this point KOC was technologically advanced enough to extract petroleum without foreign assistance. This was possible because Kuwait's fields, especially the key producing field at the time, Burgan, are relatively easy to operate. Due to the fact that the fields were onshore, at early stages of development, and with high underground pressure, KOC did not have to do much more than drill wells vertically into the field. Petroleum in Kuwait is found at relatively shallow depths of between 3,500 and 5000 ft. An average well can produce from 1,000 to 10,000 b/p/d from its own pressure with an average yield of about 5,000 b/p/d. [12] In comparison to more difficult, offshore wells, the Kuwaiti wells did not require much technological expertise to produce. The facility of oil extraction from the immature fields of Kuwait was an enabling factor in nationalizing KOC and building a strictly Kuwaiti oil industry.

The Kuwaiti Oil Industry:

Oil fields

The majority of Kuwait's oil reserves are in the Greater Burgan Area where an estimated 70 billion barrels are divided between Burgan, Magwa and Ahmadi fields. The Greater Burgan area, in the center of Kuwait, is believed to be the world's second largest oil field after Saudi Arabia's Ghawar field. The rest of Kuwait's fields are concentrated in the North and the West, with some offshore fields. Kuwait's fields, especially Burgan, enjoy high production capacity at low production costs because of the significant underground pressure which makes it relatively easy to extract petroleum.

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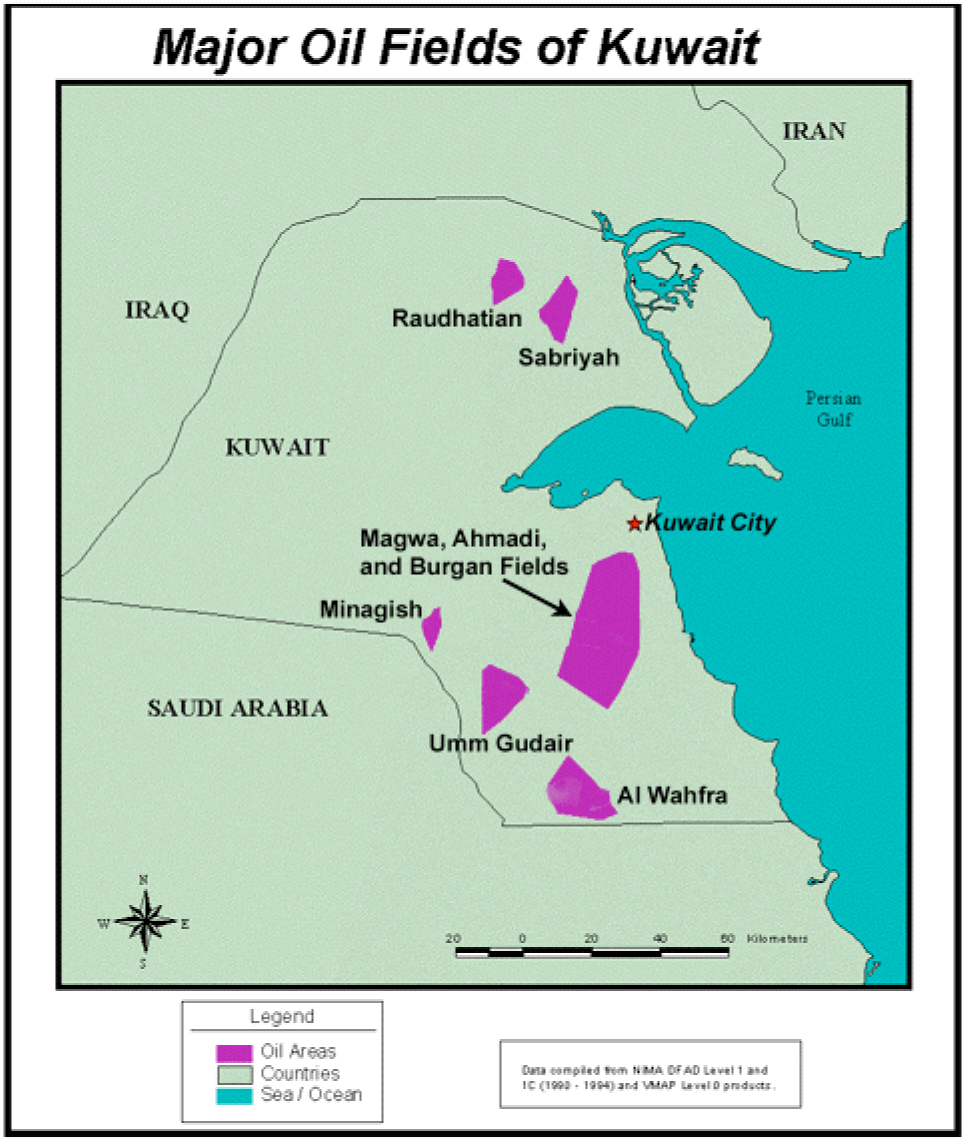
[11] KPC Website
[12] Al-Attar Comparative study



Kuwait also shares a Neutral Zone with Saudi Arabia in which it owns half of the five billion barrels of reserves. The 6,200 square-mile area includes onshore fields in southern Kuwait as well as offshore fields. This zone is the only area in Kuwait that has experienced foreign investment since nationalization. The Japanese-owned Arabian Oil Company (AOC) has developed fields in this area since 1959, and has resumed investment even after it was nationalized. It currently has a 40 percent stake of the Kuwaiti portion of the offshore fields. ChevronTexaco is involved in the development of Kuwait's onshore Neutral Zone fields.

KPC and its subsidiaries

After nationalization, the upstream side of the business was managed by KOC where almost half of top management was Kuwaiti, while refining and marketing was managed by Kuwait National Petroleum Company (KNPC). In 1980, the country formed the Kuwait Petroleum Corporation as an umbrella organization encompassing all the different entities within the industry. Some of the relevant subsidiaries are:

- KOC (Kuwait Oil Company): conducts all exploration and production within Kuwait.

- KNPC (Kuwait National Petroleum Company): supplies energy to Kuwait as well as manages the three largest refineries in Kuwait.

- KUFPEC (The Kuwait Foreign Petroleum Exploration Company): commands the foreign upstream operations.

- KPI (Kuwait Petroleum International): manages the foreign downstream operations, which are concentrated mostly in Europe and sells fuel, marketed as Q8, to Asia.

- KOTC (Kuwait Oil Tanker Company): owns and operates one of the largest fleets in the world of vessels that transport petroleum.

- PIC: (Petrochemical Industries Company): produces petrochemicals and fertilizers.[13]

Decision making within the Kuwaiti oil industry is also very hierarchical and bureaucratic. First, there is the board of directors of KPC composed of the chairmen of all the

[13] KPC Website

subsidiaries and headed by the Minister of Energy, then there is the Supreme Petroleum Council (SPC) headed by the Prime Minister and in which the Minister of Energy is only a member. Day-to-day operations are managed by the KPC Board. Major investments must be approved by the SPC. No major steps are taken without approval of the Emir. This long list of approvals can slow down any major decision to be taken within the oil industry.

The Kuwaiti Parliament

The Kuwaiti Parliament can act as an obstacle to the Emir and the cabinet because it has the power to do so. Despite the fact that Kuwait has a ruling family, true legislative powers lie with the Kuwaiti Parliament and they have not hesitated in using their power. Recently the Parliament has been dominated by opponents to the government, characterized by conservative and religious members who have tried to stall the government's efforts at progressive reforms. The cabinet of ministers and the Emir are generally progressive since they favor women's full inclusion in politics, the workforce, and in Kuwait University. The collision between the progressive government and the conservative Parliament was evident in 1999 when Parliament voted down, by merely two votes, an Emiri decree granting women the right to vote. The Parliament defied all expectations that they would dare challenge an Emiri decree.

The Kuwaiti Parliament is not truly a representative body as it is only elected by 15 percent of the population (males of 21 years or older who have been naturalized for more than 30 years). Political parties are outlawed in Kuwait, so conservative members representing the religious and traditionalist part of the population are categorized by the public as opposing the government. MP's representing liberal and democratic ideals are called pro-government because they generally agree with the progressive Prime Minister and his cabinet. A majority of the Parliament elected in July 2003 is pro-government, a shift from the past few Parliaments in recent history. Public opinion in Kuwait is influenced by the active and independent press that has not hesitated to attack MP's, ministers, and even the Al-Sabah family. The Kuwaiti media extensively covers parliamentary debates such as the one concerning IOC involvement, creating a well informed and opinionated citizenry.

Yet the real difficulty lies in the obstacles that Parliament places to safeguard the country's natural resources. Article 21 of the Kuwaiti constitution states that, "Natural resources and all revenues therefrom are the property of the State. It [The State] shall ensure their preservation and proper exploitation due regard being given the requirements of State security and the national economy."[14]

The other article concerning petroleum is Article 152 which states that, "No concession for exploitation of either a natural resource or a public service may be granted except by a law and for a limited period."[15] Parliament's interpretation of the Constitutional clauses is quite strict. Moreover they interpret Article 152 to mean that Parliament needs to approve any agreement concerning natural resources. On the other hand, KPC interprets Article 152 to mean that Parliament must approve a concessionary agreement and not an Operating Service Agreement, such as the ones currently being negotiated. In the event of disagreement on the interpretation of the Constitutional, the case is referred to the constitutional court which is the final arbiter on constitutional matters.

Kuwait's Strategic Interest

The nationalization of Kuwaiti oil thirty years ago signaled a desire, mainly by Parliament, to distance itself from the IOCs. This political move occurred at a time when Kuwait

[14] Constitution of the State of Kuwait
[15] Ibid

could manage sufficient output from its "easy" fields, such as Burgan, without the technical expertise of the IOCs. Until recently Kuwait has been able to produce at maximum levels without harming the life span of its fields. The technical and economic situation has changed. Now Kuwait's fields, especially the northern ones, have matured to the point where the internal pressure of the field is not enough for the oil to be easily recovered. Thus in order for Kuwait to produce at the most efficient and competitive rate, they need the technological expertise of the IOCs. The current problem lies in the discord between the technological and economic drivers that are pushing for IOC involvement and the political movement against it.

From a strategic point of view, Kuwait needs to increase production from the younger northern oil fields so that Burgan, the oldest field in production since 1938, can regain its underground pressure by producing at a lower rate. Moreover to improve its operations as a competent oil company, Kuwait needs to increase its technological skill. Abdulaziz Al-Attar, fiscal policy analyst at the Energy Studies Department at OPEC, describes how IOC technologies can benefit Kuwaiti oil production:

> Some reservoirs will soon produce more water, whilst others are low in pressure. Kuwait is therefore seeking technologies to achieve the following aim:
>
> - Increase the reserve recovery, by for instance water injection and high-pressure gas injection for enhanced oil recovery.
> - Limit water production, by means such as chemical gels injected into the rock and inhibitors to minimize corrosion.
> - Drill better, fewer, wells, more cheaply, by employing the latest drilling innovations, such as horizontal wells, and better well stimulation techniques.
> - Processing oil in the most efficient manner by improving processing plant performance and by computer simulation of the reservoir. Operating wells and pipelines more safely and with respect for the environment, which means a minimum discharge of oil and gas flaring.[16]

[16] Al-Attar statement of originality

KPC has concluded that to achieve its production targets of the North Kuwait oil fields, to cut costs, and to maximize the use of its natural resources, they must solicit the help of the IOCs. Kuwait's interests are:

- Achieve strategic production targets for the North Kuwait fields
- Maximize reserves through effective reservoir management practices
- Develop more difficult reservoirs
- Access, transfer and implement the technologies required for secondary recovery and Enhanced Oil Recovery projects.
- Achieve cost savings and improve capital efficiency
- Train and create job opportunities for Kuwaitis
- Acquire modern management techniques
- Encourage strategic and economic ties with IOCs. [17]

The two stipulations to IOC involvement are that, 1) IOCs should not explore for oil but only develop known reserves, and 2) IOCs should maintain a "service provider" role and not become a producer.

Despite the Kuwaiti oil sector's view of the need for technology now that oil recovery is not as easy as it was in the past, the political fear of foreign investment is stalling the progress of IOC involvement. The difference in the two schools of thought revolves around the issues of market share and constitutionality. The opponents to IOC involvement do not see the need to increase production and market share and thus do not see the need for foreign technology.

They are also using the constitutionality argument to show that IOC involvement is politically unacceptable. The Parliament keeps on stressing that in order for IOC involvement to be acceptable in Kuwait it must be constitutional. Kuwait must retain ownership of its

[17] Sultan, Nader

hydrocarbon reserves, the petroleum produced, and the revenues gained. In order to constitutionally allow IOCs to work in Kuwait, Operating Service Agreements (OSA's) must be signed by both KPC and the IOCs which would specify that, "1) Kuwait will control the strategic management of the OSA and have sovereign control over production. 2) The IOC will control the operational management and act as contractor and service provider. 3) The IOC will be obliged to employ a minimum number of Kuwaiti nationals."[18]

Before the above limitations were established, IOC involvement was seen as a political means to ensure Kuwait's security. During Saddam Hussein's dictatorship, the MP's opposing "Project Kuwait" believed that the desire to elicit international involvement in the development of the Northern oil fields was a political move to establish of a "Northern Security Zone" or a safer border area. A few vocal MP's went so far as to accuse KPC of deliberately choosing companies from the United States, United Kingdom, France, Italy, and the Netherlands to shore up a truly international buffer zone to protect the fields closest to the Iraqi border. They note that three of these countries are strategically on the permanent membership of the Security Council, supporting the hypothesis that this economic development was highly linked to political interests.

Although this view is highly unlikely as the government's oil policy is more dependent on demand and market share than on political interests, it was specifically this issue that was used in the late 1990's by members of Kuwait's Parliament to object to IOC involvement. MP's championing the above argument objected that in this case political and strategic reasons should not justify international involvement in Kuwait's resources. On the other hand, the Kuwaiti oil sector was attributing the desire to elicit IOC involvement to reasons of market share and technology transfer.

[18] Sultan, Nader

Opponents to IOC involvement further state that Kuwait needs to consider OPEC dynamics while formulating oil policy. Therefore, some opponents are hesitant to involve IOCs since they feel Kuwait can reach its OPEC assigned quotas without them. Moreover, the issue of demand is also a sticking point. Many critics of increasing Kuwait's production capacity, mainly in Parliament, do not see an increase in demand and therefore are puzzled at the desire to increase Kuwait's oil supply if it is limited by OPEC production quotas.

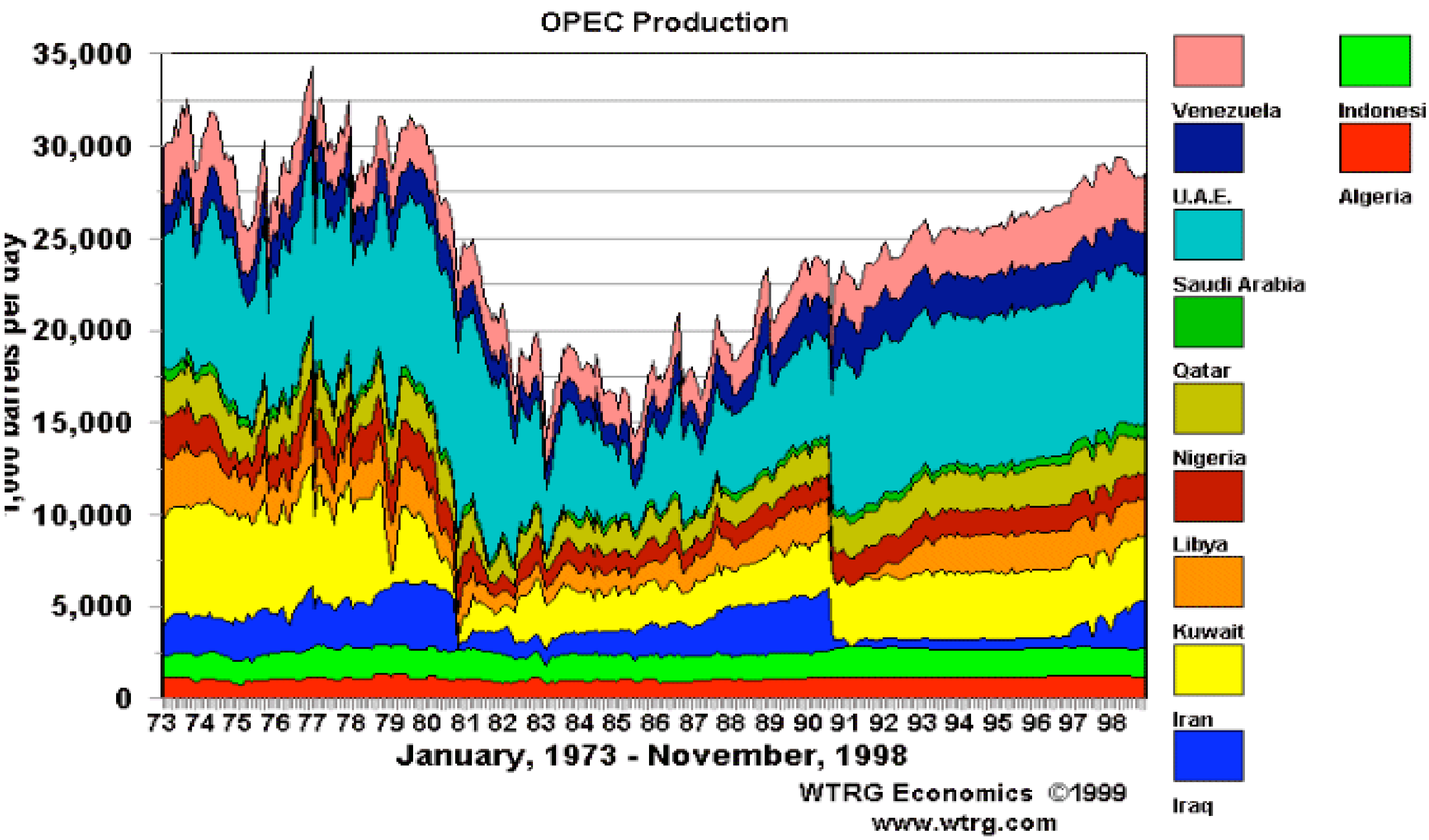
Market Share: Current OPEC Members

Member	Jan. 1990	Dec. 1998	Change
Algeria	5.0%	2.9%	-2.1%
Indonesia	5.7%	5.0%	-0.7%
Iraq	12.8%	8.4%	-4.4%
Iran	11.7%	13.0%	1.3%
Kuwait	8.7%	7.4%	-1.3%
Libya	5.3%	4.9%	-0.4%
Nigeria	7.5%	7.3%	-0.2%
Qatar	1.7%	2.4%	0.7%
Saudi Arabia	24.0%	29.7%	5.6%
U.A.E.	8.9%	8.1%	-0.8%
Venezuela	8.6%	11.0%	2.3%

[19]

The above table shows that Kuwait's market share in OPEC had decreased, supporting the view that Kuwait does not need to increase its production because it will be limited by OPEC's quota. Kuwait's current quota, as of February 1, 2003, is 1.966 million bbl/d. leaving the opponents of "Project Kuwait" asking why the need for an increase in production capacity.

[19] Williams



[20]

People involved in the oil sector share a different view. They believe that with the recent reentry of Iraq as a new player in the field, Kuwait will have to recalculate its oil production strategy. Thus the real issue for Kuwait is to figure out what the right market share should be. Allocating quotas within OPEC is a complex system that is dependent on a country's negotiating tactic. An extra OPEC member could mean a decrease in the production quotas of all other OPEC members. Yet, since one of the ways quotas are assessed is by measuring a country's production capabilities, the proponents of an increase in production capacity believe it would behoove Kuwait to develop and enhance its production in order to increase its bargaining power in OPEC negotiations.

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[20] Williams

Therefore, exploring and developing new fields could help to maintain Kuwait's current OPEC quotas. Once back to its production capacity, Iraq will be a formidable force to reckon with because it has large reserves, estimated at 112 billion barrels. Iraq is expected to increase its oil production and will eventually want to be included in the OPEC quota system. Thus, if Kuwait increases its production capacity, it could have more negotiating leverage to prevent a substantial reduction of its quota because of Iraq's full re-entry into the oil market.

Moreover, the proponents of an increase in production capacity, generally the people involved in KPC or its subsidiaries, insist that there is great demand specifically in the Asian markets. Kuwait, unlike Iraq and Venezuela, is a very stable oil producer that can be relied on for the increasing demand coming mainly from emerging markets. Indonesia, Nigeria, and Algeria are other unreliable producers which sometimes go offline due to internal instability. In the recent Iraqi and Venezuelan crises Kuwait and Saudi Arabia pumped more oil to make up for the lack of supply while taking advantage of the high price at the time and earning some political credit with the US. If a case like this is repeated it would be beneficial for Kuwait to increase its production capacity so that it has more of a say in OPEC dynamics.

Regardless of the demand for oil, KPC believes it is beneficial to contract the IOCs to produce oil more efficiently and cost effectively. Hashim Al-Rifai, a KPC executive directly involved with "Project Kuwait," explains that KPC is currently producing from the northern oil fields, yet the IOCs would produce faster and more efficiently due to their technical superiority. In other words, Kuwait can do it alone, but the IOCs can do it better. Al-Rifai explains that Kuwait needs the swift production mechanisms of the IOCs even more so now to compete with Iraqi production.[21] Thus, regardless of supply or demand, KPC senior management believes that improvements in safety and efficiency will keep it at the top of national oil companies.

[21] Al-Rifai

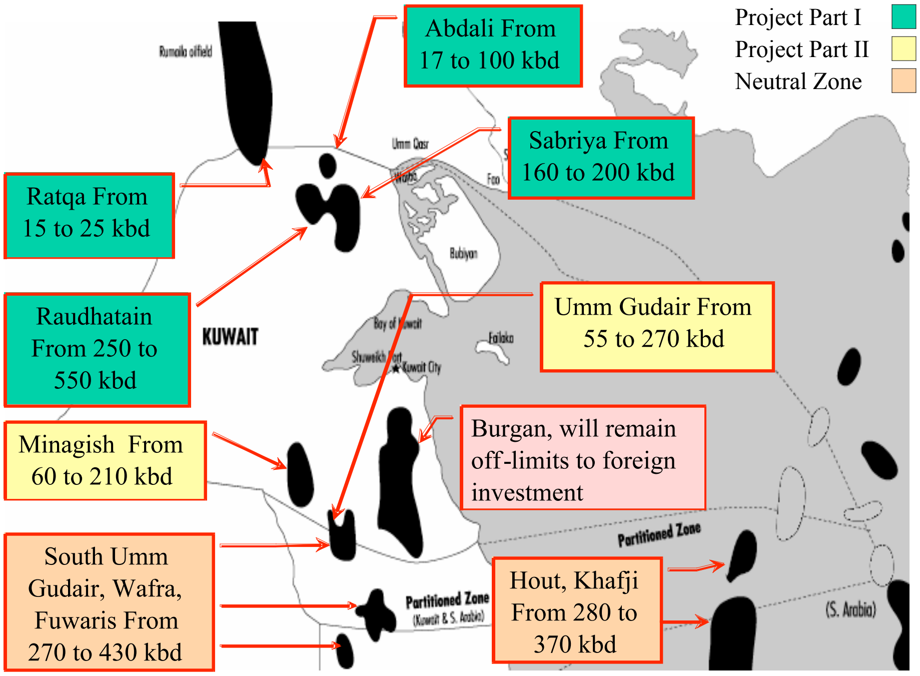
Moreover, if capacity is not built up, Kuwait could find itself marginalized within OPEC as other producers increase their capacity.

Current relationship: "Project Kuwait"

As in any relationship, the links between Kuwait and the IOCs have emerged out of mutual need. Kuwait needs the expertise and the capacity of the IOCs to develop some of their oil fields. Specifically to increase production from the Northern fields, Enhanced Oil Recovery (EOR) is needed, a technology Kuwait does not have. If the terms are right, the IOCs would benefit from investment in Kuwait, a stable, rich, Emirate with one of the largest petroleum reserves in the world.

"Project Kuwait," which was initiated in 1998 by inviting select international oil companies such as ChevronTexaco, Conoco, ExxonMobil, TotalFinaElf, Shell, BP, and Eni to participate in the development of the country's northern and western oil fields, is the first time Kuwait has considered inviting IOCs back into production of Kuwaiti oil since the nationalization. (Very limited technical service contracts were awarded, even in Burgan, in 1994 to start relations, which led both the IOCs and KPC to look for a more complex relationship that will involve IOC investment.) This seven billion dollar project would increase output of the northern fields from 450,000 b/d to around 900,000 b/d by 2005, increasing reserves in these fields from 11 billion to 17 billion barrels. The fields that would be developed are Abdali, Bahra, Ratqa, Rawdhatain, and Sabriyah.[22] Those fields are part of the first phase of the project, featured in green in the picture below. The rest of the fields may be developed in a later project.

[22] Energy Information Administration



[23]

Admittedly, Kuwait could develop the northern oil fields on its own, but in order to improve efficiency, recoverability, and technological expertise, IOC involvement is essential. The northern fields would especially benefit from EOR technology since that helps extend the life of an oil field and can extract oil from more difficult fields. Furthermore, IOC involvement would greatly improve Kuwait's production over time and improve KPC's ability to compete as a truly international oil corporation. Thus, in 1998, KPC selected eight potential operators: ChevronTexaco, Conoco, ExxonMobil, TotalFinaElf, Shell, BP, and Eni. [24] The contract that would span around twenty years would increase Kuwait's production capacity from the current 2.1-2.2 million b/d to 3.5 million b/d by 2005/6 (and 4 million b/d by 2020).[25]

KPC has proposed that the contract governing the parameters of the relationship would be an Operating Service Agreement (OSA), which allows Kuwait to retain ownership of the

[23] Al-Attar presentation

[24] Alhajji

[25] Energy Information Administration

reserves, and not a production sharing agreement (PSA). Although PSAs also allow the host country to maintain ownership of reserves, the history of the concessions and fear of foreign control is so significant to a large number of MP's, that committing to a PSA is too much for the Parliament.

KPC envisions that within the OSA the foreign firms would be paid a "per barrel" fee, along with allowances for capital recovery and incentive fees for increasing reserves.[26] Kuwait will control the strategic management and the IOC will control operational management. Kuwait expects the company to earn a rate of return commensurate with Kuwait's relatively low risk significant reserve base and existing infrastructure.[27] Although the contracts have not been finalized due to political obstacles, the oil companies seem to be in agreement on the general parameters of their future relationship.

The project was first explored in 1994 when a team of experts from the IOCs and KPC conducted an initial study on the technical and financial aspects of further development of Kuwait's oil fields. In a personal interview with Ahmad Al Saadoun, a prominent and long-standing Member of Parliament, he described this committee as fair and unbiased. Although the report did acknowledge the possible benefit of involving IOCs in developing the northern oil fields, it concluded that Kuwait has the technical ability to develop its own fields. Therefore, if the IOCs must get involved they should stay away from any fields that have heavy KPC investment such as the Burgan field, Kuwait's so called "crown jewel". (Chevron has recently worked on the Burgan field in merely a technical advisory role and for a very limited period.)

Unfortunately, this report, Saadoun lamented, was "put in the drawer" because it did not serve "certain people's needs." The "certain people" he was referring to are some agents of the

[26] Ibid
[27] Al-Attar presentation

IOCs and KPC who are pushing for this partnership for their personal gain.[28] Kuwaiti commercial law stipulates that all foreign commercial ventures conducted in Kuwait must have a Kuwaiti agent. Since the investment world in Kuwait is very protective and closed off to foreign investment, this law is supposed to enable foreign investment as long as the Kuwaiti agent acts as a guarantor. All banking and property transactions in any commercial venture are in the name of the Kuwaiti agent and not the business owner to ensure accountability and reduce risk of default.

In reality this law, which is supposed to encourage growth in the local economy and prevent corruption, has created a different sort of corruption where the role of agent has turned into a lucrative profession filled with pay-offs and profit. Al-Saadoun and other parliamentarians fear that opening up the Kuwaiti oil sector to foreign investment will be an incentive for some agents to abuse their roles and block the activities of the IOCs unless they are given a lucrative pay-off. This kind of corruption has happened in Kuwait in various commercial ventures and is therefore not so unbelievable.

A second team was formed in 1998 that, in Al Saadoun's opinion, was biased and was formed to serve certain agent's needs. Although he did not disclose specifically which agents he meant, Al-Saadoun was adamant that the second team was driven by corrupting influences. This team concluded that Kuwait needed an investment of seven billion dollars to reach the goal set by KPC of 3 million barrels per day (m/b/d) by 2005. On the 14th of March 2001, The Kuwaiti Parliament passed a law stating that it needs to know and approve, by parliamentary vote, every contract to be signed between KPC and any IOC in order to prevent corruption and ensure transparency in investment practices. Paul Sampson reported in The Oil Daily, "Kuwait's opposition-dominated legislature passed a resolution stating that all upstream contracts will have

[28] Al Saadoun

to win parliamentary approval."[29] These demands are characteristic of a Parliament that was dominated by representatives who distrusted the government and have a very strict interpretation of the constitutional clauses governing natural resources.

Although KPC has concluded that IOC involvement is necessary and has short-listed a few companies, the next step of signing the OSA with this international consortium has come to a standstill due to the intense disagreements between KPC and the Kuwaiti Parliament. Despite the standstill, in the summer of 2003 KPC grouped all the potential operators into three consortia with differing percentages of interest from which one will be chosen.

Consortium One:
ChevronTexaco 50%
TFE 20%
PetroCanada 10%
Sibneft 10%
Sinopec 10%

Consortium Two
BP 65%
Occidental 25%
ONGC/India Oil Co. 10%

Consortium Three
ExxonMobil 37.5%
Shell 32.5%
ConocoPhillips 20%
Maersk 10%[30]

KPC's Interests and Positions

The Kuwait Petroleum Corporation, along with the Supreme Petroleum Council, are looking for cooperation as they believe they need the expertise of the IOCs to develop the northern oil fields and benefit from their untapped wealth. The Enhanced Oil Recovery technology needed in the northern fields is not needed in the Burgan field, as its tremendous

[29] Sampson, Paul
[30] Al-Attar presentation

underground pressure makes oil recovery relatively simple. According to a phone interview with Nawaf Al Sabah, Manager of KPC USA, involving the IOCs to help increase production of the northern oil fields will give the Burgan fields "a rest to rebuild their pressure" and will improve Kuwait's technical knowledge.

Hashim Al-Rifai a senior KPC executive involved with "Project Kuwait" stated that despite any IOC involvement Kuwait must:

1. Maintain its national sovereignty
2. Control production policy
3. Decide the site to be explored

The IOCs must

1. Abide by national rules and maintain confidentiality in its relations
2. Employ Kuwaitis and favor Kuwaiti products and services

Furthermore, KPC stipulates that "the OSA will contain an economic model that aligns Kuwait and IOC interests through: 1) IOCs incurring 100 percent of capital and operating costs 2) Kuwait compensating with a portfolio of fees that

- Cover capital and operating costs
- Provide incentives for desired behavior
- Reward performance achievements." [31]

KPC has broken down the fees to be paid to the IOCs into an "old fee" and a "new fee." The "old fee" will be paid for oil that can be produced by KOC. The "new fee" will be for any oil produced above the ability of KOC's production. (This type of fee breakdown is hard to determine and must be specified before finalizing the contract.) Moreover, the IOCs will receive a gas fee to encourage investment and development of Kuwaiti gas. They will also receive an

[31] Sultan, Nader

allowance on annual capital investments. The IOCs will have to pay a yet undetermined rate of Kuwaiti corporate taxes. KPC believes the terms of the OSA promote fiscal stability and cost sharing between Kuwait and the IOCs.[32]

Kuwaiti Parliament's Interests and Positions

Despite KPC's limitations on IOC investment, some MP's are extremely skeptical of allowing foreign involvement in the country's natural resource. The lack of agreement stems from different views about the proper future direction for the country. This leads to differing ways of interpreting the Constitution to justify opposing ends. Sampson explains that the understanding of Parliament is that the Kuwaiti Constitution states that "every investment in a natural resource of the emirate has to be regulated by law and should be defined in its time and scope."[33] Thus Parliament believes that since the IOCs would be investing in Kuwait, the Parliament should create laws to regulate that investment; whereas KPC believes that only concessions, not investment, need to be regulated by Parliament. Parliament's protective attitude is rooted in the distrust lingering from the days the National Assembly pushed for nationalization, as well as its desire to reaffirm its power in Kuwaiti decision making.

Some MP's, such as the vocal Abdulla Al-Nibari, interpret the Kuwaiti Constitution to mean that IOCs are banned from profit-sharing agreements and are limited to fee-for-service contracts. Moreover, the general understanding of Parliament is that international investment will be focused on the Northern oil fields, which are not the most productive and, in the past, were politically volatile as they are on the Kuwaiti-Iraqi border.

The proposed agreements between Kuwait and the IOCs call for a seven billion dollar investment by the IOCs to increase production of the northern oil fields by 900 thousand b/d over

[32] ibid
[33] Sampson, Paul

five years. The compensation for the oil companies would be assessed per barrel; creating the fear amongst some MP's that it would be an incentive for the IOCs to overproduce. Although maximum production levels would be specified in each contract, the fear of overproduction only adds to the cynicism of Kuwaiti Members of Parliament concerning the possibility of IOC involvement in Kuwaiti oil.

Another factor, immeasurable by barrels of production, is the Parliament's fear of corruption. MP Ahmad Al-Saadoun is wary of IOC involvement since he believes this push is caused by agents, individuals from KPC and the government who will stand to gain financially from the partnership.[34] Moreover, Al Saadoun believes that any invitation of foreign investment in Kuwait should be initiated by Parliament, and any contract should be approved by a parliamentary vote. He went on to warn that any minister who sidelines Parliament and signs contracts without Parliament's approval will risk being questioned by Parliament with a possible impeachment. This demonstrates the resentment Parliament has towards the executive branch, which it feels is usurping Parliament's legislative role. Al Saadoun's statement exemplifies the power struggle that exists between a Parliament that is protecting its rights to legislate, and a government that perceives the Parliament to be too independent.

In order to further ensure the lack of corruption in investment, the Parliament has decided that, "The contracts also will have to stipulate that companies are barred from using local agents or representatives, directly or indirectly. If they do, the government will have the right to abrogate the contracts unilaterally, and to take legal action."[35] Thus, any contract with the IOCs will not follow Kuwaiti commercial law, which requires the use of agents. KPC and the Ministry of Energy are well aware of Parliament's fear of agents and have no problems with excluding the

[34] Al-Saadoun
[35] Sampson, Paul

use of agents. In an interview with the Oil Daily Kuwait's Acting Oil Minister in September 2003, Sheikh Ahmad al-Fahd al-Sabah said, "The new draft law bans international oil companies from using local agents, and restricts [foreign oil companies'] contracts to technical support and operating agreements."[36]

Many in Parliament do not see the need to contract with the major oil companies and would prefer getting the technical knowledge from engineering firms such as Bechtel or Parson. They believe that KPC is capable, with some additional technical expertise, of reaching the three m/b/d goal. Another reason the Parliament fears the IOC is the idea of its strength, a Businessweek article explains this point by saying, "The give-and-take of dealmaking has never come naturally to the sovereign state of Exxon, accustomed as it is to using its superior technology and financial muscle to dominate not only rival companies but whole countries".[37] Thus, according to the perception of those skeptical MP's, the unequal negotiating power of the IOCs based on their technical expertise can in fact be so intimidating as to break the deal. Perhaps the Parliament's perception of IOC negotiating tactics is creating a fear that Kuwait will be forced into an unfair deal.

Business Model of IOCs

IOC technological and management advantage is greater in upstream than downstream; thus, we can generalize that all the IOCs are going to invest more heavily in the most profitable part of their business. Moreover, we can see that the return on capital employed for all IOCs is significantly higher in upstream compared to downstream ventures. Therefore it makes perfect sense that IOCs heavily target upstream investment.

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[36] Husari
[37] Bianco

The essence of upstream investment is the ability to book new reserves. Booking reserves means that the corporation has the contractual right to produce the reserves even if it does not actually own the reserves. Booking is a vehicle under US securities law used for accounting purposes. The producing countries generally care about reserve ownership in a legal and political sense and less about booking reserves. In fact, according to the laws of most countries a corporation can no longer own subsoil resources but can book them, indicating an ability to increase its production.

The benefit of booking new reserves is that it signals to the investment community that the company has tangible assets that can support earnings growth. Also, booking new reserves will present a good outlook on consistency and sustainability of future earnings to investors. By showing that IOCs can add to their reserves the IOCs hope to convince investors to buy their shares and financial analysts (like Morgan Stanley, Merrill Lynch etc.) to recommend their companies to investors. Because the analysis of the future value of the company and its share price is dependent on maintenance and growth of reserves, the IOCs must constantly replace reserves declining through production. The desire to book new reserves, coupled with the fact that Kuwait has a large reserve base, is the reason the IOCs are so keen to invest in Kuwait. Whether or not KPC and the IOCs will be able to find a solution that will allow both Kuwaiti and IOC objectives to be met remains to be seen.

ExxonMobil

Exxon Mobil's business model is fairly typical of IOCs and is a good example of the value of upstream investment for an IOC. According to the 2002 annual report, Exxon Mobil's earnings after income taxes were $7,074 million in non-US upstream and only $607 in non-US downstream. On a worldwide basis, their upstream earnings are $9.6 billion while their return on average capital employed is 22.3 percent. On the other hand, earnings from downstream operations are much less, as illustrated in the tables below.

In the 2002 annual report ExxonMobil highlights the importance of booking new reserves by stating that it has replaced 117 percent of the reserves produced. The report goes on to say that "ExxonMobil's proved reserves are the largest of any nongovernmental company."[38] Moreover, one of their upstream strategies is to "Identify and pursue all attractive upstream exploration opportunities."[39] In 2002, the company either discovered or extended their ownership of 1,210 billion barrels of new proved reserves, making the booking of new reserves an integral part of their resource base. This clearly shows that most of their gains are from upstream ventures that would include booking new reserves. Therefore, since it is their most profitable investment, it would only make sense that Exxon Mobil and other IOCs will look to book reserves and secure exploration and production in Kuwait.

A Businessweek article explaines that,

> To remain in business long term, an oil company must replace the reserves it extracts for sale with an equal volume of new discoveries. In Exxon's case, it must find 1.6 billion barrels a year just to stay even. What is more, it must add these volumes cost effectively to have any hope of turning a profit. This is one area where Exxon's technical expertise has really worked to its advantage.[40]

Upstream

Quality portfolio and leading-edge technology yield strong returns			
Earnings	**$**	**9.6**	**billion**

[38] ExxonMobil annual report 2002
[39] Ibid
[40] Bianco

Return on average capital employed		**22.3**	**percent**
Capital and exploration expenditures	**$**	**10.4**	**billion**
New resource additions (oil equivalent)		**2.2**	**billion barrels**
Proved reserves additions (oil equivalent)		**1.9**	**billion barrels**

<u>Downstream</u>

The 2002 downstream figures were exceptionally low because it was a cyclic down year.

Strong operating performance in a challenging margin environment			
Earnings	**$**	**1.3**	**billion**
Return on average capital employed		**5.0**	**percent**

IOCs Interests and Positions

The IOCs have been eager to start investment in Kuwait due to the huge amounts of proven and unproven reserves. Kuwait's proven reserves of 96.5 billion barrels comprise nine percent of the world's total oil reserves. Yet despite the stable economy and fiscal policy of the country, Kuwait's investment arena is tightly protected and is unwelcoming to IOCs. Moreover, there is still a slight lingering distrust of investing in countries that have, in the past, nationalized oil fields to the detriment of the IOCs. Moreover, it is common knowledge to the IOCs that tapping into Kuwait's natural resources is a very inflammatory subject in Kuwait as it is clear in the Constitution that IOC involvement should be limited. Nonetheless, the IOCs remain hopeful that a beneficial outcome will be reached through the OSA's.

The IOCs, unlike some Kuwaiti MP's, see the Kuwaiti oil reserves as essential to the future supply of oil. In a speech delivered in Kuwait, Harry J. Longwell, then Senior Vice President of Exxon Corporation and currently Executive Vice President of ExxonMobil Corporation, defended the need for an increase in Kuwaiti production by saying, "Projections of oil demand developed by the International Energy Agency and the U. S. Energy Information Agency indicate that global demand will rise by about 50 percent over the next 20 years. This increase will be driven by rising standards of living and increased economic activity."[41]

In this speech Longwell stated that the agreements between ExxonMobil and KPC should take the interests of both sides into account where Exxon would be able to gain reasonable returns on their investment. He outlined ExxonMobil's vision of the OSA as, "It should provide access to a large enough resource base to justify the significant long-term commitment of capital, people, and technology. In addition, the investor should accept risk for the development of the resources, balanced with a performance-based reward system." [42]

In closing, Longwell indicated that Exxon would be willing to take on the majority of the costs as long as there was an equitable value sharing agreement.

> With the proper value sharing arrangement in place -- one that achieves an appropriate risk / reward balance -- coupled with an appropriate business climate, we can work with KPC and the people of Kuwait to make meaningful long-term contributions to the development and operation of Kuwait's onshore oil fields. We are prepared to invest the magnitude of capital, people, and technology necessary to develop and produce these resources in an optimal way.[43]

[41] Longwell
[42] Ibid
[43] Longwell

Longwell's remarks demonstrate the readiness of an IOC to invest capital and assume risk while earning risk-related returns. Unlike Bechtel or Haliburton who take on low-risk operations by rendering a service in return for a fee, IOCs do not prefer fee-for-service agreements. This may be problematic if Kuwait expects to award contracts that are mainly fee-for-service.

The recent remarks made by the Senior Vice President of ExxonMobil Corporation, Rex Tillerson, showed a thread of caution by commenting on the need for a reliable contract that will not change over time. "Before we take on the up-front risk in terms of dollars and dedication of our own technical resources, human and otherwise, we must have confidence as to the terms under which we can pursue an investment decision. And, we need assurance that those terms will not change over the life of the contract.[44]

Not only do ExxonMobil and other IOCs want an enduring contract, they also want fast decision making and problem solving from the host countries.

> In Exxon's view, existing legislation authorizing production-sharing agreements needs to be amended to shore up the assurances given foreign oil companies. In a recent speech, Longwell said that one of the biggest obstacles to oil development throughout the world is that many countries 'don't appreciate the importance of speed and do not move quickly to resolve problems'.[45]

Thus, the long and unresolved debate between KPC and Parliament can be a reason that some IOCs would pull out of the project.

Other Countries' Arrangements with IOCs

The following section will analyze the evolution of the relationship between IOCs and the state oil companies of Norway, Qatar and Abu Dhabi. These three cases were chosen to demonstrate 1) a company that has embarked on the path of privatization as in Norway, 2) a

[44] Tillerson
[45] Bianco

company that rekindled relations with the IOCs after nationalization as in Qatar, and 3) one that never fully nationalized oil development as in Abu Dhabi.

Statoil of Norway

The government of Norway's business model is changing from government control to private ownership. Statoil started later than the national oil companies of the big Arabian Gulf producers. It was created in 1972 as a national oil company to begin exploration and production of the North Sea. Holm Karlsen, president of Statoil North America stated: "We saw the development of the Norwegian shelf as a Norwegian activity, and we decided the investment position had to be portioned out over a number of years, so Norwegian industry could gear up to handle it."[46]

Initially, however, Statoil had to call on the IOCs such as Mobil and Phillips Petroleum to develop its offshore fields, yet even then Statoil maintained a 50 percent share of the joint venture. The government decided the terms and conditions of the partnerships and controlled the revenue of the oil fields. As Statoil gained technical expertise it started operating some fields on its own.

April 2001 marked the beginning of change from state to private ownership when the Norwegian Parliament agreed to make Statoil a publicly traded company.[47] Moreover, the government also changed their approach to controlling the industry. "Although the state retains majority control, it has pulled back from what many analysts considered to be a provincial, meddling approach to the Norwegian oil industry."[48] Today the state still owns 81.8 percent of

[46] Cook
[47] Energy Information Administration
[48] Sains

the company, which raises problems when its goals are not in line with the goals of the other investors.[49]

Some believe that Norway will sell even more of its share maybe even going down to the 66 percent that it must own by law. A July 2003 Businessweek article reports: "Looking ahead, analysts think the state should and likely will reduce its holding even more in the months ahead to give Statoil more freedom. Nick Griffin, an oil industry analyst with Deutsche Bank in London, predicts that such a sale could come within 6 to 18 months (from July 2003)."[50]

The IOCs are also players on the Norwegian oil field since they own 40 percent of equity in ventures. This means that Statoil and the newly emerging Norwegian companies have to compete and cooperate with the IOCs. Olav Akselsen, Norway's Petroleum & Energy Minister says,

> The government wants 'to make [Norway's] oil companies more prepared for competition from abroad.' That means selling a slice of Statoil and--more important to the oil companies--allowing outsiders to bid for some of Norway's oil and gas reserves, known as the State's Direct Financial Interest, or SDFI, which Statoil manages but does not own."[51]

The management structure of the Norwegian petroleum industry has changed to accommodate the increasing foreign investment. The state has turned over management of the SDFI to Petoro, a newly constituted management company. It also decreased its shares in Norsk Hydro, the second largest oil company that is part of the SDFI, from 51 percent to 44 percent. Statoil is also cooperating with firms such as BP in research, exploration and natural gas marketing.[52] Currently, with the possible sale of even more shares of the state owned company, the dynamics of cooperation and competition will change in the Norwegian oil field.

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[49] Statoil Annual Report
[50] Sains
[51] Reed
[52] Cook

The push to privatize Statoil came from within, from the executives of the company. Statoil is one example of many national oil companies that want to compete in the market to be at par with the IOCs in developing their natural resources. Moreover, Statoil and KPC are similar in that they want to operate independently of Parliament's interference in their business matters. The desire to privatize Statoil by its senior management demonstrates a need to be free of the regulations and meddling of the state. Inge K. Hansen, Statoil's chief financial officer, "asserts that even a minority share listing--Statoil anticipates a 20% to 30% tranche, worth $4 billion to $6 billion in the market--would add discipline and reduce political interference at Statoil. The government 'will have to be very careful not to act differently from other shareholders'."[53]

If the Statoil case is applied to Kuwait, the petroleum industry would be broken up into smaller, privately owned entities which would greatly need IOC investment and involvement. Then, the IOCs would not have to wait for parliamentary approval, and instead strike deals with any of the smaller owners. The proponents of privatization and free markets, businessmen who would profit from privatization, argue that with the privatization of the oil industry, oil wealth will be more equitably divided between the people. Privately owned companies will be more transparent than KPC with less commissions and corruption. Also, privately owned companies will lead to competition within the industry.

Yet, this option is almost impossible, as a significant change in Kuwait's Constitution would need to take place to allow for the privatization of the national industry. Privatization of some small oil and petrochemical projects is more likely, as shown by the recent move to create a private company to run some of the gas stations in the country. Thus the Statoil model is not

[53] Reed

politically feasible. Even in the Norwegian case where the country is heading to privatize the industry and the relationship with the IOCs was never acrimonious, some are still suspicious of privatization. Stanley Reed reports that, "Many Norwegians are suspicious of free-market capitalism and intensely nationalistic about the nation's oil assets. Politicians are lining up on both sides of the issue."[54] Odd Roger Enoksen, head of the Center Party, exclaimed, "A well-run state company is as good as a private company…We don't need the money, so why sell?"[55]

Not only does Kuwait not need the money from the sale of the national companies, it would lose the monopoly over its only source of revenue. Kuwait, a rentier state, uses its oil revenues to finance its generous welfare systems of free health care and education. Moreover, the oil revenues allow it not to impose an income or a sales tax. Needless to say, the population has high expectations of governmental services and would be greatly opposed to paying taxes. Therefore, unless the country diversifies its revenue base, petroleum money will be the only way to run the state. In short, the Norwegian model does not apply to Kuwait because they have not gone through the same difficult nationalization process and do not have the same political model as Kuwait.

Qatar Petroleum (QP)

Qatar Petroleum, (QP, formerly known as QGPC) is a state owned oil company. Although Qatar nationalized its petroleum industry in 1974, it did not completely sever relations with the IOCs as Kuwait and Saudi Arabia eventually did. Instead, it maintained technical service agreements which facilitated working relationships with the IOCs and allowed access to technical and managerial personnel seconded from the IOCs to QGPC. When the technical service agreements expired, QGPC in the early 1990's realized it needed the capital and the

[54] Reed
[55] Ibid

technical expertise of the IOCs, and it began developing its oil and gas resources through Production Sharing agreements (PSAs) with IOCs. The PSAs do not extend to Qatar's "crown jewel," the Dukhan oil field, which is operated solely by QP.

The current cooperation and readiness to involve the IOCs in the nation's natural resources was facilitated by the fact that they did not have an acrimonious separation. In fact, the IOCs never really left Qatar despite the nationalization. Moreover, Qatar's Emir, Sheikh Hamad bin Khalifa Al Thani, has instituted tax breaks for foreign investors to encourage foreign investment, especially in the oil sector.[56]

Another reason for this friendly partnership is that there is a clear need for IOC involvement in Qatar as a large part of their industry is dedicated to gas, a product that is very different than oil. The liquefaction procedure needed to transport Liquefied Natural Gas (LNG) to distant markets is quite expensive and is therefore dependent on heavy financial investment. Moreover, the IOCs possess unique expertise in producing, processing, and marketing gas, a knowledge that QP simply does not have. Therefore, unlike Kuwait, Qatari success is a lot more dependent on IOC capital investment and technical knowledge.

Despite the involvement of IOCs in QP, the state has pushed for the "Qatarization" or training and hiring of Qatari nationals, to ensure Qatari control of their industry. This push is in response to another factor that has historically weakened the company. QP has traditionally employed either Qatari nationals or seconded expatriates as senior managers, but the technicians and engineers were usually Egyptians, Palestinians, or Southwest Asians in Qatar on a very limited contract. This high turnover rate of employees created an unimaginative workforce and a lack of institutional knowledge. Realizing this is one of their main handicaps, QP is focusing on employing and training willing Qatari nationals in all sectors of the business. In short, Qatar had

[56] Energy Information Administration

different necessities and is smaller than Kuwait, making IOC involvement a lot easier. Because Qatar never really severed relations with the IOCs, it is much easier for them to expand IOC involvement in developing their petroleum sector. This is a much harder task for Kuwait.

Abu Dhabi National Oil Company (ADNOC)

The Abu Dhabi National Oil Company (ADNOC) is a state owned oil company formed in 1971. Crown Prince Khalifa bin Zayed Al Nahyan is the head of the Supreme Petroleum Council which controls ADNOC. The company has always maintained cordial relations with the International Oil Companies that had concessions in Abu Dhabi. ADNOC bought out the majority of the concession yet allowed the IOCs to continue operating within the Emirate so as not to lose the technical expertise and financial base of the IOCs. The Oil and Gas Journal describes this as, "The aim was to lay sovereign claim to resources of the new state without losing the technological and financial advantages of international partnerships."[57]

Although ADNOC can currently function as a sole risk operator, it often participates in joint ventures domestically and internationally. 95 percent of the country's upstream projects are conducted by three companies: Abu Dhabi Co. for Onshore Oil Operations (ADCO); Abu Dhabi Marine Operating Co. (ADMA-OPCO); and Zakum Development Co. (Zadco). Zadco is the only one of the three that is still a joint venture between ADNOC and Japan Oil Development Company while both ADCO and ADMA-OPCO are national companies.[58]

In December 2002 ADNOC, like KPC, was looking to open up investment in its upstream sector to the IOCs. BP, TotalFinaElf, ChevronTexaco, ExxonMobil, and the Japan Oil Development Company (JODCO) had bid for the sale of 28 percent of the offshore Upper

[57] Tipee
[58] Ibid

Zakum field with a decision expected in the near future.[59] Now Abu Dhabi, like Qatar, and possibly Kuwait will reopen its upstream sector to IOCs. The friendly history between Abu Dhabi and the IOCs will facilitate future agreements and make it easier for each side to accept the other. Until now both Abu Dhabi and Qatar have not had parliaments and corruption is not as openly discussed as it is in Kuwait. These factors enable much faster decision making by the ruling families concerning cooperation with IOCs. Although the ADNOC example may be applicable to Kuwait the rapprochement will happen at a much slower pace due to parliamentary involvement.

Analyses

Involving IOCs in Kuwaiti oil production is a political challenge as well as a negotiation challenge. The political challenge is due to very strong nationalistic sentiments from influential segments of Kuwaiti society. Kuwait essentially severed its relationships, not accepting seconded management from the IOCs as QGPC did. Moreover, it did not allow the IOCs to continue to operate after they nationalized the oil industry as Abu Dhabi did. Instead, Kuwait took over the reins of ownership, exploration and production from the majors and focused all their capacity on controlling every aspect of the oil industry.

The investment in both upstream and downstream ventures domestically and internationally demonstrates that Kuwait sees its national oil company on par with other national oil companies. Its expansion in foreign ventures and in petrochemicals and fertilizers exemplifies the industry's technical knowledge and fiscal strength and ability to make profit in diverse ventures. Thus, it is not surprising when the common Kuwaiti expresses disbelief at the

[59] Energy Information Administration

prospect of involving outsiders to do a job perceived to be within the abilities of the national company.

The negotiation challenge is due to the Parliament's fears that involving the IOCs may take the control of Kuwaiti oil out of Kuwaiti hands. As news of possible IOC involvement spread, Richard Dean, a writer for Gulf Business Magazine, commented, "If international oil companies take control, the Kuwait oil industry could be run completely according to the needs of the market, rather than according to the needs of the Kuwaiti economy."[60] This comment is an example of the misunderstanding of IOC involvement in petroleum development. IOC involvement does not necessarily mean control as exemplified by the UK, Norway, and Qatar where IOCs are involved but do not control the whole industry. Unbeknownst to many parliamentarians, a national oil company usually determines the amount of control they will relinquish to the IOC, and in general once a contract is signed both sides will have agreed to their respective roles and parameters. Even the supposedly unfair concessions of the 1930's were agreed to by both sides. An agreement is, of course, affected by each side's negotiating power, yet in this case no side is forced to come to an agreement that they feel is unfair.

The incentive for agreement on Kuwait's part is that the Kuwaiti industry could benefit from the high operating standards of the IOCs. International investment will encourage greater accountability and transparency of KPC's operations and might possibly bring an end to technical catastrophes such as the February 2001 explosions in the Al Raudhatain oil field. Such technical blunders are not only financial setbacks, but they also decrease the population's trust in the country's oil leadership and policy. In fact, the Al Raudhatain explosions caused the resignation of the oil minister, an action that can destabilize decision making and progress in KPC.

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[60] Dean

There are two possible outcomes concerning the Kuwaiti petroleum industry.

1. An agreement that is amenable to all parties where the IOCs will be able to invest in Kuwait.
2. A standstill caused by a breakdown in negotiations between KPC and the IOCs or between the Kuwaiti Parliament and KPC resulting in no IOC involvement and a continuation of the status quo.

The extent to which the IOCs will be involved, and on what terms, is a current source of debate. Since the task of coming to agreement between KPC and the IOCs is arguably easier than KPC reconciling its interests with the Kuwaiti Parliament, the following steps need to be taken:

First, a culture of trust must be fostered between the Kuwaiti oil sector and the Kuwaiti Parliament and people, and also between the Kuwaiti and international oil sectors. All parties need to believe that they will gain from this cooperation. Although there is no specific way to foster this culture of trust, making it a very difficult problem to solve, time and constant debate about the issue throughout Kuwaiti society are essential in getting all parties to reconcile their interests.

Second, the terms of the contract, while realizing profits for the IOCs, need to protect Kuwait's natural resources so as not to be subject to accusations that the contract is unconstitutional. The selection of careful language that will specify the exact nature of each party's rights and responsibilities will help dispel any misunderstanding on the part of the Parliament. This may be the toughest part of the agreement as it is unclear if a contract can be written without talking about booking reserves.

Third, there needs to be a prior contractual commitment specifying that production control will not be taken out of the state's hands, so that they are not seen to be overproducing and thus driving down the price of oil. The contract should specify that total production in Kuwait should not exceed some established and agreed upon limit. Development plans for each field operated by the IOCs can be agreed in advance at a level that is both profitable and consistent with overall objectives. This understanding will foster trust from the Kuwaiti Parliament that the price of oil is not at jeopardy at the hands of the IOCs. This newfound trust will create an environment of stability and confidence for the IOCs long-term investment.

Fourth, concerted efforts need to be made to employ and train Kuwaitis in every sector of this new venture so that there are no accusations of "Westernization" of Kuwaiti oil. Furthermore, training Kuwaiti employees will ensure better communication and cooperation as both the foreign and Kuwaiti employees will have comparable knowledge and technical vocabulary. If efforts are made to ensure the Kuwaiti Parliament and public that this cooperation is needed and truly beneficial for Kuwait, the climate will be more conducive for healthy and strictly business negotiations between KOC and the IOCs on the exact terms of the OSA.

***The Specifics of the Agreement*:**

Nader Sultan, CEO of KPC, commented on the future prospects of "Project Kuwait." "Sultan said there were three choices: the government could forego parliamentary approval on the view that the country's constitution does not require service agreements to be passed into law; Parliament could pass an umbrella law that would clear the way for the new projects; or lawmakers could opt to scrutinize each contract individually." He said the companies would not be taking on price risk in the project as the crude would still be marketed by KPC. The majors will also not be able to book the reserves themselves.[61]

Sultan's last statement about booking reserves can be interpreted in two ways. First, he is making it clear to the IOCs that booking reserves is not an option since it is so unacceptable to Parliament. Second, he is signaling a new approach that may avoid booking reserves, but gives the companies a risk-related return on their investment.

Contractual agreements

The issue of booking reserves is the most controversial obstacle to any agreement. The distinction between booking and owning reserves is not fully understood by most members of Parliament, especially since many MP's have such a strict interpretation of the constitutional clause governing reserves. Yet, this issue may not be a deal breaker. If the companies can book reserves they may settle for a cheaper rate of return on their investment which is better for Kuwait. However, since the Parliament is so adamant against booking reserves, there are two alternative solutions.

1) The IOCs are allowed to book reserves on the condition that they write in their financial statements that these reserves are pursuant to an OSA and thus the oil belongs to the state. Although this is common practice, this clarifying statement may be sufficient for Parliament to let the project continue and to truly understand that booking is merely an accounting convention.

2) If option one is untenable then KPC and the IOCs need to agree on a high enough rate of return or fee that will make IOC investment worthwhile without booking reserves. This option is more expensive for Kuwait but may be the only way to attract the IOCs while pleasing the opponents to the project. This may not be an acceptable option for the IOCs since booking

[61] Leff

reserves demonstrates the past success of an IOC's activities, and signals the longevity and future staying power of an IOC.

Agents

The use of agents is another argument used against the involvement of IOCs. Becoming an agent for foreign businesses has turned into a lucrative profession which has led to corruption in the business world. Since agents are needed in every commercial venture as per Kuwaiti law, parliamentarians are pointing to the possibility of corruption if foreign investment in the petroleum field will require agents. Yet, both the IOCs and KPC do not mind working without agents. In fact some IOCs would prefer working directly with the concerned party without the use of an intermediary.[62] Thus it is quite likely that both sides will agree that the contracts stipulate the prohibition on the use of agents. Although this may appease some MP's, the MP's involved in business may fight this prohibition as they are the ones that benefit from being agents.

Enabling law

The first option described by Nader Sultan is that the government proceed with the OSA's without the approval of Parliament on the basis that only concessions need parliamentary approval. This would be a strong move that would reaffirm the government's independence in oil related matters. Undoubtedly this tactic would anger Parliament, especially Al-Saadoun, an influential senior Member of Parliament, who threatened a ministerial hearing if such a drastic action was taken.

Thus, the only way to reconcile all parties' interests is with the second option of passing a government proposed enabling law, which has stalled for the past three years in Parliament. The enabling law proposes that Parliament agrees that the government can enact an OSA as long as:

[62] As per conversation with Professor Bruce Everett

1. the ownership of oil is still in Kuwait's hands
2. the contracts are limited to a term of 20 years
3. the commitment to educate, train, and transfer technology to Kuwaitis and to employ Kuwaitis as a minimum of 70 percent of the workforce
4. the prohibition on the use of agents in any dealings with the IOCs

This enabling law is the only way KPC can proceed with its negotiating without the constant interference of Parliament. "An enabling law would give KPC the maximum amount of negotiating leverage without hurting Kuwait's core interests," said Nawaf Al-Sabah in a phone interview. If not, then KPC can take the case to the Constitutional Court to translate Article 152 and, if ruled in their favor, be able to proceed without Parliament. That would be a very confrontational option and since the Constitutional Court's rulings are binding, this strategy may backfire if the court rules in favor of Parliament.

The third option is to take every contract to Parliament for approval stretching out the process and allowing each contract to be meticulously dissected and changed. This would be the worst option for the IOCs as the realization that they are negotiating with a powerless KPC might cause them to lose interest. Moreover, both KPC and the IOCs would have to move at Parliament's slow pace.

A variation of the third option would be to finalize the contract with parliamentary approval and then take it to the IOCs for bid. The chosen IOC would accept the contract that has already been approved by Parliament. Yet even this strategy, which involved parliamentary approval, is unsatisfactory to some MP's, like Al Saadoun, who want to choose the winning bidder and price.

Conclusion

Seeing that privatization is not a feasible option for Kuwait, the Kuwaiti oil industry has the option of remaining with the status quo of operating alone, or of inviting the IOCs to help in developing the Kuwaiti oil industry. For the past 25 years KPC has operated alone in exploring, producing, and marketing Kuwaiti oil. Now, Kuwait's oil fields have matured, making oil extraction more difficult. Moreover, the geopolitics of the region has changed to reinclude Iraq as a producer in OPEC. Thus, in order to compete in the current oil producing arrangement and to maximize recovery while maintaining the life span of Kuwait's fields, IOC involvement is increasingly necessary.

Upon this premises, the Kuwaiti Parliament should pass the enabling law allowing KPC to freely complete its negotiations with the IOCs. The OSA being negotiated limits the IOCs to a period of 20 years, short enough to allay fears that the IOCs will take over the oil industry. If signed, the OSA will signal a new type of arrangement between national oil companies and IOCs that is mutually beneficial and can rebuild trust for IOCs in the region.

Appendix 1:

The figure below outlines the technical service contracts between KPC and the IOCs. The cooperation under this arrangement was very limited in time and scope.

Existing Contracts: Technical Service Contract

Company	Oil Fields	Award Date	Duration
Chevron	Burgan	August 1994	3 1/2 years
Shell	Offshore Potential Study	October 1995	11 months, renewed once, ended August 97
BP	Minagish, Umm Gudair, Rauhatain	August 1996	Renewed for 3 years
EXXON	Karaa 'Al-Maruu	October 1996	18 Months
Total	Wafra, South Fuwaris & South Umm Gudair	July 1997	3 1/2 years

Technical Service Contract (TAC), the IOCs act as technical advisors to KOC, whereby the IOC does not provide Capital. In other word, limited access to oil fields.

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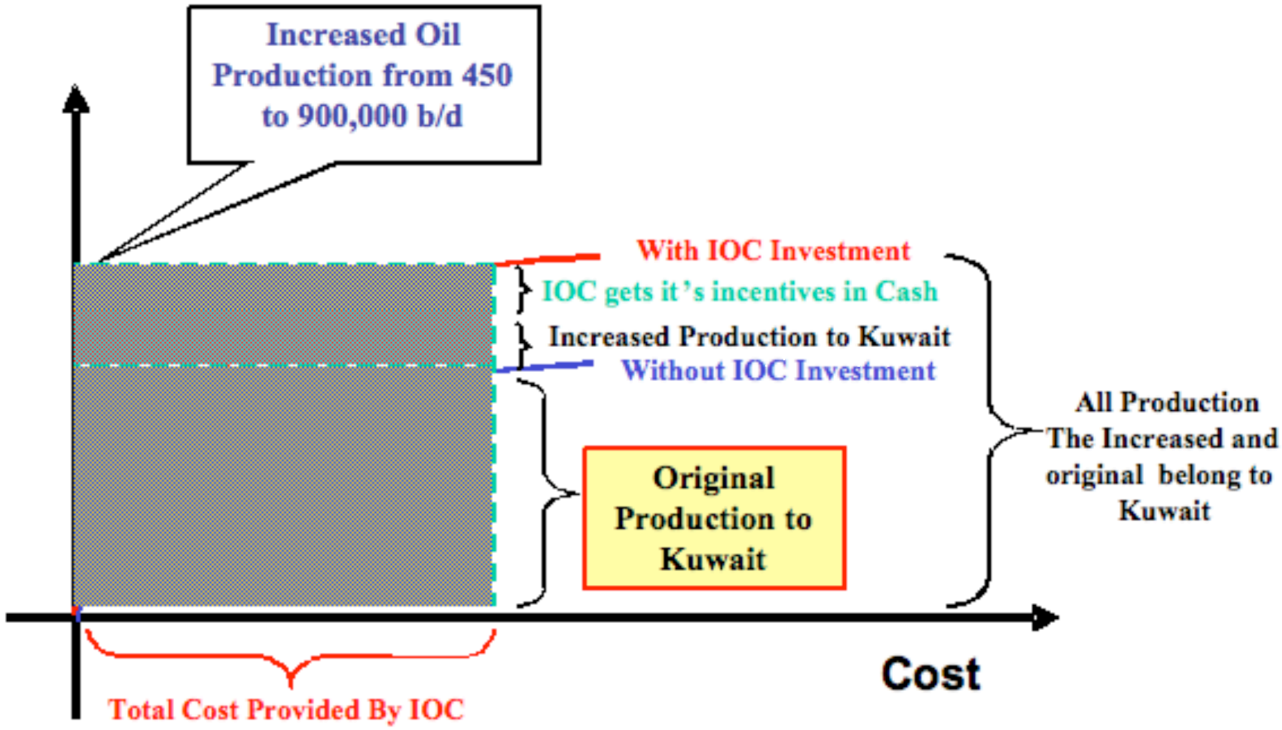
The below figure illustrates the benefits of IOC investment versus production without the help of IOCs.

[63] Al-Attar Presentation

Oil Production Vs. Cost



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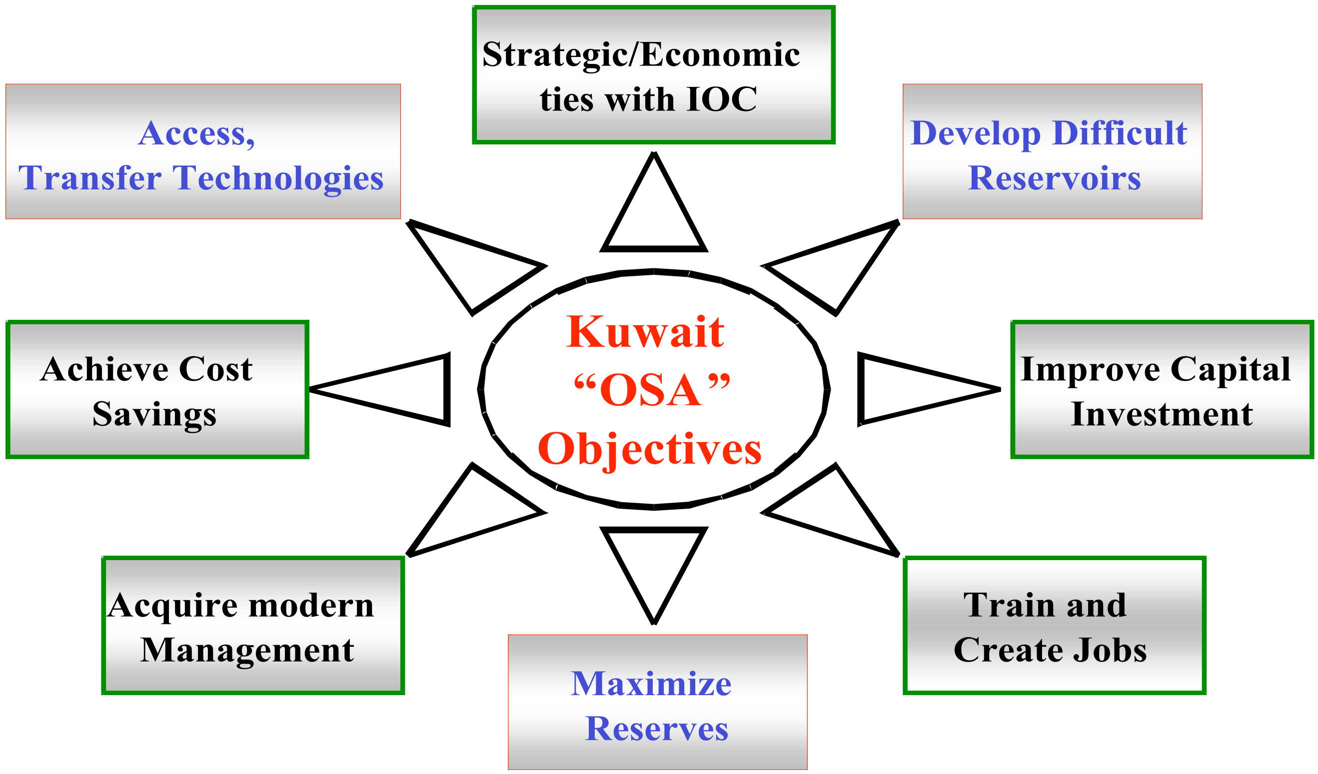
Al-Attar Presentation

The diagram below shows the many ways the Kuwaiti oil industry will benefit from IOC involvement.



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[65] Al-Attar Presentation

Contractor Obligation& Entitlement

Obligation

- Pay 100% of capital cots.
- Manage operation activities.
- Increase reserves.
- Achieve production targets.
- Employ and develop Kuwaiti nationals.

Entitlement

- Recover capital expenditures.
- Receive annual rate of return allowance (on capital).
- Receive service fee per barrel based on total oil produced.
- Receive incentive allowance in order to achieve production targets and increase reserves.

[66]

[66] Al-Attar Presentation

The table below divides the obligations and rights of KOC and the IOC.

The Kuwait Project Operating Service Contract

	Kuwait	IOC
Rate of return on investment		✍
Risks		✍
Book" the reserves	✍	
Production and market control	✍	
Management control		✍
Stable fiscal terms	✍	
Constant, predictable cash flow	✍	✍
Maximum value -added	✍	
Oil Price Risk	✍	
Operation Risk		✍
Leverage on economic development	✍	
Effective technology transfer		✍

[67]

[67] Al-Attar Presentation

The table below demonstrates the increase in Kuwait's production capacity with IOC investment.

Kuwait's Production Capacity

Oil Fields	API	Production	
		2003	2005-2020
Greater Burgn	31	1,580,000	2,150,000
Raudhatian	34.4	225,000	515,000
Sabriya	36	160,000	200,000
Abdali	22	17,000	100,000
Ratqa	30	15,000	25,000
Minagish	34	60,000	210,000
Umm Gudair	27	55,000	270,000
Total b/d		**2,112,000**	**3,470,000**
API		**31.6**	**31.4**

Increase Production By Improve Recovery Factor

Increase Production does not Effect API

[68]

[68] Al-Attar Presentation

The table below calculates the reserves over production with "Project Kuwait"

Reserves Vs. Production

Oil Fields	Reserves Bn bbl	2005-2020 Production	2005-2020 R/P Years
Part I			
Raudhatian	5.1	515,000	27
Sabriya	4.3	200,000	59
Abdali	0.459	100,000	10
Ratqa		25,000	
Total	**9.859**	**840,000**	**32**
Part II			
Minagish	3.3	210,000	43
Umm Gudair	3.2	270,000	32
Total	**6.5**	**480,000**	**37**
Total	**16.36**	**1,320,000**	**34**

Contract Period is Shorter Than R/P

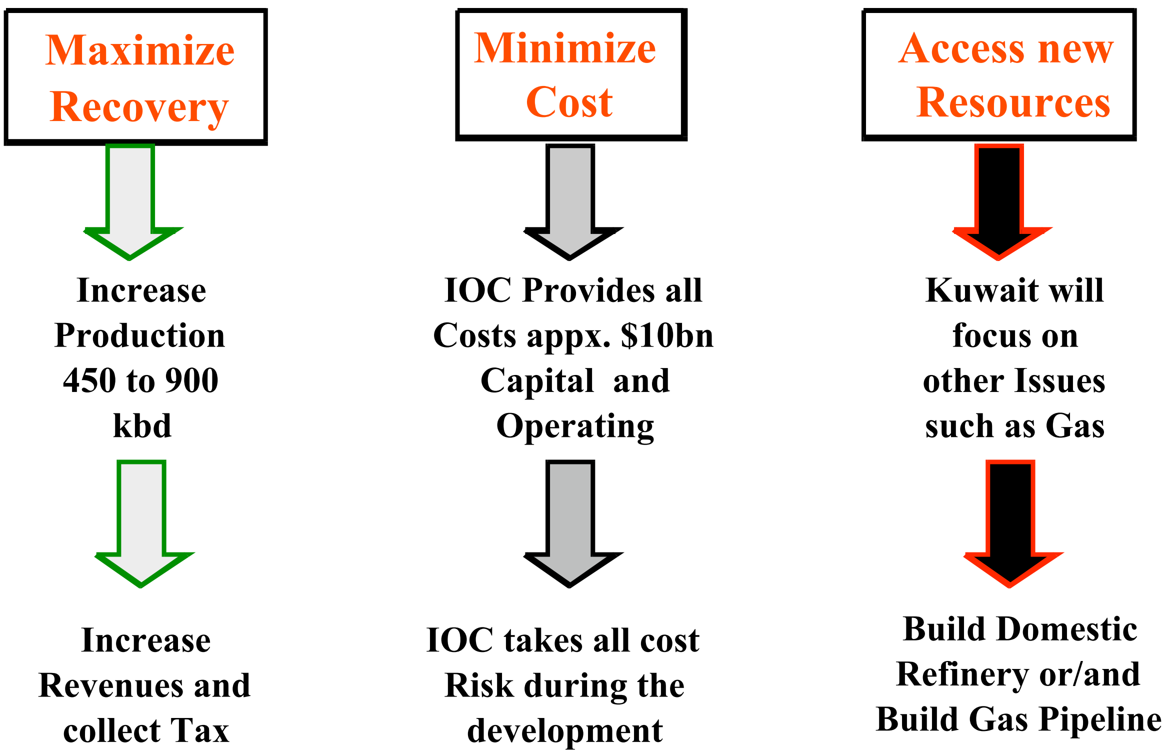
At Current Recovery Factor

Slightly less than Burgan Current Production

69

[69] Al-Attar Prsentation

Technology and OSA



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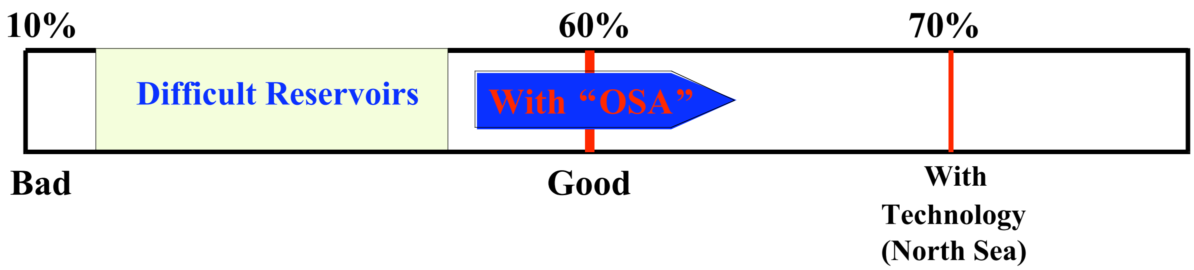
[70] Al-Attar Presentation

Improve Recovery

- **Reservoir Drives (easy or difficult)**
  - Burgan Field: easy: Recovery Factor is between 30 to 50%.
  - Raudhatain, Sabbriya, Ratatq, Abdali, Minagish and Umm Gudair: Difficult: Recovery Factor is between 20 to 40%.
  - Wafra: More Difficult: Recovery Factor is between 10 to 30%.

OSA Improve Recovery Factor



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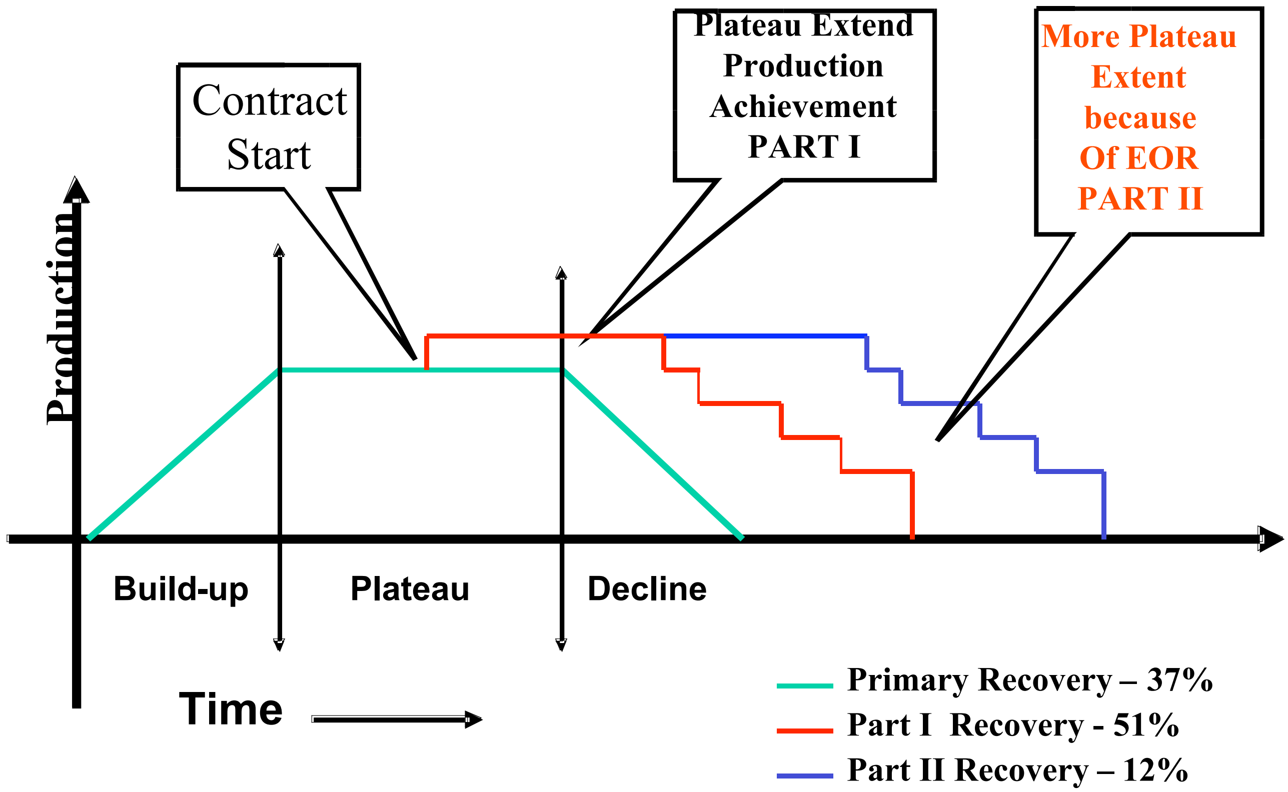
[71] Al-Attar Presentation

Kuwait Northern oil Fields Life -Cycle



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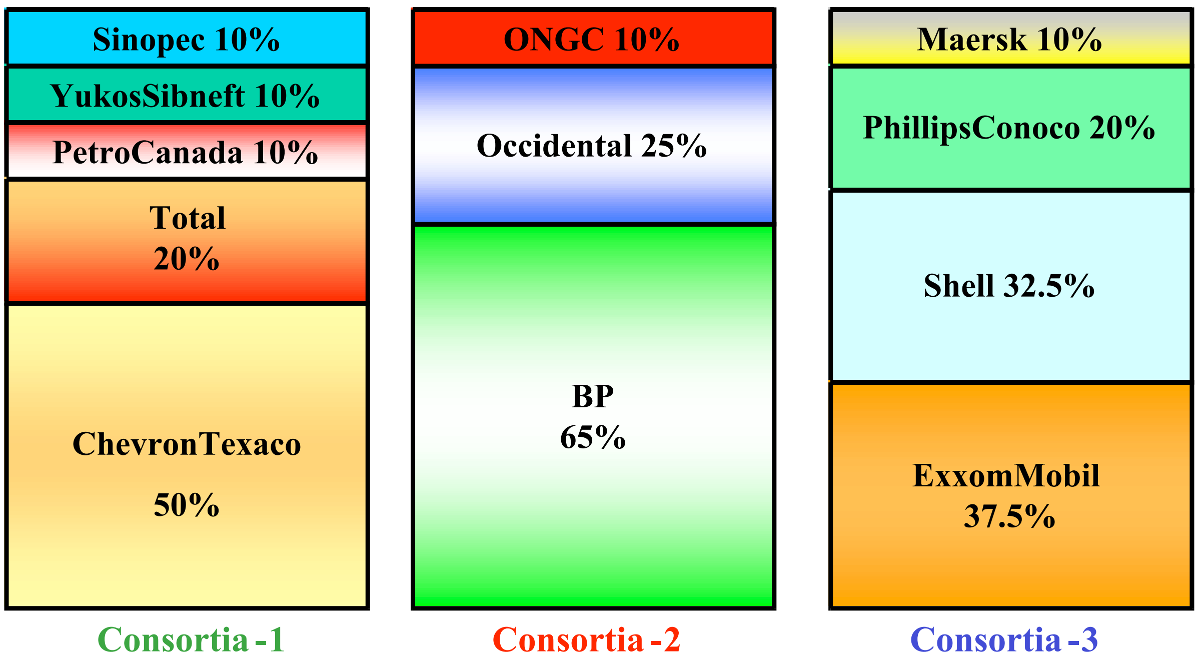
[72] Al-Attar Presentation

International Consortium

- Represent 10 Countries.
  - 5 North Americas,
  - 5 Europeans,
  - 2 Asians



73

[73] Al-Attar Presentation

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