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Oil Production Sharing Contracts (PSCS) With a Focus on Iraqi Kurdistan Region Oil Contracts

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A production sharing contract is a contract that organises the relationship between an oil producing country and an international oil company or a national oil company and an international oil company. An international oil company bears all oil operations expenses and in return gets its expenses back with cost price and shares from oil production. An oil producing country bears taxes when getting its share from oil production. Iraq signed PSCs in 2007 and 2008 with chains of oil companies for developing an oil field (Al Ahdab) and with a Russian oil company for developing an oil field (West Al Qorna). Iraqi Kurdistan used production sharing contracts with international oil companies according to Kurdistan Region Oil and Gas Law No. 28 2007. This was done despite the fact that oil contracts were not recognised by Iraqi federal Governments. The Government of the Kurdistan Region claimed that these kinds of oil contracts promote and attract international investments in the Kurdistan region and these contracts have legitimacy according to Iraqi Constitution Art. 112, which gives Kurdistan regional government the right to sign oil contracts with international oil companies. It is true that international oil companies bear the most risk in production sharing contracts but at the same time oil contracts are more favourable for them, because these contracts provide a framework for a maximum level of cost recovery and oil production. In the Iraqi Kurdistan region, oil contracts have become more of a political issue than a legal or economic issue between the Iraqi government and the Kurdistan Region. The research shows that for the Kurdistan regional government production sharing contracts are more attractive than Iraqi oil contracts. They even have more mutual interest for both parties and are more generous for international oil companies to invest in the Kurdistan Region. Of course, there are some drawbacks. International oil companies often have much more control in dictating the terms of the contract. They are able to negotiate long term and broad contractual terms to the disadvantage of oil producing countries.

Key words: *Production Sharing contracts, Iraqi Kurdistan Region and Oil Contracts.*

Introduction

Since oil was discovered and the many decades that followed, oil industries were exclusively controlled by great international oil companies according to oil concession contracts. According to oil concession contracts, international oil companies have privilege rights on oil industry operations in oil producing countries. International oil companies have concessions on all oil operations, for instance exploration, production, development of oil fields, exportation operations and marketing. As a consequence, oil producing countries had no right to invest or even participate in investing in their national resources (Rex, 2009, P.4).

Many oil producing countries started to refuse the concession, which was given to great international oil companies, because of many reasons which will be discussed in this paper.

Oil producing countries began to search for alternative types of oil contracts which give them some rights to participate in their oil industries. Meantime, new international oil companies were established, for instance the Italian oil company (ENI), the French oil company (IRAB) and the Spanish oil company, and played a big role in removing concession contracts. These companies succeeded to break through the Great international oil companies, such as British and American oil companies in the Middle East. Oil producing countries got a great offer from these new international oil companies and the agreement, which was based on justice, regards oil producing countries as the only owner of their national resources (Khilaf, 1985, P. 60-63).

The first production sharing contract was signed by an Italian company (ENI) with oil producing countries in the 1950s. The top leader of this new type of oil contract returned to the director of Italian company (Enrico). He stated that oil producing countries have the right to be the owner of their crude oil and also to get the profit from oil production. When disputes started to appear among international oil companies, Enrico, as a consequence of this speech, got killed. This new idea of dealing with international oil companies was an interest of oil producing countries. According to this, oil producing countries can take a role in exploration and production operations and invest their national resources in better ways than before. According to the president of the Italian company (Mate), “sharing oil producing countries in oil exploit will prevent to be taken advantage of by international oil companies, so therefore I would not give oil producing countries more installment, but I would let them work with me in oil exploration and investment” (Ahmad,1967, P.4).

It is true in most oil producing countries in Middle East that the great international oil companies no longer have controlled oil operations in oil producing countries from exploration to marketing. However, oil producing countries are still in need of international oil companies in their oil industry operations for reasons such as requiring technological expertise and help with financing oil operation expenses. At the same time many oil producing countries in the Middle East such as Egypt had many foreign debts and, in order to get remission on some of its debts from some regional countries, they decided to participate as part of a collation in the war to liberate Kuwait from Iraq in 1991(Hazem, 2016).

Due to the hard-economic situation in that period, oil operation industries could not be financed by oil producing countries without help from international oil companies. In 1957, new contractual relations appeared between oil producing countries and international oil companies, which were based on exercising practical sharing between them and rights for oil producing countries in administration, profit and exploits (Raymond, 1984, P.21).

Oil contracts as a national attitude or thought grew in oil producing countries after they became fully independent from colonialism. Especially in the Middle East, these countries started to think about their oil concession contracts with international oil companies as a legacy from their colonial past. As a consequence, governments of oil producing countries rejected new oil concession contracts with international oil companies and introduced a new oil contract, which let oil producing countries enjoy ownership of their national resources and shares with international oil companies in oil operations (Mineral & Mining, 2007, P.86).

During the war between Arab countries, a coalition between Egypt, Syria, and Israel in 1973 (Nida, 2012) allowed oil producing countries to make great profits from their crude oil production. Since then, it has become a turning point for oil producing countries in the Middle East to sign new sharing oil contracts and to renegotiate seriously on their old oil contracts with international oil companies (Raymond, 1984. p. 21).

From the very beginning, the big international oil companies refused these kinds of oil contracts, believing that it would impact their oil concession contracts. In the meantime, some new independent oil companies agreed on having production sharing contracts with oil producing countries. Later other traditional oil companies had no choice but to accept production sharing contracts. Since then production sharing contracts have become worldwide international investment contracts and nowadays production sharing contracts are the most commonly used contracts in international investment contracts (Francisco,2004, P.104-105).

Oil producing countries have not accepted the condition of oil concession contracts anymore as a consequence of being politically independent since the Second World War. Oil producing countries began to share a new oil framework contract (Ahmad, 1975, P.305) with international oil companies. International oil companies tried to find an agreement with oil producing countries, compromising between their interests and finding a “stabilisation clause” in favour of international oil companies to face the power of oil producing countries.

The goal of this contract is to not let oil producing countries utilise or use their authority to alter their current oil contracts unilaterally, because international oil companies faced serious exposure (Ernest & John, 2000, P.451) after Second World War. The voice of nationalism started to be heard in oil producing countries after the Second World War, so "economic nationalism" from the 1960s impacted international oil companies and the UN general assembly took part in the debate (Christopher, 1988, P.318).

International oil companies undertook "inherent risks" when oil producing countries started to manifest and also when expropriation and nationalisations took place in almost all oil producing countries, especially in the Middle East (Ernest & John, 2000, P.451).

Since then, oil contracts have found different ways to give foreign investors more guarantees in oil businesses from direct investment among oil producing countries (Peter, 1995).

A production sharing contract is a contract that organises the relationship between an oil producing country and an international oil company or between a national oil company and an international oil company. An international oil company bears all oil operations expenses and in return gets its expenses back with cost price and share from oil production. An oil producing country bears taxes when getting its share from oil production (Kawan, 2011, P.147).

According to production sharing contracts, the governments of oil producing countries or their agents enter into the agreement with international oil companies so as to achieve technology and financial capital, which cannot be found indigenously (Amaechi, 2003). Thus, this contract is considered as a long term contract and therefore it needs a huge contribution of technical and capital assistance by international oil companies (Christopher, 1988).

The first oil producing country that used production sharing contract was Indonesia after passing a new national legislation number (476) in 1961(Saad, 1986, P.125). Indonesia signed its first production sharing contract in 1966 with an international oil company and the right of the country to participate in oil producing operations was mentioned in the contract, without the condition of equal sharing between the parties. Also, the international oil company has to bear all expenses and costs of oil industry operations (Raymond, 1984).

In the Middle East, the first use of a production sharing contract was a petroleum general institute in Egypt with the North Sumatra Company on 16 May 1970. Later, Qatar signed production sharing contracts with USA and German oil companies on 10 April 1976. Oman used this kind of oil contract with international oil companies in 1975 and 1976 (Saad, 1978, P.31).

Iraq signed PSCs in 2007 and 2008 with a chain of oil companies for developing an oil field (Al Ahdab), and with a Russian oil company for developing another oil field (West Al Qorna)(Hani, 2014, P.103).

Also, Iraqi Kurdistan used production sharing contracts with international oil companies according to Kurdistan Region Oil and Gas Law No. 28 2007. This was done despite the fact that oil contracts were not recognised by Iraqi federal Governments. The Government of the Kurdistan Region claimed that these kind of oil contracts promote and attract international investments to the Kurdistan region and these contracts have legitimacy according to Iraqi Constitution Art. 112, which gives Kurdistan regional government the right to sign oil contracts with international oil companies.

It is true that in both a production sharing contract and an oil joint venture contract, oil producing countries and international oil companies work together and participate in sharing, however, there are some differences between production sharing contracts and oil joint venture contracts. Firstly, in a production sharing contract, international oil companies have no legal relation with national oil companies or even partnerships, but in oil joint venture contracts there are real relations between them. Secondly, in a production sharing contract, the sharing between international oil companies and oil producing countries are not equal. Also, international oil companies work as contractors for oil producing countries or their representatives, thus international oil companies get their hires from oil producing countries in kind or in cash, because the right of international oil companies for having their shares comes after commercial oil production and not before. So, before production, the crude oil still belongs to oil producing countries with all shares including international oil company shares. Therefore, international oil companies cannot ask for their shares or their oil operation expenses until the crude oil has been exported, but in oil joint venture contracts there are real shares with almost fifty percentage for oil producing countries and international oil companies in most of oil joint venture contracts (Ahmad, 2016).

Nowadays, production sharing contracts have developed a lot. There are many different types of production sharing contracts and they are similar only in concept of sharing. Therefore, the version of a production sharing contract depends on party negotiations in terms of their interests.

In some countries such as Azerbaijan and former Soviet republics, oil contracts such as oil production sharing contracts were put into local law, which gives more legal security for international oil companies. However, some mentioned that this approach may be inflexible, as modification is much harder than in a contract between parties. In addition, governments always try to adopt a law in the public interest of the country, which can impact international oil companies depending on the political climate (William, 2015, P.105).

Some Advantages of Production Sharing Contracts for Oil Producing Countries:

Firstly, a production sharing contract has brought the best solution for the collection of income taxes. Oil producing countries in a production sharing contract have to pay the deserved income taxes, so this system is used in Indonesia, Egypt, Oman, Libya and Syria. However, an oil producing country and an international oil company are independent in marketing operations with their own share in crude oil (Raymond, 1984).

Secondly, this contract disposes accounting costs and merited expenses problems, which are spent on oil operations by international oil companies. Therefore, the revenues of both parties and tax obligations on the income of crude production were determined. International oil companies incur all expenses and costs for the duration of oil exploration, drilling, discovery and production. Also, international oil companies are committed to a minimum expenditure and it is divided between parties according to the time schedule in the contract. Oil producing countries do not bear any responsibility towards international oil companies, if the crude oil is not founded (Rex, 2009, P.117).

Thirdly, the main goals of using a production sharing contract is to attract international oil companies to bring foreign capital into oil producing countries and to benefit from modern technology which is not available in oil producing countries for oil operations (Ernest & John, 2000, P.448).

However, if international oil companies have explored the crude oil and do all other operations such as production and marketing, international oil companies will get their expenses and costs back in kind. Accordingly, international oil companies receive their expenses that are spent on oil operation when there is a commercial exploration and not the contrary, so there is no negotiation on the failure confer this contract.

Furthermore, most of the time international oil companies do not get their expenses spent on oil operations in cash, but some percentage of oil production according to lineage limited and shares in the contract.

In line with the above, the percentage which international oil companies get from oil production in return for their expenses on oil operations are different from one contract to another and the disparity of shares. For instance, production sharing contracts signed by Qatar and Oman gave 40% of the production to international oil companies in return for their expenses, while Egypt gave between 30% to 40% to international oil companies (Egypt Official newspaper, No 26, 1988).

Thus, some percentages were taken by international oil companies in return for their expenses from crude oil production. The rest of the shares are divided between oil producing countries and international oil companies according to what has been agreed on in the contract. For example, the contract was signed by the Egyptian government and Royal Dutch Shell on 22 December 1987. In this contract it is stated that in case the crude oil operation reaches 100 thousand barrels per day, the Egyptian institution will get 75% of crude oil production and the international oil company will get 25% after the percentage of expenses of oil operations were taken by the international oil company. Nevertheless, if oil production reaches 200 thousand barrels a day, the institution will receive 77.5% of crude oil and the international oil company will get just 22.5% of crude oil. Also, if the quantity of the production is more than 200 thousand barrels per day, the sharing will change again with 80% for the institution and 20% for the international oil company (Egypt Official newspaper, No 19, 1988).

One more advantage of production sharing contracts, is that it is a short-term oil contract compared to other oil contracts. Production sharing contracts work in two stages: first, exploration and drilling operations and second, development and utilisation operations. Exploration and drilling operations take between two to twelve years, depending on the location and position. For instance, in the contracts between the public Egyptian oil company and the international Egyptian oil company on 31 March 1977 in article 3, it is stated that "the main exploration period is three years, and may follow two other optional periods from two or three years" and an exploitation period from 25 to 35 years (Ahmad, 2013, P.370).

As they have become a custom of many production sharing contracts, the governments of oil producing countries are expected to have some bonuses, so these bonuses become payable in different times. Firstly, a signature bonus is paid when an oil producing country and an international oil company sign the contract. Secondly, the discovery bonus worth to be paid to an oil producing country exploration of crude oil is succeeded by an international oil company. Thirdly, the production bonus will be paid by an international oil company if the production of crude oil reaches a certain level (World Law Business Library IBP, 2008, P.83).

International oil companies commit great capital in development, exploration and commitment risk, especially in exploration. They have to continue up to ten years in duration of exploration and up to twenty or twenty-five years in the production period (Klaus, 2003). It is a long-term contract; thus, it is possible to be influenced by political or economic oil producing countries which were unknown at the time of signing the contract. Accordingly, it has high risk with the chance that the economic balance of the parties, especially international oil companies, will be changed (Klaus, 2003, P1348-1349).

The psychology of some oil producing countries changes when they find that international oil companies earn a significant profit. Therefore, they try to modify the balance of the parties' profit for their own interest at the time of great production. An example is that oil producing countries try to increase taxes or commence forced renegotiation in their favour. For instance, force major clauses are when contracts become impossible to perform because of some outside factors such as an earthquake, and the hardship concept, which comes into play, when after signing the contract (Klaus, 2003), "the performance of the disadvantaged party has become much more burdensome, but not impossible" (Joern, 2016).

Some Advantages of Production Sharing Contracts for International Oil Companies

In production sharing contracts all details from the signature on the contracts until the termination of the contracts should be dressed in one document at the time of signing the contracts (Kim, 2014, P.170). Therefore, some think it is a disadvantage for oil producing countries; the reason being that the governments of oil producing countries should have full knowledge about environmental, technical, financial, commercial, and legal expertise from the very beginning of signing the contract. International oil companies acknowledge more data in such a business, especially from a commercial point of view compared to oil producing countries.

Also, according to production sharing contracts, oil producing countries have granted international oil companies the enforcement of some standards, such as the protection of the environment, if these standards have been integrated into the production sharing contracts. However, if a party breaches a contractual provision it is considered as contractual violation. In this case, a party is required to redress or fix the breach and the compensation of recovering the damages if in place. In addition, if very serious damage occurred, then the termination of the contracts takes in place (American Council for an Energy-Efficient Economy, 2009, P.180).

It is clear that a breach of a contract comes after a party does not perform its responsibility according to the contract. Breaching the contract in an extraordinary business such as oil contracts has a big effect on both sides, therefore parties try to renegotiate to rectify the problem. In contrast, the negotiation becomes harder when a production sharing contract has been legislated into the oil producing country law by the parliament. Accordingly, any change of the contract needs parliamentary ratification, as for instance Azerbaijan.

Criticism of Production Sharing Contracts

There are several criticisms of PSC's in general, but there are some that are specific to the political and economic climate in Iraq. The main drawback is that international oil companies have more leverage to negotiate better contracts for themselves. They are able to add terms such as grand income, and oil exploitation rights for up to 40 years (Yanal, 2016). In Iraq, this could be mitigated by decentralising the federal government's authority and giving regional governments such as the KRG more power to negotiate terms. Other criticisms involve depletion rates, stabilisation clauses, dispute resolution, and other areas.

In regard to depletion rates, international oil companies have generally had broad control over production rates. These companies obviously favour high production rates to be able to have as great a supply of crude oil as possible. However, countries would want to regulate the production based on economic concerns, as well as supply concerns. Certainly, if production is too high, oil fields would deplete much sooner, lowering the lifespan of income provided by the oil reserves. Algeria and Nigeria both faced difficulties controlling production rates, and therefore it is likely the same would occur to Iraq. OPEC's regulatory controls are more likely to be ignored when international oil companies utilise PSC's.

Stabilisation clauses such as the KRG's are also problematic. Their model PSC's stabilisation clause exempts IOCs from any "change to the law, or by revocation, modification, or non-renewal of any approvals, consents or exemptions granted to the contractor, in order to maintain the contractor's financial interests under this contract reasonably unchanged"(Yanal, 2011, P.145). This clause is attractive to big oil investment companies, as it protects these companies from adverse political risks. It ensures the company's stability and predictability. However, it limits governments from adapting to changes in the future. Oil producing countries would have a difficult time amending contracts without breaching these provisions. Solutions proposed include a more formula-based approach in oil service contracts, allowing automatic changes to interest rates or prices due to changes in the international oil market.

Dispute resolution in PSC's are problematic as IOC's can go to international arbitration courts, which appear to supersede the domestic law of the country they are investing in. International oil companies favour international arbitration because then they are not bound by the domestic courts, who may issue them an issue that is not neutral (Yanal, 2011). Furthermore, international arbitration tribunals do not take into account the national interests of the country. Therefore, it is unfavourable to oil producing nations to be subject to treaties such as the ECT, especially if they desire a radical shift in energy policy. There are also many other legal issues regarding PSC's.

It is Important to Distinguish Between Exploration and Drilling Operations with Development and Utilisation Operations in Production Sharing Contracts

In Egypt, the Egyptian general oil institution participates in managing oil operation with international oil companies to determine oil programs and private budgets operations. This happened through a sharing committee between parties with equal sharing in members, but the head of committee is a person from the oil producing country (Oxford Business Group, 2014, P.103).

In development and utilisation operations, both an oil producing country and an international oil company establish a sharing company. The administration committee of this company has members from both sides in equal number. The head of the committee board is a person from the oil producing countryside and the general executive director is from an international oil company side, so the best example is an Egyptian production sharing contract. The sharing company works as an agent of both parties to manage development and utilisation operations. Furthermore, the proportion of members of these committees are different from one oil producing country to another. In Egypt the committee of exploration and drilling operations has six members, so three of them are from Egypt and the head of the committee council is Egyptian too. But in a development and utilisation operations company, there are eight members which are divided equally between the oil producing country and the international oil company. The head of the administration council is from Egypt and the general executive Director is from an international oil company side (Ahmad, 2013, P.236).

In Oman, in the exploration and drilling operations committee, the oil producing country has only two members from Oman and the other from an international oil company, but in the committee of development and utilisation operations, there are three members from Oman and two members from an international oil company. However, Qatar signed production sharing contracts in different ways with American and German oil companies. Therefore, in Qatari production sharing contracts, international oil companies rule all oil operations which contain exploration and drilling operations, and development and utilisation operations, but at the same time Qatar's government is reviewing these operations through a committee which has a national leader with equal division of members between the oil producing country and international oil company (Ahmad, 2013).

Production Sharing Contracts in Iraqi Kurdistan

The Kurdistan Regional Government is to use production sharing contracts instead of proposed risk service contracts by the Iraqi federal government. The conditions of Kurdistan regional government production sharing contracts are based on an average of the conditions concluded in Iraqi Kurdistan region. However, Iraqi federal government risk service contracts depend on a new style of “contract provided to me”. These risk service contracts have not been agreed on so far by Iraqi governments, so they are still only part of the proposed draft (Pedro, 2008, P.5).

It is important to notice the mutual benefit for both parties and the equilibrium between an international oil company interest and a host country's goals (Ashti, 2010). Accordingly, an international oil company will make significant decisions to increase the revenue, because it will increase its profit. Contrastingly, if an international oil company interest does not go side by side with host government goals, an oil producing country will lose the revenue of its national resources significantly (Pedro, 2008).

Comparison between the Proposed Risk Service Contract by Iraqi Federal Government and Kurdistan Regional Governments Production Sharing Contracts

In Iraqi federal government risk service contracts, there is no inducement for international oil companies to search for big oil fields which require low cost, so instead international oil companies try to find small fields with high cost. But in Kurdistan regional government production sharing contracts there is an incentive for international oil companies to explore for large oil fields that need low cost. Iraqi federal government risk service contracts do not attract international oil companies to work and have operations, which require low cost. At the same time, it gives the chance to have a very high cost operation, because of a bad plan. However, Kurdistan regional government production sharing contracts are likely to have operations with low cost. There is no inducement to have the highest recovery of the gas and oil. Actually, in this case sometimes the international oil company's profit is much higher than the oil producing countries profit. Though in Kurdistan regional government production sharing contracts there is a big chance to have the maximum recovery of gas and oil. In risk service contracts, the low oil price is a benefit of international oil companies, while in production sharing contracts it is the high price interest of international oil companies (Pedro, 2008).

Most oil producing countries think that there is not much benefit for the host countries to have risk service contracts, because of the following. First, a risk service contract does not help the host country to have a maximum level of production and the highest value of the oil producing country revenue. Second, it shocked the government of oil producing country with the low level of revenue when the price of oil decreased after oil operations were completed. Third, a risk service contract offers international oil companies very generous terms at the beginning of signing the contract (Pedro, 2008).

It is expected that very active international oil companies perform better than in IFG contracts. Also, this helps to have more new oil fields in the region in three decades.

In Iraqi Kurdistan Region production sharing contracts, the period of exploration and drilling operations with development and production operations are different from each other. The exploration period is five years from signature on the contract and the extension is possible for more two years according to the contractors demand. Thus, the development and production period is 20 years from date of commercial discovery (commercial production) and extension is possible for more than five years according to the contractors demand.

In Kurdistan regional government-production sharing contracts with international oil companies, the Iraqi Kurdistan region receives 10% from crude oil production, except for the percentages which were spent on oil operations. Also, these contracts include multi (Bonuses) systems, of which some are refundable and some non-refundable. The refundable bonuses are 10 dollars for one square kilometre annually as the hire of successful patches are exploratory. The patches exploratory area is almost 200 square-kilometres. Therefore, the Iraqi Kurdistan region gets 150 thousand dollars annually as a subvention for environment protection during the exploration period. The amount will be double during the development and production period.

However, non-refundable bonuses in Kurdistan regional government contracts contain retrievable signatures and are based on productive capacity retrievable, so these non-refundable bonuses are different from one contract to another. Both the refundable and non-refundable bonuses are considered as a small amount of money in oil industry, for example, in the (Ain Sifne) contract between the Iraqi Kurdistan region and the Hunt oil Company in 2007, there is 4 million dollars.

Other important bonuses are production bonuses, which started from 2.5 million dollars at the beginning of the commercial production until 20 million dollars when the cumulative production reaches 50 million barrels crude oil.

Capital, operating, recovery bonuses, and the costs and expenses of successful explorations are called oil costs but for the cost from failed explorations only international oil companies are responsible. The oil costs get recovered from 40% of crude oil production.

In Iraqi Kurdistan oil contracts, the ratio of profit oil is based on the R-Factor, therefore the contractor's profits depend on a portion of cumulative revenues on cumulative costs. In most Iraqi Kurdistan oil contracts, oil profits are almost 30% if the ratio is less than one. However, this profit is decreased by 15% if the ratio becomes two or even more. Nevertheless, if the ratio is between one and two, the profit is determined by dividing it into two portions in (R-1), which will be almost 20% of oil production after the Royalty was taken. The taxes on international oil company income from oil production are 35% in Iraqi Kurdistan oil contracts (Iraqi Economists).

Measuring the Success of the Kurdistan Region's Oil Investment Laws

After the passing of the Kurdistan Oil and Gas Law in 2007, Kurdish as well as international oil companies have made great investments in exploration contracts to explore the country's oil fields. This is the first step towards developing the oil production and refinement industry. Progress has been slow, however, as tensions between the Iraqi government and Kurdistan Regional Government (KRG) kept investment lukewarm. The KRG's Jalal Talabani counters that exploration contracts do not deal with oil production or distribution, but rather just the initial stage of discovery. Article 3, paragraph 3 of the Oil and Gas Law makes clear that "The Regional Government shall, together with the Federal Government, jointly manage Petroleum Operations according to the provisions of the Federal Constitution" (Lydia, 2009, P.7). Despite asserting compliance with the Iraqi Constitution, then Oil Minister, now Deputy Prime Minister Husayn Shahristani has both threatened and taken preventative measures to curtail Kurdish investment. In November 2007, Shahristani blacklisted oil companies who have ongoing deals with the KRG and warned that any international oil company dealing in both the Kurdish and Iraqi regions would have their Iraqi contracts revoked. The Iraqi government distrusts private oil companies due to the past conduct of oil companies in Iraq.

Notwithstanding, the KRG has decided to press on with its oil exploration contracts. It has signed exploration contracts with Russia's Gazprom Neft, the US's ExxonMobil, and France's Total, despite being blacklisted by the Iraqi government. Gazprom signed its first deal with the KRG on 1 Aug 2012 for the Shakal and Garmian blocks, despite having signed a deal with the Iraqi government for the Badra oil field in 2010. This has caused political tension to rise, especially as Russia becomes a key strategic player in oil in the region. ExxonMobil has made a deal on the Arbat East block. France's Total has similarly invested in multiple oil exploration blocks, including buying a 20% stake from Canada's ShaMaran Petroleum Corp for $48 million, and a 35% stake in two other oil exploration blocks from Marathon Oil Corp. Chevron has even entered the Kurdish oil exploration market, being awarded the Qara Dagh block (Geraldine).

Although investments have been flowing in to the extent that only 9 vacant exploration blocks remain in Kurdish territory, further investment for oil production has slowed down. The major factor slowing down investment are worries about being able to monetise and sell their high-volume crude output. Oil sellers are awaiting cooperation between Turkey and Kurdistan regarding oil pipelines and production investments. PowerTrans, a Singapore based, Turkish-affiliated company has already began exporting over 30,000 bpd of crude oil from Kurdistan to the Turkish port of Mersin. A strategic alliance is necessary to attract more foreign investment from international oil companies. Other barriers have slowed down mergers and acquisition activity, including high asset prices and political tension.

In short, investment in climate in Kurdistan is cautious but optimistic. Total's position is that the political difficulties faced by investing in Kurdistan will eventually dissipate. They have high expectations that they will be able to retain their contracts in both southern Iraq and Kurdistan. While this atmosphere has slowed down investments, over 30 oil companies have already made their presence known in Kurdistan. The political risks investing in Iraq remain uncertain.

The Kurdish Regional Government is also seeking to attract foreign direct investment with broad based economic laws. Seeking to spur development in a resource rich area that is largely undeveloped, the Kurdistan Regional Government passed the Investment Law of Kurdistan Region of Iraq No.4 of 2006. Its aim is to foster a positive business climate that will attract foreign investors and facilitate the growth of the Kurdistan region economy (Investment Law of Kurdistan Region in Iraq). It adds significant legal, financial, and economic protections to any foreign investor who chooses to invest in Kurdistan in a range of different industries including manufacturing, banking, industry, health, transportation, and many other areas. It gives major exemptions for foreign investors including tax exemption on wages and machinery (Investment Law of Kurdistan Region in Iraq, 2006). It also gives significant legal protections including the ability of foreign investors to send their wages abroad, transfer capital and wages in and out of Kurdistan freely, and choose national or foreign banking institutions for financing without restriction (Investment Law of Kurdistan Region in Iraq). This can be regarded as the first important step towards joining the ECT as it contains similar protections, with the same goal of attracting foreign investment. The law has very unique protections that the ECT does not contain, but it does lack some protections such as specific protection from expropriation. Notwithstanding, the Kurdistan region would benefit if Iraq will be a member of the ECT and align itself with the other 52 signatories under the same uniform legal framework.

Conclusion

International oil companies do oil operations together with oil producing countries, which has many advantages for both parties. For instance, international oil companies are exempted from royalties, leasehold, bonuses, and from fees and taxes, due to the fact that these companies are working for a national company according to the agreement between two sides. Production sharing contracts are considered as short-term oil contracts compared to other oil contacts. The maximum duration of an exploration operation is eight years only and the period of development and utilisation operations is not more than 25 years. It is true that international oil companies bear the most risk in production sharing contracts but at the same time oil contracts are more favourable for them, because these contracts do provide a framework for a maximum level of cost recovery and oil production. In the Iraqi Kurdistan region, oil contracts have become more a political issue than a legal or economic issue between the Iraqi government and the Kurdistan Region. The research shows that Kurdistan regional government - production sharing contracts are more attractive than Iraqi oil contracts. They even have more mutual interest for both parties and are more generous for international oil companies to invest in the Kurdistan Region.

Of course, there are some drawbacks. International oil companies often have much more control to dictate the terms of the contract. They are able to negotiate long term and broad contractual terms to the disadvantage of oil producing countries. Stabilisation clauses often limit the oil producing country from changing their terms over the course of time. When there is a legal dispute, international arbitration overlooks the national interests of that nation, and favours the contractual obligations found in the contract. That puts these countries at a disadvantage. Overall, production sharing contracts are worthwhile for an oil producing country to generate revenue but do have unsavoury aspects that need to be worked out on a mutual basis.

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