

# Negotiating Petroleum Contracts: Approaches to Negotiation

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# Introduction

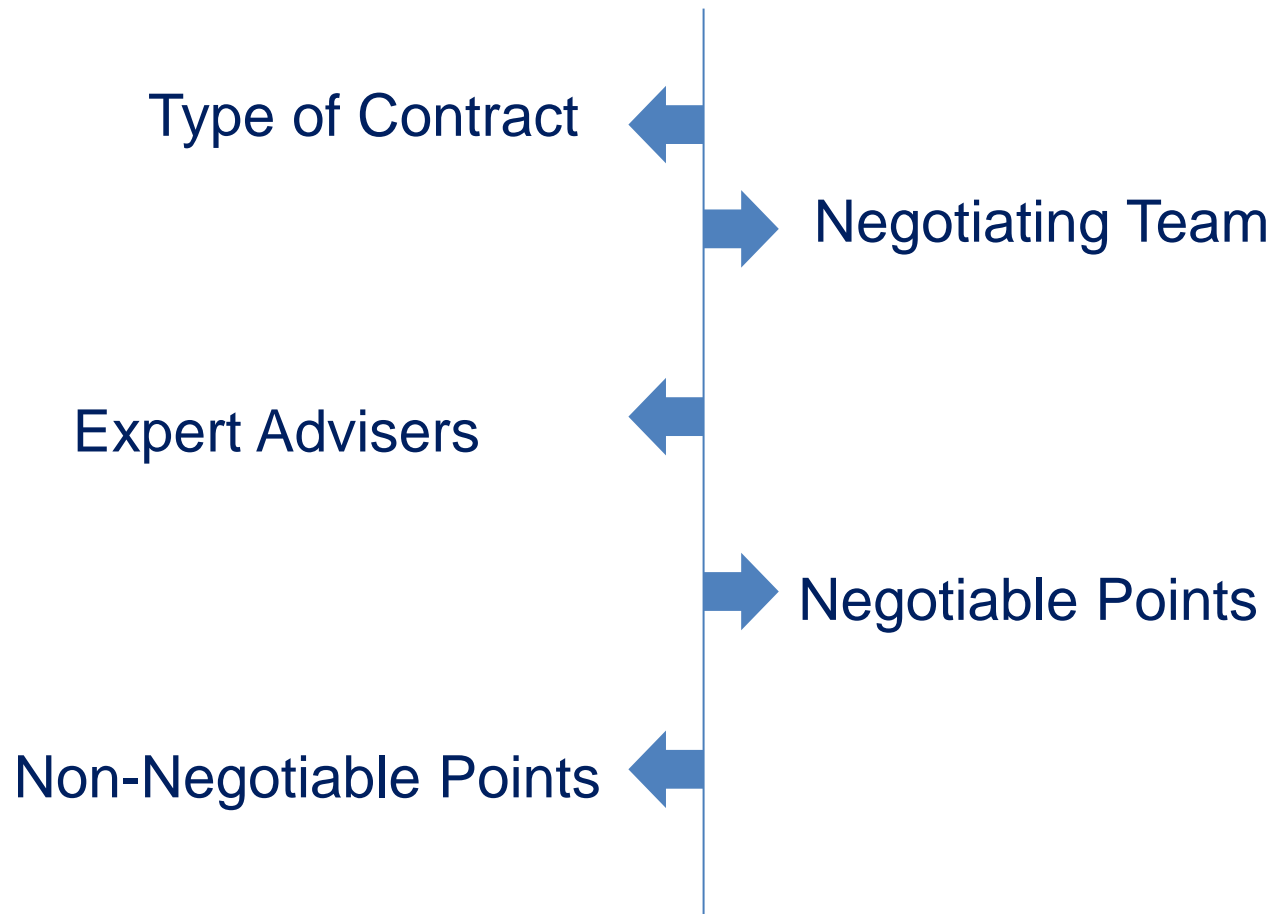
- To explore and develop their natural resources, many governments rely on IOCs (and other independent/indigenous oil companies) because of their expertise, financial resources and experience in exploiting and marketing oil and gas resources.
- The relationship between the government and the oil companies is determined by negotiated contracts.
- Contract negotiation is a key feature of petroleum business operations between government and oil companies.
- Negotiation is not a simple process. It involves complexities of legal, technical and financial issues.
- Since petroleum contracts play a vital role in the revenue of governments, they need to be carefully and effectively managed.
- Contract negotiation is relevant at all levels of the petroleum value chain.

# CRITICAL STEPS TO NEGOTIATION

Govt. should set out its main objectives and understand the objectives of the Oil Companies



# CRITICAL STEPS TO NEGOTIATION



# STRUCTURE OF PETROLEUM CONTRACTS

Three Main  
Sections

The Preamble/Recitals

The Operative/Substantive Provisions

Appendixes which are Integral to the Contract

# OPERATIVE AND SUBSTANTIVE PROVISIONS

## The most common provisions are:

- **Parties:** government (or state-owned enterprise with limited liability) and IOC (through an SPV, **but government should require a guarantee from the parent**).
- **Oil Price:** a benchmark price (using a spot market) should be agreed. Taxes, royalties and profit sharing will depend on the price.
- **Taxation or Compensation:** signature bonus, production bonus, profit tax, royalties, etc.
- **Dispute Resolution and ad-hoc International Arbitration**
- **Health and Environment**
- **Local Content Requirements**
- **Stabilization Clauses to minimize political risks:** it essentially freezes the law and regulatory framework as it stood at the time of the contract.
- **Governing Law:** usually local law but parties can choose international law.
- **Force Majeure:** natural disasters, war, riots, labor disputes, pipeline vandalization.
- **Work Program:** it should show how to best protect the environment.
- **Termination:** especially if there is no development.
- **Effective Date:** could be open signature, gazetting or sanctioned by law.



**Bibliography: Strategy of Oil Contract Negotiation by Salih, M.S., Salih, R.S. in the International Journal of Business and Social Science, Vol. 6, No. 9, 2015**



# Questions?



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