Oil Development Company
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Audit Bureau report details 'loopholes' in oilfields law

'Contract to be signed with unified legal body'

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KUWAIT CITY, Dec 12: The Audit Bureau Monday presented its report on the northern oilfields law to the government, say sources.

A reliable source said the Audit Bureau's report includes its comments on the loopholes in some articles the law which, the Bureau said, should be amended before its passage.

Indicating the Audit Bureau has presented its views on the legal, financial and economic implications of the law, he said "according to the law in its current form companies, which implement the project, should pay eight million dinars towards the cost of spare parts for the machinery to be used in the project. In its report the Audit Bureau has insisted this amount should be substantially increased."

"The Bureau has also stressed contract for the project should be signed with a unified legal body and not with individual companies, as envisaged in the law," he noted.

The source went on to say "the Audit Bureau has also stressed, as the objective of the project is to increase Kuwait's oil production, if the contracting companies fail to meet the goal of nine million bpd the contract should be automatically treated as cancelled. The Bureau has advised the government to replace the letter of credit to be given by the contracting companies with unconditional bank guarantees."

Contracting

"The Bureau has said instead of Al-Tanmiya Company, Kuwait Petroleum Corporation should sign the contract with the contracting companies as the official representative of Kuwait to ensure more legal protection," the source said.

The report explained that the length of the contract (20 years), and the commitments on the administrative party's side go beyond the limits of contracting agreements based on the work-for-wage rule.

The Audit Bureau, in its report, recommended ascertaining that the bill and the draft contract conform fully to all legal sides and to the constitution to avoid potential violations, and also suggested subjecting the contracts to be signed (with foreign companies) in relation to the Kuwait Project draft law to the supervision of the Audit Bureau.

The contract, the Bureau added, did not clearly define the projected output of the oil reservoirs, did not specify the relevant fees, did not take into consideration production cost cut, and also did not specify the expenditure needed for the relevant projects. It, moreover, did not mention that daily production would reach 900,000 bpd and keep up with that pace.

The report indicated that the contract's fifth and ninth terms were contradictory, and recommended altering the ninth term to make it righteous for the State of Kuwait to cut down the Project's oil output any time without any restrictions and in a manner that secures public interest.

Describe

The Bureau said the draft did not describe how to reach the projected output rate of the two difficult oil traps or specify relating accumulative production quantities with rates, nor did it mention the total production expected out of the northern oilfields.

The draft, the report stated, lacked mentioning that foreign companies were expected to produces 5.03 billion barrels of crude, expected to be produced by the Kuwait Oil Company (KOC) if it takes over the project.

It also did not state the consequential added value, estimated at $21.5 billion in revenues, calculated on basis of $20 as price for a single barrel of oil.

The Bureau also stressed that the year 2004 was taken as a base year for the project's technical and other relevant studies, which does not actually reflect the current situation in the project's location, and the actual production cost if foreign companies were hired.

The cost will rise, the report said, from $2.11 a barrel if the KOC took over the project to $2.15 if foreign companies win the contract.