

IRAQ GLOBAL OPPORTUNITIES FUND PROJECT

TERMS OF REFERENCE

1. Project title

The Consultants are to supply the services below to the UK Government through the Foreign and Commonwealth Office:

Assistance in creating a stable petroleum contracts regime and a modern, transparent and efficiently run Iraqi National Oil Company (INOC).

2. Background

Sound Iraqi Government management of Iraq's oil and natural resources is essential for the country's economic, social and political development. Reconstruction of the sector is needed quickly and sensible development thereafter. We need to set out the case for an efficient, outward-looking and transparent oil and energy industry, capable of delivering both sustainable export revenue's to meet Iraq's developmental needs. Reconstruction and development of the oil sector should take place in line with international best practice.

The project builds on the Bearing Point study of December 2003 (Options for Developing a Long-Term Sustainable Iraqi Oil Industry) presented to the MoO. The report identified some of the key management, policy and governance options – based on best practice – that the Iraqi government should consider in the development of a long-term sustainable oil industry.

The project will set out the case for a stable and transparent petroleum contracts regime, and reform of the INOC, focusing on good governance and transparency in finance and administration. The Iraqi Government has given broad endorsement (for example through Prime Minister Allawi's Guidelines on Petroleum Policy) to PSAs as the best means of facilitating foreign investment in the petroleum sector. It is important the MoO develop a good understanding of how PSAs work if Iraq is to create a stable contracts regime that effectively serves Iraq's longer-term developmental needs and the imperative for FDI. Further work also needs to be done with the Iraqis to ensure good governance in finance and administration is embedded across INOC.

3. Project aim

The aim of the project is to identify, engage and work with key Iraqis to deliver:

- Increased Iraqi government capacity to award enforceable petroleum contracts that will facilitate foreign investment in the energy sector in an equitable and sustainable manner. Model contracts would serve as the basis for future PSA discussions with IOCs.

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- Increased Ministry of Oil (MoO) understanding of the financial and administrative systems necessary to create a modern, transparent and efficiently operated INOC. This will result in compatibility with INOC internal processes (Cost Recovery Accounting (CRA) procedures based on International Accounting Standards (IAS)) and INOC's ability to implement PSAs and enter into commercial contract negotiations.

4. Overall objectives

The key elements to be produced with the Iraqis through the project (which lead to achievement of the project aim) are:

Objective 1: Formulation of model working contracts in 3 areas:

- Production Sharing Agreements (PSAs) and an understanding of economic stabilisation clauses
- Service Agreements
- Project finance solutions for linked novel contracts.

Expected completion date – 01 May 2005

Objective 2: With the Iraqis to conduct a gap analysis/baseline audit of budget finance and control procedures within the MoO through review of CRS and IAS processes and procedures in PSAs and Service Agreements.

Expected completion date - 01 July 2005

5. Scope of work

To achieve Objective 1 the Consultants will:

- Engage with academia, International Oil Companies (see Annex 1), and the Iraqi government/MoO on the key desired features of petroleum contracts. This will culminate in joint focus groups and seminars, focusing on contractual priorities and best practice.
- Disseminate conclusions and model contracts to the Ministry of Oil in report form and through meetings.

To achieve Objective 2 the Consultants will:

- Conduct a joint review of process/baseline audit with INOC of its internal management and financial processes and procedures. This will lead to a set of recommended options for adoption of best practice to be presented to the Ministry in report form.

The Consultants shall also provide information to HMG (FCO, DTI, and other departments as necessary) and report as necessary on new developments that come to light affecting the oil industry in Iraq and the MoO. The Consultants shall also make links with UKTI/DTI training initiatives and activities of the Joint-Board on training.

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6. Project risks

In view of the uncertain and changing situation in Iraq, the consultant and the Foreign and Commonwealth Office shall undertake to interpret the provisions of these terms of reference flexibly, and to be prepared to adjust them in the light of changing circumstances.

Key risks to the project are identified as:

- Significant change to MoO personnel following elections, resulting in change in policy/approach to FDI and engagement by UK and other international actors.
- Insufficient Iraqi co-operation on the project outside of the Consultant's control.
- Security
- Other external factors such as a change in timetable for elections (the IECI has announced that elections will take place on 30 January 2005).

Any of the above risks could impact on the Consultants' ability to deliver the project on time and to maximum scope (see Schedule of Work). If the Consultants deem that any of the above could result in significant delay to the project, or delivery of its outputs, then they should inform the project managers as soon as possible.

7. Budget

£162,00 has been allocated in total for this project. The flat consultancy fee of £60,000 will be paid in 6 monthly instalments of £10,000 for each month of project work completed. In addition the Consultants shall receive a daily rate of £1500 for each day of work and travel in Iraq. The Consultants shall also be reimbursed for travel, hotel and other subsistence expenses relating to the project.

8. Reporting requirements

- At the end of each month the Consultants shall produce a progress report to the project managers detailing i) the key work areas engaged in/progress being made; ii) a brief summary of emerging findings; and iii) any other developments seen as relevant.
- The Consultants shall submit a full report on each trip made to Iraq setting out progress made against the terms of reference (and suggesting/recommending any changes in the scope of these terms).
- A final combined written report after completion of the project (submitted within 3 weeks of the completion date to the project managers), summarising i) the key activities undertaken by; ii) key findings, recommendations, and if required further proposals for implementation.

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For the purposes of reporting against these Terms of Reference, the consultant will
report to Iraq Policy Unit, FCO, and Energy
Markets Unit, DTI.

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