Risk Analysis of International Petroleum Contracts

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Abstract: Risk management is an important point of projects and contracts. But it is obviously to effectively manage risk a contract and project must be analyze to be known risk related type and nature of contract. There are many papers in context of risk in petroleum contracts that have specifically examined the risk of petroleum contracts. Some discussed environmental risks. They predict types of environmental hazards due to the characteristics of the oil contracts to lessen the risks. Some paper investigates the effect of nationalization of resource on the value of petroleum reserves and developing a framework for treating resource nationalism as political risk. They also discussed about the political risks and risk factors Such as changes in domestic laws, nationalization consideration Concession contracts in the Middle East. One of the risk factors that are considered by researchers is force majeure on oil contracts. Many of the contractual terms on the one hand and special features of contracts on the other hand are cause of circumstances beyond the control of the parties. Some researchers discuss in this context as future risks. The author considers different contingencies that may arise depending on the countries involved during the development of international oil contracts. It also analyses the implications of the inclusion of a detailed list of events within the force majeure clause versus a general clause. Some researchers have studied the risk in a particular area for example explaining the existing risks and costs in oil and gas contracts in Colombia. This paper attempts to identify risks in petroleum contracts through Identifying the elements and characteristics of these contracts considering contractual and non-contractual risks. Contractual risks are linked with contract clauses as applied to the contracts. Non-contractual risks are circumstances that were not foreseen in the contract.

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1. Introduction:

The contract is a tool to facilitate relations between the parties and it is also, the means to remove the uncertainty in the Business relationships. In a project, there are many unforeseen contingencies such as geological conditions, nature, and change of design or scope of work law and so on. It would not be efficient for a contract to allow variations for all risk events. In fact, most contracts do not allow variations for many risk events. Which events should be allowed as a variation depends on the characteristics of each risk event. (Kiyoshi Kobayashi,Toshihiko Omoto, & Masamitsu Onishi, 2006, p. 381) So obviously it is not possible to predict all of the contractual uncertainty and risk that are probabilistic. Therefore it can only be stated, certain disasters in the contracts. International contracts according to their types and nature can be subjected to different risks. For example, oil contracts may be faced with risks such as geographical conditions, changes in laws, confiscation of property and etc. While the contract for sale of goods may be subjected to quantitative and qualitative risks. Thus, risk management can help to predict the risk and setting up the contract. For this purpose, this paper consists of two parts. In the first part, we will cover the definition of risk and risk management and the second part deals with the main features and elements of international petroleum contracts and the most important risks that the parties to an international petroleum contract may face with them.

Section 1

1. Contract management

Commerce is including of complicated methods in international world. To make easier and regulating of trade process, parties conclude contracts. Contract is a comprehensive program which determines rights and commitments of each party, fills the gaps and eliminates ambiguities due to parties' purpose or unspecified conditions. So providing a good contract is a main point of stages. Contract management, is including the knowledge that helps the parties to manage possible events. It is a process for ensuring that the service provider delivers the required services during the contract period. (Chittenden, 2010, p. 1) This process should be regularized and regulation of contract is knowledge. Lawyer who regulates a contract not only must have a broad knowledge in main subject and around but also have to able to predict various conditions causes to risk and analyze them. A key component of effective contract management is the use of an integrated team to ensure that the individuals involved in contract management function together as a real team dedicated to the common goal of successful performance of the contract. (Office of Procurement and Assistance, 2006, p. 3) A good contract is one that is not only well drafted but also properly implemented. Good drafted may facilitate implementation for instance by clarifying roles and responsibilities, sanctions and rewards. It may help with contract implementation. (Cotula, 2010, p. 19) While a contract is optimal we can run it easily and this is achieved when the contract set to balance and equal way and it supplies rights and interests of parties and considers risks. Effective factors on choice of appropriate contracts are as fallowing:

1.1. Contract planning

The contract planning phase includes requirements determination, in which specific requirements and specifications for contracted products and services are identified and validated. (Solis, 2010, p. 2) Contract planning is a schedule in order to implement the specified activities that must be performed in certain dates by fixed costs and determined quality because it is necessary for the success of any project to consider the time cost and certain quality and removing any of these factors can lead us to failed and non-economic project. Contract management plan is including technical, financial, legal and business aspects. Also this plan is also including the government responsibilities for risk mitigation, performance of contract parties, to ensure the quality of the final product. For having a good plan it is required, risk identification and risk allocation. During the project implementation occurs, conflicts and disputes relating to the responsibilities and risks. Therefore, to prevent the occurrence of these disputes must be formulated the contract, accurately and regularly.

1.2. Parties of contract

The most important elements in a contract are parties. They are two or several person or legal entities. Sometimes the government enters to the contract as a party. Usually, the international petroleum contracts the government is one of the contract parties. For this reason often these contracts are considered as government contracts. Other main elements in international petroleum contracts are contractors and subsidiaries. Notice to their obligations and functions are vital for an international contract. We will discuss each as following:

a. Government

As above explained sometimes government is one of the contract parties. Government intervention in petroleum contracts is supported by principal of "National sovereignty over the natural resources". This principle always had been a subject for conflict between host countries and powerful international companies. While they insisted to conclude contracts under international rules with emphasis on principle of covenant promises, host countries was exacting on nationalization. This principle has legal effects. According to this principle in countries with nationalized oil industries Concession contracts are not possible.

b. Subsidiaries

Subsidiary companies are companies owned by parent company. Subsidiary companies are separate legal entities created by the parent company or another party. Subsidiaries are not divisions of the parent company. A subsidiary company is sometimes referred to as a “daughter company” to the parent or holding company and operates under the controlling of parent company. A subsidiary company can have controlling interests in its own set of subsidiary companies. There are majority types of subsidiaries. For example: “wholly owned subsidiaries” are 100% owned by the parent company or “foreign subsidiary companies” that they are located in a different country from the parent is. Consideration to their functions and their responsibilities subsidiary parties has a main role in international commercial contracts. In international petroleum contracts generally, government participates in contract as a direct party or by engaging one of its own representative bodies. Beside international companies create a subsidiary to serve as a partner. It is a kind of risk management by international companies and governments. Generally parent companies enjoy limited liability in relation to their subsidiaries’ actions. They participate with their subsidiaries in capital projects to avoid risk related operations and potential liabilities for example environmental and damage risks.

c. Contractors

Choice of contractor is very important point. Having technical knowledge and skills, experience, good background, financial capacity, local security and economic power are the main factors in choice of contractors. Lacking of each one of above factors can wastes the costs and fails the contract. For example from which many contractors are selected by tender, choice of an inexpensive contractor can be caused of crash of capital projects. Main points in choice of contractors are:

- Traits of the projects
- Attendance to contractors’ potentials
- Total costs for operations
- Reference to contractors’ background and its participation in international projects
- Possession of the necessary facilities for example available machineries

- Reference to contractors' legal background

Generally in international projects, contracts are concluded between groups of contractors and host government. It can be a cause for success of a project and increasing productivity of contracts and reducing risks. Benefits of project operations with a team are as the following:

- Better relationship between the project parties, because in team work, duties are severance and it helps to regular work.
- Increasing Productivity
- Reducing project costs
- Increasing the likelihood of early completion of project
- Reducing delays and disputes

Despite all the precautions in the choice of contractors there are always risks threat the projects.

- Failures and low performance the machinery of contractor
- Lack of using the up to date technology by contractor
- Poor quality of work performed by contractor
- Poor management of contractor
- Lack of awareness of contractor to area code and community legal terms
- Failure to pay the workers and sub-contractors by contractor
- High competitive pressure in the projects, which leads contractor to give lower prices to obtain the project.
- Incidents to personnel and equipment during the operation

1.3. Accounting

Host governments and international companies can benefit from analyzing financial, accounting and other economic rights and duties within international commercial contracts. Regarding that accounting standards are different in the world and exchange rates between countries change frequently, financial issues and accounting can be a major risk for international commerce. It is because of the incomplete legal system of many developing countries which handicapped the potential for efficiency. (Kee-Kuo Chen, Chen-Huei Yeh, 2005, pp. 22,24) Although International Accounting Standards Committee's try to reduce differences in accounting methods but there are factors that effect on fiscal systems of countries and their accounting methods. For example: Political and legal system, Culture, Economic system, Technology and infrastructure. Countries like US have their own private standards to harmonize their bodies and in countries with strongly socialized economies like Germany government agencies set standards for accounting.

1.4. Form of contract

Important point in concluding contracts is whether the contract is compatible with business plans and goals or not? To understand this problem, first it is necessary that risk assessment to be done, and contract needs to be specified. Issues such as proposal evaluation and negotiation can be considered a part of this stage. After doing above procedures, both parties need to agree about the formation of contract, how to pay wages, time table, ensuring the enforcement of contracts and…. Contracts are usually concluded with the host governments, is available as standard samples and the parties change some parts of them with respect to features of the project or business. Standard forms although are useful to achieve to commercial unity but they have also demerits for parties if they don't care. They might be inefficient if they place the risk of a negative outcome such as defective manufacturing on the buyer who is not in the best position to take precautions. They have characteristics which make necessary to change of some parts and they are as fallowing:

- Language used for them is a complicated legal language.
- Generally terms are too much and the expected output from reading the contract is low because few people would be expected to read it.
- They may exploit unequal power relations to other party
- Some of the terms of standard contracts are ambiguous, and only after entering the contract, their respective commitment will be determine.
- They regulate in general and regardless of parties characteristics

Forms of international petroleum contracts have close connection with internal and international political evolution and technologic and economic power of hydrocarbon holder states. Regardless of few countries like Norway, Canada or US, other Hydrocarbon recourse holders have no political, economic and technologic power and these weaknesses led them to dependence to developed countries. Because of their specific nature, oil and gas industries not only are special player in international political and economic equations but they play a vital role in internal political and economic equations of hydrocarbon resource holder countries. Contractual structure adopted in each country is a clear reflection of these equations. It means if political and economic elements are weak the country is forced to give more privileges and accept heavier conditions pro international companies. International experience from Oil claims in 1970 was great for big international industries in petroleum fields. They paid attention subjects like nature and interpretation of petroleum contracts, rights and obligations of foreign investor, sovereignty and other rights of resources holder, detailed terms of stability and its territory and its affections, compensation practices and amount of payable compensation in case of breach of contracts or expropriation of foreign investor. Considering above they opted to carefully choose proper contract framework and design new formats. In general cycle of oil contracts shows two main forms of contracts.

1.4.1. Concession forms

Granting of exploration and exploitation concession of hydrocarbon resources had been oldest method of setting the legal and contractual relationships between resource holders and international oil companies. In this type of contract, the contract holder (foreign investor) takes the exclusive license for exploitation of mines and natural resources from the resource owner. In base of the parties to the contract, concession may be contained of the following schema:

a. A concession grants the right to a private firm to operate a defined infrastructure service and to receive revenues from it.

b. The concessionaire usually pays the concession-granting authority a fee to obtain this right.

c. The asset involved in the delivery of the service remains the legal property of the government, though the private firm has the right to operate it and use it to generate income. The private firm is also typically responsible for the maintenance of the asset.

d. The asset must be transferred to the government at the end of contract term. (OECD, 2008, p. 23)

In concession contracts operation are usually divided into two steps. In the first stage concession holder implements measures related to examine and estimate and determine his activity plan. In case of appropriate conditions production is begins and concession holder applies necessary measures. Despite of similarity between concession regime and leasing contract there are differences between them. In leasing contract, concession holder can stop all activities in first stage but in concession contracts, concession holder undertakes to do specific actions in first stage. For example he must expend specified amount to dig every year. In some countries first stage period is renewable. For example in Turkish oil law has provided each step period is 20 years but it is renewable if it would be approved. In Nigeria is also the first stage is renewable for 20 years. (The Organisation for Economic Co - operation and Development (OECD), 2008, p. 12) Over time this legal regime has over two different legal structures: Classic concession and modern concession.

1.4.2. Contractual forms

Classic concession regime would impose unfortunate circumstance on host countries. Loss of host country's resources and profits, impossibility of control on operation, long-term political and economic influence and after that involving in host country's internal affairs were bad experiences. These conditions caused revolution and political equation in hydrocarbon resources holder countries. Following these equations states and international communities were recognized right of making decision for people. Creation of new contractual techniques like joint venture, production sharing agreement and service contracts was result of this development.

1.5. Monitoring of contract execution

Indeed, monitoring of contract execution is administration of the contract, which includes actions such as contract support, change control, monitoring payment and fees, ordering procedures, management of progress reports and…. If method of monitoring the implementation of the contract is properly drafted and implemented, it helps the parties to know what personal level, how and when have to do which activity. In general we can say monitoring of contract execution is including of work program, taxation and compensation, costs, stabilization, price and…

Monitoring of contract execution highlights the role of contracts and law related. Because contracts are a tool to reduce and distribute risks and if contracts control properly they will stop risks or reduce their affections. Contract parties; use it to reduce risk in its trading activities. Therefore, monitoring the implementation of the contract must be such that it should approve the allocation of risk to facilitate the distribution of risk between the parties. Accordingly, we can say that the risks are caused by the lack of oversight and proper risk allocation is as following.

- Low accuracy in program schedule
- Designing the details with ambiguous specifications
- Acceleration the inauguration of the project due to political and security issues
- Occurrence force majeure events such as war, flood, earthquake and etc.
- Uncertainty of government policy
- Political sanctions
- The weakness of legal and negotiating team

2. Risk and risk management

Procedures of contracts are complex and complex of societies, severity of rivalry, currency of advanced technology, extension of information technology, new approaches to proffer of goods and services, environmental issues are major factors that bring so many risks for states, corporations and economic industries. They are contract risk and results from not complying with contractual terms and conditions, leading to default, penalties and late deliveries and they lead to financial and legal risk. (Vallabhaneni, 2013, p. 51) We can say any kind of activity is faced with incidents that could prevent the fulfillment of the desired result. This is a bad situation that could harm a person or organization. This bad situation can be a harmful event or an inhibiting factor, or any disorder or instability in the activity. It is risk. Risk combines in many positions from the simplest one like walking and eating to the most complex situations such as economy and politic. To understand the nature of risk, it must first define. Defining of risk help us to overcome hazards and problems which cause of bad situation or losing. There are different definition of risk by authors and experts. Risk is usually defined as the possibility of suffering harm or loss. (The American Hertage Dictionary of the English Language) In everyday usage risk refers to a situation or a choice that involves possible loss or danger and the loss or danger implied is opt to be substantial. (Lee, 1971, p. 117) Some believe it is a measure of probability and consequence of uncertain future event. It is the chance of an undesirable outcome that outcome could be a loss. (Yoe, 2012, p. 1) And some other simply, says risk is probability of an accident (Damodaran, 2008, p. 6) or stuff happens, something unexpected, perhaps un-expectable, occurs. (Martin, 2008, p. 1) Some decision theorists use the term risk in a more technical sense as applying to a situation in which the probabilities of uncertain future outcomes or events are known, in contrast with a situation of uncertainty or ignorance in which such probabilities are not known. (Farrar, 1962, p. 1) Although there are many differences in how risk is defined, but we can say that all the definitions briefly show the nature of risk. There are two important points: Losses and uncertainty. These two factors are completed, with the ability to predict risk. In fact, recent factor helps to manage risk. If there is no predictability of risk, it cannot be assessed and managed. Having a good knowledge about uncertain event or position makes us able to predict the risk. The inability to predict risk is the biggest risk. Since risk factors are varying from a location to another, to identify, predict and evaluate them, first, that position should be identified and managed.

2.1. General strategies of risk management

Experiences suggest that risk is a major reason why nations fail to reach otherwise mutually useful agreements. Where a nation sees prospective agreement as involving substantial risks, and it cannot find some way of compensating for or controlling them, it will often choose not to enter into the agreement. (Bilder, 1981, p. 12) Success of organizations is depending to risk assessments and kinds of risk management that they apply on various kinds of risk. Risk management is a process to assessment and estimate risks and designing strategies to manage risks. In general we can explain risk management as following:

1. Identifying the hazards and threats and Risk estimating that is a process including determining the outcomes and results of each of the possible risks, developing acceptable priorities and estimating their affections. Effective response, to the risks can be effective when identifying risks is done properly. Identifying risks requires an understanding of the project or business objective, scope and objectives of the parties in an international commercial contract.
2. Assess the probability and consequences of occurrence or risk analysis, that is estimation and risk assessment process that its aim is developing agreed priorities in risk estimating and analyzing risks through available information to determine the importance and effect of potential of identified risks. Risk analysis is the process of comparing the estimated risks for determining importance of risk. At this stage, to identify potential sources of risk and probability of risk and estimate its results. Risk analysis is composed of two parts:
   - Quantitative analysis of risks: The purpose of quantitative analysis of risks is quantitative analysis of probability engendering risks and its consequences on the project or business.
   - Qualitative Risk Analysis: In this process, risks are prioritized based on the potential and impact that may have on the project or business. Increase of information about business nature and its environment help to the parties to correct assessment of the known risks.
   - Plan what we are going to do about it
   - Reduce the chance or impact if it occurs
   - Create contingency plans and monitor risks
3. The goal of risk management is identifying and preventing problems before they turn to large obstacle. The goal of risk is not just identifying problems but it attempts to design the best plan to reduce or eliminate risks. It also attempts to ensure project success by

assessing measure of their potential to result. Risk management can not completely eliminate the risk but it tries to bring the operation to the desired level. Risk managers considering subjective probabilities (almost certain risks, highly likely risks, probable risks, unlikely risks, impossible risks) partition risks into three levels (high, medium, low). Under this division they make decision to apply which kind of risk management strategies on present or future problem. In other word we can say risk management is the process of identifying vulnerabilities in an organization's information systems and or programs then taking steps to assure its confidentiality, availability, integrity, authenticity.

There are four strategies have counted to manage risks.

- Risk transfer (accepting risk by other organization or institute)
- Avoiding of risk (avoiding anything which is caused risk)
- Reducing risk (using approaches which reduce risk)
- Risk retention (accepting loses in the event of)

1. **Risk transfer.** Risk transfer defined as: shifting risk from one party to another party, like purchasing insurance coverage and issuing debt. There are various approaches to transfer risk which used, depend to governments and companies' policies. In really poor management in using a good instrument to transfer risk, can arise serious hurt to structure of states and companies. Accidents can happen. And in the event of such events, risk transfer mechanisms can prove invaluable by reducing chances of unknowingly taking on someone else's liability or being exposed to additional risks due to the actions or in-actions of others. These mechanisms can also allow a firm to shift its liability to another party. There are 3 main types of risk transfer.
2. **Hedging-** A hedge is an investment position intended to offset potential losses that may be incurred by a companion investment and A risk is hedged when the action taken to eliminate the risk of loss the potential for gain.
3. **Insuring-** Insuring is the payment of a premium to avoid losses while retaining the potential for gain.
4. **Diversifying-** Diversifying means swapping a large exposure to a single risk for smaller exposures to many risks that are not perfectly correlated.

As above expressed states and companies maybe use risk transfer instruments together or apply them with other approaches. For example reinsurance, "hold harmless agreement or additional insured endorsements and owner's and contractors protective policies (OCP)". (Risk Control Bulletin, Risk Transfer, 2010, p. 1)

There is also [ART] or alternative risk transfer that is including of techniques other than traditional insurance and reinsurance to provide risk bearing entities with coverage or protection. It provides some ways to transfer complex risks faced by states and companies who cannot resolve them by traditional insurances. Alternative Risk Transfer [ART] includes: Captives and Mutual insurance, Finite Insurance, Multiline Insurance and Contingent Insurance. Some researchers believe insuring is a risk reduction tool and not risk transfer assessment. insurance can be defined as a socioeconomic device that reduce the uncertainty of loss by making it more predictable by pooling the risks of a large group of exposure units and spreading the economic burden of the losses proportionately among the exposure unites. In short, insurance is a risk-reduction device. (Mark R. Greene, James S. Trieschmann, Sandra G. Gustavson, 1992, pp. 20,29) In all above occasions the parties should pay attention to three points:

1. The party, risk is transferred to him has to have financial ability to deal with the results of the risk or prevent it.
2. The party that undertakes risk should also be paid.

2. **Risk avoidance.** Risk avoidance is the most effective way of managing risk. It means making a decision not to enter into a new way of working because of the inherent risks this would introduce. In the general context, it involves a decision of avoiding exposure to personal property and liability risks by not owning, operating, or entering into a certain field of business or activity. (Ting, 1988, p. 193) In general, risk avoidance is not a good reaction to repel risks because eliminates any risk, make other risk. For example lacking of investment on a special sector because of avoiding its risks can make other economic risks but an expert risk manager can use it as a device to eliminate wrecker elements. Usually those kinds of risks can be eliminating without an adverse effect on the goals of an individual or business can be avoided.

3. **Risk reduction.** Risk reduction is an evolving area of disaster risk management aimed at risk elimination or reduction by intervening in the vulnerability of a state, an area or company and etc. In other words, risk reduction involves clear and explicit effort to avoid the occurrence of disasters. Risk

reduction comprises two components: Prevention and Mitigation. Prevention defined as: Activities to provide outright avoidance of the adverse impact of hazards and the means to minimize related environmental, technological and biological disasters. (International Strategies for Disaster Reduction (ISDR), 2004) Mitigation defined as: Structural and non-structural measures undertaken to limit the adverse impact of natural hazards, environmental degradation and technological hazards.

4. **Risk retention.** It defined as self-insurance and it occurs when the cost of eliminating and reducing risks is more than acceptance. Choice between acceptance and avoidance of risk in such positions always is discussed. The choices depend upon the alternatives values and beliefs that are considered. As a result there is no single all-purpose number that expresses acceptable risk for a society. Value and uncertainties are an integral part of very acceptable risk problem. (Baruch Fischhoff, U.S. Nuclear Regulatory Commission, Oak Ridge National Laboratory. Engineering Physics Division, Perceptronics Incorporated. Decision Research, 1980, pp. 2,3)

Section 2

Risk management in international petroleum contracts

1. **Risks arising from the characteristics of the oil contracts**

Today, international petroleum contracts are often led to major projects. For this reason these contracts are in a special place. They need a high financial commitment because they begin a major project with special features, and complexity designs in specific geographic circumstance. They generally need modern technology and experienced experts and specialists. They are long-term and highly impressible of regulations and political elements. We pay some of their highlighted trait as following:

1.1. They are highly impressible from economic and political factors

Most energy resources are geographically located in developing countries, that is, in unstable countries and most states in those geographical regions have not got enough legal and political stability to protect investments from political risk. (Erkan, 2011, p. 38) International petroleum contracts specially are under provisions and regulations that provide by governments, for example permission to exploit for exploration and production, imposing new conditions to drill, price control, Control of oil fields development, economic sanctions, national issues, expropriation and contract cancelation, paying royalties and tax in high level, renegotiation and confiscation, loses due to revolutions, changing commercial policy and etc. Petroleum contracts have direct relationship with countries policy changes and variations in political position of states, change projects process. Some authors explain this risk as follow: political risk is another factor which tends to favor a fiscal regime that places a large degree of financial risk and potential reward with the government. The economic rationale for a low risk early cash approach is that oil firms will accept making a risk exposed payment early against the promise of extracting large reward later if valuable resources are found. The problem then is that by the time the valuable resources are produced, citizens and politicians of the producing country may become disenchanted with the large amount of money being made on their resources by foreign firms, while recalling little or no tangible benefit from the initial signature bonus. This has tended to trigger political changes leading to nationalization, or otherwise appropriating value from the oil firms beyond what had been agreed. (Ove Tobias Gudmestad, 2010, p. 214)

2. **They are extremely involve with environmental issues**

This is the risk that the operations undertaken are causing damage to the environment. The environmental risk is inherent in having to work, from an environmental point of view, in a sensitive area; the ultimate environmental risk is the risk that the operations have to be abandoned when it appears that they would have to be carried out under such restricted conditions that the intended operations become too costly. (Taverne, 2008, p. 380) Considering new environmental conditions and legal rule that approved to prevent air and water pollution impose heavy expense to corporations. Uncertainty in prediction of likely events in drilling time which arise environment pollution makes some negligence for corporations and it also makes some private lawsuits. Despite the strict observance of the technical issues, it is highly likely the oil disaster in the petroleum project. For example: "British Petroleum" oil platform exploded and sank in the Gulf of Mexico in 2010. Large oil pollution occurred off the coast of United States and it became a global environmental disaster. In this event eleven people were killed and 200 million gallons of oil has leaked into the Gulf of Mexico and more than 6000 birds and 600 turtles died. Or oil pollution in the Niger Delta - as Shell Oil Company is responsible for it - is already causing major environmental damage to nature in this area. The United Nations has declared that it is necessary 25 to 30 years to remove pollution in the Niger Delta.

3. **They are affected from government intervention in petroleum projects**

Governments try to implement their policies, programs and control projects through regulations and provisions. On the other hand, these rules can effect on economic and financial elements and make some problems. In other word, involving governments in oil and gas projects is base of many political, financial and economic risks.

In the oil-rich countries where the economy is based on oil, government financial independence is guaranteed by oil. In such countries, due to financial independence from the society, the government knows itself free from society and its people. These governments have absolute political and economic power and it is neglected interests of the people and their social justice. This will reduce power of law in the society. Because in these countries, oil is a political commodity and political objectives are replaced instead of the technical and economic goals. In this situation government-affiliated groups, with different economic motives and conflicting interests, compete for profits and their contradictory goals will cause instability in the laws and provisions. Indifference to the law will have bad effects on investment and will be lead to instability in the contracts. In terms of Inconstancy of law and lack of transparency in future policy, the investor can't be assured.

4. They need capital investment

Venture capital investment risks refer to financial risk that an investor can lose apart or the entire of the funds invested in a startup. (Garbade, 2011, p. 137) Based on the above definition can be said capital investment risks In addition to operating costs, are including "risk associated with the ability of customers and vendors to pay or deliver or credit risk, risk associated with the inability to buy or sell commodities at quoted prices or liquidity risk, risk associated with firms' input costs and demand risk which associated with the demand for the firms' product or services" (Betty Simkins, Russell Simkins, 2013, p. 383) Sometimes the negligence, carelessness or inexperience in contracts' legal issues is causing major losses in oil projects. Because of this some authors have considered the legal risk as component of financial risk. Christopher L. Culp writes: "Legal risk is classified as a financial risk because this particular incarnation of risk results in losses that usually are driven in size and economic importance by changes in market prices." (Culp, 2011, p. 15) Necessity and require high investment in petroleum projects is base of many problems in petroleum contracts for example: obtaining and providing financial guarantees, financing projects continuously. High volume investment in projects causes to inject large amount of money in special part of country's industry. It can effect on economic elements like inflation. In the other hand exploration and production of oil and gas need to high investment. These activities are related to natural and physical elements and condition of oil and gas position fields. Risks due to these elements are base of many legal risks. (For example: fire, destruction of oil and gas wells, destruction of operational equipment, closure operation, body injuries, environmental pollution, uncertainty to estimate amount of oil and gas reserves) They led losses to parties.

5. They are influenced by exchange rate swings and oil price

Oil price depend to global demand. Oil exchange is doing by US dollar and swing between US dollar and other currency are due to economic variations, because of this exchange rate is one of issues that rise problems in the world market. Low oil prices will stop oil production projects and the governments will face a supply crisis in the future. Due to lower oil price, production capacity will be very poor because oil producing countries are not willing to produce in such situation. This can be a huge risk for investors on oil projects.

Conclusion

Oil contracts have general features, which are common in all contracts. They also have certain features that make them quite different from other contracts. These features are origin of general and particular risks in the Oil contracts. There are many risks in petroleum contract that they are due to their elements. There are several ways to deal with risks in order to allocate or eliminate them as following.

1) Contract management is an integral part of the petroleum contracts process and the contract parties must use it in concluding contract which is efficient and suitable for their purposes. Risk management is the main part of contract management and providing an effective plan for risk assessment can be minimized risks.

2) Contract planning, Parties of contract, accounting, contract forms and contract execution are stages of contract management. They are also Petroleum contracts constructive elements and not only are source of risks but they can be converted to success factor of projects by their control, their allocation and their share. Sharing risks should be given the ability of the contract parties and rate of their influence and their effectiveness on risks.

3) There are common strategies to manage contract risks include transferring, accepting, avoiding and dividing risks. According to the characteristics of the oil contracts that have cited these strategies is not always useful for risk control. For instance political sanctions, none of these methods are not effective. Because the methods of risk control is effective only if

it is efficient as risk management. In other word medication is medication only if it treats pain.

4) Sometimes, attention to the characteristics of the oil contracts, show risks that they have very high certainty. It is hardly to say that it is a risk when percentage of certainty is very high. Usually these conditions are not anticipated in the contract and it is a gap. To fill up this vacuum, normally is used to stability term in petroleum contracts and re-negotiation. These conditions are not usually helpful in the case of oil contracts because these contracts are dealing with countries national interests and this has given them a political nature.

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