The Governing Law of International Oil Contracts In Iran Legislations

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Abstract. The historical record of preliminary negotiations of oil contracts, oil filings, verdicts and judicial decisions about international oil and gas contracts would clearly indicate that the subject of the governing law has been considered to be the main role in negotiations of international oil and gas contracts in many cases. Furthermore, it has sometimes been the subject of dispute so that violation of the validity of the governing law and misconception of it would result in insoluble consequences in oil filings. In addition to the investigation of the historical record of the governing law of international oil and gas contracts in Iran legislations, this paper would try to account for the subjects such as the mutual relationships of changes in the governing law with the type of international oil and gas contracts, and the reasons for formation and increasing tendency toward lex petrolea as the applicable regulations regarding the disputes arising from such contracts. It would also attempt to study the role of regulations pertaining to public order and the mandatory rules of the host country in imposing the governing law and accepting it on the behalf of oil companies, and also the role of the governing law in establishing the contractual balance in the upstream oil and gas contracts in order to encourage the investing companies.

Keywords: International Oil and Gas Contracts, Governing Law, Arbitration Clause, Lex Petrolea, Oil Companies

1. INTRODUCTION

The historical records of oil contracts pertaining to the era before oil nationalization and Petroleum Act 1987 indicated that the contracts signed at that time had serious problems such as not determining the governing law or not applying the laws of tank-owning country, in case the governing law has been determined. After oil nationalization and ratification of the First Petroleum Act in 1987, the country’s officials became more cautious about determining the governing law. Along with political and legal developments in countries with oil, especially those in the Middle East, the changes in the governing law led to a serious development toward applying the law of the host country, in consistence with lex petrolea, in a way that this problem was explicitly mentioned in the oil regulations. It became an aspect of obligatory and public order. Oil regulations of 1974 and 1987, Oil Law Reform Act in 2011, and other relevant regulations including those of the Fourth and Fifth Development Plan all confirmed this matter in Iran’s Legislations. The reasons why oil companies emphasized on the Governing Law Act in oil contracts were that they were not familiar with the regulations, principles and laws of the host country and the fact that the host country insisted on enforcing the local law and the sensitivity of national sovereignty principle.

Striking a balance in the profits of petroleum investment companies, on the one hand, and the strong tendency of tank-owning companies which is merely a legal matter, on the other hand, both require that a path be selected to ensure the interests of the country and motivate the oil conglomerates to invest, through studying mutual developments and tendencies in oil contracts. Therefore, it would take a considerable amount of time to talk about the Governing Law Clause

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in oil contracts. In some cases, it is considered as a reason for disagreement between the parties. In most cases, it is one of the challenging subjects in oil arbitration even if a contract is signed.

Not only do the Subjects such as the governing law of oil contracts establish a lex petrolea, but they are also considered to be the factors of codifying and ratifying national laws with an emphasis on the governing law in oil contracts.

Reviewing the historical records of the governing law in Iran’s oil contracts, this paper also studied its evolution and attempted to identify the valid law governing different aspects of an oil contract in Iran’s current legislation through stating an assumed problem.

This subject was stated in two topics, first of which included the development path of the governing law in oil contracts. The second one was allocated to the subject of governing law through stating an assumed problem. The necessary suggestions and strategies were presented in Conclusion.

2. TYPES OF INTERNATIONAL OIL AND GAS CONTRACTS

Basically, oil contracts are formed on two general bases; i.e. oil exploration and development, which are mainly in different types as follows:

- Licenses or Concession
- Authorizations
- Service Agreements
- Participation Agreements
- Production Sharing Agreements (PSAs)
- Cooperation Agreements and Joint Operation Agreements (JOAs)

Although JOAs are not considerably useful for exploitation operations, they are considered as contracts which are theoretically associated with oil exploration and development. Moreover, the main disagreement is on service contracts, on the one hand, and concession contracts, on the other hand, with respect to the surveillance of tank-owning governments over the executive operations of oil companies, compensation for costs, and cooperation of governmental companies in oil contracts of service type.

In countries with oil, especially those in the North Africa and the Middle East, all the above-mentioned types of contracts were applicable in the oil industry. However, three types of contracts which are very common in the world are concession, participation and service agreements.

3. THE MOST IMPORTANT INTERNATIONAL OIL AND GAS CONTRACTS IN IRAN’S LEGISLATIONS AND THEIR GOVERNING LAWS

Petroleum fiscal arrangements have experienced various contract methods of oil and gas in the countries with oil since the first oil discoveries. Iran also experienced such development, pioneering in one type of oil contracts (Buy back Development and Production Contracts) with current circumstances.

The international experiences of oil filings since the 1970s have provided Iranian decision and policy makers with great opportunities in the international oil and gas industry. Therefore, they can apply the necessary items to the structure, type and contents of oil contracts with respect to aspects such as the nature of oil contracts, accurate determination of rights, foreign oil
companies responsibilities and commitments, sovereignty right of host country, stabilization clause and its domain, interpretation of contract, compensation methods, amount of compensation in case of breach of contract, expropriation, and other influential factors.

Although dividing the oil agreements into concession and contract systems (Movahed, Muhammad Ali, 2007) may be helpful, it appears that dividing Iran’s oil contracts by the oil regulations pertaining to before and after oil nationalization and also before and after the Islamic revolution can lead to the goals in order to process the governing law better. It is because most of changes occurred in Iran’s oil contracts have been influenced by the decisions made by the statesmen and oil regulations.

A. The Contracts signed prior to the Petroleum Act 1957
This era was known as classic concession system. It was based on the permission of tank-owning countries. Therefore, it resulted in the presence of real or legal individuals in order to probe and extract these resources with full ownership of extracted products at a specific time and geographical location in return for a payment as royalty and some commitments such as training the staff, providing for domestic consumption, and so on (Aryan Kia, Reza, 2009).

The governing laws were not mentioned in the first concession contracts, and it was not even clear when an arbiter should be specified. In the Seventeenth Chapter of D’Arcy Concession, for instance, it was decreed, “If the contracting parties disagree on the interpretation and translation of this concession, and therefore, a dispute occurs on their rights and responsibilities, the problem will be addressed by the two arbiters in Tehran. These two arbiters are specified by the parties, and a third arbiter will be selected before filing a lawsuit. If the verdicts issued by those two arbiters; or the aforementioned ones do not agree with each other, the verdict issued by the third arbiter will be fixed.”

In Consortium Agreement 1954, it was attempted to nationalize the governing law condition; however, it was inferior to the lack of such condition, so it caused more confusion. Article 46 of this agreement required, “Since the parties to this agreement are from different nationalities, the interpretation and implementation of this agreement follow the legal principles which are common between Iran and the countries in which other parties have been established. If there are no such common principles, this agreement will follow the legal principles which are generally accepted by the civilized nations.”

B. The Contracts signed after the Petroleum Act 1957 and prior to the Petroleum Act 1974
Oil nationalization principles, agreed upon in 1954, were never used as the legal concept of “Nationalization.” Consortium Agreement 1954 and Petroleum Act 1957 indicated the fact that there was only a shell left from oil nationalization (Movahed, Muhammad Ali 2008), insofar as it was decreed in Article 10 of Petroleum Act 1957, “Oil produced by each agent at one of the wells subject to its operations is owned by that agent at the well.” Another reason explaining this matter can be participation contracts which were codified on this law so that 50% of the oil was owned by foreign companies during production without any juridical justification. Although some authors believed that production participation contracts were traced back to Indonesia (Ebrahimi, Seyed Nasrollah, 2013), some disagreements came up because this type of contracts was formalized in Iran according to Petroleum Act 1957 which was not much temporally different from the commencement of participation contracts in Indonesia.

The contract between ENI and Iran signed by an ENI subsidiaries named Ajip Minraria was the first participation agreement based on the Petroleum Act 1957. According to this contract, oil exploration costs were to be paid by Ajib, and these costs could be returned only if the operations result in the exploration of oil to a trade amount. In 1958, two participation contracts were also signed between Iran and Pan American International Company. In 1965, six
participation oil contracts were signed. Their main feature was the oil companies’ pledge to buy all 50% of the share of crude oil produced by National Iranian Oil Company at halfway price. So the foreign company was supposed to purchase Iran’s oil share. The final groups of Iran’s oil participation contracts written based on the Petroleum Act 1957 were signed between NIOC and a group of Japanese companies, some dependent American companies and Mobil Company (Movahed, 2008).

During this period, some oil contracts were written based on the Consortium Contract. For instance, in Article 40 of Syrip Contract signed with Ajib Company in 1957, the governing law was thought to follow the legal principles which were common between Iran and Italy. If such principles did not exist, the legal principles which were common among civilized nations were determined as the governing laws. In some contracts of this period such as the ones with Pan American and Sapphire which was a Canadian company, the subject of governing law was put to silence. However, Arap Contract was different from other contracts of this period because it pointed out to the principle of good will in arbitration verdicts in Article 41.

At the end of this period, several years before the passage of Petroleum Act 1974, many contracts were signed in Iran’s oil industry. Most of them had a unanimous condition in terms of the governing law. In these contracts, Iran’s law was governing more powerfully and vividly than before, except for the contract amended to the consortium. According to Article 29 of this amendment, the contract was subject to Iran’s law merely in terms of interpretation.


Criticisms of Petroleum Act 1987 let some revisions to be possible in this law due to some changes (Movahed, 2008) in 1974; so that the limits of oil nationalization were reflected vividly in this act.

In this act, upstream operations were distinguished from downstream ones in agreements. Upstream operations which include oil exploration, development and production were set to be done exclusively with the immediate stewardship and tenure of NIOC; and NIOC could only use the activities of private investors through contracting. In the downstream part (constructing refineries), NIOC was allowed to operate through cooperation with private investors (including foreign and domestic).

Contracting agreements signed in accordance with Petroleum Act 1974 were executed on time without being ratified in the legislative assembly and after the approval of the council of ministers. Some instances of such contracts which were more than six ones are as follows: contracts with a German company (Demenix and France Oil Company), and American company named Ultrama, an Italian company named Ajib, and an American group named Ashland. These agreements were known as service contracts. The first and most important of them was signed between NIOC and a French group named Arap in 1996. In this contract, Arap operated as a contractor of NIOC in the upstream field. Therefore, it appears that contracting agreements had started 8 years before Petroleum Act 1974 which regulated that format. Thus, Arap contract should be considered among the contracts between Petroleum Act 1957 and 1974; because it was regulated in contracting manner and service purchase, not in a participation format. Setting Iran’s regulations as the governing law in all oil contracts, this act determined that arbitration was to be held in Tehran and the law governing the arbitration process was to be subject to Iran’s regulations. Therefore, all the contracts were necessarily signed accordingly.

D. The Contracts between Petroleum Act 1987 and Limitations and Authorities Act Ratified by the Ministry of Petroleum in 2012

In the Petroleum Act ratified on October 1, 1987, the type of oil contracts was not specified, and some generalities pertaining to the investment and exploitation of oil and gas resources were
mentioned along with the definitions of some terminologies of oil and gas rights. According to the concept of the principles and generalities determined in Act 1987, service purchase contracts and mutual buyback were not forbidden if the aforementioned regulations were followed.

Lifeless and inflexible regulations of Petroleum Act 1987 did not last long because of the legislations passed by Iran’s Islamic Parliament in economic, social, cultural five-year development plans two years later. According to the Law of the First Development Plan passed in 1983, Paragraph J, Note 29, “The state is allowed to adopt the mutual contracts method up to 10 billion dollars in order to meet some requirements of industry and mining sector pertaining to production, export and relevant investments.” The Law of the Second Development Plan has issued such authorization for the state in Paragraph E, Note 22. The same procedure was followed in the Third Development Plan on April 5, 2000, the Fourth Development Plan passed on September 1, 2004, and the General Budget Law 2006. The importance of all regulations in this period pertained to the oil contracts based on the law of encouraging and supporting the foreign investment and executive bylaw which was passed by the Expediency Discernment Council in 25 articles on May 24, 2004. It replaced Foreign Investment Promotion and Protection (FIPPA) passed on November 29, 1955. It allowed foreign investment based on the contract arrangements (Paragraph B, Article 3). According to the studies, the format of most contracts signed between Petroleum Act 1957 and Limitations and Authorities Act ratified by Ministry of Petroleum in 2012 was the oil mutual buyback, although they were not the same in terms of content; because the latter contracts appeared to be very richer than the primary ones.

From 1987 until 2003, 17 contracts were signed as mutual buyback up to almost 27 billion dollars. After that and when the international sanctions were intensified, famous foreign oil companies were not willing to invest in the upstream oil industry. According to the open foreign policies of the current government (administration), some activities have been in progress to invest in the upstream and downstream sector of the oil industry through holding oil conferences. They had a new approach to contracts after the sanctions with respect to the changes occurred in the former mutual buyback contracts. In these contracts, the governing law is necessarily about the nature of oil contracts of Iran’s legislations; however, we should wait to see what contract format the politicians adopt to attract the investments in oil and gas industry after the sanctions are lifted. It appears that these contracts will be consistent with lex petrolea in terms of the governing law, and the law of execution site of contract will govern.

4. THE EVOLUTION OF GOVERNING LAW IN IRAN’S INTERNATIONAL OIL AND GAS CONTRACTS

To determine the subject of this paper on the governing law, the international oil contracts including oil and gas agreements with foreign countries should be dealt with first (Willis L. M. Reese, 1996).

International contracts are the contracts having the elements related to two or more countries. Such contracts may be signed between the governments, between a government and a private party, or merely between private parties.

Some elements are discussed in an international contract. According to their nature, each one is required to apply different regulations such as the governing law to identify the capacity of parties, the law governing the form of the contract, the law governing the nature of the contract, the law governing the arbitration agreement, the law governing the arbitration procedure, the law governing the recognition and enforcement of arbitration verdict, and the law governing the court procedure. The presence of such various elements in a contract would cause conflict in laws; therefore, determining the governing law would decrease the aforementioned problems. This matter is not merely theoretical, and it will include many practical aspects.
It should be noted that the above-mentioned problem is mainly true in international private contracts, whereas the international contracts discussed in this paper are those signed either between a government and a private company or between a governmental company and a private party. Despite many similarities between such contracts and private ones, they are particularly different; because one party is necessarily the tank-owning government or a governmental company. Such feature would cause many disputes over the nature of such contracts in terms of being administrative or private. However, this issue is not addressed in this paper (Ahmed-el-Qashiri & Taroq, Riyadh, 2003).

5. RECOGNITION AND ENFORCEMENT OF THE GOVERNING LAW

This discussion indicates that various regulations govern different aspects of relevant filings resulting from international oil and gas contracts.

In international oil and gas contracts, the principle of contractual freedom has been accepted in order to stabilize the law governing such contracts. This principle would include all the aspect of oil contracts; however, it does not mean that this principle is not limited in this field. The limitation of this principle is one of the problems which would basically depend on the rules of conflict resolution which are usually determined by judicial and arbitration councils in settling the proceedings and disputes. However, the oil contract, terms of contract, conventions and peremptory norms are finally taken into account to determine the governing law in such cases. It means what is known as lex petrolea nowadays. Since determining the governing law is done in a specific framework; and it may even refer to a particular law, all the aspects of the contract are governed by that particular law. Therefore, a hypothetical case is considered for the sake of more accurate analysis.

It is assumed that NIOC delegates a contract developing some oil phases in Asaluyeh to a French company in mutual buyback format. The contract was negotiated and signed in England. According to England’s statute book, the contract requires, “This agreement shall be interpreted and governed by the law of Iran.” Moreover, the contract states, “All the conflicts between the parties shall be addressed by an arbitral court composed of three arbiters.” Since Iran is faced with the economic sanctions imposed by the Europe and the US while executing the contract, it will not be able to meet the obligations. Therefore, the other party decides to cancel the contract in accordance with the terms and conditions. NIOC takes the responsibility of the sites specified in the contract for development and production. Finally, the foreign company would require the case to be referred to the arbitration authority for its demands, and non-arbitrational cases would be referred to the component judicial authority.

A. Litigation Case

There are differences between substantive issues addressed in a court of law and the subjects of procedural law because the substantive regulations of a foreign country can be applied to the nature of a litigation case, according to the principle of rule of will. However, regarding the procedural issues, the procedural regulations (adjective law) of court should be necessarily applied due to association with public order (Saljoughi, Mahmood, 2011 & Ebrahimi, Seyed Nasrollah, 2011).

B. Regulations of Procedural Law (Adjective Law)

Although substantive regulations which are considered to be in the first place of importance to the court distinguish between the rights and responsibilities of parties, procedural regulations which are the only way of achieving a fair trial are considered to be in the next place of importance by the same court (Rafie, Ahmad & Yazdan Shenas, Ali, 2001). This judicial point of view is very unfair because the relationship of procedural regulations with national sovereignty and public order as the only supplied of procedural justice should be considered in a
superior place to other regulations. Given these explanations and according to the last paragraph of Article 1 of Procedural Act in Civil Affairs passed by the Islamic Parliament in April 16, 2000, the procedural law practiced at the site of court should be applied in a litigation case.

C. The Law Governing the Nature of Litigation Case

Some laws appear to have existed: 1. The law of the country in which the contract is signed, 2. The law of the country in which the contract is executed, 3. The respective law of the foreign oil company, 4. The law of the court, 5. The law selected by the parties in contract.

If it is assumed that the parties did not select the law governing the nature of litigation case, the court should refer to its conflict settling regulations to determine the law governing substantive issues because those regulations pertain to the public order as a part of a country’s sovereignty (Almasi, Nejad Ali, 2011). To enforce the conflict-settling regulations, the court should undoubtedly consider the law of Iran as the governing law; because an oil contract has particular sensitivities and aspects which separate it from other private international contracts; although the law of the place where the contract is signed is considered as the governing law if no governing law is determined by the parties. However, due to the aforesaid reason, the governing law is the law of the place where the contract is signed. It is rather similar to the law of location of property or the law of the place having the closest relationship with the contract. This is exactly the Host Domestic Law; because two laws of immunity from prosecution and immunity from execution are considered for the host government which is subpoenaed as the defendant to the court (Al-Qashiri, Ahmad & Taroq, Riyadh). It means violation against the national sovereignty of governments which is emphasized by UN General Assembly in oil cases (Aminzadeh, Elham, 2013), OPEK, Energy Charter Treaty, Articles 44 and 45 of the Constitution of the Islamic Republic of Iran, and some other oil regulations. Therefore, the stability condition is mentioned as compensation (Amani, Masoud, 2010) in oil contracts nowadays.

D. The Request for Arbitration

The arbiters had the tendency to disperse oil and gas contracts known as economic development contracts between 1970 and early 1980. This theory peaked after the famous verdict issued by Professor Dupuy in TAPCO Case (1977); however, it was then moderated due to the arbitration verdict issued in Kuwait’s lawsuit against Amin Oil Company (1982) until various pieces of evidence lately indicated that many efforts were made to change the tendency toward the Host Domestic Law. Its first sign was the spread of condition of selecting the governing law named the law of contract execution place in most oil contracts (El-Qashiri & Riyadh, 2003). In Iran, this condition was systemized due to law. Therefore, the codifiers of oil contracts were supposed to insert the law of Iran or the law of contract execution place as the governing law in mutual buyback oil contracts. Given this regulation accepted in oil contracts, the possible cases and their governing laws are dealt with in the following parts.

E. The Law Governing the Arbitration Agreement

In general sense, arbitration agreement is a contract indicating that the parties have agreed to refer the disputes to an arbiter (Shiravi, Abdol Hossein, 2013), although the contract is generally considered to be composed of one party’s agreement to require the others (Sweet & Maxwell, 2003). However, other conditions are also thought of in arbitration agreements. They are all related to the nature of agreement consisting of the responsibilities of each party, and they are necessarily subject to the law of contract location unless another law has been selected in the regulation framework of the law of contract location. So due to the fact that the arbitration agreement is considered as a contract following the generalities governing a normal contract, it cannot be considered as an oil contract. Given the hypothesis of problem, the arbitration agreement was signed in England, So it was subject to the law of that country (Lex arbitrary), unless the parties selected another law in accordance with the principle of rule of will. However,
if the arbitration agreement were as the arbitration condition at the time of signing the contract, it would be subject to the law governing the main contract (Shiravi, 2013).

**F. The Law Governing the Arbitration Code**

The procedural regulations of arbitration are different from the ones governing the nature of litigation case. They include the ability to resolve disputes through arbitration, forming the court of arbitration, the conditions and qualifications required by arbiters, authorities and responsibilities of arbiters, the quality of arbitration, terms of presenting replies and bills, quality of hearings, evaluation of reasons, arresting the witnesses, issuing temporary orders, finality of arbitration verdict, terms of issuing a verdict, and executing the verdict on which the arbitral procedure would depend.

Regarding the law governing the proceedings, there are two theories: 1) The theory of procedural laws’ dependency on the law of arbitration location which is an objective interpretation, and 2) The abstract theory which means that the procedural laws are subject to the will of parties.

According to International Trade Arbitration Act 1997, Article 19, Paragraph 1, the mutual agreement has been accepted on the procedural laws. According to the Paragraph 2 of the same act, if the parties remain silent, the arbitration regulations will be applied through the discretion of the court of arbitration. Although the Former Article 16 of the International Chamber of Trade in Paris valued the mutual agreement, it considered the silence assumption to be subject to the law of arbitration location. However, Article 11 of Act 1975 delegated it to the discretion of the court of arbitration. New York Convention 1958, Article 5, Paragraph 1 credited the will of parties in determining the governing law and considered the silence to be subject to the law of proceedings location.

In this regard, Paragraph 2 of the First Article of UNCITRAL Rules of Proceedings stated, “These rules will govern the arbitration, unless each of them is in conflict with the rules of arbitration and the parties cannot ignore those rules, so the same rules will be executed.”

Given the above-mentioned documentations, the arbitral proceeding rules are subject to mutual agreement in oil filings as stated in the assumption of the problem, or ad hoc arbitration rules set by the parties are practiced. Otherwise, the institutional arbitration rules are agreed upon. The law of proceedings location usually governs in the silence assumption (Childs, Thomas, 2011). In the new oil contracts of Iran (mutual buyback), the law governing the arbitral proceedings are usually determined in the contract, and this condition is even regularized in some mutual investment interactions (Petroleum Act 1974); therefore, the law of location in which the oil contract is executed does not necessarily governs.

**G. The Law Governing the Nature of Dispute in the Arbitration Reference**

The law governing the nature of dispute is a law by which the arbiters make statements and issue verdicts on the dispute. In other words, investigation into the validity of contract, credibility and value of responsibilities, and contractual conditions between the parties of a trade contract is considered as substantive (nature). An oil contract is not different from other international trade contracts in this regard.

Give the stated problem, the law governing the contract is the law of Iran which is the same as the law mentioned by the contract. It would be referred to as the law of nature of dispute. However, in some cases such as difference in capacity or difference in the validity of liability condition, it is not subject to the law of contract, and the appropriate law should be referred to according to the case (Eskini, Rabi’a, 2006). However, if the governing law is not determined, the arbiters formerly believed that the regulations pertaining to the principles of trade laws and
international laws should be applied through considering the norms of trading, the points relating to the contract and change of situations (Eftekhar, J., Goudarz, 2010). This matter was backed up by the opinions of arbiters in important oil arbitrations of Libya.

The matter has been so developed that the viewpoints of court of arbitration were inserted as the conditions in oil contracts while signing them after some changes in the subject of governing law. Lately, in the differences caused by investment in cases in which one party is the government, if the governing law is not selected, it is obviously the law of the governmental party, although foreign investors attempt to determine the governing law through selection. Or, if there is not any agreement, they try to determine the governing law through conflict system. This law is also the law of the governmental party in most cases.

According to the economic reasons, the obligatory regulations relating to public order and the sovereignty principle of the oil benefits, it is mandatory to insert the condition of Iran’s law as the governing law in Iran’s oil contracts. If the governing law is not determined, the court of arbitration will also apply the host domestic law due to the above-mentioned reasons. For instance, in the lawsuit between Deutsche Schachtbau and Tiefbohrgesellschaft in the Case MDH V RAKOLL in 1989, the court of arbitration referred to Articles 13-3 of International Chamber of Trade, although the court was stationed in Switzerland, it selected strict sensu lex mercatoria as the law governing the nature of dispute. Lex petrolea would also prove this decision. In this selection, the court of arbitration referred to the obligatory regulations, conduct of parties, legal norms and procedures (Castnilon, 2013). In Iran’s current legislations, Articles 44 and 45 of Constitution do not basically allow any violation to this matter, and the normal laws had to follow.

H. The Law Governing the Arbitration Verdict and Its Execution
The law governing the arbitral procedure and the law governing the credibility and execution of arbitration verdict are two different subjects which are sometimes considered the same. Sometimes, the law governing both of them is single, sometimes not.

According to the regulations of New York Convention 1958, if the law of the country in which the proceedings are held is not followed in problems such as the quality of forming the arbitration council and its formalities, the execution of verdicts can be prevented.

According to the regulations of New York Convention, Article 5, Paragraph 2, the court can avoid identifying and executing the verdict in the following cases: A) if the arbitration subject is not among those which can be referred to arbitration in accordance with lex mercatoria, B) if the execution of law is not against the public order of that country, so the law of the place where the verdict is issued governs. Moreover, if the verdict is valid and ready to be executed, lex mercatoria is the governing law.

Given the fact that Iran was also a member of this convention, and its regulations were passed by the Islamic Parliament on April 10, 2001, it appears that different regulations influence arbiters’ verdicts in different cases or the arbitration execution in terms of proceedings and credibility. Each one are applicable as the governing law in some respects.

CONCLUSION
To obtain better results in this research, oil contracts were investigated with respect to the changes occurred in oil regulations.

If the international oil and gas contractual groups are to be mentioned briefly in Iran’s legislations and in accordance with legal developments, four major groups can be pointed out.
The Governing Law of International Oil Contracts in Iran Legislations

The first one is the group of concession contracts pertaining to the period before and after oil nationalization, mainly until Petroleum Act 1957. The second group includes participation contracts whose mechanisms were formed by Petroleum Act 1957. The third one is the group of service purchase contracts which were based on Petroleum Act 1974. However, its main instances were practically traced back to the period before Petroleum Act 1974 and to the period after 1966. The fourth group includes mutual buyback oil contracts which are mostly included in service purchase contracts; however, it appears that the origin of such oil contracts is service purchase and contracting operations. Moreover, some changes were applied to this type of contracts in accordance with Iran’s oil regulations such as those pertaining to the annual program and budget and the First to Fifth Economic Development Plans. Since this type of oil contracts were exclusively used in Iran’s oil and gas industry lately, for they are mainly signed in development phase, and they are not normally signed in the exploration phase which is the main point distinguishing between the oil contracts, they were put in the fourth group named mutual buyback oil contracts in this research.

Given the above-mentioned matter, it is inferred that a litigation case is caused by the oil contracts qualifying different aspects, each of which require a particular law to govern.

1. If the litigation case is addressed in a court of law, the law governing the procedural regulations will undoubtedly be the law of the site of ruling court in accordance with the fact that the regulations are mandatory. Contrary to the international private contracts, the rule of will does not determine the governing law in cases of substantive problems; and domestic law of the host country governs.

2. If the litigation case is referred to an arbitration court, the law governing the arbitration agreement is subject to the rule of will and mutual agreement, unless there is no agreement upon it. In this case, it is subject to the law of the place where the agreement has been was signed.

3. The law governing the code of arbitration is basically subject to the law of the country where proceedings are held, unless the parties have agreed upon something else.

4. Unlike the past when the law governing the nature of disputes was subject to the international principles in case of silence assumption, nowadays it is mainly subject to the governmental party of the contract, and the disputes are resolved in accordance with the regulation systems, although the agreement is influential if there is no legal prohibition. Finally, lex petrolea will be effective in this case.

5. The law governing the arbitration verdict is the law of the place where the verdict is issued, and the law governing its execution is the law of the country where it is executed.

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The Governing Law of International Oil Contracts in Iran Legislations

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