FORM OBD - 67
JAN 1977

UNITED STATES DEPARTMENT OF JUSTICE
WASHINGTON, D.C. 20530

No. 43-R0216
Approval expires Oct. 31, 1981

RECEIVED
CRIMINAL DIVISION
NOV 16 5 00 PM '81
INTERNAL SECURITY
SECTION
REGISTRATION UNIT

EXHIBIT A

TO REGISTRATION STATEMENT

Under the Foreign Agents Registration Act of 1938, as amended

Furnish this exhibit for EACH foreign principal listed in an initial statement and for EACH additional foreign principal acquired subsequently.

1. Name and address of registrant: Gray and Company The Power House 3255 Grace Street, N.W. Washington, D.C. 20007	2. Registration No. 3301
3. Name of foreign principal Kuwait Petroleum Corporation	4. Principal address of foreign principal P.O. Box 26565, Safat, Kuwait

5. Indicate whether your foreign principal is one of the following type:

- [ ] Foreign government
- [ ] Foreign political party
- [x] Foreign or [ ] domestic organization: If either, check one of the following:
  - [ ] Partnership
  - [ ] Committee
  - [x] Corporation
  - [ ] Voluntary group
  - [ ] Association
  - [ ] Other (specify) ______
- [ ] Individual - State his nationality ______

6. If the foreign principal is a foreign government, state:

a) Branch or agency represented by the registrant.

b) Name and title of official with whom registrant deals.

7. If the foreign principal is a foreign political party, state:

a) Principal address

b) Name and title of official with whom the registrant deals.

c) Principal aim

8. If the foreign principal is not a foreign government or a foreign political party,

a) State the nature of the business or activity of this foreign principal

Kuwait Petroleum Corporation is engaged through subsidiaries in the exploration, production, refining, and marketing of oil, natural gas, and petrochemicals both in Kuwait and abroad.

b) Is this foreign principal

Owned by a foreign government, foreign political party, or other foreign principal . . . . . Yes ☒ No ☐

Directed by a foreign government, foreign political party, or other foreign principal. . . . Yes ☒ No ☐

Controlled by a foreign government, foreign political party, or other foreign principal . . Yes ☒ No ☐

Financed by a foreign government, foreign political party, or other foreign principal . . . Yes ☒ No ☐

Subsidized in whole by a foreign government, foreign political party, or other foreign principal . . . . Yes ☐ No ☒

Subsidized in part by a foreign government, foreign political party, or other foreign principal . . . . Yes ☐ No ☒

9. Explain fully all items answered "Yes" in Item 8(b). (If additional space is needed, a full insert page may be used.)

Kuwait Petroleum Corporation (KPC) was established on January 21, 1980 pursuant to Decree Law No. 6 of 1980 as the state-owned company to coordinate all of Kuwait's existing oil interests. The Decree Law gives KPC a commercial status which puts KPC outside of the normal state sector budget and expenditure control system.

KPC is the successor to the four principal petroleum-related companies in which the Government of Kuwait held interests upon the organization of KPC. All of these companies are now wholly-owned subsidiaries of KPC.

Under the Kuwaiti Constitution, all hydrocarbon resources belong to the State. In reflection of that fact and of KPC's commercial character, KPC earns its way as a commercial enterprise on the margin which it earns between its cost of crude oil as determined by the Government and whatever can be obtained in the marketplace as revenues from sales of crude oil and refined products.

10. If the foreign principal is an organization and is not owned or controlled by a foreign government, foreign political party or other foreign principal, state who owns and controls it.

Date of Exhibit A	Name and Title Jon Jessar Senior Vice President	Signature

Form OBD-65
Rev. 4-27-77
(Formerly DJ-304)

B
No. 43-R435
Approval Expires Oct. 31, 1981

RECEIVED
CRIMINAL DIVISION
NOV 10 5 00 PM '81
INTERNAL SECURITY SECTION
REGISTRATION UNIT

UNITED STATES DEPARTMENT OF JUSTICE
Washington, D.C. 20530

EXHIBIT B

TO REGISTRATION STATEMENT
Under the Foreign Agents Registration Act
of 1938, as amended

INSTRUCTIONS: A registrant must furnish as an Exhibit B copies of each written agreement and the terms and conditions of each oral agreement with his foreign principal, including all modifications of such agreements; or, where no contract exists, a full statement of all the circumstances, by reason of which the registrant is acting as an agent of a foreign principal. This form shall be filed in duplicate for each foreign principal named in the registration statement and must be signed by or on behalf of the registrant.

Name of Registrant	Name of Foreign Principal
Gray and Company	Kuwait Petroleum Corporation

Check Appropriate Boxes:

1. [ ] The agreement between the registrant and the above-named foreign principal is a formal written contract. If this box is checked, attach two copies of the contract to this exhibit.

2. [ ] There is no formal written contract between the registrant and foreign principal. The agreement with the above-named foreign principal has resulted from an exchange of correspondence. If this box is checked, attach two copies of all pertinent correspondence, including a copy of any initial proposal which has been adopted by reference in such correspondence.

3. [X] The agreement or understanding between the registrant and foreign principal is the result of neither a formal written contract nor an exchange of correspondence between the parties. If this box is checked, give a complete description below of the terms and conditions of the oral agreement or understanding, its duration, the fees and the expenses, if any, to be received.

No written or oral agreement between Gray and Company and Kuwait Petroleum Corporation currently exists.

Incidental to its professional relationship with Santa Fe International, a domestic corporation, Gray and Company was asked to engage in several activities on behalf of the Kuwait Petroleum Corporation. Staff time and expenses for these activities were paid for by Santa Fe International.

4. Describe fully the nature and method of performance of the above indicated agreement or understanding.

Gray and Company has been retained by Santa Fe International since September 28, 1981, for public relations/public affairs counsel and services.

Kuwait Petroleum Corporation has made a friendly offer to acquire Santa Fe International.

It is not clear whether or not Gray and Company will perform similar activities again for Kuwait Petroleum Corporation.

5. Describe fully the activities the registrant engages in or proposes to engage in on behalf of the above foreign principal.

During the month of October, Gray and Company engaged in the following activities in behalf of Kuwait Petroleum Corporation (KPC):

o Counselled KPC representatives on how to handle questions from members of the press regarding the proposed merger of Kuwait Petroleum Corporation and Santa Fe International (SFI).

o Directed inquiries from members of the press about the merger to the appropriate KPC official(s).

o Advised the Deputy Chairman of Kuwait Petroleum on his testimony before the House Government Operations Subcommittee on Commerce, Consumer & Monetary Affairs. The subcommittee held two days of hearings October 20 and 22 to hear testimony on the SFI-KPC merger.

o Prepared and disseminated a press release. (See attachment).

6. Will the activities on behalf of the above foreign principal include political activities as defined in Section 1(o) of the Act?[1] Yes [X] No [ ]

If yes, describe all such political activities indicating, among other things, the relations, interests or policies to be influenced together with the means to be employed to achieve this purpose.

All of the above activities can probably be construed as "political activities" under the Act. Any further political activities engaged in by Gray and Company on behalf of Kuwait Petroleum Corporation will be reported to the U.S. Department of Justice.

Date of Exhibit B	Name and Title	Signature
	Jon Jessar Senior Vice President	

[1] Political activity as defined in Section 1(o) of the Act means the dissemination of political propaganda and any other activity which the person engaging therein believes will, or which he intends to, prevail upon, indoctrinate, convert, induce, persuade, or in any other way influence any agency or official of the Government of the United States or any section of the public within the United States with reference to formulating, adopting, or changing the domestic or foreign policies of the United States or with reference to the political or public interests, policies, or relations of a government of a foreign country or a foreign political party.

GRAY AND COMPANY
NATIONAL PUBLIC RELATIONS/PUBLIC AFFAIRS
THE POWER HOUSE
WASHINGTON, D.C. 20007
202 333-7400

FOR KUWAIT PETROLEUM CORPORATION
FOR IMMEDIATE RELEASE

Contact: Jonathan S. Jessar
(202)333-7400

KUWAIT PETROLEUM SUPPORTS SEC INVESTIGATION

WASHINGTON, October 27 -- Kuwait Petroleum Corporation said today that it totally supports the Securities and Exchange Commission in its efforts to uncover any illegal trading in Santa Fe International securities.

A lawsuit filed yesterday by the SEC alleges trading in Santa Fe stock and stock options on the basis of inside information.

The KPC spokesman emphasized that no one connected with KPC was involved in any such activities and that KPC vigorously condemns trading on inside information.

-30-

KPC Press Release Sent to the Following:

R. Gregory Nokes
Associated Press

Donald H. May
United Press International

William J. Eaton
Los Angeles Times

Edward Cowan
The New York Times

Richard Gotcher
Wall Street Journal

William H. Jones
The Washington Post

Assignment Editor
ABC News

Irving R. Levine
NBC News

Kirsten Lindquist
Cable News Network

Assignment Editor
CBS News

Peter Montagon
and David Wallace
Reuters

John T. Norman
Dow Jones Wire

Business Day

The New York Times

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R 12, 1981

brighter days under the Rea- ut they are somewhat pessi- lso not yet ready to commit estment. [Page D1.]

Ture, Under Secretary of the , did not profit from a Treas- ng model that he helped de-

Fifth Avenue store to expand ar overhaul, which includes ng floors, is expected to cost

to various methods, new and ow estimated at $4 billion a puterized blocking of all but

Fe is drawing attention. The e emirate's need to invest its rticipate in the vertical pro- er. [D1.]

ks to fend off credit cards of bank card system. The move ered the banks by linking up st. [D1.]

anchored in Argentina. The ned by Union Carbide, built weeks to Bahia Blanca. It is g factories being built and

ports and spurring imports. auto, chemical, textile and my, which are pressing the . [D2.]

e as the Government begins ning hoard of the metal this t, 105 million is scheduled to ities. [D2.]

Focus on Kuwaiti Investments

Deals in U.S. Stir Questions

By BARNABY J. FEDER

Thirty years ago Abdullah al-Salim al-Sabah, the Emir of the British Protectorate of Kuwait, signed a new royalty agreement with the Kuwait Oil Company, the British- and American-owned enterprise that dominated the Kuwaiti oil scene. Soon he was receiving more than $2.5 million a week.

Within a year the British Foreign Office dispatched a high-ranking official to help determine how Kuwait could invest the Emir's vast wealth outside the sheikdom without causing foreign policy problems.

Today the British are gone, Emir Jaber al-Ahmed al-Sabah reigns over an independent nation and the oil company has been nationalized. However, with oil revenues pouring into Kuwaiti coffers last year at the rate of $290 million a week, according to a Bankers Trust estimate, both the need to invest abroad and foreign fears about the impact of such investments loom larger than ever.

Kuwait's Sensitive Situation

Attention was focused on Kuwait's enviable but sensitive situation last Monday, when it was announced that the Kuwait Petroleum Corporation, an arm of the nation's oil ministry, would acquire the Santa Fe International Corporation, an Alhambra, Calif., oil-drilling, services and exploration company, for $51 a share. The takeover, which sources close to Santa Fe said had been suggested by the company's management after the Kuwaitis had proposed acquiring a minority interest, was valued at $2.5 billion.

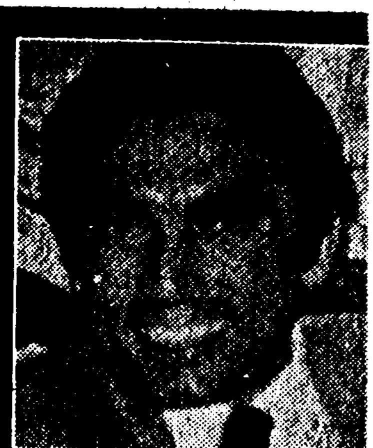
Representative Benjamin S. Rosenthal, a Queens Democrat, immediately urged Treasury Secretary Donald T. Regan to try to delay the deal so that its impact on the United States could be investigated. He also sched-

Continued on Page D4

United Press International

Rep. Benjamin S. Rosenthal
Democrat, N.Y.

Has urged Treasury Secretary Donald T. Regan to attempt to delay the Kuwait-Santa Fe deal so that its impact on the United States can be investigated.



Fariborz Ghadar
George Washington University

"It is natural for Kuwait to look to the United States. They are as worried about expropriation of investments in developing countries as the multinationals are."

Robert Stobaugh
Harvard Business School

"Kuwait is in a position to provide long-term equity at a time when Wall Street is so focused on this quarter's performance that it is creating problems for companies that want to grow rationally."

Robert Roosa
Brown Brothers Harriman

"Unless we are talking about a foreign country dominating a particular industry, there is a clear benefit in having substantial foreign investment here."

Visa's Move Worries German Banks

Focus on Kuwaiti Investments in the U.S

Continued From First Business Page

uled hearings on it for this week before the House Subcommittee on Commerce, Consumer and Monetary Affairs, of which he is the chairman.

Mr. Rosenthal's response reflected concerns about the effects of growing foreign investment in American financial markets, businesses and real estate, especially investments by members of the Organization of Petroleum Exporting Countries.

Fear of Pressure on Policy

The fear is that OPEC nations might threaten to withdraw their investments suddenly or attempt to use them as leverage to influence American policy toward Israel. Some suggest that such investments might be used to press the United States to slow its efforts to become less dependent on oil imports. Questions have also been raised about the impact on the nation's balance of payments of billions of dollars in interest payments, corporate earnings and dividends flowing to Arab investors.

The Santa Fe deal, the largest known investment yet by an OPEC member, came only weeks after Mr. Rosenthal's subcommittee completed hearings at which estimates of OPEC's American investments ranged as high as $200 billion.

That estimate was made by David T. Mizrahi, editor of Mideast Report, a newsletter in New York, based on conversations he had had with sources in the Middle East. His figure is almost triple Treasury Department estimates, which have been roundly criticized by Mr. Rosenthal's subcommittee as based on inadequate data-gathering procedures.

A Reputation for Innovation

Experts say it is no accident that a Kuwaiti investment has given Mr. Rosenthal an opportunity to focus attention on such issues again. Although Kuwait is thought to have less money invested in the United States than Saudi Arabia does — $55 billion, compared with Saudi Arabia's $100 billion, according to Mr. Mizrahi — it has long had a reputation as the oil-producing nation most likely to break new investment ground.

The Santa Fe deal, the experts say, is part of a natural and conservative diversification strategy that is several years further along than that of the Saudis. In acquiring Santa Fe, Kuwait Petroleum is seen as continuing a push toward vertical integration — the capacity to do everything from exploring for oil through pumping it, refining it and selling refined products.

Since Kuwait Petroleum was formed last year, Kuwait has put $50 million into a joint venture with AZL Resources Inc., an exploration company, and $185 million into a venture with Pacific Resources Inc. that will give Kuwait 50 percent ownership of the Hawaiian company's refinery. Neither deal has been completed yet.

"It is natural for Kuwait to look to the United States for such investments," said Fariborz Ghadar, an international business professor at George Washington University who has studied the investment policies of national oil companies. "They are just as worried about expropriation of investments in developing countries as the multinationals are."

Mr. Mizrahi said he expected an extension of the vertical integration into a purchase of American gasoline stations by the end of the year.

"I have no knowledge of any such plan," said Fuad Jaffar, the official from Kuwait Petroleum's London office who signed the Santa Fe agreement. In a telephone interview, Mr. Jaffar played down the vertical integration aspects of the Santa Fe transaction. "It has no relevance to any other deal," he said.

Worldwide Interests Cited

He described Kuwait Petroleum's investment aims as global, with transactions in other parts of the world also under discussion. He said his company's investments were separate from those made by other agencies of the Government and from those of private Kuwaitis, such as the groups that recently purchased two Texas refineries.

Whatever the details, Kuwait Petroleum's investment strategy represents a small part of Kuwait's total overseas investments. Other arms of the Government hold bank deposits, Treasury notes and bonds, real estate and huge investment portfolios managed by major banks, including, in this country, Morgan Guaranty Trust and Chase Manhattan.

Even more visible have been Kuwait's direct investments in West German manufacturers. These have included auto makers such as Daimler-Benz (a 14 percent stake) and Volkswagen (6 percent as well as a 10 percent share of the company's Brazilian subsidiary); a metal processor, Metallgesellschaft (20 percent), and a steelmaker, Korf-Stahl (25 percent).

Smaller Investments in Japan

Smaller direct investments have been made in several Japanese equipment manufacturers, including Hitachi, Toshiba and Mitsubishi Electric.

Typically, the major investments involve willing partners and companies with which Kuwait has had extensive dealings. Last year Kuwait offered to invest $1 billion for a 14.6 percent share of the Getty Oil Company, which purchases large amounts of Kuwaiti crude, but backed off when Getty's directors expressed opposition.

Most experts say that the dangers to the United States in such deals are highly speculative, while the benefits are immediate and clear.

A Lack of Expertise Is Seen

"Kuwait is in a position to provide long-term equity at a time when Wall Street is so focused on this quarter's performance that it is creating problems for companies that want to grow rationally and develop long-term assets," said Robert Stobaugh, a Harvard business professor who has been a consultant for several American and European companies that would welcome Kuwaiti investment.

Moreover, Mr. Stobaugh said, Kuwait is far less of a threat to control of a company's behavior than another American or Canadian concern that might take it over. This, he said, is because the Kuwaitis lack operat
pertise.

"Unless we are talking abou
eign country dominating a pa
industry, there is a clear be
having substantial foreign inve
here," said Robert Roosa, a
Brothers Harriman partner a
of the New York Stock Exc
committee on international n
"It is unfortunate if the Congr
reaction creates the impress
we are not an open system."

Dividend Meeti

Following is a partial list of d
meetings for the week of Oct. 1

MONDAY	
Bergen Brunswig	Newell Compa
TUESDAY	
Bliss & Laughlin	Procter & Gar
Gulf Oil	Sealed Power
McDonald's Corp	Smith (A O) C
Merrill Lynch & Co	Southwest Ba
Minnesota Gas	Tiger Intl
Northwest'n Mut Life	Weyerhaeuser
WEDNESDAY	
Amer Family Corp	Safeway Store
Bard (C R)	Tokheim Corp
Dayton-Hudson	Wallgreen Co
McGraw-Edison	Woolworth (F
Reichhold Chemicals	
THURSDAY	
Alagasco Inc	Mohawk Rub
Aluminum Co Amer	Natl Can Corp
Amer Water Wks	Owens-Cornin
Archer-Daniels-Midl'd	PPG Indus
Bally Mfg	Parker-Hann
Black & Decker Mfg	Potomac Ele
Bundy Corp	Public Serv N
Dayton Pwr & Lt	Seafirst Corp
Dorsey Corp	Springs Mills
First Wisc Corp	Sundstrand C
Gillette Co	Time Inc
Grumman Corp	Twin Disc
Kaufman & Broad	U S Home Co
Mary Kay Cosmetics	
FRIDAY	
Beckman Instruments	Hart Schaffn
Equitable Gas	Illinois Tool
Ferro Corp	Midland-Ros

Argentina's Floating Chemical Pla

Continued From First Business Page

nese company has built a power plant for Bangladesh and a hotel was floated to Abu Dhabi in the Persian Gulf. Other shipbuilders in Japan and Europe have begun to follow suit.

The advantage of the remote-construction method is that many kinds of factories can be built quickly and cheaply in the controlled environment of a shipyard, where a variety of heavy cranes, special tooling shops and skilled labor are available.

The method is particularly suited for plants to be located in rapidly growing areas where the infrastructure and skilled labor for conventional construction are stretched thin, a common problem in many developing countries.

Delivery Ahead of Schedule

The main disadvantage is that the permanent mooring site of the plant must be a river or protected coastal area. In addition, the purchaser may have to deal with angry construction companies and unions at the destination site that resent lost employment opportunities.

Construction of the Ipako plant took only eight months. Delivery was three months ahead of schedule and at least one year faster than constructing a conventional plant, according to Ipako and Union Carbide officials.

"The Japanese do such a good job," John W. Luchsinger, president of the polyolefins division of Union Carbide, said. "I doubt that a U.S. shipyard could match the speed or quality."

The plant looks like a floating space launching pad. It will produce 120,000 metric tons of polyethylene a year, or almost double that of a nearby conventionally built plant.

The plant is scheduled to begin operation before the end of the year. Coupled to steel beams at the pier here, it rides up and down with the tides. Union Carbide officials say it can withstand 120-mile-an-hour hurricane winds. They say safety and pollution prevention are further assured by the simplicity of the chemical process and that the plant is totally above the barge deck, should it ever spring a leak.

Bahia Blanca, which is 550 miles from Buenos Aires, was a logical candidate for the first floating p
ical plant. Argentina is rich
gas, and as early as 1967 ma
were drawn up to make use
in a huge petrochemical com
The superb deep-water por
made the city the outlet
from the surrounding pa
turned it into an industrial b

An uncertain political an
climate led to repeated de
project as changing govern
vised laws on required state
tion. Finally, in 1977, a
turned the gas into ethyler
material of much of the pet
industry, was built but ne
because none of the eig
satellite plants that were
ethylene had even begun co

The military, which
power in a coup the precedi
duced required Governmen
tion from 51 percent to 30 p
the first private company
on a satellite was Ipako. It
struction on a conventiona
ene plant, which makes
such as that used in tras
ploying technology purc
the Atlantic Richfield Com

W Post 12/10/81

U.S. Approves Santa Fe Sale In Spite of Unsecured Papers

New York Daily News

The Reagan administration gave swift approval to Kuwait's $2.5 billion purchase of Santa Fe International Corp., a major U.S. oil exploration firm, even though the Energy Department had not completed "arrangements" to secure sensitive documents owned by a Santa Fe subsidiary.

Energy Department officials told a congressional panel yesterday that C.F. Braun Inc., a Santa Fe subsidiary, still has 25 classified documents in its possession at the Hanford, Wash., nuclear weapons facility, which it designed. They insisted the documents were "well protected," however.

National security concerns were voiced by some in Congress when news came out about the proposed Santa Fe sale because C.F. Braun had worked on several major defense-related projects involving nuclear materials, including the Hanford plant and the Rocky Flats nuclear weapons plant in Colorado.

Despite those concerns, the sale of Santa Fe to Kuwait was approved and completed in 60 days.

"You gave this operation pretty fast-track service," Rep. Benjamin S. Rosenthal (D-N.Y.), chairman of the House government operations subcommittee, told Assistant Treasury Secretary Marc Leland. "Only history will tell if your decision was right."

But Leland, who is chairman of an interagency government committee that approves all major acquisitions of American companies by foreign investors, insisted that his group and the Justice Department agreed the sale would have no "major negative implications" for the United States.

Energy Department officials testified that it will take two more weeks to secure the documents that C.F. Braun has and to "debrief" employes who had security clearances. But they said they do not feel it was necessary to block the sale while they completed their investigation and clearance of Braun.

This Memorandum of Understanding is intended to set forth principles concerning certain aspects of the business and operations of Santa Fe International Corporation (the "Company") following the proposed merger of the Company with a Delaware subsidiary of Kuwait Petroleum Corporation ("KPC"). This is not intended to be a binding legal document but, instead, an expression of intent and principle by the parties.

1. Corporate Name and Principal Executive Office. Following the Closing, the name of the Company will continue to be "Santa Fe International Corporation." The Company's principal executive office will remain in Alhambra, California.

2. Personnel. No changes in personnel at any levels are contemplated.

3. Operating Authority. The senior management of the Company will continue to serve as the management group for the Company and have operating authority for day-to-day matters. KPC will elect certain directors to the Board of the Company. KPC's directors will have voting control of the Board, but the current directors have been invited to remain on the Board and will be compensated on a competitive basis.

4. Compensation Matters. With respect to compensation and related matters, the Company's compensation structure will be substantially similar to its present structure. Salaries and bonuses for management will be set at levels and paid consistent with past practice (bonuses could range from 30% to 60% of annual salaries). In addition, existing benefit plans will be maintained with the exception of the stock option plan, the restricted stock plan and the long-term incentive plan and such plans would be restructured as indicated in paragraph 5. Moreover, in order to replace the stock bonus plan, it is proposed that employees be permitted to deduct up to 5% of their compensation for a saving plan and the Company will continue its practice of matching one-half of this amount.

5. Book Value Appreciation Plan and Participation Type Plan. To replace the Company's stock option plan, long-term incentive plan and restricted stock plan and in order to retain key personnel in a competitive industry, it is proposed that an amount to be determined will be devoted to a "pool" which would be made available to those persons who ordinarily would participate in option plans and restricted stock plans. This "pool" might be allocated to a book value appreciation plan or another plan which would be attractive to officers and key employees. The Company has advised KPC that it estimates that currently a minimum of 12% of consolidated "payroll" (as that term is currently defined by the Company) would be needed to provide an adequate pool. Further, it is proposed that the Company will adopt a participation type plan similar to that currently used by Bechtel Corporation. Under such a plan, officers and key employees would be permitted to invest in such property as drilling rigs and exploration ventures through partnerships controlled by the Company with financing assistance from the Company. In appropriate cases payments under benefit plans will be deferred to encourage key personnel to stay with the Company on a career basis.

6. Additional Capital Contributions. KPC will invest substantial additional capital in the Company to enhance the Company's ability to develop its existing resources and carry on its growth and capital expenditure plans, to take advantage of additional growth opportunities and to retain and attract the high caliber personnel necessary to achieve those programs.

CONFIDENTIAL

7. <u>Operation in Accordance With Plan</u>. In the coming year, the senior management of the Company will operate the Company substantially in accordance with its financial plan for 1982 under its present divisional structure.

8. <u>Reporting</u>. Following the Closing of the acquisition, the Chief Executive Officer and Chairman of the Board of Directors will report to a person identified at KPC. The Chief Executive Officer and Chairman of the Company will have access to the Chairman of KPC on major policy matters. To facilitate the decision making process KPC will arrange for persons authorized to direct the Company's management in the event the Company is unable to communicate with KPC on a timely basis.

9. <u>Financial Statements and Professional Advisors</u>. The Company will continue to have its financial statements prepared in accordance with generally accepted accounting principles (applying both such principles and SEC principles). The Company will continue to retain its current independent auditing firm, its financial and internal audit staff and other regular outside professional advisors.

10. <u>Directorships and Outside Activities</u>. The Company's officers and personnel will continue to serve on boards of directors of other companies and engage in outside activities of their choice so long as such directorships and activities do not interfere with the performance of their duties for the Company.

11. <u>Contributions</u>. The Company will continue to make appropriate contributions in accordance with the discretion of the Chief Executive Officer and Chairman of the Board of Directors.

12. <u>Financing</u>. KPC has advised CORP of the general arrangements made to mobilize its funds to finance the purchase and will provide further advice by October 21, 1981.

13. <u>Closing</u>. Both parties will use their best efforts to close the transaction at the earliest possible date. Such commitment includes the retention of necessary professional personnel who will be instructed to afford the Closing top priority. With respect to publicity, both parties agree that press releases will be prepared in cooperation with the other party to the extent feasible. It is the intent of the parties to close the transaction on December 3, 1981.

14. <u>Absence of Binding Legal Agreement</u>. With respect to this Memorandum of Understanding, the parties acknowledge that the above does not constitute a binding legal agreement but only a statement of principles. It is understood that the elements of this Memorandum of Understanding may be disclosed in the Company's Proxy Statement.

DATED: October 5, 1981

gsu

E-4

DECREE LAW NO. 6 OF 1980

ESTABLISHING THE KUWAIT PETROLEUM CORPORATION*

After taking note of the Amiri decree issued on 4 Ramadhan 1396 H., corresponding to 29 August 1976, concerning the amendment of the Constitution, and

Articles 20, 21, 136, 137, 148 and 156 of the Constitution, and

Law No. 15 of 1960 in accordance with which the Law of Commercial Companies and the laws amending it were issued, and

Law No. 30 of 1964 establishing the Audit Bureau, amended by Decree Law No. 4 of 1977, and

Law No. 19 of 1973 regarding the Conservation of Petroleum Resources, and

Decree Law No. 31 of 1978 setting forth the Rules For Preparing General Budgets and their Supervision and Execution and for preparing the final accounts, and

Decree Law No. 15 of 1979 appertaining to the Civil Service, and

The Decree issued on 26 August 1974 providing for the establishment of the Supreme Petroleum Council, amended by the Decree issued on 19 April 1975, and,

The Decree issued on 7 January 1979 concerning the Oil Ministry, and

In accordance with the proposals of the Minister of Oil which have been approved by the Council of Ministers,

We have issued the following Law:

CHAPTER I

Concerning the Establishment of the Corporation, Its Objectives and Regulations

Article 1

There shall be established a public corporation, economic in character and enjoying an independent juridical personality, to be known as "the Kuwait Petroleum Corporation" and to be supervised by the Minister of Oil.

Article 2

The headquarters and legal domicile of the Corporation shall be Kuwait, but the Corporation may establish branches, offices or agencies both at home and abroad.

Article 3

The objects of the Corporation are to carry out all activities relating in general to all stages of the oil and hydrocarbon industries, as well as to those stemming from them or

* Translated by MEES from the Arabic original which was published in the Kuwait official gazette Kuwait al-Yaum on 27 January 1980.

connected with them or attached or complementary to them both in Kuwait and abroad, including particularly the following:

(1) Exploring, prospecting and drilling for crude oil, natural gas and all other hydrocarbon substances, and producing, storing, refining and processing all these substances and their derivatives and products.

(2) Transporting, distributing and marketing of crude oil, natural gas, liquefied petroleum gas and all other hydrocarbon substances, and their derivatives and manufactured products, and trading in all these substances.

(3) Engaging in the hydrocarbon-chemical industry including the petrochemical industry, and storing, transporting and distributing the products of these industries and trading in them.

(4) Engaging in services connected with all the foregoing including designing, building, maintaining and operating the required plant, installations, instruments, apparatus, equipment and facilities and managing existing projects.

(5) Carrying out studies and research, and providing investment advice in connection with all the fields appertaining to its objects.

(6) Developing national expertise in technical, economic, managerial and other fields connected with its activities.

(7) Carrying out all operations and activities conducive to the fulfillment of its objectives.

Article 4

The Corporation shall market the crude oil and gas belonging to the State according to financial criteria proposed by the Minister of Oil and approved by the Supreme Petroleum Council and issued by decree. The Corporation shall also market refined petroleum products, liquefied petroleum gas and petrochemical products.

Article 5

In the pursuit of its objects, the Corporation may take all the necessary measures, including particularly the following:

(1) Establishing stock companies by itself, with full ownership of their capital. Unless otherwise stipulated in this Law, these companies shall be subject to the provisions of the aforementioned Law No. 15 of 1960.

(2) Participating in the establishment of companies with other juridical persons without specifying a minimum number of founders.

(3) Acquiring the ownership of existing companies, and reorganizing them, including merging them with or attaching them to itself, and also participating in the ownership of existing companies.

(4) Participating with companies or organizations engaged in activities similar to its own or which may assist it in fulfilling its objects.

(5) Borrowing from the Government or the financial institutions belonging to it and contracting loans and issuing bonds in local and foreign financial markets, conditional on the approval of the Council of Ministers.

(6) Lending its wholly or partly-owned companies, and guaranteeing loans obtained by them from third parties, conditional on the approval of the Council of Ministers.

Article 6

The Board of Directors of the Corporation shall exercise vis-a-vis companies wholly-owned by it the functions of a constituent assembly and an ordinary general assembly as laid down by the Commercial Companies' Law.

The Supreme Petroleum Council shall exercise the functions of an extraordinary general assembly vis-a-vis the companies referred to in the preceding paragraph.

CHAPTER II

Concerning Capital, Profits and Reserves

Article 7

The capital of the Corporation is one thousand million Kuwaiti dinars, to be subscribed by the State according to the needs of the Corporation as proposed by its Board of Directors, upon the recommendation of the Minister of Oil and with the approval of the Supreme Petroleum Council.

Article 8

The Corporation shall acquire the following:

(1) The State's shares in the capital of the following companies:

(a) The Kuwait National Petroleum Company.

(b) The Kuwait Oil Company.

(c) The Petrochemical Industries Company.

(d) The Kuwaiti Oil Tankers Company.

With due regard to paragraph (4) of this article, these shares shall be valued in accordance with the shareholders rights as of 31 December 1978 and the value of these shares shall be considered a part of the Corporation's capital.

(2) The State's shareholding in the capital of the Arabian Oil Company Ltd., of Japan. This shareholding shall be valued at the nominal value of the shares subscribed to by the State and the paid-up portion of the nominal value of these shares shall be considered a part of the Corporation's capital.

(3) The State's shareholding in the oil and gas producing concession in the Neutral Zone offshore, which shall be valued at its book value as of 31 December 1978.

(4) The Natural Gas Utilization Project which shall be valued at cost. The amounts already paid on account of the project's cost shall be considered as part of the paid-up capital of the Corporation.

(5) The ownership of the liquefied natural gas tankers delivered to date, which shall be valued at their cost at the time of delivery, and this shall be considered part of the paid-up capital of the Corporation.

(6) The contracts for liquefied petroleum gas tankers under construction. The amounts paid on account of the cost of these tankers shall be considered part of the paid-up capital of the Corporation.

Article 9

The revenues of the Corporation shall consist of the income realized from the direct exercise of the activities falling within its objects and received in return for work and services rendered to others, as well as the profits accruing to it from companies wholly or partly-owned by it.

Article 10

There shall be deducted from gross profits a certain percentage to be determined by the Supreme Petroleum Council, on the basis of a recommendation of the Corporation's Board of Directors, to cover the depreciation of its assets. The Supreme Petroleum Council may, at the recommendation of the Board of Directors, decide to deduct an additional sum from gross profits which shall be allocated for meeting the cost of amortizing the Corporation's assets.

Article 11

In each financial year, the net profits of the Corporation shall be arrived at by deducting all obligations, costs, expenses, and depreciation allowances according to modern accounting principles generally applicable to industries and to activities within the scope of their objectives.

Article 12

Net profits shall be distributed as follows:

First: 10% shall be set aside as a mandatory reserve but such deductions shall cease once this reserve amounts to half the Corporation's capital.

Secondly: 10% shall be set aside as a general reserve, and this percentage may be amended by a decision of the Supreme Petroleum Council.

Thirdly: The balance of the profits shall go to the State Treasury.

CHAPTER III

The Management of the Corporation

Article 13

The Corporation shall be managed by a Board of Directors set up under the Chairmanship of the Minister of Oil. Upon the proposal of the Minister of Oil a decree shall be issued setting forth the following:

(a) The procedure to be followed in the formation of the Board, the selection of its members and the appointment of a Deputy Chairman from among them; the number of the Board members and their terms of office; and the competent authority for fixing their remuneration.

(b) The regulations concerning the meeting of the Board, its work procedures, the quorum needed to validate its meetings and the issue of its decisions; and the provisions relating to the implementation of these decisions.

(c) The rules for the formation of Board subcommittees and their work procedures.

(d) The rules and conditions for the selection of Managing Directors from among the Board members and the procedure for defining their functions and powers.

Article 14

The Board of Directors shall have all the necessary powers to manage the Corporation, and the following powers in particular:

(a) To propose programs for the Corporation's projects and for following up on their implementation.

(b) To establish companies or participate in the establishment of companies.

(c) To acquire ownership of existing companies, participate in them or cooperate with them in joint activities.

(d) To propose the contracting of loans and the issue of guarantees and bonds.

(e) To acquire ownership of and administer real estate in accordance with rules to be issued by the Supreme Petroleum Council.

(f) To appoint the boards of directors of the Corporation's wholly-owned companies and select the Corporation's representatives on the boards of directors and general assemblies of companies in whose capital the Corporation participates.

(g) To propose draft by-laws for the Corporation.

(h) To prepare the Board of Directors' annual report on the Corporation's activities and financial position and to prepare the draft annual budget, the draft balance sheet, the profit and loss account and the dividend distribution account.

Article 15

The Chairman of the Board of Directors shall represent the Corporation before the law and in its relations with others.

The Deputy Chairman shall assist the Chairman and substitute for him in chairing the meetings of the Board of Directors during the Chairman's absence and act for him in other matters on the basis of a mandate from the Chairman.

The Chairman and his Deputy each have the right to sign singly on behalf of the Corporation but the Board of Directors may delegate signature authority to others subject to conditions and limits which it will lay down.

Article 16

The Supreme Petroleum Council shall:

(1) Approve the general policy of the Corporation.

(2) Approve the alteration of the capital of the Corporation.

(3) Approve the administrative and financial by-laws of the Corporation.

(4) Draw up the regulations concerning the employees and workers of the Corporation without contravening the provisions of Articles 5 and 38 of the aforementioned Law No. 15 of 1979.

(5) Regulate the tenders and other such activities of the Corporation.

(6) Approve the establishment of companies, or participation in their establishment, or the acquisition of ownership of existing companies or participation in them.

(7) Approve the liquidation of affiliated companies or their merger with the Corporation or with each other.

(8) Discuss the Board of Directors' annual report, and approve the draft annual budget, the balance sheet, the profit and loss account, and the divided distribution account.

(9) Appoint the auditors and specify their remuneration for the subsequent financial year.

CHAPTER IV

The Corporation's Budget and Accounts

Article 17

The Corporation's budget shall be independent of the State budget and shall be prepared on the lines of commercial budgets in accordance with modern accounting principles generally applicable to industries and the activities falling within the scope of their objectives.

The Corporation's financial year shall begin on 1 July of each year and shall end on 30 June of the following year. Excepted from the provisions of this paragraph is the Corporation's first financial year which shall begin as of the date of the implementation of this Law and end on 30 June of the following year.

The Corporation shall be subject to the provisions of the aforementioned Law No. 31 of 1978, due regard being taken of such other provisions as may be passed by the Supreme Petroleum Council.

Article 18

The Corporation shall have one or more certified accountants as auditors to be appointed by the Supreme Petroleum Council each year who shall audit the accounts of the financial year for which they have been appointed. The auditors shall exercise the powers and fulfill the obligations stipulated in the Commercial Companies' Law.

Article 19

The auditors shall submit to the Supreme Petroleum Council a report stating whether the budget and the profit and loss account are in agreement with the facts and whether they represent correctly and clearly the Corporation's true financial position, and also whether the statements included in the Board of Directors' report are in agreement with the facts appearing in the Corporation's books; and whether there have been any violations of the provisions of the Corporation's law or its internal regulations during the financial year under review which affect the Corporation's activities or its financial standing; and whether such violations are continuing, to the extent that such information is verifiable to the auditors. The auditors shall be held responsible for the correctness of the statements appearing in their report.

CHAPTER V

General Provisions

Article 20

The Corporation's funds shall be considered as privately-owned State funds with the exception of such funds as may be appropriated for the public interest.

Article 21

Debts owned to the Corporation shall enjoy the same preference as Government debts enjoy vis-a-vis debtors and shall be collected in the same manner as State funds.

Article 22

The Corporation shall not be subject to the Prior Control provisions prescribed by the aforementioned Law No. 30 of 1964.

Article 23

The Prime Minister and Ministers - each according to his field of specialization - shall implement this Law which shall come into effect as from the date of its publication in the Official Gazette.

The Ruler of Kuwait
Jabir al-Ahmad

The Deputy Prime Minister
Jabir al-'Ali al-Salem

The Minister of Oil
'Ali al-Khalifah al-Sabah

Issued at Seif Palace on 3 Rabi' I, 1400 H., corresponding to 21 January 1980.

EXPLANATORY MEMORANDUM TO THE DECREE LAW ESTABLISHING THE KUWAIT PETROLEUM CORPORATION

Kuwait's oil wealth is the nation's mainstay and the source of its strength. The Kuwaiti oil industry has made great progress. Its modern refining capacity now represents a high proportion of oil production, associated gas is fully used, the proportion of oil and gas transported in national carriers continues to rise, and operational and marketing capability in the production of fertilizers is increasing. All of these results bear witness to this progress and make it incumbent to strive to maintain the pace of this progress and reinforce development, as well as to enhance the effectiveness of the Kuwaiti oil industry and overcome whatever difficulties and obstacles it may encounter.

The most appropriate means of strengthening this industry is to establish one corporation which will own all the companies operating in the oil industry and provide the necessary services and centralized planning, while assigning the work to the various sectors on a scientific basis, whether to departments which will carry out the work directly or to wholly-owned subsidiaries, according to the requirements of the work and the special circumstances of each sector, so that officials from each sector may participate in drawing up the corporation's general policy and an integrated plan for the industry in order to ensure complete coordination between the various sectors.

Therefore, and to this end, the accompanying draft law has been drawn up establishing this corporation.

In its first chapter the draft law sets out the special provisions establishing the corporation and its objects and regulations. It provides in Article 1 that a public corporation shall be established, economic in character and enjoying an independent juridical personality, to be known as "The Kuwait Petroleum Corporation" and to be supervised by the Minister of Oil. By "economic in character" it is meant that it will be run on a commercial basis and will take into account long-term economic factors, including the development of the Kuwaiti oil industry and its expertise. In accordance with Article 2 the headquarters and legal domicile of the Corporation shall be Kuwait and it may establish branches, offices and agencies at home or abroad as necessary.

Article 3 defines the objects of the Corporation, which include all activities relating to the oil industry from exploration, drilling and production of oil and gas to transportation, refining and marketing and setting up industries based on oil. It goes without saying that the exercise of these functions will have to take due regard of the functions accorded to the Ministry of Oil and of the provisions of Law 19 of 1973 regarding the conservation of oil resources. In accordance with Article 4, among the objects of the Corporation is the marketing of crude oil and gas belonging to the State according to financial criteria proposed by the Minister of Oil and approved by the Supreme Petroleum Council and issued by decree. By this it is meant that the State will set the price on the basis of which the Corporation will be accountable to the State in respect of the sales of crude oil and gas for various purposes, with a reasonable margin of profit being allowed it in return for undertaking marketing operations and appropriate to the efforts it makes to this end. The Corporation shall also be responsible for marketing refined oil products, liquefied petroleum gas and petrochemical products.

In order to enable the Corporation to achieve these objectives, Article 5 of the draft law guarantees it the right to take all necessary measures, whether by direct action or through the formation of companies owned wholly or in part. Article 6 specifies the functions the Corporation shall exercise in regard to companies whose capital it owns wholly, and stipulates that the Board of Directors shall exercise the functions of a constituent assembly and an ordinary general assembly. The Supreme Petroleum Council shall exercise the functions of an extraordinary general assembly vis-a-vis the aforementioned companies.

Chapter II of the draft law sets the capital of the Corporation and lays down the rules relating to profits and reserves. Article 7 stipulates that the capital of the Corporation shall be one thousand million Kuwaiti dinars to be subscribed by the State according to the Corporation's requirements. In accordance with Article 8 the State's rights in the four main existing oil companies - the Kuwait National Petroleum Company, the Kuwait Oil Company, the Petrochemical Industries Company, and the Kuwait Oil Tankers Company - shall pass to the Corporation as well as the State's share of the capital of the Arabian Oil Company of Japan and the state's outlays on certain projects in the oil sector. The value of assets assigned to the Corporation under these provisions shall be considered a part of its capital.

As for the revenues of the Corporation, under Article 9 these shall consist of income realized from pursuing its activities and aims directly and its profits from companies owned wholly by it or in whose capital it participates. Article 10 obliges the Corporation to deduct from gross profits a certain percentage to be determined by the Supreme Petroleum Council on the basis of a recommendation of the Board of Directors to cover the depreciation of the Corporation's assets. Article 11 stipulates that the net profits of the Corporation in each financial year shall be arrived at by deducting all obligations, costs, expenses and depreciation allowances according to modern accounting principles generally applicable to industries and to activities falling within the scope of their objectives.

In order to enable the Corporation to safeguard its capital and expand its operations in an industry where fluctuations are the rule, Article 12 stipulates that 10% of net profits shall be set aside as a mandatory reserve but that such deductions shall cease once this reserve amounts to half the Corporation's capital. A further 10% of these profits shall be set aside as a general reserve and this percentage may be amended either upwards or downwards by the Supreme Petroleum Council. The balance of the profits shall go to the State Treasury.

Chapter III of the draft law contains the provisions relating to the management of the Corporation. These provisions basically divide responsibility between the Supreme Petroleum Council and the Corporation's Board of Directors so that the Supreme Petroleum Council is responsible for everything relating to the drawing up of overall policy while the Board of Directors is responsible for management operations under the supervision of the Supreme Council.

Article 13 stipulates that a Board of Directors shall be formed under the Chairmanship of the Minister of Oil. In order to achieve the requisite flexibility this Article provides that a legislative decree shall be issued defining the procedure to be followed in the formation of the Board and other provisions relating to it such as the rules for convening it and for its work procedures, the rules for the formation of subcommittees, and the rules and conditions for selecting managing directors and the procedure for defining their functions and powers.

Article 14 concerns the definition of the functions of the Board of Directors of the Corporation so that it shall have all the powers necessary to manage the affairs of the Corporation. It goes without saying that the Board shall exercise these powers within the limits and under the terms specified in the law by respecting the jurisdictions accorded to both the Supreme Council and the Ministry of Oil. For example, the Board of Directors' right to establish companies in accordance with paragraph (b) of Article 14 shall be subject to the approval of the Supreme Council in accordance with paragraph (6) of Article 16, and its right to propose draft by-laws shall be subject to the approval of the Supreme Council in the manner specified in paragraph (3) of Article 16 in so far as concerns the Corporation's administrative and financial by-laws and in paragraph (4) of that Article in relation to drawing up the regulations regarding its employees and workers.

In accordance with Article 15 the Chairman of the Board of Directors shall be responsible for representing the Corporation before the law and in its relations with others. The Deputy Chairman shall provide assistance to the Chairman and substitute for him on chairing the meetings of the Board of Directors during his absence as well as in other matters on the basis of a mandate from the Chairman. Paragraph 3 of this article specifies who may sign singly on behalf of the Corporation. This right is given to the Chairman of the Board, his Deputy, and to anyone who is delegated by the Board of Directors to sign within the limits and under the conditions specified by the Board.

Article 16 enumerates the functions of the Supreme Petroleum Council in a manner which ensures that it shall have supreme and dominant power over the definition and drawing up of overall policy for the exploitation of Kuwait's oil resources. The text is at pains to stress that the right of the Supreme Council to draw up regulations for the Corporation's employees and workers shall not infringe on the jurisdiction of the Civil Service Board. The text also covers the right of the Supreme Council to regulate the tenders and practices of the Corporation, and it goes without saying that until a contrary decision is issued by the Council, its Decision No. 79/5 regarding the regulation of the tenders of oil companies remains in effect. Similarly it was taken into consideration that these rights include the right to dissolve affiliated companies or incorporate them into the Corporation or into each other, thus permitting the reorganization of the oil sector and the realization of the goals of the Corporation's establishment.

In Chapter IV the draft law lays down the regulations for the Corporation's budget and accounts. Article 17 stipulates that the Corporation's budget shall be independent of the State budget and shall be prepared on the lines of commercial budgets in accordance with modern accounting principles generally applicable to industries and the activities falling within the scope of their objectives. This is pursuant to the provision in Article 1 of the law that the Corporation shall be economic in character. This article also specifies that the Corporation's financial year shall be defined as beginning with the State financial year on 1 July and ending on 30 June each year, because of its effects on the general budget of the State. The Corporation's first financial year is excepted from these provisions and shall begin as of the date of implementation of this law and end on 30 June of the following year. In accordance with the last paragraph of Article 17 the provisions of Law No. 31 of 1978 shall apply to the Corporation regarding the rules for preparing the general budget and supervising its implementation and drawing up the final accounts, taking into consideration whatever new provisions may be approved by the Supreme Petroleum Council.

Article 18 requires that the Corporation shall have one or more auditors and defines their responsibilities so that they shall have the rights and obligations specified in the Commercial Companies' Law. Article 19 stipulates that the auditors shall submit a report to the Supreme Petroleum Council and shall be responsible for the correctness of the statements appearing it it.

Chapter V of the draft law contains a number of general provisions. Article 20 specifies that the Corporation's funds shall be considered as privately-owned State funds with the exception of such funds as may be appropriated for the public interest.

State funds are not all public funds allocated to public utilities and intended to satisfy the direct needs of citizens. Part of these funds are held in private ownership by the State and allocated for economic investment, and the Corporation's funds, by virtue of its raison d'etre and the economic nature of its activities falls into this category. Furthermore, its commercial character is testified to by its projected relationship with third parties in accordance with paragraph 2 of Article 19 of the Commercial Law. Therefore the text of Article 20 merely represents the application of an established principle and is intended to allow the Corporation a greater degree of flexibility in pursuing its activities and transactions with others at home and abroad, while at the same time taking care to categorize as public funds those funds of the Corporation allocated to the public interest.

In any case, whatever the nature of the Corporation's funds they are part of the State's funds, and therefore Article 21 stipulates that the Corporation's debts shall enjoy the same preference as government debts enjoy vis-a-vis its debtors and that they shall be collected in the same manner as State funds.

In order not to burden the Corporation with restrictive governmental regulations and to enable it to carry out its work in a vigorous commercial manner, Article 22 exempts it from the provision of prior control of the Audit Bureau.

In the form in which it has been submitted, the draft law lays the foundations of a new organization for Kuwait's oil industry, removing all obstacles in its way, permitting it to preserve its accomplishments and allowing it the freedom and flexibility necessary for discharging its work, all subject to a framework of effective controls guaranteeing the soundness of its operations.

and make the North African country even more important to the U.S.

If proved, such oil reserves would move Sudan to fourteenth place on a list of nations with oil deposits, ranking just a[illegible] of Indonesia with estimated proved re[illegible]es of 9.5 billion barrels and Algeria wi[illegible].2 billion barrels.

The 10-billion-barrel estimate comes from Lawrence W. Funkhouser, vice president, exploration and production, for Standard Oil Co. of California. Socal has leased perhaps the biggest exploration area among the dozen or so Western oil companies currently exploring in Sudan, and so far it has had the most success, discovering a field in southern Sudan that is estimated to have as much as 400 million barrels of oil.

Mr. Funkhouser says that Sudan would need at least one billion barrels of proved reserves to become an oil exporter, which would bring in badly needed foreign currency. He notes that the oil discoveries made so far stretch over a wide area of this very large country. "And there's a whole bunch of Sudan that nobody's explored yet," he says.

Sudan is having trouble making interest payments on loans from Western banks. It has been forced to take some domestically unpopular belt-tightening moves to get a $220 million emergency credit from the International Monetary Fund, including a currency devaluation and a reduction of subsidies for basic foods.

Moreover, its agriculture has been devastated by an ill-fated campaign in the 1970s to introduce expensive capital-intensive farming methods. On top of that, the country has been hurt by a "brain drain" as Sudanese skilled workers migrate to countries where job prospects are better.

Although major oil discoveries wouldn't be a panacea, they could pump new life into Sudan's moribund economy. The country has already discovered enough oil to justify construction of a 25,000-barrel-a-day refinery to meet its internal needs.

Questions about the size of Sudan's oil reserves probably will be answered soon because government contracts require foreign companies such as Socal to find enough oil to justify full-scale production within about four years, or possibly lose claim to their leased exploration areas.

"We're building roads. We've got three rigs and four seismic crews in the field. We'll probably know how much we've got by the end of 1983," says Mr. Funkhouser.

Among the oil companies exploring in Sudan are Texas Eastern Corp., the French oil company Total Cie. Francaise des Petroles, and Phillips Petroleum Co. Others reportedly seeking concessions include Mobil Corp. and Atlantic Richfield Co.

If Sudan became an oil exporter, it is believed it would want to join the Organization of Petroleum Exporting Countries. Although OPEC isn't known for being pro-U.S., Sudan might well give Washington an ally inside the oil organization. Oil might also give Sudan more political muscle to use against Col. Muammar Qadhafi, the Libyan leader who has been trying to destabilize regimes in Sudan, Chad and Egypt, all of which border on Libya.

Mr. Funkhouser says that he has had conversations with U.S. State Department officials about Sudan and that "there is an atmosphere of urgency" about the country since the assassination of Anwar Sadat in Egypt, Sudan's neighbor to the north. "We get the feeling that Washington is determined that Sudan not be lost" by the West, he says.

sassination, the Reagan administration pledged to increase military aid to Sudan. The military equipment supposedly would be used to defend against Libya, to the northwest, but it could also prove important in protecting oil-tanker routes in the Red Sea.

In fact, with the Persian Gulf still unstable because of the Iran-Iraq war, countries like Saudi Arabia are making plans to avoid the Gulf by shipping more and more of their crude to Red Sea ports via pipeline, and

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cial, legal, health, environmental and educational matters. It also has set up machinery to guarantee fundamental rights and freedoms of individuals, and can [illegible]pend member states if they violate council's various conventions.

Among the antidemocratic actions in Turkey cited by the council have been the recent jailing of former socialist premier Bulent Ecevit for criticizing the military government, the disbanding of political parties, reports of torture of prisoners and

Kuwait Envisions Role as Major Force In Oil Exploration

By a WALL STREET JOURNAL *Staff Reporter*

NEW YORK—Kuwait Petroleum Co. will become a major force in international oil exploration, Sheik Ali Khalifa al-Sabah told Petroleum Information International, an industry newsletter.

Sheik Ali Khalifa, Kuwait's oil minister and chairman of the state oil company, said the concern has spent close to $100 million in 1981 acquiring leases in nine countries ranging from Canada to Australia.

Abdul Razak M. Hussain, chairman of Kuwait Foreign Petroleum Exploration Co.—the KPC division handling foreign exploration—was quoted as saying that some exploration ventures being weighed will make current operations "look like peanuts." He added that within three years Kuwait could be spending $500 million to $600 million a year drilling outside its own territory either through direct participation or through partnerships.

Sheik Ali Khalifa said Kuwait would remain cautious about investments in downstream operations such as refining and marketing and would concentrate on oil exploration and production.

KPC recently bought Santa Fe International Corp. for $2.5 billion, a major step in building itself into an international exploration and production force. Because the company has the backing of the Kuwaiti government, it has enormous potential as a player in world exploration. Kuwait has a population of just 1.3 million, but it has 15% of the world's oil reserves, second only to Saudi Arabia.

A Bankers Trust Co. report on cash surpluses in the Organization of Petroleum Exporting Countries estimated that, by the end of 1981, Kuwait will have accumulated $76.2 billion in foreign assets.

Petroleum exploration is seen as an additional outlet for Kuwaiti investment and as an additional source of revenue. Analysts note that any overseas oil production by KPC wouldn't need to be tied in with OPEC agreements on pricing or production.

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als should make some concrete concessions to accommodate the European demands.

Western Aid Needed

"The last thing the U.S. wants is to have a Turkey isolated from Western Europe," says one American official.

If the council were to expel Turkey, it could adversely affect Western aid that is needed to improve the economy. "This would undo everything the military government has so far accomplished," says Zafer Atay, foreign editor of the right-wing daily newspaper, Tercuman.

Backed by huge borrowings from the West, Turkey's ruling National Security Council has successfully applied a strict economic stabilization program. This has increased the country's export earnings and remittances from Turkish workers abroad, and reduced the inflation rate to 40% this year from 100% in 1980.

But as part of its pressure against military rule, the Organization for Economic Cooperation and Development, led by West Germany and the Scandinavian countries, cut off $600 million in economic aid to Turkey in 1981. And the Common Market has suspended talks for Turkey's full membership until democracy is restored. Many European states are continuing to enforce visa restrictions on Turkish nationals that they imposed shortly after the Sept. 12, 1980, military coup.

The National Security Council, composed of four generals and one admiral, says it won't restore parliamentary democracy until it has drawn up a new constitution. It also wants to establish laws governing political parties.

New Constitution?

Gen. Kenan Evren, head of state and chairman of the National Security Council, is scheduled to appear on television New Year's Day. He is expected to announce a date for a national referendum on a new constitution and to set a timetable for a return to democracy.

In the past 21 years, the Turkish army has assumed power three times because of breakdowns in government authority, growing polarization among political par-

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Wall Street Journal

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