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LETTER OF EXCHANGE

We are pleased to refer to the Memorandum of Understanding between the Government of the United States ("USG") and the Government of the State of Kuwait ("GOK"), signed on February 19, 1991, concerning the Reconstruction of Infrastructure and Restoration of Basic Services in Kuwait ("MOU"). Pursuant to that MOU, we are pleased to offer, on an advance-of-funds basis, civil restoration assistance to be provided to the GOK by the United States Department of Defense ("DoD") in the following areas:

- (a) damage surveys and assessments concerning, and restoration and repair of: public buildings, including schools, hospitals, and housing; water production, storage, and distribution systems; stormwater and sanitary sewage collection and treatment systems; roads, streets, highways, and bridges; ports; airports, water desalination and distribution systems; power generation and distribution systems; and other non-defense-related facilities as required;
- (b) design and construction services, including construction management and contract administration, related to (a) above;
- (c) technical assistance with respect to restoration planning, and contracting therefor;
- (d) procurement of equipment, supplies, and materials required for the civil restoration effort, as requested by GOK;
- (e) such other reconstruction and restoration services as are agreed to by GOK and the USG.

Upon your concurrence, this Letter and the MOU shall serve as the sole vehicles under which civil restoration assistance is provided by DoD to GOK in accordance with the following terms:

A. Elective Nature of Letter.

Specific requests for DoD assistance under this Letter are at the discretion of GOK. GOK is not required to use DoD for any specific project, nor is the DoD required under this Letter to accept any specific request for assistance from GOK.

B. Nonavailability of Letter for Work on Behalf of Kuwaiti Ministry of Defense.

It is understood that any GOK requests that DoD perform services for the Kuwaiti Ministry of Defense ("KMOD") or that DoD otherwise furnish defense articles and services necessary in aid

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of the restoration of Kuwait must be furnished under an authority other than this letter and the MOU. Under U.S. law, the provision of such articles and services is governed by the U.S. Arms Export Control Act ("AECA"), and accordingly, such articles and services cannot be provided under the authority of this Letter. Whenever DoD receives requests under this Letter that, in DoD's judgment, would be more appropriately processed under the AECA (and DoD's Foreign Military Sales ("FMS") procedures), DoD will route such requests to the proper DoD authorities.

C. Ordering Procedures.

1. Through its representative designated under Paragraph F below (the "GOK Representative"), GOK shall, as desired, submit requests for assistance under this Letter to the DoD representative designated under Paragraph F (the "DoD Representative"). Such requests for assistance shall be in writing and shall describe the scope of services and type of commodities desired.
2. Upon receipt of such a request for assistance, the designated DoD representative shall provide the GOK Representative through the U. S. Ambassador with an acknowledgement in writing of the request for assistance. The acknowledgement will include an advisory indication as to whether the USG regards the request to be appropriate for processing under this Letter.
3. If DoD determines that it can provide the requested assistance, the DoD Representative, within a reasonable period of time that is agreeable to both DOD and GOK, shall, following receipt of request for assistance, provide to GOK, through the U. S. Ambassador to Kuwait, a draft individual work agreement describing in detail the assistance to be provided, the period over which assistance will be rendered, and the estimated cost of such assistance. The work described in each individual agreement will be deemed accepted when the USG Representative and the GOK Representative have signed the agreement in question.
4. No assistance shall be provided under this Letter except as defined in work agreements prepared and approved under this Paragraph C. Any work performed or commodities delivered under this Letter shall be in accordance with the scope of work set forth in the individual work agreement, and DoD will use its best efforts to perform the work described and deliver the commodities specified in those agreements within the estimated performance periods and delivery dates stated therein. However, the GOK relieves the DoD of any responsibility should it fail to perform or deliver within the stated time frames. In addition, the DoD will exercise due diligence to ensure the protection of any legal rights of the GOK in all resulting DoD contracting actions.

D. Financing Arrangements and Financial Management.

1. GOK shall be responsible for all costs incurred by DoD in providing assistance under this Letter, whether the assistance is provided directly or indirectly by contract. Such costs include general and administrative costs associated with the restoration program. Although DoD will use its best efforts to ensure that the assistance described in the individual work agreements is provided within the cost estimates stated therein, the DoD's failure to do so shall not relieve GOK of its obligation to make the DoD whole for all costs it incurs under such work agreements. However, the DoD agrees to inform the GOK whenever costs on individual work agreements exceed 125 percent of the agreed upon cost estimate.

2. GOK shall pay DoD for the costs of assistance furnished under this Letter in accordance with the following procedures:

- (a) Prior to providing any assistance under this Letter, DoD will furnish GOK an estimate of the costs (inclusive of project-specific overhead as well as general and administrative costs) and financial obligations DoD expects to incur during the succeeding 90-day period under work agreements then in place. GOK shall thereupon deposit funds amounting to this estimated cost in the form of an irrevocable letter of credit in a U.S. bank and to an account designated by DoD. This letter of credit shall be denominated in U.S. dollars and shall be established in favor of a proponent agency designated by DoD. GOK understands that no work will proceed under such work agreements that may be in place until the necessary funds are deposited in accordance with this subparagraph (a).
- (b) At least 15 calendar days prior to the beginning of each succeeding 90-day period, DoD will furnish GOK a like estimate of costs DoD expects to incur during such period under work agreements then in place. These estimates will be adjusted to reflect deviations (both underruns and overruns) from expenditure plans set forth in estimates for prior 90-day periods. Prior to the beginning of each such 90-day period, GOK will deposit funds necessary to cover DoD's cost estimate for the period in accordance with subparagraph (a) above. GOK understands that no work will proceed under such work agreements that may be in place at the beginning of each 90-day period until GOK deposits the necessary funds therefor under the above-described procedures.
- (c) Because of the urgent nature of GOK's restoration

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requirements, it may become necessary to execute work agreements (and initiate the provision of assistance thereunder) in the middle of a 90-day accounting period. To facilitate the provision of assistance under these urgent work agreements, DoD will furnish, along with the copy of each such draft individual work agreement, an estimate of the costs DoD expects to incur under such work agreement during the period prior to the beginning of the next 90-day period in the accounting cycle described above. Before DoD will begin work under these urgent work agreements, GOK must deposit funds (in accordance with subparagraph (a)) necessary to finance DoD activities under those work agreements through the end of the current 90-day accounting period, whereupon the financing for such work orders will be integrated as described in subparagraph (b) above.

- (d) Any unexpended funds remaining upon completion of activities under this Letter shall be returned to GOK by DoD.
- (e) DoD shall draw upon GOK funds only as necessary to fund civil restoration activities under this Letter and shall manage and account for all GOK funds (once drawn) in the same manner as it would U.S. funds.
- (f) DoD shall provide to GOK monthly status reports which document obligations and expenditures of funds under this Letter.

E. Contracting and Procurement.

1. If contracting is performed by DoD pursuant to work agreements under this Letter, such contracts will be let by DoD in compliance with U.S. law and in accordance with the U.S. Federal Acquisition Regulation and relevant supplements thereto. Unless GOK requests otherwise, preference will be given, to the maximum extent practicable, to U.S. firms, Kuwaiti firms, and U.S./Kuwaiti partnerships in the award of contracts under this Letter.

2. If GOK desires the use of a particular contractual source for the performance of work, or otherwise desires that other than competitive procedures be used in the award of a particular contract, it must so direct DoD in writing. Such written direction may include direction that contractual sources for a particular work effort be drawn exclusively from a group of contractors GOK believes, in its judgment, to be qualified to perform that work effort. Failing such written direction, DoD will select contractual sources via procedures (either competitive or noncompetitive) which, in its judgment, are best

suitable to the work effort involved, considering the urgency of the contract requirements and the interdependency of time, cost, and quality. Contracting methods may include the use of letter contracts, fixed price contracts, cost reimbursable contracts, or a combination thereof. DoD will be responsible for determination of the contract method used in each case.

3. GOK may wish to let contracts itself for the performance of work efforts complementary to those being performed under this Letter. These contracts let by GOK will be in compliance with Kuwaiti law. If GOK desires, it may request assistance under this Letter in the preparation of contract documents, the conduct of any competitions, and the administration or management of any resulting contracts. The terms and conditions under which DoD will furnish such contracting assistance, as well as DoD's status in the resulting contractual relationships, will be set forth in pertinent individual work agreements.

4. GOK may, if it desires, participate in the review and analysis of proposals submitted by contractors to perform work under this Letter, and may participate in the selection process that culminates in the award of a contract. In the event GOK desires to participate in this respect, a committee shall be formed consisting of a small number of individuals named by the DoD and GOK representatives designated under Paragraph F to oversee the source selection process. The source selection decision will remain the legal responsibility of the source selection authority (or the contracting officer) designated by DoD.

5. GOK understands that DoD will have to procure certain materials, supplies, and equipment needed for its management functions and administrative operations under work agreements executed pursuant to this Letter. Estimated costs for such material shall be reported to GOK under the procedures set forth in paragraph D.2. These requirements will be set forth in individual work agreements, as necessary. For major items of equipment, the DoD will evaluate the cost effectiveness of a purchase versus a lease. At the conclusion of the assistance program under this Letter, the DoD, at the election of the GOK, will transfer to GOK, or dispose of, all items of equipment and residual supplies purchased under the Letter.

F. Designated Representatives.

1. A representative named by the Secretary of Defense of the United States is designated to act for the Department of Defense in discharging its responsibilities under this Letter (the "DoD Representative").



2. The Director of the Emergency Recovery Program of the State of Kuwait, or other official named by the State of Kuwait, shall be designated to act for the State of Kuwait under this Letter (the "GOK Representative"). The GOK Representative shall be the primary point of contact for the GOK under this Letter and shall have responsibility for determining the priority of all assistance requests forwarded to the DoD. The GOK Representative shall be responsible for signing all approved individual work agreements under this Letter.

G. Relationship with Other Agreements.

1. This Letter and the MOU constitute the sole understanding between DoD and GOK with respect to the assistance to be rendered by DoD under this Letter and the MOU and supersede any previous agreements which may pertain to such assistance. As with the (MOU) signed on February 19, 1991, by the U. S. Ambassador and Kuwaiti Minister of State for Foreign Affairs, implementing arrangements executed pursuant to the MOU and this Letter shall be binding obligations on the two governments, processed and carried out by each government in accordance with its own procedures.

2. No costs will be charged under this Letter for the GOK Ministry of Defense. Costs that properly fall within the scope of this Letter will not be charged against Foreign Military Sales Case #KU-B-HAL.

3. This arrangement may be modified at any time by written mutual agreement of the GOK, DoD, and the U. S. Ambassador or his designee.

4. In the event of conflicts between this Letter and the U.S.-Kuwait MOU of February 19, 1991, the MOU shall govern.

5. In the event of any difference between this English language version and any Arabic language translation, this English language version will govern.

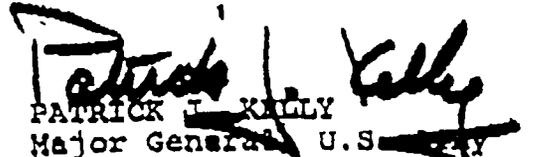
I have the honor to propose that this letter and your reply concurring in this proposal shall constitute an agreement between our two Governments which shall become effective immediately upon your concurrence and shall terminate on December 31, 1992, or upon termination of the U.S.-Kuwait MOU, of February 19, 1991, whichever occurs first. The termination of this agreement, however, shall not affect the obligations of the GOK to pay for work performed or contracted for prior to such termination.

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Done in Kuwait this 5th day of April, 1991, in
the English language.



DR. IBRAHIM AL-SHAHEEN
Director, Kuwait Emergency
Recovery Program
FOR THE EMERGENCY RECOVERY
PROGRAM OF THE STATE OF KUWAIT


PATRICK J. KELLY
Major General U.S. Army
U.S. Department of Defense
Representative

FOR THE DEPARTMENT OF DEFENSE
OF THE UNITED STATES