

IADC Government Affairs monitors legislation

IADC'S GOVERNMENT AFFAIRS division, headed by Senior Vice President-Government Affairs **Brian T Petty**, monitors legislation in the US and internationally that affects the contract drilling industry and ensures that the membership's voice is heard regarding those initiatives.

US DEEP GAS INCENTIVES

IADC joined with the National Ocean Industries Association (NOIA) supporting the Minerals Management Service's (MMS) proposal to encourage shallow water deep gas drilling in the Gulf of Mexico. MMS provides royalty relief incentives for deep gas drilling below 15,000 ft conducted in 200 m of water or less.

IADC and NOIA are requesting that MMS add a tier for royalty relief for new wells drilled and completed below 20,000 ft, which is included in energy bills pending before Congress.

One concern is a suggestion by MMS to implement an "auction" mechanism in granting royalty relief for operators currently holding leases in which the leaseholder would have to wait for an auction, providing no incentive to fund or man a project until granted royalty relief.

IADC and NOIA recommend giving all operators with existing shallow water leases the opportunity to seek royalty relief.

CONGRESSIONAL FORUM

IADC was invited to join the US Oil and Gas Educational Foundation, which is comprised of several trade associations, primarily representing producers. The foundation was established to educate the US Congress about specific issues affecting the US oil and natural gas industry, sponsoring briefings on Capitol Hill for members of Congress and their staff as legislation affecting the E&P industry is developed.

OILFIELD SERVICES STUDY

IADC members in the US and UK contributed to a study by the US International Trade Commission (ITC) on international markets for oilfield services,

including drilling services. The report examines the extent of impediments to trade including poor transparency, specific labor and joint venture requirements, limitations on foreign investment and technology transfer mandates.



Brian T Petty

TERRORISM INSURANCE

IADC organized an offshore industry coalition that was successful in persuading the US Congress to include amendments to the Terrorism Risk Insurance Act (TRIA), which provided coverage for US offshore fixed and floating facilities. Lloyd's of London received IADC support on the legislation. However, the US Department of the Treasury, which is responsible for implementing the regulations, indicated it will interpret the law as narrowly as possible. The result is that offshore facilities may be left partially exposed in the law's application. Industry disagrees with the Treasury Department's conclusion that it has the authority to read the statute more narrowly than Congress wrote it.

TEXAS WORKERS COMP FRAUD

Texas Representative **Warren Chisum**, at the request of IADC, introduced a bill in the Texas House to manage workers compensation fraud by enabling employers to deny claims by workers who do not report certain information on their employment applications. The bill provides that it is not unlawful employment practice if the employer requests an applicant for employment to provide information regarding any injury, disability or other medical condition directly related to a bona fide occupational qualification.

UK WORKING TIME DIRECTIVE

Following an intense lobbying effort, IADC and its E&P allies succeeded in prevailing upon the UK government to essentially maintain current systems of

offshore rota and working times on the UK Continental Shelf. The E&P industry already complies with the governing European Union Working Time Directive. Imposing additional economic burdens on the offshore industry would only serve to drive investment away from the UK.

IADC's highest priority was to preserve the 52 week reference period, now set forth in legislation before Parliament. The UK Department of Trade and Industry noted that "the government has carefully considered the arguments presented by the employers and the unions on the necessity for a 52 week reference period within the industry. On balance, we have decided that there is a legitimate case for extending the reference period to 52 weeks and have amended the draft regulations on this point."

INDIA CUSTOMS POLICIES

Mr Petty met with **M K Zutshi**, Chairman of the Central Board of Excise & Customs (CBEC) to discuss improving the policies of India customs involving drilling rig valuation and other matters. In a follow up letter delivered in early March to Mr Zutshi, Mr Petty pointed out the difficulties faced by foreign drilling companies bringing their equipment to India.

One solution offered by IADC would be to consider rigs "tools of the trade" engaged in temporary construction activity, in this case the construction of a wellbore, thus excluding them from the customs regime. IADC is still awaiting a response.

Also, IADC President **Lee Hunt** met in Houston with India's Minister of Petroleum and Natural Gas, **Ram Naik**, to discuss resolution of problems IADC members operating in India have had with customs officials there. At the conclusion of the meeting, the Minister agreed to intervene.

UKCS INVESTMENT

IADC responded to an invitation from the UK Treasury to advise on the issue of declining investment in and activity on the UKCS, noting that the downturn in exploration activity has created hardship for drilling contractors.

IADC suggested three areas of focus to the UK Treasury. First, radical overhaul of the charging regime; a harmonized approach to HSE issues in line with European Union directives; and taking lessons from other jurisdictions, especially those with smaller infrastructure, to provide insight into achievable goals.

IADC will participate formally in the UK government's consultative exercise on the health of the UKCS, expected to be a six month project, along with UK operators.

ANTI-CORRUPTION INITIATIVES

IADC participated in an International Association of Oil and Gas Producers (OGP) organized task group to develop anti-corruption guidelines for the international E&P industry. The task force was comprised of 11 of OGP's members, IADC and IAGC. Additionally, the US State Department is soliciting IADC's and oil companies' views on this topic and the broader issue of transparency.

The purpose of the OGP task force was to contend with the growing pressure in the international political community for the oil industry to "publish what they pay" in terms of oil and gas license agreements, particularly in the developing world where governmental corruption is rife. The task force recognized that the industry has long had individual strict audit and anti-bribery enforcement policies. The UK government has led the effort to bring additional pressure on industry to adopt formal mechanisms to fight bribery and corruption in dealing with their client governments around the world.

In a parallel initiative, UK Prime Minister **Tony Blair** announced the Extractive Industries Transparency Initiative (EITI) late last year. This was followed by a resolution put forward by the UK and adopted by the G-8 in June 2003 "recognizing the importance of revenues from the extractive industries (oil, gas and mining)" and seeking "an intensified approach to transparency."

Industry is wary of the initiative as long as governments aren't subject to the same standards of auditing principles as are the oil companies. While the primary impact of this initiative falls on operators, there will be consequences for drilling contractors and oil service companies under EITI.

US OILFIELD HAULING

The US Department of Transportation's Federal Motor Carrier Safety Administration announced earlier this year the first substantial change to the hours of service (HOS) rules since 1939. Due to efforts of IADC and Halliburton and members of the Hours of Service Coalition, the Oilfield Exemption was maintained in the new regulations.

US OILFIELD TRAINING

During the first few weeks of the Bush administration, IADC was contacted by the US Department of Labor (DOL) to see whether the drilling industry would welcome federal funds to train oilfield

hands. IADC agreed to provide the DOL with the opportunity to describe its proposal and to gauge, geographically, where the need was greatest.

Subsequently, the DOL Deputy Assistant Secretary attended IADC conferences in Houston and Lafayette in 2001 and 2002 to discuss the proposal.

The result is an \$8 million pilot program

to train a broad array of workers in drilling, well servicing and related trades.

The program, based at San Juan College in Farmington, New Mexico, will provide education, training and job placement assistance involving non-traditional classrooms for hands on training on actual industrial equipment, including a workover rig donated by **Key Energy**

Services.

Also included will be technical training in industrial safety, drilling and well service, gas compression technician skills, plant operations, commercial diving skills and heavy equipment operations.

US OFF ROAD EXCISE TAXES

The Internal Revenue Service proposed regulations to remove most off road federal excise tax exemptions for self-propelled and well servicing rigs. Following formal written comments submitted by IADC to the IRS, **Lou Pugliaresi** with Key Energy Services offered testimony at a public hearing in Washington last February to request a careful review of the proposed regulations and a full interagency assessment prior to final implementation.

A surprise development at the hearing was the announcement by **Pamela Olson**, Assistant Secretary of Tax Policy for the US Department of the Treasury, to delay all further IRS action on the proposal until Congress "has had the opportunity to provide guidance."

She further stated that IRS regulations will not be finished until after "the enactment of legislation reauthorizing the Highway Trust Fund."

INTERNATIONAL ARBITRATION

Hundreds of billions of dollars of US investment are made to support contracts, agreements, licenses and other complex business arrangements with foreign governments that certain US government agencies are now seeking to exempt from international arbitration, including agreements involving E&P activities and infrastructure.

The result could be that disputes would be left exclusively to the mercies of foreign judicial systems.

IADC opposes changes to the existing arbitration system.

The exemption from international arbitration could include commercial disputes involving a foreign government's breach of a procurement agreement, a license or license agreement, and/or any agreement that grants rights to an investor regarding a natural resource or other asset owned by the foreign government. ■