

International Association of  
Drilling Contractors  
**Policy, Governmental and  
Regulatory Affairs Strategy**  
2014



# IADC Policy, Government and Regulatory Affairs (PGRA) Strategy



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Policy, Government and Regulatory Affairs

## Background

The International Association of Drilling Contractor's (IADC's) mission is *to advance drilling and completion technology; improve industry health, safety, environmental and training practices; and champion sensible regulations and legislation which facilitate safe and efficient drilling. IADC strives to Catalyze Improved Performance by Enhancing Operational Integrity and Championing Government & Regulatory Affairs.*

IADC has had a PGRA office based in Washington DC for many years although there was not an up to date strategy for the function at the time of drafting this statement. Because both global and US domestic outlooks have changed significantly - not least because of the US onshore energy revolution, and the upsurge of offshore legislation worldwide - IADC's PGRA outlook requires updating. The author was appointed in November 2013 and asked to produce a strategy for the modern (post-Macondo) era in which drilling contractors now do their business. Simultaneously, Bill

Tanner was appointed Vice President to pay particular attention to US domestic legislative and regulatory issues, which remain strongly influential to drilling interests both onshore and offshore in the US and elsewhere.

For the purposes of this paper, the *modern era* is characterized, in the context of upstream oil and gas, as follows.

This is an era where governments and policy makers are sensitized to issues of economic liability, fiscal efficiency, energy security, and the public license of our industry to operate. The tendency is to legislate these areas, sometimes in the national or state interest, otherwise with regard to global trends (e.g. in OECD<sup>1</sup>, G20, and EU). The political agendas are increasingly reacting to intense and fast flowing news and social media.

Regulators are collaborating more with each other in both thinking and practices. The footprint of the International Regulators Forum (IRF)<sup>2</sup> has expanded to

<sup>1</sup>OECD: Organization for Economic Co-Operation & Development. Founded in 1961 in Paris. It has 34 member countries. Canada was first to ratify on April 10; the USA 2 days later. G20: A group convened in 1999 comprising finance ministers and central bank governors from 20 major economies. In 2010 the then host nation (Russia) set up the Global Marine Environment Group to explore cooperation projects in the light of the Macondo experience.

<sup>2</sup>IRF members are: Australia, Brazil, Canada (NS & NFL), Denmark, Mexico, Netherlands, New Zealand, Norway, UK and USA. China and India regularly observe.

countries such as Brazil and Mexico who have strong ambitions to modernize and expand their regulatory structures. The IRF has a differentiated view of the industry, namely that drillers and producers have separate but integrated responsibilities within the drilling space. IRF regulators signal their preference to see transition to reliable and effective control of risk by drillers rather than intensifying their own detailed inspection and compliance-based regulatory activity. Europe has just passed legislation for the continent that ascribes significant statutory duties to drilling contractors.

The major producers, and the International Association of Oil and Gas Producers (OGP) are showing a respect for, and reliance on, the expertise of drilling contractors previously unacknowledged in corporate management systems and OGP guidance. The present-day consultations between drilling contractors and producers and OGP – for example on BOP reliability – would have been unthinkable in 2010.

Finally, drilling contractors demonstrate confidence in their technical expertise and in their place as major players in the global energy economy. The drill bit is the final arbiter of commercial oil and gas; and only the drilling contractors take the massive investments in new rigs – both offshore and onshore – to open up the oil and gas basins that hitherto could not be delved.

IADC's Executive Committee has supported significant development in the field of Operational Integrity. New or substantially upgraded programs such as the Well Control Institute and Knowledge, Skills and Abilities (KSAs) are raising the stock of IADC and the drilling contractors. IADC's outstanding conferencing, credentialing and media teams bring the programs to our stakeholders and cultivate awareness. The operational teams and international representatives provide a spread of consultative input to ongoing standards work and statutory initiatives. This collective effort requires focused advocacy with governments, regulators and key industry stakeholders.

## Argument

The concept of Operational Integrity and PGRA supporting each other and giving access to the vision of (continuous) improved performance is a robust model. The starting point for PGRA strategy is therefore to integrate with the key operational programs and the standards, credentialing and communication vehicles already in place; and to direct effort at the policy makers, regulators and key industry stakeholders.

Delivering improved performance in drilling requires, within the PGRA vision, pursuing three strands: first, demonstrating leadership in core functions; second, informing policy; and third, securing better regulation. IADC can add value to member companies by advocating these values with key enablers, and by exercising stewardship of the vision. What exactly does this mean?

(i) *Demonstrating leadership* is the function of leadership of rig operations that are within scope of the contractor's asset ownership and core expertise, from spud to abandonment. This also entails practical and strategic collaboration with operators and key subcontractors for reliable management of risk in the areas outside the ownership and core expertise – such as the well parameters.

(ii) *Informing policy* is the function of constructive engagement with government policy makers to ensure legislation and public administration safeguard the driller's license to operate. The subject matter is extensive and addresses safety and environment, economic liability, fiscal policy and social ambition. Policy intervention needs complementing with engagement with civil partners and other influencers of policy. It includes engaging with governmental forums for example at the OECD level.

(iii) *Securing better regulation*<sup>3</sup> is the function of encouraging regulators to be enablers of premium performance in drilling through proactive engagement

<sup>3</sup>Regulation in the sense of regulatory activity, not in the sense of enacting legislation.

with national federal and state regulators, and regulator forums. Partnerships with industry stakeholder bodies and associations will reinforce and magnify the effects of engagements with regulators.

## Implementation

In practical terms, how does the strategy come into effect? Firstly, by a joined-up approach with Operational Integrity colleagues and the international regional staff. Our HQ and regional colleagues are the engines that generate, verify and communicate products for our members, and the industry more broadly.

Secondly, by maintaining a line of sight between operational plans and the corporate policy and strategy of IADC, and targeting priority stakeholders and objectives.

Thirdly, by using good communication tools, preparing useful materials for our members, colleagues and stakeholders, collecting reliable, useful data, and applying effective advocacy for encouraging a realistic, practicable community of purpose in the drilling sector.

Lastly, by monitoring the efficacy of our stewardship and its practical outcomes, and taking necessary measures to continuously improve the delivery of the strategy.

## Road map

*Stage 0.* This stage began immediately upon the author and Bill Tanner joining IADC. It has entailed the progressive integration into the current initiatives and ongoing activities of IADC that fall mainly to colleagues in the Operational Integrity group – for example responses to consultation in US domestic offshore and onshore legislative programs.

*Stage 1.* This is the delivery stage falling to the new PGRA function. It *de facto* includes embedding the

strategy into the body corporate of IADC. The business process engineering will mainly focus upon the first and last elements of the implementation framework set out in the *Implementation* section of this paper.

The second and third elements of the implementation are the externalities of the PGRA function that impact directly on the business of our Members and draw the attention of our primary stakeholders. The 2014-15 plans must allow for differentiated approaches to reflect the differentiated nature of our business – geographical, political and economic.

The five highest external priorities for PGRA are:

(i) *Well control.* The unfinished business of Macondo and Montara is to complete the whole-industry agenda for a life-cycle approach to reliable control of risks of well instability. A considerable amount of work has been undertaken by IADC since 2010, particularly with US institutions and BSEE, and the international GIRG/WEC<sup>4</sup> entities. The forward momentum will be leveraged by IRF and EUOAG<sup>5</sup> who both indicate they expect IADC and OGP to collaborate strongly on well integrity. They see drilling contractors leading in the areas of operations and equipment. The transfer of critical well control training policy, standards and credentialing to the Well Control Institute will mark the attainment of a key goal over the period 2014-15.

(ii) *US onshore.* There is a widespread appetite for legislation at both federal and state level targeting safety and the environment, financial liabilities, and financing structures. Our onshore members express concern at a lack of IADC visibility. There is overseas interest in both US shale gas/oil legislation movement and technology developments. Successful implementation of a US onshore strategy will be driven jointly from the IADC Onshore Division in Houston and the DC office. Successful delivery will be enabled by proactive negotiation and lobbying with policy-makers and regulators in DC and key states, a continuing round of site visits to Member Companies, and an energetic Members communications program.

<sup>4</sup>GIRG: Global intervention and Response Group, a sub-group of OGP; WEC: Well Expert Committee, a sub-group of GIRG

<sup>5</sup>EUOAG: European Union Offshore Authorities Group. A statutory expert committee of the European Commission established in 2012 and comprising all regulatory authorities of the EU Member States with offshore operations.

(iii) *European Union Directive.* European Member States are currently transposing a European Union Directive for prevention of offshore major accidents. The Directive addresses safety, environment, economic liability, emergency response, and incident reporting. IADC members must contend with new or amended duties, but at the same time wish that transposition by different EU countries achieves sensible and recognizably consistent regulation throughout the area. Constructive participation in national consultations, intervention at European Commission level, and Europe workshops in September/October for North Sea IADC members are amongst planned activities for achieving a satisfactory outcome for our industry.

(iv) *Tax and financial issues.* The UK has precipitated a crisis in the OECD BEPS project (base erosion/profit shifting) by legislating to prevent conventional profit splits between charterer and owner in intra-group bare boat chartering. The proposals risk creating fiscal instability in other jurisdictions. The OECD approach for which we advocate preference is to maintain the 'arms-length' approach to intra-group deals

worldwide. Local content requirements will continue to be challenging to Members and will need to be addressed; for example, exemptions from Indonesia's cabotage legislation for MODUS expire at the end of 2015 and a drilling contractor strategy must be agreed and pursued without delay. Successful interventions in these areas will be achieved at government level but should be complemented by wider stakeholder communications in these matters, for example at appropriate IADC conferences, and issuing Members briefing notes.

(v) *Regulators and national oil companies.* In addition to regional interventions in Europe, Indonesia and the US pursuant to priorities i-iv, priority targets for influencing policy, regulation and business stakeholders are in Canada, Brazil, and Mexico, which is hosting the 2014 IRF meeting in November. Further, in pursuit of establishing a PGRA footprint where there is currently none, planned IADC conferencing events in Asia Pacific and the Middle East present opportunities for influencing regulators and NOC's and simultaneously informing and supporting our Members.

A handwritten signature in black ink, appearing to read 'Taf Powell', with a stylized, flowing script.

Taf Powell, Executive Vice President, IADC  
February 12 2014

**For more information, visit the IADC website at**  
[www.iadc.org/pgra](http://www.iadc.org/pgra)

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