Facing the Challenge of the Safety of Offshore Oil and Gas Activities

EU response to the Deepwater Horizon accident

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Offshore safety challenged in many ways

- Changing circumstances
  - Shift to frontier operations (end of “easy oil”)
  - Aging infrastructure
  - Structural shift towards specialist companies

- Industry specific
  - BAT/Good Practice: uneven proliferation
  - Compliance issues
  - “Safety-first” corporate culture

- Additional factors
  - Austerity vs. regulators’ resources
  - Transparency – information access, formats
EU action following Gulf of Mexico events

- 90% of EEA oil production comes from off-shore operations, many new discoveries in deep off-shore

- Commission Communication of October 2010
  - Importance of state-of-the-art/best practice; precaution; emergency preparedness & intervention capacity
  - New partnerships for offshore safety outside EU

- Next step – policy initiative 2011
  - Legislative and non-legislative measures
  - Impact assessment near completion
  - Public consultation carried out March - May

Disclaimer: Provisional - Work in progress, Consultations Ongoing
Problem definition: 3-fold

1. **Likelihood** of an EU major incident not insignificant (and can be reduced)
   *Precursor reports UK & Norway; frequency analysis of incidents*

2. **Full-scale consequences** of an EU major incident not acceptable
   *Gaps in EU legislation; maritime response model*

3. **Provisions for financial liability/recovery** are incomplete
   *Scale of costs and damages seen in GoM*
BASELINE – key points

- Historical figures suggest a recurrence rate of 35 years for a blowout lasting for ~50 days in Europe.

- Assuming a cost range of €5-30 billion, this amounts to annualized costs of €140-850 million per year.

- Add to this an annual figure of €65 million in property losses resulting from less costly, but more common, major accidents

Estimated total annual average figure for direct, tangible costs of offshore accidents in Europe: €205 to €915 million

(Disclaimer: Provisional data – work in progress!)
Case for EU action

• No case for non-action:
  • Accident frequency and costs surprisingly high
  • Industry and MS action uneven
  • EU voice in global efforts (G20, …)

• Subsidiarity vs. European interest (Art. 194 TFEU):
  • Health & Safety of workers
  • Protection of wider communities and the environment: cross-border impacts of spills
  • Deepening of single market: BAT/BP proliferation
  • Security of energy supplies
  • EU’s global interests
## Objectives of EU action

<table>
<thead>
<tr>
<th>Problem part</th>
<th>General objectives</th>
<th>Specific objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Risks can be lowered (i.e. too high to accept)</td>
<td>1. To prevent a major incident from occurring</td>
<td>1. Attain best industry practices; feed raise of global standards</td>
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<tr>
<td>2. Response measures need improvement</td>
<td>2. To deal with a major emergency should preventive measures fail</td>
<td>3. Implement measures for better emergency preparedness and response in all EU offshore regions</td>
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<tr>
<td>3. Liability provisions incomplete</td>
<td></td>
<td>4. Improve and clarify existing EU liability and compensation provisions</td>
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</table>
## Measures to implement the objectives

<table>
<thead>
<tr>
<th>Specific objectives</th>
<th>Measures Considered (incl. suggestions from stakeholders)</th>
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</thead>
</table>
| 1. Attain best industry practices; feed raise in global standards | ● Establishing a goal-setting (“major hazard report”) regime  
● Extending EU standards overseas  
● Establishing a dynamic best practice model for industry |
| 2. Implement best regulatory practices throughout the EU | ● Verifying technical capacity during licensing  
● Establishing an inspections and penalties regime  
● Establishing an EU-wide offshore authorities platform  
● Ensuring information sharing & transparency amongst regulators  
● Establishing EU regulatory body  
● Achieving consistency of product safety standards across EU |
| 3. Implement measures for better emergency preparedness and response in all EU offshore regions | ● Ensuring cross border availability of compatible assets  
● Ensuring preparedness for response to major offshore incidents  
● Establishing EU intervention response capacity  
● Ensuring financial capacity of operators to cover liability |
| 4. Improve and clarify existing EU liability and compensation provisions | ● Clarifying scope for environmental liability  
● Establishing compensation regimes for traditional damage |
# Measures vs. existing framework

**Relationship of the measures for offshore major hazard prevention to relevant EU acquis**

<table>
<thead>
<tr>
<th>Measures</th>
<th>Existing Framework</th>
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</thead>
<tbody>
<tr>
<td>Response to accidents and monitoring of oil spills</td>
<td>MIC (Community mechanism to facilitate reinforced cooperation in civil protection assistance interventions)</td>
</tr>
<tr>
<td>Regulation of concrete operations within general licensing framework (prevention of accidents)</td>
<td>EMSA Legal Framework</td>
</tr>
<tr>
<td>Ensuring safety of equipment</td>
<td>Best practices of national regulators</td>
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<tr>
<td>Limiting pollution related to waste and emissions</td>
<td>Sharing of information and transparency</td>
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<tr>
<td>Consent of operations (+ offshore major incident report, well plans, best practices of industry...)</td>
<td>Health and safety at work</td>
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<tr>
<td>Environmental impact assessment procedure (EU Directive)</td>
<td>EU Offshore Authorities Group</td>
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<tr>
<td>General authorization (licensing)</td>
<td>Compliance verification</td>
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<tr>
<td>General marine strategy framework</td>
<td>Cross-border coordination</td>
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</tbody>
</table>

**Notes:** The table demonstrates the relations of relevant EU acquis in different stages of offshore operations - from most general framework at the bottom, over licensing and regulation of concrete operations to emergency response and liability for damages.
Possible EU action should involve

- Legislative/non-legislative measures to address:
  - Promotion of best practices: industry, regulators
  - Responsible authorization processes
  - Strict and clear liability regimes in all EU waters
  - Transparency and public oversight
  - Effective emergency mechanisms
  - International engagement
    - Adjacent regions: Mediterranean, Baltic, Black
    - Global action with international partners: OPEC, US, G20, Norway, IRF
Policy options under discussion

Option 0: do nothing
- No action is taken and situation evolves as per baseline scenario

Option 1: “North Sea”
- Levelling all EU up to best available EU region, i.e. North Sea
- Using common denominator for standard-setting

Option 1+: “North Sea Plus”
- Adding measures on issues outside the current North Sea common standard achievable within existing legislation

Option 2: Designing new comprehensive blueprint
- Improves on the North Sea common standards
- Still largely inspired by agreed, if not always applied, expert consensus

Option 3: Institutionalizing the new blueprint
- Builds on Option 2; underpinned by EU institutional tools
# Analysis of Options’ Effectiveness

<table>
<thead>
<tr>
<th>No.</th>
<th>Measure</th>
<th>Option 0</th>
<th>Option 1</th>
<th>Option 1+</th>
<th>Option 2</th>
<th>Option 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1.1</td>
<td>Detailed verification of the technical capacity of potential operator</td>
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<td>4.1.2</td>
<td>Establishing regular inspections and a penalties regime</td>
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<td>4.1.3</td>
<td>Submission of formal safety assessments for acceptance by the regulator</td>
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<td>4.1.4</td>
<td>Extension of MHR into a comprehensive risk management model</td>
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<td>4.1.5</td>
<td>Extending EU practices to overseas operations</td>
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<td>4.1.6</td>
<td>Establishing a Competent Authority</td>
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<td>4.1.7</td>
<td>Establishing a platform for regulatory dialogue</td>
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<td>4.1.8</td>
<td>Comprehensive information sharing and transparency</td>
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<td>4.1.9</td>
<td>Preparedness for effective emergency response to major offshore accidents</td>
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<tr>
<td>4.1.10</td>
<td>Ensuring cross-border availability and compatibility of intervention assets</td>
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<tr>
<td>4.1.11</td>
<td>Clarifying the scope of environmental liability</td>
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</table>

**Extent to which the aim of the measure is attained:**
- None
- Little/patchy
- Some
- Mostly

**Colour**
- None
- Little/patchy
- Some
- Mostly
CBA Methodology for Options Analysis

● **Benefits**
  ➤ Measured against baseline
    • Probability reduction (%)
    • Monetary terms (€)
  ➤ Shape of assumed reductions:
    • Narrowing range
    • Lowering range

● **Costs**
  ➤ One-off vs recurrent
  ➤ Administrative costs: MS questionnaires
  ➤ Industry costs of compliance: limited response from industry
    • OSPRAG, WEC: focus on intervention and well-control
    • Data on comparisons between jurisdictions:
      - UK => Brazil = -40%; UK=>Norway = <0;50%>

● Vicarious/non-quantifiable benefits & disbenefits
Thank you for your attention

DG ENER: http://ec.europa.eu/dgs/energy/index_en.htm