



International Association of Oil & Gas Producers

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Brussels

Internal Market and Services DG

Financial institutions

Unit H.5 – Insurance and Pensions

By email to: markt-consultation-disasterinsurance@ec.europa.eu

Re: Consultation on the Green Paper on the Insurance of Natural and Man-made Disasters

Question (18) Considering the specificities of the offshore oil and gas industry, what kind of innovative insurance mechanisms could be appropriate? Are there ways for the insurance industry to reduce the uncertainty regarding the assessment of risks and calculation of premiums? What type of information should be publicly available to promote the development of insurance market products to cover major accidents?

Dear Mr Wiedner,

I am writing on behalf of OGP to provide feedback on the Green Paper on the Insurance of Natural and Man-made Disasters focusing on part 4.3. 'Offshore oil and gas operators' liability insurance'.

We welcome this public consultation as part of the comprehensive debate on the issue of environmental liabilities and losses from industrial accidents taking place within the Commission, including [DG ENV's study to explore the feasibility of creating a fund to cover environmental liability and losses occurring from industrial accidents](#) and DG ENER's work on civil liability and financial security for offshore oil and gas activities.

OGP recognises concerns related to liabilities in case of a major accident in the exploration and production sector, and the legitimacy of government requirements regarding certain financial guarantees that do not exclude smaller companies.

The key issue for the oil and gas industry is the flexibility for each company to choose how best to demonstrate financial security according to their circumstances. A one-size-fits-all approach for meeting financial responsibility does not work for such a diverse industry as the oil and gas sector.

Companies have various methods (insurance, letters of credit, balance sheet strength etc) in place to cover any potential liability arising from their operations. The ability for each company to choose the most suitable instrument according to the requirements of their operations is paramount.

It is important to underline the different risk exposure levels associated with different activities. These are dependent on specific conditions related to the country in which operations are conducted, the type of well, the distance from shore, reservoir fluids, reservoir pressure and other geological conditions.

OGP would like to point out that the oil and gas industry would be seriously concerned about the effects of a mandatory 'mutualisation of liabilities' scheme amongst all industry players, for

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example via the establishment of an industry-wide pre-loss mutual insurance fund, as this could lead to complacency and could have a detrimental impact on applied safety standards. As correctly pointed out in the Green Paper, OGP believes that in any case, insurance solutions chosen by operators will not necessarily lead to moral hazard and should respect the 'polluter pays principle'.

For these reasons, OGP does not support mandatory risk mutualisation schemes.

The legislative framework provided by the recently adopted Directive 2013/30/EU on safety of offshore oil and gas operations requires that operators must demonstrate capability security as part of the licensing process. These measures will be implemented by Member States and the recent in-depth work carried out by the UK regulator is particularly instructive¹. The Financial Responsibility Guidelines for the UK take an exposure-based approach, recognizing the different level of exposures associated with different wells (e.g. location and type of reservoir fluids) and accept a variety of means by which financial responsibility can be demonstrated by each party, including parent company undertaking, insurance and company financial strength based on credit rating.

With regard to insurance market capacity, OGP members agree that the traditional level of 1-2bn \$, would be sufficient to cover historic losses in Europe. However, the information provided in footnote 40 is inaccurate, considering that there is no evidence that insurance coverage for up to 10 B\$ in the Gulf of Mexico is available.

Moreover, the global upstream oil and gas industry has dedicated significant time and resources to accident prevention, intervention and oil spill response. OGP has played a leading role in coordinating this effort establishing in 2010 the Global Industry Response Group (GIRG). This work has taken place at both international and national level and involves both hard assets (for example, industry has commissioned four well capping stacks to be stored at strategic locations around the world with capping stacks already available in Norway and Singapore), and working to further improve our already robust processes and procedures (for example well design and process safety procedures), and competence assurance for well operations personnel to lessen the risk of further accidents occurring offshore.

We hope our views will be fully taken into consideration and sincerely appreciate being given the opportunity to input the process.

OGP remains at your disposal should you have any further questions or wish to discuss our response in detail.

Yours sincerely,
Roland Festor

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/68885/7265--financial-responsibility-guidelines.doc



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