EDITORIALS

From the Chairman

OF ANTS AND ELEPHANTS

A MAN HERDING ELEPHANTS across the savannah might not worry about trampling the ants in his path, but the ants sure worry about him. The analog is apt for regulatory intervention on behalf of an industry as diverse as drilling services and operations, but which represents a relatively modest segment of the overall economy. For example, when regulators turn to the task of rulemaking for offshore vessels, an armada comprising more than 10,000 vessels, the drilling industry's fleet of a few hundred marine rigs can easily be lost in the mix.

C Stedman Garber Jr, Chairman

Lacking alert intervention, regulations targeting concerns at best irrelevant to, and at worst harmful to the drilling industry can steamroller an industry of our size-not necessarily out of malice, but through ignorance or bureaucratic oversight.

These observations came again into focus for me recently. The catalyst was the recent announcement that virtually all seagoing vessels must soon be fitted with numerous items of navigation safety equipment-all but most MODUs, that is. IADC's intervention on this issue produced an exemption that will save owners and operators of non-self-propelled offshore rigs from spending hundreds of thousands of dollars per rig for what amounts to superfluous equipment. After all, navigation equipment on a rig that doesn't move under its own power is rather unnecessary!

IADC's long battle to keep land drilling rigs exempt from US air-emission rules intended to target fixed facilities, such as factories, is another case in point. Compared to the plethora of manufacturing facilities, power plants and factories, the US land-rig fleet is small indeed. Yet, despite the stark differences between inherently migratory drilling rigs, and permanent plants and facilities, regulators would likely have applied a one-size-fits-all emissions prescription to both, had it not been for IADC intervention and hard work. The result would have been a mountain of paperwork for contractors on virtually every rig move.

This issue, however, has resurfaced: EPA has announced plans to issue emissions rules for non-road diesel engines. That category, in which IADC successfully argued that land rigs belong, has until now been largely exempt from Clean Air Act provisions.

You can learn more about IADC's efforts to fend off the stampede at our upcoming IADC Annual Meeting (25-27 September) in San Antonio. I hope to see you there. ■

From the President

EGREGIOUS DISREGARD

WEBSTER'S DICTIONARY DEFINES *egregious* as: *conspicuously bad; flagrant*.

That's the best that can be said about a recent attempt by the U.S. Internal Revenue Service to sweep a broad range of oil field equipment under the spell of additional taxation. Highway construction in the US is largely funded by a system of use taxes, *i.e.* vehicles that use highways pay for them. However, the farming, construction and drilling industries are exempt from federal excise taxes for "mobile machinery" whose primary use is "off highway". This includes a variety of equipment used on drilling locations: cranes, diggers and excavation equipment, vehicles with a specially modified chassis such as trailer and truck mounted mobile drilling and well servicing rigs, etc.

Under current law, if the primary use is "off highway", the equipment is exempt from a variety of excise taxes. Under the proposed regulation, if a piece of equipment can drive on the roads without a special permit, then it will become subject to four categories of excise taxes: gasoline (18.4¢/gallon) and diesel fuel (24.4¢/gallon), tire excise tax on heavy duty tires (complicated formula), truck and trailer excise tax (12% tax on purchase price), and annual heavy vehicle tax (based on weight and capped at $550/year). The financial impact of adding these taxes to oilfield operations will be enormous. Daily rig costs can easily increase $500/day on fuel tax alone.

Lee Hunt, President

And that's where the *egregious* part comes about. Under US administrative law, agencies are generally required to apply an economic impact analysis (especially for small business operations) to determine if a rulemaking is major or not in its impact. If it is major, numerous safeguards are imposed, including a reasonable period for public comment, public hearings, etc. However, in this case the IRS simply asserted that the rulemaking would not have a major economic impact on small business, offered a ninety-day comment period and attempted to implement the new rule under the guise of an administrative change in definitions. Most of this wolf-in-sheep's clothing was designed to bite after Congressional watchdogs left town for their fall reelection campaigns.

This attempt to impose sweeping new tax coverage on the drilling industry via an internal, administrative change of definitions is lacking in good faith. The issue merits comment and public debate. The egregious disregard for due process exemplified by such Machiavellian skullduggery only serves to undermine respect and confidence in the integrity of our public agencies. In times like these, we just don't need that. ■