INDIAN SERVICE TAX CHALLENGE BUILDS

The Indian Finance Ministry convened a meeting in February of senior representatives of the oil industry and E&P service providers to discuss the "service tax." Oil producers, drilling contractors and the government are at odds about which, if any, contracting party should pay the levy. The consensus view at the meeting was that the current system is a distinct disincentive to investment in new wells. It's estimated that funds now paid as the service tax of 12%, which is non-recoverable, means that one in nine wells isn't drilled. In prior licensing rounds involving Production Sharing Contracts, the service tax wasn't levied on the operators and their various contractors. IADC has challenged the service tax in Mumbai High Court and still awaits a decision, which had originally been expected in July 2006. The government has indicated sympathy with the industry position and is reportedly seeking clarity in the new budget.

COMMENTS MADE TO EU ENERGY REVIEW

The European upstream industry, under the banner of the International Association of Oil and Gas Producers (OGP), including IADC, filed formal comments to the European Commission's "Strategic EU Energy Review." The industry pointed out that although the combined EU/ EEA production ranks as the fourth-largest in the world, the North Sea has become a mature and high-cost basin. To ensure continuing investment, it's essential that competitive regulatory regimes at the EU and national levels be supported. That is to say, access to resources must be expedited and cost-effective regulations be promulgated. OGP also debunked the goal of "energy self-sufficiency," noting that, for example, 70% of proven global gas reserves lie within economically transportable distance of Europe and that long-term self-sufficiency is neither attainable nor necessary. More important is the building of stable political, legal and economic conditions that encourage long-term investment in energy supplies, backed by the rule of law and sanctity of contracts, in energy-exporting countries outside the EU.

FUEL TRANSFER ON OFFSHORE RIGS

At its April 2007 meeting, the IMO's Subcommittee on Bulk Liquids and Gases will consider proposed amendments to the MARPOL Convention, which, if adopted, would establish international regulations governing the transfer of oil between ships at sea – including the fueling of platforms and MODUs.

IADC and other trade associations participated in the development of the draft regulations but were unable to convince the governments involved that oil transfers to fixed and floating platforms should be excluded. IADC has joined with these other trade associations to develop a comprehensive alternative proposal that makes broader use of existing industry guidelines for oil transfer and would specifically exclude fuel transfers to platforms and drilling rigs – deferring to the coastal state's existing jurisdiction.