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COVER

GlobalSantaFe's jackup Monitor drills in the North Sea. Reports on offshore rigs begin on page 10 with Transocean's 5th generation units plus a jackup fleet outlook and new construction review. A report on equipment technology covering mooring systems, risers and surface BOPs begins on page 28.

**DRILLING
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CAPITAL WIRELINES

US Treasury's narrow reading of terrorism risk insurance law could partly expose offshore facilities

Brian T Petty, Senior Vice President-Government Affairs

Offshore Terrorism Risk Insurance (Washington)—Last summer, IADC was solicited by Lloyd's of London to lobby the US Congress for amendments to the then-pending "Terrorism Risk Insurance Act" providing coverage for US offshore fixed and floating E&P facilities. IADC organized an industry coalition comprised of NOIA, IPAA and the US Oil and Gas Association, which was successful in persuading lawmakers to include the amendments in the final form of the legislation. Implementing regulations have been left to the Department of the Treasury, which has indicated it will interpret the law as narrowly as possible, with the result that offshore facilities may be left partially exposed in terms of the law's application. Consequently, in a letter addressed to Treasury, led by IADC, the four industry associations made the following argument:

"We hereby submit these comments on the sections of the Interim Final Rule (the 'IFR') which restrict the application of the Terrorism Risk Insurance Act ('TRIA') to only a small portion, in many cases, of the applicable US-based risks of 'federally approved insurers.'

"In accordance with 30 C.F.R. Part 253, the Minerals Management Service (MMS) approves insurers that provide oil spill liability protection for energy production operations on the Outer Continental Shelf (OCS). The majority of insurance for OCS operations is obtained from the international insurance market—as opposed to domestic insurers—and the only way a number of these insurers qualify for TRIA protection of their U.S. customers' risks is by virtue of the fact that they have been approved by MMS. "While the IFR would not jeopardize the TRIA coverage for the oil spill liability policies approved by MMS, the same US customers (MMS licensees or permit holders) would not be covered for other risks. For example, offshore drilling rigs that have pollution coverage approved by MMS frequently have other liability and property insurance from the same insurer (which is TRIA-qualified *only* as a federally approved insurer). MMS does not approve such policies, as the drillers are not required to have them. However, such insurance is certainly quite important to offshore energy production facilities. "In a letter to the *International Association of Drilling Contractors* dated March 19, 2003, Asst. Treasury Secretary Wayne Abernathy indicated that there was a 'fair degree of overlap between insurers that are listed on the National Association of Insurance Commissioners Quarterly Listing of Alien Insurers and those that are approved by federal agencies.' While there may be some overlap, Mr. Abernathy's letter does not explain how and why Treasury has apparently concluded that the overlap is so large as to render our concerns insignificant.

"Regardless of the degree of 'overlap,' we respectfully disagree with Treasury's conclusion that it has the authority to read the statute more narrowly than Congress wrote it. The federal programs Treasury noted in the IFR have all been in existence for some time, and were well known to Congress when it drafted TRIA. Had Congress wanted to restrict the application of TRIA to federally approved insurers in the way Treasury has suggested, it could have written the statute to accomplish that objective."

The MMS supports industry's interpretation of the new law and has also filed parallel comments with Treasury.