CONTENTS

List of Figures and Tables  page xvi
List of Contributors xxviii
Preface and Acknowledgements xix
List of Abbreviations xxi

1 Introduction 1
MICHAEL FAURE, NIELS PHILIPSEN AND HUI WANG

1.1 Background for This Book 1
1.2 Objective of This Book 5
1.3 Methodology 5
  1.3.1 Legal Analysis 6
  1.3.2 Law and Economics 8
  1.3.3 Empirics 9
  1.3.4 Integration 10
1.4 Structure 10

2 Offshore-Related Damage: Facts and Figures 12
KRISTEL DESMEDT AND HUI WANG

2.1 General Issues Concerning Offshore Activities 12
  2.1.1 Terminology in Offshore Activities 12
  2.1.2 Industry Structure of Offshore Activities 13
  2.1.3 Stakeholders 15
  2.1.4 Importance of Offshore Activities 18
2.2 Location of Installations and Facilities in the European Union 18
  2.2.1 General Information 18
  2.2.2 Offshore Interests in the North Sea 20
  2.2.3 Offshore Interests in the Mediterranean Sea 21
## CONTENTS

### 2.3 Overview of Major Offshore Accidents 22
  2.3.1 Sources of Information 22
    2.3.1.1 Worldwide Database 22
    2.3.1.2 National Regulatory Authorities 24
    2.3.1.3 Regional Database 31
    2.3.1.4 Industry Database 33
    2.3.1.5 Observation from Available Data 36
  2.3.2 Overview of Serious Accidents Involving Offshore Facilities 37

### 2.4 Analysis of Recent Offshore Accidents in Europe: Case Studies 41
  2.4.1 Gulfaks C Incident (19 May 2010): A Near Miss 41
  2.4.2 Valhall PCP Production Platform Fire (13 July 2011) 41
  2.4.3 Escape of Hydrocarbons at Ula Field Norway (12 September 2012) 42
  2.4.4 Gannet Alpha Oil Spill (10 August 2011) 43
  2.4.5 Elgin Platform Blowout (26 March 2012) 44

### 2.5 Analysis of Recent Offshore Accidents Outside EU Waters 45
  2.5.1 Montara 45
    2.5.1.1 Facts of the Incident 45
    2.5.1.2 Trans-Boundary Complaints from Indonesia 48
  2.5.2 Deepwater Horizon 49
    2.5.2.1 Facts of the Incident and Legal Issues 49
    2.5.2.2 Overview of Legal Proceedings 53
    2.5.2.3 Post-Macondo Responses 56
    2.5.2.4 Summary 57
  2.5.3 More Accidents in 2015 58
    2.5.3.1 Petrobras Brazil Offshore Explosion 58
    2.5.3.2 Pemex Mexico Offshore Accidents 59
  2.5.4 Risk of a Deepwater Horizon Oil Spill in the European Union? 59
    2.5.4.1 Different Depths and Pressures 59
    2.5.4.2 Concerns after Macondo 60
    2.5.4.3 Expert Evaluation 61
    2.5.4.4 Limits of Expert Opinion 64
    2.5.4.5 Summary 66
3 Analysis of Existing Legal Regimes 68

MICHAEL FAURE, JING LIU AND HUI WANG

3.1 Introduction 68

3.2 International Legal Framework 69

3.2.1 The Civil Liability Convention and the Fund Convention 70

3.2.1.1 The Civil Liability Convention 71

3.2.1.2 Compensation Funds in the International Regime 77

3.2.1.3 Voluntary Mechanisms 79

3.2.2 UNCLOS 81

3.2.3 MARPOL 73/78 83

3.2.4 The OPRC Convention 84

3.2.5 Ongoing Discussion at the IMO 85

3.3 Offshore Liability Regimes 86

3.3.1 Regional Arrangements 86

3.3.2 North-East Atlantic Ocean (North Sea) 87

3.3.2.1 The OSPAR Convention 87

3.3.2.2 The Nordic Convention 88

3.3.3 The Mediterranean Sea 88

3.3.4 The Baltic Sea 90

3.3.5 The Black Sea 91

3.3.6 Summary of the Regional Seas Arrangements 91

3.4 Current EU Regime on Offshore Activities 91

3.4.1 EU Interest in Offshore Activities 91

3.4.2 Council Directive 92/91 EEC 92

3.4.3 Hydrocarbons Licensing Directive 1994 (94/22/EC) 92

3.4.4 The Marine Strategy Framework Directive 93

3.4.5 Communication of 2010 93

3.4.6 Directive on Safety of Offshore Oil and Gas Operations 94

3.5 Offshore Liability Regimes: Country Studies 97

3.5.1 Introduction 97

3.5.2 United Kingdom 98

3.5.2.1 National Interest in Offshore Activities 98

3.5.2.2 Legal Framework 98

3.5.2.3 Basis of Liability 103
## Contents

3.5.2.4 Relationship with Regulation 104
3.5.2.5 Causation 104
3.5.2.6 Attribution of Liability 105
3.5.2.7 Damages and Remedies 105
3.5.2.8 Amount of Compensation 107
3.5.2.9 Claim Settlement 108
3.5.2.10 Compensation Mechanisms 109

3.5.3 Norway 115
3.5.3.1 National Interest in Offshore Activities 115
3.5.3.2 Legal Framework 116
3.5.3.3 Basis of Liability 119
3.5.3.4 Relationship with Regulation 120
3.5.3.5 Causation 120
3.5.3.6 Attribution of Liability 121
3.5.3.7 Damages and Remedies 122
3.5.3.8 Amount of Compensation 123
3.5.3.9 Claim Settlement 123
3.5.3.10 Compensation Mechanisms 124

3.5.4 Denmark 126
3.5.4.1 National Interest in Offshore Activities 126
3.5.4.2 Legal Framework 126
3.5.4.3 Basis of Liability 128
3.5.4.4 Relationship with Regulation 129
3.5.4.5 Attribution of Liability 129
3.5.4.6 Damages and Remedies 129
3.5.4.7 Compensation Mechanisms 130

3.5.5 United States 131
3.5.5.1 National Interest in Offshore Activities 131
3.5.5.2 Legal Framework 131
3.5.5.3 Basis of Liability 136
3.5.5.4 Relationship with Regulation 137
3.5.5.5 Causation 137
3.5.5.6 Attribution of Liability 138
3.5.5.7 Damages and Remedies 139
3.5.5.8 Amount of Compensation 141
3.5.5.9 Claim Settlement 144
3.5.5.10 Compensation Mechanisms 146
3.5.5.11 Jurisdictional Issues 153
3.5.5.12 Criminal Liability 153
## CONTENTS

3.5.6 Australia  154
- 3.5.6.1 National Interest in Offshore Activities  154
- 3.5.6.2 Legal Framework  155
- 3.5.6.3 Basis of Liability  158
- 3.5.6.4 Relationship with Regulation  160
- 3.5.6.5 Causation  160
- 3.5.6.6 Attribution of Liability  160
- 3.5.6.7 Damages and Remedies  161
- 3.5.6.8 Amount of Compensation  161
- 3.5.6.9 Compensation Mechanisms  161

3.5.7 Canada  163
- 3.5.7.1 National Interest in Offshore Activities  163
- 3.5.7.2 Legal Framework  163
- 3.5.7.3 Basis of Liability  164
- 3.5.7.4 Attribution of Liability  164
- 3.5.7.5 Damages and Remedies  164
- 3.5.7.6 Amount of Compensation  165
- 3.5.7.7 Applicability in Time  165
- 3.5.7.8 Compensation Mechanisms  166

3.5.8 Comparative Analysis  166
- 3.5.8.1 Best Practice?  166
- 3.5.8.2 Comparison of Legislation  167
- 3.5.8.3 Comparative Comments  167

3.6 Another High-Risk Sector: Nuclear  171
- 3.6.1 International Compensation System for Nuclear Damage  172
  - 3.6.1.1 Origin of the International Regime  172
  - 3.6.1.2 First-Generation Nuclear Liability Conventions  173
  - 3.6.1.3 Second-Generation Nuclear Liability Conventions  178
- 3.6.2 The Compensation System for Nuclear Damage in the United States  182
  - 3.6.2.1 Liability for Nuclear Damage  183
  - 3.6.2.2 The Requirement of Financial Protection  187
  - 3.6.2.3 Compensation under the Convention on Supplementary Compensation  190
- 3.6.3 Critical Comparison  191

3.7 Concluding Observations  195
4 Pooling Mechanisms for Offshore Liability 197

M I C H A E L  F A U R E  A N D  J I N G  L I U

4.1 Theory: Pooling versus Insurance 198

4.2 OPOL 201

4.2.1 Origins of OPOL 201
4.2.2 Main Features 202
4.2.3 Rules and Membership 203
4.2.4 Financial Responsibility 204
4.2.5 Claims Handling 205
4.2.6 Enforcement 206
4.2.7 Practice 207
4.2.8 Evaluation 208

4.3 OIL and OCIL 210

4.3.1 OIL 211
4.3.2 OCIL 213

4.4 Protection and Indemnity Clubs 214

4.4.1 Origins 214
4.4.2 Coverage 214
4.4.3 Entry and Premiums 215
4.4.4 Available Amount 217

4.5 Risk Pooling in the Nuclear Sector 217

4.5.1 Risk Pooling in the Price-Anderson Act 218
4.5.1.1 A Second Tier of Compensation 218
4.5.1.2 . . . Collectively Financed Through Retrospective Premiums 219
4.5.2 The Mutual Pool for Property Damage in the United States 220
4.5.3 Mutual Nuclear Pools in Europe 221
4.5.4 Nuclear Liability and Pooling System in Germany 223
4.5.5 Towards a European Pool for Nuclear Liability? 227

4.6 Concluding Observations 229

4.6.1 Advantages of Pooling 229
4.6.2 OPOL 232
4.6.3 P&I Clubs 232
4.6.4 Risk Sharing for Vessel-Based Pollution 233
4.6.5 Summary 234
CONTENTS

5 The Use of Financial Market Instruments to Cover Liability Following a Major Offshore Accident 236

MICHAEL FAURE AND HUI WANG

5.1 Self-Insurance 237
  5.1.1 Theory 237
  5.1.2 Practice 238
  5.1.3 Analysis 240

5.2 Capital Market 242
  5.2.1 Theory 242
  5.2.2 Practice 243
  5.2.3 Analysis 244

5.3 Guarantees 244
  5.3.1 Theory 244
  5.3.2 Practice 245
  5.3.3 Analysis 245

5.4 (Re-)Insurance 246
  5.4.1 Theory 246
  5.4.2 Practice 248
    5.4.2.1 Stakeholders in the Insurance Market (Major Insurance/Re-Insurance Providers) 248
    5.4.2.2 Structure of Coverage of Offshore Insurance 250
    5.4.2.3 Available Insurance Amount 252
    5.4.2.4 Cost Estimation 255
    5.4.2.5 Calculation of Premiums 257
    5.4.2.6 Influence of the Deepwater Horizon Incident on the Insurance Industry 258
  5.4.3 Analysis 260

5.5 Risk-Pooling Schemes 261

5.6 OPOL 263

5.7 Combinations 264

6 Potential of Financial and Insurance Instruments to Cover Liability Following a Major Offshore Accident 266

MICHAEL FAURE AND HUI WANG

6.1 Potential Costs of an Offshore Incident 267
6.1.1 Potential Costs and Verifications 268
   6.1.1.1 Safety Regulation 269
   6.1.1.2 Technical Differences in Different Waters 269
   6.1.1.3 Differences in Operators 271
   6.1.1.4 Different Liability Standards 271
   6.1.2 Insolvency Risk and Different Scenarios 273

6.2 Self-Guarantee Through Tax 276

6.3 Expanding Possibility of Insurance? 277
   6.3.1 Mandatory Insurance and Increasing Coverage? 277
   6.3.2 Proposal of Munich Re-Insurance 280
      6.3.2.1 An SOS Cover 280
      6.3.2.2 Stakeholders Assessment 283
      6.3.2.3 Reaction by Munich Re 284
      6.3.2.4 Analysis 285
   6.3.3 Cover for Vessel-Based Pollution 286
   6.3.4 Developments in the Coverage of Nuclear Risk 287
   6.3.5 Summary 289

6.4 Potential of Expanding Risk-Pooling Schemes 289
   6.4.1 Expanding OIL and OCIL 290
   6.4.2 Expanding OPOL? 291
   6.4.3 Noble Energy Proposal 293
      6.4.3.1 Background 293
      6.4.3.2 Contents of the Proposal 294
      6.4.3.3 Implementation? 296
      6.4.3.4 Reactions from Stakeholders 297
      6.4.3.5 Evaluation 298
   6.4.4 Challenges 299

6.5 Summary: Flexibility 301

7 Towards Optimal Liability and Compensation for Offshore
   Oil and Gas Activities 303
   KRISTEL DESMEDT, HUI WANG AND MICHAEL FAURE

7.1 Principles of Efficient Compensation and Liability
   Rules 304
      7.1.1 Why Compensate? 305
      7.1.2 Principles of Efficient and Fair Compensation 306

7.2 Efficient Liability Rules 308
7.2.1 Strict liability or Negligence? 308
   7.2.1.1 Economic Theory 308
   7.2.1.2 Application to Offshore-Related Risks 312
7.2.2 Attribution of Liability 313
   7.2.2.1 Channelling of Liability 313
   7.2.2.2 Joint and Several Liability 316
7.2.3 Financial Cap? 317
7.3 Liability versus Regulation 319
   7.3.1 Criteria for Safety Regulation 319
      7.3.1.1 Information Asymmetry as a Criterion for Regulatory Intervention 320
      7.3.1.2 Insolvency Risk 320
      7.3.1.3 The Threat of a Liability Suit 321
   7.3.2 The Need to Regulate Offshore-Related Risks 322
   7.3.3 Private or Public Regulation? 324
   7.3.4 Liability and Regulation Combined 326
   7.3.5 Stakeholder Assessment 328
   7.3.6 Policy Conclusions 330
7.4 Mandatory Financial Security 331
   7.4.1 Criteria for Mandatory Financial Security 331
   7.4.2 Application to Offshore-Related Risks 332
   7.4.3 Stakeholder Assessment in the European Union 333
   7.4.4 (European) Policy Issues 335
   7.4.5 Summary 338
7.5 Compensation Instrument 339
   7.5.1 Self-Guarantee Through Taxes 339
   7.5.2 Mandatory Insurance and the Munich Re Proposal 340
   7.5.3 Risk-Sharing Pools 341
   7.5.4 A Role for Government in Providing Compensation? 343
      7.5.4.1 Direct Compensation by Government? 343
      7.5.4.2 Arguments in Favour 343
      7.5.4.3 Arguments Against 344
      7.5.4.4 Summary 345
   7.5.5 Re-Insurer of Last Resort? 346
      7.5.5.1 Arguments in Favour 346
      7.5.5.2 Arguments Against 347
      7.5.5.3 Summary 348
CONTENTS

7.5.6 A Compensation Fund? 349
   7.5.6.1 Funds versus Insurance 349
   7.5.6.2 Economic Principles to Shape a Fund 351
   7.5.6.3 Experiences with Environmental Funds 352
   7.5.6.4 A Fund for Offshore-Related Risks? Stakeholder Opinions 356

7.6 Rapid Claims Management 359
   7.6.1 Existing Schemes 359
      7.6.1.1 OPOL 360
      7.6.1.2 Norway 360
      7.6.1.3 The Civil Liability and Fund Conventions 361
      7.6.1.4 Claims Settlement in the Deepwater Horizon Case 363
   7.6.2 Normative Analysis 369
      7.6.2.1 Need for a Mechanism 369
      7.6.2.2 Compensation Funds 371
      7.6.2.3 Stimulate Rapid Payment within Liability Law 372
      7.6.2.4 Combinations 372
      7.6.2.5 Evaluation 374

7.7 Trans-Boundary Harm 376

7.8 Scenarios 379
   7.8.1 Scenario 1: Damage Maximum US$250 Million 379
   7.8.2 Scenario 2: Damage between US$250 Million and US$750 Million 380
   7.8.3 Scenario 3: Damage above US$750 Million 381

8 Concluding Remarks 383
   8.1 General 383
   8.2 Efficient Liability Rules 384
   8.3 Mandatory Financial Security 385
   8.4 A Role for Government? 386
   8.5 Rapid Claims Mechanism 387
# CONTENTS

References 388  
Appendix 1: Overview of Interviews with Stakeholders 406  
Appendix 2: Checklist for Country Studies 408  
Appendix 3: Oil Pollution Act Liability Limits, 2012 412  
Index 431