

PERFORMANCE BONDS: AN ECONOMIC INCENTIVE TOOL FOR ENVIRONMENTAL COMPLIANCE ON OFFSHORE DECOMMISSIONING REQUIREMENTS

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The present work considers two subjects: offshore decommissioning and financial assurance (bonds) mechanisms. It provides a general outlook of the many decommissioning related issues that economically impact oil projects around the world (legal framework, removal and disposal options, tax treatment, etc). It also demonstrates the potential application of incentive mechanisms, such as bonds, to guarantee that all decommissioning requirements are met (well plugging and abandonment, removal of platforms and other facilities, sea floor cleanup, etc.). There are several forms of bonds available providing optimum flexibility for companies to meet all decommissioning and abandonment requirements. Bonds will provide several advantages: (1) ensure that companies satisfactorily fund their end-of-lease obligations; (2) safeguard government and taxpayers by attaining reasonable protection from default at a minimum increase in project costs; and (3) protect the environment from potential harm resulting from failure to carryout proper decommissioning operations in a timely fashion.