

May 17, 2017

Attn: Commissioner Margrethe Vestager
Europa-Kommissionen
Rue de la Loi / Wetstraat 200
1049 Bryssel
Belgium

Competitiveness of EU mobile drilling rigs and vessels

Dear Commissioner,

We, the International Association of Drilling Contractors (“IADC”), write this letter to you regarding the possible inclusion of mobile drilling rigs, drill ships and vessels (collectively referred to as “drilling rigs”) in the Danish tonnage tax regime. We represent hundreds of companies in the worldwide oil and gas drilling industry – both EU-based companies and companies based outside the EU. In particular, we represent the offshore drilling companies who own and operate drilling rigs. These drilling rigs are highly mobile assets that are deployed for use in all parts of the world.

IADC is aware that the Danish government decided to expand the Danish tonnage tax scheme to include mobile offshore drilling rigs in the state budget for 2016, but has not yet followed up with detailed draft legislation. As you are aware, such an expansion of the Danish tonnage tax to include these drilling rigs would need approval by the DG Competition, as such tax regimes must be in compliance with EU state aid regulations.

For IADC members inside and outside the European Union, the inclusion of offshore drilling activities in the scope of tonnage taxation would represent a welcome development that would create a clear, stable and competitive taxation environment for our member companies. This would increase their interest in expanding activities ashore in Europe. IADC considers that it would be appropriate for the DG Competition to approve the expansion of the Danish tonnage tax system to include mobile drilling rigs – primarily for four reasons:

- ***Possibility to boost growth, jobs and tax payments across Europe***

IADC has noticed and supports the ambitions of the European Commission and the DG Competition to boost growth, create jobs and ensure a clear, stable and fair level

of taxation. According to a report¹ prepared by PwC, the introduction of a tonnage tax

regime for drilling rigs could contribute to the generation of a high number of jobs, output and tax receipts all over Europe. Thus, despite the dismal current economic conditions in the oil and gas industry, an approval of a tonnage tax regime for drilling rigs could meaningfully contribute to delivering on the priorities of the European Commission in the forthcoming years.

- ***Ships and rigs share an identical competitive situation***

As the majority of drilling rigs are owned by companies that are tax resident in countries outside the EU, the competitive situation of drilling rigs is identical to the competitive situation for European ship owners, for whom the tonnage tax is a necessary condition to keep shipping companies in Europe competitive. Mobile drilling rigs and vessels compete in open global markets and are regularly moved to the country in which its customers demand. Introducing the possibility of tonnage tax for drilling rigs will therefore create a level playing field between rigs owned by companies tax resident in the EU and outside the EU, for example in Singapore, where drilling rigs are taxed under the shipping regulations.

- ***No distortion of competition within EU***

The oil and gas industry has been severely hit by the low oil prices, meaning that companies in the industry strive to cut costs to uphold business. Currently, only twelve out of 374 rigs delivered after 2007 are owned by companies' tax resident in the EU or EEA. If no political actions are taken to create a more level playing field for drilling contractors in the European Union and outside the European Union, the EU risks a total outflow of drilling rigs and offshore and onshore jobs.

- ***Steady and predictable tax revenues***

A tonnage tax regime will generally result in a steady, more consistent and more predictable stream of tax revenues for the government. With today's depressed oil and gas industry and the imposition of an income tax based on "net income", most companies are generating tax losses and not making any current tax payments to the government. A tonnage tax regime will generally result in some minimum level of cash tax payment to the government even in the lean periods.

IADC therefore encourages the DG Competition to pave the way for a Danish tonnage tax system that includes drilling activities, as we believe this will be beneficial not only to drilling contractors all over Europe, but also to the member states and citizens in the EU in the form of increased and sustainable business activity, quality jobs and tax payments.

¹ "Tonnage taxation for Danish offshore drilling industry: an economic impact assessment", July 2016

We would be pleased to organize a meeting with industry experts if that would prove helpful for your consideration of this important issue. Please do not hesitate to contact me if you would like further information.

Respectfully,

A handwritten signature in blue ink, appearing to read 'S. Hayes', is written over a horizontal line.

Stephen L. Hayes

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