



Israel

Milk, Honey, and

Natural Gas

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As the process of extracting resources moves farther out to sea and deeper into the Earth's crust, the challenge of managing and moving the human talent necessary to keep these operations running increases in difficulty. Kan-Tor, Acco, and Greenstein draw a road map for the HR and mobility manager new to the complexities of offshore natural gas operations.

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Technological innovations have enabled the natural gas industry to keep pace with the world's skyrocketing demand, extracting resources embedded farther out at sea and deeper into the earth's crust. Recent advances in exploration technology have led to a host of discoveries across the globe, and the industry currently is booming.



Following the recent discovery of a prodigious natural gas reserve in the Mediterranean Sea, Israel has found itself for the first time at the forefront of the natural gas industry and its related services, including offshore drilling and employee mobility.

The production of gas and oil, however, requires significant numbers of skilled employees, each holding unique knowledge and expertise. As a result, offshore employees generally are recruited from overseas in multinational groups organized by specialized recruitment companies, or by the gas companies themselves.

In recruiting foreign talent, offshore rigging companies must overcome complex mobility and immigration issues that transcend the traditional mobility challenges of onshore projects. While these issues fall into the same traditional categories as onshore operations, the offshore nature of the industry creates unique challenges that require innovative solutions.

As the offshore rigging industry is relatively new to Israel, Israeli HR managers and mobility specialists are necessitated to confront these issues without any local experience or traditions to rely on. To further complicate matters, Israeli gas and mobility service companies must overcome major security and defense concerns given their current geopolitical situation.

So what are these challenges? What can be done? What should be done? And what is the best and right way to go about it?

Gas Findings in Israel

In January 2010, Noble Energy, partnering with Israeli companies

Isramco Negev and Delek Group, discovered a massive natural gas reserve located 130 kilometers off the coast of Haifa, Israel. The reserve, aptly named Leviathan, may hold 16 trillion cubic feet of natural gas. The Leviathan site currently is estimated to be twice the size of the Tamar Prospect, the largest gas discovery worldwide in 2009, uncovered by the same U.S.-Israel consortium. With prospects of further discoveries to come, The Levant Basin, containing the Leviathan and Tamar prospects, may hold in excess of 227 trillion cubic feet of gas, compared to Europe's 208 trillion cubic feet of gas. With billions of dollars of expected revenue, the ground-breaking discoveries have helped to establish the offshore gas and oil industry in Israel. While the Israeli government struggles to regulate this emerging industry, the industry itself faces enormous growing pains.

Onshore Versus Offshore Projects

During the past two decades, as regional economies and businesses increasingly have become integrated through communication and trade, employee mobility services have matured and flourished. Overcoming the traditional challenges of country-to-country mobility, the mobility industry has developed unique knowledge and expertise in facilitating the movement of key employees to target countries and project locations.

As recent innovations have sent the gas and oil industry to the deep sea, these traditional mobility challenges have taken a new form. While these unique challenges fall into the same traditional categories of onshore mobility, today's mobility expert must find innovative solutions to the distinct challenges of offshore

relocation. For the purpose of this article, we have identified the traditional mobility challenges while highlighting the unique difficulties of offshore operations.

Taxation

Expatriate assignments create taxation challenges because of the lack of a unified taxation system across national borders. To simplify the matter, it is a common practice for countries to have a bilateral double taxation agreement, designed to avoid the possibility of double taxation (the imposition of two or more tax jurisdictions on the same income). However, when expatriates are working (and living) in non-territorial waters, taxation identifiers such as "days of presence" within a country's borders become ambiguous and difficult to determine (An exclusive economic zone [EEZ] is a seazone over which a state has special rights concerning the exploration and use of marine resources. It stretches from the seaward edge of the state's territorial sea out 200 nautical miles from its coast. Territorial waters, or a territorial sea, as defined by the 1982 United Nations Convention on the Law of the Sea, is a belt of coastal waters extending at most 12 nautical miles from the baseline [usually the mean low-water mark] of a coastal state.). Is an employee working 90 kilometers off the coast of Israel considered to be within the borders of the State of Israel? Is the employee obligated to pay Israeli taxes or not? Further complications arise when a gas company managing an offshore operation is not domiciled for tax in the nearest sovereign state.

Given the lack of an established protocol in Israel, both taxation authorities and energy companies



have demonstrated flexibility in creating innovative solutions on a case-by-case basis. As such, it is recommended that HR managers plan ahead a taxation scheme together with the tax authority by way of a pre-ruling. Such proactive collaboration increases the certainty of the taxation scheme while helping to avoid unnecessary surprises along the road.

Transportation

Mobility of human resources naturally requires means of personal transportation between the employee's country of origin and the foreign assignment. Traditionally, a multinational employer will purchase two round-trip flights for every expatriate assignment: one for the start and end of assignment, and another for a home leave visit.

Rig work, however, operates on a rotating schedule in which the employees work a specific number of consecutive days, followed by an equal or greater number of days off (typically two weeks on, two weeks off). As a result, offshore rig assignments involve frequent commuting between home and the offshore platform. This alone creates a dramatic increase in the level of travel procure-

ment and administration, as offshore rigging companies need to provide up to 20 flights in one year for each employee assignment! Furthermore, when projects are located miles off the coast, employers must coordinate helicopter or marine transportation between the offshore platform and the nearest accessible port.

While expatriate transportation is a cost that every multinational company has to account for, the unique work schedule and remote drilling sites of the rigging industry create transportation costs that far exceed those of the traditional multinational company. In response, rigging companies around the world are attempting to "localize" staff, building training and education centers in strategic locations to develop access to local skills and expertise.

In Israel, companies have started to plan training and recruitment programs for local Israeli personnel. These training programs are supported by the Israeli government and, in some cases, work visas are contingent on such training.

Accommodations

As in many other countries, multinational employers operating in

Israel must provide adequate housing options for expatriate employees and their dependents. Housing location often is a key factor in an employee's decision to move abroad, as most expatriates will not make the move without easy access to their assignment, local shops, and decent schools for their children. A comprehensive mobility industry has been created around these efforts, including homesearch services, temporary furniture supply, door-to-door movers, and cultural training programs.

In contrast, most offshore oil rig workers are employed on a project-by-project basis, and as a result, rarely travel with their families or establish permanent residency.

Nevertheless, accommodating offshore employees with a livable environment while working (and living) at sea proves to be one of the most complicated and expensive aspects of offshore operations. Given the isolation of the offshore rig, rigging companies must construct the equivalent of a four-star hotel in the middle of the sea, including decent living quarters, cafeterias serving three to four meals a day, laundry facilities, recreational facilities, and a fully-equipped

medical center. Of course, these onsite facilities require additional staffing, including caterers, cleaners, and trained medics.

Recruitment and Compensation

In recruiting employees for expatriate assignments, multinational employers traditionally offer a mobility package designed to compensate the assignee for the challenges of moving abroad. Mobility packages generally include an increase in salary to compensate for the stresses of adapting to a foreign environment.

Offshore rigging companies, however, must compensate employees for a number of additional challenges that are unique to living and working at sea. For example, mobility packages must take into account the extreme weather and hazardous work conditions of working outdoors in open waters, including hurricanes, violent waves, and freezing temperatures. Offshore mobility packages also must compensate employees for the physical isolation of working at sea. In light of these challenges, basic mobility packages typically fail to attract or compensate employees for offshore assignments. Despite significant increases in salary, *Forbes* magazine listed offshore oil rig work as one of the top 10 worst jobs for 2010.

In Israel, offshore employers have been forced to pay opening expatriate positions approximately three times that of the average Israeli salary. This re-emphasizes the need to localize talent, with Israeli employees likely to accept a lower salary than those currently offered to expatriates.

Health Services and Coverage

In today's environment, providing health coverage for employees across



national borders is challenging but feasible, as there are a number of established international health insurance companies providing worldwide hospital insurance, in-patient treatment coverage, and emergency medical evacuation in the case that proper medical facilities are not locally available.

While offshore rigs possess the capacity for indescribable environmental consequences, they also must account for the drastic and often deadly effect they have on those who work on them. Providing offshore workers with adequate health coverage, however, is an exceedingly expensive endeavor. Located miles out to sea, offshore rigging companies must provide on-site medical facilities fully staffed with trained medics. Serious injuries often result from cable breaks, slippery surfaces, falling objects, and equipment operating negligence, and thus professional medical staff must be readily available to provide trauma care. In the case of a medical emergency, rigging companies also must provide helicopter medivac transportation to the nearest hospital. While multinational rigging companies may attempt to reduce these costs, they run the risk of employee rights viola-

tions and international criticism.

Visa Compliance

When determining if (and what type of) a work visa is necessary for a specific expatriate assignment, HR managers must answer the standard work visa questions: type of assignment, assignment duration, nationality of the employee, employee education and experience, and the like.

Onshore operation. In most countries, including Israel, a valid work visa is required if the employee is engaged in an onshore rig operation.

Territorial zone—offshore operation. Projects conducted offshore, however, involve a much more complicated set of issues and concerns. First, offshore rigging companies must identify the offshore location/zone in which they are working. As a general rule, when a rig is operating in a territorial zone, most countries, including Israel, require that the employees obtain a work visa.

Economical zone—offshore operation. On the other hand, a much more complicated scenario arises when a rig is located in the EEZ. As the state's jurisdiction over this area most often is not clearly determined, it seems that every country has elected to deal with the

situation differently. Most countries require that the employee obtain a work visa in this territory, as well as respecting the state's general law in these territories (labor, tax, safety and health, environmental regulations, and the like). In Israel, for example, the "Sub-Sea Territories Law (1953)" states that all the natural resources embedded beneath the seafloor in economic waters belong to the state. At this stage, the law leaves a gap; it is not clear whether the sovereignty of the states that requires drilling permissions, tax payments, and so forth also requires the need to obtain work visas for the foreign nationals working on offshore platforms in the EEZ.

In response, officials at the Ministry of Justice are arguing that the above law simply is outdated. When the law was created, nobody imagined that technology would allow for drilling in this part of the sea. Based on this argument, the officials are currently trying to adapt the law to the effect that the state holds jurisdiction over rigs located in the

EEZ. On successful redrafting, it is expected that offshore operations in the economical zone of Israel will require work visas.

It seems that at current, a prudent and responsible corporate decision will be to obtain work permits for EEZ workers. This will allow the company to deduct expenses from taxation as well as avoid the risk of being accused of an illegal employment. As it is said, "better to be safe than sorry."

Growing Pains

The emerging gas and oil industry in Israel faces various regulation and mobility challenges, referred to above as industry "growing pains." Lacking established protocols, mobility experts and regulating authorities must work together to overcome these obstacles as they arise.

Several new mobility service companies have emerged in Israel, some even claiming to specialize in the offshore gas and oil industry. To facilitate the current boom, Israeli mobility experts must learn from larger

mobility corporations and adapt to the established international standards of this demanding industry.

Immigration and work visa regulations are changing rapidly to accommodate the emerging offshore industry. In Israel, as in many other countries, visa and immigration services are defined as legal services, and as such, must ultimately be performed by law firms as opposed to mobility service companies. At press time, new regulations regarding the need to obtain work visas in the EEZ were expected to be published by the Israeli government. These developments may impart key insights into the regulation of emerging industries across the globe. ■

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