Comments on “Regulation under Uncertainty: The Co-evolution of Industry and Regulation in the Norwegian Offshore Gas and Oil Industry”

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I. The Argument

Old Assumptions and Approach

- Prescriptive rules, back by enforcement
- Regulator can get the information they need
- Static model dominates
New Model

- Regulated parties have vastly better access to necessary information, which builds over time (regulated parties are on top but regulators provide foundation)
- Regulators and regulated have shared incentives to find solutions
- Regulators’ role (therefore) is to encourage and support regulated parties
Regulator’s functions in collaborative production problems

1. **Encourage cross-discussions** w/in chain to minimize errors [increase incentives for vertical collaboration]

2. **Extract the collective insights** [reduce transaction costs and capture positive externalities]
Regulatory Components in Norway

- Strict Liability
- Worker engagement
- Risk reporting
- Best practices (via NOG)
- Industry consortia
I. Extracting Lessons from Norway:
   What might a successful regulator-industry approach look like?

- **Worker engagement**
  - cut?

- **Risk reporting**
  - reputational device to draw out best and worst in class?

- **Best practices (via NOG)**
  - how develop? what role should it play?

- **Industry consortia**
  - add R&D to NOG dialogue?
Regulator’s functions in this particular area?

1. Encourage cross-discussions w/in chain to minimize errors [increase incentives for vertical collaboration]

2. Extract the collective insights [reduce transaction costs and capture positive externalities]

3. ?other..... Still set floors for laggards?
II. Locating Case Study

Are blowouts a distinct subset of a larger nest of collaborative production problems?
Stubborn asymmetries (e.g., damaging info to suppress)
Discrete Categories of Collaborative Production Problems?

* **Strong chains**: Incentives throughout the chain generally align to create incentives for risk reduction (for a particular risk)

* **Weak chains**: W/in the vertical chain there are pockets of stubborn resistance/information asymmetries

* **Other chains**: There are stubborn asymmetries with respect to vertical and external/horizontal sharing
Commonly Used Chemicals Come Under New Scrutiny

By ERIC LIPTON and RACHEL ABRAMS  MAY 1, 2015

At issue now are replacement chemicals developed by those manufacturers and used in thousands of products, including electronics, footwear, sleeping bags, tents, protective gear for firefighters and even the foams used to extinguish fires.

The companies assert that the alternatives are safe and vehemently contest the scientists’ contentions, pointing to extensive studies conducted in the last decade or so.

But two separate salvos fired on Friday question whether enough research has been done to justify the chemical industry’s confidence in the safety of this crop of PFASs.

“Research is needed to find safe alternatives for all current uses of PFASs,” Linda S. Birnbaum, the head of the national toxicology program for the Department of Health and Human Services, wrote in a commentary piece published Friday in Environmental Health Perspectives. “The question is, should these chemicals continue to be used in consumer products in the meantime, given their persistence in the environment?”

The journal, published by the National Institutes of Health, devoted several pages to the issue, with articles from researchers and from the industry trade group.

A statement signed by 200 international scientists — environmental health experts, toxicologists, epidemiologists and others — urged countries around the world to restrict the use of PFASs.

Dr. Paul Brooks, left, and Joe Kilger near Parkersburg, W.Va. They were involved in a lawsuit against DuPont over a spill of a form of Poly- and perfluoralkyl chemicals more than a decade ago. Parkersburg residents’ health is still being monitored. Ty Wright for The New York Times.
## Locating Collaborative Production within Larger Regulatory Landscape

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<th>No Stubborn Asymmetries</th>
<th>Stubborn Asymmetries</th>
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<td><strong>Chain (collaborative production)</strong></td>
<td>Reduce high coordination and transaction costs (e.g., Norway oil exploration)</td>
<td>Reduce high coordination costs + fight suppression and rational ignorance at key points in chain (e.g., consumer products with latent chemical risks?)</td>
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<tr>
<td><strong>No Chain</strong></td>
<td>Streamline operations (e.g., Nuclear power)</td>
<td>Force out asymmetries w/ default penalty rules, etc. (e.g., pollution standards)</td>
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“We don’t dismiss the right of folks to debate this,” Mr. Samples [DuPont’s head of risk management] said. “But we just believe based on the 10-year history of extensive studies done on the alternatives [to PFAs], that the regulatory agencies have done their job of determining that these things are safe for their intended uses.”

This business sector, the fluoro-technology industry, is considerable and reached $19.7 billion in sales in 2014, according to the most recent estimate from the FluoroCouncil, a division of the ACC.
“It’s likely they’re going to have some health effects, it just may take us a while to figure out what it is,” said Thomas F. Webster, a professor of environmental health at Boston University’s school of public health who was an author of a paper seeking more scrutiny of PFASs. “It might take five or 10 years to really do the research.”
Characteristics Of Regulatory Regime

• Strict Liability
• Worker engagement
• Risk reporting
• Best practices
• Consortia

Type of Problem

Strong Chains
(incentivize leadership?)

Weak Chains
(focus on weak links and incentives for suppression?)

Other Chains