



Contract Modes

One of the most important contract management decisions to be made by the client is to identify the responsibilities for managing HSE between client and contractor (or alliance of contractors). The decision should be based on the outcome of the risk assessment process and the capability of the contractor to manage all risks.

Many Companies (but not all), use “Contract modes” to identify those responsibilities. **What matters most is being clear on interfaces and who is responsible for what element of the HSE-MS.** The contracting mode determines whose HSE-MS (Client, Contractor, or combination) will be used to manage the risks associated with performing the work. The contract mode decision will also help to

determine which controls and assurance activities are applicable in the pre- and post-award phase, and who is responsible for them (see Info Sheet on Contract Risks).

In this Info Sheet you can find a summary of what is described in the IOGP 423, including tips to help determine Contract Mode and how to deal with it.

CONTRACT MODE 1

- Client’s Management System applies
- Client leads and directs the work
- Hours & HSE data are reported

CONTRACT MODE 2

- Contractor’s Management System applies
- Contractor leads and directs the work
- Clients verifies & assures per agreed contract terms & conditions
- Hours & HSE data are reported

CONTRACT MODE 3

- Contractor’s Management System applies
- Contractor leads and directs the work
- Hours & HSE data are NOT reported
- When needed influence per agreed contract terms & conditions



Contract Mode 1

- The contractor provides people, processes and/or equipment for the execution of the contract under the oversight, instructions and HSE-MS of the client.
- The contractor has a management system to provide assurance that the personnel for whom it is responsible are qualified and fit for the work and that the processes, tools, materials and equipment they provide are properly maintained and suitable for the contract.
- This mode requires the contractor to report HSE performance data, including events and incidents, to the client.

Contract Mode 2

- The contractor provides people, processes, equipment and/or facilities for the execution of the contract, as a main rule, under its own HSE-MS, providing the necessary instructions and oversight and verifying the proper functioning of its HSE-MS.
- This mode requires interfacing or bridging with the client's HSE-MS, ensuring that both the client's and the contractor's HSE-MS are compatible, and also reporting HSE performance data including events and incidents to the client.
- The client is responsible for assuring the overall effectiveness of the HSE management controls put in place by the contractor, including its interface with subcontractors.

Contract Mode 3

- The contractor provides people, process, equipment, and/or facilities for the execution of the contract under its own oversight, instruction, and HSE-MS. It requires no interfacing or bridging with the client's HSE-MS and contractor is not required to report HSE performance data including events and incidents to the client.
- However, this does not exclude the possibility that the client may wish to guide and influence HSE performance under this type of contract; may provide product quality or environmental specifications, quality control and acceptance criteria and/or testing, etc.; and/or may insist that the contractor comply with a code of conduct which addresses human rights, labour rights, corruption, etc.

EXAMPLES

Typically, this applies to scopes of minor modification or maintenance/turnaround work on a client owned or operated site.

EXAMPLES

This could apply to scopes of work on either contractor, client or third party owned/operated sites.

The work can be fenced off on a separate site, like a drilling location or separate project site.

The local situation will typically drive the level of interfacing and bridging required based on risk.

EXAMPLES

Typically, this could apply to scopes of work on contractor owned/operated sites or third party sites, and include examples such as:

- manufacturing of products produced for the open market, which client purchases (e.g. vehicles)
- manufacturing of components in a factory together with the manufacture of components for other customers
- construction at contractor sites shared by other customers
- delivery of good or products to client locations by a contractor who is in business to deliver to many other companies (more examples in IOGP 423 document)



What Mode to choose?

When deciding on the Contract Mode there is one key question to ask:

Does the contractor have the capability and capacity to Manage all risk?

If **NO**, and you have no alternative, choosing Mode 1 means the Contractor is under your supervision. If **YES**, choose Mode 2 or Mode 3.

Choosing Mode 3 contract would require a “No” answer to all the following questions:

- In case of an accident, would the client be held liable and/or client management be held accountable?
- If, following an event or incident, the contractor or their insurance would fail to meet their obligations, would the client become liable (“end liability”)?
- Would an event or incident by the contractor be associated with, and significantly affect the reputation of the client?
- Would an event or incident seriously affect the client’s business continuity?
- Is the client in any way actively participating in the activity (other than providing product specifications)?
- Is the activity being conducted on a site which is under the client’s management control?

Other factors that influence the choice of mode

- When operating in an area where there is a limited selection of contractors able to meet the capability assessment criteria, a client might start with Mode 1 and train/coach contractor in developing their own OMS. A different Mode may then be selected for subsequent contracts.
- When the contracted scope of work is intimately associated with the activities of the client, or presents a high risk to the client, the client may choose the work be executed using its own HSE-MS.
- Operations too large or diverse for a single contractor may require a number of contractors and subcontractors (a consortium) to work together under the oversight of one lead contractor working for the client under Mode 2.
- In a situation where the contract includes work to be performed both at contractor’s and client’s sites, e.g. large modification/maintenance projects or development projects, a combination of Modes could be established to cover both client and contractor sites.

In the case of Mode 2 contracts, the contractor’s HSE-MS is primarily use. However, there may be reasons for the client’s processes to have primacy. It will be necessary to agree how the interfaces and other bridging mechanisms will operate between the client and contractor HSE-MSs. Relevant gaps (including roles, responsibilities and actions) in the different participants HSE-MSs need to be defined and documented for the requirements associated with each work activity.

Risk from Environment
(CLIENT focus)



Risk executing scope
(CONTRACTOR focus)

CLIENTS TO ASSURE & VERIFY

For Mode 1 the client is mainly responsible for the assurance activities.

For Modes 2 & 3 the client has more of a verification role. Check out the Info Sheet on **Contract Risk Management** for which assurance activities should be carried out in the different contract management phases.

A client should hold back from directly interfering with the execution of the work, but hold the contractor accountable. The aim is to assist and assure, but not to take over a contractor’s role and responsibilities.



Managing interfaces

Bridging or interface documents are needed when all or part of the scope of work is to be performed by using the contractor’s OMS, on the basis that it meets the requirements of the client’s OMS.

Bridging between client and contractor management systems is normally only required for Mode 2, and occasionally in Mode 3 contracting. Some form of interfacing may also be required for Mode 1 contracting for specific specialist scopes.

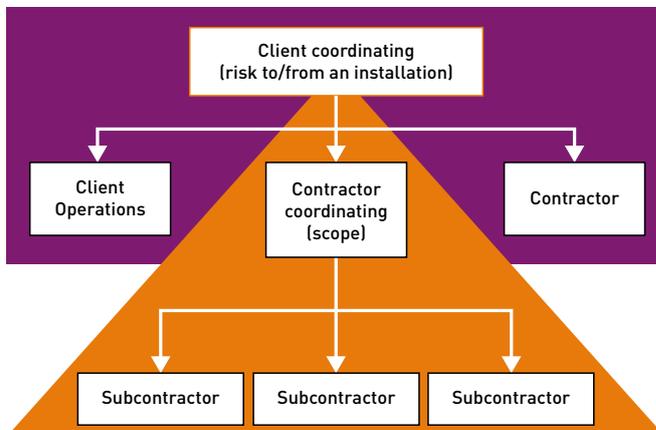
- Discuss all interfaces using the Contract HSE Plan checklist.
- Agree who is doing what for each activity and capture it in the Contract HSE Plan and/or Bridging document.
- Communicate roles & responsibilities ensuring they are clear to all involved.
- Agree who is doing what and who gives instructions. Agree the level of supervision and assurance.

Example roles & responsibilities when working on a client operational site

Client and Contractors have a responsibility to coordinate the work for the part they are responsible for:

- Client → Risk from the environment, e.g. installation
- Contractor → Contracted work, including coordination of work executed by sub-contractors.

It should be clear from the organization chart who has the lead (i.e. who is “the boss on site”). Sub-contractors have their own responsibilities for the scope of their work. The Contractor has the responsibility to assure and verify that sub-contractors comply.



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International Association of Oil & Gas Producers

REPORT 423-02 | APRIL 2017

Guide to preparing HSE plans and Bridging documents

Supplement to Report 423



Contract Holder Principles for SUB-CONTRACTING



- 1 I know** the Contractor’s capability to Subcontract
- 2 I know** the Contractor understands responsibility for work through all levels of Subcontracting
- 3 The Contractor** knows that, with due cause, I can prevent access for any Subcontractor staff

More detailed description of Roles & Responsibilities, including recommended competences, can be found in a separate Info Sheet on this topic.