

The Faroes Oil Affair

A few days ago, a consortium led by Amerada Hess brought the first Faroe Islands offshore drilling campaign to a close with a flourish by announcing a promising oil and gas discovery that augurs well for the future
Jeremy Cresswell special correspondent writes



Foinaven and Schiehallion oilfields in the UK sector. It was Statoil that drilled the first well and, while it is regarded as a dry hole, traces of hydrocarbons were found. Likewise, BP's well was declared dry, albeit it too produced evidence of oil and gas. And then it was third time lucky ... for Amerada Hess.

All three wells were drilled in the Judd Basin, which is a proven hydrocarbon province that has so far delivered the UK sector commercial discoveries Foinaven and Schiehallion. Statoil's Longan well (6005/15-1) was drilled this summer in licence area 003, 130km southeast of Faroes to a total depth of 4000m, terminating in Paleocene sediments.

With one clear discovery notched up out of three exploration wells drilled, the success rate achieved in the first Faroes campaign is smack on the global average. The trick now is to multiply that success several times over during the next two to three years, convert the discoveries into commercial projects and guarantee the islands a place among the world's oil and gas nations.

Quite how this will be achieved is a question that will occupy many minds this winter as oil company geologists and others closely analyse the results of the three-well programme just completed.

The conclusions drawn will be critical to the intended 2002 schedule, not least because they will significantly influence where the next tranche of wells are drilled. With three ticked off so far, there are another five commitment wells to drill under the four six-year licences awarded in the First Faroe Islands Offshore Licensing Round announced in August 2000.

However, while we know that one of the three wells drilled this year was successful, the amount of public domain information about the early drilling results achieved by Amerada Hess, BP and Statoil, the first operators to drill the Faroe Islands Continental Shelf, remains sketchy. As expected, all focused on an area of the Faroe-Shetland Channel adjacent to the BP-operated

pointing news.

"Once again we have to state that the drilling operation did not yield the expected result. The Svinoy exploration well penetrated the objective targets and demonstrated the presence of both oil and gas, although of non-commercial quantities at this location," he said in a statement.

"Establishing that the Faroe Shelf holds a working petroleum system is however positive and considerably improves our expectations to finding oil in commercial quantities in the future."

As for the Amerada Hess-operated 6004/16a-1 Marjun prospect wildcat well, there had been speculation for several days that the big semi-submersible Sovereign Explorer was on to something good. The bets were on gas with condensate or gas with oil. In the event, Minister Elttur announced the good news ... it was gas and oil encountered over a gross payzone of 170 metres. However, the well, which was drilled to a total depth of 4246m in 950m of water instead of just 3800m as originally intended, was not tested owing to poor weather conditions.

A cautious Elttur said: "The success of this well is very important for the Faroe Islands as a future oil province, even if we do not at this moment of time know whether the find is commercial. Challenging tasks lie ahead for all license holders on the Faroe Shelf ..."

What the Marjun find achieved more than anything else was to remove all doubt about the existence of a potentially viable petroleum system beneath at least part of the basalt rock layer that has made assessing the Faroe sector so difficult.

It is common for traces of hydrocarbons to be found when drilling exploration wells, but that does not mean conditions are anywhere near right for oil or gas to accumulate, hence the note of disappointment in Elttur's announcements about the BP and Statoil wells. But an immense amount of valuable information was obtained from both ... the kind of data that could make a real difference to the next year's campaign by other consortia, including the Agip and Foroya Kolvetni (FK) partnership.

This is a particularly important time for FK in that, though it is largely owned by Faroese, the

company is expected to float on the London Stock Exchange early next year in a bid to raise £10-20million to finance its participation in the great, slow-pace Faroese oil race.

"We're ready to go ... waiting for the right time to do it (float)," said FK's chairman Graham Stewart. "We've decided to wait until the New Year, most likely first quarter."

Stewart is also finance director of Aberdeen-headquartered Dana Petroleum, which holds an option over 20% of FK's shares and as a strategic partner.

Had FK been floated on the LSE as an oil junior ahead of the first drilling campaign, it is possible that its share price would have suffered because of the Statoil and BP disappointments, but then picked up with the Amerada Hess news. Subject to a wholesale collapse in the price of oil this winter, it looks as if FK can look forward to a favourable reception when its shares begin trading ahead of the second drilling campaign.

FK and Agip's two licences - 002 and 005 - span 11 part blocks and the Faroese company has the right to increase its holding to 22% before drilling starts next summer, armed with fresh 3D seismic survey data and information gleaned from this year's pioneer wells.

However, it has been a long haul to get even to the current position. Until this summer, the only known traces of hydrocarbons in the Faroes area were found on land and comprise coal deposits, organic waxes found in basalt, and inconclusive traces of oil mixed with water in the Lopra-1 experimental well drilled in the early 1980s.

Geological mapping of the islands started in 1938 and, among the very earliest surveys known to have been carried out offshore by oil companies, is a little-known seismic campaign by Texaco in the mid 1970s. It is understood some 5,000km of seismic data was acquired, but which proved difficult to read, in part because of the limited capabilities of the 2-D seismic equipment used and due to the basalt layer that is characteristic of the Faroes Shelf.

An offshore borehole was, however, drilled under the Ocean Drilling Programme in the mid-1970s, though this was for scientific purposes and not a quest for hydrocarbons. The Texaco/ODP work took place before the huge but complex and difficult Clair field was found on the UK side of the Faroe-Shetland Channel in 1977. While that event went

unnoticed by the average Faroese, it registered in the corridors of power, both in Thorshavn and Denmark, which still rules the islands.

Information about events from the Clair find through to the '90s is almost nonexistent. There are not even references to the period in the 1993 Report of the Faroese Hydrocarbon Planning Commission to the Faroese Government. However, Arni Olafsson, for many years special adviser on Faroe Islands Affairs at the Danish Ministry of Foreign Affairs and member of the Faroese Hydrocarbon Planning Commission in 1993, provides a clue as to how events were being watched at the time.

Referring to the decision by Copenhagen in 1992 to cede mineral resources rights to the Faroese Home Rule government, Olafsson told the first Robert Gordon University/Smith Rea Energy Analysts Conference in Aberdeen (October 1994) that it "came as a rather sudden political culmination of 17 years of difficult negotiations between Thorshavn and Copenhagen".

On September 11, 1992 came the milestone event the Faroese had been awaiting for some time ... the decision by Denmark to surrender all rights to "minerals in the subsoil" to Faroese control, and therefore the right to determine the course of the possible future oil and gas extraction industry.

In December 1992, the Faroese Hydrocarbon Planning Commission comprising Faroese and Danish experts in geology, ecology, petroleum administration, oil industry relations, economics and law was established to research and submit a report which would serve as the basis for initial policy decisions and to draft legislation necessary for the first stages of hydrocarbon development. That report and a draft Bill on preliminary seismic surveys, etc, were ready in June 1993.

The Government put the report and bill before the Logting and, that same year, on December 1, the decision was taken to form the Faroese Petroleum Administration (OFS). By this time, UK Atlantic Frontier (west of Shetland) successes had stoked up oil company interest in the Faroes.

In November 1993, OFS wrote to the oil companies, notifying the intention to commission seismic and gravimetric surveys. Bids were invited from survey companies and Western Geophysical secured both permits and ran 12,000km of survey lines.

World Geoscience conducted aerial surveys in 1995 and 1996. Also, in 1996, the Faroes sector was thrown open to all parties interested in conducting further seismic work, including re-entering and deepening the Lopra-1 well. It was on January 18, 1996 that a consortium of 19 oil companies led by DOPAS of Denmark won permission to re-enter the Lopra-1 well, which they duly did in July 1996.

February 15, 1996 saw the right to issue exploration licences transferred from the government to OFS and, by February 1, 1997, 10 preliminary licences were issued, the allocation of which was influenced by what the oil companies themselves had asked for. A total of 23 oil companies had submitted 13 nominations covering 108 whole and 26 part-blocks. 43 whole and 13 part-blocks were classified as "very interesting".

Then followed the long grind to get legislation finalised and onto the statute book, the decades-long boundary dispute with the UK settled, and the first licensing round launched. The last mentioned and, in practical terms, most critical event did not take place until February 1999.

Finally, OFS received 22 licence applications from 17 oil companies and, in August 2000, seven licences were awarded to 12 oil companies. Aside from the four six-year terms granted, three nine-year terms were also issued, with 005 going to Agip with FK; 006 handed to Statoil with Anadarko, Phillips, Enterprise and Veba; and 007 issued to Anadarko alone. Some 70% of the acreage originally offered to the companies was not awarded.

And so the hunt has begun in earnest. But a massive amount of effort over the next few years and some significant discoveries will be required before the long-held dream of the Faroe Islands becoming an oil and gas producing province in their own right can ever be realised, if that ever happens. However, it is far too early to know what the real potential is, though figures like 1 billion barrels of crude have been bandied about ...

mann to the Faroese business community whose dream of cashing in on a mini-oil bonanza may no longer be as far-fetched as it once seemed.

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BERAS fingið sáttmála við Amerada Hess

Kenneth Rasmussen
Beras P/f



5. október skrivaðu Amerada Hess (Faroes) Limited og Beras P/f undir sáttmála um veiting av »General Consumables and Safety Clothing«. Sáttmálin, sum varð boðin út á føroysku veitaraskránni, er galdandi í 2 ár; og møguleiki er at leingja sáttmálan í 2 x 1 ár.

Beras P/f er hjánavn hjá Teymavirkinum P/f í Runavík. Síðan 1961 hevur Teymavirkioð framleitt teymar og línu til føroyska fiskiflotan. Eisini verður stórir partur av framleiðsluni útflyttur. Umframt framleiðsluna hevur Teymavirkioð stóran skipshandil á

Heiðavegnum í Runavík, og í farna mánaða keypti Teymavirkioð Snørisvirkioð P/f í Klaksvík, har framleiðsla og skipshandil eisini eru.

Í skipshandlinum eru fiskireiðskapur, arbeiðsklæði, persónlig trygdarútgjerd og onnur útgjerd til fiskivinnuna at fáa. Við drúgvu royndunum hjá Teymavirkinum er Beras

farið undir at bjóða oljuvinnuni tær tænastur, sum skipshandilin veitir fiskivinnuni. Beras útvegar allar vörur til oljuvinnuna. Arbeiðsklæði og persónlig trygdarútgjerd eru á goymslu, meðan restin verður keypt frá veitarum í Føroyum og uttanlands.

Heildarveiting

Beras bjóðar seg til at samskipa allar veitingar til oljufeløgini. Hetta ger, at oljufeløgini við at venda sær til Beras, kunnu avgreiða allar bileggingar. Á henda hátt koma oljufeløgini at hava samskipti við færri veitarar, og soleiðis spara tíð og orku uppá at leita eftir vörum og tænastum í Fø-

oyum.

Beras hevur fingið avtalur við feløg í grannalondunum og aðrastaðni, sum hava drúgvur royndir í oljuvinnu. Talan er bæði um høvuðsveitarar og undirveitarar. Fleiri av hesum hava sáttmálar um heildarveiting til oljufeløgini og teir stóru altjóða arbeiðstakarnar. Gjøgnum hesar samstarvsavtalur er møgulegt hjá Beras at fáa fatur á stórum parti av teimum vörum og teirri útgjerd, sum brúk er fyri í oljuvinnuni.

Royndirnar av fyrstu boringunum

Royndarboringarnar í ár hava ikki havt serliga nógv føroyskt veitingarvirksemi

við sær, burtursæð frá matvøruveitingunum. Hetta kemur partvís av at boripallurin og boriskipið bert hava verið í føroyskum øki í styttri tíðarskeið og tí ikki hava brúkt stórvegis av vørguoymsluni umborð. Eisini er greitt at feløgini, sum von eru við at brúka ávarar veitarar í grannalondunum, ikki gera broytingar í vanligu manna-gongdunum í sambandi við keyp av vörum og tænastum, tá talan bert er um fáar vikur í føroyskum økið.

Komandi boringarnar

Tað virksemi, sum verið hevur í ár, hevur givið føroyingum greiðar ábend-

ingar um hvørjar treytir og krøv, sum sett verða til veitarar í hesi nýggju vinnuni. Meðan vit biða eftir at næstu royndarboringarnar fara í gongd, eiga vit at kunna byggja víðari uppá royndirnar frá 2001. Tað eru altíð ávís víðurskipti, sum kunnu betrast. Við einari miðvísari menning av teirri einstøku fyrirtøkuni, verða, sum frá líður, færri og færri grundir hjá oljuvinnuni til ikki at keypa tænastur í Føroyum. Beras fer at halda fram við fyrirkeiðunum, soleiðis at felagið í minsta lagi kann koma á eitt støði, sum eisini ger Beras kappingarført uttanfyri føroyska landgrunnin.

Vágar Airport

Vagar Airport, the airport in the Faroes, is located on the island of Vágoy. Regular bus and ferry connections are linked to scheduled arrival and departure flights. The trip to Tórshavn takes 1 hour and 40 minutes by bus and ferry and 12 minutes by helicopter.

Early in the year 2003 you can travel from the airport to Tórshavn via the new tunnel between Vágoy and Streymoy in about 40 minutes.

The airport is managed by the Civil Aviation Administration under the Danish Ministry of Transport.

The runway is 1,250 metres long and 30 metres wide and is positioned in a security zone of 1,370 x 150 metres. The runway is asphalt and grooved sideways to increase friction. The runway is equipped as a »non-procession approach« runway with the ICAO-code mark »3x«.

Increase

Up to the end of October 139,717 people travelled through the airport, increase of 11.0% compared to the same period last year when the passenger total was 143,208.

Up to the end of October the total number of operations was 5,033 again for last year. This represents an increase of 21.1% for the period.

Overall a large proportion of increase in operations and passenger from the offshore oil and gas exploration activity in Faroese territory. This is

Flogfarið hjá Atlantic Airways á vøllinum í Vágun



expected to terminate for 2001 over the end of November.

Offshore activities.

Passengers total:
 Scheduled and non-scheduled 3,380
Flight operations total:
 Scheduled and non-scheduled 433

(period 01-07-01/31-10-01)

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