

Applications for Exploration and Production Licences

GENERAL GUIDANCE AND A INTRODUCTION



JARÐFEINGI
FAROESE GEOLOGICAL SURVEY

Applications for Exploration and Production Licences

General Guidance

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GUIDANCE FOR APPLICANTS

Companies who want to participate in the exploitation of the Faroe Islands oil and gas resources need (among other things) an Exploration and Production Licence from the Faroese Geological Survey (Jarðfeingi).

This note is intended to be used as guidance for applicants for Exploration and Production Licences, and sets out how to complete, support and submit an application. Jarðfeingi's website carries pointers to other useful information, including general information about the Licensing system and the availability of technical data.

This note offers general guidance about Jarðfeingi's policy and a high-level overview of the process. It is not a substitute for any regulation or law, and is not legal advice.

There are separate and more detailed guidance notes about safety, environmental and technical aspects of Jarðfeingi's decisions. If you have any further queries, or need clarification, please refer to the contacts list at the end of the document.

1. Anyone who wants to explore for, drill for or extract oil or gas in the Faroe Islands must hold a licence issued under the [Act on Hydrocarbon Activities March 1998](#) by Jarðfeingi.
2. Applications for such licences can usually be made in response to general invitations from Jarðfeingi in Licensing Rounds. We post these invitations as a press release to oil & gas media and advertise them prominently on Jarðfeingi website. The invitation will specify the acreage on offer. Jarðfeingi will also respond to out-of-round applications for areas, previously on offer in Licensing Rounds.
3. Applications are sent by e-mail to application@jf.fo or to the Faroese Geological Survey, Jóannesar Paturssonargøta 32-34, P.O. box 3059, FO-110 Tórshavn, Faroe Islands.
4. There is an application fee, detailed later in this document.
5. Jarðfeingi will only award a licence to an applicant that meets certain minimum financial, technical and other criteria, which depend in detail on the circumstances and the type of licence being applied for (see The Applicant). Those applicants who meet Jarðfeingi's criteria will be considered in competition with other applicants. Jarðfeingi usually interviews such applicants about their technical understanding of the acreage and the Work Programme offered (we always do so where there is competition for the same acreage).
6. Jarðfeingi has discretion in deciding whether or not to issue a licence, and if so, to whom and on what conditions. Where there is competition for the same acreage, the award will generally be that which Jarðfeingi believes best serves the policy of maximizing economic recovery of Faroe Islands petroleum, subject to compliance with all relevant legal provisions.

1. TERMS AND TYPE OF LICENCE

An Exploration and Production Licence covers exploration, appraisal and production.

The acreage to be offered in individual rounds will be specified in maps and lists of blocks published at the opening of each particular round.

- 7.** In spite of its name, an Exploration and Production Licence covers exploration and appraisal as well as production.
- 8.** There is only one type of Exploration and Production Licence, which is the “Innovate” Exploration and Production Licence.
- 9.** The terms and conditions of the licence on offer (“Model Clause”) are set out in Regulations, though Jarð-feingi may offer licences on modified terms in particular cases. For Petroleum Exploration and Development Licences, the Model Clauses are set out in Act on 5th Licensing Round 2019, as amended.
- 10.** The rentals schedules for the licence are attached at Annex 1.
- 11.** Where a licence is held by more than one company, each one bears full joint - and-several liability to Jarðfeingi.
- 12.** Companies who only wish to carry out seismic surveys and not to drill, and who do not require exclusive rights, might consider applying for a Prospecting Licence, which is cheaper and simpler to get than a Exploration and Production Licence.

2. THE APPLICANT

An application can come from a single company or from a group of companies. There are minimum residence requirements.

All applicants must demonstrate financial viability. Some may have to demonstrate financial capacity and competence at the time of application.

13. An application may be made by a single company, or by a group of companies.
14. The applicant (and each individual party to an application) must meet certain criteria, depending on the type of licence being applied for.
15. All applicants must demonstrate financial viability.
16. In addition:
 - a. An applicant for an Innovate Licence with a Phase A and/or a Phase B must satisfy Jarðfeingi that the award would be compliant with the Executive Order On HSE 2001.
 - b. An applicant for an Innovate Licence with neither a Phase A nor a Phase B must satisfy Jarðfeingi of its financial capacity and operator competence, and that the award would be compliant with the Executive Order On HSE 2001.
17. A single application can be made for any amount of acreage, provided that the list of companies, their proposed equity interests, and (where appropriate) the operator are the same throughout. The fact that geographically separate areas would not be covered by a single licence does not mean they cannot be combined on the same application; which may save an applicant several application fees.
18. In this section:
 - a. “financial capacity” means the capacity to fund the Work Programme (in the case of a Phase C-only Work Programme) or the proposed (re)development (in the case of a Straight -to- Second-Term Licence). It must be clearly available to the applicant at the time of application, and not be subject to uncertain future events like share issues; and
 - b. “operator competence” means the competence to carry out the activities that would be permitted under the licence during the Initial Term or Second Term in the case of a Straight-to-Second-Term Licence.
19. Where the Applicant is proposing a Phase C-only Work Programme (i.e. straight to drilling) over some acreage at the same time as Work Programmes with a Phase A and/or a Phase B over other acreage, it must submit a separate Application because the requirements for Financial Capability and Technical Competence are different.
20. To be awarded a licence, a company must be registered in the Faroe Islands, either as a company or as a branch of a foreign company. The application must include the Registered Name, Address and Number of each company that is to hold the licence.
21. Jarðfeingi will not award a licence to a company other than the one named in the application, so applicants should decide exactly which company/ companies they want to hold the licence, and ensure that the application reflects their choice. Where the applicant subsequently decides to seek a licence to be held by some company other than the one specified in the application, they should accept the licence and then seek consent to assign it afterwards.
22. The residence requirements may change later if a licensee seeks to begin production.

3. ACERAGE

At any licensing opportunity, whether it be a Licensing Round or an Out-of-Round invitation, Jarðfeingi will invite applications for a specified list of blocks and part-blocks. We cannot consider applications for acreage other than that offered.

- 23.** Jarðfeingi has divided the Faroe Islands acreage into 'blocks'. All blocks are offshore and vary in size from c.190 km² in the far north to less than c.250km² in the south. A map associated with each invitation shows the acreage available.
- 24.** Licensing Rounds cover specified areas. Jarðfeingi will decide which areas to offer after considering a number of factors; for example: other regulatory requirements / pressures; demand from industry; areas where Jarðfeingi has published new seismic or other geoscientific data. The invitation makes clear which acreage is available.
- 25.** Applications are made for whole blocks, but awards need not be. Some blocks may already be licenced in part, and in those cases, of course, we could only consider issuing a licence for the remaining, unlicensed, parts. An applicant who doesn't want the whole unlicensed part of a block should make clear in the application which parts they do want, so that Jarðfeingi can consider awarding a Licence over just that part of the block. Jarðfeingi will in any case review the acreage and may only award part of a block to the successful applicant, if that is all the applicant has plans for.
- 26.** There is no upper limit to the amount of acreage that an applicant can apply for, but there are limits to the amount of acreage that Jarðfeingi will award in a single licence. There is more guidance at the Technical Guidance document.
- 27.** Jarðfeingi will not award acreage that the applicant has no plans to explore and exploit.
- 28.** Jarðfeingi may not be prepared to licence a very small or very irregular area.

4. WORK PROGRAMMES

For applications for licences that start with an Initial Term, the applicant must propose a Work Programme, which is the minimum amount of exploration work that the applicant must carry out, if it should be awarded a licence, if the licence is not to expire at the end of its Initial Term.

The agreed Work Programme will form an important part of the Licence itself, and the Licence will expire at the end of the Initial Term if the Work Programme has not been completed by then or the Initial Term has been extended. Along with the technical work already carried out, the Work Programme is one of the main factors that Jarðfeingi will use to judge between competing applications.

29. The applicant, when applying for a licence with an Initial Term, proposes a Work Programme as part of the application. It is likely to be discussed at interview. A Work Programme consists of one or more elements of exploration work.
30. The basic plan for the Innovate Licence where there is an Initial Term is for the Work Programme to be divided into three phases. There is more detailed guidance elsewhere (*Technical Guide*) but in short:
 - a. Phase A for carrying out geotechnical studies and geophysical data purchase and /or reprocessing,
 - b. Phase B for shooting new seismic and acquiring other geophysical data, and
 - c. Phase C for drilling.
31. If Jarðfeingi offers a licence, part of the offer will specify the Work Programme that Jarðfeingi is willing to accept. The Work Programme will be set out in full in the licence.

5. APPLICATION FEE

There is an application fee to cover Jarðfeingi's costs. Jarðfeingi can accept payment electronically or by cheque.

32. The application fee is 20.000 DKK for a Exploration and Production Licence.

6. HOW DECISIONS ARE REACHED

Jarðfeingi has full discretion to make decisions on applications for Exploration and Production Licences, but will always make them in line with legal requirements, published policies and objectives. Where there is competition for the same acreage between applicants, all of whom meet Jarðfeingi's criteria, the decision will be based largely on the work programme.

33. Jarðfeingi's general policy objective in deciding whether to award a Licence and to whom is to maximise the economic recovery of Faroe Islands petroleum, and all decisions will be made in pursuit of that policy. [Act on Hydrocarbon Activities March 1998](#) gives Jarðfeingi discretion in deciding whether or not to issue a licence; and if so, to whom and on what conditions.
34. Only applicants who pass Jarðfeingi's financial criteria and standards of operatorship, and the safety requirements, similar to the requirements of the Offshore Safety Directive, can be considered for award of a Exploration and Production Licence.
35. Where two or more applicants who have applied for the same acreage all meet Jarðfeingi's criteria, Jarðfeingi will make a recommendation of award after evaluating the respective geotechnical submissions. The assessors will base their decisions on the technical understanding demonstrated by the applicant, the generation of valid prospectivity derived from evaluation of available data, the quality of the work that it has already carried out, and the proposed Work Programme.
36. In some cases, Jarðfeingi may consider that additional factors are relevant to the achievement of its policy. Examples could include:
 - a. the applicant's track record on the completion of Work Programmes;
 - b. the applicant's track record of performance, such as activity on the management of suspended wells and asset stewardship;
 - c. cases where direct comparison between competing applications is difficult, such as those where the geographical coverage and geological focus is different, or where competing Work Programmes offer a choice between a prospect-specific investigation and a wider area investigation.
37. Jarðfeingi may accommodate such factors by:
 - a. suggesting that competing applicants agree to become one licensee (a "marriage"); or
 - b. splitting applications for competing acreage so that each applicant receives the areas that it is focused on.
38. Jarðfeingi may suggest a marriage between competing applicants where their interests and expertise are complementary and their applications cannot be separated geographically. However, it remains up to the companies to make the marriage and agree on terms. Part of the process will be to agree on a Work Programme, which must be acceptable to Jarðfeingi. If applicants are unable or unwilling to marry, Jarðfeingi will choose the winner from among them.
39. Jarðfeingi will not consider applications where material information has been withheld.
40. Jarðfeingi may decide that no possible award would serve the objective of the Faroe Islands and therefore not award a Licence at all.

7. TRANSPARENCY

Applicants may need to include commercially sensitive information in their applications, such as financial forecasts and proprietary data. Jarðfeingi will handle any such information in accordance with all relevant laws, which take full cognisance of issues of transparency and confidentiality.

- 41.** Jarðfeingi treats applications as confidential until decisions have been announced because of the competitive aspect of awards. After that, Jarðfeingi publish the winning applicants' names and, when a licence has been executed, we publish the licence document itself. Jarðfeingi are able to talk to each applicant to discuss individual applications in more detail.
- 42.** Jarðfeingi's general policy is to maximise the availability of useful information about the Faroe Islands CS and will routinely require the submission of a short report when each licence terminates, summarising the work done, prospectivity identified, and associated reserve estimates for the licenced area. Jarðfeingi will publish this report under current licence rules. Jarðfeingi may also publish other information at various times and allow access to physical samples.
- 43.** Jarðfeingi will publish a list of the names of all applicants for Exploration and Production Licences and of their beneficial owners.
- 44.** Jarðfeingi will hold the applicants' contact details, including the names and email addresses of individuals who are the given company contact for licensing issues, and use them in communications relating to the application and in relation to administering any licence issued as a result of it. In the case of successful applications, Jarðfeingi will normally make this information publicly available. For example, Jarðfeingi will normally publish the details of the each company's direct contact details on our website e.g. the contact person for licensing issues, and may supply such information to companies or individuals wishing to contact that licensee. Anyone who wishes to object to any of these uses of such information should make clear their objections and the grounds for them, in their application.

8. OUT-OF-ROUND APPLICATIONS

Jarðfeingi will accept Out-of-Round applications in acreages that are located in areas, that previously has been on offer in licensing rounds. Out-of-Round applications are handled in the same way as applications during a Licensing Round.

- 45.** This guidance Note also applies to Out-of-Round applications, covering a specific portion of acreage. The difference between the Licensing Round and the Out-of-Round process is that the Out-of-Round process is initiated at a company's request, instead of being triggered by Jarðfeingi's own timetable.
- 46.** Jarðfeingi will usually invite applications in a similar way to that in a Licensing Round. However, Jarðfeingi may also respond to an Out-of-Round application, without a prior invitation to apply.
- 47.** A licence may only be granted following public notice announcing that a licence application has been received and indicating the area applied for. Other interested parties may seek permission for the same area or part thereof, subject to an application deadline of at least ninety (90) days from the date of the public notice.

9. GENERAL ISSUES

All the following points apply to all kinds of application unless indicated otherwise.

- 48.** Jarðfeingi will not approve Joint Operating Agreements Exploration and Production Licences if they include pre-emption provisions, except in special circumstances where the applicant has made a convincing case for such provisions before award.
- 49.** Jarðfeingi will not issue a Licence covering separate (non-contiguous) areas (a 'Multiblock Licence'). For these purposes, two areas that join corner-to-corner are considered to be separate.
- 50.** A Exploration and Production Licence does not grant carte blanche to carry out all petroleum-related activities from then on. Some activities, such as drilling, are subject to further individual controls by Jarðfeingi, and a licensee of course remains subject to controls by other relevant regulators. It is the licensee's responsibility to be aware of, and comply with, all regulatory controls and legal requirements. Jarðfeingi cannot offer advice on regulation outside its remit, nor on legal issues, but to offer a starting point there is some guidance on Jarðfeingi's website.
- 51.** Any Exploration and Production Licence issued will carry conditions about the reporting, management and retention of information, data and physical samples, and Jarðfeingi takes them very seriously. There are release procedures and guidelines relating to well data, new geophysical surveys, etc. Guidance can be found on Jarðfeingi's website.

ANNEXE 1: RENTALS

Seaward Innovate Exploration and Production Licence's rental schedule.

- 1) On the Commencement Date, and on each anniversary of the Start Date, the Licensee shall pay Jarðfeingi sums ("Periodic Payments") calculated as the following amounts multiplied by the Area Factor:
 - (a) on each such date during Phase A: 150 DKK/km²;
 - (b) on each such date during Phase B: 300 DKK/km²;
 - (c) on each such date during Phase C: 1.500 DKK/km²;
 - (d) on each subsequent date after the Initial Term:
 - (i) on the 1st such date: 1.500 DKK/km²;
 - (ii) on the 2nd such date: 1.500 DKK/km²;
 - (iii) on the 3rd such date: 1.500 DKK/km²;
 - (iv) on the 4th such date: 3.000 DKK/km²;
 - (v) on the 5th such date: 12.000 DKK/km²;
 - (vi) on the 6th such date: 21.000 DKK/km²;
 - (vii) on the 7th such date: 30.000 DKK/km²;
 - (viii) on the 8th such date: 39.000 DKK/km²;
 - (viii) on the 9th such date: 48.000 DKK/km²;
 - (viii) on the 10th such date: 57.000 DKK/km²;
 - (viii) on the 11th such date: 66.000 DKK/km²;
 - (ix) on the 12th such date, and every subsequent such date: 75.000 DKK/km².
- 2) The Periodic Payments shall be subject to variation in accordance with the following provisions:
 - (a) The Periodic Payments shall be increased or subsequently reduced in line with movements in the Index of the Price of Crude Oil acquired by Refineries (published in the Digest of Faroe Islands Energy Statistics) if Jarðfeingi so determines. The Jarðfeingi shall give notice of any such determination ("biennial determination") not less than one month before the date on which such payment falls due, and shall specify in the notice the increase or reduction in the amount payable. Movements in the Index shall be calculated by reference to a comparison between the arithmetic mean of the Index levels for the two latest calendar years for which figures are available at the time when the determination is made, and the arithmetic mean of the Index levels for the two latest calendar years before the Start Date. In the event that the Index of the Price of Crude Oil acquired by Refineries ceases to be published Jarðfeingi may substitute arrangements for redetermination of periodic payments having substantially similar effect to those set out above.
 - (b) The increase or reduction specified in a biennial determination shall be payable or take effect on the anniversary of the Start Date next following the date of the relevant determination.
 - (c) No biennial determination shall have effect so as to reduce the Periodic Payments below the levels set out in sub-paragraph (1) above.
 - (d) The Minister shall not make a biennial determination increasing or reducing the amounts payable where that increase or reduction would be 5% or less of the levels set following the previous biennial determination.
- 3) In this Schedule:
 - (a) "Commencement Date" means the date specified in clause 3(1) of the licence;
 - (b) "the Initial Term" means the period specified as such in Schedule 5 on the date that this Licence was granted;
 - (c) "Periodic Payments" means the payments set out at paragraphs (1) and (2) above; and
 - (d) "Phase A", "Phase B" and "Phase C" are as defined at Schedule 3 of the licence; and
 - (e) "the Area Factor" means the number of square kilometres comprised in the Licenced Area at the date upon which the Periodic Payment in question becomes due.

ANNEXE 2: CONTACTS

Faroese Geological Survey

Jóannesar Paturssonargøta 32-34
P.O. Box 3059
110 Tórshavn
Faroe Islands

To discuss Jarðfeingi's financial appraisal, contact Niels Chr. Nolsøe:

Tel: +298 57 09 05;

email: ncn@jf.fo

To discuss geological and other technical issues regarding the application, contact Jana Ólavsdóttir:

Tel: +298 27 78 67;

email: jo@jf.fo

To discuss safety and environmental issues, contact Meinard Eliassen:

email: meinharde@us.fo

For general enquiries about the administration of a Licensing Round, contact Barbara B. Hansen:

tel: +298 28 07 00;

email: bbh@jf.fo



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