



INVITATION *to apply for
petroleum licenses*

in the First Licensing Round of
THE FAROE ISLANDS



OLJUMÁLASTÝRIÐ
MINISTRY OF PETROLEUM



Eyðun Elttor
Minister of Petroleum and the Environment

Welcome to the first petroleum licensing round

The first licensing round is an important milestone in the quest for resources in the Faroese subsoil.

In the thirties, subsoil issues were debated in the Faroese Parliament. Shortly after the enactment of the Home Rule Act in the late forties the Faroese authorities requested a transfer of authority over subsoil resources from the Danish Government to the Faroese Home Rule authorities.

In 1992 this became a reality at long last, but more than seven years have passed before we are now ready to launch our first licensing round. The main reason for this delay was the lengthy negotiations with United Kingdom over the maritime boundary which was only solved when an agreement was signed between our two countries on 18 May last year.

However, the period from assuming authority over the subsoil resources, until finally signing the boundary agreement last year, gave the Faroe Islands sufficient time to prepare for future oil activities. A great deal of preparatory work has been carried out during these years, for instance the reports of the Hydrocarbon Planning Commission, the Act on Hydrocarbon Activities and several preliminary surveys which have added considerably to the knowledge and understanding of the Faroese subsoil.

On the whole, the legal framework has now been set up. But the framework has to be supplemented with more detailed rules, and the Ministry is presently preparing a number of executive orders on the protection of the environment, safety regulations etc. The remaining legislation is intended to come into force as soon as possible so that future licensees will be able to initiate exploration activities on the Faroese continental shelf in 2001.

Hopefully it will now be established that the Faroese continental shelf contains sufficient hydrocarbon reservoirs to warrant production and help secure the livelihood of future generations in the Faroe Islands.

The applicants should bear in mind that the Faroe Islands are aiming higher than merely playing *host country* to the international oil industry. Faroese authorities and the business community emphasise the importance of Faroese individuals and companies being given the opportunity of taking part in future oil activities. Participation can enhance the qualifications of the Faroese business community, and in the long term create a stronger and more diversified Faroese business sector. Likewise Faroese authorities wish to stress that the activities must be beneficial to the Faroes at large.

I welcome this new industry to work on the Faroese continental shelf and in the Faroe Islands in its entirety. Provided all parties do their utmost to conduct their activities with due consideration to nature, the environment, our cultural heritage and not least the fishing industry, the oil industry can prove to be an advantage not only to the industry itself but also to the entire society.

Tórshavn, February 2000

A handwritten signature in blue ink, which appears to read "Eyðun Elttor".

Invitation to apply for Petroleum Licenses

In accordance with section 7(1) of Act no 31 of 16 March 1998 on Hydrocarbon Activities, the Minister of Petroleum hereby announces an invitation to apply for licenses for exploration and production of hydrocarbons on the Faroese continental shelf. The area to be offered for licensing and the terms and conditions on which licenses will be granted are defined in Parliamentary Act No. 5 of 10 February 2000 on the First Licensing Round.

1. Applicants

Licenses will be granted to Faroese joint-stock companies, or foreign joint-stock companies with a branch registered in the Faroe Islands. The joint-stock company shall have a minimum equity share capital of DKK 1 million.

Companies may submit applications individually or in groups. In this document the term "applicant" is also used for groups of joint-stock companies submitting applications jointly.

In case of several companies submitting applications jointly the intended operator of the license shall be stated in the application.

2. Area offered for Licensing

The following blocks on the Faroese continental shelf are offered for licensing, cf. § 2 of the Act on the First Licensing Round:

6004/1, 2, 3, 4, 5, 6, 7, 8, 9, 11, 12, 13, 16 and 17

6005/2, 3, 4, 5, 7, 8, 9, 10, 12, 13, 14, 15, 17, 18, 19, 20, 22, 23, 24 and 25

6103/1, 2, 3, 4, 5, 6, 7, 8, 9, 11, 12, 13, 16, 17, 21 and 26

6104/7, 8, 9, 10, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29 and 30

6105/20, 22, 23, 24, 25, 27, 28, 29 and 30

Individual applications for licenses may cover one or more of the above mentioned blocks and may also cover parts of these blocks (prospects or leads).

3. Preconditions for obtaining a License

According to section 6 of the Act on Hydrocarbon Activities, licenses for exploration and production of hydrocarbons may only be granted to applicants that are considered to have the requisite expertise, experience, resources and financial capacity. It is a condition for the granting of licenses that the Faroe Islands gain insight into and benefit from the activities carried on by virtue of any licenses granted.

Applicants must also be able to attend satisfactorily to safety, health, working environment and the environment as well as to questions related to emergency preparedness.

It is a condition for the granting of licenses that the licensee conducts the exploration activities with due regard to fishing operations and the conservation of fish stocks. Seasonal restrictions for seismic surveys are outlined at the back of this pamphlet.

4. Negotiating issues

The general terms and conditions on which licenses will be granted are defined in the Act on the First Licensing Round with the attendant model license.

The Ministry of Petroleum will negotiate the following specific terms for the individual licenses on the basis of proposals submitted by the applicants:

a) The work programme for the individual license.

b) Whether the exploration term shall be either:

- 6 years with a work programme agreed for the entire exploration period, or

- 9 years with a work programme agreed for the initial 3 years.

In licenses with a 9-year exploration period, an agreement shall be made not later than 4 months before the expiry of the first three-year period of the license on 1) a new work programme for the remaining 6 years of the exploration period, and 2) the extent and timing of relinquishment of acreage. The Ministry of Petroleum will initiate further negotiations with the licensee on these issues based on a proposal from the licensee.

c) Issues relating to Faroese participation in the hydrocarbon activities.

Great weight is attached to securing Faroese participation in the hydrocarbon activities. Conditions relating hereto are included in the terms and conditions for the licenses and this subject will be discussed in detail during the negotiations between the Ministry of Petroleum and the applicants. In this context it will be emphasised that outlying regions must also benefit from the exploration and production activities based in the Faroe Islands.

5. Award Criteria

With a view to ensuring a thorough evaluation of the Faroese continental shelf and in order to ensure genuine opportunities for participation in the hydrocarbon activities by Faroese industry, the following criteria will apply to the award of licenses:

- a) The geological understanding and the extent of the work commitments that the applicant is willing to undertake with a view to thoroughly investigate the prospectivity and to explore for hydrocarbons in the area to be covered by the license, and especially whether the licensee is committed to drill exploration wells. In addition to this, to which extent the applicant is committed to contribute to investigations of relevance to future exploration in the Faroese area.
- b) How and to which extent applicants are willing to secure genuine opportunities for Faroese participation in the hydrocarbon activities in the Faroese area.

6. Application

The application shall include the following information, in the following order:

- a) Name and address of the applicant and of the person who will serve as a liaison in the Faroe Islands towards the Faroese authorities in connection with the handling of the application.
- b) The application area defined by geographical coordinates of whole minutes of latitude and longitude, and with reference to block numbers as specified above.

If the applicant applies for more than one license, a priority shall be assigned in the application.

In case of several companies submitting applications jointly, the participating interest of the individual participant in the license (%) shall be stated in the application. Furthermore the intended operator shall be stated in the application.

- c) Proposal on the work commitments which the applicant will undertake with a view to thoroughly investigate the prospectivity and to explore for hydrocarbons in the area to be covered by the license, and proposal for the timing of the activities, including whether the applicant is applying for a 6-year license or a 9-year license. Furthermore the applicant must explain how he intends to contribute to investigations of relevance to future exploration in the Faroese area.
- d) Proposal on how, and to what extent, the applicant will ensure genuine opportunities for Faroese industry to participate in the hydrocarbon activities, and how the outlying regions of the country will benefit from the activities.
- e) Enclosure 1 shall contain a summary of the application.
- f) Enclosure 2 shall contain a geological evaluation of the area covered by the application.
- g) Enclosure 3 shall contain an economic evaluation of the prospects covered by the application.
- h) Enclosure 4 shall contain information and proposals for Faroese participation in the hydrocarbon activities.
- i) Enclosure 5 shall contain information on company related matters.
- j) Enclosure 6 shall contain information on the applicant's expertise and experience regarding technology, safety, working environment and the environment.

The Ministry of Petroleum may require additional information.

The information contained in the application and the enclosures will be kept confidential, cf. section 20 of the model license.

The application, excluding enclosures, should not exceed 10 pages.

Applicants may contact the Ministry of Petroleum to receive:

1. Geographical coordinates for the area offered for licensing.
2. Guidelines for the preparation of the above mentioned enclosures.
3. Act on the First Licensing Round with explanatory notes.
4. Model license for exploration and production of hydrocarbons.
5. The model prospecting license

The above mentioned information is also available on the web site of the Ministry of Petroleum (www.oms.fo)

7. Application Fee

For the handling of an application, a license a fee of DKK 100.000 is due upon submission.

The fee shall be paid, free of charge, to the Ministry of Petroleum: SWIFT to FIFBFOTX acc. no 6460-2600058 (ref. FEE 102320-2520-0700-0100). Address: Føroya Gjaldstova, P.O. Box 3, FO-110 Tórshavn, Faroe Islands. A copy of the receipt shall be attached to the application.

8. Miscellaneous

Where a license is granted to several parties jointly it is subject to the condition that a joint operating agreement is executed not later than 90 days after the license has been granted. The Minister of Petroleum may require that the agreement be modified on specific points, cf. section 16 of the model license.

Within 30 days from the granting of the license the licensee shall provide security for all its obligations and liabilities under the license. The security is subject to approval by the Minister of Petroleum who may require that such security be changed or supplemented, cf. section 25 of the model license.

Within 3 months after the granting of the application the licensee shall submit a proposal, to be approved by the Minister of Petroleum, on how and where his onshore activities will be organised during the exploration period, cf section 15 (2) of the model license.

It should be noted that operators must anticipate to have to provide suitable equipment on stand-by in the Faroe Islands in order to deal with any oil spills, and also a Search And Rescue (SAR) helicopter must be available during the operation period.

The Minister of Petroleum may decide not to grant licenses on the basis of applications submitted, cf. section 7(3) of the Act on Hydrocarbon Activities.

The Ministry of Petroleum shall receive applications for licenses for exploration and production of hydrocarbons by 17 May 2000 at 12 noon. All applications submitted before this date and time shall be considered to have been received simultaneously. The applications shall be submitted to:

The Ministry of Petroleum

P.O. Box 1162

FO-110 Tórshavn

Faroe Islands

The applications, including enclosures, may be written in Faroese or in English.

The application shall be submitted in 3 printed copies. In addition 1 electronic copy of the application shall be submitted on a read only compact disk. The compact disk shall be readable in a conventional compact disk drive. The electronic copy shall be easily importable into Microsoft Office 97. The compact disks and the cases shall be adequately labelled.

The Minister of Petroleum plans to award licenses for exploration and production of hydrocarbons in September 2000.

Seasonal restrictions for seismic activities etc.

An exploration and production license pursuant to section 6 of the Act on Hydrocarbon Activities entitles the licensee i.a. to undertake prospecting activities, including seismic surveys, in the license area. The licensee does not need a separate Prospecting License.

The licensee must, however, obey the rules, which at any given time apply to prospecting activities. At present these rules are stated in the Prospecting license.

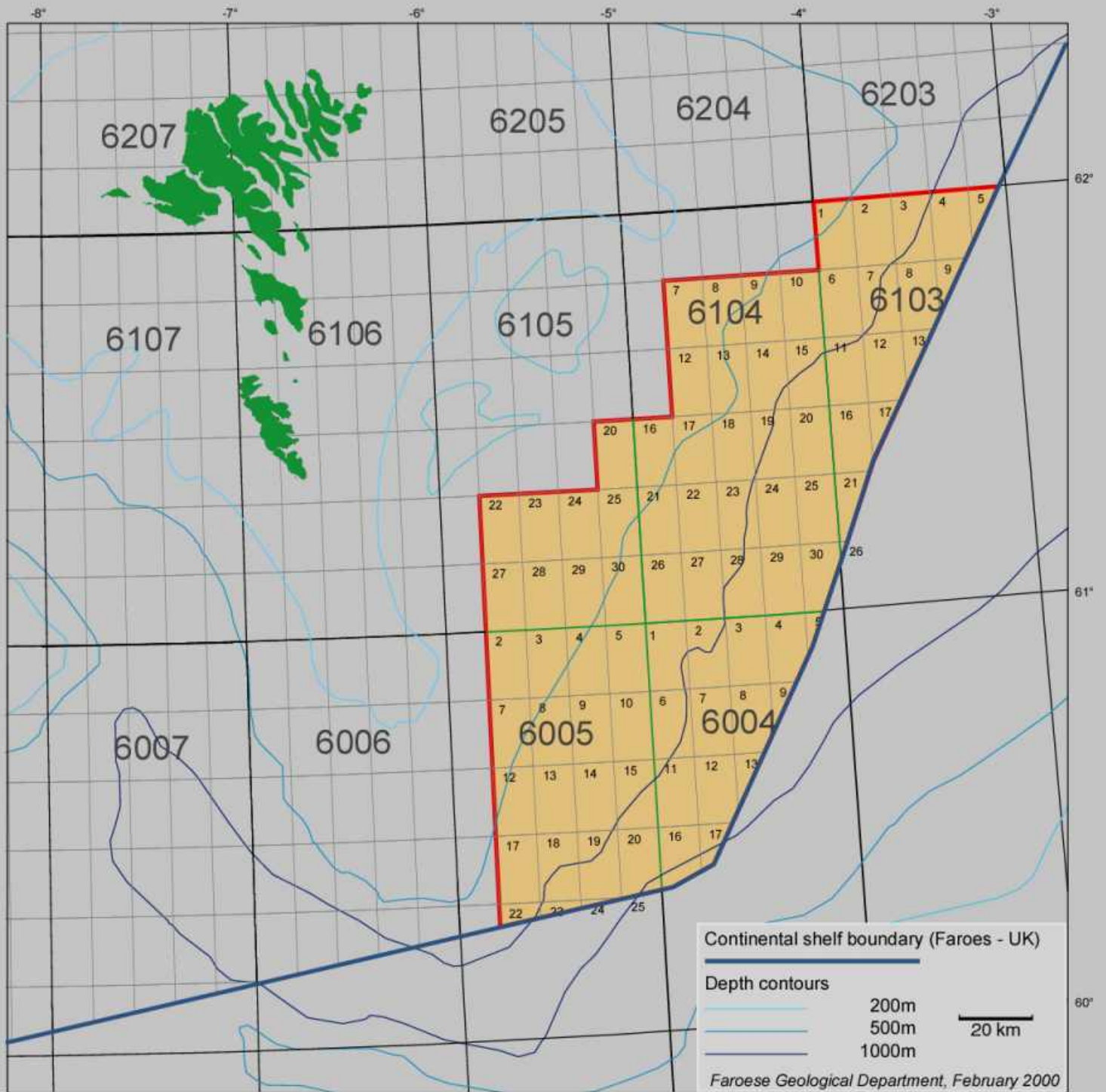
The activities of the licensee must be conducted with due regard to fishing operations and with due regard to the conservation of fish stocks.

Regarding the conservation of fish stocks, the license area is subjected to the general stipulation that no seismic activity should take place in the period from 1 November until 15 April.

Regarding fishing operations the licensee is obliged to take a fishery representative onboard the survey vessel during seismic surveys. Reference is made to clause 6 of the Prospecting License.

It should be noted that no seasonal restrictions have been adopted for exploration wells in the blocks included in the first licensing round. Environmental surveys, e.g. commissioned by the government or within the GEM framework, might bring about results that subsequently cause the Ministry of Petroleum to stipulate that in specific blocks no drilling must take place in oil bearing formations at certain times of the year.

AREA OFFERED FOR LICENSING



OLJUMÁLASTYRIÐ
MINISTRY OF PETROLEUM

J.C. Svabosgøta 14, P.O.Box 1162, FO-110 Tórshavn, Faroe Islands
Phone +298 311944, Fax +298 311946, E-mail: oiladm@ofs.fo, www.oms.fo