

# Annual **Business** Report

Trade and Industry of the Faroe Islands: General Report Featuring Major Suppliers

In co-operation with the Faroe Islands Trade Council 



# 2005

Annual Business Report 2005  
ISBN 99918-998-0-4

Designed, Produced and Published by  
North Atlantic Information Services, Spf.  
(PRnewsMedia.com)

Editor in Chief: Búi Tyril  
Photo Editor: Maria Olsen  
Contributing Editor: Michael Paul Reveal  
Contributing Writers:  
Jeremy Cresswell  
Hans Jacob Kollslíð

Editorial Office:  
Annual Business Report c/o NAIS,  
Dalavegur 26,  
FO-625 Glyvur,  
Faroe Islands.  
Tel.: +298 449 627  
Fax: +298 449 527  
<http://PRnewsMedia.com>  
Email: [nais@PRnewsMedia.com](mailto:nais@PRnewsMedia.com)

Printed in Denmark  
by Nørhaven Book

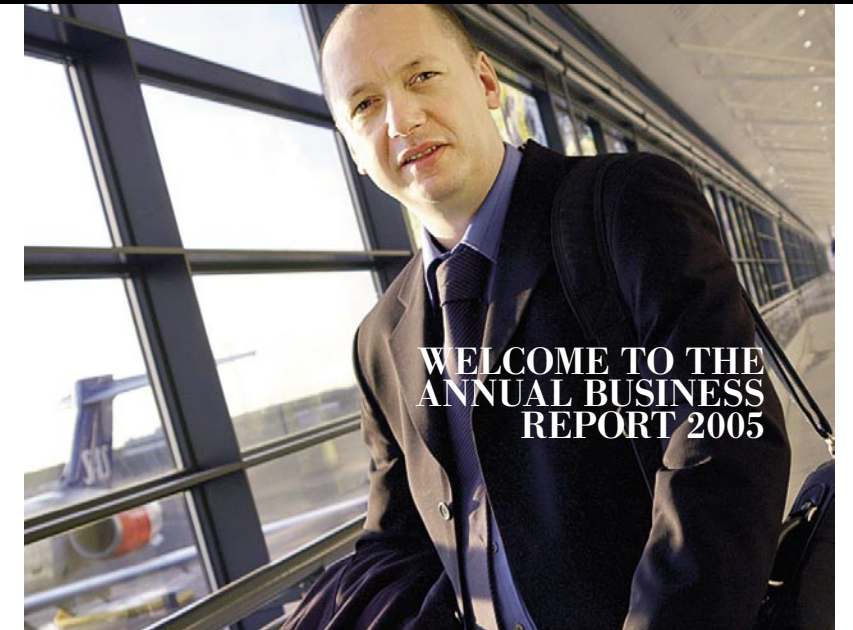
 In co-operation with the Faroe Islands Trade Council

Distributed by Faroe Islands Trade Council.  
Also distributed by sponsors and advertisers.

Copyright © 2005  
North Atlantic Information Services, Spf.  
All rights reserved.

ALL INFORMATION PROVIDED IN THIS PUBLICATION  
IS A SERVICE TO READERS AND MAY BE USED FOR  
INFORMATIONAL PURPOSES ONLY. COMMERCIAL  
RE-PUBLICATION, WITHOUT EXPRESS WRITTEN  
PERMISSION, IS PROHIBITED.

DISCLAIMER: THE PUBLISHER ASSUMES NO  
RESPONSIBILITY FOR POSSIBLE ERRORS,  
OMISSIONS OR INACCURACIES IN INFORMATION  
CONTAINED IN THIS PUBLICATION. THE  
INFORMATION IS PROVIDED "AS IS" WITHOUT  
WARRANTY OF ANY KIND, EITHER EXPRESS OR  
IMPLIED, INCLUDING BUT NOT LIMITED TO, THE  
IMPLIED WARRANTIES OF BOOKS, MAGAZINES,  
MANAGEMENT REPORTS OR SIMILAR SOURCES OF  
INFORMATION. THE PUBLISHER INCLUDING ALL  
ORGANIZATIONS AND PERSONS APPEARING IN,  
WRITING FOR OR OTHERWISE INVOLVED IN  
CREATING AND OR DISTRIBUTING THIS  
PUBLICATION, SHALL NOT BE LIABLE FOR ANY  
DIRECT, SPECIAL, INDIRECT, INCIDENTAL, OR  
CONSEQUENTIAL DAMAGES, INCLUDING WITHOUT  
LIMITATION, LOST REVENUES OR LOST PROFITS,  
WHICH MAY RESULT FROM THE USE OF  
INFORMATION OBTAINED FROM THIS PUBLICATION.  
WHILE MAKING NO COMMITMENT TO UPDATE THE  
INFORMATION CONTAINED HEREIN, THE PUBLISHER  
MAY MAKE CHANGES OR UPDATES TO THE  
CONTENT, IN PRINTED, ELECTRONIC OR OTHER  
FORMAT, AT ANY TIME WITHOUT NOTICE.



**T**HIS IS THE debut issue of a publication we trust you will find informative and stimulating, affording you a distinctive glimpse every year into the international trade and industry of Faroe Islands. The concept was developed in cooperation with representatives of the Faroese business community and our key alliance partner, the Faroe Islands Trade Council. The goal was to provide a comprehensive overview of Faroese industry and to highlight key economic issues and factors in a readable, attractive and hopefully entertaining format for international business contacts, whether client, prospect, investor or partner.

The response we have received throughout the country during the creation, preparation and production of this new publication has been extremely positive. Without the assistance of our sponsors and advertisers, this endeavor would not have become a reality.

The audience we wish to reach is an international blend: anyone, anywhere with a business interest in the Faroes—traders, purchasers, brokers, investors—any decision maker who needs to know more about the opportunities that exist in this industrious and distinctively beautiful country in the heart of the North Atlantic Ocean.

Rather than providing a full catalogue of everything that is to be found in the Faroese business community, we strive to emphasize quality and contextual importance. As far as the Faroese export industry and business environment is concerned, we think we have succeeded in presenting an accurate and fair picture of 2004. We hope that you will find the Annual Business Report to be a reliable source of useful information and an invaluable source of business inspiration.

Búi Tyril  
*Publisher and Editor in Chief*



*Even though some oil industry insiders are in favor of regulatory changes in the Faroes to lower financial risks in order to increase the potential for drilling action, the oil business is still very much of a patience game.*

By JEREMY CRESSWELL

**W**HENTHE HUNT for oil & gas was initiated off the Faroe Islands in 2000 with the First Licensing Round, hopes were high that the prize would be found with ease and that commercial production would be achieved within a decade.

It turned out not to be the case. Of the three wells drilled in the first licensing round, only one encountered convincing volumes of oil in place. The Marjun-1 success came in 2001, since when operator Amerada Hess has not been back to assess the find by carrying out appraisal drilling.

Gloom rapidly descended. The bonanza that many Faroese had quietly hoped for evaporated. But at least there was some consolation.

The Faroese Parliament (Løgting) had wisely ensured that prospecting oil companies routed their logistics needs via the islands, so providing business opportunities for at least some Faroese companies during early drilling.

But no one should have been surprised as anyone who has tracked the slow-pace race that has characterized the hunt for new resources on the UK side of the Faroe-Shetland Channel would demonstrate.

That said, the fact that, last year, Total signalled the likely commerciality of the Laggan gas

# THE NEED FOR SPEED AND PATIENCE







*Bjarni Djurholm, Minister of Trade and Industry; the drilling vessel 'West Navigator' (top right); map of Faroese license areas.*

The Second Faroese Round covered roughly 19,000 sq.km, divided into 83 full and 39 part blocks and the work programmes initially cover seismic and other surveys as well as processing and interpretation with the purpose of maturing the licences for future exploration drilling.

In Statoil's case, the partially privatized Norwegian state company secured three operatorships and an interest in a fourth license. One of these operated licences was secured in partnership with Shell, DONG of Denmark and tiny Faroe Petroleum. This 2,084 sq.km licence, now named Sildrekin, apparently holds a number of exciting prospects including a very large lead in some 250 metres of water, which is relatively shallow for the offshore industry.

As for licence four, this is operated by ChevronTexaco and shared with Statoil 30 percent, DONG 20 percent and OMV of Germany 10 percent. What makes this one exciting is that it is adjacent to the Rosebank/Lochnagar structure where ChevronTexaco made its big oil find referred to earlier and which may have reserves of more than 500 million barrels. But this is subject to appraisal work this year and next at least.

At the opposite end of the spectrum without a doubt is Faroe Petroleum (Føroya Kolvetni), which is headquartered in Aberdeen and listed on the London Stock Exchange. Set

up as a means of ensuring Faroese participation and today led by CEO Graham Stewart, FK has a bold strategy, as evidenced by its Round Two awards.

That the company's Round One hopes were dashed when the first and only block 002 well drilled in partnership with Italian energy giant Eni proved a failure appears not to have dented FK ambitions.

Witness the acreage awarded, that is, Sildrekin and, remarkably, the Wyville-Thomson Ridge. This licence is held 100 percent by FK and contains a giant lead along the axis of this huge undersea structure.

So what is Stewart's strategy behind such a choice? He told the writer recently: "We've tried to work out where the most prospective parts of the Faroese sector are and already have attractive, prospective areas.

"Wyville-Thomson ... nobody has ever drilled there. It stands out like a sore thumb, being by far the largest anticline anyone's aware of in NW Europe. BP, Shell and other big companies ... they'd all love to drill it. But, because it's so far away from anything else, they're unable to secure management consent to attempt anything.

"We invited them all in and they very politely declined so we thought, why not go on our own ... and we did. And the Faroese Petroleum Administration



was happy enough with our application, work programme and commitment to getting things done, so we secured it 100 percent.

"By working at and by derisking it, as we will do by interpreting the seismic data that exists already [to build an underground picture] and then adding to that '2D long-offset', which we will shoot either this year or next, we think we can probably build a case for a well ... maybe in 2006. If it turned out that way, we would invite others to come in with

us. We've already done a lot of work on Wyville Thomson and the thing about this area is that it doesn't need the latest generation deepwater drilling unit."

Switching to Sildrekin licence, Stewart said there was a "frenzy" to get control of that acreage. FK was lucky to get its 10 percent.

Part of the reason for this is because Statoil has a neighbouring prospect called Brugdan, which is scheduled for drilling next year and, if that works, Sildrekin may yield an even bigger prize. If Brugdan is successful, then Sildrekin could be drilled in 2007.

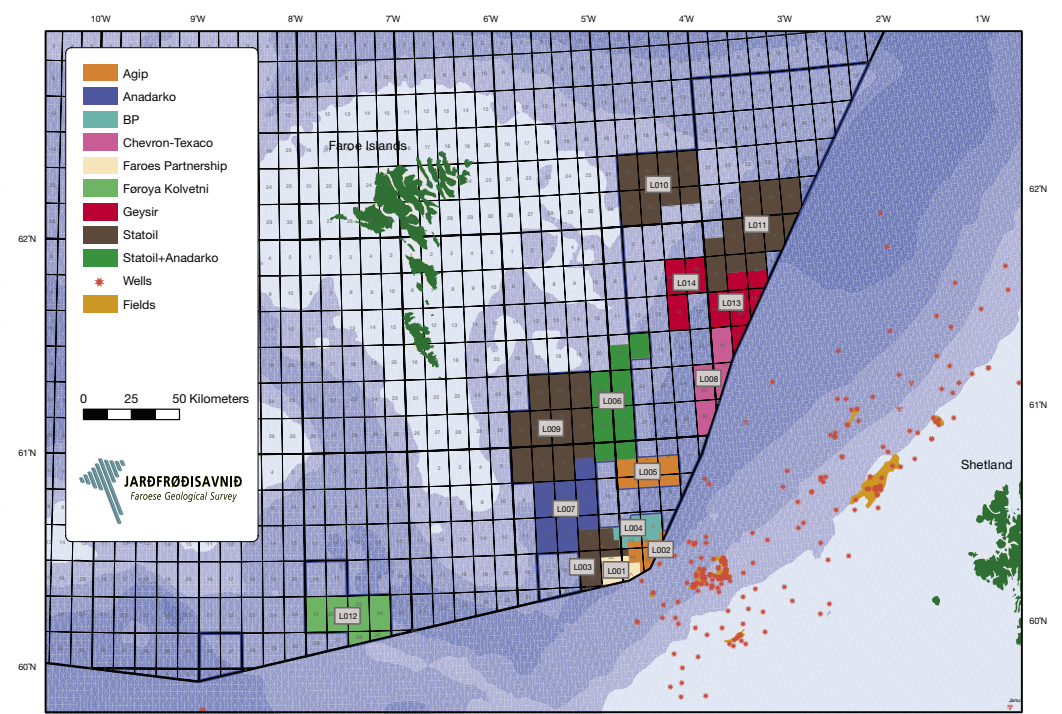
But there is little prospect of anyone drilling any wells in Faroese waters this year. It is understood that none are planned and, in any case, there is now a shortage of suitable rigs.

The closest prospect for drilling would appear to be the First Round licence Ann Ma- [Cont. on page 96]

discovery, that ChevronTexaco made what is almost certainly a large oil find on the Rosebank/Lochnagar licence, and that, this year, BP finally brought the Clair oilfield onstream 27 years after its discovery, is surely encouraging.

Indeed the Atlantic Frontier game may be changing for the bet-

ter. While the Second Faroese Oil & Gas Licensing Round was always going to be of limited appeal to oil majors because of richer pickings elsewhere, notably West Africa, it has nonetheless attracted excellent bidders. Moreover, companies like Statoil have in fact reinforced their Faroese acreage holdings.





# OIL INDUSTRY GAINING KNOWLEDGE BY POOLING INFORMATION RESOURCES

*According to the Faroes Oil Industry Group, FOÍB, it is of great value for the industry to share best practices and other resources in order to learn the most possible about the Faroese Shelf and the Atlantic Margin as an area of activity.*

THE IDEA BEHIND the Faroes Oil Industry Group, FOÍB, may correspond much with the classic wisdom of desiring to avoid wasted effort on something that has already been completed by, or can be done more effectively by joining forces with, someone else. When mutual interest is at stake, especially the mutual interest of the global oil industry players which form the membership of FOÍB, the key goal is collaboration and this has an immediate impact on the industries and communities in the Faroes.

"The upstream oil industry in the Faroes is still confined to exploration activity," Ben Arabo, chairman of FOÍB, once noted in an article. He added: "The Faroese area has all the characteristics of a frontier area and the industry is gaining valuable new knowledge about the area as each day passes. FOÍB plays an important role in this work. In an area as complex as the Faroes we have to use a collaborative approach, pooling resources and



FOÍB chairman, Ben Arabo.

sharing best practice to gain knowledge on the Faroese Shelf and the North Atlantic Margin as a whole."

Later, in an interview, Mr Arabo pointed out that apart from the obvi-

ous practical advantages of providing a single point of contact with the Faroese Government and its authori-

ties, there is much indeed to FOÍB in the way of planning, sponsoring and co-sponsoring surveys and scientific research of common interest for the oil companies—often, as well, of interest to parts of the general public. In fact, FOÍB pursues a full range of issues of relevance to the Faroes through the activities of its sub-committees, covering Environmental (including Metocean), Engineering & Operations, Exploration and Geotechnical, Operational Health, Safety and Environment (HSE), Commercial & Legal. The activities of the five sub-committees are coordinated by a Management Committee, which drives initiatives, approves research plans of the sub-committees and acts as a fund holder.

**'CONSTRUCTIVE DIALOGUE':** The various initiatives in the FOÍB work programme reflect the stage of activities in the Faroese area, but the structure caters for future development, the chairman explained.

"For one thing, FOÍB provides a common point of contact between the companies operating in the Faroese area and the Faroese authorities and institutions on matters of broad policy and on general operational issues," he said. "However, the organisation also ensures that jointly funded projects are managed and the results distributed in an efficient and effec-

tive manner. This is already proving very valuable not only by the data and resources made available, but also by the point that once full scale oil production activities commence on the Faroese shelf, which may happen sooner or later, it will be very difficult to recreate the groundwork that FOIB has done—it will have provided a baseline for the future."

As the written 'Scope and Objectives of FOÍB' declare: "We will maintain and expand the knowledge base for the Faroese area, obtaining new data for the benefit of the development of an offshore oil & gas industry in the Faroe Islands. We will continue and build on constructive dialogue with interested parties in the Faroes as a forum for industry communication with the Faroese Authorities and other interested parties."

With an extensive list of publicly available reports, the records indicate that environmental issues have been imperative in many of the joint projects in FOÍB.

Accordingly, the Environmental Sub-Committee has focused on the ecosystem to provide a baseline for future reference and the main delivery is the Regional Environmental Impact Assessment (EIA), the overall objective of which is to "provide the best available basis for environmental decision-making

## FOÍB — THE FAROES OIL INDUSTRY GROUP

Administration Centre  
c/o Atlanticon,  
PO Box 263, FO-110 Tórshavn  
<http://www.foib.fo>  
E-Mail: [atlanticon@atlanticon.fo](mailto:atlanticon@atlanticon.fo)  
Tel.: +298 319685  
Fax: +298 319185

Chairman: Ben Arabo,  
General Manager of  
Amerada Hess (Faroes) Ltd.

FOÍB acts as the joint association of the oil companies holding licences to explore for hydrocarbons in the Faroese area either as license holders or partners.

Current members: Amerada Hess, Anadarko, Atlantic Petroleum, BG, BP, DONG, Eni, Faroe Petroleum, Petro-Canada, Phillips, Shell and Statoil.

and management strategies in line with Faroese national regulations and international standards for this kind of work." Likewise, a considerable amount of metocean data has been gathered through the Metocean Sub-Committee by continued funding of wave and current data series acquisition. As to matters of health, safety and the environment, the Operational HSE Sub-Committee has worked with Faroese authorities on addressing emergency response in connection with future offshore activities in Faroese waters, an activity that has materialized in several major offshore emergency response exercises.

Since the 13 oil companies that were awarded licences in the first licensing round established FOÍB, another licensing round has been awarded, adding new oil companies to the list of license holders—and new potential FOÍB members.

[Cont. from page 93] rie, but not until 2006. It is apparently on the same geological trend as the UK sector Cambo find by Amerada Hess, also Rosebank/Lochnagar.

This has to be disappointing for the Faroese people, but part of the solution lies in their hands, argues Stewart.

“To have success in Faroe, you need to have a lot more wells drilled. To get a lot more wells drilled you need to reduce the cost. To reduce that cost you need to increase the pool of potential rigs and that means changing regulations.”

At the moment, the Faroes apply Norwegian rules to rigs, not the more lenient but still rigorous UK approach that enables older rigs to operate safely and effectively on the Atlantic Frontier.

Clearly aware of the tough ride to date, Trade & Industry Minister Bjarni Djurholm said at the 2005 Offshore Faroes conference: “We have all acknowledged that our initial expectations were too optimistic and have realized that petroleum exploration takes time. However I believe that petroleum exploration will be one of the new industries that are necessary in order to move the Faroes towards a more diversified business community.”

And there’s the dilemma. To generate tangible opportunities for the Faroese business community requires real action offshore. At least Djurholm is optimistic.

He said: “I am convinced that the seismic surveys and other work

that will be carried out over the next years will mature the Faroese area, so that the license holders can proceed

to drilling wells and hopefully finding commercial quantities of hydrocarbons.” The dream lives on.

## ATLANTIC PETROLEUM AWARDED TWO NEW LICENSES

*Set for an IPO in 2005, the Faroese oil company, Atlantic Petroleum, together with Geysir Petroleum, was awarded two new licenses in the Faroes’ second licensing round.*

IN THE SECOND oil licensing round in the Faroes, Atlantic Petroleum was awarded two new licenses for oil and gas exploration. In cooperation with Icelandic Geysir Petroleum, the Faroese oil company applied for four license areas offshore from the Faroes, and the two licenses awarded cover approximately the same areas.

The license areas are situated close to the UK border in blocks 6104/9, 10, 14 for license 014, and blocks 6103/11, 12, 13, 17, 7 (part), 8 (part) for license 013. “Seismic research of the areas indicate several interesting structures,” Atlantic Petroleum said in a press release, referring to ChevronTexaco’s recent find in the immediate proximity, on the UK side of the border.

Atlantic Petroleum’s share in licenses 013 and 014 is 40 percent, with Geysir Petroleum as operator in both licenses. The companies have obliged themselves to, firstly, gather more data from the areas, and decision on possible drilling action is to be taken by the conclusion of the four-year license period.

Atlantic Petroleum was formed in 1998 by 18 private Faroese in-

vestors. Its corporate shareholders represent most of the major Faroese business sectors. The company participates in exploration in the Faroe and the UK sector of the North Sea, with minority shares in eight licenses.

The listing of Atlantic Petroleum on ICEX and the VMF was announced to be in January-February 2005, but was delayed slightly. “Most things are in place, but the company waits with the listing until after the Annual General Meeting, which will be held late March or early April,” said Atlantic Petroleum’s managing director Wilhelm Petersen. In December 2004, the company in its third share offering raised around DKK 28 [EUR 3.75 / USD 5] million in nominal value.

Mr Petersen noted: “We are very proud with the outcome of the share offering. It provides us with a financial base on which to continue the development of our present fields in the UK part of the North Sea and the expansion of our activities to other parts of North Sea. Today we have ongoing operations in Faroes and the UK and we are considering options in Norway and Denmark.”

Out into the wide world



03:42

NEW YORK

07:42

REYKJAVIK

08:42

TÓRSHAVN

09:42

PARIS

11:42

MOSCOW

15:42

BANGKOK

16:42

BEIJING

17:42

TOKYO

## Convenient connections to anywhere in the world

Our routes are carefully planned with the business community in mind. You can travel overseas to a meeting and be home the next day. Connections to Copenhagen and Reykjavik are extremely good and in cooperation with other airlines, we can fly our business clientele to other countries.

For prices visit [atlantic.fo](http://atlantic.fo)



Faroe Islands – Copenhagen / Reykjavik with Atlantic Airways and onwards with Icelandic, Finnair, SAS, Maersk Air or Olympic Airways.

 **ATLANTIC AIRWAYS**

[www.atlantic.fo](http://www.atlantic.fo)