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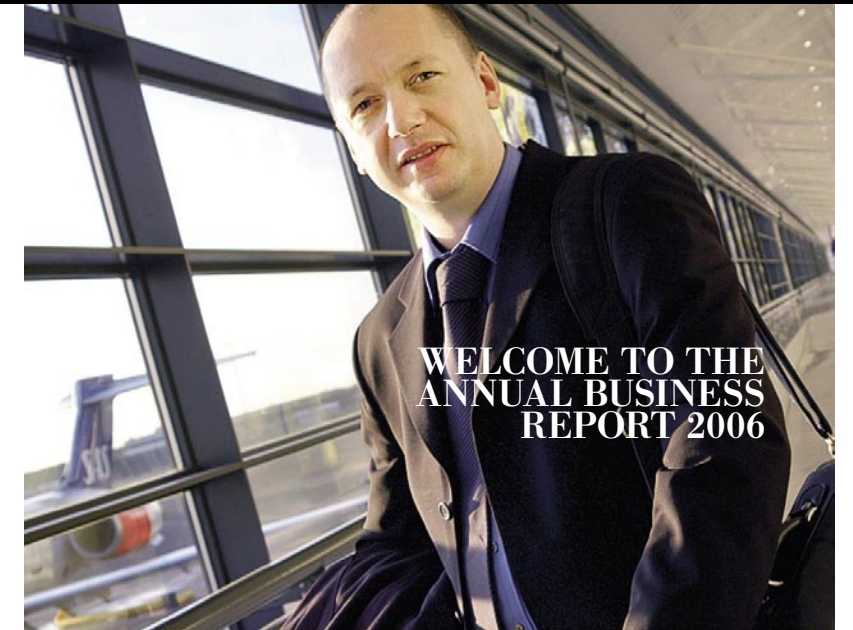
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WE ARE PROUD TO PRESENT you with this second edition of the Annual Business Report—the official Faroes Business Review. With the resounding success of last year's debut issue, which was made possible through the stimulation and participation of the Faroese business community, and not least our key alliance partner the Faroe Islands Trade Council, we have been encouraged to continue this exciting project.

The overwhelming reception from readers and participants alike confirms us in the belief that this publication has an important part to play in the overall presentation of the Faroese export industry and business environment.

As we have said before, this publication places great emphasis on contextual importance and quality. This means we're here to offer you a valuable glimpse into the international trade and industry of the Faroe Islands and the interesting developments that are taking place in the context, not only in the fishing industry but in other sectors as well.

So in this issue of the Annual Business Report, we seek to give an account of major business events of 2005 and early 2006 with some of the wider business implications and perspectives. The aim is partly to highlight companies, partly to showcase projects, opinions, products and services and to give a fair and accurate picture of events.

As someone with a business interest in the Faroes, you will probably find the information in this year's issue to be entertaining and useful. We hope you will enjoy it as a reliable source of business information that brings you insights on this amazing microcosm in the North Atlantic known as the Faroes.

Búi Tyril
Publisher and Editor in Chief

BY JEREMY CRESSWELL

MID-2006 WILL SEE the first exploration well drilled on the Faroese Continental Shelf for three years. Just one will be drilled this season, with a further wildcat attempted in 2007. Taken together, they have the potential to make or break the hunt for oil (and gas) in Faroese waters, even though only four offshore wells have been drilled to date. Three are regarded as failures and the fourth, while a significant hydrocarbon column was encountered, is today moribund.

The apparent willingness to potentially write off a near-virgin offshore province so readily has nothing to do with cavalier attitudes, rather it is because much of the Faroese shelf is masked by massive basalt flows which are difficult to “read” through and very difficult to drill.

That said, at least two of the companies involved in the hunt have basalt experience... Andarko and Shell. In the latter's case, for example, hydrocarbons were encountered in the Columbia Basin (US Pacific Northwest) when wildcatting through basalt with drillstem tests showing production from numerous gas zones.

Anadarko is a pioneer of the application of low frequency seismic, which penetrates deeper rocks better than conventional techniques. However, it was Professor Anton Ziolkowski of Edinburgh University in Scotland who basically promulgated the idea of using very low frequencies and it was seismic company Veritas DGC that developed the technology needed—a system known as BLAST (Basalt Large Airgun Seismic Test).

The first trial was carried out in 2001 and paid for by Veritas and the members of Faroes License Group 006 (Statoil, Anadarko, Enterprise, Phillips Petroleum and Veba Oil). It is this work that has opened the door for drilling Brugdan on license 006 and, next year, the William prospect on license 004. And it is this work, coupled with the disappointments of the four initial Round One wells that enabled the oil companies involved in Brugdan and William to renegotiate remaining obligation wells in favour of fewer high risk and very expensive wells cut through basalt, which are expected to cost at least USD 50M each.

For any Faroese interested in the idea that oil and gas may one day be located in home waters best known for the fish they yield, this year could be the most exciting yet also most frustrating ever.

Exciting because a rig will be hard at work during the summer, frustrating because, on the UK side of the Faroe-Shetland Channel, six, seven and possibly even eight wells are likely to be drilled.

- BP will drill three appraisal wells in a bid to prove up Clair North, which is seen as the next stage of development for the giant Clair field.

- Chevron has two, possibly three appraisal wells scheduled for its exciting Rosebank/Lochnagar discovery made last year.

- Shell is planning to drill Benbecula North as part of its ‘Big Cats’ campaign. Enterprise made the initial Benbecula gas find 60 miles NW

38 miles from the Rosebank/Lochnagar discovery on the UK side of the Faroe-Shetland Channel, the drilling of the Brugdan sub-basalt exploration well may prove critical to the future prospects of oil and gas on the Faroese Continental Shelf—but it's not the last shot.

MARIA OLSEN

A DRILL THROUGH THE DENSE DEEP

of the Hebrides in 2001, prior to the company being acquired by Shell since when the latter has retained the license.

- Hurricane Exploration with Sunshine Gas will drill the Wellington Prospect using the rig Bredford Dolphin.

- Faroe Petroleum is keen to drill its Freya asset just north of Clair, but this is subject to finding a farm-in partner to spread risk, plus hiring a rig as these are in very short supply.

Of these, it is Chevron's program that will be watched with the keenest interest as Rosebank/Lochnagar is only 70 kilometers (38 sea miles) east of where Statoil intends to start drilling the Brugdan prospect, which is thought to be an analogue of this latest and very promising UK find, except that, tantalizingly, it wears a basalt mask.

'EQUAL PARTNERS': Managing expectations, so to speak, is Faroese trade and industry minister, Bjarni Djurholm, who says the island community and its political system have got over the perhaps unrealistic expectations of recent years.

"There was great disappointment at the results of the First Round drilling carried out 2002-03," says Mr Djurholm. "With the second licensing round... we're more realistic about the possibilities of oil around the Faroes.

"We hope that oil will be found this summer. If we can just discover hydrocarbons under the basalt it will be a success from my point of view. But if we get a dry hole this year it will be very damaging, and even more so if the 2007 well fails to find anything."

Mr Djurholm defends the decision to trade four obligation wells for two very high risk wells through the basalt.

The Sovereign Explorer drilled the Marjun well in 2001.

"I feel confident about the agreement we did with Statoil, BP and so-on and I feel that the companies are aware of the criticality of the wells both for them and the Faroes. I feel confident too that they still see possibilities here, especially because, on the UK side they have made discoveries. But, because of the basalt, it's very difficult to say anything about the real future.

"We know that we can see structures under the basalt that look like structures on the eastern side of the border where we know Chevron has made its Rosebank/Lochnagar oil discovery, though we don't know how big it is."

But it's not as if the future of the Faroese economy hinges on oil being found. It is in quite reasonable condition, having recovered from the slump of the 1990s and dip of 2000-4. Unemployment is low—about 3 percent. "One can

say that the economy is not pressuring the oil search at all... its in good shape," adds Mr Djurholm.

But do the companies respect the Faroes? After all the islands possess what in global terms can only be described as a micro-economy and the population is a mere 48,000 or so—far less than most oil majors have on their payrolls.

"I think so," says Mr Djurholm. "I'm sure they would rather they didn't have to service their activities from here. When we meet with the oil companies we're equal partners. Exploration will continue to be carried out from the Faroes, based on our requirements."

Perhaps the most active of the two Faroese oil companies—Atlantic Petroleum and Faroe Petroleum (Föroya Kolvetni)—is probably the latter. In some respects they have broadly similar strategies: establish a credible local pres-

ence while also spreading risk by taking positions in the UK sector and, in the case of FK, also Norway.

Of the two, Faroe Petroleum has the higher risk program. Its stake in Brugdan is significantly larger too and it has acreage right next door to the license 001 Marjun discovery made by Amerada Hess in the south-east portion—known as the Gold Corner—of the Faroese aquatory during the first drilling campaign.

For Faroe Petroleum director Nils Sörensen, Marjun-1 was the Round One well that showed a convincing hydrocarbon column. But little has been disclosed about the result. "What they're saying is that it's a very difficult discovery and poses more questions than provides answers," says Mr Sörensen.

But, Hess is relinquishing the license shortly so data will be made available and this is important as Faroe Petroleum has the license next door. While it is possible that Marjun may extend into it, Mr Sörensen understands why companies like Hess want out but believes Marjun has potential in the right hands.

"They do not see any other solution to this corner. It must be because there are no drillable prospects."

At the same time, he's pleased that Brugdan is to be drilled as Faroe Petroleum believes they will provide valuable pointers to what the company's Ann Marie prospect on license 005 may hold.

"We still have license 002 with the Orodruin prospect. It's on trend with the so far unexploited Suilven discovery of the mid 1990s on the UK side of the Faroe-Shetland Channel."

ENI with Faroe Petroleum drilled the Marimas prospect on 002 in 2003, but without success. Since then, the Italian company has exited.



J. HERLUF SØRENSEN

Atlantic, which listed on the Icelandic stock exchange last year, has been shrewd. It has stakes in UK assets such as Chestnut and Ettrick that are capable of delivering income to help underpin its domestic aspirations, albeit there will be no revenues until 2007 at the earliest.

Like Faroe Petroleum, it too is a stakeholder in Brugdan. In Atlantic's case, it hopes the result will give clues about prospects for licenses 013 and 014 in which it has a 40-percent interest, might hold. The plan is to shoot 1,200km of 2D seismic over both this year. Meanwhile, AP is considering dropping its 5-percent interest in license 001, which expires in August anyway.

THIRD ROUND BY 2007: Head of Jarðfeingi (Faroese Earth and Energy Directorate), Sigurð í Jákupsstovu shares Mr Sörensen's views on Marjun.

"One must conclude from when the operator Amerada Hess is interested in moving its commitments from license 001 to another license, they are considering Marjun to be sub-commercial. But in our opinion, we think that Marjun deserves appraisal. Through the third round, we're hoping the Marjun area available for appraisal. At that time all data will be in public domain, which

means other oil companies can come in and make their evaluations. I may be wrong and they may now be changing their mind, but two years ago they were not focusing at all on this area. They were pulling out."

In the hotseat for 2006 has to be Statoil general manager for the Faroes, Rúni Hansen, who is also a local. The Norwegian company has held the 006 license since 2000 on a nine-year arrangement.

"We had no well commitment on that because of the thick layer of basalt known to be present," says Mr Hansen. "There was [and remains] little knowledge on sub-basalt and we had to develop it more before we could take on a well commitment. After 3D seismic, it was very positive for us and our geologists made a lot of effort to tailor the seismic technology for this specific mission.

"Because the license 003 well was dry and because we thought 006 might be more interesting. It was suggested that we might try to drill on it. At the same time, our license 001 partner Amerada Hess farmed into 006.

"Brugdan is a high risk well. But we would not do it if there was no possibility of hydrocarbons. Now we think it is sufficiently *(Continued on page 128)*



J. HERLUF SØRENSEN

Beyond its responsibility for the overall administration of petroleum exploration activities, Jarðfeingi—Faroese Earth and Energy Directorate—is the new government agency that oversees energy as well as geological issues.

SINCE THE BEGINNING of oil and gas exploration on the Faroese Continental Shelf, the Faroese government has made no secret of its intention to ensure that the country—should no commercial oil find be made—at least, aided by funding from the licensed oil companies, should be able to achieve tangible benefits from progress in scientific research and development of local competence to participate in the petroleum activities.

So for the Faroese, there were multiple and manifest occasions—or challenges—for embedding such con-

siderations into the Act on Hydrocarbon Activities, conditioning the granting of exploration licenses with commitments to funding research and development. One of the obvious challenges is to improve the understanding of the Faroese geology, in particular sub basalt prospects imaging and the energy that can potentially be generated from the winds that continually blow through the islands or the powerful waves that smash the seacliffs year-round.

In February 2006 the Faroese Petroleum Administration and the Faroese Geological Survey were merged into one body, the Faroese Earth and Energy Directorate—or simply, Jarðfeingi.

Whereas the Geological Survey was established in 1951, the Petroleum Administration was established in 1993. Since then, the two organizations have been located at the same place and at times also under shared management.

The organizations have cooperated extensively and been integrated in hydrocarbon exploration matters.

The combined responsibilities of Jarðfeingi are defined as “the administration and responsible utilization of the Faroese earth and energy resources with the following main tasks: Hydrocarbon matters, hereunder to administer the legislation for hydrocarbon exploration and production; energy matters, hereunder to administer the legislation for generation, transportation and distribution of energy; and carry out research, consultancy,

The island of Stóra Dímun.



Jarðfeingi managing director Sigurð í Jákupsstovu.

EARTH, ENERGY: IF THESE ROCKS COULD SPEAK

museum and educational tasks within relevant earth science subjects.”

The geological activity at Jarðfeingi includes research in geology and physical geography within the Faroese region both on shore and offshore. One current project of interest is a major update of the geological map and memoir from 1969. The new memoir and map is due to be published in 2007, and the project will take into account and document advancements in the understanding of the Faroese geology which has taken place over the past years. Another area that has received particular attention is

the mapping of geohazards in relation to spatial planning.

Jarðfeingi managing director Sigurð í Jákupsstovu said: “Through the use of new computer software, new patterns become visible, which means we get new information and more accurate pictures



JARÐFEINGI

of the Faroese geology and through this a better understanding of the development of the region.”

As to current projects in energy, Jarðfeingi is engaged in drafting an energy policy and a bill on electricity on behalf of the Faroese government, in consultation with a hearing group consisting of representatives from the power utility, municipal authorities, environmental groups and others. Importance is

Fan-shaped cooling columns, Kulagjógv Lava Flow, Frøðba, Suðuroy (right); wavy columns of the entablature zone from the multi-tiered Hov Lava Flow, Hov, Suðuroy (left).

FAROESE EARTH AND ENERGY DIRECTORATE

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Jarðfeingi (Faroese Earth and Energy Directorate) is a government agency reporting to the Ministry of Trade and Industry. Its combined responsibilities are the administration and responsible utilization of the Faroese earth and energy resources, with the following main areas of business: Hydrocarbon Matters; Energy Matters; Geological Survey.

Highlights of future activities:

The Faroe Islands Exploration Conference 2006, which is a technical conference dedicated to exploration on the Faroese Continental Shelf, will be held on 12-14 September in Tórshavn. Further information is available on <http://fiecf.jf.fo>.

Jarðfeingi is currently working on the Third Licensing Round, which is likely to be announced in 2007.

attached to future energy developments being carried out in an environmental friendly manner and to the increased use of sustainable energy resources.

Doubtlessly, this year's most prominent item on the cards for Jarðfeingi is the drilling of the sub-basalt Brugdan prospect in License 006. “This is a highly significant well,” Mr í Jákupsstovu said, “which first and foremost will test the license for hydrocarbon bearing formations, but as it is the first sub-basalt well in the Faroese area it will also provide important geological information to aid future exploration.”



JARÐFEINGI

OIL-GAS PIONEER LAUNCHES FAROES' FIRST IPO

For newly publicly listed Atlantic Petroleum, the rocky cradle of the Faroe Islands as place of origin has offered valuable advantages in the creation of a powerful network of business contacts among leaders of the global offshore oil and gas industry.

FROM THE CONCEPTION of the company at scratch back in 1998 to the present state of publicly listed (VMF-ICEX) enterprise with a market capitalization of DKK 500M [EUR 67M / GBP 46M / USD 80M], Atlantic Petroleum has become the world's first upstream oil and gas enterprise based on a Faroese venture capital model—and the first Faroe-funded company ever to be floated on a stock exchange.

With its portfolio of exploration and production licenses in UK and Faroese territory, together with accumulated industry expertise and a network of global business partners, Atlantic Petroleum's business prospects may look solid. As chief executive Wilhelm Petersen pointed out, however, capitalizing on a Faroese identity has proved to be an important factor in the company's successful development.

"We gained much from starting off in the Faroes," Mr Petersen said, "not least because we had the fortune of being able to participate in the Faroes Partnership with Amerada Hess as operator in License 001. This allowed us to become part of a network of good, internationally recognized business partners, who in turn helped us build references and reputation. So, knowing how to use some of the real potential of a Faroese



Wilhelm Petersen, Atlantic Petroleum chief executive.

identity is something that can generate great advantages in a global context. However, timing is of the essence and we turned up at the right moment, just two years before the Round One licenses

were awarded. And it's essential too that you have the necessary knowledge and understanding of geological, geophysical and technological as well as legal, financial and managerial issues involved."

Atlantic Petroleum currently holds four Faroese exploration licenses as well as four UK exploration and development licenses including the promising Chestnut development field. According to Mr Petersen, the ambition is to expand the scope of operations within the next couple of years.

"Through our exploration and production operations in the Faroes and the UK, we have established working relationships with almost every major oil company operating in the Atlantic Margin area. Hopefully, we will be able to expand by entering into new partnerships and farm-in agreements, possibly through acquisition of smaller companies."

As to the prospects of finding oil in the Faroes, an active hydrocarbon system is known to be present; however, a massive layer of basalt covers large parts of the area, rendering seismics difficult to interpret—until now, that is. Recently, Mr Petersen said, there has been significant development in the technology applied to seismics.

He added: "The big question that remains is how to locate and recover oil or gas in commercially viable quantities. Currently, oil companies are investing large sums of money in exploration, which means they believe significant discoveries are possible. It is expected that the Brugdan well, which is scheduled for drilling this summer, may largely determine the pace at which exploration will continue in the Faroes for the

foreseeable future. We will participate in the drilling of this very large, anticlinal structure at a sub-basalt level and in the event of a success, it can hold significant amounts of hydrocarbons. Also, this well will provide crucial geological information on the structures underneath the basalt, which will enhance the understanding of the geology on the Faroese continental shelf. Given the similarities in structures between the areas and the Brugdan prospect, that information can be very important in our work to mature two other licenses we have in the Faroes. In brief, the next two years will be very interesting and the information we'll gain from Brugdan will be of high relevance for a large area that extends across the Faroe-UK border."

Although firmly rooted in the Faroes with 3,000 shareholders at the time of IPO in mid 2005, the future of Atlantic Petroleum is not necessarily linked to that of the prospects of oil and gas in the Faroes, Mr Petersen explained. "Atlantic Petroleum is a company that seeks to balance its focus on the near-term business of production and the

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Atlantic Petroleum was founded in 1998 as the first independent upstream oil and gas company in the Faroe Islands.

Participates in exploration on the Faroese Continental Shelf (four licenses) and exploration and development of oil fields in the UK sector of the North Sea (four exploration and production licenses), of which the Chestnut will be on stream next year and Ettrick field — Atlantic Petroleum's largest asset — is scheduled to be in production early 2008. The third field Perth is estimated to be in production after 2008.

more long-term business of exploration while at same time placing emphasis on attracting the most highly skilled staff and networking with expert professionals and strong, knowledgeable business partners.

"Although it's never easy to predict the consequences of future events, whether direct or indirect, I believe we have laid a solid foundation for future growth, regardless of prospects in the Faroes. Atlantic Petroleum retains a Faroese identity and the company started business operations in the Faroes, yet our approach is international."



Atlantic Petroleum chairman Kjartan Hoydal, right, with shareholders Poul Mikkelsen, centered, and Poul Mohr, who is also a member of the board.

Operator Statoil is deploying the latest cutting-edge drilling technology on the Brugdan prospect, the most expensive and geologically interesting exploration well so far to be drilled on the Faroese continental shelf—and a significant one for the immediate prospects of oil and gas.

DURING 2005, Norway's oil and gas giant Statoil spent significant resources on seismic exploration off the Faroe Islands in preparation of its 2006 drilling commitment for the Brugdan wildcat prospect in License 006. The drilling target is about 38 sea miles from the nearest well discovery, the Rosebank/Lochnagar, in which Statoil holds a 30-percent share, and which is scheduled for three wells this summer.

According to Rúni M. Hansen, head of Statoil Exploration Faroe, the Brugdan prospect has presented substantial technical challenges for explorationists to interpret seismic data as well as for engineers to control the drilling process, inasmuch as the area is covered of massive sections of volcanic rock known as basalt.

"Whatever its outcome, this summer's drilling will provide highly in-

teresting information concerning the Faroese geology," Mr Hansen said. "We consider Brugdan to be a high risk prospect, but we wouldn't be involved in the venture if we didn't believe in it."

According to analysts, the result of the Brugdan well may largely determine the prospects of oil and gas in the Faroes for the immediately foreseeable future: whereas a dry well would tone down expectations and dampen enthusiasm for further exploration in the Faroes in the years ahead, a significant find would on the contrary confirm assumptions of a large reservoir, likely to bring a bonanza.

"There is a lot of enthusiasm about Brugdan," Mr Hansen remarked, "both because of the technical challenges as such and because of the perceived significance of the result."

He added: "The prospect has attracted a lot of attention and we have spent resources using the latest in seismic interpretation technology. As far as this particular drilling project is concerned, we're able to draw from experiences in other places around the world."

Mr Hansen, who is also the business and planning manager of Statoil Global Exploration Europe, said his division will be involved in four exploration

and appraisal wells during the summer of 2006, three of them in the Rosebank/Lochnagar prospect on the UK side of the Faroe-Shetland Channel and a fourth in the Benbecula prospect

The License 006 group has contracted the Stena Don semi-submersible rig, which has a long term contract with Statoil, to drill the Brugdan well in the summer 2006.



Head of Statoil Exploration Faroe, Rúni M. Hansen, with the Tórshavn marina in the background.

STATOIL INVESTS HEAVILY IN 'EXCITING' WILDCAT

further west toward Ireland, likewise in UK territory, a license in which Statoil holds a 35-percent interest.

"We've put serious efforts into readying this summer's drillings," Mr Hansen said. "In addition to technical issues involved, we've had negotiations and legal considerations to deal with in London and Stavanger as well as in Tórshavn."

The Brugdan drilling operation is set to start in July and will be carried out by the Stena Don semi-submersible rig; the action is expected to take three

months to complete, reaching almost 3,800 meters into the seabed, passing about 1,000-meter thick layer of hard solid and tricky basalt.

According to one analyst, the cost of drilling Brugdan could amount to DKK 400M (EUR 54M / GBP 37M / USD 65M), a figure Mr Hansen declined to comment directly on. "We're talking about large sums," he said. "It's the most expensive well so far to be drilled in Faroe."

Earlier, the partners in Licenses 003 and 001, operated by Statoil and

Amerada Hess respectively, signed an agreement to farm into the Statoil-operated 006 license. In agreement with the Faroese Earth and Energy Directorate, these drilling commitments were offset for the companies' participation in the sub-basalt wildcat. Consequently highlighting Brugdan as a prospect of significance, Chevron last year announced its large find on the Rosebank/Lochnagar license.

"Rosebank released a new optimism on both sides of the border," Mr

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Statoil Exploration Faroe is part of the Global Exploration unit (GEX), which in turn is part of Statoil's International Exploration and Production (INT) division.

Participates in exploration on the Faroese Continental Shelf with four operatorships including License 006, in which the Brugdan prospect is to be drilled during 2006. In addition to these four operated licenses, Statoil holds a 30-percent interest in a Chevron operated license on the Faroese Continental Shelf. Main exploration activities in the UK sector of the North Sea this year: one Benbecula well south of the Faroes border, in which Statoil has 35 percent equity, and three wells in Rosebank adjacent to the Faroese border, where Statoil has 30 percent equity.

Hansen said. "With Brugdan, however, we shouldn't forget that there is a real chance of failure to find hydrocarbons. Regardless of that, the drilling process in itself will teach us new things on the technical side, and the result of the well will provide an unprecedented wealth of new geological data. We are indeed looking at an exciting prospect."

The Brugdan well will be drilled to a total depth of approximately 3,780 meters from sea level, in roughly 475 meters of water. Statoil has a 27.15-percent share in License 006, one of the company's four operatorships on the Faroe continental shelf.

Since the early 1990s, Statoil has been assessing the potential of the Faroese continental shelf. The company drilled its first wildcat here, the Longan well, in 2001, finding no commercial oil. Since the Second Licensing Round however, the company has reinforced its Faroe acreage holdings.



The metocean work carried out by The Faroes Oil Industry Group represents more than a prominent aspect of the membership's relationship with the wider community—it can be of high value for the fishing industry, according to FOÍB chairman Ben Arabo.

WITH THE BRUGDAN and William exploration wells scheduled for this summer and next, FOÍB (The Faroes Oil Industry Group) current chairman Ben Arabo is in a cautiously optimistic mood.

While the drilling of each and all associated contract with the supply chain are of course the responsibility of the respective operators—Statoil and BP—Mr Arabo says FOÍB has a role to play, especially in the run-up to actual drilling by running an extensive emergency response exercise ahead of each well.

This has become an established 'tradition' stemming from the four exploration wells drilled during the first drilling campaign, and is about ensuring all eventualities are covered in case there is an offshore emergency.

"FOÍB runs this for the benefit of all members and we do it in conjunction with MRCC [Coast Guard Maritime Rescue Coordination Center] Tórshavn," says Mr Arabo.

"When it comes to HSE [health, safety and the environment] matters, it's very important that we're all on the same page."

By all he means the 13 exploration and production companies that comprise the group's membership: Amerada Hess, Anadarko, Atlantic Petroleum, BG Group, BP, Chevron, DONG, Eni, Faroe Petroleum (Föroya Kolvetni), Geysir, OMV, Shell and Statoil.



FOÍB chairman Ben Arabo, general manager of Amerada Hess Faroes; the island of Koltur (below).

Of course, as Mr Arabo points out, FOÍB is neither as large nor as experienced as its distant and much longer established cousin, nor does it engage in anything like the same breadth of activities.

Set in its own context, it represents a forum for its membership and gateway in terms of access by the wider business community, fisheries, education and the Faroese public.

"We have to be careful that we don't get mixed up with operator business. One of our major purposes is to provide information on request and people welcome the fact that there is one place to go for information about oil activities."

Arguably the aspect of FOÍB that has helped most in terms of its membership's relationship with the wider community is the huge amount of metocean work carried out over the years and which continues unabated.

"We have a huge amount of that kind of environmental data and it has been very valuable for others, especially the fishing industry," says Mr Arabo.

"I think that has helped with the dialogue between the oil companies and the Faroese people."

Another aspect of interest to members that FOÍB has been busying itself with lately is to secure a double taxation agreement with the UK and potentially France, the Netherlands and other countries. Such arrangements are in place with the Nordic nations, Austria, Switzerland and even India.

The Commercial and Legal Committee led by Rúni M. Hansen of Statoil is lobbying for an agreement with the British tax authorities—an agreement said to be imminent. The initial formal approach to London was made in February 2004.

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The hope is that this might expand in the future, but it hinges on at least one of the two exploration wildcats striking convincing quantities of oil/gas. In that case the third licensing round mooted for late 2007 could attract newcomers in the same way that smaller companies are now being attracted to the UK Atlantic Frontier despite the immense geological challenges.

In essence, FOÍB is a simplified miniature of the powerful UK Offshore Operators Association that looks after the collective interests of its North Sea membership, including lobbying gov-

ernment. Drilling, where the Faroese authorities bring in new regulations, and licensing, are two key areas where FOÍB hopes to have and indeed has had an influence at government/ministry level.

"We do expect to be consulted on anything that might affect the membership," says Mr Arabo, who is Faroese general manager for Amerada Hess. "For example, HSE legislation originally related to exploration drilling only. However, this was replaced a couple of years ago with new rules covering the whole value chain."

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General Manager, Amerada Hess (Faroes)

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.

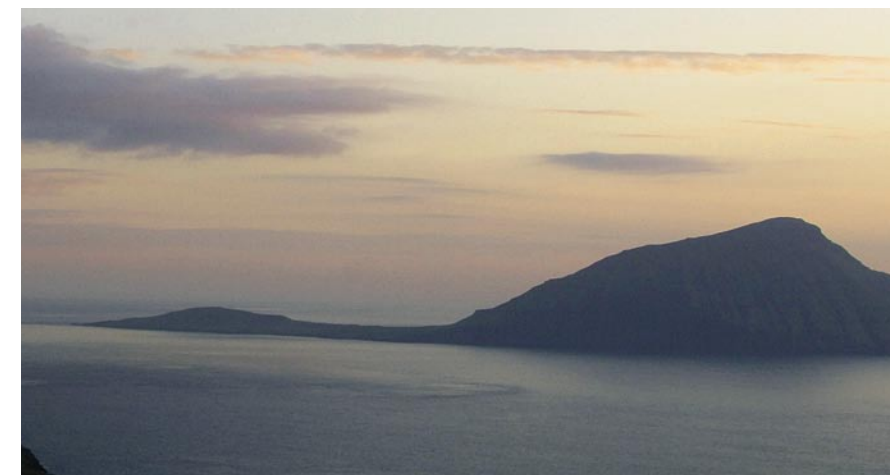
Current members: Amerada Hess, Anadarko, Atlantic Petroleum (Atlants Kolvetni), BG Group, BP, Chevron, DONG, Eni, Faroe Petroleum (Föroya Kolvetni), Geysir, OMV, Shell, Statoil.

In some respects, 2005 marked a significant change for the organization in that the basis of membership changed. Instead of companies paying different amounts under a complex formula based on size and scale of commitment/license type, the decision was made in 2004 to switch to a simple one fee, one vote basis. "It's all about catering for the future," adds Mr Arabo.

We close this article where it started—with Brugdan and William and the high hopes pinned on both by many of FOÍB members and perhaps the wider Faroese public.

Mr Arabo's view of what's ahead?

"It's going to be an interesting season for us all. Let's see what happens!"





Helicopter view of the island of Kalsoy with Borðoy in the foreground.

license holder Anadarko]. Other than the Gold Corner, most of the rest of the Faroese Shelf is covered with basalt. So it will be very interesting to see how difficult it is to drill through the basalt and what the result will be. Also, how expensive will it be, how long will it take and will there be a working petroleum system beneath? Shell has drilled through basalt, so we have some experience.”

The rig most likely to drill William in 2007 is the semi-submersible rig Transocean Brother. Regardless of whether Brugdan or William make the grade, further licensing rounds are on the cards at Jarðfeingi.

“I think we have more than just one shot left in the chamber,” says Mr í Jákupsstovu. “Of course, if the outcome of the well this year is totally negative, that will influence the interest. But there is still the other well. A further option I think we have for our area is the activity related to Rosebank/Lochnagar. Chevron announced the discovery and are very enthusiastic about it.

“I’m confident that the activity and experience and learning that companies are doing on that discovery will influence the Faroese area in a positive way. Remember, the same companies are on both sides of the line.

“In a way, the second round was very well timed in relation to that well. We were lucky that this discovery was made before we opened for bids. As for the third round, we’re working towards having one by autumn 2007. All of the six-year licenses are due to expire this year. This gives us the opportunity to relicense each Round One area through Round Three. The results of the Rosebank/Lochnagar appraisal may be available around that time too.”

(Continued from page 119)

but after the first drilled by BP we recommended for drilling and the rig Stena Don will spud the well in July.”

Expectation is that drilling will take about three months. There is no provision for a test of any kind. Water depth is 475 meters nominal. Cost will be in the region of USD 50M but it could be more.

Outlining what BP has in mind for 2007, its general manager for Faroe, Hjarnar Djurhuus is clear that the company had to horse-trade the way it did to get out of the earlier drilling obligations following the failure of three out of the four wells drilled in the first campaign.

“We had committed to three wells

but after the first drilled by BP we recommended to the petroleum administration that we should find another solution,” says Mr Djurhuus.

It was that clear cut?

“Yes,” he says. “The results from our own well and the results from the other oil companies weren’t what we hoped for. There was a working petroleum system, but you must have a seal so the oil had disappeared. There was no capture [except with Marjun].

“We started to discuss with the administration what we should do. At the end of the day, we [BP and Shell] negotiated the agreement we now have [via a farm-in arrangement with original

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