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UK tax reduction could benefit exploration in the Faroes

The decision by the UK government to reduce taxes on new oil industry ventures west of Shetland, in order to entice oil companies to increase both their exploration and production efforts in this new oil province, ought to be pleasant music in the ears of the Faroe oil authorities, as the more wells drilled and developed in our approximate vicinity, the greater the importance this could have for a future Faroe oil industry. It was last year that the UK government decided to impose revolutionary tax increases on oil industry activities in UK waters, which saw taxes rise from 50% to 62%. This did not go down well with the oil companies and they threatened to stop all future investment in the UK oil industry. This step by the UK chancellor also made the oil companies revise their UK investment plans. The final result was that investment into exploration and development decreased by 34% last year, compared to 2010. This is the lowest since 2003. In 2011, the UK oil production decreased by 18%, something the oil industry interest group, Oil & Gas UK has been quick to point out to the Government. It is rumoured this association has played an instrumental part in making the Government reduce taxes once again. The Chancellor, Mr Osborne has now decided to reduce taxes on oil companies willing to invest in exploration and production in deep waters, i.e. the area west of Shetland and this in turn also means areas very close to the Faroes. This is an attempt to entice the oil companies to invest in the region. This tax reduction is estimated to be in the region of D.kr. 30 billion, in the event oil companies use more money to explore and develop existing hydrocarbon discoveries in deep waters. Several of the large international oil companies like BP, Chevron and Total have recently been contemplating postponing new well drillings and developments. The UK government regards the area west of Shetland as the area where the large oil

companies and subsequently also the UK, stands to gain the most from their investments, as several large discoveries have already been made and it is expected more will be discovered. The large oilfields, Cambo and Rosebank, which are just a few kilometres from the Faroe border are about to be developed, and the tax relief now of offer, will no doubt hasten these developments. This means we will see a substantial development of an infrastructure far offshore, right up against the Faroe border. Important for the Faroes For exploration efforts in the Faroes, this tax relief by the UK government could also become important. History tells us that as oil exploration and production efforts west of Shetland have progressed ever further westwards; this has also been one of the factors for the oil companies to take an interest in the Faroes area. This was best seen in the mid 90-ies when large oil companies like BP, Shell and Phillips all came calling, when Schiehallion and Foinaven were developed. This interest was also seen when the second Faroe bidding round was held, and new large discoveries were made close to the border, i.e. Cambo and Rosebank. Several oil companies, new to the Faroes, applied for exploration licenses. What we most probably will see now is that the large oil companies will begin drilling more wells and initiate developments by the border and this will once again stoke the flames of interest for what could lie on the Faroe side of the border. Oil industry tax experts estimate that the UK has now to a greater extent begun following the Norwegian tax system, where exploration and development expenses are reimbursed. Decommissioning of platforms The tax reduction will also benefit UK industry when it comes to decommissioning old platforms and equipment. It is estimated that the industry will dismantle for over D.kr 500 billion over the next thirty years. Shetland has already begun investing into the decommissioning aspect of the industry this ought possibly also to be considered in the Faroes. Mr Osborn wishes to speed up oil exploration through his tax relief, as the oil price now stands at 124 US \$ per barrel. He regards the area west of Shetland as a future UK gold mine. Faroe Petroleum shares rise The news of this tax relief had an immediate effect on the financial market. An oil company like Faroe Petroleum, which holds several exploration licences west of Shetland, saw their shares rise by 7% and another oil company active in the area and the Faroes, Valiant Petroleum, could confirm a share price rise of 2%. The news of this deep water tax relief was not appreciated by all, in particular the environmental group Greenpeace, which wishes to see an ending of all deep water exploration west of Shetland. The main reason for their grudge is that they believe it will be very difficult, if not impossible to clean up after an oil spill in such a harsh climatic environment.