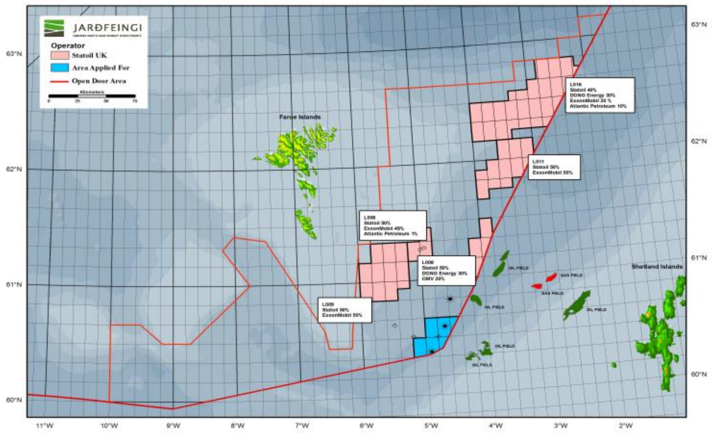

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Shetland area keeping Faroe exploration live

Future developments quite often hinge upon the trials and results of others. This has also been the situation regarding oil exploration around the world, which has transgressed from one area to another; If hydrocarbons have been discovered in one area, then the interest naturally arises to explore in the neighbourhood. Holland the North Sea and Shetland areas Looking at our part of the world, it was a gas discovery in Groningen in Holland, which spurred the American oil giant Phillips Petroleum to set its sights further afield in the North Sea. When oil was discovered there, the oil companies continued their search further to the areas west of Shetland areas which were likened to a desert in an oil industry context. This area however would later turn out to be a true bonanza area for oil and gas. The first well drilling west of Shetland took place in 1971 and tens of wells were drilled before BP in 1977 awakened the sleeping oil giant Clair, which today is one of the staunchest supports of the UK oil industry. Over the last many years there have been several oil and gas discoveries in this former virgin area and today it commands the highest priority from both the authorities and the oil industry. The area is also referred to as the Atlantic Margin Area and the Atlantic Frontier Area an area which we will hear a good deal more about in the pending oil conference at the Nordic House in Tórshavn on the 4th of June. Oil companies taking an interest in the Faroes Suddenly we in the Faroes have become part of the pioneering drive of the oil industry. Already at the time when oil companies began drilling west of Shetland some 40 odd years ago, representatives from the large oil companies, BP, Total and Mobil were knocking on the door of the Faroe Government at Tinganes. This interest was partly fuelled by the North Sea, but also from the outlook of discovering oil and gas west of Shetland. These oil companies were interested in gaining permission to survey the Faroes area. This presented a problem, as the Faroe subsoil was estimated to belong under Danish sovereignty. The Faroes on the other hand however, estimated they held the rights to all possible raw minerals present in the subsoil. Until a solution to this problem was found, the oil company representatives unsuccessful in their licensing endeavours. Their applications were designated to life in a drawer for the time being. We may all be familiar with the negotiations which arose first with Denmark and later with the UK. These negotiations took several years and not until the mid-90ies was the door finally opened for the oil companies to conduct their seismic surveys of the Faroe plateau, which resulted in a drilling in early 2000. Looking in the rear mirror it is possible to conclude, that while the Faroes shelved the oil companies applications for many years, our neighbours in the UK had permitted oil companies to explore west of Shetland all these years and this may be said to be the difference between the Shetland and the Faroe oil exploration saga. Quite simply they are thirty years ahead of us. On another note, technology has advanced to such a stage that we do not require thirty years to catch up. In any case we see a development, where oil companies and others have conducted a huge a number of surveys on a large part of the Shetland area, resulting in several very large oil and gas discoveries, which are very important to the UK economy. Golden Corner It may be concluded that this positive development on the eastern side of the Faroe/UK border has assisted in focusing attention on what may be present in the adjacent neighbourhood, e.g. the Faroes area. All the experience and knowledge accumulated after 40 years of drilling and development west of Shetland, ought now to benefit the Faroes. This was put to the test when BP undertook a drilling under the complete conviction that it was just a question of time before a discovery was made, as the Faroes area was a complete reflection of the Foinaven and Scheihallion geology. This soon proved to be a complete fallacy and misconception. After drilling several dry wells in the so-called Golden Corner, the oil companies begun looking for new prospect areas in the Faroes. There can be no doubt that to a large extent it is the discoveries made east of our border in UK waters, which has fuelled the oil companies interest for the Faroes. This was very noticeable when the large oilfield Foinaven was discovered in the early 90-ies, very close to the Faroe/UK border and again later the large Schiehallion oilfield. These discoveries focused attention in earnest upon the Faroe area. These discoveries together with all the others since made, e.g. Rosebank, Cambo, Suilven, Solan, Tornado, Laggan Tormore, Victory, Tobbermory etc. etc. have been a catalyser for the oil companies to focus on the Faroes area. They all assisted in oiling the wheels, resulting in a multitude of foreign oil companies together with seismic companies investing massive amounts of money to discovery Faroe oil. Oil by the way, was discovered in 2001 in the Marjun well, close to the border, but it was estimated it was not in commercial quantities. New independent estimations however indicate it may be worthwhile to drill there again. Jarðfeingi are currently evaluating a new application to survey this promising area once again. Seven wells have been drilled in Faroe territory to date and they have confirmed an active hydrocarbon system is present. The question is where are all the right conditions present for making a commercial discovery. Everyone is saying that when that many hydrocarbons are present just on the other side of the border, there must also be some present here to. They are probably correct, as a politically installed borderline would hardly represent a divisory line where oil is present or not. We see that several discoveries are being made very close to the Faroe border and the oil companies and seismic companies are very interested in surveying this area. Expectations are running high, so much so that the UK government has offered tax relief to try and entice companies to explore west of Shetland. Three producing wells There are three producing wells west of Shetland today. The decision to develop and modernise Scheihallion and develop another production unit at Clair has been taken. A massive development project including several gasfields is also underway representing a total investment in excess of 100 billion D.kr. Work is also on-going to develop several of the new oil discoveries, e.g. Rosebank, Cambo and Tornado all located close to the Faroe/UK border. For the Faroes, these developments hold a psychological importance as in general the oil companies are asking what could not lie on the Faroe side of the border, as there is so much oil and gas in the adjacent area. The vast number of surveys and drillings also supply knowledge on the neighbouring geology and represent a good reference to what could be present in the Faroes area. It is also quite evident that developments close to the Faroes also encompass an infrastructure, which could become extremely important for any possible future Faroe discovery. The development of oilfields close to the border may also be important in the event a small discovery is made in the Faroes, which on its own is not commercially viable. It could become viable if it was possible to tie it back into an existing infrastructure. Surveys important for the Atlantic Margin area We must not underestimate the importance the seismic surveys and drillings completed in UK waters could have for the Faroe exploration effort. Seismic forms the basis for drillings and although basalt is a problem in the Faroes, seismic surveys and other affiliated cross border surveys could open up new opportunities. Exploration wells in UK territory may indicate what could be present in Faroe waters. BP has just drilled a very interesting deep water well, the North Uist, close to the border. Although initial results are not looking very promising, there are indications this well could be important for the whole area. Yet another interesting well will be drilled this year, the so-called Handcross prospect well. This well may also be important for the Faroes area. We could continue along this line of thought, but the truth is that only well drillings will reveal what is actually present in our subsoil. We come to the conclusion that several of the worlds largest oil companies, e.g. BP, Chevron, Shell, Statoil and Total are investing billions in oil industry activities in the area between Shetland and the Faroes. These investments, in size are mind boggling, and ought to make the Faroese realise what is happening right on their doorstep. If oilfields like Rosebank, Cambo, Tornado and Suilven, all lying very close to our border are to be developed over the coming years, these will also create new opportunities for Faroe industry and service providers. The areas are so close to the Faroes that Faroe industry must include them in their future plans. An oil and gas production by the border could suddenly become a very important market for Faroe industry and all its associated players. The recent service cooperation agreement between Faroe Tele on the one side and BP and Total on the other, is tangible evidence of such a development. It will of course be wells in Faroe waters which will provide us with most of the answers and therefore all eyes are on the postponed Brugdan 2 well drilling project. All are eagerly awaiting the final outcome, when drilling is finally terminated sometime in the future. We can definitely say however, that it is the exploration effort west of Shetland over the past 40 years, which is stoking exploration in the Faroes. Lure of the elephant A very persuasive reason for the continued interest of the large oil companies for the Atlantic Margin area in spite of distance and the high risks associated with the area is the lure of making large-scale discoveries - so-called elephants. Elephants make replacements so much easier, but they are quite a rare phenomenon in the world today. The prospect structures, which the oil companies seem to see from the seismic data are very many and large and therefore the oil companies estimate large-scale discoveries may be made here. The interest of ExxonMobil for the Faroes area would seem to confirm this viewpoint, as we would probably not see such large companies here if the outlook only merited small discoveries. All this however is not without risk and due to the small number of wells drilled, compared to the North Sea for example the associated risk is very high. Although elephants may be present, the question is where are they hiding and it will probably take large-scale investments to find them. To drill in deep waters in a very storm prone area just adds to the already high risk and the deeper the well the higher the pressure and heat usually become. Whatever happens, the oil companies do certainly not want to see another Macondo incident repeating itself in the Atlantic Margin area. The Atlantic Margin area has been dubbed the new oil province of Europe. If several new oil and gas fields are discovered west of Shetland and a development in the Faroes becomes similar to what we see on the eastern side of the border, it is not unlikely we sometime in the future could talk of a new North Sea, where Atlantic Margin oil will naturally replace depleted North Sea oil deposits. On the 4th of June the Atlantic Margin area will once again be on the agenda, when some of the most competent and knowledgeable people from Great Britain will explain the exploration and production west of Shetland. They will also present their best prediction for making commercial discoveries in the area between the two countries.