

EXECUTIVE COUNCIL

PUBLIC

Title: Revocation of a Suspension Notice modification for Offshore Open-Door Licensing.

Paper Number: 130/25

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Responsible Director: Director of Natural Resources

Report Author: Minerals Officer

Portfolio Holder: Teslyn Barkman

Reason for paper: This paper is submitted to Executive Council:
For functional decision
For policy update/information

Publication: Yes, with redactions as highlighted below

Reason for redactions:

Under Executive Council Standing Order 23(2), Executive Council must have regard to the categories of exempt information in Schedule 3 to the Committees (Public Access) Ordinance when determining if information should be withheld

The categories which are potentially relevant to this paper are:

- 3 – International relations

Previous papers: 97/05, 174/05, 202/05, 269/07, 27/08

List of Documents: Annex 1: Draft Gazette Notice

1. Recommendations

Honourable Members are recommended:

- (a) To direct the Governor, by notice published in the Gazette to revoke the modification of the 2005 Suspension Notice in place, regarding the operation and effect of regulations 4-7 of the Offshore Petroleum (Licensing) Regulations 2000, so that the suspension will apply to the whole of the controlled waters.

- (b) To approve the proposed Gazette Notice, as applicable once any amendments have been ratified, to be published as per 3 (A)(1) of the Offshore Petroleum (Licensing) Regulations 2000.

2. Additional Budgetary Implications

- 2.1 None

3. Executive Summary

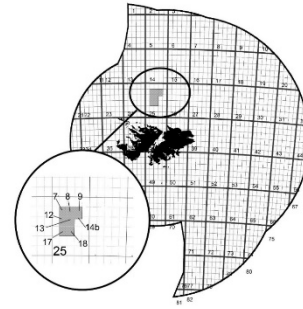
- 3.1 The Offshore Petroleum (Licensing)(Amendment) Regulations 2005 allowed for the suspension of regulations 4-7 of the Offshore Petroleum (Licensing) Regulations 2000, enabling the operation of the Open-Door licensing system, provided for by the 2000 regulations, to be suspended either indefinitely or for such period as may be specified in that notice, in relation to the whole or part of the controlled waters.
- 3.2 After the 2005 regulations were commenced, a Suspension Notice was issued in the Gazette in September 2005 that indefinitely suspended the Open-Door Licensing system for the whole of the controlled waters.
- 3.3 In 2008 a modification to the suspension notice was published which allowed seven blocks and one part block to be advertised to receive applications. However, following this period of licensing there was an omission, and this modification was not revoked.
- 3.4 The Falkland Islands Government (FIG) do not currently intend to advertise again to invite applications for these license blocks, therefore leaving the Open-door Licensing system open for these blocks may cause confusion. This is particularly relevant now as the Sea Lion project is provoking interest in Falkland Islands oil acreage internationally and in the media.
- 3.5 It is therefore proposed to correct this omission and reinstate the full suspension of the Open-Door licensing system. This will be done via publication of a notice in the Gazette to revoke the modifications of the 2005 suspension notice made in 2008.

4. Background

- 4.1 An Open-Door licensing policy was implemented by FIG in May 2000 and was successful in attracting investment in offshore exploration. By 2005 large areas of the Falkland Islands' sedimentary basins had been licensed to small independent companies that had agreed to carry out extensive survey work costing millions of dollars. From 2005 oil prices steadily increased but exploration costs also tripled in that time, greatly increasing the need for extra fundraising or farm-ins by licensees to fulfil work commitments.
- 4.2 The Mineral Resources Committee advised Executive Council that further licensing to start up oil companies, who may require farm-in solutions for funding, should be put on hold and that licensing should resume again when the area attracted larger companies with the funds to survey and drill wells.

- 4.3 Reasons for the need to consider closure of Open-Door Licensing were presented to Executive Council in April 2005 (paper 97/05) when a recommendation was made for a provision in regulations to be created to allow FIG, through Executive Council, to open and close Open-Door licensing as required and in specific areas in order to maximise economic benefit to the Falkland Islands.
- 4.4 In July 2005 Executive Council approved (paper 174/05) the Offshore Petroleum (Licensing)(Amendment) Regulations 2005, which allowed for the suspension of sections 4-7 of the Offshore Petroleum (Licensing) Regulations 2000 enabling the operation of the open licensing system, provided for by those regulations, to be suspended from time to time in relation to the whole or part of the controlled waters.
- 4.5 The Mineral Resources Committee subsequently discussed the matter of closing Open-Door licensing at their meeting on 4 August 2005, and supported a recommendation put forward by consultant Dr Phil Richards and the Director of Minerals and Agriculture to request the Governor through Executive Council close licensing throughout the whole controlled waters.
- 4.6 This recommendation was approved by Honourable members in Executive Council (paper 202/05) and a notice was published in the Gazette on 9 September 2005 suspending the operation and effect of regulations 4 to 7 of the Offshore Petroleum (Licensing) Regulations 2000 indefinitely in respects of the whole of the controlled waters.
- 4.7 The Mineral Resources Committee later discussed advice from their consultants British Geological Survey and supported a recommendation to request the Governor through Executive Council remove the suspension of Open-Door licensing. The proposal was presented at Executive Council meeting on 14 December 2007 (paper 269/07) where Honourable Members advised the Governor to seek the approval of the Secretary of State to re-open the Open-Door Licensing under Offshore Petroleum (Licensing)(Amendment) Regulations 2005 and to amend clause 6(1)(b)(i) of the 2000 Regulations to allow for part blocks to be licensed to companies. This was later approved by Secretary of State.
- 4.8 In February 2008 Executive Council was recommended (paper 27/08) to advise the Governor to seek the approval of the Secretary of State to advertise in the Falkland Islands Gazette, an area of the North Falkland Basin comprising seven blocks plus a part block in Quadrant 25 (subject to approval to change regulations to award part blocks), for Open-Door licensing.
- 4.9 A modification of Suspension Notice was approved and published in the Gazette dated 8 April 2008, which removed the suspension, with effect from the 30 April 2008 from Blocks 7, 8, 9, 12, 13, 14b, 17 and 18 in Quadrant 25 of controlled waters.

For the avoidance of doubt, the co-ordinates for part-block 25/14b are:
59° 12' 00" W, 50° 20' 00" S
59° 12' 00" W, 50° 22' 30" S
59° 24' 00" W, 50° 22' 30" S
59° 24' 00" W, 50° 20' 00" S



4.10 Whilst a number of these of these blocks were successful in being licenced, the modification of the Suspension Notice was not subsequently revoked. Over time the Licences for the blocks specified in the modification were later relinquished.

5. Analysis

5.1 FIG does not currently intend to advertise again to invite applications for these licence blocks, therefore leaving the Open-door Licensing system open for these blocks may cause confusion.

5.2 The Department of Mineral Resources raised this omission with Legal Services, who recommending reapplying the Suspension Notice to the whole of the controlled waters. This would allow any future licensing strategies to apply to the whole licensing area equally without further remediation.

6. Options

6.1 Option 1: Advise the Governor to publish a notice of revocation of the 2008 modification notice in the Gazette.

The revocation is allowed by legislation and will close the remaining Open-Door Licensing system for the blocks listed in Schedule 1. This will ensure uniformity of any future licensing systems across the currently unlicensed quadrants/blocks and avoid any confusion.

This option is recommended.

6.2 Option 2: Do nothing.

This is not recommended as it may cause confusion should the current interest in Sea Lion project continue to provoke international and media interest and companies wish to seek applications for this open area.

REDACTED

7. Consultation

7.1 Legal Services were consulted regarding this omission and draft ExCo paper sent for review.

7.2 This recommendation and the draft paper were then taken to the Strategic Oil Group for discussion and decision.

8. Resource Implications

8.1 Financial Implications

8.1.1 None

8.2 Human Resource Implications

8.2.1 None

8.3 Other Resource Implications

8.3.1 None

9. Legal and Legislative Implications

9.1 The power to open-close Open-Door Licensing was enabled by the Offshore Petroleum (Licensing)(Amendment) Regulations 2005, which by Regulation 3(A)(1) of Offshore Petroleum (Licensing) Regulations 2000 allows the Governor by notice published in the Gazette to suspend the operation and effect of regulations 4-7 either indefinitely or for such period as may be specified in that notice and may by a notice so published from time to time amend or revoke a suspension notice.

9.2 Legal Services will publish the proposed Gazette Notice as appropriate once any amendments have been ratified.

10. Equalities and Human Rights Implications

10.1 None

11. Environmental & Sustainability Implications

11.1 None

12. Camp Implications

12.1 None

13. Significant Risks

13.1 The omission to revoke the Suspension Notice modification, allows seven blocks and one part block in Quadrant 25 open to receive applications for licensing at a time when FIG are not advertising the invitation of applications and may cause confusion.

13.2 The Sea Lion project is provoking interest in the Falkland Islands oil acreage internationally and in the media, therefore it would be advisable to correct this omission swiftly. **REDACTED**

13.3 This would need to be revoked ahead of any future licensing campaigns to ensure this can be applied to the whole licensing area.

14. Publicity and Outreach

14.1 None

15. Reasons for Recommending Preferred Option

15.1 It is in keeping with the legislation and reverses a temporary modification no longer applicable. It is the appropriate time to correct this ahead of any project developments and potential future licensing campaigns.

Annex 1: Draft Gazette Notice

Offshore Petroleum (Licensing) Regulations 2000

(regulation 3A (1))

Revocation of No. 23 Modification of Suspension Notice dated 8 April 2008

IN EXERCISE of my powers under regulation 3A (1) of the Offshore Petroleum (Licensing) Regulations 2000, I hereby notify that the modification effected on 30 April 2008 of the indefinite suspension of regulations 4 to 7 of the Regulations put in place by the Suspension Notice dated the ninth of September 2005 is revoked, so that the indefinite suspension applies to the whole controlled waters.