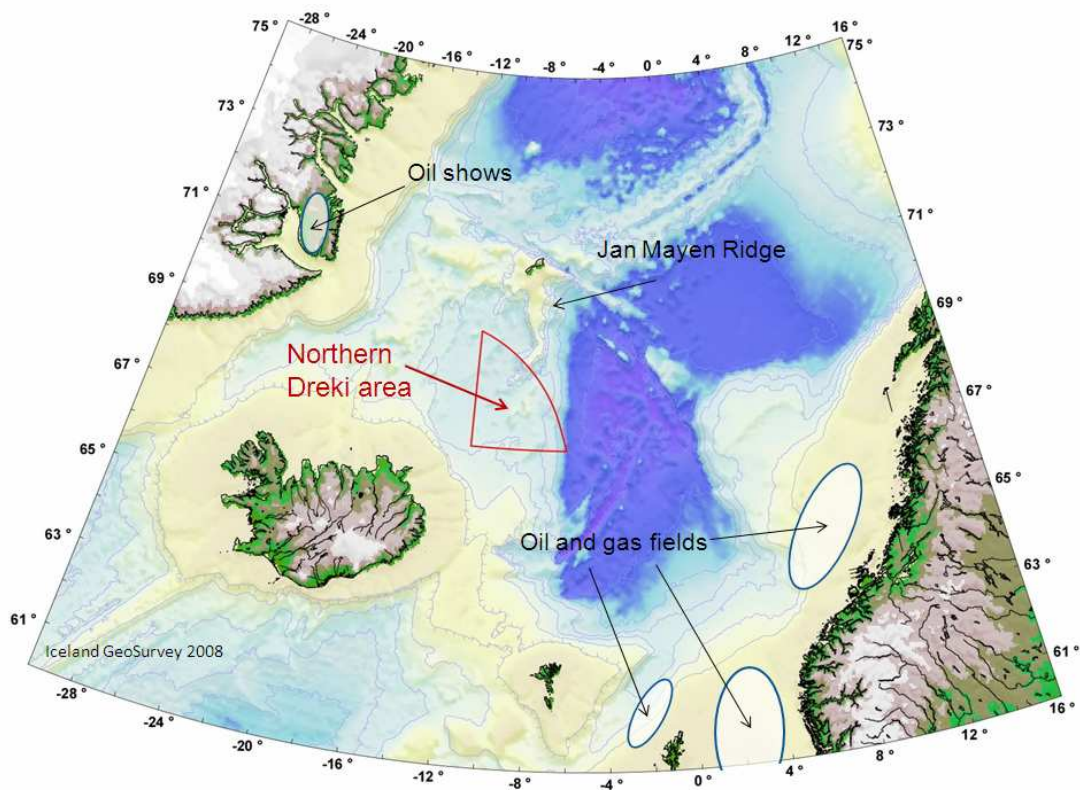


Fact sheet, 18.12.07.

Source: The Ministry of Industry, Iceland

Exclusive licenses offered for oil exploration off Iceland in January 2009

- According to the Minister of Industry's proposal, the plan entails granting exclusive licenses for exploration and production of oil and gas in the northern part of the Dreki area, which covers about 42,700 km². An international agreement from 1981 between Iceland and Norway on the continental shelf between Iceland and Jan Mayen applies to part of the area, and this part covers 12,720 km² or almost 30% of the area.
- The Dreki area¹ refers to the ocean area in the Icelandic exclusive economic zone that is demarcated to the west by 11°30' W longitude and to the east by Iceland's 200-mile limit.



- The current research done on hydrocarbon resources in the area entails geophysical measurements (including seismic surveys) carried out under the auspices of the Icelandic and Norwegian governments as well as seismic data acquired by privately owned oil exploration companies, and the results look promising regarding the possibility that a producible quantity of oil and gas may be found there. Geographically the area is part of a continent originally lying between Norway and

¹ The name Dreki derives from the relevant national guardian spirit on Iceland's coat of arms, referring to the lie of the area east of Iceland, and is adopted, among other things, so as not to have to identify the area with place names in another state's jurisdiction.

East Greenland; thick sedimentary layers can be found there. Oil and gas have been found in many parts of this area, and great strides in drilling and production technology the last several years have now made searching for these resources in the Dreki Area possible, along with other nations' experience with oil and gas production at great ocean depths in northerly regions. However, further exploration, including exploratory drilling, is required to verify whether oil and gas can be found in the area.

- The conditions in the Dreki area are special in many ways, and knowledge about environmental factors in the area is limited. It is therefore necessary to execute preparatory explorations carefully and ensure that antipollution measures, readiness and organisation of responses are based on these circumstances. The most modern technology must be applied, and the safety of employees and the environment must be kept especially in mind. Under the auspices of the OSPAR Convention on protection of the Northeast Atlantic, numerous resolutions, directions and instructions have been approved on prospecting, exploration and production of oil and gas from the ocean floor, and considerable work with the same aims has likewise been done under the auspices of the Arctic Council, including guidelines and policy formulation on ways and criteria.
- Prospecting, exploration and production of oil and gas entail various kinds of construction and effects.
- *The prospecting phase* does not require direct construction in the area but temporarily results in increased ship traffic in a relatively remote and unfrequented area. The prospecting phase mostly involves ship traffic, with vessels sailing predetermined routes doing seismic surveys (i.e., transmitting sound waves to the bottom and measuring their reflection), in addition to limited sampling from the surface layers of the ocean floor. The measures can last for several months during the summer, but they are geographically confined and temporary.
- *The exploration phase* entails operations and construction in the prospecting area in addition to continuing measurements falling under the prospecting phase. The exploration phase specifically involves exploratory drilling, which is a complicated operation under the circumstances prevailing in the area. The drilling is done either from special drilling ships or drilling platforms floating in the sea. After the exploratory drilling is finished, diverse testing of the well begins. Possible pollution from such operations must therefore be assumed from the outset, in addition to the operations' effects on the environment. If exploratory drilling is promising, it may be advantageous to set up production equipment and necessary support facilities.
- *Production* of oil or gas from sedimentary layers lying at a great depth is a technically difficult and complicated industrial activity that can have diverse effects on the surrounding environment. Drilling, pipes, the handling of oil and/or gas, activities aboard a production unit, living quarters for employees and other habitation, logistics, pollutants coming up with oil or used in the production processes, handling of waste and transport of oil from the production area are all sources of pollution and other environmentally damaging effects that must be kept in mind from the beginning. The drilling of production wells is not much different from the drilling of exploratory

wells, which has already been discussed. Undersea construction, such as the laying of pipelines and build-up of various structures like pumping stations, has a direct impact on the ocean floor and the living conditions of benthic species in the area.

- There are various factors of uncertainty regarding this plan. For example, there is uncertainty about how much interest oil companies have in prospecting for oil and gas in the area, and whether a producible quantity of oil and gas will be found in the area. No precise determination has been made of what methods will be used for drilling or production, if any, in the area, but this plan provides for strict antipollution requirements to counteract pollution of the environment; in addition, there will be strict requirements regarding safety since the conditions in the area are difficult. In addition, many questions will not be answered until evaluation is made of the environmental impact of individual operations in the area, such as the environmental impact assessment of particular wells. However, there do not appear to be any technological limitations to producing oil and gas in the area if such resources should be found there.

Economic impact

- The discovery of a producible quantity of oil and gas on the Jan Mayen Ridge could have a strong economic impact on the Icelandic economy. Domestic production could rise considerably at the peak of operations and production in the oil sector. The revenues of the State Treasury can be expected to increase substantially. In this regard it is possible that a specific resource tax would be levied on the sector, in addition to the general 18% corporate tax. Revenues from this taxation could be channelled into a special oil fund. The government's expenditures related to the oil sector will probably be a small fraction of the revenues expected to flow into the State Treasury from direct taxes. The external balance of the national economy, i.e., the balance of trade and the balance of payments vis-à-vis other countries, could fluctuate, which would be manifested in an increased deficit and indebtedness during the period of build-up of the oil sector. However, a turnaround can be expected in this area when full oil production is reached. Internal balance could be disturbed by increased inflationary pressure and possible ripple effects through a stronger exchange rate of the Icelandic króna. Offsetting such effects entails the use of traditional monetary and budgetary instruments; in addition, the establishment of a special oil fund, as mentioned above, could be considered.
- In addition to the general economic benefit to the nation as a whole, it cannot be overlooked that, geographically, the Dreki area lies very close to Northeast Iceland, which has struggled with settlement problems in recent decades. More and diverse services for oil exploration and production will have to be sought in Iceland as time passes, and this must have some positive impact on the people and prosperity in the relevant area.

Security and work safety

- It is important that the companies obtaining licenses to engage in oil exploration or begin oil production and related activities on Iceland's continental shelf manage their environmental matters and issues regarding work safety in conformity with the best practices. In this regard, all tasks are important, whether they involve prospecting,

testing wells, experimental production if oil or gas is found, setting up production plants if there prove to be producible quantities of oil or gas resources, production, storage and transport of oil or gas, or decommissioning and cleanup in a production area when production is finished. Provisions shall be made for ensuring the safety and health of employees through efficient management of work safety affairs. This, in short, entails preparation of risk assessments for tasks, systematic preparation of preventive measures, preparation of a safety and health plan, and there shall be active internal monitoring at companies engaged in oil exploration and production. In this way, their experience and knowledge shall be utilised as much as possible. The Administration of Occupational Safety and Health shall follow up on whether the companies fulfil their obligations in this regard.