Greenland tightens oil/gas exploration terms

COLUMN: New licensing rounds for the exploration of oil and gas in Greenland have just been opened. However, there are a number of changes in the licence terms.

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Like in Denmark, licensing rounds are conducted in Greenland for new oil/gas licences, and the coming licensing rounds and the related terms were published recently.

These are part of Greenland's oil and mineral strategy for the period 2014-2018, which Naalakkersuisut (the Government of Greenland) laid down earlier this year.

It is the aim to attract private investors for the exploration of hydrocarbons in Greenland and to maintain a high level of activity spread across several regions. Based on geological assessments of the areas of particular interest, Naalakkersuisut has decided that the coming licensing rounds are to include areas at the Disko island and Nuussuaq peninsula (onshore) and waters in the Baffin Bay and the Davis Strait (offshore). In addition, new "open door" rounds have been opened for Jameson Land in East Greenland (onshore) and South West Greenland (offshore).

A total of 23 exploration licences have been granted for licence blocks in the waters off Nuuk, in Disko West, the Baffin Bay, South Greenland and the Greenland Sea.

Licensing round in 2016 - the Disko island and the Nuussuaq peninsula

Licences have been offered for three licence blocks in onshore areas on the Disko island and the Nuussuaq peninsula for a licensing round in 2016. Seepages of hydrocarbons have been observed in the volcanic layers as well as horizons of coal. The area has been closed off for licences since 2003 but reportedly, small and medium-sized enterprises have shown interest.

Certain areas have been designated as "protected wetlands of special importance to birds" and are covered by the "Ramsar" Convention while others are enjoying special nature protection. Therefore, there are limits as to where and at which time of the year exploration activities may take place, e.g. seismic.

Licensing rounds in 2017 - Baffin Bay / 2018 - Davis Strait

Additional offshore licensing rounds will be conducted in 2017 for the Baffin Bay and in 2018 for the Davis Strait (west of Nuuk). Both areas are characterised by the fact that there are already licence blocks in the areas. The Baffin Bay was also subject to a licensing round in 2010 and today there are 7 licence blocks and already 2 licence blocks in the Davis Strait.
There is great focus on climate changes and how they may facilitate future exploration. However, one of the most important operational physical challenges in relation to the exploration is still sea ice and icebergs. 25,000 to 30,000 icebergs are passing through the Baffin Bay each year. In the southern area in the Davis Strait the volume is somewhat smaller, and the icebergs here have mainly travelled from East Greenland with the current down to Kap Farvel and up along the West coast.

The new licence blocks will be significantly smaller than previously as an upper limit has now been fixed at 4,000 km$^2$ per licence.

**New licence terms**

For offshore areas, the licence will be issued for a 10-year period as hitherto.

As a new condition, the exploration licences for onshore areas will, however, only apply for a period of 2-4 years with an option to apply to for renewal for 2-3 additional periods up to a total of 10 years. The purpose is that the licensee will not be obligated from the start to lay down a work programme for the entire exploration period,

The structure of Greenland's "government take" has also be changed. Like the licences in the mineral resource area, a turnover royalty of 2.5 percent has now been introduced in addition to the existing surplus royalty payment (7.5 percent, 17.5 percent and 30 percent when the accumulated revenue exceeds the accumulated costs by 35 percent, 45 percent and 55 percent). At the same time, the ownership share of the national oil company (Nunaoil) has been reduced from 12.5 percent to 6.25 percent.

Other new terms include rather extensive requirements where a licensee will have a duty to report tax to the mineral resource authority, including submitting documentation of tax payments. This applies not only to the licensee's own tax affairs but also to the tax affairs of the licensee's contracting parties, including suppliers, sub-suppliers and service providers, etc.

In the last resort, the mineral resource authority will sanction non-compliance with an order to suspend activities under the licence.

The latter must be expected to prompt a number of considerations and discussions between the contracting parties and not least requirements for provision of security.

*HORTEN Law Firm and Nuna Law regularly contribute columns to EnergiWatch on the laws regulating the area of energy and mineral resources.*