

EXECUTIVE COUNCIL

CONFIDENTIAL

Title of Report: Falkland Islands Hydrocarbon Development Policy Statement

Paper No: 158/13

Date: 24th July 2013

Report of: Head of Policy

1. Purpose

1.1 To present to the Executive Council a set of overarching policy statements with the intent of managing hydrocarbon development in the Falkland Islands

2. Recommendations

2.1 It is recommended that MLAs adopt the following policies (further details contained in the Annex to this paper):

1. Hydrocarbons in Falkland Islands waters belong to the people of the Falkland Islands and their exploitation must be to the benefit of the people of the Falkland Islands, both those of today and future generations.
2. The Falkland Islands Government will maintain constant supervision and control over all hydrocarbon activities within the Falkland Islands Designated Area.
3. Petroleum discoveries must be efficiently managed and exploited to maximise economic recovery and to ensure the development of a long-term industry presence that will benefit the Islands for decades to come.
4. Development of the hydrocarbons industry must ensure the protection and conservation of the Falkland Island's environment and biodiversity.
5. Development of the hydrocarbons industry must take into consideration existing commercial activity and promote the development of local business capacity.
6. The exploitation of finite natural resources will be used to develop lasting benefits to society across the whole of the Falkland Islands.
7. Transparency and accountability must be present throughout the hydrocarbon development process from all parties involved.

8. The Falkland Islands will only consider onshore hydrocarbon facilities if they are considered to be in the best interests of the Falkland Islands, and can be proven to satisfy all of the above policy goals.

3. Summary of Financial Implications

3.1 None

4. Background

- 4.1 When preparing for the windfalls of a developing hydrocarbon industry it is good practice to develop a set of rules or policies to guide decision making by all parties involved. These are intended to provide guidance for all parties that will be affected by hydrocarbons development – the people of the Falkland Islands, the local private sector, oil companies and their supply chains – as to the Government’s expectations regarding hydrocarbon development in the Islands. The most important purpose of this policy statement is to provide clarity on the purpose of hydrocarbon development and on how the implications of developments will be managed.
- 4.2 The Norwegian Government successfully implemented a similar approach in the form of the “Ten Oil Commandments”, though the approach has also been adopted in many other regimes around the world. The rationale behind the Norwegian approach was to ensure that hydrocarbon activities benefit the country in the present and the future. It provides an excellent example of how establishing clear and consistent policies from the outset can encourage a successful and prosperous industry to the benefit of an entire nation.
- 4.3 Building on this experience and the conclusions reached through FIG’s oil readiness programme, ExCo agreed that an overarching statement should be prepared with respect to FIG’s policy regarding the management of the Islands’ hydrocarbon reserves and the expected benefits of their exploitation (see ExCo 70/13, Recommendation 1).
- 4.4 This paper suggests a series of policies that the Falkland Islands should consider adopting for its own hydrocarbon management strategy. The policies were discussed at the Mineral Resources Committee held on 11th July 2013, with a recommendation from the Committee that they be approved by ExCo.

5. Financial Implications

5.1 None

6. Legal Implications

6.1 None

7. Human Resources Implications

7.1 None

Falkland Islands Hydrocarbon Development Policy Statement

- 1) Hydrocarbons in Falkland Islands waters belong to the people of the Falkland Islands and their exploitation must be to the benefit of the people of the Falkland Islands, both those of today and future generations.**

As set out in the Falkland Islands Constitution, any natural resources found within the Falkland Islands Territory belong to the people of the Falkland Islands. Therefore any exploitation of these resources must be undertaken with the support of the people and managed in a way that their exploitation benefits the Falkland Islands, its current population, and future generations. It is important to consider future generations when deciding how to exploit natural resources – there is an opportunity to ensure long-term benefits for the Islands arising from the significant wealth that will be generated from the exploitation of Falkland’s hydrocarbon reserves.

- 2) The Falkland Islands Government will maintain constant supervision and control over all hydrocarbon activities within the Falkland Islands Designated Area.**

It is important for the Falkland Islands to keep a close vigil on those who come to assist with the exploration, extraction and all other processes that the industry brings. The Falkland Islands Government (FIG) will maintain strict legal and regulatory controls over the industry, and such controls *may* be different to those applied in the UK or other regimes. Experiences elsewhere in the world have proven that poor regulation may lead to social, economic and environmental problems that would not be in the best interests of the Islands or its people and hence must be avoided.

- 3) Petroleum discoveries must be efficiently managed and exploited to maximise economic recovery and to ensure the development of a long-term industry presence that will benefit the Islands for decades to come.**

We wish to ensure that the revenues from hydrocarbon exploitation flow for as long as possible to ensure maximum benefit to the Islands and its people. This requires efficient management of reserves from the outset.

- 4) Development of the hydrocarbons industry must ensure the protection and conservation of the Falkland Island’s environment and biodiversity.**

One of the Falkland Islands’ greatest assets is its environment and biodiversity. Damage to, or loss of, this feature would be a tragedy for the Islands, which if serious enough could lead to a loss of identity as a result of the key role of the natural environment in the lives of Falkland Islanders. Any detriment to this feature could have significant adverse effects on the Islands’ traditional industries (agriculture, fisheries and tourism) and this must be avoided.

- 5) Development of the hydrocarbons industry must take into consideration existing commercial activity and promote the development of local business capacity.**

Businesses involved in the hydrocarbons sector are required to adopt the Falkland Islands Code of Practice with respect to local content and must demonstrate a commitment to local economic and commercial development. Existing commercial entities are expected to benefit from opportunities arising in the sector and should be assisted to develop new skills and expertise to expand local capabilities.

6) The exploitation of finite natural resources will be used to develop lasting benefits to society across the whole of the Falkland Islands.

Windfall revenues arising from the exploitation of natural resources can be used to finance major infrastructure projects that current revenues cannot support. These projects can provide long term benefits for the people of the Falkland Islands for generations to come. The Falkland Islands Government is committed to the establishment of a Sovereign Wealth Fund to manage hydrocarbon revenues, and such revenues will be used to ensure long-term benefits to the Islands. However, the Falkland Islands Government will also seek to carefully manage the use of such revenues so as to avoid damage the Falkland Islands way of life and to manage potentially harmful economic, social or environmental consequences that may arise from imprudent use of such revenues.

7) Transparency and accountability must be present throughout the hydrocarbon development process from all parties involved.

The Falkland Islands Government is committed to full transparency and accountability in the management and administration of the Sovereign Wealth Fund in order to prevent corruption and to engender trust in the management of such revenues. This will be achieved by ensuring several layers of accountability are built into the natural resource management mechanism.

Regular accounts will be published to document receipt and account for the use of revenues secured from hydrocarbons exploitation, and specific rules and regulations regarding use of monies within the Sovereign Wealth Fund will be developed and published.

The Falkland Islands Government will require all hydrocarbon companies with activity in the Falklands to publish payments to the Falklands Islands Government in respect of hydrocarbon activity.

The people of the Falkland Islands will be encouraged to fully participate in events and consultation on matters related to hydrocarbon development and its potential effects on society, the economy and the environment. FIG will publish all relevant research, policies and decisions made regarding the sector.

8) The Falkland Islands will only consider onshore hydrocarbon facilities if they are considered to be in the best interests of the Falkland Islands, and can be proven to satisfy all of the above policy goals.

Onshore hydrocarbon related developments and supporting facilities may be permitted if they are considered to be in the national interest; if they can demonstrably meet all other policy ambitions set out in this document; and if they satisfy the relevant planning and regulatory requirements.