

Falklands' success reflects entrepreneurial attitudes

Phil Richards*

Exploration success in the harsh waters around the Falkland Islands – a self-governing British Overseas Territory disputed by neighbouring Argentina – has taken considerable time to achieve, but is now starting to prove to have been worth the wait. With just 22 wells drilled and seven discoveries made during the latest drilling campaign since early 2010, the Islands' oil potential has been transformed from the nadir days of the 1998 oil price crash which saw the likes of Shell, Amerada Hess, Teikoku, Murphy, Fina and Lasmo withdraw from the area after drilling just six holes with various shows but no discoveries.

When the Falkland Islands Government launched its first, and to date only competitive licensing round in 1995, only the relatively shallow water blocks to the north of the Islands – in less than 500m of water – were deemed to be either attractive enough or technically feasible to explore. Shell, Hess and Lasmo, with their associated partners of the time, took the lion's share of the more attractive acreage, amidst relatively fierce competition for the perceived prized blocks [Figure 1 – location of 1995 licences]. Remember, this was in an era when the large and mid-sized companies still engaged in wildcat exploration of frontier areas!

A couple of entrepreneurs, with disparate reasons for having business interests in the Islands, also entered the game at this stage, and with several more like-minded individuals who were to follow them in subsequent years, changed the path of exploration in the region and led eventually to the present brink of production that the Islands now anticipate. Typical of the early entrepreneurs was the late Dr Colin Phipps, a petroleum geologist who had built Clyde Petroleum from a small consulting company in the 1970s to one of the UK's largest and most successful independents. Phipps was also, for a time, a Member of the British Parliament, and as a backbench MP in the 1970s had travelled to the Falklands and Argentina on a Parliamentary fact-finding mission, partly to investigate attitudes around what he perceived to be, "deeply entrenched and persistent folklore in the Falklands that the Islands are underlain and surrounded by vast accumulations of oil."

Phipps' own geological analysis of the potential, back in 1977, was that it was immediately obvious that "there has been remarkably little geological work of any kind carried out in the Islands." And there things lay, and possibly might have stayed, until he came along to a lecture that I presented to the Petroleum Exploration Society of Great Britain in 1993 in an attempt to promote early exploration of the region. Phipps rekindled his interest in the Islands and successfully applied for all the less attractive acreage around the periphery of the highly prized northern basin, knowing that no government in those days would lease its most attractive acreage to a newly-formed and fledgling independent company set up, as his new

vehicle Desire Petroleum was, to exploit just the Falklands opportunity. With some persistence and forethought, Phipps also managed to take a small equity position with Lasmo, in a couple of the more prized blocks at the time.

When the first six wells, drilled in 1998, proved a working oil and a separate gas petroleum system in the Cretaceous lacustrine rift basin to the north of the Islands, everyone thought that we were on the brink of exploration success. However, the vagaries of the oil price, and its 1998 crash to less than \$10 per barrel, led to the majors pulling out of the basin, leaving their small-equity partners, the likes of Desire Petroleum and Argos Resources, a local company started by a couple of fishing industry entrepreneurs, holding some of the prime acreage in the northern rift basin, with its proven world class lacustrine source rock.

Phipps and Desire Petroleum worked tirelessly with the British Geological Survey (BGS) and the regulators in the Falkland Islands Mineral Resources Department for the next decade to kick-start exploration again after the price crash. In a paper written with a colleague from Shell in 2000, I identified that the best remaining potential in the basin lay adjacent to the eastern rift margin, and with Desire we set about trying to identify sand entry points, acquire new 3D data and find an affordable deep water semi-sub to drill at an affordable price. Desire's 3D data identified numerous basin margin targets, and in 2010 Desire eventually found a rig to drill in the region again. However, not before another entrepreneur, this time a complete industry outsider – and a lawyer to boot – but with other Falklands business interests, had convinced the regulator to licence to him the ex Shell acreage, where Shell had encountered live oil coating their logging tools as they pulled out of their second hole and, as it transpired, out of the basin itself in 1998. [Figure 2 – Photograph of oil company representatives in Stanley]

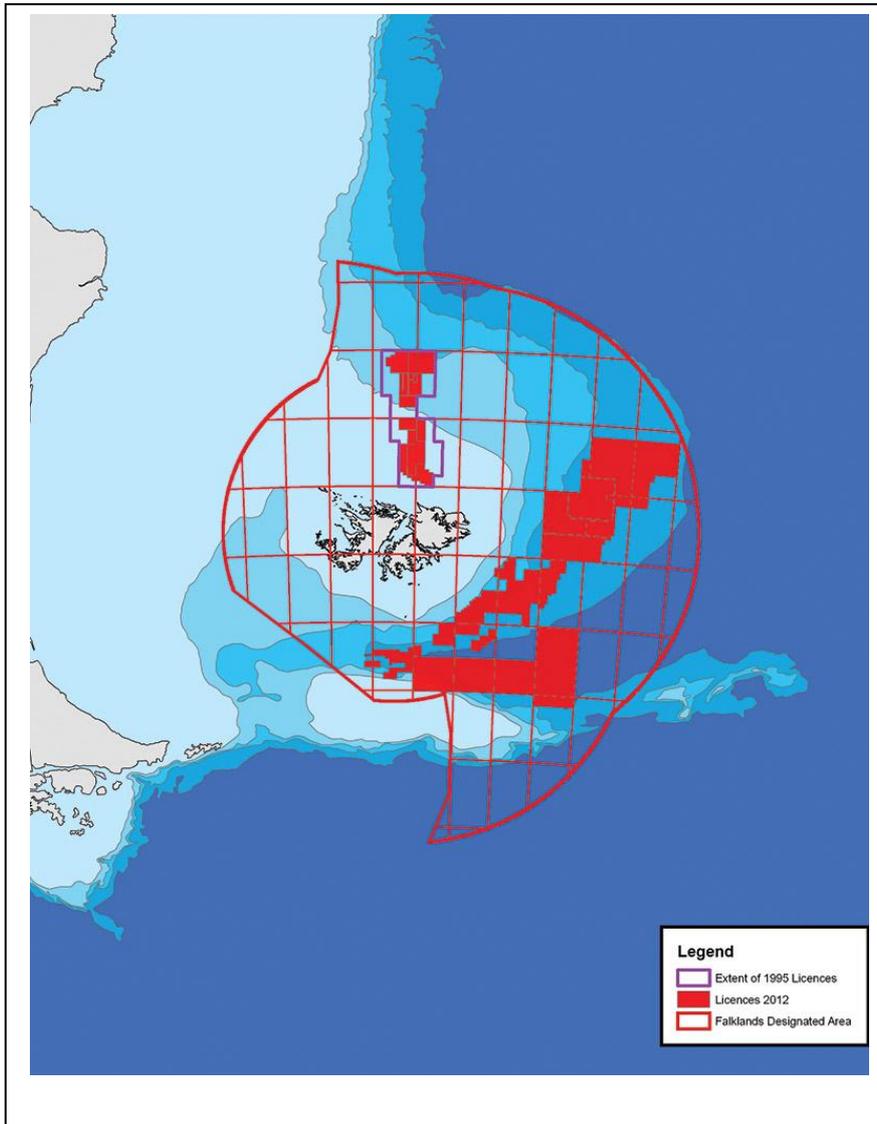
That entrepreneurial lawyer, Richard Visick, with an eye for a Shell walk-away and sensing a great opportunity, set up Rockhopper exploration, shot his own 3D across the eastern basin margin, and following the promotional literature from the regulator's department that suggested looking for basin margin sands, signed up to Desire's drilling campaign and set about drilling the potential basin margin fans immediately to the east of Shell's oil shows [Figure 3 – the Sea Lion field]. The rest, as they say, is history, with the resulting Sea Lion discovery (STOIP about 1.2 billion barrels) currently being readied for development by Premier Oil.

Despite the industry's reluctance to take a punt in the deeper water blocks east and south of the Islands in 1995, the Government embarked on a successful open-door invitation in the early 2000s, and attracted two more gambling entrepreneurs into the area, stepping boldly where the majors feared to tread. Borders and Southern Petroleum was set up by the Scottish mining millionaire Harry Dobson, who had trained as a farmer in his younger days, and developed a Falkland's interest during a cruise ship visit there; the company went on to make the first deepwater discovery south of the Islands when it spudded the Darwin gas condensate field discovery well in 2012.

Similarly, Falkland Oil and Gas Ltd, which was the brainchild of the late legendary Australian entrepreneur and share promoter Alan Burns – who had founded Hardman Resources previously in Perth and subsequently the Bahamas Petroleum Company – went on to claim the Loligo gas discovery in September 2012, on acreage that had recently been farmed into by the Italian giant Edison.

Entrepreneurs make a real difference, particularly those with an emotional attachment to a concept or a place. And as in many places worldwide where the majors went, but gave up early, there have been rich pickings around the Falkland Islands for those small, aggressive companies willing to take a punt, believe in the geology, work closely with the regulator and invest in frontier exploration.

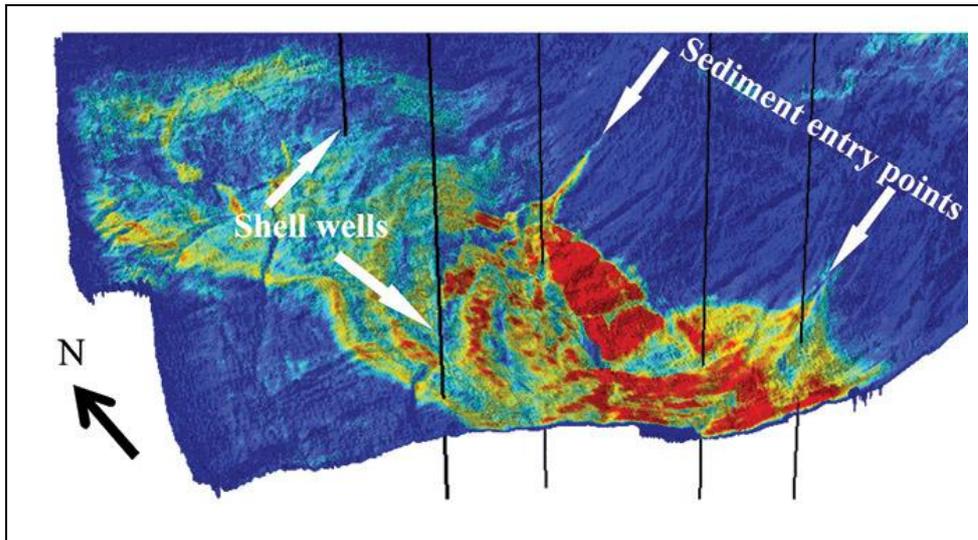
*Phil Richards is the petroleum manager at the British Geological Survey, and has been the principal technical adviser to the Falkland Islands Government since 1992. He was instrumental in developing and marketing the framework for exploration activity around the Falklands and has been involved with all technical aspects of the exploration of the region, and the development of work programmes, since then. Phil has also worked extensively as a consultant on the UK Continental Shelf, in South America, the Caribbean, the USA and West Africa, and has published widely on basin analysis and exploration topics. This article is published by permission of the Executive Director BGS (NERC) and the Department of Mineral Resources, Falkland Islands Government.



[Figure 1 – licences now and in 1995]



[Figure 2 – Dr Colin Phipps, centre of group, with other oil company representatives in the Government offices in Stanley, Falkland Islands, 2007. From L-R: Bruce Ferrar, Howard Obee (both Borders and Southern Petroleum), John Hogan (Argos Resources), Lewis Clifton, Ian Duncan and Colin Phipps (all Desire Petroleum), Sam Moody (Rockhopper), Tim Bushell (Falkland Oil and Gas Ltd), David Bodecott (Rockhopper), Stephen Luxton (ex FOGL, now Director, Falkland Islands Mineral Resources) and Stephen Phipps (Desire Petroleum).
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[Figure 3 – amplitude and seismic drape of Sea Lion field]