

# Seismic reflections

## Drilling suspension?

When Italy introduced a drilling ban in its coastal waters in August 2010 in response to BP's Macondo disaster, few expected that almost two years later it would still be in place. After all, even the US ban in the Gulf of Mexico was lifted within one year. However this looks set to change, with the Italian government passing a decree in June that could restart offshore activity, albeit with a 3% increase in royalty payments.

### French Guyana latest headache

The arbitrary and often unexpected nature of such rulings is a major headache for oil companies trying to operate in frontier areas, as demonstrated most recently with French authorities announcing that drilling offshore French Guyana was to be suspended amid concerns regarding environmental protection. The news came just days before approval was expected for the drilling this summer of a follow-up well to the hugely successful 2011 Zaedyus exploration well, which confirmed the presence of a fan play that mirrored those offshore West Africa. Despite Shell only learning of the move when it was published in French newspaper *Le Monde*, a quick resolution appears to have been reached. This will also come as a relief to minority partners Wessex Exploration and Northern Petroleum, whose shares dropped following the announcement, although these have since recovered. Although it looks like drilling will be allowed to go ahead, French authorities are insisting that new rules governing drilling will appear in the autumn.

### Measures can be counterproductive

Of course it is vital that oil companies ensure that their operations are conducted in as safe and environmentally friendly a manner as possible. But we also see lessons both from Macondo and Piper Alpha that a regulatory mindset may lead companies to approach issues in a 'tick box' manner, while a system that puts the onus on the operator to demonstrate proper safety and environment management is far more effective. Further, certain regulations may be imposed with a well meaning desire to improve outcomes when in fact the measure may be counterproductive. For example, it is rumoured that the French may prohibit the use of oil-based mud. While a spillage of water-based mud may be less toxic, its usage could in fact contribute to drilling problems and so increase the chance of a spillage occurring in the first place.

### Priorities change with exploration success

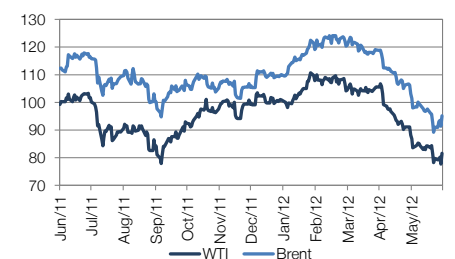
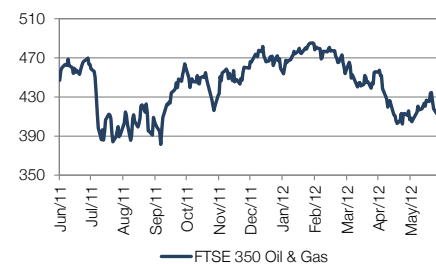
The wording of the French statement points towards another reason for the review. In addition to the need to protect the environment, the French government wants to "restore national sovereignty in terms of exploitation of its own resources". In other words, in common with other governments around the world, attractive terms are offered to oil companies to enter a new exploration area; but once hydrocarbons are discovered the pressure is on for the tax take to rise. And with no offshore tax royalty payments currently in place in French Guyana, it looks likely that this will be increased as one of the key outcomes of this new review.



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**Exhibit 1: Best and worst performers**

1 week					
No.	Best performers	% change	No.	Worst performers	% change
1	INDUS GAS LTD	17.0%	1	INDEPENDENT RESOURCES PLC	-28.4%
2	PETROCELTIC INTERNATIONAL	16.2%	2	LOCHARD ENERGY GROUP PLC	-24.0%
3	MEDITERRANEAN OIL & GAS PLC	14.5%	3	FRONTERA RESOURCES CORP	-15.2%
4	ENDEAVOUR INTERNATIONAL CORP	13.6%	4	BANKERS PETROLEUM LTD	-14.0%
5	AMERISUR RESOURCES PLC	9.5%	5	BORDERS & SOUTHERN PETROLEUM	-13.5%

1 month					
No.	Best performers	% change	No.	Worst performers	% change
1	AMERISUR RESOURCES PLC	70.4%	1	INDEPENDENT RESOURCES PLC	-61.6%
2	NAUTICAL PETROLEUM PLC	66.6%	2	MAX PETROLEUM PLC	-61.1%
3	MEDITERRANEAN OIL & GAS PLC	61.4%	3	BANKERS PETROLEUM LTD	-27.5%
4	ENDEAVOUR INTERNATIONAL CORP	29.5%	4	ASCENT RESOURCES PLC	-26.2%
5	GASOL PLC	26.0%	5	URALS ENERGY PUBLIC CO LTD	-22.6%

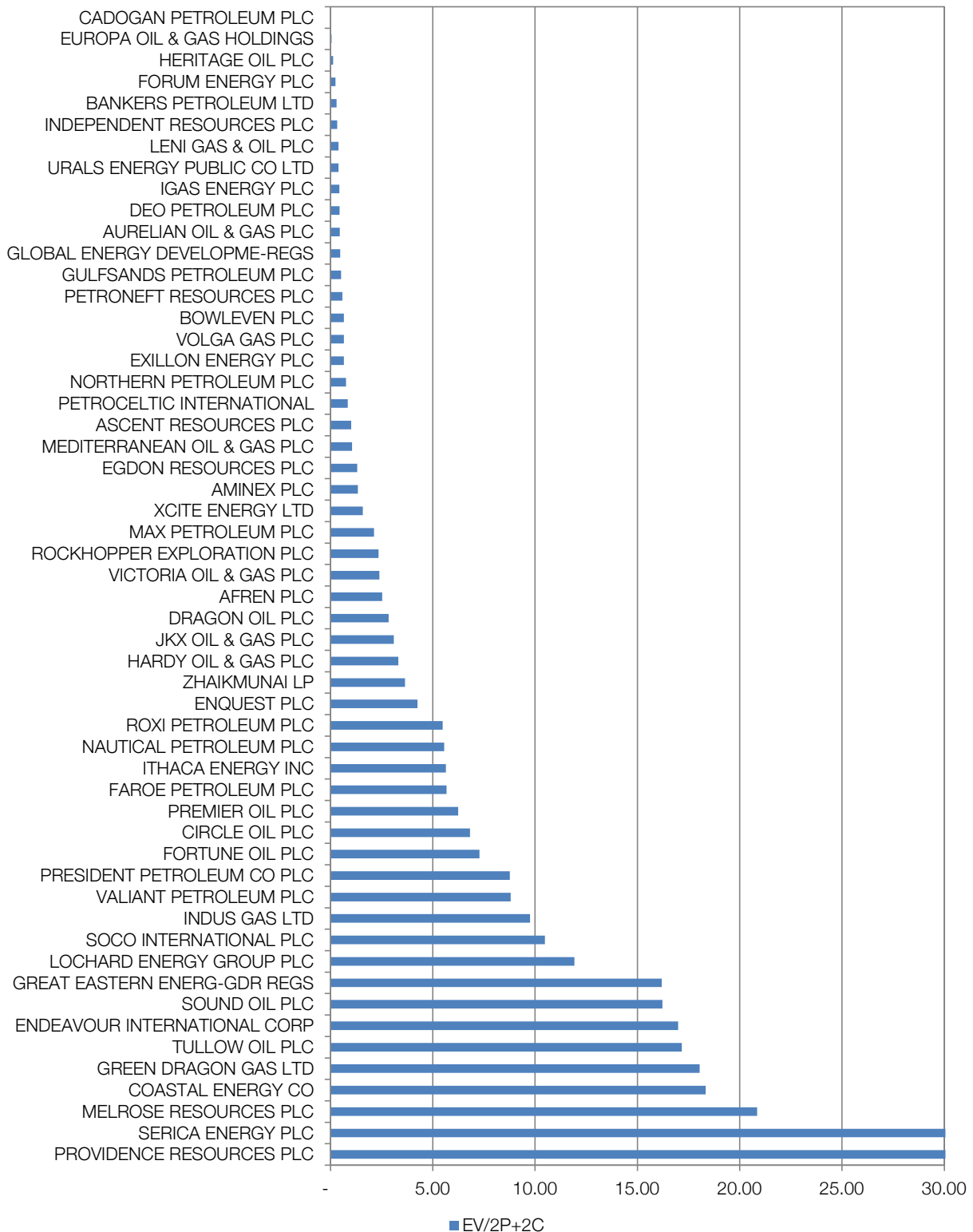
3 months					
No.	Best performers	% change	No.	Worst performers	% change
1	FORUM ENERGY PLC	95.7%	1	MAX PETROLEUM PLC	-68.5%
2	GASOL PLC	93.8%	2	INDEPENDENT RESOURCES PLC	-67.7%
3	MEDITERRANEAN OIL & GAS PLC	57.8%	3	BANKERS PETROLEUM LTD	-64.1%
4	IGAS ENERGY PLC	44.7%	4	PETRO MATAD LTD	-63.7%
5	NAUTICAL PETROLEUM PLC	43.7%	5	PRESIDENT PETROLEUM CO PLC	-53.3%

6 months					
No.	Best performers	% change	No.	Worst performers	% change
1	FORUM ENERGY PLC	158.5%	1	INDEPENDENT RESOURCES PLC	-69.5%
2	COVE ENERGY PLC	143.2%	2	BANKERS PETROLEUM LTD	-66.1%
3	PROVIDENCE RESOURCES PLC	142.8%	3	MAX PETROLEUM PLC	-64.2%
4	AMERISUR RESOURCES PLC	126.2%	4	PETRONEFT RESOURCES PLC	-62.9%
5	NAUTICAL PETROLEUM PLC	83.3%	5	PETRO MATAD LTD	-61.3%

1 year					
No.	Best performers	% change	No.	Worst performers	% change
1	FORUM ENERGY PLC	214.9%	1	PETRO MATAD LTD	-91.4%
2	COVE ENERGY PLC	172.3%	2	FRONTERA RESOURCES CORP	-84.3%
3	PROVIDENCE RESOURCES PLC	93.6%	3	BOWLEVEN PLC	-82.3%
4	COASTAL ENERGY CO	69.2%	4	PETRONEFT RESOURCES PLC	-78.7%
5	FALKLAND OIL & GAS LTD	53.2%	5	BANKERS PETROLEUM LTD	-78.6%

Source: Bloomberg

**Exhibit 2: EV/2P + 2C rankings**



Source: Bloomberg, company releases, Edison Investment Research

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