May 2017

NAVIGATOR

THE WESTSHORE NORTH SEA REPORT

SUN'S OUT, DP'S ON?

Will the summer months mean fewer AHTS's needed fo rig moves?

BARENTS SEA

What's needed in the years to come

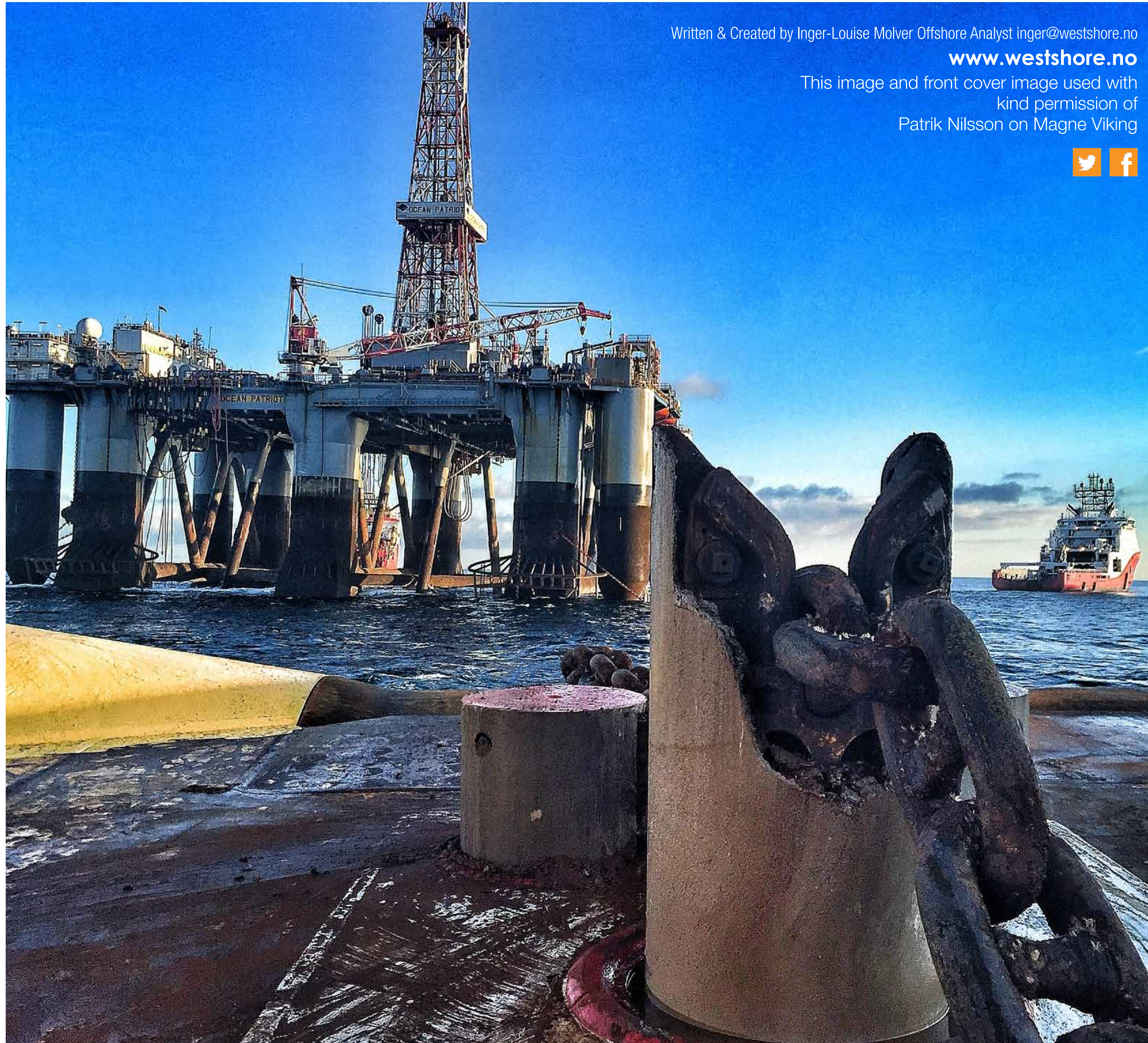
99 PROBLEMS BUT THE BOATS AIN'T ONE

An update from Brazil

WESTSHORE
SHIPBROKERS AS

Contents

May.2017



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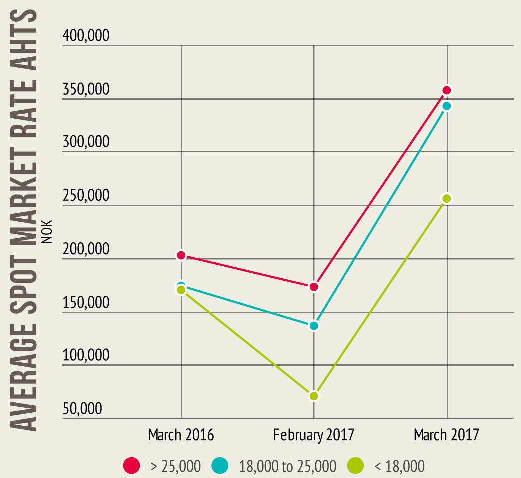


73.6%

Average AHTS utilisation in March

85.4%

Average PSV utilisation in March

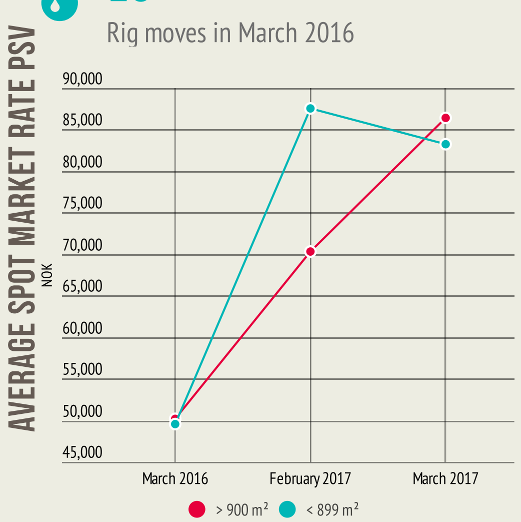
	February 2016	March 2016	February 2017	March 2017
Number of supply spot fixtures	86	67	73	70
Number of AHTS fixures	54	50	21	48

20

Rig moves in March 2017

18

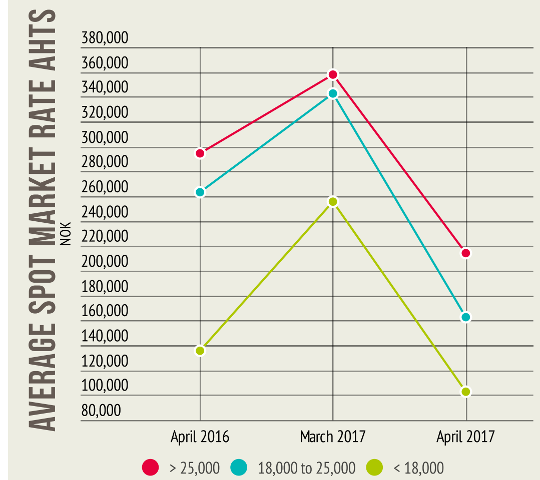
Rig moves in March 2016



MARCH

Utilization levels have been consistently high throughout March, particularly in Norway. And unlike periods where this was the case in 2016, owners dared to bid accordingly. The gloomy outlook that dominated the scene last year and often resulted in rates staying low even when the market tightened, seems to have eased off. Another vessel headed in to layup (Normand Sira, ex REM Mermaid) but there were far more rumours of vessels coming out of layup – or others that were due to finish term contracts would join the spot market instead of going into layup as we have seen happen as de facto. In addition term activity created a bit of excitement, a notable increase on the number of term requirements out at the start of 2017 than what we saw a year ago..

An improved market was very much in evidence in March, more rig moves, more vessels fixed and average utilization up to nearly 75% over the course of the month. This despite the reduced lay up list, as a handful of smaller, UK-based vessels returned to the market. The effect kept rates for the smaller vessels, typically competing for jackup moves on the UK sector, lower. If the same thing happens with the larger vessels and more tonnage is added from layup, this peak we are currently experiencing might not last.



55.6%

Average AHTS utilisation in April

85.0%

Average PSV utilisation in April

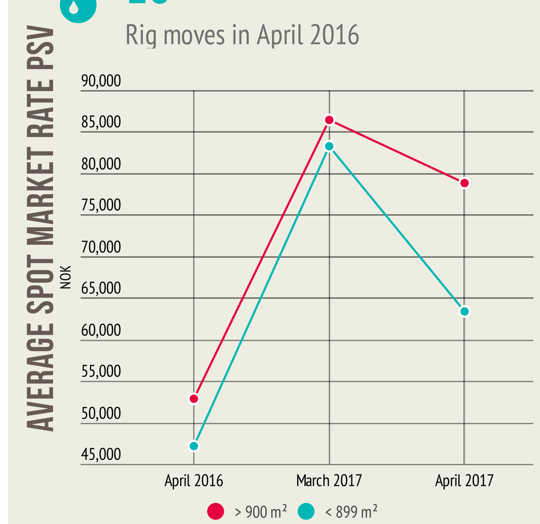
	March 2016	April 2016	March 2017	April 2017
Number of supply spot fixtures	67	64	70	62
Number of AHTS fixures	50	52	48	44

15

Rig moves in April 2017

16

Rig moves in April 2016



APRIL

Following a comfortable start to the year, the market dipped again in April, leaving many owners in uncomfortable positions. The layup list is still significant and many in the industry are more than ready for the down turn to be a thing of the past, so signs that taking vessels out of layup is finally a viable option is music to the ears of some. The data shows that the dip in the market in April was not as a result of increased tonnage levels from vessels coming out of layup however, but more a drop in activity. And activity tends to go up and down, that's not abnormal – the road to market recovery will not be a smooth one. Expect the market to slow down periodically leaving several vessels out of work and rates dropping, just like it did in April.

The PSVs fared better with the market being completely sold out at points towards the end of the month and the Norwegian side being consistently tight all month. When it comes to the PSVs, size matters – the larger decked vessels are consistently first in line to snap up the contracts on the Norwegian side. On the UK-side the demands of the charterers is more diverse, from the price conscious to the stick-with-what-you-know approach, there are certainly more niches to fit into, as is there more vessels competing for those niches.

MEET THE TEAM AT NOR SHIPPING

Norway's leading maritime event approaches

NOR Shipping happens just once every two years. The last event attracted 992 exhibiting companies and 32300 delegates and visitors to the exhibition. It truly is the diamond in the shipping crown and has established itself as unmissable for those working in the industry.

This year's event is expected to attract in excess of 35000 visitors and will show case around 1000 of the world's leading maritime companies. The main exhibition will feature themed halls focusing on different aspects of maritime concern. From safety and rescue to shipbuilding and repair, IT and navigation, propulsion and machinery, services and logistics and maritime services and logistics. One of the main themes of the event is Disruptive Sustainability, in the main hall attendees can meet and mingle with industry shapers, leading entrepreneurs which organizers say is designed to 'galvanize dialogue, to learn and get inspired, to challenge and to provoke.'

This year the Westshore team will gather from around the globe to meet at NOR Shipping. We will have representatives from Canada, Brazil and Singapore as well as our Kristiansand office in attendance. We hope to see as many of our clients as possible, feel free to get in touch during the week.

SWITCHING TO DP

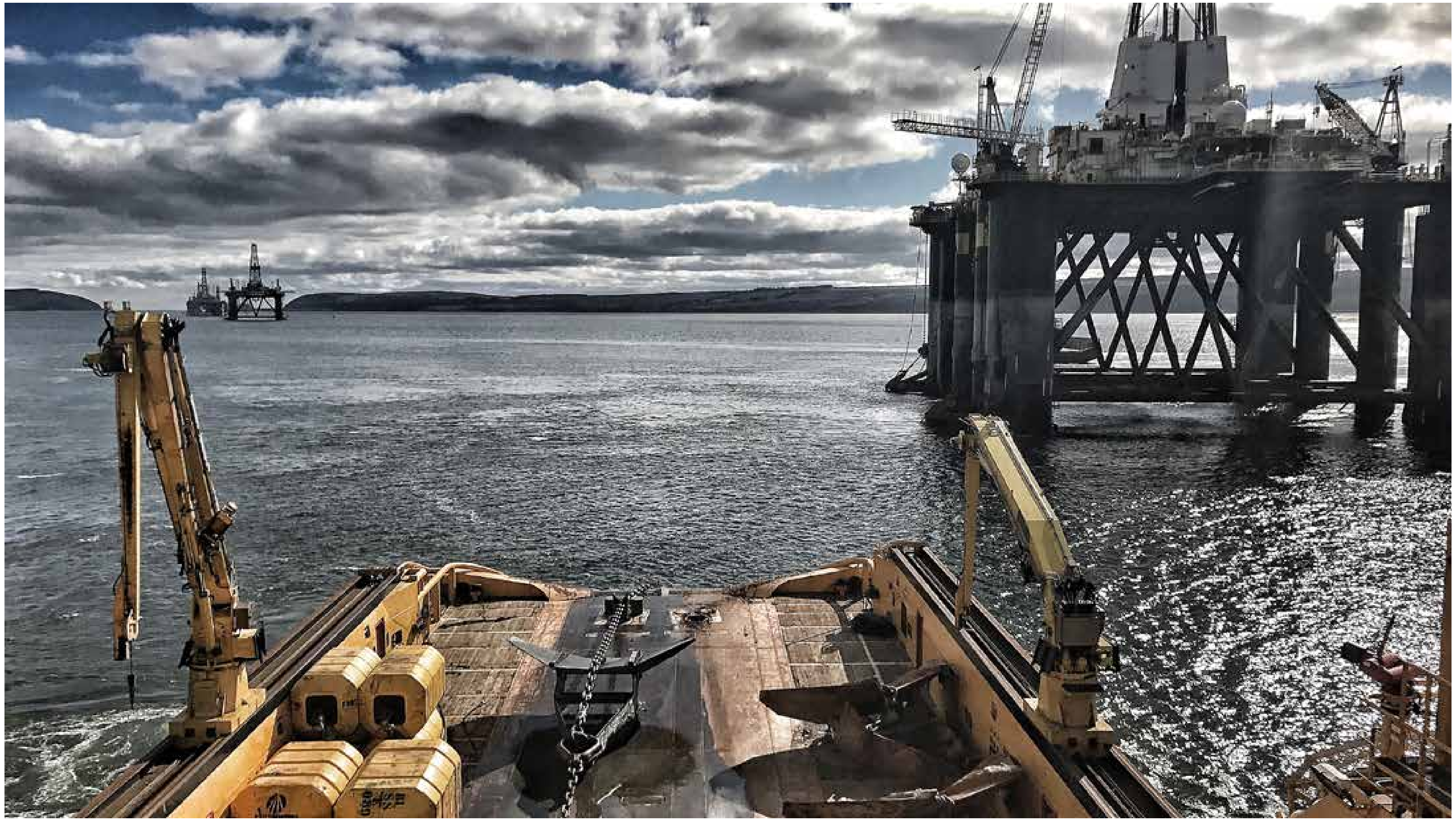
DP rigs and their impact on the need for AHTS vessels

The AHTS market has softened over the last month but with the rig count continuing to climb it would appear that the market is at least headed into a more comfortable position. The summer months bring better weather offshore and as the storms dissipate, operators have the option to switch from mooring rigs to running them on DP. Of course this should mean less need for AHTS vessels. So the question is how big a factor will DP rigs be in the future?

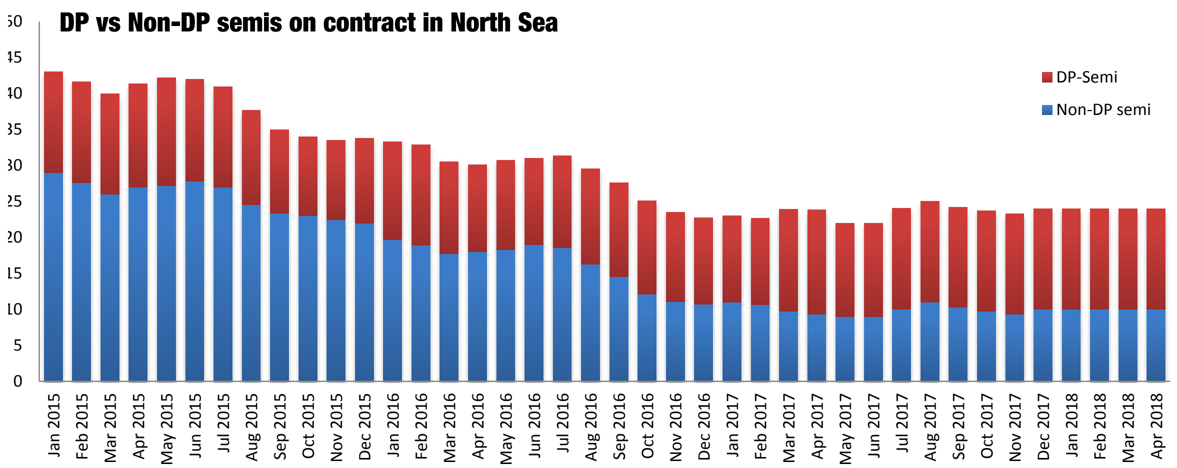
DP rigs have grown in popularity since the last building boom, but what's more relevant in this case is perhaps the growing preference to contract DP rigs over non-DP rigs over the past couple of years. At the start of 2015 67% of semisubmersibles that were on contract in the North Sea were not DP-units. That number has fallen to 41% in May 2017. More than half of all semisubmersibles on contract are DP units. This is likely closely correlated to a preference on the part of oil companies to contract newer rigs which by virtue of the fact most new rigs are DP, has resulted in a higher percentage of rigs out drilling being DP-units. So if the DP rigs are securing more work, the next question is are they running on DP or are they being moored?

Theoretically at least DP-rigs can run on DP in all manner of weather and well conditions. But the theory is one thing, in practice operators assess a range of factors before selecting whether or not to keep a rig on DP. Cost is one factor as keeping the rig on DP will inevitably incur higher

OFFSHORE IMAGES FROM THIS ARTICLE BY SWEDEN.OFFSHORE



Data used to compile graphs from IHS-Markit RigBase plus Westshore's own sources



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fuel costs. Now time to dust off your Pythagoras' theorem, water depth is another factor. Imagine the scenario where the rig experiences drift off causing the riser to be at an angle. In deep water the angle of the riser will be less in the event of drift off in comparison to lower water depths. The upshot is for water depths of around 290 meters and less, mooring the rig is preferable as from a safety perspective, drift off in this depth of water could have serious repercussions.

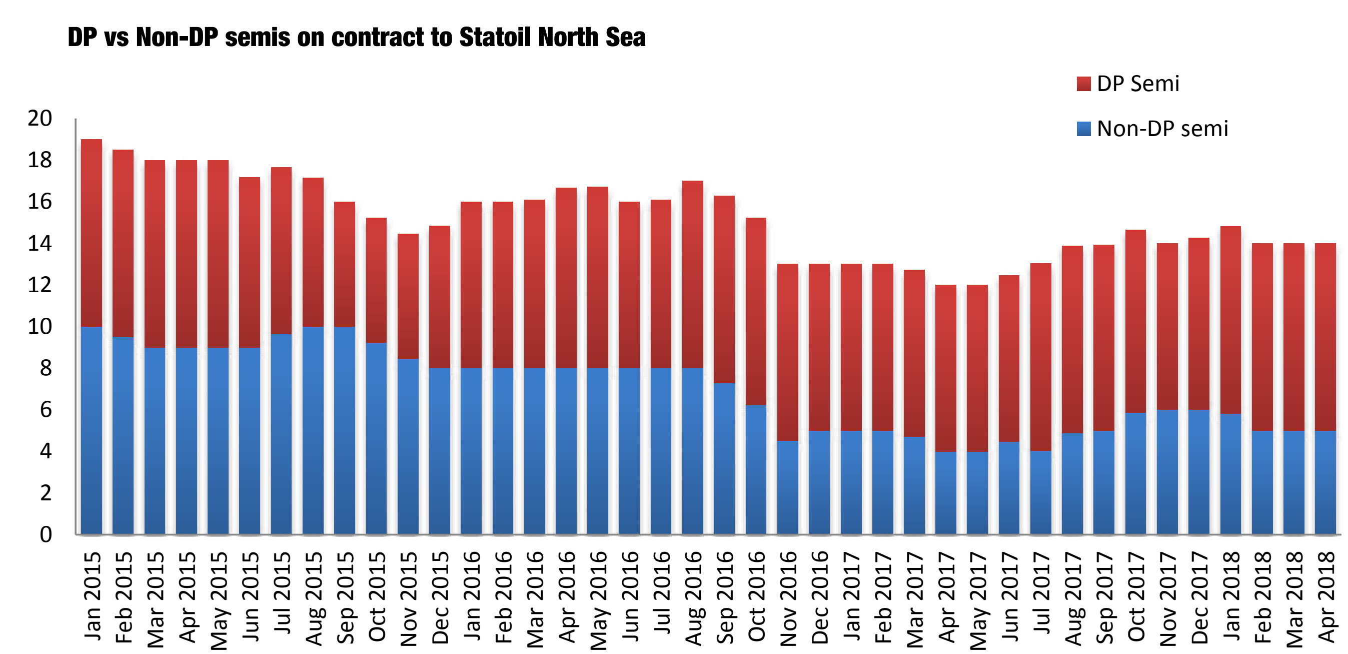
The North Sea winters are infamous for their force, for the rigs this more often than not means they will be moored regardless of water depth or the weather forecast. So from September/October to March/April, the rigs will be moored. Moving into the summer months there seems to be a difference between the Norwegian and the UK sectors. The UK operators have preferred to continue to moor the rigs even in the summer months. The main seasonal difference for the UK sector being increased interest in pre-laying the rigs during winter – particularly in areas like West of Shetland.

In Norway several semisubmersibles make the switch to DP during the summer months, the two Songa rigs drilling for Statoil on the Troll field are an example of this switching over to DP as we head into summer. However areas such as the Barents Sea it is understood that mooring the rigs is a given at any time of year. It is likely that operators will therefor plan to do longer, more complex wells during the winter months when the rigs will be moored and carry out shorter wells during the summer months when the rig can be on DP.

Improvements in mooring procedures has also been fairly dramatic over the past few years however. It is estimated that the time take to moor a semisubmersible on the Norwegian sector back in 2012 could have been in excess of 24 hours, the same operation was recently completed in under six hours. This comes as a result of better planning, risk assessment and carrying out simultaneous operations. Such improvements has meant that despite a rig having the DP capability, the trend seems to be to continue to use vessels to moor the rig anyway. This applies to both the Norwegian and the UK sector.

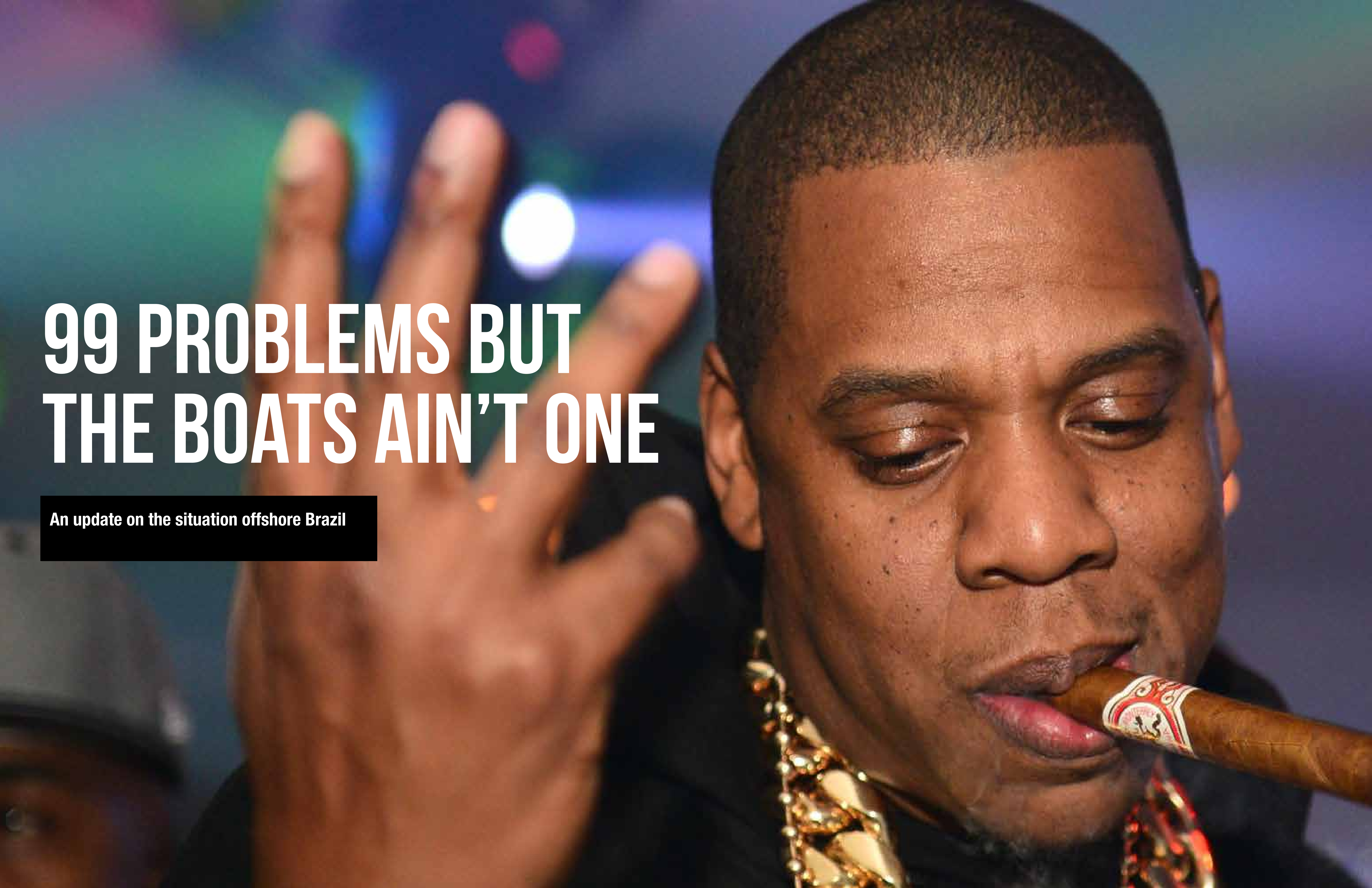
So for the vessels it would seem that the looming threat of rigs running on DP effectively heralding the demise of the AHTS vessel seems a long way off. Since adding salt to the wounds for the AHTS market is the last thing we need, a collective sigh of relief can now be breathed.

......So from September/October to March/April, the rigs will be moored. Moving into the summer months there seems to be a difference between the Norwegian and the UK sectors.....



99 PROBLEMS BUT THE BOATS AIN'T ONE

An update on the situation offshore Brazil



Five years ago the four plus four year contracts to Petrobras were rolling in thick and fast, owners all over the globe vied to get a piece of the action. Secure, long term charters with a national oil company was like cat nip for investors. Fast forward four years and Brazil has endured a national corruption scandal reaching the highest echelons of Petrobras and the government, an economic recession added to the woes of the crash in oil price the rest of us have been living with. But the fundamentals haven't changed, one estimate has put the reserves of the pre-salt region alone at 50 billion barrels – and its good quality oil too. So there is good reason to believe in a solid and prosperous future offshore Brazil, the question is rather exactly when can we expect this phoenix to rise from the ashes?

BY INGER-LOUISE MOLVER

Cutting the fat, not the muscle

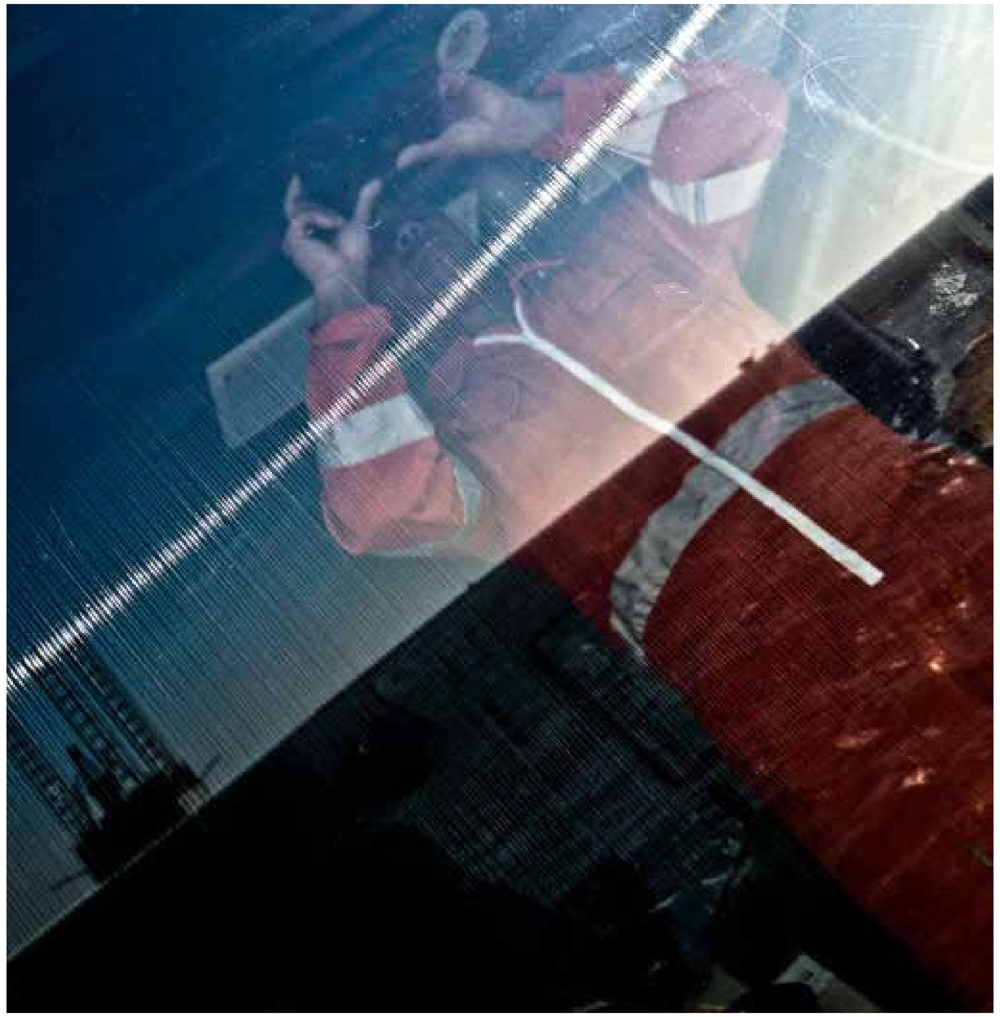
Our data shows that the number of offshore support vessels working in Brazilian waters peaked in 2014 at 500 vessels, it was then that the yearly increase in offshore activity made an abrupt U-turn. New tenders became scarcer, if a contract could be canceled then it was and the percentage of foreign flagged vessels nosedived. Pre-crisis the preference for local tonnage was not an issue that was of any great concern to foreign owners wishing to trade offshore Brazil, there simply wasn't enough Brazilian vessels to meet demand anyway. Foreign tonnage constituted 51% of the offshore fleet in 2014, this dropped to just 25% by 2016 as Petrobras and others systematically cut vessels from their fleet, the first of which to go was always the foreign flagged vessels. The exodus meant vessels returning to previous locations like the Gulf of Mexico and North Sea, invariably heading straight into layup. For the drilling rigs the decline was similar, from a high point of 85 units during 2013, this fell to 32 by the end of 2016. Some older units were scrapped but many more were stacked.

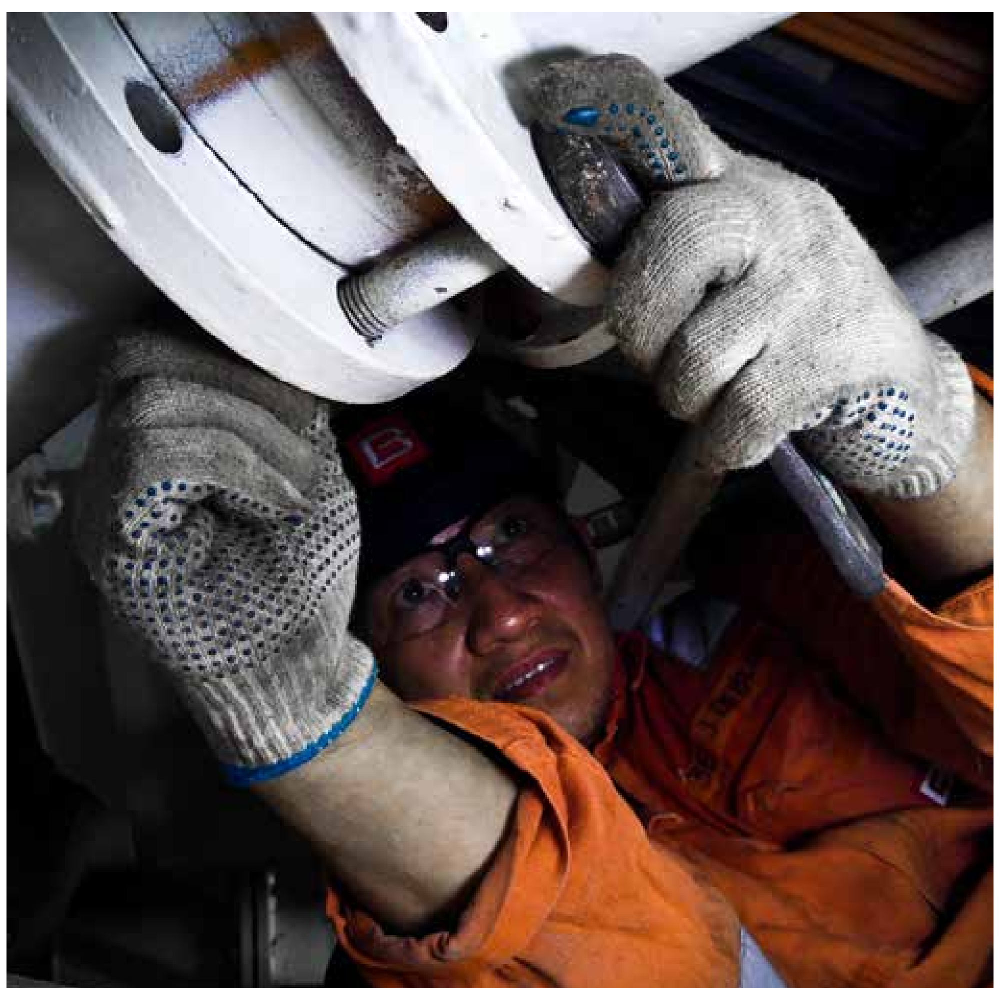
- Lack of efficiency and a culture of wasted resource was not a Brazilian phenomenon alone – if there's one positive thing that has come out of this down turn it's that as an industry, we have been forced to take a long hard look at how our businesses can operate more effectively. Our understanding is that the heavy cuts inflicted by Petrobras, that were partly to scale back activity but also to reduce waste, have now bottomed out. Any further reduction is above and beyond streamlining operations, the fat has been cut – anything more and you're cutting the muscle.

- Tendering activity is increasing, there is still a long road to go before its back at previous levels but several operators have tenders out at present with more expected to come out this year. In addition to ongoing tenders issued months (or in some cases, years) ago, a new DSV tender is expected with commencement Q1 2018 plus a new PSV 1500 tender with a similar commencement for Petrobras.

- Total has tenders for several PSVs, OSRVs, AHTS and MPSVs for multiple year contracts in the FZA Basin. Shell is looking for an AHTS with commencement in Q2 2017, Chevron a LHSV from Q3 2017 plus upcoming tenders expected from Statoil and Queiroz Galvão.

- At the moment for most vessel segments the local tonnage is enough to satisfy demand, most keenly felt for the PSVs. It will be a while before we see a sufficient uptick in demand so as to warrant a high number of foreign flagged vessels making a return to Brazilian waters. But will that day come? We think so.





It is definitely a challenging time for the industry. But the Brazilian environment is even more challenging as the country and Petrobras go through the world's largest corruption scandal in history and a re-thinking of the business model as a whole becomes necessary. This has resulted in years of complete stagnation. Demand has started picking up but not enough to confirm, at least not yet, that the worst is over. Owners with local diversified tonnage and a vision of building margin by reducing cost are taking the lead. Once the market recovers for good, the results will show.

ALEXANDRE VILELA,
WESTSHORE DO BRASIL

OFFSHORE IMAGES FROM THIS ARTICLE BY SEBASTIAN_SALVIA

One step forward, two steps back?

The catalogue of complications both regulatory and legislative has left a bad taste in the mouths of many owners who previously would have jumped at the chance to send a vessel down to Brazil. But the process of sorting out the myriad of issues relating to offshore exploration in Brazil is underway. One such issue is local content, a factor that many believe has contributed greatly to the unstable business environment making it an unattractive area for investors. Literally the absence of stable and clear rules scares investors. The change of guard both at government level and Petrobras' management has resulted in a review of the local content rules. New, more flexible percentages of local content where waivers are possible have been proposed. The new system is clearer and will have a positive impact on the supply chain, though it will be some time before there is a noticeable effect on the industry.

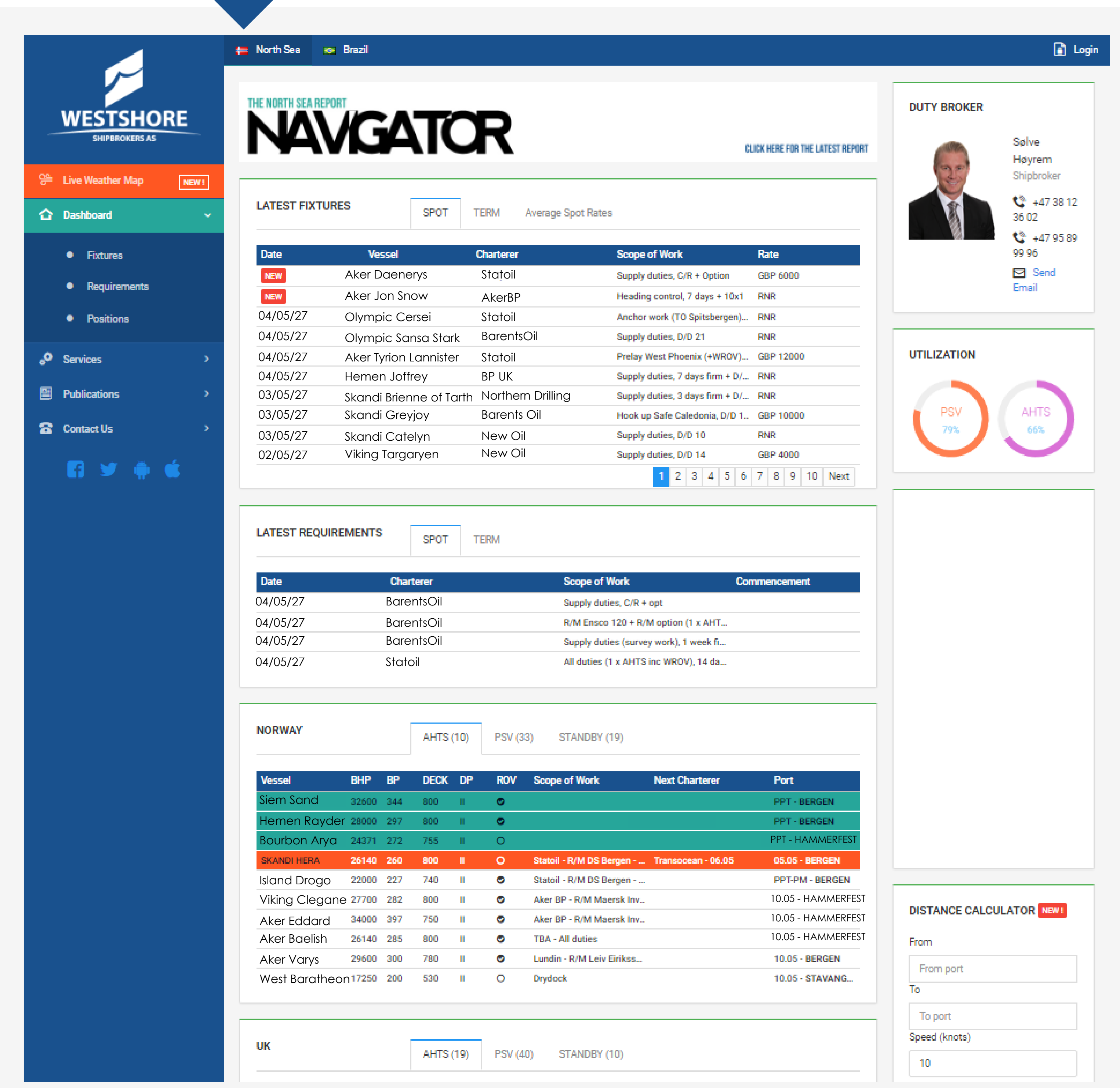
- The opening up of the pre-salt region to operators other than Petrobras was eagerly anticipated. It would mean increased investment at a time when Petrobras clearly did not have the resource to fulfill the potential of this region any time soon. For us in the OSV sector it meant more customers, hopefully with plans to go out and drill and produce and have a need for more vessels. Things were looking tantalizingly promising then a court decision mid-April decreed that the sale of a stake in an exploratory block from Petrobras to Statoil would be blocked. Further litigation is expected before this matter is put to bed once and for all, but it does put the whole 'opening up of the pre-salt' agenda on hold.

- Petrobras has stated that the breakeven cost for the pre salt region is under USD 10. But before you click 'like' having only just read the headline, reading the rest of the article invariably throws up some interesting points. Such as the fact it is unclear if Petrobras' indirect costs are factored into this calculation, are the (perceived) high non-operating costs from the fancy new offices in prime locales in Rio and Santos factored into the USD 10 number? Petrobras has implemented brutal day rate cuts to the vessels it has kept on hire, but is it one rule for them and another for its suppliers?

- The light at the end of the tunnel analogy has been used to the extreme these past few months to describe the offshore market situation around the globe. If I were to use it for Brazil, I'd say yes, we can see the light, but there's still a whole lot of junk on the track we need to clear up first if we want the train to pull through. But the Brazilians are nothing if not tenacious, the industry is moving towards realizing the Brazilian offshore dream even if it means a few more twists in the story before we get there.

Is this how Westshore.no will look in ten years' time?

**Vessel names and charterers are completely made up, although particularly in the case of Jon Snow – are definitely worth considering to any discerning shipowners.*



Northern Potential

It wasn't so long ago that anything deepwater or in an area of complex environmental consideration was so far from the agenda it was laughable. The crash in the oil price meant things like Arctic drilling or exploration in the Barents Sea seemed far from feasible, but that has all changed. Structural changes within the industry have shifted the focus away from the fluctuating oil price, the price of a barrel of oil is not business critical. The mission has been accomplished, we can now do more for less – and that means areas like the Barents Sea are now firmly back on the agenda.

The extent of the resource potential was delved into a little deeper this month as new figures from the Norwegian Petroleum Directorate were released. For the 'new' area – located in the north eastern part of the Barents Sea resources could exceed the equivalent of 14 Johan Castberg fields – 1.4bn bcm. Moreover the share of the undiscovered resource relating specifically to the Barents Sea has been increased from 50% to 65%. The NPD are stating categorically that the Barents Sea holds an enormous potential and is critical to the future sustainability to the Norwegian Oil and Gas industry.

Drilling plans

2014 has thus far held the record for the most amount of wells drilled in the Barents Sea per year, 2017 is set to break that record. Fifteen wildcat wells are expected to be drilled in the Barents Sea in 2017, Statoil will drill five to seven of them. Lundin recently completed drilling at the Gohta prospect with the Leiv Eiriksson but results were not promising and have subsequently downgraded the resource estimates from the field. Lundin has further drilling plans for 2017 in the Barents Sea in addition to several other operators.

The development plan for Johan Castberg is expected to be delivered this year and OMV's Wisting field in the next couple of years. They will be added to ENI's Goliat development and Statoil's Snøhvit which are already in production.

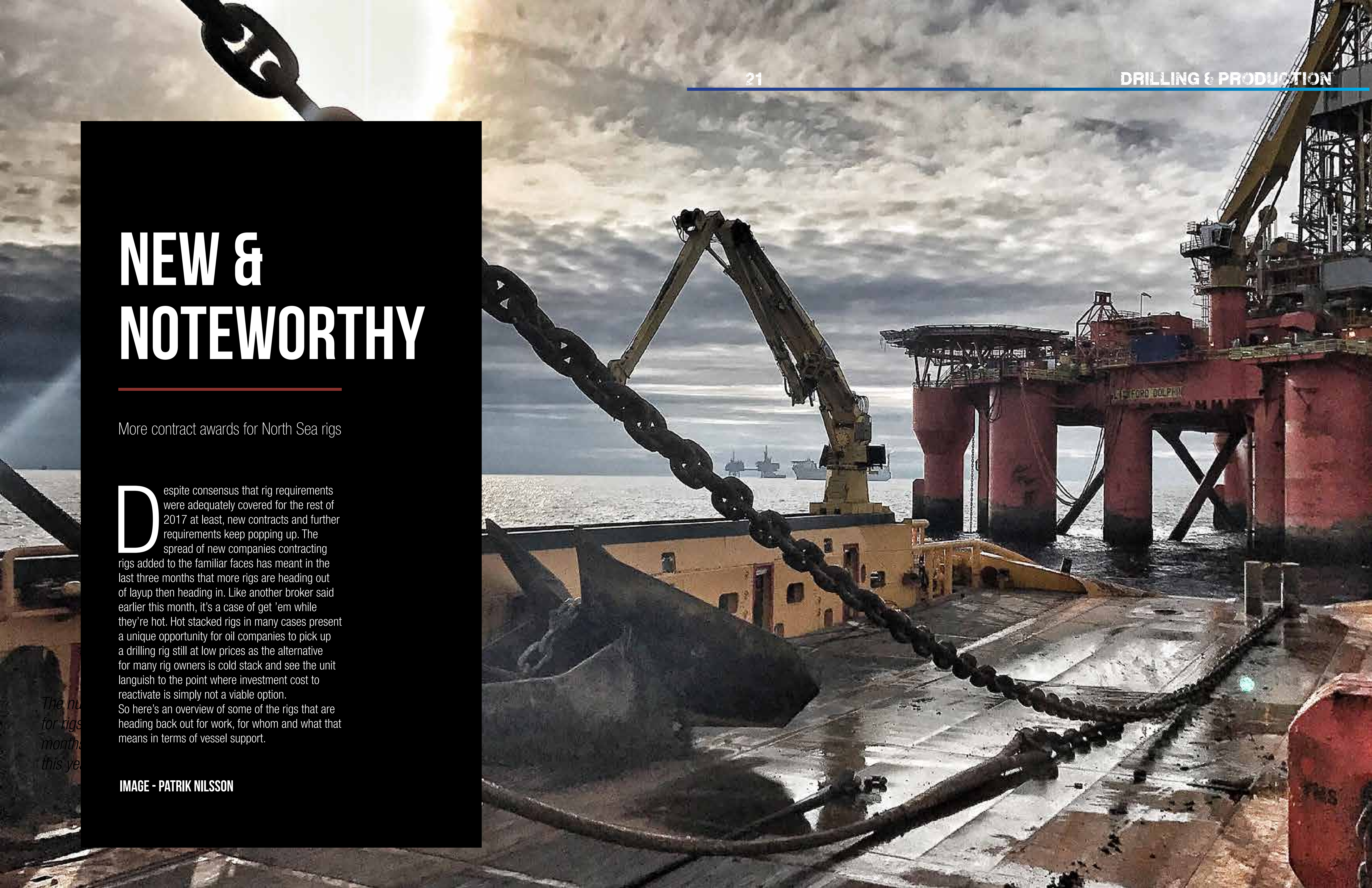
What it means for the vessels

The northern part is estimated to hold approximately double the resource of the southern part. Ultimately any production facilities installed will require some pretty hefty logistical support. Distances from shore will be one of the main challenges for vessels operating in the region. It is reasonable to assume that this will require vessels not only capable of operating in the weather conditions that the far north presents, but also deck space of a sufficient size. Bigger will be better.

The distances from shore for some of these fields are so great that it will impact on whether or not they will be developed for production. They need to be larger than anything that has been so far developed in the Norwegian sector, unless greater cooperation between operators can be established. And this could be the game changer, if oil companies collaborate on development and production strategies it could mean more is possible. It could also mean a change in contracting strategy of vessels, no longer one vessel, one operator as client.

Term charters are obviously attractive for this area of operation but we believe that the volume of work that will be ongoing in the Barents Sea in ten years' time will necessitate the need for prompt spot tonnage in the far north. Expect to see PPT-Hammerfest on the Westshore website.

The downturn has meant several oil companies have withdrawn from the Norwegian market in favor of focusing on core areas in other parts of the world. It is reasonable to assume that Statoil will be a stable client going forward, Lundin maintains the long position consistently particularly when it relates to its Barents Sea operations so all indications show they are there to stay. Aside from these two key players we see OMV growing in terms of vessel requirements as Wisting comes closer to being realised but with the extent of the resource potential, new faces will appear. It is without doubt an exciting future province.



NEW & NOTEWORTHY

More contract awards for North Sea rigs

Despite consensus that rig requirements were adequately covered for the rest of 2017 at least, new contracts and further requirements keep popping up. The spread of new companies contracting rigs added to the familiar faces has meant in the last three months that more rigs are heading out of layup then heading in. Like another broker said earlier this month, it's a case of get 'em while they're hot. Hot stacked rigs in many cases present a unique opportunity for oil companies to pick up a drilling rig still at low prices as the alternative for many rig owners is cold stack and see the unit languish to the point where investment cost to reactivate is simply not a viable option.
So here's an overview of some of the rigs that are heading back out for work, for whom and what that means in terms of vessel support.

IMAGE - PATRIK NILSSON

BIDEFORD DOLPHIN

If ever there was a North Sea work horse surely Bideford Dolphin is a shining example of one. Built back in 1975, underwent major upgrade in the late-90s, the last three years have been spent on hire to Statoil drilling in the Norwegian sector. The contract drew to a conclusion in March 2017 and as the vultures circled around many of the older rigs during this downturn, many speculated that she had drilled her last well. The rig headed into port for warm stacking in March but shortly afterwards secured a further contract with Statoil which will see it head back out to work in July/August on a one well plus one well option contract. The question is, is the new contract merely a stay of execution? Or is it enough for Bideford to slide skillfully out of the downturn unscathed and still out drilling?

ENSCO 120 & WEST ELARA

Following completion of its charter with Nexen last October, the ENSCO 120 Jackup was warm stacked just off the coast of the north of England.
A new fixture was secured at the end of April with ConocoPhillips and will see the unit back out drilling from July 2017 on a three year contract in the central North Sea. Like almost all operators in 2016, ConocoPhillips scaled down the number of rigs on hire but the trend appears to be reversing as we head into 2018.
West Elara has been on charter for Statoil for over five years but will finish up work on its present contract in the summer. A period in port will be followed ConocoPhillips Norway taking the rig on ten year contract for drilling at Ekofisk. This contract is expected to start end-October 2017.

TRANSOCEAN SPITSBERGEN

This sixth generation semi has secured several short contract over the past two years and had periods of warm layup in between. The last spell of work was for Repsol Norway after which the rig was sent in to port where she currently lies. The next contract is back with Statoil drilling on the UK sector at Verbier on a three well plus one well option contract. Work with Statoil is expected to kick off in early-July 2017.

ENSCO 121

This rig has technically not been in layup up and has sailed through the downturn drilling on a long term charter for Wintershall in the Danish sector. However that will draw to a close this month and the rig will have a few weeks between starting its next charter, this time in the UK sector. The rig will be drilling on a three well plus five well option contract in the southern North Sea in the Breagh field.
What makes this rig 'newsworthy' is who the contract is with – INEOS. This marks a new venture for INEOS which is branching into offshore drilling as a newcomer to the sector. INEOS is a Swiss company that has its roots in the chemicals industry, in 2014 it made an aggressive entrance into onshore shale drilling which quickly propelled the company to the fourth biggest onshore shale firm in the UK. It could be that this approach will soon be echoed in offshore oil and gas. The first acquisition came when INEOS purchased the entire UK portfolio from German DEA and CEO of the offshore arm Geir Tuft stated "Virtually everything in the North Sea is for sale, and we are the only buyers in a sea of sellers." The portfolio acquired from DEA is unlikely to be the end of the story. One to watch.

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VV MINI MATRIX
MONTHLY CHANGE

5 APR 2017

YEAR OF BUILD	LARGE PSV	MEDIUM PSV	SMALL PSV	SUPER AHTS	MEDIUM AHTS	SMALL AHTS	DRILLSHIP	SEMI-SUB	JACK-UP
	DWT			BHP			FT		
2017	+1.8% 5200	+1.7% 3600	+1.8% 1700	+1.3% 24k	+6.4% 8200	+3.7% 5500	+0.7% 12k	+0.7% 12k	+1.9% 400
2012	+1.3% 4800	+1.4% 3300	+1.4% 1700	+1.1% 24k	+3.7% 8000	+0.7% 5200	+0.7% 10k	+0.7% 10k	+1.7% 375
2007	+1.0% 4800	+1.0% 3300	+1.1% 1600	+1.1% 24k	-1.4% 8000	-4.6% 5100	+0.7% 10k	+0.6% 7500	+1.6% 375
2002	+0.9% 4700	+0.7% 3300	+0.7% 1600	+1.1% 24k	-5.4% 8000	-6.8% 5000	+0.6% 10k	+0.3% 7500	+1.6% 375
1997	+0.9% 4800	+0.7% 3300	+0.0% 1600	+1.1% 24k	-7.1% 8000	-9.1% 5000	+0.6% 8500	+0.3% 6000	+1.6% 350
1992	+0.9% 4700	+1.4% 3300	+0.0% 1600	N/A 24k	-0.0% 8000	-9.1% 5000	N/A --	+0.1% 6000	+1.6% 300

VesselsValue Monthly Valuations Analysis

"PSV values have remained stable this month following two sales of older vessels. Normand Vester (4,600 DWT, Mar 1998, Ulstein Verft) and Blue Biance (3,600 DWT, Apr 1990, Hatlo Verksted) were both sold to unknown parties. AHTS values have also remained stable following 6 deals. Maersk Supporter (18,250 BHP, Mar 1999, Keppel Singmarine) has been sold by Maersk Supply Service to Zhengli Ocean Engineering. POSH Venture (10,880 BHP, Apr 2009, Fujian Guanhai), Jaya Dauphin (10,730 BHP, Jan 2009, Xinlian Shipbuilding), Sanaborg (4,756 BHP, Aug 2012, Niestern Sander) and Ocean King (12,390 BHP, May 1984, Hellesoy Verft) were sold to undisclosed buyers.

Oak River (3,320 BHP, Nov 1974, Quality SY) was sold for USD 0.30 mil, VV indicates this is the demolition value of the vessel.

MODU S&P activity was limited to the Jack Up sector where values firmed slightly. A deal is in place for Jack Ups West Triton (375 FT, Dec 2007, PPL), West Resolute (350 FT, Apr 2008, Keppel AmFELS) and West Mischief (350 FT, Apr 2010, Lamprell Energy) to be sold from Seadrill to Shelf Drilling. Hercules 260 (150 FT, Aug 1979, Marathon Le Tourneau) was sold with a $75Kpd charter attached to Vantage drilling Co. Paragon L783 (300 FT, May 1981 Far East Shipbuilding) and Paragon L783 (300 FT, Apr 1982, Ingalls) were sold to Perenco for USD 1.40 mil each. "

CHARLIE HOCKLESS, Senior Offshore Analyst

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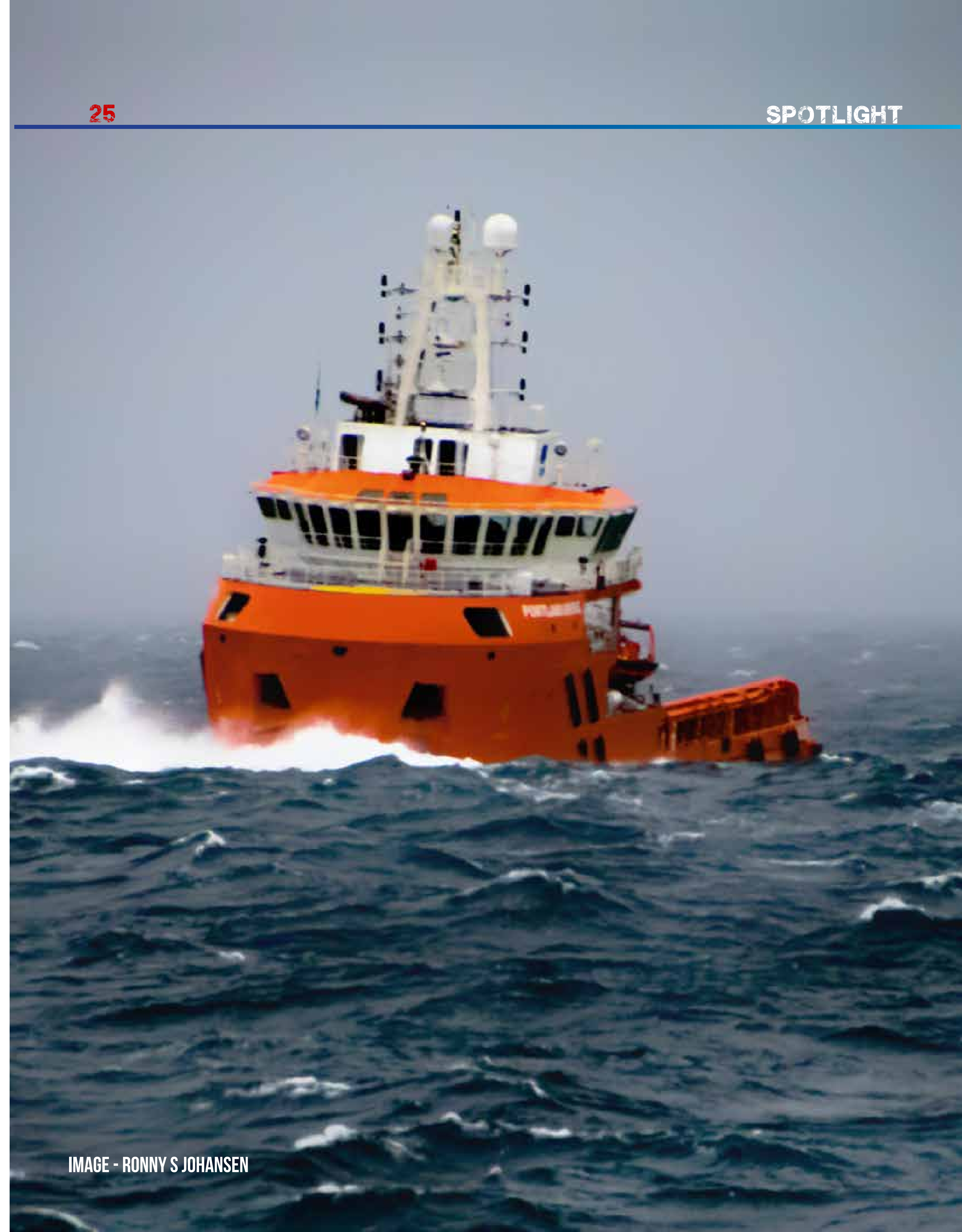

IMAGE - RONNY S JOHANSEN

Are the oil companies finished slashing term tonnage from their books? We take a look at term charter opportunities for a North Sea PSV

image - **RONNY S JOHANSEN**

Text - **INGER-LOUISE MOLVER**

On Better Terms?

The systematic slashing of PSVs on term charter was a major contributor to the terrible market in 2016. At the start of 2015 there were over 160 PSVs on term charter in the North Sea and that number steadily declined each month for the next two years. There has been so much written about the market returning to a more profitable position but a key indicator is the number of vessels on term. A continued decline suggests oil companies are still cutting their tonnage levels and have no further need for vessels. An increase suggests oil companies believe the most strategic option for supply vessel coverage is to procure vessels on term, i.e. they believe that rates will go up and the time to secure a vessel is now to avoid being at the mercy of a volatile spot market. Indeed even believing that the spot market will be volatile is in itself a belief that the rates are going to go up because there was very little volatility in 2016, consistently flat and uninspiring more accurately describes the situation. So of the aforementioned scenarios, where does reality lie?

- It is the latter. There is a noticeable increase in the number of tenders out for new tonnage this year, not to mention the number of vessels already fixed on term contract. By the end of April we are at just over 30 term fixtures concluded for North Sea vessels compared to just 14 over the same period the previous year. And there is still a decent handful of enquiries outstanding, such as Total Norge, Nexen, Providence, CNR, Statoil and Repsol. In that sense its familiar faces – particularly on the UK-side, the merger and acquisition activity that has seen fields and assets change hands has thus far not translated into a great deal of new clients for PSVs on term emerging.

- In Norway the activity for the past two years has almost started and ended with Statoil. That is no longer the case with the emergence of AkerBP as a major player on the sector plus a handful of other operators with increased activity. ConocoPhillips Norway recently contracted two Solstad vessels – two that will be taken out of layup to fulfill the contract. Whether or not this is increased demand remains to be seen for the time being. ConocoPhillips Norway has two DOF vessels on term contract currently with charters not due to finish for some months whereas the additional Solstad vessels will commence charter in April and May.

- Not all term charters are alike however. A careful eye must be kept on a vessel taken out of layup for a term charter with a duration of only three to six months – largely relating to PSV support for drilling programmes. This relates to several of the term charters announced this year. What happens beyond this point? If these vessels come off contract and the owner tries their luck on the spot market, our opinion is there is no room for more vessels. Ultimately if no further term work is secured the best option is back into layup. This will only apply to a handful of vessels and if the layup list does climb towards the end of the year it will not be enough to constitute a double dip scenario.

- The spot market has been relatively tight across the North Sea for the last couple of months. Moreover the spot rates have been in the region of 50000 – 70000 NOK and term charters between 65000 – 80000. These rates have been long awaited for the owners. Looking at it from their perspective, they will be eager to get vessels out of layup and out working and earning, crew they have had to lay off back in work and competence back within the company fold. So seeing rates at these levels sends a strong argument for taking vessels out of layup – even without a term charter in place.

Size matters

- As brokers we understand that argument too but the fact is some vessels will fare better than others. Larger decked vessels will have more luck in securing work, particularly off the back of drilling campaigns where we see that the intense drilling programmes are requiring more and more from the PSV support – and this means larger decks. In some cases the vessels are being used as floating storage where the rig's deck in insufficient to accommodate all the necessary equipment and pipe for drilling. Again, this means larger decks are preferred.

- We see that some operators are particularly good at analyzing the market. So an increase in term chartering can be interpreted as a sign charterers believe the market is increasing day-rate wise, and that the spot market is no longer the go-to place for vessels at cheap as chips prices. So the conclusion is thus, more term chartering reflects a view on charterer's side that the market is picking up, but for owners it's still very much hanging in the balance and too many additional vessels taken out of layup will prolong this downturn. Caution is advised!

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ARTICLE BY JOHANSENRONNY

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The threat of governmental support being withdrawn from offshore wind farm projects may soon be a thing of the past as costs come down so far that subsidies are no longer even required.

Subsidy-free

If ever there was a mile stone that screamed, 'oil and gas, wind is coming to get you' it is this. And this mile stone is approaching far quicker than many expected and putting pressure on other government-subsidized energy projects, such as the controversial Hinkley Point nuclear power plant. Offshore wind is getting closer to breaking free of the bonds of government subsidy to stand on its own feet as a genuine source of energy and not just a symbolic effort to be green. This month DONG won two contracts for windfarms offshore Germany for which the Danish wind giant will receive no subsidy on top of the wholesale electricity price.

- The two projects, OWP West and Borkum Riffgrund West 2, will not be commissioned before 2024 and this is critical. The current size and generation capacity of turbines today is expected to grow massively and DONG is banking on this continued growth in the capability of the turbines so as to need fewer turbines per field. In addition DONG already has existing fields in nearby locations to the proposed projects which will mean current operational facilities can be used for the new projects.

- The contract award was won as part of a tender auction which has gained in popularity in recent years and encourages competition amongst bidders.

- But DONG is taking a risk, if the price of electricity falls it could leave them exposed to a shortfall. Volker Malmen, country manager in DONG Energy Germany, says:

- "Making green energy cheaper than black has for years been part of DONG Energy's strategic ambition. Offshore wind is fully capable of replacing retiring power plants and to become the backbone of Germany's energy transition".

Retiring nuclear and coal plants may very well be politically attractive decisions, but as is green energy projects.

Some analysts have been quick to point out that with the advancement of solar and wind farms all over Europe, the abundance of cheap, green energy could drive electricity prices down – could this leave DONG regretting the 'zero bid'?

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