

# BRAZILIAN WAVE

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THE BRAZILIAN FOCUSED MARKET REPORT



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WESTSHORE SHIPBROKERS AS





## Petrobras steps on the brakes.

**In our July edition we reported on the Petrobras' 2012-2016 business plan and what one could expect from it. We can firmly say that nothing has really changed since then, with Petrobras slowing their OSV contracting pace to an almost stand still while internal assessments and reviews are being performed.**

Petrobras' operational efficiency mentioned in their business plan has led to two main internal programs: PROEF (recovery of operational efficiency in the Campos Basin) and RPOCOP (operating costs optimization program), with the latter still being concluded and expected to be in force as from January 2013 and onwards. There are approximately 60 OSVs offered in Petrobras' tenders since March 2012 that have had their offers consistently revalidated in expectation of Petrobras to proceed with its chartering procedure and consequent BOD approval. The perception is that all charters must be well justified internally with approval from several departments and additional supporting reports required. The performance of each project should be evaluated and supported, and mostly within budget.

“.....must be well justified internally with approval from several departments and additional supporting reports required”

In a global market where the world supply/demand ratio has constantly been affected by Brazil's appetite for long term charters, the North Sea and Far East markets have been anxiously awaiting Petrobras' developments to better grasp the dynamics of their own market in the upcoming year.

Rumors says a sextet of UDW drilling units have already been mobilized to production projects while expensive and risky drilling campaigns in the Brazilian equatorial area are being canceled. This influences the need for OSVs as instead of operating in a remote area with dedicated OSVs, they will now be operating in a cluster where the sharing of existing OSVs can be expected.

However not everything is negative news, there are some positive as well: USD 131.6bio will still be invested in Brazil E&P up to 2016; 4.2mio barrels per day is the production target until 2020, which is the reason why fifty new drilling units and thirty eight production units are expected to be delivered during the same period. One may easily deduct that the number of OSVs needs to follow the same pace for an efficient operation, and this is correct.

In practical terms, we expect a way forward for the Petrobras projects by December 2012 in a consistent, efficient and realistic way, and thus have steady demands for OSVs in order for Petrobras to meet its targets and overcome challenges.

# 03 VESSEL NEWS

THIS MONTHS FIXTURES, REQUIREMENTS AND MARKET SCREENINGS

## SPOT FIXTURES

DATE	VESSEL	TYPE	CLIENT	OWNER	PERIOD	DAY RATE
15 Oct 2012	FAR SWIFT	PSV	KAROON	FARSTAD	60 DAYS	USD 45,000
26 Oct 2012	SEA LEOPARD	AHTS	VANCO	DEEP SEA	60 DAYS	USD 45,500
31 Oct 2012	CAMPOS COMANDER	PSV	TECHNIP	CHOUEST	5 DAYS	RNR



## THIS MONTHS FIXTURES

DATE	VESSEL	TYPE	CLIENT	OWNER	PERIOD	DAY RATE
01 Nov 2012	ASTRO RONCADOR	PSV	SAIPEM	CAMORIM	200 DAYS	BRL 38,000

## VESSEL NEWS

**VEGA OFFSHORE** - Vega Crusader arrival in Brazil is expected for early December followed by Vega Corona. The first two Vega Offshore vessels will operate for Petrobras in the PSV 1500 category.

**CBO** - CBO Guanabara has been trading on the spot market and after her latest short term hire for transport of MGO she has now entered into a contract with Petrobras.

**VARADA** - Varada Ilhéus is expected in Brazil early December having been delivered from ABG Shipyard and is currently underway to Brazil for a Petrobras contract. The vessel will join its sister vessels the Varada Ibiza and Varada Santos currently operating in Brazil.

**CBO** - After completion of her term docking and fitted with an ROV from Fugro Brasil, PSV CBO Campos is awarded a spot contract with SAIPEM.

**MAERSK SUPPLY SERVICE / DEEP SEA SUPPLY** - The AHTS spot market has increased after the Maersk Handler and Sea Panther concluded their contracts with Statoil. The Maersk Helper will also join the duo shortly.

**DEEP SEA SUPPLY** - Upon conclusion of the BP contract the AHTS Sea Leopard has been fixed with Vanco on a campaign that will proceed well into Q1 2013.

**CAMORIM** - Renamed AHTS Sea Hunter, the Brute Tide has been sold and through major upgrade and now available on the spot market.

**TIDEWATER** - The multipurpose offshore vessel Trounson Tide will be leaving Brazil shortly.



# 04 PETROBRAS TENDERS

UPDATE ON THIS MONTH'S OUTSTANDING TENDERS

Petrobras is still going through its Operating Costs Optimization Program (PROCORP) with results expected in December 2012 and implementation from January 2013 and onwards. Petrobras seems to be demobilizing some UDW drilling units from exploration programs to development which led some OSRVs which were awaiting BOD charter approval have now been withdrawn. Meantime, Petrobras OSV chartering department still running around with additional internal reports which includes performance expectation of specific projects at which the intended OSVs are expected to be applied. We do expect to have a positive update in the next Brazilian Wave edition.

## THIS MONTH'S TENDERS CLASSIFICATION RESULTS

Petrobras has disqualified the sole bidder (see table below) at its AHTS 18000 ROV tender due to excessive price and non compliance to the ROV technical requirements. Just refreshing someone's memories, the ROV was required to have min 250 bhp thruster and ability to operate in sea current up to 4.0 Knots.

OWNER	VESSEL	FLAG	YEAR BUILT	DELIVERY	DAY RATE (USD)	MOB FEE (USD)
SIEM OFFSHORE	SIEM GARNET	Norwegian	2010	March 2013	98 287,00	8 845 830,00

## RSV TENDER

Petrobras has released the result for the RSV tender which was divided in two batches: one for Petrobras Geodesy department (A) and another one for underwater survey and maintenance (B). Expected delivery time is 180 days after contract award and contract period 4, 6 or 8 years. Ranking takes inconsideration Petrobras' criteria for vessel's consumption and mob fee. Market expectation is that Petrobras will charter three vessels at each batch.

Ranking	Batch	Vessel Owner	ROV Contractor	Vessel	Flag	Contract period	Day Rate (Vessel + ROV)
1	A	FARSTAD	SUBSEA 7	Far Saga	Foreign	2920 days	USD 90 767,02
2	A	SEALION	FUGRO	Toisa Warrior	Foreign	1460 days	USD 98 849,82
3	A	NORSKAN	DOF	Geoholm	Foreign	1460 days	USD 105 526,46
4	A	PETROSANTOS	RRC	Jaya Vigilant	Foreign	2190 days	USD 104 981,86

Ranking	Batch	Vessel Owner	ROV Contractor	Vessel	Flag	Contract period	Day Rate (Vessel + ROV)
1	B	SEALION	SUBSEA 7	Toisa Conqueror	Foreign	1460 days	USD 82 289,47
2	B	SEALION	SUBSEA 7	Toisa Vigilant	Foreign	1460 days	USD 82 289,47
3	B	NORSKAN	DOF	Skandi Texel	Foreign	2920 days	USD 86 426,66
4	B	NORSKAN	DOF	Skandi Sotra	Foreign	2920 days	USD 92 426,66
5	B	SEALION	FUGRO	Toisa Voyager	Foreign	1460 days	USD 92 730,76
6	B	CBO	DEEPOCEAN	CBO Isabela	Brazilian	1460 days	USD 113 460,99
7	B	PETROSANTOS	RRC	Jaya Valour	Foreign	1460 days	USD 97 284,96

## A WORD WITH WESTSHORE



**Daniel Del Rio**  
Managing Director

"Global players are anxiously awaiting Petrobras' next move to affect worldwide OSV supply/demand balance."

## PERENCO TO OPERATE

Having OGX as partner in its blocks, Perenco remains as operator in all its concessions and is getting ready for its continued drilling campaign. Starting February, the next campaign is set for two potentially three wells and at least 150 days. This is the second block of exploratory wells of Perenco in Brazil. At least 1 AHTS is already into a Letter of Intent with Perenco awarding until mid December one more anchor handler, one PSV and one oil spill vessel.

## ANADARKO KEEPING ITS PRESENCE

Although having officially announced its conclusion of activities in Brazil and the intention to farm out its local concessions, US independent Anadarko is set to continue drilling activities in 2013. Subject to drilling rig readiness, Anadarko will drill one firm and two potential wells Q2 next year. With the intended results, the oil company expects to see the value of its concessions increase in Brazil.



## "NEWS DROPS" ON PETROBRAS'

### PRODUCTION AND FINANCIAL RESULTS

**LOSSES:** To lighten the losses which represented around BRL 1.3 billion in the second quarter and the first in 13 years, Petrobras has adopted stricter measures, "declaring war" against delays and contract compliance. Despite the results, the net profit in the first nine months of the year (January-September) stood at BRL 13.43 billion - 52% lower than the same period of 2011, reflecting the currency depreciation. The third quarter was also 12.1% below the result for the same period last year, but 36% greater than the loss in the previous quarter. However, the total production of oil and natural gas in Brazil and abroad remained stable compared to 2011. Domestic oil production is lower than the same period last year (-2%), mainly due to operational shutdowns.

**NEAR FUTURE:** Regarding the company's performance in the fourth quarter, the president Graça Foster predicts production of two million bopd by December. She said there will be improvements in productivity and increase in total production. Furthermore, the pre-salt exploration, especially in the Santos Basin has been surprising Petrobras producing 50% more than expected.

**COSTS:** She also defended the increase of ethanol in gasoline from the current 20% to 25%, which would reduce the gasoline imports by Petrobras by half. Currently foreign purchases are estimated at 80,000 bopd and could decrease to 40,000 bopd as the government does not allow the transfer of volatile oil costs to fuel prices, and the company imports for more expensive prices than it resells.

## STATOIL'S RESERVES IN PEREGRINO SOUTH FIELD

Statoil confirmed an estimate of 300 million boe for the area south of Peregrino in Brazil, which paves the way for a final investment decision next year. At first, the company thought it had around 150 million boe, so the result is very encouraging. In a statement, the company said that in partnership with Sinochem (40% share) it completed the drilling of the bounding well 3-STAT-8-RJS in the area of discovery Peregrino South, in the Campos basin.



## EIKE'S NEW MOVES FOR CAPITAL RAISING AT OGX

Eike Batista offered to buy up to USD 1 billion in new shares of his company OGX until April 2014, paying 6.3 dollars per share, which represents a premium over the recent closing prices. During the year, the shares lost more than 60 percent of their value. He stated that this plan reflects the need for additional capital and the company's lack of more favorable alternatives, while emphasizing his confidence in the quality of staff and assets of the company, as well as in the new opportunities of the oil and gas industry being offered to OGX.





# 06 DRILLING & PRODUCTION ROUNDUP

WHAT'S GOING ON OUT THERE?



## **Petrobras/FPSO Replicant**

The first FPSO replicant from a total of eight, started to be assembled at Rio Grande shipyard, with the placement of the first block unit in drydock, to begin the construction of the hull. The unit should leave the dock in October 2013 and, after this, deliveries of platforms will happen every six months until the eighth unit. The replicant will be used by Petrobras in the production of the pre salt in Santos Basin along with its partners BG Group, Petrogal and Repsol Sinopec.

## **Petrobras/Cranes**

Petrobras received the first offshore crane manufactured by the Italian MEP (Marine Equipment Pellegrini), from a batch of 20. Intended for pre-salt platforms, the new cranes will be delivered over the next five years. The local content of the equipment will be increasing from 20% to 65%. The first two will be installed on the P-58 platform and the third and fourth will go to the platform P-62.

## **Tomé Engenharia/Charqueadas**

The company intends to invest over BRL 110 million in a new unit in the city of Charqueadas dedicated to manufacture modules for oil rigs. The city recently created a naval polo, and Tomé is the third company to receive a plot in place to install a unit dedicated to the sector (after Metasa and Iesa). The land granted to Tomé has about 26 hectares and the forecast is that 1,500 jobs will be created with the installation of the company in the region.

## **Wärtsilä/Supply Engines and Thrusters**

Jurong Shipyard has awarded Wärtsilä the contract to supply main generating engines and thrusters for the six new drill ships to be used in the pre-salt deep-water drilling program for 15 years. Three will be operated by Odfjell, while the remaining three will be operated by Seadrill. Five drill ships will be delivered to Sete Brasil and one to Sete Brasil's Dutch and are scheduled to be finished between the second quarter of 2015 and the second quarter of 2019.

## **Petrobras/SEDCO 706**

Petrobras is negotiating with Transocean and Chevron to charter the Sedco 706, a rig that was drilling last November in Campos Basin when the spill happened. The idea is that the semi-submersible platform could be ready to operate again by next May. Sedco 706 has a contract with Chevron until April 2014 and is prohibited from drilling in Frade field. Its daily charter rate is listed at USD 311,000.

## **QGOG / Laguna Star**

The ultra deepwater drillship arrived in Brazil and will operate with QGOG in water depths of up to 3,000m and depths of up to 12,000m in Brazilian pre-salt area. This is the second drillship to be operated by QGOG, after Amaralina Star, which arrived in August. The unit contributes to expanding and diversifying the company's portfolio in ultra-deepwater drilling.

# 07 LOOK AHEAD

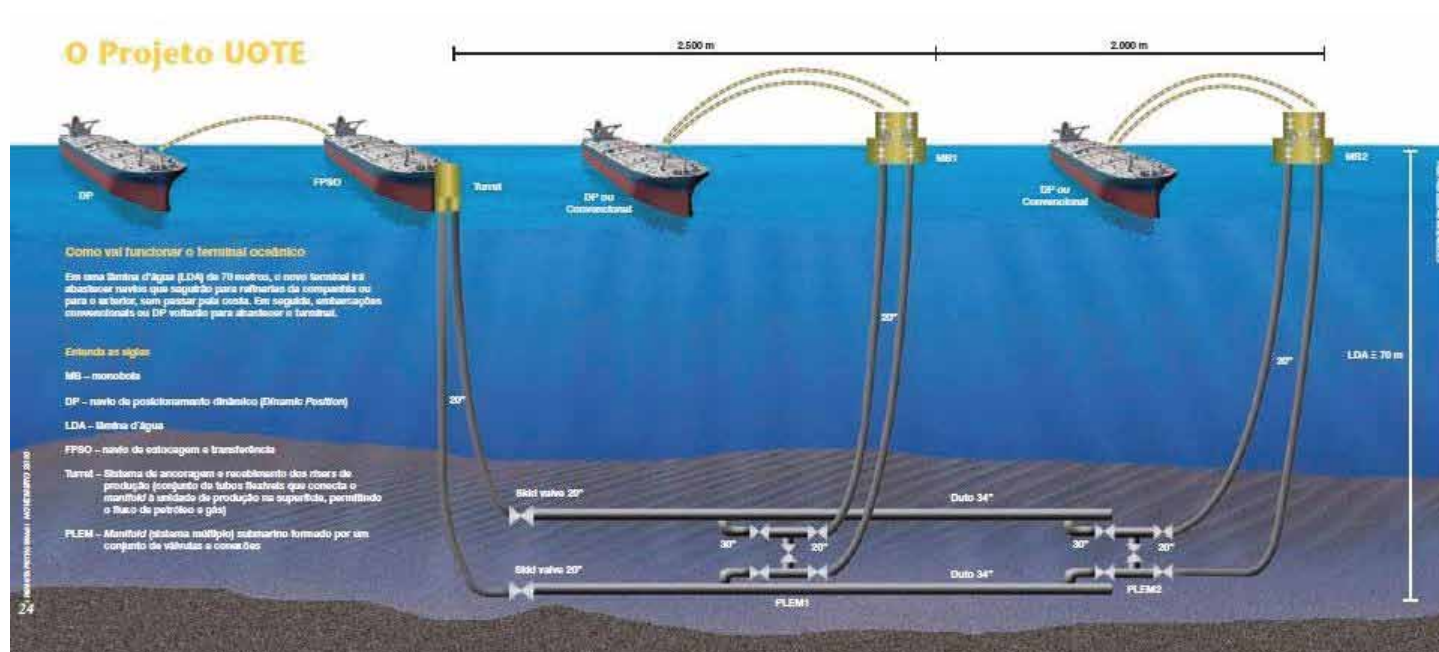
## WHATS UPCOMING OVER THE NEXT FEW MONTHS

### A BREAKTHROUGH IN LOGISTICS EFFICIENCY: THE UOTE PROJECT

In keeping up with the latest and ongoing Petrobras' programs of cost and production efficiency, and aiming at higher competitiveness in exports, a new concept in logistics called UOTE (Offshore Unit for Transference and Exportation) will revolutionize the Brazilian oil and gas market as from 2014. Petrobras has decided on a novel way to transfer pre-salt oil to export and local market tankers from a maritime operations base, which will work as the first floating port terminal in the world. Currently, crude oil is taken from offshore platforms to the coast, where it is stored in export tankers, which is a process with unnecessarily increased costs, due to for example high port fees, pilotage, etc.

USD 300 to 350 million per unit, with a total infrastructure cost of around USD 500 million. It is forecasted that Petrobras will likely install a few UOTEs in the following years in order to accelerate the pre-salt production exports. The first unit is currently under construction in Asia by Tanker Pacific Offshore Terminals, as a result of the conversion of the very large crude carrier Northern Jewel, and is set to cost approx. USD 318 million, to be followed by a 25-year lease contract.

The operation of UOTEs will indeed need several large AHTSs and large two vessels to support the shuttle tankers in anchoring and offloading



UOTE will comprise of a vessel stationed closer to the drilling rigs, about 80 to 90km off Rio de Janeiro north coast, since the distance to pre-salt blocks such as Tupi is nearly 300km from the nearest coast. Petrobras will use a DP enabled FPSO anchored in shallow waters (around 70 meters) to receive and store production oil from shuttle tankers loaded at the production FPSOs, over the pre-salt blocks. The FPSO will have a capacity to store 2 million barrels of oil, which is about Brazil's current daily production, and will be connected to underwater rigid pipelines. These dedicated pipelines will transfer the stored oil through mono-buoys to tankers which will take the production to refineries in Brazil or sail to foreign ports with their export oil cargo (most of it, probably). There is also the possibility to transfer oil from one vessel to another through the mono-buoys, without using the FPSO. Brazil aims to boost its oil production to nearly five million barrels a day by 2020. It's vast pre-salt reserves, which are currently estimated to hold 15.71 billion barrels of oil, can make Brazil the world's fourth largest oil producer in 2030, as well as one of the world's top oil exporters in the future.

The first unit is expected to become operational in mid-2014 at a cost of

crude oil to the FPSO and loading the oil from the mono-buoys to the tankers which will take them abroad or to refineries. PSVs with ROV capabilities will constantly be on stand-by to monitor and inspect the rigid pipelines and riser systems for leaks, in order to decrease the risk of spills during the offloading and loading procedures. FSVs will also be on duty monitoring proceedings and for rescue operations. And during the installation phase and pre-commissioning of pipelines in 2013, AHTSs of at least 150 BP and RSVs of minimum 3000 bhp will be required for short term operations. Smaller PSVs with minimum DP1 may be needed to support construction and pipelay vessels before UOTE's inauguration. The OSV market may start to see some market screenings and vessel requirements coming up as from the beginning of next year and onwards.

Even though we will keep seeing hundreds of kilometers of subsea pipelines being built and used in the years to come, these will certainly be used mainly for pre-salt gas production, which makes UOTEs the main solid alternative for pre-salt oil downstream infrastructure. Therefore, we shall closely monitor the news and bids in this brand new segment, which definitely has a bright future ahead of us.



# 08 INSIDE STORY

A LOOK AT SOME OF THE ISSUES



## Royalties distribution: The fight recommences

After a controversial and difficult resolution in the National Congress, the distribution of oil royalties has come back on the agenda this year after an approval in the House of Chambers. The plan will see a major change to all contracts, including those signed prior to the vote. However the approved legislation does not reserve royalties for specific areas, like education or health as had been wanted by the Central Government and must now be sanctioned by President Dilma Rousseff.

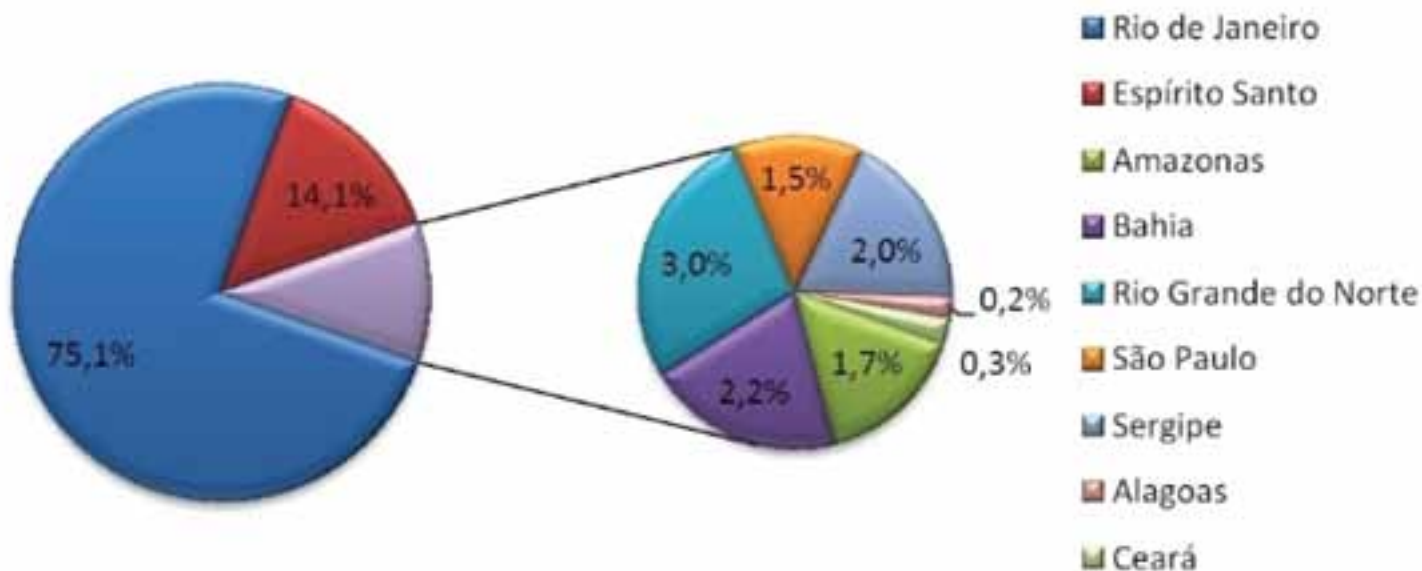
The signs from the Planalto are ambiguous as to whether the President will in fact use her veto. It is estimated that the State of Rio de Janeiro will alone lose something in the vicinity of BRL 80 billion up to the end of the decade. In 2010 alone the city of Rio de Janeiro received almost BRL 8 billion in royalties and special participation. The intended law will lower producing municipalities cut from the current 26.25% down to 20% of the revenues, gradually lowering to 4% in 2020. Neighboring cities, the so called "affected" would go from current 8.75% to 2% by 2020.

The Governments that are currently enjoying the oil cash are obviously claiming that the changes will lead to bankruptcy. The Governor of Rio de Janeiro declared that the World Cup and Olympic Games can be affected as the State would simply not have any cash to honor its commitments, including pensioner benefits and salaries, etc.

The not so negative part of this is the change to the non-producing States, who will increase their slice of total oil revenues from the current 7% to 21% in 2013 and reach 27% by 2020. The non-producing municipalities would also see growth from 1.75% to 27% by 2020. The text still determines a reduction from 50% to 42% of the parcel of the Union in 2013 in the special participation. The percentage would land in 46% by 2020.

In spite of the objections from Rio and the neighboring states of Espírito Santo and São Paulo, the approval of this law in Congress marks one of the most important legislative milestones of the year. Although not directly related, it shows that besides the appetite for

### Production of oil per State







As it is today	Proposal approved in the Congress for the wells already bidded starting in 2013	Proposal approved in the Congress for the wells to be bidded
Union: 30% of revenues of royalties	Union: 20% of revenues of royalties	Union: 20% of revenues of royalties
Producing States: 26.25%	Producing States: 20%	Producing States: 22%
Producing Cities: 26.25%	Producing Cities: 13%	Producing Cities: 5%
Affected Cities*: 8.75%	Affected Cities: 7%	Affected Cities: 5%
Others: 8.75% remaining are distributed for all the cities and States in agreement with 7% of the rules of the FPE (Municipalities Participation Fund) and 1.75% of the FPE (Participation Fund of the States) that they consider the social indicator and they pay more to the States and poor cities in detriment of richest	Others: 40% remaining are distributed for all the cities (20%) and States (20%) in agreement with the rules of the FPE (Municipalities Participation Fund) and the FPE (Participation Fund of the States) that they consider the social indicator and they pay more to the States and poor cities in detriment of richest	Others: 49% remaining are distributed for all the cities (24.5%) and States (24.5%) in agreement with the rules of the FPE (Municipalities Participation Fund) and the FPE (Participation Fund of the States) that they consider the social indicator and they pay more to the States and poor cities in detriment of richest
*Affected Cities: places that participated from loading and unloading of production and other problems arising from the exploration of oil, natural gas and other hydrocarbons		

oil capital, congressmen are also putting up legislative settlements surrounding the Bid Rounds of ANP – which have been so long awaited and wanted by the industry and the government.

Two big auctions of new oil blocks are expected for next year – one in May for conventional blocks in shallow water and other areas, and the second in November for one of the newest frontiers in the global energy industry – the giant deepwater “pre-salt” fields.

The producing States have in their favor the needed compensation for the economic activity and its risks, as determined by the Constitution. On the other hand, States which are non-producers have in their favor the Republican goal of reducing regional inequalities.

If President Dilma chooses not to veto the approved law, the discussion will hit the level of the Judiciary – in which case the discussion will become pragmatic by law, but as the market expects it will in no way disrupt or further delay the ANP bid rounds.

by WILSON NOBRE





# 10 É ISSO AÍ!

FINAL THOUGHTS FOR THIS MONTH

## WESTSHORE 25TH ANNIVERSARY

This month, Westshore Shipbrokers is completing 25 years of existence in the offshore market. During these years Westshore has evolved with the development of the offshore market and opened new offices facing new frontiers. Westshore Shipbrokers was established in 1987 by Erik Stallemo. The company was initially focused on vessels in the North Sea market alone, nevertheless the company continued to grow and today, the company has two branches, Rio de Janeiro started their activities in 2010 while the latest office was established earlier this year in St. John's, Canada.

As well as offshore broking, by the qualified and experienced team, the company provides a complete and professional shipbroking consultancy service and the management of balanced contracts between Charterers and Owners.

On November 22th Westshore Shipbrokers will celebrate their 25th anniversary in a daylong event in Kristiansand, Norway the location of their headquarters. The big event will begin with a lunch, followed by a hard hitting game of hockey and beer tasting. At the end of the day the event will culminate with typical Norwegian dinner for all attendees.

The eventful day will certainly be a memorable moment for everybody: clients, friends and us the Westshore team. We will provide the photos of the 25th event in the next Brazilian Wave magazine.

## WESTSHORE SHIPBROKER'S 25TH ANNIVERSARY

### WESTSHORE'S TEAM



**Eirunn Brekke**  
Office Manager



**Eliana Lazarini**  
Office Manager



**Paula Quirino**  
Broker



**Inger Louise Molvær**  
Analyst



**Gøran Røstad**  
Broker



**Jon Inge Buli**  
Analyst



**Jonathan Cummins**  
IT Manager



**Jørgen Welde Knudsen**  
Broker



**Alexandre Vilela**  
Marine Advisor



**Sølve Høyrem**  
Managing Director /  
Broker



**Daniel Del Rio**  
Managing Director / Broker



**Lars Heimdal**  
Broker



**Tore Kopland**  
Broker



**Vilma Fernandez Felix**  
Secretary



**Wilson Nobre**  
Intern