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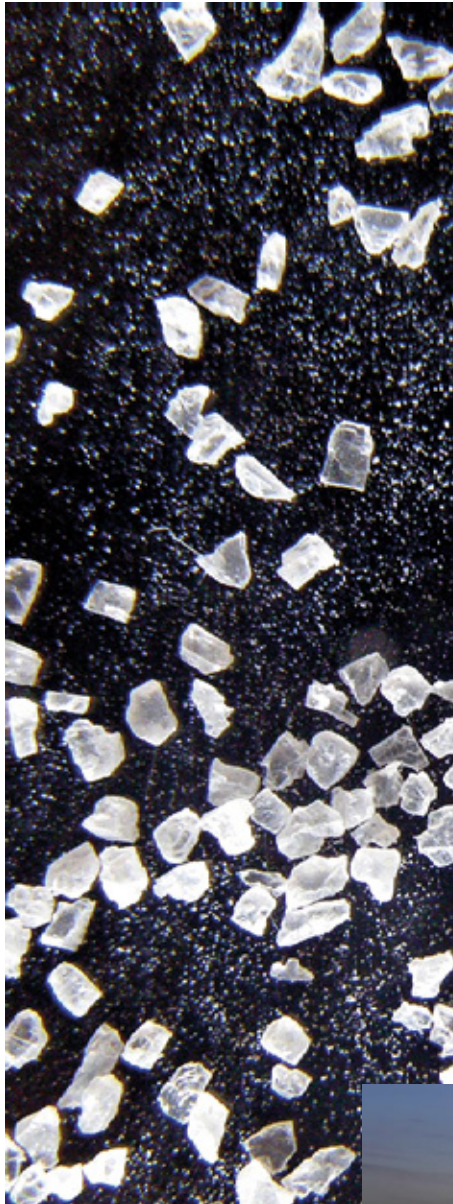
BRAZILIAN WAVE

A New Dawn in Shipbuilding

How one nation is struggling to tackle
the explosion in demand for home
grown vessels



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DO BRASIL



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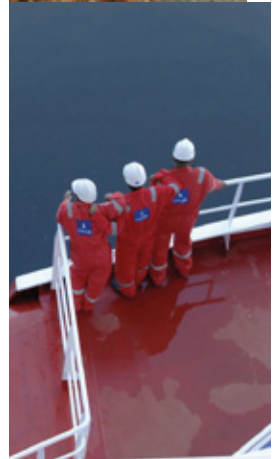
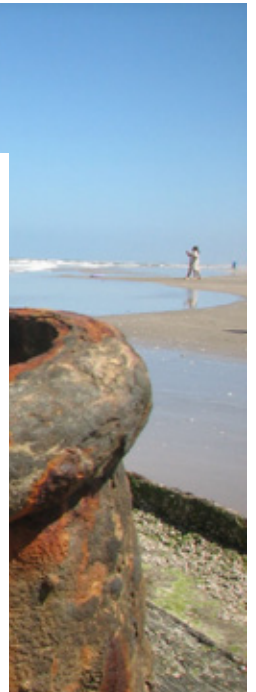
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Wilson Nobre

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This month's fixtures, requirements and market news



SIEM CONSUB - Brazilian built large PSV DP2 Siem Atlas has been chartered by Anadarko to support drilling operations for 30 days firm plus options. The vessel is expected free in July and uncommitted thereafter.

OCEANPACT - Oil spill response specialists Oceanpact have fixed OSRV Magé with Chevron now extended until late June. Sister ship Macaé has been fixed to Anadarko as response vessel for the campaign expected to last for six months.

FARSTAD - PSV DP2 Far Star has concluded her successful charter with Technip. At time of writing the vessel is prompt available Guanabara Bay.

MAERSK - AHTS Maersk Pacer has been redelivered by Shell after completing her successful support campaign for drilling and production

operations. The vessel is expected to start with BP in support to Camamu block operations in July for six months.

VEGA OFFSHORE - The fifth vessel of the Vega fleet to reach Brazilian waters OSRV Vega Jaanca has arrived in anticipation of her delivery to Petrobras for 4+4 year contract. Vega Inruda is next, expected to reach Brazil in July.

FARSTAD - PSV DP2 Far Swift after been redelivered by Karoon after her term charter and has been fixed to Shell Brasil for 10 days firm plus options. Upon conclusion of the Shell charter, the vessel is expected to undergo regular dry-docking.

DEEPSEA SUPPLY - AHTS duo Sea Leopard and Sea Panther continue working successfully on the spot market. Sea Leopard is back on the spot market after regular repairs and at time of writing prompt available in Guanabara Bay. Sister ship Sea Panther is now undergoing regular repair.

MAERSK - AHTS Maersk Tender has been extended by Shell Brasil and is now expected free early-July.

Spot Fixtures

FIXTURE DATE	VESSEL	TYPE	CLIENT	OWNER	PERIOD	DAY RATE
15-MAY-2013	MAERSK HELPER	AHTS	TRANSOCEAN	MAERSK SUPPLY	5 DAYS + OPTIONS	RNR
16-MAY-2013	UOS CHALLENGER	AHTS	ANADARKO AS	UOS	90 DAYS + OPTIONS	RNR
16-MAY-2013	UOS LIBERTY	AHTS	ANADARKO AS	UOS	90 DAYS + OPTIONS	RNR
20-MAY-2013	MAERSK HELPER	AHTS	STATOIL	MAERSK SUPPLY	10 DAYS + OPTIONS	RNR
22-MAY-2013	A.H. LIGURIA	AHTS	QUEIROZ GALVÃO	FINARGE	7 DAYS + OPTIONS	RNR
23-MAY-2013	GEONISIO BARROSO	AHTS	CHEVRON BRASIL	BOURBON	5 DAYS + OPTIONS	RNR
23-MAY-2013	SIEM ATLAS	PSV	ANADARKO AS	SIEM OFFSHORE	30 DAYS + OPTIONS	RNR
28-MAY-2013	MACAÉ	PSV	ANADARKO AS	CBO	20 DAYS + DAYS	RNR
30-MAY-2013	MAERSK PACER	AHTS	ANADARKO AS	MAERSK SUPPLY	10 DAYS + OPTIONS	RNR
05-JUNE-2013	MAERSK PROVIDER	AHTS	REPSOL	MAERSK SUPPLY	7 DAYS + OPTIONS	RNR
10-JUNE-2013	FAR SWIFT	PSV	SHELL AS	FARSTAD	10 DAYS + OPTIONS	RNR

* No new term fixtures or requirements this month

Shipbuilding Wreck

Brazil is struggling to become a competitive shipbuilding nation. With record costs and inefficiency, we take a deeper look into the main issues being faced.

Brazil has a number of positive macro-economic tools to stimulate shipbuilding. Like any strategic economic sector, the country has developed policies as incentives. The government ensures flag protection, privileged (subsidized) financing conditions, tax incentives, local content bonuses, among others. Shipbuilding in Brazil has been legally paired with export sales, and is therefore exempted from several taxes such as ICMS, IPI, PIS, etc. The financing terms are attractive and linked to local content (the higher the local content the higher financed percentage and the lower the interest rate). Up to 90% of local and 70% of foreign goods can be

financed in rates ranging from 2% to 7% per year in USD. The governmental banking system has plenty of funds available largely captured via the cargo freight tax (AFRMM) and the Merchant Marine Fund (FMM). Altogether, this is quite consistent a base to ensure competitiveness.

There has been a political tendency to focus on the increasing demand for new vessels, while neglecting the very real shortcomings that make building a ship in Brazil the most expensive place to do it in the world.

The cost of building a tanker or offshore support vessel in Brazil has become a comedy in the last decade. The final cost of a straight modern supply vessel of about 5,000t dwt has surpassed USD 80 million. It is now more affordable to build in China and import into Brazil with about 100% total import taxation of the vessel cost, than to build the same vessel in Brazil. There are now companies doing just that, and this is the utmost demonstration of the failure the industry has become. Strong wording perhaps, but justified when we look at how Brazilian shipbuilding ended up in this situation.

In most shipping companies, freight is the main profit stream. Between 2002 and 2005, the net freight income has reached record levels and as a consequence, shipbuilding activity increased. Shipyards overbooked, the supply chain became overloaded with orders they could not deliver. This had a significant impact in Brazil compared to other regions in the globe - the country was not prepared. China, India, Singapore were.

The challenges of rising shipbuilding demand is akin to a situation that happened about 100 years ago. At the beginning of 20th century in Guanabara (former state now integrated into Rio de Janeiro) a complex of innovative and inter-related industries was being developed. There was intensive interchange of commerce between the shipyards, the smaller steel mills, the Navy War Arsenal and the import and export trading sector, which allowed the maintenance and development of shipyards. When the record demand hit the market in the late 50s, the yards were ready to deliver competitively, on time and with a supportive industry-base.

But shipbuilding in 2000 in Brazil erupted without the necessary foundations in place. The favorable economics, record freight, strong long-term demand and State subsidy shook a dormant industry, wrecked over two decades of agony, into action. The lack of inter-related industries, of well trained and experienced labour, supply of goods, and an innovative environment was a recipe for disaster. Rio de Janeiro went from being the centre of naval industry in the 60s and 70s to land of carnival and tourism, losing its entire industrial complex to other states such as Minas Gerais and São Paulo. And

carnival float builders can't weld naval steel plates without overheating and bending, though some people think they can.

Despite this, multi-million dollar shipbuilding contracts were being placed with shipyards and other suppliers. And who could say no to that? So the system forced all parties into a vicious-cycle that sooner or later would come up short, and the cracks are now starting to appear.

An example of a financial failing in the system is insurance. Shipbuilding insurance in Brazil is one of the main bottle-necks for the development of a reliable system. BNDES, as financial agent and manager of the funds, demands insurances for both the shipyard and the vessel owner. But can shipyards guarantee the loan? Some "partial" solutions have been given - and accepted, such as PCGs, but when the bill appears... can it ever be paid?

So, the government gives out incentives of partial effect, the yards attempt to act in a wrecked structure, with barely qualified workers, unstructured and distant suppliers, import dependent, victims of expensive hedging operations, subject to exchange rate risks, and the banking system has fragile methods to pull it all together. Not good. No doubt this combination creates a cascade effect hard to overcome and not to mention it's expensive.

The one life-line the yards have is the local goods. Vessel owners and yards are relatively safe with the supply of local material i.e. shipbuilding grade steel, the main ingredient for tankers and offshore vessels. Brazil is relatively safe in terms of processing capacity, with two large steel mills furnishing the local and international markets. This is what is emphasized most when authorities talk about the steel processing capacity in Brazil. But they forget to address one crucial aspect in an open economy: the price charged locally will be no different than the second-best the mills can get from the outside. And the Brazilian government can't intervene in this. In practice, local prices will be close or equal to those charged to European or Asian customers, plus freight.



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Immoral, some would say. But if the yards can sign multi-million dollar contracts they can't fulfill, owners can obtain subsidized financing with guarantees that can't be executed, why can't the steel mills charge as much as they get from anyone else? Therefore it becomes virtually impossible to be competitive in Brazil. That is the plain truth.

And therefore, unless a drastic, holistic plan is implemented to address the shipbuilding industry shortcomings; Brazil is doomed to never regain its status as a world-class large scale shipbuilding nation. It is destined to build for the local market, relying on flag protection. Very similar to what Brazil is capable of in the automotive industry, and so distant from the shining example in the aviation industry.

Building for the local market with flag protection is where success can be obtained or at least some sort of equilibrium reached. There are examples of that though inevitably, these are often not stand-alone shipyards building against a contract. Combined "yard + owning" structures are those able to survive. What owners with their own yards do is ensure stable, uniform (same vessel type and design) long-term demand. This basic principle allows considerable cost reduction, optimization and reliability on their overall supply chain. Moreover, as yard

and shipping company are part of the same economic group, there can be important hedging costs savings, avoidance of guarantees (and their cost) with purchases through foreign subsidiaries or from the head office, lower cost of capital for the portion not financed by a "BNDES", etc.

This model and the savings brought with it, which are possible to implement on stand-alone yards although very hard, are not enough to make it competitive with Asia. But it's not so very distant from Europe. And then, building a local flagged vessel, at a 'European' cost, is not too bad. And it is cheaper than building in China and paying double to import it into Brazil afterwards. Not 'export competitive', but enough to justify making it locally, to operate locally.

1. Norskan Offshore managed Skandi Amazonas. 2012 built - STX

AH12 Anchor Handler built at STX Niteroi

Projects and Service Company developments



C Port going ahead

Edison Chouest's offshore logistics port, C Port Brasil Logística Offshore, to be installed in Praia da Gamboa in Itapemirim, Espírito Santo is going ahead. The Primary License (Licença Prévia) was granted by local environmental authority at the end of May. The License is given with 38 conditions to be fulfilled. With a very stringent environmental policy, the authorities will demand C Port monitor the quality of the water, waves, marine current and implement artificial reefs besides establishing a programme of terrestrial rescue of the local fauna - as compensation for the impact generated by the project. This comes in addition to a financial compensation of BRL 5.1 Million (approximately USD 2.5 Million) to be given to local municipality units upon the issuance of the Installation License (LI). C Port will become world's second largest offshore terminal when fully implemented. It is an investment of almost USD 500 million for 25 offshore support vessel berths.

HRT/Drill investments

HRT plans to invest USD 393 million in three exploratory drill rigs. The investment will be part of an exploration campaign in Solimões Basin and the re-exploration of

Polvo field in Campos Basin. The operations will involve two seismic campaigns, which have already begun. The company has already drilled 11 wells and made seven discoveries of gas in the area, and estimates a production potential of five to seven million cbm/day. The company needs authorization from the ANP before exploration in the Polvo field can begin.

Aker/New factory

In anticipation of Petrobras' demand, Aker will extend its facilities in Paraná with a new plant scheduled to start in 2015. The company's investment focus are the contracts to supply the oil company with 60 wet christmas trees (XTs) and other subsea equipment. It will double the capacity of the factory and avoid any delay.

OSX/FPSO OSX-3

The new FPSO OSX-3 had its christening ceremony in Singapore on May 31st. The ship is 370 meters long 57 meters wide, 31 deep meters and comprises 16 modules, with a capacity to process 100,000 barrels of oil and store up to 1.3 million barrels. According to the CEO of OSX the unit will arrive in Brazil in the third quarter of 2013.

11th Bidding Round: The New Operators on the Block

Following the results of the ANP's 11th Bidding Round, Westshore takes a look at the companies entering and re-entering the Brazilian offshore race

Chariot: The company has successfully bid for four shallow-water exploration blocks in the Barreirinhas Basin, totaling 768km². The blocks are located 70km offshore in water depths ranging from 25 to 1,700 metres. Chariot will satisfy its work commitments through the acquisition and processing of 3D seismic data covering the whole of each block during an initial exploration period of five years.

Ouro Preto: The new oil company won one block in the area SPN-O, in the Parnaíba Basin, the PN-T-165. These are the first steps of Rodrigo Landim, the company's owner, ex-Petrobras and ex-OGX's director, in the oil and gas market. Ouro Preto is a company formed by Brazilian investments funds, a capital of BRL 80 million and a total of 25 employees, of which half of them are geologists and geophysicists.

Brasoil: The company will be the operator of two blocks in the shallow waters of Foz do Amazonas basin. The company is committed to local content of 38% in the exploration phase and 56% yield for the two blocks. Brasoil is a private company focused on production and exploration of oil in Brazil and has been in the offshore market since 2006.



BHP Billiton: The company will return to Brazil's oil sector, through the exploration and production of two blocks, one in shallow waters and another in the deep waters in Foz do Amazonas basin, with a local content of 37% invested in exploration and 67% in production. The American oil company also has operations in deepwater Gulf of Mexico, as well as in Australia, the UK, Africa, the Middle East and Asia.

Premier Oil: Awarded stakes in three blocks and will operate in two of them, all in deepwater basins off the Northeast. The company also has 50% operating equity in two blocks in the Ceara basin where it plans to pursue a potential extension of the Pecem discovery to the North and a slope channel play that will require further 3D seismic to confirm drilling prospects. Premier is also committed to around USD 25 million in investments in 3D surveys in Foz do Amazonas. Premier's history dates back to 1934 where the company was founded as the Caribbean Oil Company, to pursue oil and gas exploration and production activities in Trinidad. It is an independent exploration and production company with interests in the North Sea, South East Asia, the Middle East, Africa, Pakistan, the Falkland Islands and now in Brazil.

Niko Resources: With its head office in Canada, has operations in India, Bangladesh, Indonesia, Madagascar, Pakistan and Trinidad. After ANP's 11th bidding round, Niko will have its first participation in Brazilian offshore market in a consortium with national Petra Energia, where the foreign company will be operating the two blocks in the deep waters of Pernambuco-Paraíba basin.

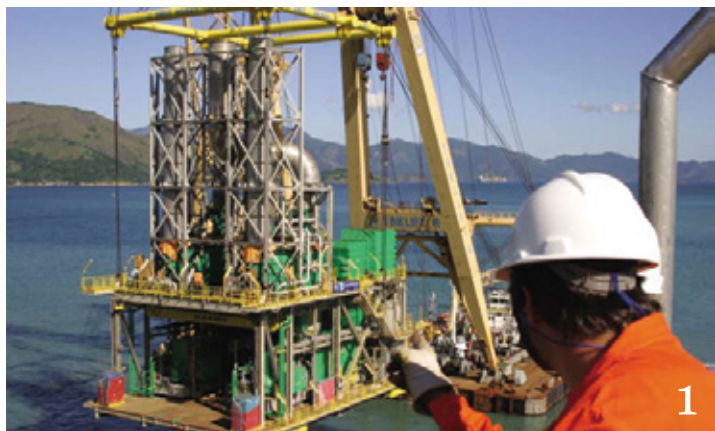
ExxonMobil: ANP's 11th Round marked the return of company's presence on upstream sector in Brazilian Offshore Market. Exxon will be the operator with 50% of share and OGX with others 50% in blocks POT-M-762, in Marítima Potiguar Basin, and CE-M-603 in Ceará Basin, both in deep waters. According to Company's note, it is looking forward to increasing its presence in the long term and contribute to its history of over a hundred years in the country.

BG: The group was the main winner in the bid as an operator, for the first time in 10 blocks in Brazilian North region. One block in shallow waters - BAR-M-388 and nine blocks in deeper waters (BAR-M-215, BAR-M-217, BAR-M-252, BAR-M-254, BAR-M-298, BAR-M-300, BAR-M-340, BAR-M-342, BAR-M-344) all in Barrerinhas Basin. The company has a joint venture with Petrobras and Petrogal on blocks BAR-M-300, BAR-M-342 and BAR-M-344 where it is the owner of 50% of shares, Petrobras 40% and Petrogal 10%.

Ecopetrol: The largest Colombian oil and gas company took 100% interest on block POT-M-567 in deep water Potiguar Basin and also will be acting as single operator in Foz do Amazonas shallow waters on block FZA-M-320. The results strengthen Ecopetrol's exploration portfolio which has exploration and production activities in Colombia, Peru, United States and now in Brazil.



BHP Billiton's Shenzi development. Deepwater GoM



Update on the Brazilian State Oil Company

New FPSO coming up

The Carioca discovery located in the Santos pre salt layer is ready for its new FPSO after the Petrobras announcement chartering one more unit with a capacity of 100,000 boed and five million cbm/day. A VLCC hull will be converted and Petrobras sent a letter of invitation to domestic companies that may cooperate with international groups specializing in the conversion and chartering of FPSOs. According to market specialists, Odebrecht and BW Offshore will not be participating on the tender. The operations are scheduled to start in 2016, with a charter contract of 20 years and a local content of 65%.

Drilling campaigns go further in Bahia

Petrobras' executive Board has approved the continuation of a series of projects in Recôncavo Baiano to increase oil and gas production. According to the company, three large projects were accepted by the board of directors for investments in Operation of Exploration and Production Unit in Bahia. This will extend the company's installations in the region and drill 26 new production wells and 227 intervention wells to extend the life of mature fields. All these projects were detailed in Petrobras' Business Plan 2013-2017 with investments of over USD 3.2 billion over five years, intended to ensure a stable production maintenance of around 50 thousand boed and 800 million cbm/day of gas.

Marlim Sul on top

Marlim Sul, in the Santos Basin, was the biggest oil and gas producing field in April 2013, according to ANP the area provided 332.2 million of boed. Platform P-56 produced the most that month with 143.7 million boed. Also in April, the fields Barrinha Sudoeste, Tiziu, both in Jatiguar Basin, and Jacutinga North, in Espírito Santo Basin, started producing, all are operated by Petrobras.

Risers time

For the next five years Petrobras will receive rigid risers for exploration and production projects in Santos Basin by Tenaris. The equipment promises 100% efficiency in locations with high pressure high temperature and in horizontal and long range complex exploratory wells, according to the group. Petrobras also confirmed the usage of the same equipment in another two pre salt systems: Carcará set for 2018, and Jupiter scheduled for 2019, both in the Santos Basin.

P-63 Stopped

Ibama has denied an environmental license for Petrobras to operate in the Papa-Terra field, Campos Basin, alleging that there is a coral formation in the anchorage area where the FPSO will be operating. The unit was scheduled to start up oil production in the area on July 15th but due to the environmental issue the operations may be delayed by 60 days. According to Petrobras' president, Graça Foster, "The P-63 was built exactly within the established deadline. It was ready on May 31st. Thereafter, it will go to Ilha de Santana, where there will be some adjustments made because we changed the configuration of the risers in order to satisfactorily meet Ibama's regulations." The FPSO is undergoing completion in Rio Grande and will leave the shipyard on June 14th, going directly to Ilha de Santana in Macaé.

Lula Northeast field production started up

Petrobras has reported that on June 6th FPSO Cidade de Paraty started up commercial production of oil and gas at Lula Northeast field, in pre salt of Campos Basin. The unit is capable of processing 120 million of boed and 5 million cbm/day of gas and initially will be interconnected to the well 7-LL-11-RJS which has a production estimated at 25 million boed with high quality and average density (29°API). According to the company, the peak of production of 120 million boed/day could be reached in 2Q of 2014.



Tender Awards

The tender issued in 2012 for PSV 1500, commencing October 2013, has had its first contracts awarded. Eleven vessels were disqualified due to excessive price or exceeding MOB fee. The vessels listed below will work with Petrobras on four plus four year contracts.

PSV 1500				
Vessel	Owner	Year Built	Day Rate (USD)	Mob Cost (USD)
Everest	Global Offshore Services Ltd	2010	21700	900000
Vega Challenger	Vega Offshore	2012	23450	1000000
Vega Chaser	Vega Offshore	2012	23950	1000000

This month requirements

Petrobras issued a tender for AHTS 18000R type vessels with commencement in November 2013. The deadline for offers is June 25th.

Date	Scope of Work	Period	Exp. Commencement Date
May 31st 2013	AHTS 18000ROV	4+4 years	November 2013

1. Ailton Mendonça / Petrobras Image Bank
2. Patrícia Santos / Petrobras Image Ban
3. Geraldo Falcão / Petrobras Image Bank
4. Geraldo Falcão / Petrobras Image Bank
5. Ailton Mendonça / Petrobras Image Ban

OSM Group

where it's all about
people



The OSM Group was founded in Arendal in 1989, approaching the market with energy and attitude to take the industry one step further. Today OSM is a worldwide provider of high quality services in:

- Ship Management
- Crew Management
- Offshore Management
- Project Management

OSM Group is strong and competent in every part of the value chain, from building supervision and engineering services, to daily running operations, always with awareness on Health, Safety, Environment, and customer satisfaction. OSM has close to 10,000 employees and 500 units under management in 23 offices worldwide, handling a broad variety of vessels, from Chemical, Product and Oil Tankers, Gas Carriers, Dry Cargo vessels, to Offshore Rigs and Offshore Support vessels.

The OSM Group entered the Brazilian market in 2008 offering Crew Management services to shipowners, like Swire Pacific Offshore, Deep Sea Supply, K-Line, ER Offshore, J. Lauritzen, FEMCO, Hartman Offshore, DOF, Pacific Radiance and Solstad. In 2011 OSM became a Brazilian Shipping company and can provide EBN and Ship Management services. Today OSM Brasil manages over 300 seafarers from the office located in the Rio Sul Tower, the main building for energy and shipping companies in Rio de Janeiro. In 2013, OSM will open its 2nd office in Brazil, located in Macaé, the oil capital of Brazil.



Image supplied by Throrvaldsen

OSM group is constantly growing, which factors stimulate this growth?

The founding partners' business objective was to create the best Ship Management Company in the world, based on sound ethical principles and close relationships with all employees onboard vessels. Creating a big, united OSM family, with fair treatment and equal opportunity for all, has also been a key priority for the company since the beginning and this has given OSM around the world a competitive strength in comparison to its competitors.

What type of vessels do OSM currently manage in Brazil?

We are among the few managers capable of offering management services for conventional tonnage and also sophisticated offshore service vessels, such as subsea construction, PSVs, AHTS vessels and Shuttle Tankers with DP2. Today in Brazil, OSM operates mainly Offshore Support vessels such as AHTS, PSV 3,000 and 4,500, OSRV, Accommodation units, Offshore Construction vessels and Shuttle Tankers.

The crew management operation exceeds requirements in the TMSA guidelines and strives to provide high quality personnel that are 'fit for service'. OSM Brasil was the first company in Brazil to be certified to MLC2006 (Maritime Labor Convention) by DNV.

OSM has recently become an EBN. What do you see as the biggest challenges for an EBN in Brazil?

Becoming an EBN was a major milestone for OSM in Brazil. It is the first time that the company established itself as a ship owner, not to compete with our customers, but to grant them access to the Brazilian Offshore Support market, and operate offshore vessels as per the highest international standards and exceeding their requirements.

The shipping license was obtained in 2011 and approvals from Petrobras to operate PSV and AHTS granted in 2012.

The most challenging aspects of today are dealing with local regulations that are very often subject to local/individual interpretations. Furthermore, we have one major customer controlling around 90% of the offshore fleet in Brazil, with special contractual requirements, which increase complexity for local operators. HSEQ requirements in Brazil are aligned with international standards, which are well perceived by OSM, a company 100% focused on protecting the people, and the environment.





Brazilian crew qualification has been a challenge for EBNs in the offshore support sector. What is the present situation?

With a rapid growth of oil exploration and production activities in the last decade, the demand for qualified Brazilian seafarers increased in the same proportion. This expansion created turmoil in the Brazilian crewing market, as a consequence incidences of vessels off-hire due to lack of crew increased and costs almost doubled in the period.

Since 2011, the shipowners, through ABEAM, have been trying to have better control over the crewing situation. In parallel, several actions were taken by the Union, the

Brazilian Navy and Transpetro, to prevent a “black-out” in the market and increase the amount of professionals graduating. At the same, projects expected to materialize in 2012 and 2013 were cancelled or postponed. All these factors combined led to a better balance between supply and demand for Brazilian seafarers.

Although the Brazilian seafarers are educated as per STCW rules, there are still some issues to be tackled, such as:

- **Language** – English is not a concern among the Brazilian Officers, but a special attention is required when recruiting ratings, mainly if they are going to be exposed to risky operations.
- **Experience** – Today over 50% of the offshore fleet operating in Brazil is composed of foreign tonnage. Due to several reasons, it is rare to see Brazilian officers assuming senior positions on board those vessels. This situation creates a barrier for Brazilian officers to gain further experience on offshore operations.

In order to overcome the challenges faced in Brazil, OSM has taken its core value, focus on people, seriously and established an open communication channel with seafarers, focus on finding right candidates for the right positions and to offer an attractive working environment. We also keep a close relationship with maritime academies, promote off-shore activities, use social media as a recruitment tool, promote marketing campaigns, etc., this way we keep a retention rate above 98%, very high compared to market standards.

What should the Brazilian offshore market expect from OSM Brasil?

OSM Group has a long tradition in being a provider of high quality service, operational safety and environmental protection in the marine industry, especially in the offshore support sector. And this will be no different in Brazil.

The offshore market in Brazil can expect us to go that extra mile, to be the first choice providing safe, high quality and reliable services, including local contract management and compliance with HSEQ requirements. We aim to be a key partner, ensuring that our services provide meaningful value to our customers' business.



To block or not to block, that is the question

Views on the Brazilian tonnage preference system, the process, challenges and results.

By Daniel Del Rio

One of the main benefits of building OSVs in Brazil is your locally built tonnage will have the preference over foreign flag vessels. This has been the main attraction for owners keen to fully enter into the Brazilian OSV market, this and competitive financing from the Merchant Marine Fund (FMM). A few owners have been placing speculative shipbuilding orders at Brazilian shipyards and when the vessels are about to deliver, they face a

challenge: what is the best way to turn preference for local tonnage into an attractive charter?

In this sense, a quick overview of the chartering process of a foreign flagged vessel operating in Brazil is prudent. A Brazilian Shipping Company (EBN) must consult all other Brazilian Shipping Companies for the availability of an OSV with specific technical requirements. If within

seven days an EBN responds positively to that consultation (namely “circularizações”), indicating the availability of a Brazilian flag OSV, we call it “bloqueio” or blockage i.e. a Brazilian flag vessel can block a foreign flag vessel from being chartered. Once granted, the charter authorizations are valid for up to a one year period and subject to renewal on a yearly basis through the same consultation process.

This system is managed by ANTAQ (National Agency for Maritime Transportation) created in 2001 and is intended to regulate, supervise and inspect the maritime transportation services, based on the directives stipulated by the Brazilian Ministry of Transportation. It means that the charter of both local and foreign flag OSVs in Brazil is regulated by ANTAQ and so is the protection of the local tonnage, which is meant to develop the Brazilian shipbuilding industry.

But a number of issues exist: Brazilian shipyards are few in number and reliable ones are fewer still, and the cost of building a ship is extremely high. So let's take a theoretical example with real numbers:

an owner places a speculative OSV order at a Brazilian shipyard with a history of delays for USD 65mio. Note this is more than two times the price of building the same in the Far East and roughly 20%-30% more expensive than in Europe. After delays, the vessel is about to be delivered and the owner blocks a “circularização”, resulting in a negotiation with charterers. When it comes to commercial terms, there is often an ocean between what charterers are willing to pay based on what they can afford for a similar foreign flag OSV and what owners need in order to just break even.

What ensues is a long-winded arm wrestle of a discussion. Charterers use muscle to reject paying a higher rate for the vessel, almost threatening to black list owners if

they keep the blockage and/or if they don't offer a rate in line with the market level. Owners counter with the very high price for building the OSV in Brazil, its highly advanced features and their right to use the “blocking” tool. Charterers respond that they have not forced owners to place such an expensive shipbuilding order, and that they are not obliged to charter a Ferrari if they only need a Volkswagen Beetle. If there is an absolute dead-lock between the parties, the last resource is to use ANTAQ as moderator. ANTAQ, that does not have the ability nor knowledge to technically or commercially judge the impasse, usually sticks to the terms of its resolution. So most of the time, an agreement is reached between the parties where if a block is not lifted by

owners, both parties loose out as owners likely gets less than it should in order to recover investment, and charterers pay more than needed when comparing to a free competitive market.

So given the preference of the Brazilian flag OSV, its higher cost but also higher local content, what is an acceptable premium charterers could accept for the vessel? There are many opinions and ways that can be calculated, but owners are primarily in

business to make money, not lose it. In addition to the already high OPEX in Brazil a high CAPEX does not help owners whatsoever. The nationalist speech falls down when the cost of developing the shipbuilding industry ends up at charterers' desks, who are supposed to accept paying higher rates for the locally built OSV.

Petrobras is partially owned by the Government, and are often perceived as encouraging the charter of local newbuilding and no one can deny they do that VERY efficiently. They promote internationally competitive tenders, offer eight plus eight years charters for Brazilian yet-to-be-built OSVs to be delivered within three to four years after charter award. These tenders attract a lot of owners, seduced with the possibility of a project finance

“let's take a theoretical example .. an owner places a speculative OSV order at a Brazilian shipyard with a history of delays for USD 65mio. Note this is more than two times the price of building the same in the Far East and roughly 20%-30% more expensive than in Europe ”



scheme where they only order the vessel after the long term charter is awarded. Conversely Petrobras takes absolutely no risk in the shipbuilding process (on the contrary, it can penalize owners for late delivery) and ends up paying daily charter rates which are on the same level as a foreign flag vessels. So one question remains: is it worth it for owners to pay two times the international shipbuilding price and get the same daily charter rate level of vessels built for half the price?

When it comes to vessels being built on speculation, owners and charterers do tend to play hard-ball. Owners of Brazilian flag vessels start blocking every single "circularização" no matter what size, creating challenges for Petrobras to keep foreign flag vessels which were fixed for four years but are subject to early termination every year. Petrobras usually threatens that if owners want to exercise the blockage until the last, the contract of the foreign flag vessel would be terminated early and assigned to that new owner, but at the same day rate (lower than needed by owners), not to mention the time an assignment of contract can take at Petrobras. So based on the promise of a new tender only for Brazilian flag vessels, the Brazilian Owner is usually forced to suspend the blockage and continue on its saga. So one may read a very clear message from Petrobras: Please

participate in our newbuilding tenders but don't block our circularizations.

As for the technical aspects of the blockage, we see that there is still a lack of criteria and common sense. Extremely large vessels blocking smaller tonnage (ex PSV 4500 blocking PSV 1500) or the opposite, claiming they can do part of the work or with two or more OSVs, non DP vessels blocking DP requirements are some examples. At the end of the day, every player is just trying to protect its interests, but clear rules and common understanding would help everyone.

There are many aspects of each "circularização" which should be taken into account when considering a "blockage" or not. Nevertheless, there is a systemic problem of lack of clear common understanding of the industry which makes this system far from ideal. One of the main problems is the Government's short term vision in simply protecting the local tonnage as a way to encourage and develop the Brazilian shipbuilding industry. But this has only resulted in spoiling the shipyards and removed any incentive to be efficient and competitive. This besides preventing Brazilian shipyards from becoming an international shipbuilding force is leading them to a state of great concern.

The Pre-Salt Bid Outlined

Excitement builds as further details of the Pre-Salt bid emerge

The long-awaited bidding round for the pre-salt area is fast approaching us. On June 11th ANP held a public hearing on the much publicized offshore area. ANP director Helder Queiroz stated that details of the round, including the draft sharing agreement, would be revealed by the end of the month. Given the success of the 11th bidding round in May, the pre-salt auction has been brought forward slightly to October 22.

During the consultation prior to the hearing, ANP received comments and suggestions from five stakeholders, mainly law offices representing IOCs and Petrobras. It was then firmly announced that the bidding round for the pre-salt layer is scheduled for October 22nd and will take place in Rio de Janeiro, and not Brasilia as originally planned. Details expected by the end of June include the value of the signature bonus, the minimum exploration program required, the estimated investments, the minimum local content, and the portion to be allocated to Pré-Sal Petróleo S.A ("PPSA"), the government representative. ANP will then schedule a public hearing to be held specifically to discuss the sharing contract (still no date set). Finally the official notice will be published 45 days before the auction, in around mid-September.

The first auction will concern the giant Libra field in the Santos basin; the largest reservoir ever discovered containing between 8 and 12 billion barrels of recoverable oil. The field covers an area of 1,500 km², a fraction of the total 149,000 km² of the total pre-salt area. The estimated reserve is 26 to 42 billion barrels. By comparison, the Marlim field, currently the largest field in production, has a volume of 2 billion recoverable barrels, and Roncador 2.5 billion.

A mixed regulatory model will be adopted for this sector entitled 'production partition regime' something which is already ongoing in other countries. In this instance the company that offers the largest share of oil to the Brazilian government during the bidding process is awarded the block, and this winner will create a consortium with "PPSA" which will hold at least 30% of the shares, i.e. Petrobras - the only party authorized to be operator. Therefore other companies alone or through consortiums can compete for the remaining 70%, but

each one must have at least 10% participation. This means the area can be explored by up to eight companies including Petrobras. Recently, the president of Petrobras Graça Foster said that the company is considering entering this round with more than the minimum 30% share. Petrobras did not take a particularly active part in the 11th round, choosing to be more selective in investments. However since it will be the only operator in the pre-salt, the motivation is there and intensely so.

According to ANP, the bonus signatures will be at least ten billion dollars. The agency is considering various scenarios together with the National Council for Energetic Policy (CNPE) to determine the minimum bonuses and the minimum oil share offers. The companies that qualified for the 11th round were directly invited by ANP for this pre-stage of the pre-salt bid. ANP therefore expects an increased interest from these companies, hoping that they are eager to try again. What is expected however is large and traditional companies will be more inclined to participate, while medium and small ones will form consortiums.

In this regime during the exploratory phase the bid winner alone takes the risk of not finding oil, however in the event of exploration success, the costs will be 100% reimbursed in oil or gas (considering the oil cost) by PPSA. This is capped at an annual limit, so that the government is entitled to receive its share of oil and gas production right from the beginning of the first well. However there are mechanisms whereby the government could increase its share of the oil produced, through criteria related to economic efficiency, profitability, production volume and the oil and gas price variations, which could bring relative instability to the project. Meanwhile, a positive aspect of this is that all discoveries, above or below the salt layer, in areas located in the pre-salt region contracted after the promulgation of the partition model law, will be governed by the partition regime rules, offering more oil finding opportunities to contracted oil companies. This is also true for deposits found only in sediment above the salt layer (post-salt). Pros and cons aside, this development marks the beginning of a new era of investment in oil and gas, raising the hopes of oil and gas companies and offshore support vessel owners that are aiming the growth of their fleet and future development in Brazil on it.

This month in Brazil, love is in the air!

Valentine's Day is celebrated every June 12th in Brazil. The special date is for dating couples, lovers and suitors. Traditionally Couples exchange gifts, flowers, chocolates and cards.

Valentine's Day is celebrated in several parts of the world, with each country doing so in a different way, but in the end everyone is rejoicing the same thing – love! In Brazil, the story of the “Dia dos Namorados” or ‘Lovers days’ is one from the Catholic Church and tells a tale of a priest who preached for marriage and love. He was canonized and became known as Saint Anthony– the marriage saint. Traditionally, single women conduct rituals named “Simpatias” to ask help from the Saint to find their Prince Charming. One such custom is to write the names of potential boyfriends on three pieces of paper and place them under one's pillow. The first name drawn upon awakening is believed to be the destined boyfriend

Every year people celebrate Valentine's Day on different dates around the world but no matter what culture, language or religion you are celebrating only love can fill you with hope and happiness.

Lloyd's and Informa Maritime Events in Brazil

From May 21st to 24th , Lloyd's and Informa Maritime Events hosted the OSV Chartering Contract Management in Brazil and the Offshore Support Vessel Conference OSV Brazil, at The Windsor Atlantica Hotel.

The Conference focused on the OSV and Subsea support sector as well as challenges of operating in Brazil. Westshore do Brasil presented at both events, generating several interesting discussions.

