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brazilian WAVE

Another Tax Change for Vessels
What you need to know about the new regulations

Are POs or Emails Enough?
The importance of agreeing on terms & conditions

Compliance with RN 72
Waivers vs penalties applied by Petrobras



WESTSHORE
DO BRASIL

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Westshore do Brasil, Cover image: Aker Wayfarer - image courtesy of STX OSV Holdings

Drilling & Production

The latest from Brazil

Technip's thumbs up for Brazil

Technip are talking positively about the company's Brazilian activities. During a recent Oil & Offshore conference in Oslo, Technip Chairman and Chief Executive Thierry Pilenko said: "I hear many people say negative things about Brazil, but we are actually going at full speed (there), both in terms of manufacturing flexible pipe and when it comes to vessels in the longer term. The company has two pipe-laying support vessels active in Brazil, and two more due for delivery in 2016/17." Brazil is in a very, very positive momentum," said Pilenko. The company's flexible pipes have been pre-qualified for deep-water use, and with the new vessels Technip "will have assets both to produce and install the pipe," he said.

Schahin/Modec leading FPSO Tartaruga Verde and Tartaruga Mestiça

The Schahin/Modec consortium submitted the lowest bid price to Petrobras for the charter of an FPSO for the Tartaruga Verde and Tartaruga Mestiça project, offering a daily rate of USD 779,000. The second-placed bid, a dayrate of USD 1.008 million, was placed by UTC Engenharia and Bumi Armada. Tartaruga Verde and Tartaruga Mestica are part of an emerging light oil province in the Campos basin, and together are estimated to hold 351 million barrels of recoverable reserves.

Guará Sul, Tuoi Nordeste and Florim: good to go

Petrobras has announced that it has submitted the declaration of commerciality for the oil and gas accumulations of Sul de Guará, Nordeste de Tupi e Florim to Brazil's National Petroleum, Natural Gas and Biofuels Agency (ANP). In the proposal sent to the ANP, the names suggested for the new fields were Sul de Sapinhoá (Sul de Guará), Sépia (NE de Tupi) and Itapu (Florim). The volume of 1.214 billion barrels of oil equivalent contracted through the Transfer of Rights agreement for the three areas was confirmed in the exploratory phase. The pre-salt reservoirs in these fields contain good quality oil (between 26° and 29° API).

OSX FPSO pair in the market

It is understood that the FPSOs OSX-1 and OSX-2 are expected to have their sale negotiations concluded by the fourth quarter of this year. OSX-1 is currently producing at the Tubarao Azul field, but OGP may completely deplete its reserves next month, after having produced 5.45M barrels out of the 5.77M total estimated recoverable reserves. OSX-2 is laid up in Malaysia, the unit was meant to produce from Tubarao Gato, Tubarao Tigre and Tubarao Areia fields starting in late 2013, when OGP unexpectedly pulled the plug on the project. OSX-3 remains producing at Tubarao Martelo field, with recoverable reserves of 88 Mboe.

Headline News



Our guide to the latest regulations.

Another Tax Change for Vessels

The market is faced with yet another change affecting the admission of equipment in Brazil, and this time it could have a serious impact on the admission of equipment, vessels included, on contracts which do not fall into six months or multiples thereof.

A great deal of misunderstanding takes place when changes are made, and it is no different with the latest revision of the temporary admission taxes promoted by the Federal Customs via its normative number 1488/2014. In a simplified manner, the text as written implies that the collection of proportional taxes is to be made for a minimum six month period, amending the

previous minimum period of one month. In practical terms the change impacts the cost of foreign equipment which will have to incorporate a larger minimum number of months of tax collection. We hope to help clarify the likely impacts on the market and hopefully eliminate any misunderstandings.

IS IT THE END OF THE SPOT MARKET?

Well, not exactly. The fact that a minimum period of six months applies does not mean “the process” to get a vessel operating on the spot market will become more difficult. On the contrary, in fact to operationalise a contract, this will now be done for minimum six months, which means the vessel admission process will be sorted

out for six months. No doubt the customs officers will have to deal with a reduced number of processes and this is a positive. On the not so positive side, to say the least, owners willing to operate on the spot market with foreign tonnage will have to modify their cash flow, getting ready to settle more months upfront. If the vessel has a high utilization rate and the owner intends to live on such, it is a matter of calculated risk. Definitely higher than one month, but still a calculated risk. There are some owners taking such a risk.

SIX MONTHS MINIMUM PERIOD

Not set in stone. In Article 13 §2, the new document mentions that in case the period of the contract is shorter than the six months stated on item I of the Article, then six months should prevail. That being said, a set of requirements to modify the normative is taking place via organizations and individual companies. Either excluding §2 or returning it to the previous version. Further, the applicability of the change is questionable. By principle, contracts which were already under the temporary admission process and under which contracts are being extended should not be impacted by this change, as otherwise the economical balance of the already signed contract will be impacted by a new norm. This is not allowed in Brazil.

REPETRO EXEMPTS ALL TAXES

No, the special regime SUSPENDS the FEDERAL TAXES, which means: under a contract being eligible to REPETRO, if the contract has duration of i.e. two months, it is not worth it to enter REPETRO, as such it would imply the collection of ICMS tax. In Rio de Janeiro that is minimum 1,5% of the equipment value if solely used on exploratory campaigns, or 3% in all other cases.

EVERYBODY IS IMPACTED

Definitely not. The impact of a six months minimum period is to be felt only by those CHARTERERS and OWNERS with contract periods between one and three months. Contracts on the spot market with less than one month were already impacted by the previous one month minimum period, and contracts with over three months were not worth to be kept on temporary admission, being more economical going under REPETRO. Three months is on average the time limit when the collection of temporary admission taxes of about 0.6% of the equipment value per month gets more expensive than the collec-

tion of ICMS (1,5% to 3%) under REPETRO. The problem being, most "spot" contracts in Brazil are between one and three months, and REPETRO does not cover those companies which are not ANP concessionaries thus eligible on REPETRO. A portion of the industry (but not the entire industry) is left out.

BRAZILIAN FLAG AND REB MORE COMPETITIVE?

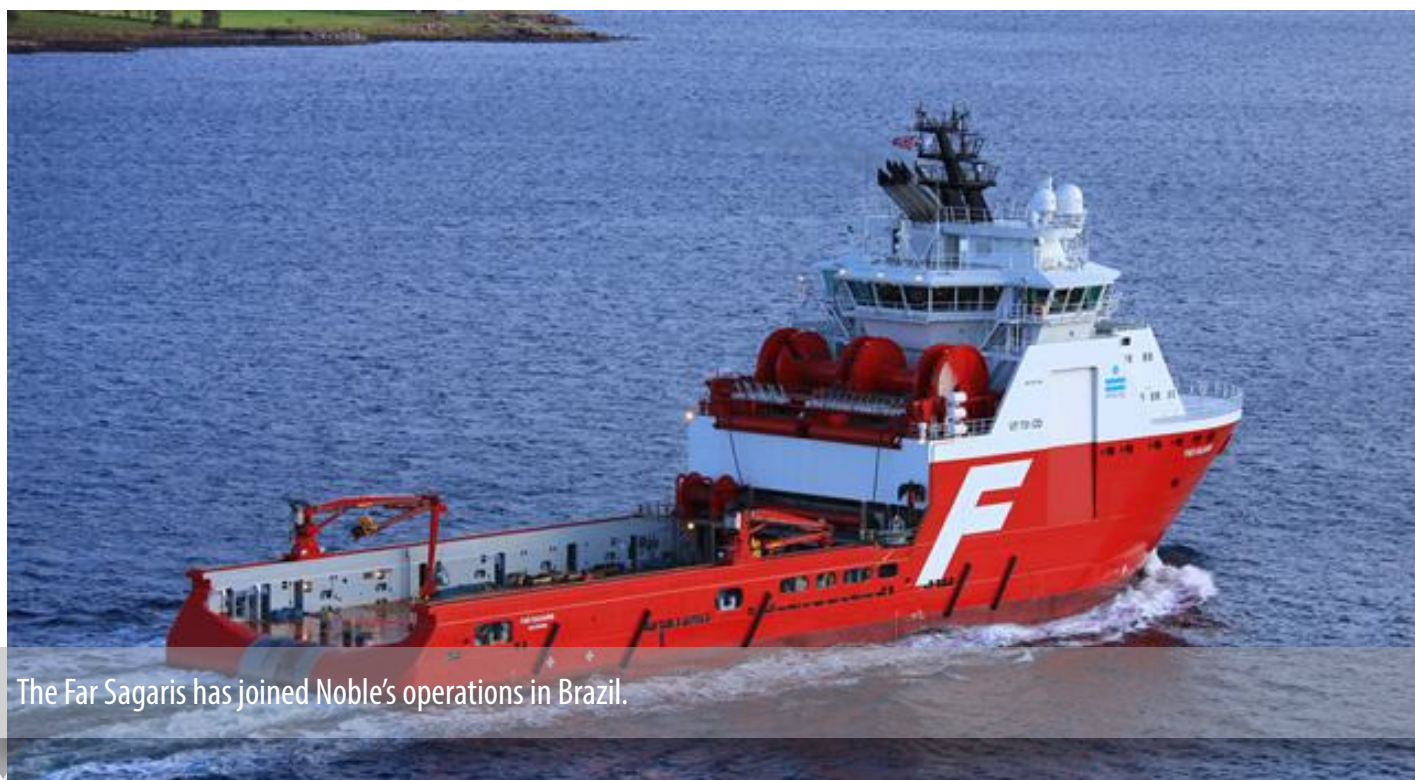
Be careful. Brazilian BUILT and flagged vessels which do not collect taxes might become more competitive, or in fact it is the margins of foreign flagged vessels that get reduced. However, it is not possible to draw a direct line between the tax collection and a benefit to Brazilian flag. For once, this would depend on a series of other factors aligning, that is, a competition restricted to the time-frame between one and three months where Brazilian built vessels and its costs are comparable to foreign - and they are not. For instance, the cost of operating a Brazilian flagged vessel is higher than that of comparable foreign tonnage, not to mention the cost of building. In reality foreign flag is impacted and gets less competitive. In terms of the REB, one thing is the flag change to Brazilian, which has to do with the CAA and ANTAQ processes. A foreign flagged vessel whose foreign flag has been temporarily suspended is still foreign equipment, thus irrespective of the temporary Brazilian flag the collection of taxes is due. Vessels under REB are impacted just as much as a foreign flagged vessel.

In summary, the recent change will have an impact on those activities of short to mid-term duration. The impact will be directly felt by owners caught by the sudden change when applying to the admission. But the impact reaches all players, and mostly oil companies and EPCI contractors relying on equipment operating in Brazil on "spot" opportunities, which have to "settle the bill" in the end. What in fact the Federal Customs has done is to yet again reduce the attractiveness of Brazil. Such change discourages equipment to remain in country with the hope of upcoming activity. It also promotes a review on single well campaign and increases the uncertainty of legal and economic stability.

If anyone believed this change would be an opportunity to reduce the number of temporary admission processes and benefit the local industry, it is time to think again.

Vessel News

Chartering Activity



The Far Sagaris has joined Noble's operations in Brazil.

LABORDE - Brazilian built and flagged PSV Magnolia Mar has been fixed to Van Oord in support of their operations with the pipelay barge Stingray in Cabiunas for 15 days firm plus options starting 23rd August, at the time of writing the vessel is employed as a diving support vessel.

ECOTUG - Brazilian built and flagged OSRV Eco Octo has been fixed to HRT for 30 days firm starting late last month. The vessel is expected available in early October.

FARSTAD - AHTS Far Sea has been extended with Van Oord until late September in support of their charter to Saipem the end user is Petrobras. The

vessel is expected to undergo planned maintenance on completion of the fixture before becoming prompt available in Brazil.

BRAVANTE - Former Eidesvik DP1 PSV Viking Surf purchased by BRAVANTE has been operating in Brazil for Petrobras and redelivered after contract conclusion last week. The vessel is set to undergo planned modifications in preparation for her new contract with the oil major later in the year.

DEEPSEA SUPPLY - AHTS Sea Leopard has been chartered to Noble do Brasil in support of the transport and anchoring of S/S Noble Max Smith in the Angra do Reis region after leaving Rio de Janeiro at



The sun may be setting on the UOS Navigator's time in Brazil.

the end of the rig contract with Shell Brazil.

ASTROMARITIMA - Brazilian built and flagged Astro Pargo and DP1 Astro Badejo are prompt available in Guanabara Bay after having successfully concluded their charters with Petrobras.

FARSTAD - AHTS Far Sagaris has joined with the AHTS Sea Leopard in support of Noble's operation having supported Noble's rig in Rio de Janeiro for a couple of weeks prior towing the rig to Angra.

SIEM - Brazilian built and flagged DP2 PSV Siem Giant has been fixed to Schahin for 3 days firm plus options to support the contractor with cargo transport to one of its units. At the moment the vessel is still employed.

"The UOS Navigator is set to leave Brazil on conclusion of her charter with Queiroz Galvao"

BRAVANTE - DP2 PSV Bravante VIII is expected in Brazil in mid-October, as the vessel is now nearly ready to depart the Gulf of Mexico to join her sister ships Bravante V, VI and VII.

OCEANPACT - Brazilian built and flagged OSRV Astro Vermelho has been made available again to Oceanpact to integrate its specialized fleet of oil recovery operation vessels in multiple contracts.

UOS - AHTS UOS Navigator is set to leave Brazil after its exportation clearance upon conclusion of her charter with Queiroz Galvão.

Operator Update

Brazilian Activity

Statoil optimistic with Peregrino production targets

Statotil expects the Peregrino field to reach average production of 95.000 barrels of oil by the end of 2014, rising from the current production of 80.000 bpd.

From the 40 production wells planned, only 22 have been executed so far. Phase two of Peregrino is scheduled for 2019.

ANP nod for Shell's Bijupirá Salema new plans

Shell has obtained the approval from National Petroleum Agency (ANP) for its updated plan considering the development of the Bijupirá e Salema field, located in the Campos Basin. The two fields produce today circa 28.000 of boepd through 12 production and six injector wells.

OGPAR boosts Tubarão Martelo

OGPar has announced that it has begun the production of the fourth well in the Tubarão Martelo field, located in the BM-C-39 and BM-C-40 blocks, through the horizontal well TBMT-6HP. The fourth well at Tubarão Martelo field is another important completed step within its operational activities and in compliance with the reorganization plan's targets. OSX-3 is the FPSO at the field.

Petrobras Oil and Gas production

Petrobras' average oil production in the month of July in Brazil reached 2.0490M, 2% more when compared to the previous month. Unofficially, and according to Petrobras President Mrs Graça Foster during an event in Rio de Janeiro, this number will rise to 2.2Bn, an increase of approximately 15% when compared to the same period last year. On average, during the first

eight months of this year, preliminary data indicates a daily oil production of 1.99M. According to Mrs. Graça, a 7.5% increase in oil production this year is still a target.

BMS-54 unitization process progress

Shell's BMS-54 block, which had its discovery assessment plan halted earlier this year due to the need of going through a unitization process, is expected to conclude shortly. Shell is happy with the speed of the negotiations. The discussions around the "Gato do Mato" discovery, are being held with PPSA.



Statoil



Inside Story



No one benefits when contracts are left out of the fixture process.

Are POs or Emails Enough?

Even though there is a relatively short history of spot fixtures in Brazilian water, every shipowner, charterer or broker has certainly experienced a few conflicts over the desired procedures of sealing a spot deal. At first sight, you might think that the discussion between parties concerning clauses in a charter contract (usually a BIMCO Supplytime) would be the biggest issue here, as it may turn out to be exhausting, stressful or time consuming for a job only lasting a few days.

However, surprisingly this often seems easy compared to the difficulty encountered when convincing owners and charterers that a contract should be signed for their

own sake. While the North Sea and other parts of the globe have fixed vessels smoothly for decades with a simple “recap” confirmation by fax/email with general conditions agreed that are hardly ever debated. In Brazil however signing a contract is still seen as the safest route to be taken. Local courts may only recognize the full contract in the case of any dispute. This is unfortunate as a simplified and fast agreement would be beneficial for all parties.

In order to be able to account for the purchases being made and the suppliers approved in their database, nearly all charterers issue a Purchase Order (PO) correspondent to every transaction, including vessel charter-



ORDERS

Local courts may only recognize the full contract in the case of a dispute.

ing with its related costs. A PO usually receives approvals prior to payment of invoices when the operation has been concluded, but the problem is when the PO has to be approved prior to the operation, usually impacting its commencement date, regardless of its urgency.

The situation gets worse if a shipowner is a new supplier for that charterer, since it can take days or weeks for the vendor application to be approved, losing all sense of a “spot” job. On top of that, some charterers (mostly drilling companies) have been requesting that owners only send a PO of one or two pages that is signed, discarding any kind of contract detailing responsibilities, liabilities, insurance, etc. The shipowners that wisely insist on signing an agreement end up facing the discontentment of charterers and/or the unfair competition with other shipowners who do not mind not having a contract.

In addition we have become aware of other charterers who formally confirm by email their intention to hire a certain vessel, which leads the shipowners to immediately inform other potential charterers that the vessel is taken during a specific period and to move forward with the contract analysis and signatures for that spot job.

However, we have seen charterers occasionally retract their commitment with the owners for different reasons

before the contract is signed, conveniently affirming that only a signed contract can seal a deal in Brazil. Nonetheless, email confirmation by both parties is considered “binding” in the offshore market, and withdrawing it still ranks as a “back trade”, causing distress and losses for owners if you take into consideration the jobs they have turned down for a fixture that never actually came to fruition. Even though these charterers would not acknowledge that, they most probably would not have the

same unconcerned attitude if an owner in turn confirms their commitment by email but ends up working with whoever comes first with a signed contract. In this sense, the contract would be just a formality, but by no means unnecessary.

Charterers and shipowners are in danger of putting their operations at risk when they have not clearly agree on the responsibilities and liabilities. The rush for getting hired first or getting the job done the soonest can be fatal in case anything goes wrong and no one knows where to look for the answers.

As time goes by, hopefully the players in the Brazilian offshore market get more conscious and mature in a way that vendor qualifications, PO approvals, and especially agreement on terms and conditions are not perceived as barriers anymore, but embraced as essential parts of an easier process. ■

“Charterers & shipowners are in danger of putting their operations at risk when they have not clearly agreed the contract terms.”

Petrobras News



AHTS 18000 tender cancelled and reissued. Again?

Another requirement has been issued by Petrobras for large anchor handlers. This is as a result of cancelling the tender for the same type of vessel that had offers disclosed in February this year. It is curious to note that the cancelled tender was also originated due to the cancelling of another tender issued in November 2013. The market has questioned why the State controlled Company is constantly cancelling tenders even after Owners are being requested to revalidate offers for several months? Petrobras claim they had to make some amendments to the contract but they are also hoping for cheaper levels as the contract period was altered from two to four years. We shall see how market will respond.

“Another requirement has been issued by Petrobras for large anchor handlers after a previous cancellation.”

Petrobras changing contracting procedures

A more detailed and strict registering process is being evaluated by Petrobras when it comes to the invitees for OSV tenders. In addition, to only inviting EBNs with a minimum PEOTRAM ranking, they must also have its supplier's register (CRCC) with no outstanding issues in the Petrobras system. A Parent Company Guarantee will also soon be required for each tender to attest the Owner's good financial standing and ability to perform the operations being applied for. These new procedures seem stringent and may lead to fewer candidates for tenders and potentially higher rates.

Sergipe-Alagoas Basin proved again

Petrobras announced that the third well drilled in the Sergipe-Alagoas Basin's Moita Bonita area, in Concession BM-SEAL-10, has proved the extension of the gas and light oil discovery made in that area, as released to the market on August 24, 2012. This well, informally known as Moita Bonita 3 (3-BRSA-1244-SES / 3-SES-182), is the second extension well drilled in the area. It is 82 km off the coast of Sergipe, approximately 5km from the discovery well Moita Bonita 1-BRSA-1088-SES (1-SES-168) and at a water depth of 2,790 meters. The presence of 41° API oil and good reservoir productivity has been proved.

Petrobras vs Presidential Elections

Petrobras has released an official clarification refusing to comment on information they consider as non-official obtained from Mr. Paulo Roberto Costa's alleged testimony to the federal police. The company is referring to the testimony made to authorities by the former Petrobras executive director, describing a corruption scheme at Petrobras and its beneficiaries, supposedly involving very high-level politicians. This has been heavily used by the opposition during the Presidential election campaign where Petrobras and Pre-salt has been held up by the present President as a key achievement during their time in office. ■

Spotlight



The company has introduced high end life saving equipment to Brazil

Viking Life Saving Equipment

The Viking life saving equipment company was founded in 1960 and provides essential safety and fire-fighting apparatus to the offshore and other industries. The range of products that include lude chute and slide-based marine and offshore evacuation systems, liferafts, lifejackets, immersion suits, fire suits, work suits, pilot suits, transportation suits, man overboard (MOB) boats, davits and other life-saving appliances, are manufactured at facilities in Denmark, Norway, Bulgaria and Thailand.

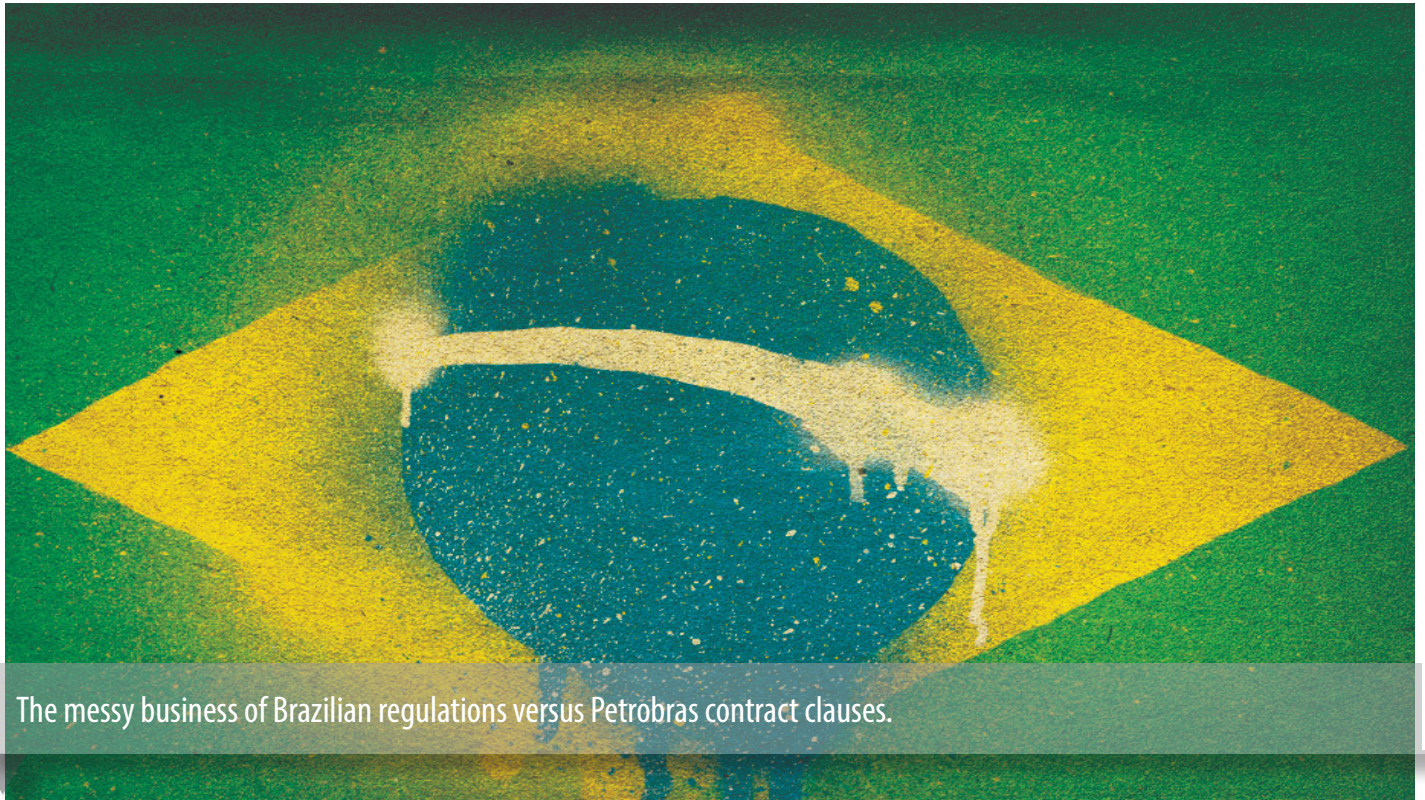
Viking Brazil was established in 2008 and has expanded its services in to Rio de Janeiro, Santos, Recife, Itajai and shall soon be opening in São Luis in order to meet future demand.

As ships are becoming bigger and bigger and rigs more

complex with space limited in their foot print the company had to offer customers tailor made products including the Life craft that is able to work as life boat but have bigger evacuation capacity saving 40% space compared to life boats of traditional design.

Viking has full compliance with the rules and regulations of LSA/SOLAS/ISO/ETSO. As a leader in marine evacuation systems they are able to evacuate more than 150 people from a rig in less than 10 minutes. Those evacuation systems are compulsory in the North Sea and the company has delivered 16 new systems in 2014/2015 for eight FPSOs that will work in Brazil on the pre-salt area. This brings the emergency safety evacuation on those FPSO to a higher HSEQ standard than is in use in the North Sea and other areas. ■

Look Ahead



The messy business of Brazilian regulations versus Petrobras contract clauses.

Compliance with RN 72

The difficult operating environment in Brazil is leading businesses into the unpredictable. The only thing for sure is that the future is uncertain. The most challenging area for Brazilian offshore support operators is staffing.

The endless search for qualified professionals and the cost pressures are contributing factors to a long cycle of retained growth and reduction of margins in the business. Brazil remains one of world's most expensive places for offshore support crews. Salaries, added to the imposed taxation, elevate the Brazil-cost over

and beyond known cost inflated areas such as the North Sea. The actual net salary of the Brazilian crews are relatively low compared to international peers with different taxation regimen. Taxes make up for the difference.

Notwithstanding the cost, Brazil promoted in 2006 the so called Normative Resolution 72, establishing a minimum number of Brazilians on board foreign flagged vessels, in an attempt to guarantee and protect the employment of locals. Since then labour unions have maintained a position to reject any flexibility of the norm, or even to take part in genuinely open-minded

discussions. Unions insist in combating the employers, while political actions to reduce taxation for the sector are only minor and ineffective.

Shipowners on the other hand insist that the available crews are not competent and sufficient to fulfill the requirements and the increasing number of positions required in the offshore support fleet. The most acclaimed study in the area, promoted by the owners syndicate Syndarma pointed to a peak deficit of officers for this year of 2014. Across the board, Syndarma members recognize the deficit still exists but the situation may not be as bad as first anticipated. There is a shortage of officers in the higher competency levels at the same time more basic and junior functions are starting to get filled in as demanded.

The fact is that the syndicate and charterers have been able to obtain waivers to later comply with the Resolution, in a recognition that in certain levels and circumstances it is not possible to hire locals. As an example, the Coordinator General of the immigration council has extended the deadline for compliance with the Resolution to several vessels chartered by Petrobras from November 2013 to October 2014. In the offshore support business the waivers have been obtained individually by companies at the unions or syndicates.

Just as owners had found some breathing space they were hit by the unpredictable. Although the Resolution lacks legal enforcement as, for instance, when compared to the Labour Legislation - CLT, Petrobras have recently started to apply penalties to every owner non-compliant with the Resolution, as established in the contract. The penalty is applied in principle irrespectively of the articulated waiver obtained by the owners in different levels. The charterer promotes a round of check up on all vessels and applies penalties as per contract. It is said that penalties are reaching as high as USD 30 million dollars for each single owner,

depending on the number of vessels and crew positions in non-compliance, and backdated to the moment the limit was not fulfilled. Owners are appealing against this by demonstrating how and when the waivers were obtained.

The business environment is at a stalemate. Although based on the contract and rightfully enabled to raise contractual penalties, the industry has been caught by surprise with the country's main charterer. Petrobras has proven unwilling to consider the operating environment or to take valid agreements into consideration - or at least ask for these before applying penalties and has instead stuck rigidly to its interpretation of the letter-of-the-law with the contracts. Furthermore,

the charterer also applies penalties when its own operations are also counting on waivers to not comply with the Resolution.

It is time for the industry to commence a discussion to act uniformly in the defense of Brazilian interests.

Naturally this includes the defense of local labour but also vital to defend the image of the country as a nation with stable contracts where business can be done fairly. It is time to open discussions on these contract clauses where the wording may not be as unilateral as first appears. ■

“It is time for the industry to commence a discussion to act uniformly in the defense of Brazilian interests.”



É Isso Aí



The three candidates in the running to be the next President of Brazil.

Rio Oil & Gas 2014

Rio de Janeiro will host the main Exposition and Conference of the oil and gas sector in Brazil from September 15th to the 18th. The biannual event has taken place at Rio Centro and has existed since 1982. The latest event will have more than 53,000 visitors with 1,300 exhibitors spread over an area of almost 40,000m². The Conference papers and panels will include ANP, Shell, Petrobras among others.

NBCC Rio Oil & Gas Networking Dinner

On the occasion of the Rio Oil & Gas Expo and Conference 2014, the Norwegian-Brazil Chamber of Commerce (NBCC) will host a Networking Dinner for its participants on September 17th. The event is promoted to the members of the NBCC and its invitees, turning it in to a very traditional reception of the industry, taking place every two years with the Rio Oil & gas Expo.

“Brazil will go to the polls in October with the possibility that a new President could be appointed.”

Presidential Elections in Brazil

Brazilian citizens will have the opportunity to decide the new President, Senators, State Governor, Federal and State Deputies on October 5h, with the possibility of a second round on October 26th 2014. Presidential election direction has drastically changed when candidate Mr Campos died in a tragic plane accident last month, who had a shy presence on the voting surveys. His was succeeded by its vice president candidate.

Mrs. Marina Silva, who suddenly appeared as the new front-runner for President of Brazil according to the surveys, winning in the second election round by defeating Mrs. Dilma Rousseff. Despite the results of recent surveys, it is still too early to predict anything, survey results have been varying a lot, and the process could have a sudden change again. ■