

# Brazilian Wave

March 2015 Issue: 43

## Mass protests

The people take the streets  
as anger spills over



**WESTSHORE**

DO BRASIL



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# FIGHTING TO SURVIVE

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**N**o cash, struggling to raise funding and involved in the "Lava Jato" Operation - Sete Brasil then failed to fulfill the contracts with Petrobras. The government is now studying ways to unlock credit in the company.

Companies are facing great uncertainty after Petrobras which is responsible for 70% to 80% of orders, began to cut investments and are having trouble obtaining resources. Banks have tightened credit, mainly for those associated with construction companies involved in the "Lava Jato" Operation (Car Wash).

The difficulties faced by the shipyards servicing Sete Brasil, with a contract value of USD 25 billion, are of concern but the crisis is not restricted to this

group. It has become widespread among numerous companies involved in the shipbuilding industry in Brazil.

Sete Brasil was founded on the back of the national content policy speech, securing orders for a massive number of highly sophisticated ultra-deep water drilling units. These units had never before been built in Brazil and came with a high price tag and long TCs with Petrobras, a situation which promised to resurrect old shipyards and promote new ones. Its downfall in the "Lava Jato" oil scandal is a sign of failure of that policy, which has raised the costs of equipment and did not produce a strong naval industrial benchmark as was hoped. Now the company is negotiating with BNDES to release a credit approved in 2013 of USD 3.1 billion.

## Government

Despite Government efforts to grant the loan, BNDES has resisted releasing the money claiming it to be too risky. Concerned about the symbolism that the breaking of Sete would have in government and also the huge losses that the crisis would have on the finances of banks such as BTG, Bradesco and Itaú, the President gave Petrobras new CEO, Mr. Aldemir Bendine, the endorsement to act in favor of Sete. But even he has been unable to untie the knot.

Sete has divided the construction of the units into three groups. The funding that is being barred by the technical staff of BNDES refers to the first batch of nine units, initially planned to be delivered in 2015 and 2016. BNDES would be liable for more than USD 3 billion, CAIXA for USD 1.5 billion and British Bank UK Export Finance, for USD 220 million.

The second group has 12 rigs and delivery forecast for 2017 and 2018. For this second group BNDES has to shell out another USD 5 billion, UK Export Finance another USD 580 million and two Norwegian institutions another USD 1 billion. Putting the two steps together BNDES should finance more than USD 8 billion.

The third group, with eight units for delivery

in 2019-2020, should be funded at USD 10.3 billion by the Merchant Marine Fund (FMM).

## Situation

BNDES wants what Sete Brasil cannot give: a bank guarantee of USD 1.5 billion, an independent audit to ascertain the prices of contracted rigs and the full use of resources to pay only the first lot of rigs, seven in total.

Rescuing Sete Brasil is considered a priority and for the government, due to the involvement the company has with Petrobras suppliers, it is emblematic. The operation is important to avoid further deterioration of the shipping industry and impacting on the entire production chain.

In addition to the difficulty of financing the construction of the rigs, Sete Brasil suffers the consequences of Petrobras' (the only client) disinvestments, where cuts between USD 20 billion and USD 30 billion have incurred this year.

## Future

Building rigs is not a simple undertaking. It requires technology, qualified staff and experience in the field - things Brazilian contractors did not have.



Sete is said to be considering chartering UDW drilling units from abroad while local ones are not ready, taking advantage of a surplus of availability with attractive rates (lack of worldwide drilling campaigns/fall in oil price). However this plan depends on the authorization of the ANP and Petrobras since it goes against contractual local content policy.

The company began to run out of money before the “Lava Jato” Operation and with the crisis in Petrobras everything got worst. For the shipyards hired to build the 29 rigs Sete owes around USD 850 million. Two of them - the Atlantico Sul and the Enseada do Paraguaçu – have quit the game.

To try to compensate for lack of credit, the Government released more resources. This year the budget foresees a record volume of resources for the Fund of the Merchant Marine, the main source of funding for the sector. The forecast is set to reach USD 6.3 billion, far above the USD 4 billion in 2014 and of USD 5 billion in 2013.

At this point, the only chance of the company escaping bankruptcy is to close the loan with BNDES. With each new revelation over the corruption scandal however, the Bank increases the requirements to grant the intake and makes it harder to exit the business. If current suspension cycle of investments and layoffs in the shipyards continues, it will take Brazil’s naval industry back to levels of the 90’s when the process of opening the economy exposed national industry to foreign competition and the industry almost ceased to exist.





## BYE BYE BRAZIL

The FPSO Brasil, owned by SBM Offshore, and which had been operating in Brazil for Petrobras in the Roncador field for 12 years, will be demobilized to a shipyard in China for disassembling. SBM also informed that the FPSO Marlim Sul has been decommissioned from the same field and by the end of April should be ready for demobilization, but the company hasn't revealed any plan for the unit.

## WHAT NEXT FOR BW FPSO?

BW Offshore engineering teams have been inspecting the FPSO Cidade de São Mateus to verify the actual situation of the unit and determine the repair services that will be needed. The strategy to be adopted in the work will be defined in partnership with Petrobras. There is still no definition about the place that the works will be undertaken but with the crowded orders and serious financial difficulties being experienced by some Brazilian shipyards, the works may end up being carried out abroad.

## SIZE MATTERS

Shell Brasil has hired the Oleg Strashnov to install an accommodation block onto FPSO Espirito Santo (SBM) in the Parque das Conchas field. The operation has been successfully concluded with the assistance of tugs Far Sea and Sea Leopard. The sheer leg has been admitted in Brazil via Asgaard.



1. TECHNIP VESSEL LOOKS ON TO LULA ALTO
2. OLEG STRASHNOV IN BRAZIL
3. FPSO BRASIL



## GOING DEEP

National Oilwell Varco (NOV) is expanding its presence into the pipeline sector in Brazil. The company has started operations at a new facility in the Açu super port, capable of producing up to 250 km of flexible pipes per year, after investment of around USD 300 million, and the first cargo for Petrobras has already been delivered. The goal now is to qualify the next generation of flexible lines to be able to operate in deeper waters to work in pre-salt conditions. Petrobras launched a tender in 2014 to contract 680 km of flexible risers and flowlines to attend production units due to commence operations in 2017. It is understood that all four invited contractors — NOV Flexibles, Technip, GE Oil & Gas and Prysmian — submitted bids in the competition.

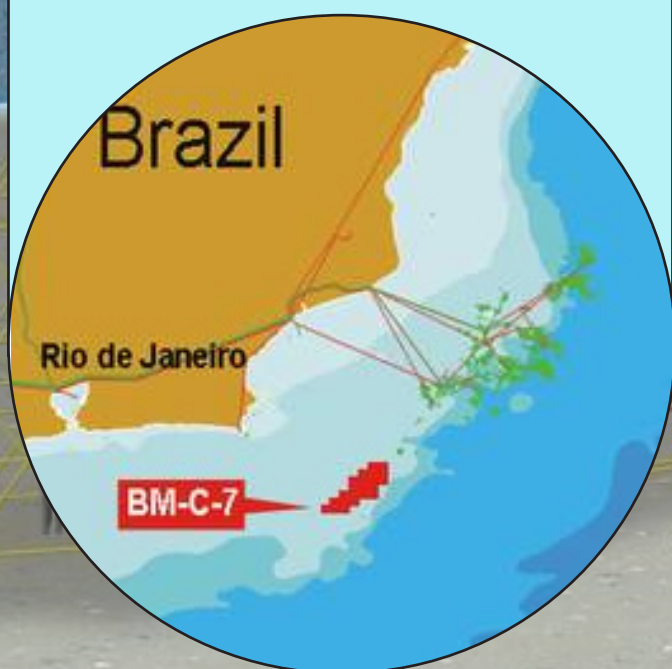
## LULA ALTO AWARDED

Technip announced it has secured a major contract to supply a vast network of flexible pipes at the Lula Alto field in Santos basin, estimated at around USD 559 million and scheduled to kick off in the second half of 2015. The contract includes the supply of around 200 kilometers of flexible pipes and associated equipment, including gas lift, gas and water injection, gas export and production lines. The company's operating center in Rio de Janeiro will carry out the project management and engineering while the flexible pipes will be produced at Technip's manufacturing sites of Vitoria and Açu Port.



## PEREGRINO PHASE TWO DEVELOPMENT PLAN

The Brazilian authorities have received the development plan for the Peregrino field in Campos Basin by Statoil. The company aims to drill a total of 21 wells of which 15 oil producers and six water injectors. The Norwegian state major aims to explore an additional of 250 million of boed using a new drilling rig called "Platform C" and a new wellhead platform called WHP-C set to be installed in a water depth of 120 meters and connected to the FPSO Peregrino. First oil is planned for the end of 2019.



## DELICATE SITUATION

Brazilian OGpar has announced that the Tubarão Martelo field development plan will be revaluated due to the current oil price, which has plummeted from around USD104/barrel in August 2014, to USD45/barrel in January 2015. In addition it is estimated for 2015 an average daily production of 8 thousand barrels of oil, compared with the previous expectation of 12.7 thousand barrels. OGpar has begun renegotiating the FPSO OSX-3 charter daily rate cost and has suspended the drilling of three new wells, which was previously planned for this year. OGpar has until December this year to present a new development plan to ANP and is confident of overcoming the current scenario.

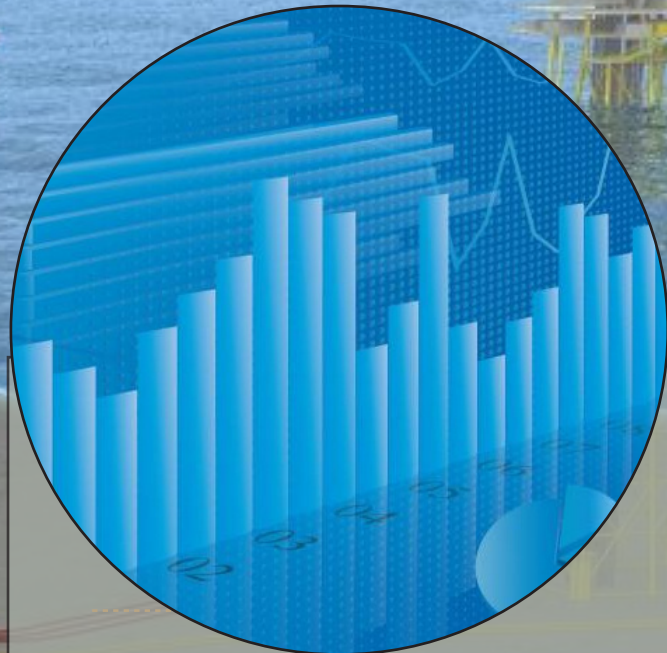






## WHAT ABOUT SHELL'S ABALONE FIELD?

Royal Dutch Shell will re-start production in the Abalone field by 2019 after ANP's approval for extension of activity in the area, the field hasn't been producing since 2010 (2.3 thousand boed through one well). According to the company, the strategy is to optimize the production of the FPSO Espírito Santo which produced 62.214 thousand boed last year connected to nine wells in the Argonauta field and seven in the Ostra field, with the average output of 4,821 boed and 2,689 boed per well respectively. By December 2018, Shell will perform an intervention at Abalone for maintenance of a safety valve (DHSV) which normally aims for a drilling rig.



## THE LONG AWAITED PETROBRAS RESULTS

The company plans to publish its delayed third quarter results next month but this still depends on conclusions from law offices that attest the quality of assets and the approval of the Securities and Exchange Commission (SEC), the US market regulator. Petrobras will meet with the law firms to take notice of the proceedings being conducted and hopes to have the reviews closed by the end of this month.

**ASTROMARITIMA** - After concluding her charter with Petrobras, Brazilian flagged and built PSV Astro Parati, DP1, became available March 15th. The vessel is heading up to Guanabara Bay where she will be available after regular repairs.

**DEEPSEA SUPPLY** - AHTS Sea Leopard has been fixed to Statoil to replace a CBO PSV on regular dry-docking, for 20 days firm plus options started March 13th.

**FARSTAD** - BOS Turquesa has been fixed on the spot market to Svitzer Salvage to assist on the recovery works at the BW Offshore FPSO Cidade de São Mateus in Campos Basin, 7 days firm plus options. After completion of this charter the vessel was fixed to Shell Brazil for 3 days firm plus options to assist on a tanker lifting operation at FPSO Fluminense. At time of writing the vessel is prompt available in Guanabara Bay.

**DEEPSEA SUPPLY** - AHTS Sea Leopard has been fixed to Shell Brasil to assist on the Heading Control of FPSO Espirito Santo during the installation of one accommodation block on the offshore unit. The vessel has further transported the accommodation frame back to shore before being released.

**FARSTAD** - AHTS Far Sea has also been fixed by Shell to first assist on one tanker lifting operation in FPSO

Fluminense and afterwards to join the FPSO Espirito Santo Heading Control together with the Sea Leopard.

**MAERSK** - AHTS Maersk Advancer is available in Brazil having concluded work with Petrobras and is awaiting the results of the latest multi-category tender from Petrobras.

**DEEPSEA SUPPLY** - Brazilian flagged and built PSV DP2 Sea Brasil has been fixed to Shell for cargo runs to the FPSOs for 15 days firm plus options.

**ASTROMARITIMA** - Brazilian built and flagged Astro Pargo will undergo modifications to attend her new 8 months firm charter with Petrório (former HRT), starting in April. The vessel will act as OSRV replacement for the OSRV Marati, pending IBAMA approval.

**CHOUEST** - DP1 PSV Navegantes Pride has been released from her charter and is prompt available in Navegantes, South Brazil at time of writing.

**BRAVANTE** - PSV DP2 Bravante VI is prompt available Guanabara Bay at time of writing.

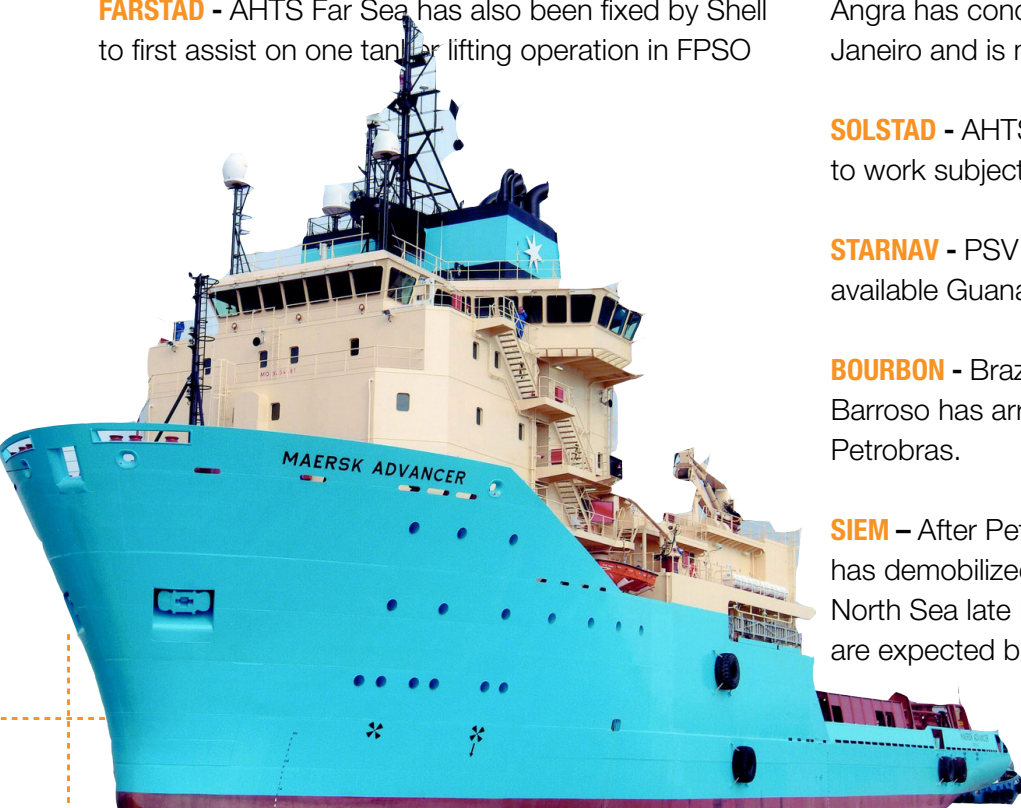
**SEACOR** - Brazilian built and flagged DP2 PSV Seabulk Angra has concluded her regular docking in Rio de Janeiro and is now prompt available in Guanabara Bay.

**SOLSTAD** - AHTS Normand Borg remains in Brazil able to work subject to clearance.

**STARNAV** - PSV 4500 DP2 Starnav Aquarius is prompt available Guanabara Bay.

**BOURBON** - Brazilian built and flagged AHTS Geonísio Barroso has arrived in Brazil for her charter with Petrobras.

**SIEM** - After Petrobras' failure to extend contracts, Siem has demobilized 4 of its Anchor Handlers back to the North Sea late February and early March. The vessels are expected back into the North Sea end-March.



# PETROBRAS TENDER OVERVIEW





## PSV 1500 FOREIGN FLAG OFFERS (E&P 1685522148)

The tender issued in December last year for PSV 1500 type A and Type B had its offers disclosed as below. The contract period is 4 + 4 years for type A and delivery date up to May while contract period for type B is 2 + 2 years and delivery up to June.

SHIPOWNER	EBN	VESSEL	TYPE	YEAR BUILT	LOA (M)	BHP	POSITION
Varada	Acamin	Varada Ipanema	A	2010	63,00	6 800	Brazil
Varada	Acamin	Varada Búzios	A	2010	63,00	6 800	Brazil
Vega	OSM	Vega Carrier	A	2015	59,25	5 150	China
Vega	OSM	Vega Commander	A	2015	59,25	5 150	China
MCT Recoil	Acamin	Amazon Leader Z	A	2015	59,25	6 000	China
Polskie Ratownictwo	Acamin	Onyx (Xin Yue Feng)	A	2015	63,00	5 150	China
Mosvold Marine AS	Acamin	VOS Olympian	A	2006	62,85	5 500	Thailand
Mosvold Marine AS	Acamin	C1022 (Nantong)	A	2015	60,50	5 150	China
GulfMark	Acamin	Grand Slam	B	2007	68,58	3 894	US GoM
GulfMark	Acamin	Slam Dunk	B	2008	68,23	3 894	US GoM
Whitesea Shipping	Acamin	Meghna	A, B	2008	60,00	5 400	UAE
Whitesea Shipping	Acamin	Saeb	A	2009	62,00	5 500	UAE
Whitesea Shipping	Acamin	Saheb	A	2009	62,00	5 500	UAE
Whitesea Shipping	Acamin	Saleh	A	2009	62,00	5 500	UAE
Whitesea Shipping	Acamin	Samed	A	2009	62,00	5 500	UAE
Whitesea Shipping	Acamin	Sarem	A	2009	62,00	5 500	UAE
Greatship	Acamin	Greatship Anjali	A, B	2008	64,35	7 180	S.A.F
Asgaard	Asgaard	MW 622-5 (Fujian Mawei)	?	2015	59,60	5 150	China
Asgaard	Asgaard	MW 622-6 (Fujian Mawei)	?	2015	59,60	5 150	China
Asgaard	Asgaard	Avenger (POET)	?	2015	64,80	5 092	China
Tidewater	Mare Alta	Jonathan Roizer	A, B	2004	63,00	4 818	Suriname
Pacific Radiance	OSM	Crest Mercury 1	A, B	2015	65,00	6 000	Singapore

## PSV 3000 A-E AND PSV 4500 NATIONAL/REB (E&P 1685545148)

Petrobras has released the preliminary offers on the tender issued in December last year for PSV 3000 A-E type and PSV 4500. The contract period is 2 + 2 years for the PSV 4500 and for the types A, B, D, E and 4 + 4 years contract for type C. Delivery date is up to June 2015 and prices will be disclosed after technical/economic analysis is finalized.

### PSV 3000

VESSEL	BIDDER	YEAR BUILT	DESIGN	POSITION/ CHARTERER	PSV 3000- A	PSV 3000- B	PSV 3000- C	PSV 3000- D	PSV 3000- E
CBO VALENTINA	CBO	2007	P106	BRAZIL/PETROBRAS			TBA		
CBO ANNA GABRIELA	CBO	2007	P106	BRAZIL/PETROBRAS			TBA		
CAMPOS CLIPPER	CHOUEST	2007	NA2260	BRAZIL/SPOT				X	
NAVEGANTES PRIDE	CHOUEST	2006	NA2260	BRAZIL/SPOT			X		
FAR SWAN *	FARSTAD SHIPPING	2006	VS470 MKII	SINGAPORE				X	
FAR SWAN *	FARSTAD SHIPPING	2006	VS470 MKII	SINGAPORE			X		
SKANDI FLAMENGO	NORSKAN OFFSHORE LTDA	2003	UT755L	BRAZIL/PETROBRAS			X		
SKANDI LEBLON	NORSKAN OFFSHORE LTDA	2004	UT755L	BRAZIL/PETROBRAS			X		
VEGA EMILIE *	OCEANPACT SERVIÇOS MARITIMOS S.A	2015	KCM75	CHINA/NWB			X		
VEGA ANGELICA *	OCEANPACT SERVIÇOS MARITIMOS S.A	2015	KCM75	CHINA/NWB			X		
SEABULK ANGRA	SEABULK	2005	UT755L	BRAZIL/SPOT	X				
SAVEIROS GAIVOTA	WILSON SONS OFFSHORE	2003	UT755S	BRAZIL/PETROBRAS	X				
SAVEIROS ALBATROZ	WILSON SONS OFFSHORE	2003	UT755L	BRAZIL/PETROBRAS					X
SAVEIROS FRAGATA	WILSON SONS OFFSHORE	2007	DAMEN7216	BRAZIL/PETROBRAS	X				

## PSV 4500 (02 YEARS TC)

VESSEL	BIDDER	YEAR BUILT	DESIGN	POSITION/CHARTERER
SANTOS SERVICE	CHOUEST	2010	NA2280	BRAZIL/PETROBRAS
SANTOS SCOUT	CHOUEST	2010	NA2280	BRAZIL/PETROBRAS
SANTOS SOLUTION	CHOUEST	2010	NA2280	COLOMBIA/ANADARKO
SANTOS SAILOR	CHOUEST	2009	NA2280	BRAZIL/PETROBRAS
SABLE *	CHOUEST	2013	MMC887CD	BRAZIL/PETROBRAS
ORYX *	CHOUEST	2013	MMC887CD	BRAZIL/PETROBRAS
KUDU *	CHOUEST	2013	MMC887CD	BRAZIL/PETROBRAS
GEMSBOK *	CHOUEST	2014	MMC887CD	TRINIDAD/BP
BRAM BUZIOS	CHOUEST	2012	NA300FT	BRAZIL/PETROBRAS
BRAM BELEM	CHOUEST	2012	NA300FT	BRAZIL/PETROBRAS
SEA SPIDER *	DEEP SEA SUPPLY	2014	PX105	MED/SAIPEM
SEA BRASIL	DEEP SEA SUPPLY	2012	TSX PSV09CD	BRAZIL/SPOT
FAR SEARCHER *	FARSTAD SHIPPING	2008	UT751E	NORWAY/SPOT
FAR SERVICE *	FARSTAD SHIPPING	1995	UT745	UK/SPOT
MAERSK VENTURA	MAERSK SUPPLY SERVICE	2006	UT745L	BRAZIL/PETROBRAS
MAERSK VEGA	MAERSK SUPPLY SERVICE	2006	UT745L	BRAZIL/PETROBRAS
UP JASPER *	UP OFFSHORE LTDA	2011	VS483MKII	UK/SPOT
UP AGATE *	UP OFFSHORE LTDA	2013	MMC87-5000	UK/SPOT
SIEM SUPPLIER *	SIEM	1999	MT6000	BRAZIL/PETROBRAS
STARNAV AQUARIUS *	STARNAV SERVIÇOS MARITIMOS LTDA.	2014	GPA 688SC	BRAZIL/SPOT

\* foreign vessels offered under REB (Brazilian Special Register)

## AHTS 18000 ROV (E&P Nº 1691980148)

Another tender for AHTS 18000 ROV, issued in December last year for 4 + 4 years contract and delivery up to April 2015, has recently had its offers released by Petrobras as following below.

VESSEL	OWNER	YEAR	BHP	EBN	POSITION
AH Varazze	Finarge	2014	19000	Finarge	Malta
Far Sagaris	Farstad Shipping	2009	20400	Farstad Shipping	Norway
Far Scorpion	Farstad Shipping	2009	20400	Farstad Shipping	Norway
Far Sovereign	Farstad Shipping	1999	25200	Farstad Shipping	Brazil
Havila Venus	Havila Shipping	2009	22800	OSM	UK
Maersk Advancer	Maersk	2004	23480	Maersk	Brazil
Maersk Asserter	Maersk	2004	23480	Maersk	Brazil
Normand Mariner	Solstad Shipping	2003	23478	Solstad	Brazil
Normand Master	Solstad Shipping	2003	23478	Solstad	Brazil
Olympic Hera	Olympic Shipping	2009	26140	Olympic	Norway
Olympic Hercules	Olympic Shipping	2002	23500	Olympic	Norway
Olympic Pegasus	Olympic Shipping	2002	23500	Olympic	Brazil
Pacific Duchess	Swire	2014	17864	OSM	Malta
Siem Amethyst	Siem	2011	28000	Siem	Norway
Siem Aquamarine	Siem	2010	28000	Siem	Norway
Siem Opal	Siem	2011	28000	Siem	Norway
Skandi Admiral	DOF	1999	21600	Norskan	UK

## AHTS 18000 AND AHTS 21000 (E&P Nº 1691982148)

Issued in December last year, please see below list of vessels offered on Petrobras AHTS 18000 (lots 1, 2, 3) AHTS 18000 ROV (Lot 4) and AHTS 21000 (Lot 5). Contract period is 2 + 2 years and delivery time as per below.

Lot 1 (AHTS 18000): April 2015

Lot 2 (AHTS 18000): July 2015

Lot 3 (AHTS 18000): September 2015

Lot 4 (AHTS 18000 ROV): March 2016

Lot 5 (AHTS 21000): March 2016

## LH 2500

Five companies are competing in the LH 2500 tender issued by Petrobras last year for 4 + 4 years. The company received the offers Friday 13th March from Camorim, Starnav, OceanPact, Internav and Tranship. Petrobras expects to charter national flag vessels and should release the proposals within the coming weeks.

VESSEL / BATCHES (LOTE)	1	2	3	4	5
AH Valletta	x	x	x		
AH Varazze	x	x	x		
BOS Turquesa	x	x	x		
CE Laborde Jr					
Crest Optimus					
ER Luisa	x	x	x		
ER Vittoria	x	x	x		
Far Sagaris	x	x	x		x
Far Scorpion				x	x
Far Scout				x	
Far Senator	x	x	x		x
Far Senior				x	
Far Sigma	x	x	x		x
Far Sovereign		x	x	x	
Far Statesman	x	x	x		x
Havila Jupiter					x
Havila Mars		x	x		
Highland Endurance	x		x		
Maersk Advancer	x	x	x	x	
Maersk Asserter	x	x	x	x	
Maersk Laser	x	x	x	x	
Maersk Lifter	x	x	x	x	
Normand Borg	x	x	x		
Normand Mariner		x	x		
Normand Master		x	x		
Olympic Hera					x
Olympic Hercules	x	x	x	x	
Olympic Pegasus	x	x	x	x	
Pacific Defiance					x
Pacific Diligence	x	x	x	x	x
Pacific Discovery	x	x	x	x	x
Pacific Dispatch	x	x	x	x	x
Pacific Dolphin	x	x	x	x	x
Pacific Dragon				x	x
Pacific Duchess	x	x	x	x	x
Siem Amethyst	x	x	x	x	x
Siem Aquamarine	x	x	x	x	x
Siem Diamond	x	x	x		x
Siem Emerald	x	x	x		x
Siem Garnet	x	x	x		x
Siem Opal	x	x	x	x	x
Siem Pearl	x	x	x		x
Siem Sapphire	x	x	x		x
Siem Topaz	x	x	x		x
Skandi Admiral	x	x	x	x	
Skandi Botafogo				x	
Toisa Elan	x	x	x		
Toisa Envoy	x	x	x		
Toisa Explorer	x	x	x		



# THE DRILLING ACTIVITY DOWNTURN IN BRAZIL

## An update on the foreign drillers

**R**ig activity is deteriorating, Petrobras' has cash limitations, corruption scandals and then there's the drop in oil prices. Adding to the woes we keep hearing that the oil giant is changing its long-term strategy, focusing more on production than on exploration. A number of contracts with foreign rig operators have had harsh lower rates extensions or cancellation negotiations in 2014. This has been evidenced this year too, mostly (and conveniently) motivated by procedural technicalities presented by Petrobras, apparently to alleviate some of its responsibilities. As a result thousands of jobs have been lost in Rio de Janeiro and many more in Macaé ("the oil capital"), and there is no light at the end of the tunnel in sight. Infact there is a fear that this may generate a progressive growth of "favelization" and violence in the cities that depend almost 100% on the oil and gas industry. Shares in rig owners like Seadrill, Transocean, Noble and Diamond have plummeted, as investors realize that the firm period of a contract isn't always firm when it's exposed to the desires of a company like Petrobras.





Diamond Offshore (Brasdril), for example, watched the departure of the semisubs Ocean Worker and Ocean Concord in January, while the semisub Ocean Winner stopped operating a month before its contract expiration with Petrobras in March. As the global market is also low, Brasdril believes this rig may be waiting around Santana Island in Macaé for at least a couple of months until a buyer takes it for scrapping. Meanwhile, Petrobras intends to release Ocean Baroness soon, which was chartered through September 2018 for campaigns in the deep waters of the Campos and Santos Basins. This is still under negotiation, but if the contract is terminated Brasdril will only have a fleet of five rigs operating locally, down from twelve in 2012. Some say that Petrobras will also not renew the charters of the Ocean Alliance (currently contracted until June 2016) and Ocean Clipper (currently contracted until December 2015), which would leave the driller with just two deep-water rigs in the country in 2016 (the semisubs Ocean Valor and Ocean Courage), both renewed through 2018.

After the departure of the rigs 7500 and 6000 last year, Ensco is currently left with four rigs in Brazil (6004, 6003, 6002 and 6001), with contracts expected to go through until 2016, 2017

and 2018 respectively. Some say Ensco is talking to Petrobras about plans to bring the DS-5 drillship back from the Gulf of Mexico (contract until July 2016), where it was sub-let to Murphy Oil, but the new terms proposed by Petrobras do not cover all mobilisation costs and new tax liability. Another possibility is to link this deal to a Petrobras contract for the newbuild drillship DS-10, as soon as it leaves the shipyard in South Korea in late 2015, possibly for the Libra Pre-salt development, despite the very low daily rates Petrobras is willing to offer for both units.

Paragon Offshore, which was founded by taking over select rigs from Noble already in Brazil, is currently operating only one semisub rig and two drillships for Petrobras, with contracts expected to go through mid-2016 and mid-2017. Last year Paragon in Brazil took over the drillship Noble Phoenix (DPDS-1), but shortly afterwards Petrobras failed to renew its contract and it is now cold stacked. In addition Noble demobilized two drillships from Brazil which were operating for Shell and retired a semisub rig. Now the driller is left with only semisub Noble Dave Beard, with firm contract through to April 2016.

If no contract extension negotiations lie ahead, Noble

may end up leaving Brazil just as its competitors Dolphin Drilling and Pacific Drilling did recently. The only drillship locally operated by Pacific Drilling (Pacific Mistral) concluded its three-year contract with Petrobras, and after a long and unsuccessful extension negotiation, it was demobilized. Meanwhile, Odfjell Drilling was warned by Petrobras that there is a high risk of not having the drillship Deepsea Metro II contract extended after May 2015. If this is confirmed, the unit will be demobilized and no rigs will be operated by Odfjell in Brazil, at least until the first of three drillships is delivered by Jurong Aracruz shipyard in mid-2016 (expected).

Seadrill recently announced that Petrobras had not approved charter extensions of the semisubs West Taurus and West Eminence after exhausting negotiations lasting over a year. The charter for the West Taurus expires in April, while the contract for West Eminence ends in July. Seadrill will then have the newbuild drillships West Tellus and West Carina arriving from a Korean Shipyard around April and May respectively, to operate in the Libra pre-salt for three years. The driller also has three semisubs operating in Brazil until 2016 and 2018.



Transocean has four of its units operating in Brazil, down from more than ten in 2013. Contract expiration dates go from 2016 to 2017, so the driller does not expect any bad news this year, as many of its rigs are idle or set for scrapping. In contrast, Brazilian drillers like Queiroz Galvão, Odebrecht, Ventura, Schahin and other consortiums like Sete Brasil formed to build and operate primarily drillships, are securing their positions with modern units and higher local content, which is increasingly demanded by ANP for the new blocks.

Unfortunately for the foreign drillers this trend is here to stay. The options are to become part of these types of consortiums, like Seadrill and Odfjell did, or focus on other potential markets as soon as global reduction in rig chartering is surpassed. For shipowners, this represents sporadic spot activity (fuel runs, cargo runs and towing/mooring rigs before demobilization) in the short term; nonetheless it impacts Petrobras' contracting pace, which is expected to become stable in the long term for drilling activity ("higher rate" vessels not having their contract renewed, and new bids with a large number of vessels being offered for lower rates, but generally few will be hired). The challenges are many and the watchword is to plan for the growth in activity from 2017 onwards, as a relevant increment in drilling and production demands are expected from Petrobras and IOCs in Brazil.





## SUBSEA SECTOR SEES GLASS HALF-FULL

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The recent Subsea Vessels conference hosted by Informa Maritime Events and Lloyds List allowed participants from vessel owners to oil companies and service providers to openly discuss the subsea market trends and expectations. We take a look at what was said.

**A**n atmosphere of uncertainty for the future and fear over what's to come in the next two to three years was clearly felt when the subsea conference opened. Oil companies, vessel owners, brokers, equipment and service providers discussed the bleak outlook being drawn by the corruption scandals at Petrobras. There is an almost complete stop on any contracting activity by the oil majors in Brazil, all facing tough regulatory and bureaucratic barriers and the combination of this with the lower oil price means lower activity worldwide. It seemed

that the gathered crowd was heading for a couple of days of moaning!

Happily as speakers started to deliver their analysis, the facts and figures came to support a more objective view over the subsea industry, the situation may not end up being as bad as it might be in other sectors - PSVs or Anchor Handlers for example. IHS kicked off by depicting the global picture. As subsea projects are defined and contracted in advance, projects are going ahead and average tonnage employment has lowered by some 5%, which does not support a pessimistic look.

Westshore was up next and presented the Brazilian picture. Aware of the delicate industry environment, the data supported the IHS presentation showing in essence the contracted projects are on track - with the usual delays in some cases. Petrobras as the main charterer is progressing with planned projects and the major EPCI contractors are active. Whereas there has been a reduction in activity for Subsea7 and Technip, there has been a ramping up for Saipem and Allseas. Interestingly enough, outside Petrobras at least one major project is in full steam - BC-10 Phase 3 which Shell Brasil has started. In

addition preparations for subsea pump maintenance with SBM and major modifications and upgrades to the FPSO Espirito Santo, a “rigless” project that will demand subsea support. A downturn is expected after a couple of years. Drilling activity has lowered by 30% in the last 12 months and the new building projects, including FPSOs, are suffering major delays. It is not possible however to confirm this will negatively impact the industry in the same proportion, as a recoup of the industry in two years can put a good share of the projects back on track.

Covering regulatory aspects, Shell, Technip and Veirano law firm debated the usual cumbersome regulatory environment duly supported by the experiences of DOF and Ocean Installer which presented next. DOF has the largest subsea fleet operating in Brazil and a number of very advanced Brazilian built and flagged IMR and Construction vessels. Concerns were expressed over future tonnage employment although currently all vessels are operating and Skandi Salvador is fixed to Chevron in Brazil having worked in sharing agreements for other operators such as Shell - a flexibility that the law grants to Brazilian flag but not automatically to foreign flagged

equipment. Ocean Installer demonstrated a worldwide track record and talked in particular about project work in Brazil with Saipem, Petrobras being end user.



The Petrobras crisis must be resolved in a reasonable fashion to keep driving the global supply market. Any major change in the oil major’s orderbook will impact businesses across the globe.



Preparations are ongoing for Statoil in Brazil for the Peregrino Southwest area, adding 21 wells - 15 oil producers and 6 injection wells in a 3.5 billion USD project. IMR vessels will also be required by other operators such as Queiroz Galvão for the BS-4 production as of Q1 2016, and Petrório after Bijupirá & Salema fields are handed over from Shell. Douglas-Westwood gave a remarkable presentation demonstrating how subsea

hardware orders and logbook come to support the view of continued activity in Brazil and most impressively how Brazilian orders for subsea equipment have a global share of up to 30% of all equipment being manufactured on a worldwide basis. The Petrobras crisis must be resolved in a reasonable fashion to keep driving the global supply market. Any major change in the oil major’s orderbook will impact businesses across the globe.

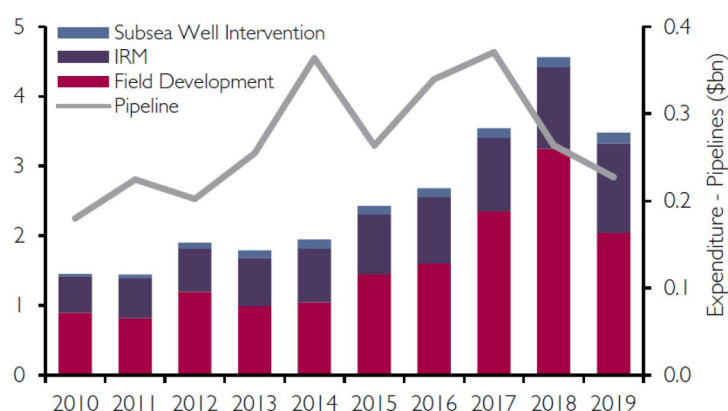
Wartsila, DOF and Petrobras raised some interesting points regarding new technologies and how these could benefit the charterer. Petrobras sent a signal that the drive for savings (for example) from lower fuel consumption is top of the agenda. This is not echoed however when it comes to utilizing technology to the benefit of vessel uptime. Petrobras as we know has a contract mode where cumulative maintenance days are earned on a monthly basis. They currently give non-remunerated dry-docking windows within the contract period, forcing the owners to leave any maintenance to such periods and as such not taking advantage of preventive and more regular maintenance. A high-level discussion about that point could trigger a process change to the benefit of charterers and owners.

### Brazil – vessel expenditure and vessel day forecast

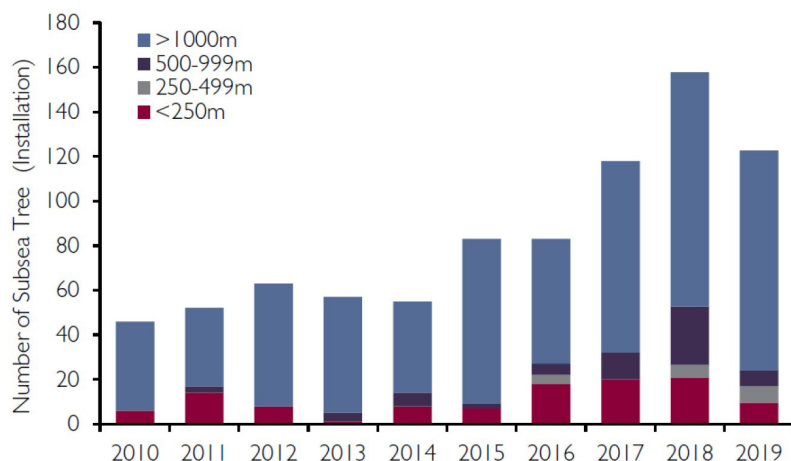
Market (\$bn)	2014	2015	2016	2017	2018	2019
Field Development	1.04	1.45	1.6	2.35	3.25	2.04
Pipeline	0.36	0.26	0.34	0.37	0.26	0.23
IRM	0.77	0.86	0.95	1.05	1.17	1.28
Subsea Well Intervention	0.13	0.13	0.13	0.14	0.15	0.16
<b>Total</b>	<b>2.31</b>	<b>2.69</b>	<b>3.02</b>	<b>3.91</b>	<b>4.83</b>	<b>3.71</b>

Vessel Days	2014	2015	2016	2017	2018	2019
Field Development	4,830	6,627	6,909	9,666	12,644	7,590
Pipeline	1,600	1,091	1,386	1,432	964	781
IRM	4,951	5,217	5,486	5,780	6,071	6,330
Subsea Well Intervention	501	492	506	556	590	627
<b>Total</b>	<b>11,882</b>	<b>13,426</b>	<b>14,286</b>	<b>17,435</b>	<b>20,269</b>	<b>15,329</b>

### Brazil – vessel expenditure forecast by type



### Brazil – subsea tree installations by depth



Source: Douglas Westwood

Closing the seminar OSM gave an overview of the crewing market in Brazil and how the situation has improved in the last two years. If there is a positive effect of lower activity, it is the lower the demand for personnel. It is regrettable though that this came in connection with the higher output from the naval schools and a number of junior officers that the market is now unable to absorb. In the subsea sector, where more specialized and experienced personnel are demanded, there is still a lack of qualified workers to take up the positions demanded by the industry. The Rio de Janeiro Government demonstrated incentives to the O&G industry and how the state has become the home base for the support activity. And in terms of being specialized, Royal IHC presented their methods for shipbuilding - integrated with several suppliers and shipyards across the globe to deliver on-time and on-budget ships.

In the end there was a very positive atmosphere with hopes that the activity will pick up with time. It is in everybody's interest that Petrobras comes out stronger from its current situation and with it Brazil evolves and keeps growing.



