

Brazilian Wave

December 2015 Issue: 52

MONEY TROUBLE

Rising OPEX and access to capital
is ever restricted. The further
fallout of the downturn in Brazil



WESTSHORE

DO BRASIL

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VESSEL NEWS

WILSON SONS ULTRATUG – Brazilian built and flagged PSVs Saveiros Fragata and Saveiros Gaivota have successfully concluded operations for Paragon Offshore, supporting the Noble Dave Beard out of Açu Port.

FARSTAD – Brazilian flagged AHTS BOS Turquesa was fixed for one day to Brasdril to support the semisubmersible Ocean Alliance out of Guanabara Bay.

DOF – Brazilian built and flagged DP2 AHTS Skandi Botafogo has concluded operations with BW Offshore after being chartered for 14 days and supporting the FPSO Cidade de São Mateus.

SEACOR – Brazilian flagged and built DP-2 PSV Seabulk Angra has concluded the fuel run operation for Odebrecht and is available in Guanabara Bay at time of writing. The vessel was fixed for three days firm.

FARSTAD – Norwegian 150tbp AHTS Far Sea is available in Guanabara Bay, subject to customs clearance.

TRANSHIP – Tugs TS Incrivel and her sister ship have successfully concluded the operations for Paragon Offshore after being chartered for 21 days firm and are available in Guanabara Bay at time of writing.

TIDEWATER – Brazilian flagged (REB) PSV 4500 DP2 Monty Orr Tide is available in Guanabara Bay for spot and term requirements.

TAG OFFSHORE – The foreign flagged AHTS Tag 5 (80 tbp) will conclude its long term contract with Petrobras in late December. Vessel is available for charter in Brazil and abroad.

CBO - Brazilian built and flagged PSV 3000 CBO Guanabara is available in Rio de Janeiro after the conclusion of fuel run operation for Odebrecht.

FUGRO – Fugro has recently delivered the state-of-the-art Brazilian built and flagged DP-2 RSV Fugro Aquarius. The vessel was built at Wilson Sons shipyard and is equipped with two Fugro-built 150HP work class ROVs (see Spotlight section for more info).

DOF – Brazilian built and flagged PSV 3000 Skandi Flamengo is available in Guanabara Bay after the conclusion of the long term contract with Petrobras. The vessel is expected to be hired by Petrobras again but timing is uncertain.

MAERSK SUPPLY – Brazilian DP-2 PSV 4500 Maersk Vega is available in Guanabara Bay at time of writing.

MAERSK SUPPLY – The DP2 AHTS Maersk Handler (197tbp) and Maersk Terrier (181tbp) are expected to conclude their long term contracts with Petrobras this month. Afterwards, they are open for charter in Brazil and abroad.

SVITZER – Brazilian flagged tugboat (60tbp) Svitzer Damka is available in the spot market after she successfully concluded the operations with Paragon Offshore.

DESS – The 187tbp DP2 AHTS Sea Leopard has been fixed to Shell Brazil under a call out two-month agreement to support the company's operations in Espírito Santo basin.

PETROBRAS PROTAGONIST

A serious crisis is affecting the offshore support vessels sector. The biggest charterer in Brazil; Petrobras, has stopped hiring, is not renewing contracts and has announced further cost cuts. While many have speculated over what the optimum activity level for Petrobras will be in the future, the company discusses what the realistic prospects are for the future. For the offshore vessels, the contracts of around 30 Brazilian and 40 foreign flagged vessels will finish by the end of 2015. At time of writing there are around 500 vessels without any work prospects in Brazilian waters. The extreme situation is in part as a result of the low oil price which reduced the demand from oil companies seeking new tonnage and forced some companies to terminate existing contracts early. But adding fuel to the fire in Brazil was the corruption scandals at Petrobras which severely impacted decision making. The situation there meant Petrobras had to hunker down and focus on turning a profit, aspirations of investment had to take a back seat. In practice this meant dedicating the existing fleet into production activities far more

than any new exploration.

There are however a number of decisions expected to be made in the future;

The bid for RSVs was postponed for the sixth time and the new deadline for receiving the proposals is set for Dec 18th 2015, further postponement is possible.

For the UT 4000 type, only two vessels were offered: Diana Tide from PanMarine and Tide Cornwallis through Astromaritima.

The new tender for OSRVs 750, Brazilian and foreign flag was postponed to Jan 12th 2016 – the deadline to receive the proposals. The contracts are for two, three or four years and delivery up to Oct 2016 or 120 days after the contract signed.

It is clear that Petrobras is trying to delay making some decisions, for example after releasing the results of the PSV's 1500 rebid for vessels under contract, the company decided to suspend all the additives already signed by the foreign shipowners.

With regards to the rebid for OSRV's foreign flag after the official ranking, it's not clear when Petrobras will make any awards.

In the tender for PSVs 1500 type, 13 vessels are competing while on the UT 750 just two vessels were offered as per below:

PSV 1500 - NATIONAL

Company	Vessel
Astro Internacional	Astro Arraia
Astro Internacional	Astro Badejo
Astro Internacional	Astro Barracuda
Astro Internacional	Astro Garoupa
Astro Internacional	Astro Parati
Astro Internacional	Astro Vermelho
Ocean Pact	LAB 151
Ocean Pact	Loreto
Ocean Pact	Pacific Supporter
Ocean Pact	Varada Ipanema
CBO	Vega Challenger
CBO	Vega Chaser
Asgaard	Crest Amethyst

UT 750 - NATIONAL

Company	Vessel
Camorim	Eco Gladiator
Dracares	Marimar XV

Some of the problems faced by Petrobras to-day go beyond their own mistakes, many are a direct result of Government strategy. However as the company tries to rebuild confidence in the market it will be necessary to tighten the purse strings – something that has not gone unnoticed in the market either. We can't deny that Petrobras has begun to contract again, but unfortunately it all takes time and we need to adapt in a period of crisis if we want to survive. The offshore market in Brazil is still more attractive than other parts in the world and Petrobras will still be the biggest charterer in the country, so we must keep walking.

KAROON DRILLING CAMPAIGN NEW DEADLINE

Australian Karoon has postponed its upcoming drilling campaign to the 3rd quarter of 2016 due to some unexpected adjustments on their drilling schedule. The company is seeking 3 AHTS, 1 PSV, 1 OSRV and 1 Boom Handler for 90 days firm + 2 x 30 days + 6 x 15 days options and new delivery date ranging between July and August. The drilling program consists of two firm wells and two optional wells with possible sidetracks/well testing. Operations will take place in blocks BM-S 61,62,68,69 & 70 in Santos Basin, offshore Brazil. Deadline for offers is set for February 29th 2016, which was also recently postponed.

SHELL'S SCALE SQUEEZE CAMPAIGN

Shell has recently issued a RFP for a large PSV DP2, to assist their scale squeeze campaign in Bijupirá & Salema fields (FPSO Fluminense). In this scope of work, Shell requires very large deck capacity to store the scale squeeze plant (pumping systems, tanks and chemicals) and DP2 is a 'must have'. Commencement is set for January 2016 and the duration is around 45 days.



PETROBRAS TO SELL STAKE IN LIBRA FIELD

It is said that Petrobras is considering selling part of its 40% stake in the Libra pre salt oilfield looking to reduce its debt. The company could receive up to USD 1.5 billion for up to 10% share in the area and is likely to attract IOCs aiming to expand in Brazil. It is estimated that Libra holds up to 12 billion barrels of oil and gas equivalent and first production is expected in the first quarter of 2017.

STATOIL RECEIVES GREEN LIGHT FROM IBAMA

Ibama has renewed the operational license for the Peregrino field, in Campos Basin, for Statoil until November 2020, covering the platforms Peregrino A and B and the FPSO Peregrino. The Norwegian company plans on issuing a requirement for chartering a third platform in the area next year.



SEADRILL LOOKING FOR CHARTER OPTIONS

Norwegian Seadrill has started talking to Petrobras regarding the optional period for the Sevan Driller since its contract with the Brazilian company expires in June 2016. The unit is chartered for a daily rate of USD 471,000 and is one of two rigs that Seadrill has operating in Brazil. The second one, the Sevan Brasil is contracted for a daily rate of USD 391,000 until July 2018. The negotiation with Petrobras has not been concluded and the company continues to look for new clients to secure employment for the second half of 2016, in case Petrobras chooses not to renew the contract.

FPSO OSX-3 TO BE DECOMMISSIONED?

OGPar is evaluating the demobilization of the FPSO OSX-3 from the Tuabarão Martelo field. An oil price of USD 40 renders the field unprofitable leaving the company little choice but to consider all options. An abandonment proposal has been presented to creditors but this would depend on approval from ANP as well as agreement from OGPar's creditors, bond holders and trustees. The unit has a 100,000 boed production capacity and has been producing since December 2013.

FPSO POLVO EXTENDED

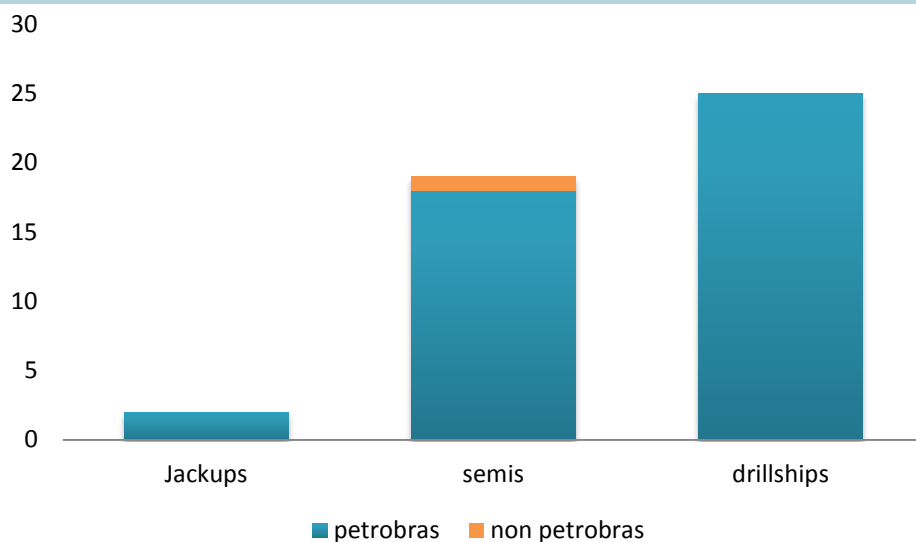
Brazilian PetroRio has extended the contract of the FPSO Polvo for two years until the third quarter of 2018 with options to continue until 2022. The unit is operating in the Polvo heavy oilfield in the Campos Basin and is capable of handling a daily oil production of 90,000 boed and storage capacity of 1.6 million cbm of natural gas.



LULA FIELD PIPELINES

Petrobras has received the IBAMA's license for the installation of the rigid pipelines in Lula Extremo Sul, Lula Norte and Lula Sul, which will flow production of the Santos Basin pre salt area. Lula Extremo Sul pipeline will have a total extension of 13km connecting the FPSO P-67 to the rigid hybrid risers that are being manufactured and launched by Saipem. Lula Sul will connect the FPSO P-66 and has an extension of 5km while Lula Norte will have 14km of extension and connect the FPSO Cidade de Itaguaí. The project should be concluded by the third quarter of 2016.

RIGS DRILLING IN BRAZIL IN DECEMBER





OWNER'S FINANCIAL EVALUATION

With financial conditions deteriorating on a global basis, charterers have feared for the continuity of their awarded contracts.

On a continuous basis, oil companies and other charterers have increased their concerns over the ability of owners to maintain their contractual obligations throughout the contract. Lately some owners have struggled to maintain their vessels to required operational standards, and in some cases even failed to deliver or finish their contracts. What's become frequent however is that char-

terers have seen the need to early terminate non-performing contracts.

Evidently, the factors that lead to such a situation are not limited to the financial health of contractors, but a low oil price has also contributed to lower credit in the industry. Owners in tight cash situation have seen their access to capital become even lower than those in the 2008 banking crisis. Some oil companies have always relied on

internal financial evaluations, based on yearly financial results of their contractors (or contractors to be) to determine the soundness of the contractor to attend a given contract. In many cases the evaluation is objective, with some pre-determined criteria. Major contractors are able, in general, to overcome certain criteria given their track-record or exposure to a certain contract or region.

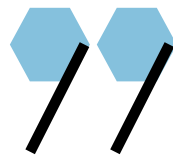
In reality publicly-run companies such as Petrobras however, the criteria allows much less flexibility, and the company sees itself obliged to adopt strict rules for financial evaluation. Traditionally Petrobras has accepted three means of financial habilitation for a contractor on “high risk” contracts, such as those in offshore support: Financial approval of the bidder, Parent Company Guarantee (PCG) under the same criteria or a Contract Insurance. On average, the number of bidders making use of the Contract Insurance has been higher than those making use of the other forms of financial habilitation. The insurance has a cost, but in general is more practical and provides better stability for the guarantee throughout the contract, the reason why some of the owners that can make their own financial habilitation opt for the insurance.

This year Petrobras has, starting with the RSV bid, removed the possibility of insurance. According to some representatives this has been a decision taken by the central finance department after realizing that in most cases, the same insurers were behind the guarantees given. The insurance companies on their side were not financially sound to take such level of guarantees.

A poor excuse some say, as it is not likely that a default from most charterers would occur at the same time, for the same contracts and with the same contractor.



Owners in tight cash situation have seen their access to capital become even lower than those in the 2008 banking crisis

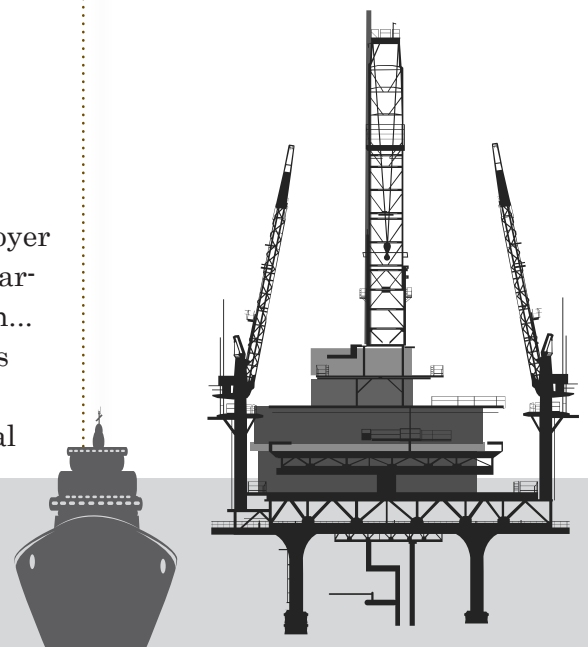


Petrobras however, as employer of close to 70% of the local market has reason to fear though... Feelings aside, Petrobras has returned with the insurance mode on the RSV after a legal

appeal from one of the bidders, since such method of financial habilitation was removed during the bid, thus excluding several of the likely bidders for a bid in course. On the tenders post RSV however, such as the OSRV750 Petrobras has started the process without the insurance possibility.

Several reputable owners, in an industry that has high equity and passive, with many times very low liquid asset value, are thus “excluded” from current bids until an in-house resolution can be provided or Petrobras changes the criteria and returns with the insurance. The fact remains that the number of quality suppliers that impose very low risk of contractual default has lowered, and this is not in the best interest of the market and of Petrobras.

Petrobras says it will continue to evaluate.

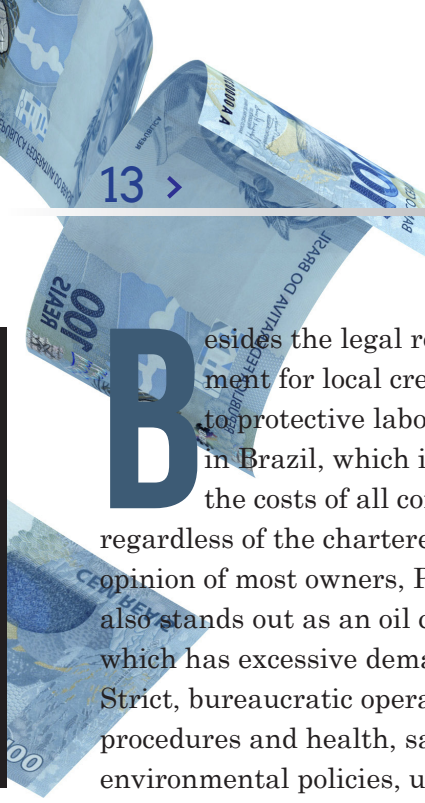




INCREASING OPEX IN PETROBRAS CONTRACTS

The inconsistent equation in a market with depreciated rates

During the last few months, especially after rate renegotiation of Petrobras' ongoing contracts, the drop in daily rates and how the oil major reacts have become the main topics of discussion. Petrobras is either continuing or cancelling old contracts and recent bids. However, not much attention has been given to the increasing operational costs in such contracts, and the impact it causes over the long term for shipowners and the industry in general, including Petrobras itself.



Besides the legal requirement for local crew due to protective labor laws in Brazil, which impacts the costs of all contracts regardless of the charterer, in the opinion of most owners, Petrobras also stands out as an oil company which has excessive demands. Strict, bureaucratic operational procedures and health, safety and environmental policies, usually exceeds what regulatory agencies and specialized organizations require to guarantee safe operation to all interested parties. Petrobras demands specific communication equipment. The standard Petrobras contract addendums, which varies from five to ten different documents (depending on the scope of work) covering all procedures and policies, are able to generate continuous demands for one or more dedicated persons at owners offices for each charter contract, building up its fixed OPEX. This happens due to the continuous need of generating reports, documenting evidences, providing training, treating eventual incidents or flaws, communicating those to Petrobras, etc. In the end, is all the paperwork really improving the quality of the services provided, and being adequately treated and analyzed by both parties?

There's no doubt that safety is a priority, it is always good to be on the safe side when talking about protecting lives and controlling

the risk of operations; nonetheless, what has been observed is the conversion of bureaucracy in penalties i.e. the application of downtimes (off-hire periods) even during simple matters that sometimes could be solved within hours or minutes, only through a warning and while the vessel is standing by, not impacting the charterer's operation or the owners' income. In extreme situations, the practice also hurts the charterer, when the vessel is needed in the field, since the oil major feels the need to proceed "by the book" and immediately apply downtimes to vessels, this may end up delaying operations and generating relevant and sometimes immensurable losses for themselves.

Petrobras and owners do work together to improve. Over the past year, Petrobras has been calling shipowners to talk about alternatives in order to improve its savings with their logistics structure costs, trying to promote an open channel for suggestions and growing partnership. In turn, shipowners presented several ideas, for example escalating rates linked to the oil price or productivity levels, different methods for rate adjustments, improved dialogue during operations, and more flexible contract terms, including HSE procedures and reports structuring. In order to survive in this depreciated market, owners gave rate discounts, in an

attempt to obtain concrete return from Petrobras in order to help them also reduce costs. In spite of several meetings and plans, this measure has had no effect thus far in ongoing contracts, as there were no clause exemptions or changes in new opportunities being brought out.

The usual effect is, owners keep predicting costs and inflate their budgets as a way to protect themselves from the risks associated with the contracts. Currency fluctuations and the possibility of penalties for delay in delivery of the vessels hired in PROREFAM rounds, for example, are associated risks in a country which shipyards are crowded and have no stable productivity rates yet. Thus, as long as there is a continuous paradoxical ratio between plummeting daily rate levels and growing operation costs in Brazil, recently on a higher pace due to rocketing inflation indexes, owners will not only find it hard to keep persevering in these long term contracts but may also start building up trust issues with Petrobras, by thinking twice before bidding again for upcoming tenders. These side effects can seriously impact Petrobras, resulting in inflated offers from fewer owners. This reality should be fought against by owners and especially Petrobras, in order to ensure the continuity and growth of the Brazilian oil and gas market.



FUGRO BRASIL

Fugro is well established in Brazil where it has been providing a wide range of services, primarily for the oil and gas industry, for more than 35 years. Around 700 staff are employed at its office in Rio de Janeiro and its operational base in Rio das Ostras. Other specialist services include geotechnical expertise for both onshore and offshore projects as well as high tech seismic services through its joint venture company, Seabed Geosolutions.

With around 30 ROVs in operation in Brazil, this represents about 20% of the company's ROVs worldwide fleet.

On December 10th Westshore do Brasil had the privilege to celebrate with Fugro the baptism, in Rio de Janeiro, of the new ROV support vessel (RSV) Fugro Aquarius. The new vessel is the most advanced of her type built in Brazil with local content exceeding 60% and technology and equipment locally sourced.

The new DP-2 diesel-electric vessel was built at Wilson Sons shipyard in Guarujá - São Paulo. She is 83 meters in length with a deck area of 520 square meters and accommodation for 60 people. Permanently equipped with two Fugro-built 150HP work class ROVs, Fugro Aquarius is capable of operating in water depths of 3,000 metres. The stern A-Frame, with active heave compensated winch system, allows for deployment of 10 tonnes and the helideck is suitable for medium-lift helicopters such as the Sikorsky S-92.

According to Mathilde Scholtes, Managing Director of Fugro Brasil, "Fugro Aquarius has been built specifically for the Brazilian market and is ideally suited for subsea inspection, repair and maintenance work."

SOURCE: FUGRO BRASIL



THE LEGAL COMMITTEE OF NBCC

The Legal committee met on December 7th, with guest speaker Mr. Alexandre Vilela, Commercial Director of Westshore do Brasil. During the meeting Mr. Vilela presented an overview of the current Brazilian offshore market with statistics, challenges and bottlenecks that are being faced by shipowners and charterers in Brazil. Interesting debates ensued throughout the presentation with important contributions from the participants.



FELIZ NATAL

The Westshore Team would like to conclude the last 2015 edition of Brazilian Wave wishing all friends and customers a wonderful Christmas and a prosperous and joyful New Year.