

Brazilian Wave



April 2016
Issue #54

TANKER BROKING

Westshore Shipbrokers
adds a new string to its bow

TO BARGE OR NOT TO BARGE?

A loophole of questionable status
keeps foreign players in the game

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Investments & Divestments – What to expect?

We are now approaching mid-2016 and much has been said about the future of oil and gas exploration and production in Brazil, as well the impact on the OSV activity. But what exactly is out there in terms of upcoming opportunities?

It's well known that the soon-to-be operators in the Equatorial Margin are struggling with the deadline for the blocks exploration in the region (31 wells), which is currently set for late 2018. Total has already issued an OSV tender to cover their operations in Foz do Amazonas basin starting Q1 2017 and a couple of other companies may issue tenders soon. But some IOCs have asked ANP for a postponement of the deadline for the minimum exploratory program, due to the low oil price, delays in seismic campaigns and/

or lack of environmental licenses. If the postponement is granted by the Agency, the expected demand of around 30+ OSVs to operate in the North and Northeast of Brazil will be on hold, keeping the low levels of the daily rates for longer than expected, as supply/demand ratio also remains affected by Petrobras' decreasing OSV needs. **PETROBRAS'** divestment program has been in full speed since late last year. The company is marketing around 30 assets of all types, ranging from easy to hard sell blocks and units

PAULA QUIRINO
Broker
Westshore do Brasil



(fertilizers, Transpetro assets, etc.). Petrobras needs to reach July 2017 without making any new funding and concluding its divestment plan. More than USD 14.4 billion is the company's target. Karoon, PetroRio, Ouro Preto and CNPC, among others, are looking into the purchase of assets in Brazil, particularly

fields with low production cost; offers were recently made for the Baúna, Golfinho and Tartaruga Verde fields, and this proposal's evaluation will be concluded this month.

THE persistent soap opera of Brazilian politics takes the attention of congress and media. Add this to the ongoing Lava-Jato operation and the possibility of impeachment of President Rousseff, the attention has been taken off the law which revokes the mandatory participation of Petrobras in the pre-salt layer. Approved by senate back in February, the law still requires approval by congress. The project also excludes the condition of minimum participation of Petrobras in at least 30% of exploration and production in each pre-salt bid, freeing the company from having commitments that may not be economically or strategically motivating. If this project is approved, there are a few companies that are already showing interest in investing and operating in the pre-salt, for example Shell and declared that the Brazilian market is one of its main development targets over the next few years. In addition Shell is planning two-rig,

seven-well wildcat program in the Barreirinhas basin (Equatorial margin), commencing in early 2019 and last until the first quarter of 2020. So far, only one pre-salt block has been awarded by ANP in 2013, to Petrobras as only operator, in consortium with Shell, Total, CNPC and CNOOC. Furthermore, the 13th ANP round only attracted Queiroz Galvão in the offshore sector (Sergipe-Alagoas basin).

PETROBRAS IS MARKETING AROUND 30 ASSETS OF ALL TYPES, FROM THE EASY, TO THE HARD TO SELL

No other tender from ANP is expected in the short or medium

terms, which may cause another exploration gap and negatively affect the local market. Nonetheless, the potential diversification of the operators in Brazil through farm-ins and farm-outs will surely be beneficial to all stakeholders, as big players are looking for reasonable assets and are willing to take the risks even when operating with tough crude oil price levels, but favorable OSV availability. Our only hope is that the current political instability passes soon, and the oil and gas local industry resumes development.



THE LOWDOWN



Started Westshore Brasil in October 2015



From Rio de Janeiro, Brazil



Previous employer - Grupo Bravante (10 years)

Spotlight

07

Westshore's Joana Rodrigues presents The Westshore Market Study



I'm Joana Rodrigues. The youngest of four siblings and daughter of a radio telegrapher in the merchant navy, my fate was no coincidence. From childhood I fought for my goals. In every difficulty I saw an opportunity to stand out and surpass the achievements of my parents.

I started my career in the oil industry in 2005. I joined Grupo Bravante as contract and commercial manager and it was here I grew up professionally and remained with them for 10 years. What an experience! I met a lot of people and was privileged to have had good teachers.

Here at Westshore I work as a broker, working in a low market and in a country in crisis. Times are tough but the team is fantastic. Efficient and focused, my colleagues are excellent professionals and are closing contracts despite the weak market.

The realities of the market today are unfavorable to say the least. A world wide oil crisis, hundreds of laid up vessels and most oil companies with scaled down drilling plans. But thinking of all these difficulties I recall back to my childhood – where there is difficulty there is always opportunity.

And so we came up with the idea of the Westshore Market Study. The objective being to create a report that was rich in information that skillfully utilizes the opinions and experiences of the Westshore team to create something unique. Something that can be of strategic use to our clients.

The report is available to all customers but is tailor made to suit an individual client's demands.

We focus on the Brazilian and South American market. We do not work with trends, but with reality. We do not work with generic information, but with facts.

The purpose is to use this tool as leverage for new business and new perspectives for the owner and the charterer. Find the balance point. Find the right strategy for you and your company. We work around-the-clock to make sure you will receive that knowledge.

In the face of every negative situation, there is always a positive angle to be found. But there are certainly tools to be found that can help you find them. Contact the Westshore Brasil team for more information.

THE WESTSHORE MARKET STUDY

The offshore market is complex, trends and data points just don't give you the full picture. We combine grass roots knowledge with the data to provide a tool our clients can really use to compose a strategy in a difficult market



Brazilian focused, made using the knowledge and expertise of the Westshore team.



An up to date, up to the minute report on the offshore market specific to the needs of the client

JOANA RODRIGUES

Ten years offshore experience and a broker with a knack for seeing the opportunity where others see a crisis



Westshore Shipbrokers enters the tanker market

After several requests from established offshore oil and gas clients, Westshore do Brasil has entered the tanker market with the appointment of Daniel Buckley



Daniel has over 30 years in the shipbroking industry in the clean and dirty tanker trades. He has worked for some of the world's most prestigious shipping companies such as Stolt Nielsen and Pole Shipping in Geneva, Switzerland. Daniel will be utilizing his experience and contact network in establishing this new string to the Westshore range of services. Our tanker activities will be based from the Rio office but will encompass cargoes in and out of Brazil and beyond. We will primarily be covering the

Americas/Europe markets for DPP, CPP and Petrochemicals and these efforts will be supported by the Westshore office in Singapore. For further details please contact buckley@westshore.com.br

DANIEL'S MARKET UPDATE

The lack of storage space has created a major bottleneck for the movement of cargoes in Brazil and it's hampering the ability to trade both exports and imports. Petrobras' inability to invest in refining combined with high prices in practice in the local market means opportunities have

opened up for the import of large volumes of refined products such as gasoline, diesel, naphtha.

To add insult to injury, the sugar cane harvest is due to commence in the Southeast – the country's largest producing region – meaning a very substantial demand of storage for ethanol exports. As a result, there is no open space countrywide and deals are being sorely missed. Given the time required and high investments (at a time of dire straits) to improve the infrastructure, this situation is not expected to end so soon.



Owning smaller assets such as barges or even crew boats can provide foreign owners with the means to legitimately compete with the locals. But the question is, is it legitimate? Or even legal?

ALEXANDRE VILELA

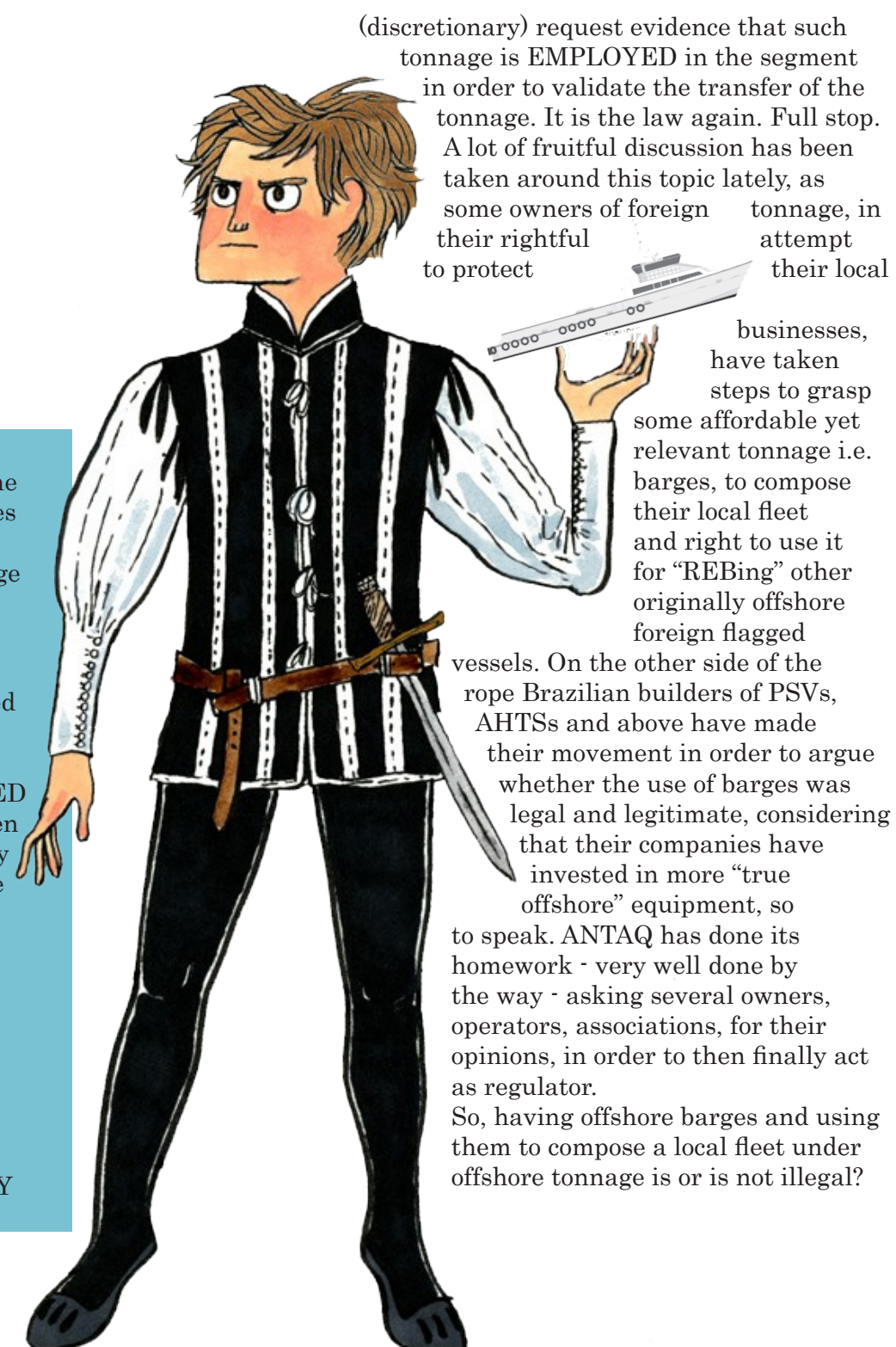
Managing Director
Westshore do Brasil

Since the start of the oil price decline and in the face of huge challenges in sourcing procedures involving corruption scandals, Petrobras has drastically reduced its hiring of vessels. It's not that Petrobras has not hired any vessels at all recently. As a matter of fact from Q4 2015 up to April 2016, over 20 vessels have been fixed when finally a handful of competitive bids were released to market. The processes done via the Petronect system are quite competitive and the system helps shelter participants on both sides of the table from temptations of illegal practices. When looking at the latest fixtures however, one thing is apparent: all vessels fixed are of Brazilian flag. That demonstrates that in a way, the legislation is working to protect the local tonnage, as it should. The local regulations state that a foreign flagged vessel can only be authorized by ANTAQ to operate in waters of Brazilian jurisdiction if no suitable local tonnage is available. One observation here: a foreign flagged vessel can have its flag of origin temporarily suspended and fly the

Brazilian flag temporarily (REB) as long as the applicant Brazilian shipping company disposes of local tonnage to "internalize" the foreign tonnage. Roughly speaking, double the tonnage of same type under construction or half of the existing tonnage. And here the whole thing starts getting creative.

IT IS KNOWN, not challenged and largely accepted that a company to be considered a "shipping company" must have at least one vessel pertinent to the type of navigation EMPLOYED in the industry. A given shipping company then may exist under the offshore support sector by disposing of a simple crew boat or small chase boat for seismic support for instance, and be considered valid. It is the law. Full stop. A given company may own tonnage registered and classed as offshore support, be it supply vessels, crew boats, OSRVs or barges. And that is offshore tonnage for all purposes if classed, regardless of its employment. Some companies may CHARTER in tonnage, and request for a transfer of tonnage. In this case it is important to highlight, the regulator MAY

TO BARGE OR NOT TO BARGE, THAT IS THE QUESTION...



(discretionary) request evidence that such tonnage is EMPLOYED in the segment in order to validate the transfer of the tonnage. It is the law again. Full stop. A lot of fruitful discussion has been taken around this topic lately, as some owners of foreign tonnage, in their rightful attempt to protect their local

businesses, have taken steps to grasp some affordable yet relevant tonnage i.e. barges, to compose their local fleet and right to use it for "REBing" other originally offshore foreign flagged

vessels. On the other side of the rope Brazilian builders of PSVs, AHTSs and above have made their movement in order to argue whether the use of barges was legal and legitimate, considering that their companies have invested in more "true offshore" equipment, so to speak. ANTAQ has done its homework - very well done by the way - asking several owners, operators, associations, for their opinions, in order to then finally act as regulator.

So, having offshore barges and using them to compose a local fleet under offshore tonnage is or is not illegal?

In our humble opinion, it is not. So long as the barges are of the shipping company property, either in whole or in part and as long as classed for that purpose. And is it required that their employment must be evidenced? That depends. If the barge is chartered in, regardless if under bareboat or time charter, yes, the authority (ANTAQ) has the right to only progress with the transfer of the tonnage if the charterer proves the equipment is being used. If the equipment however belongs in whole or in part to the shipping company, then we understand not, it does not need to be employed and the authority has no right to claim so. Otherwise, if the barges have to be employed, so would the other types of offshore support vessels. If the barges that are not employed are to be withdrawn from the tonnage on a given fleet, the same should apply to all other offshore vessel types such as PSVs or AHTSs. In a record low market how can that be? It is the property, no the employment that gives tonnage right.

WHAT IS IMPORTANT under the legitimacy of this discussion is the right to purchase local offshore tonnage is the same to all players in the segment. If the right to purchase and operate offshore barges is a possibility, it is a possibility to all players. Would it make strategic sense to all? Certainly not, but is far from being illegal, following the correct legal precedents. Unless the legislation is changed to state otherwise.

We may return shortly with another article in the use of small vessels as legitimate way to establish a local shipping company. In the meantime, let's barge and keep activity up - as much as possible at least.

RSV E&P 1809349158

Issued in 2015 for 2 or 3 years contract, please see below the official commercial results in the RSV tender as per table below:

Rank	Vessel	Flag	Owner	Bidder	ROV Company	Period	Global Daily Rate	Fuel Cost	Peotram Grade	Peotram Reduction Factor	Total Daily Rate
1	REM STAR	Foreign	Rem Offshore	Deep Sea Supply	Oceaneering	730	USD 48 009,58	USD 5 314,47	75,95	0,0%	USD 53 324,05
2	OLYMPIC DELTA	Foreign	Olympic Maritima	Olympic Maritima	Oceaneering	730	USD 50 400,00	USD 3 659,53	82,02	0,0%	USD 54 059,53
3	OLYMPIC TAURUS	REB	Olympic Maritima	Olympic Maritima	Oceaneering	730	USD 51 750,00	USD 4 397,65	82,02	0,0%	USD 56 147,65
4	REM VISION	Foreign	Rem Offshore	Deep Sea Supply	Oceaneering	730	USD 50 540,83	USD 8 064,95	75,94	0,0%	USD 58 605,78
5	SKANDI COMMANDER	Foreign	DOF	Norskan Offshore LTDA	DOF Subsea	730	USD 54 168,00	USD 7 145,79	95,87	2,0%	USD 60 087,52
6	NORMAND COMMANDER	Foreign	Solstad	Solstad Offshore	Oceaneering	730	USD 55 200,00	USD 5 623,71	80,14	0,0%	USD 60 823,71
7	NORMAND MERMAID	Foreign	Solstad	Solstad Offshore	Oceaneering	730	USD 55 200,00	USD 5 623,71	80,14	0,0%	USD 60 823,71
8	SKANDI CHIEFTAIN	REB	DOF	Norskan Offshore LTDA	DOF Subsea	730	USD 55 150,00	USD 7 145,79	95,87	2,0%	USD 61 049,88
9	UP AGATE	Foreign	UP Offshore	UP Offshore	Fugro	730	USD 56 013,32	USD 9 277,02	68,96	0,0%	USD 65 290,34
10	FAR SCOTIA	Foreign	Farstad Shipping	Farstad Shipping	Fugro	730	USD 59 703,64	USD 7 458,91	80,47	0,0%	USD 67 162,55
Vessels in Red were disclassified due to excessive price											
11	SEALION AMAZONIA	Brazilian	Sealion	Sealion Do Brasil	Subsea 7	730	USD 77 595,50	USD 6 847,44	82,09	0,0%	USD 84 442,94
12	TOISA WAVE	Foreign	Sealion	sealion Do Brasil	Subsea 7	730	USD 77 914,50	USD 11 250,52	82,09	0,0%	USD 89 165,02
13	WILDBEEST	REB	Edison Chouest	Bram Offshore	C - Innovation	730	USD 74 389,33	USD 16 484,97	82,79	0,0%	USD 90 874,30
14	HOS BAYOU	Foreign	Hornbeck Offshore	Hornbeck Offshore	Fugro	730	USD 108 450,22	USD 7 738,62	66,47	0,0%	USD 116 188,84
Rank	Vessel	Flag	Owner	Bidder	ROV Company	Period	Global Daily Rate	Fuel Cost	Peotram Grade	Peotram Reduction Factor	Total Daily Rate
1	REM STAR	Foreign	Rem Offshore	Deep Sea Supply	Oceaneering	1095	USD 48 007,41	USD 5 314,47	75,95	0,0%	USD 53 321,89
2	OLYMPIC DELTA	Foreign	Olympic Maritima	Olympic Maritima	Oceaneering	1095	USD 50 898,97	USD 3 659,53	82,02	0,0%	USD 54 558,50
3	OLYMPIC TAURUS	REB	Olympic Maritima	Olympic Maritima	Oceaneering	1095	USD 52 748,97	USD 4 397,65	82,02	0,0%	USD 57 146,62
4	REM VISION	Foreign	Rem Offshore	Deep Sea Supply	Oceaneering	1095	USD 50 538,66	USD 8 064,95	75,94	0,0%	USD 58 603,61
5	NORMAND COMMANDER	Foreign	Solstad	Solstad Offshore	Oceaneering	1095	USD 53 698,08	USD 5 623,71	95,87	0,0%	USD 59 321,79
6	NORMAND MERMAID	Foreign	Solstad	Solstad Offshore	Oceaneering	1095	USD 53 698,08	USD 5 623,71	80,14	0,0%	USD 59 321,79
7	SKANDI COMMANDER	Foreign	DOF	Norskan Offshore LTDA	DOF Subsea	1095	USD 54 166,86	USD 7 145,79	80,14	2,0%	USD 60 086,40
8	SKANDI CHIEFTAIN	REB	DOF	Norskan Offshore LTDA	DOF Subsea	1095	USD 55 148,86	USD 7 145,79	95,87	2,0%	USD 61 048,76
9	UP AGATE	Foreign	UP Offshore	UP Offshore	Fugro	1095	USD 55 112,29	USD 9 277,02	68,96	0,0%	USD 64 389,31
10	FAR SCOTIA	Foreign	Farstad Shipping	Farstad Shipping	Fugro	1095	USD 56 931,44	USD 7 458,91	80,47	0,0%	USD 64 390,35
Vessels in Red were disclassified due to excessive price											
11	SEALION AMAZONIA	Brazilian	Sealion	Sealion Do Brasil	Subsea 7	1095	USD 66 952,58	USD 6 847,44	82,09	0,0%	USD 73 800,02
12	TOISA WAVE	Foreign	Sealion	Sealion Do Brasil	Subsea 7	1095	USD 69 639,58	USD 11 250,52	82,09	0,0%	USD 80 890,10
13	WILDBEEST	REB	Edison Chouest	Bram Offshore	C - Innovation	1095	USD 74 383,49	USD 16 484,97	82,79	0,0%	USD 90 868,47

OFFERS SUBMITTED - INVITATION E&P Nº 1908136158

OSRV 750 (Foreign, Brazilian and REB Vessels)			
Company	Vessel	Flag	EBN
Asgaard	Asgaard Sophia	Brazilian	Asgaard
Astro Internacional	Astro Tamoio	Brazilian	Astromaritima
CBO	CBO Niteroi	Brazilian	CBO
CBO	CBO Vitória	Brazilian	CBO
DOF	Skandi Stolmen	Brazilian	Norskan
DOF	Skandi Leblon	Brazilian	Norskan
DOF	Skandi Flamengo	Brazilian	Norskan
Maridive	Maridive 212	Foreign	Asgaard
Maridive	Maridive 231	Foreign	Asgaard
Nautilus	Emblem	Foreign	OSM
Nautilus	Indigo	Foreign	OSM
Nautilus	Jacaranda	Foreign	OSM
Nautilus	Jubilee	Foreign	OSM
Oceanpact	Maricá	Brazilian	Oceanpact
Oceanpact	Vega Linnea	Foreign	Oceanpact
Oceanpact	Vega June	Foreign	Oceanpact
Oceanpact	Macaé	Brazilian	Oceanpact
Oceanpact	NS Loreto	Brazilian	Oceanpact
Oceanpact	LAB 152	Brazilian	Oceanpact
Oceanpact	LAB 151	Brazilian	Oceanpact
Olympic Shipping	Olympic Elena	Foreign	Olympic Maritima
Olympic Shipping	Olympic Promoter	Foreign	Olympic Maritima
Tidewater	Danko Tide	Brazilian	Mare Alta
Septem	Varada Ibiza	Foreign	OSM
Septem	Varada Santos	Foreign	OSM
Septem	Varada Ilheus	Foreign	OSM
Varada	Varada Maresias	Foreign	OSM

OFFERS SUBMITTED - INVITATION E&P Nº 1949035168

OSRV 750 (Brazilian Flagged Vessels or REB)			
Company	Vessel	Flag	EBN
Asgaard	Asgaard Sophia	Brazilian	Asgaard
Astro Internacional	Astro Tamoio	Brazilian	Astromaritima
CBO	CBO Niteroi	Brazilian	CBO
CBO	CBO Vitória	Brazilian	CBO
DOF	Skandi Stolmen	Brazilian	Norskan
DOF	Skandi Leblon	Brazilian	Norskan
DOF	Skandi Flamengo	Brazilian	Norskan
Oceanpact	Marica	Brazilian	Oceanpact
Oceanpact	Macaé	Brazilian	Oceanpact
Oceanpact	Loreto	Brazilian	Oceanpact
Oceanpact	LAB 152	Brazilian	Oceanpact
Oceanpact	LAB 151	Brazilian	Oceanpact
Tidewater	Danko Tide	Brazilian	Tidewater

OSRV 750 E&P 1908136158 & 1949035168

Issued in 2015 for 2 or 3 years contract, please see below the unofficial commercial results in the RSV tender as per table:



Playing musical chairs

If Dilma leaves the game, what next?

At times it seems the world economies are all involved in one big game of musical chairs. They dance, they stop, they play and they keep going. But for years the music has played on and the world economies never faced the prospect of missing a chair. Then out of the blue, the music stopped and figuring out who has what chair and who's going to lose out is taking its toll. This is the predicament the financial system currently finds itself in.

The financial crisis resulted in thousands of job losses. Those who were fortunate enough to find new employment often found jobs paying a lot less than what they earned before the crisis. And of course there are a fortunate few who kept their jobs and things remained more or less the same, the fortunate minority.

The crisis is no longer a minor situation, but a significant problem and the numbers leave no doubt that it is affecting the entire population. And the uncertainty over which direction the crisis will head is fueling apprehension among the public and business communities.

This week the political events in Brazil held the world's attention. In Brazil the country held its breath as the lower house voted on whether or not to impeach the president Dilma Rousseff. Dilma suffered a crushing defeat as 367 out of the 513 deputies voted for her impeachment, only 342 votes were required and only 137 voted against the move. Now the senate is responsible for deciding whether Dilma stays or leaves the presidential chair. Her would-be replacement, Michael Temer has been investigated by federal police and the judge leading the 'Lava Jato' graft investigation Sergio Moro. The situation is still uncertain and very much hostile. More investigation will follow and there will likely be many more surprises emerge before we have reached the end of this saga. Indeed the impeachment could be just the beginning. The answer for the next few years to come could well be more musical chairs.

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With the great success of our previous App with over 3000 downloads, Westshore Shipbrokers is proud to introduce our new Offshore mobile app for the iPhone, iPad and Android.

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