

# BRAZILIAN WAVE

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THE BRAZILIAN FOCUSED MARKET REPORT



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## OSV Players in Brazil - the different “eras”

**The Brazilian offshore E&P activities had their beginnings in 1958, with the first oil and gas production taking place in a rustic 5m water depth well located in the sheltered waters of Bahia (Northeastern coast), eventually resulting in the production of 28 boe/day. Since those early days the development, challenges and targets have changed tremendously along with the profile of OSV operators.**

In order to comprehend this subject it is vital to review the history of the Brazilian O&G offshore industry which naturally is related to the activities of Petrobras. In 1968 the North Americans were pioneers in the offshore O&G industry, and as they had done in so many other regions of the globe brought their offshore knowledge to Brazil. The first offshore support vessel and drilling unit to operate in Brazil were from US contractors.

Between 1973 and 1975 Petrobras imported its first fleet of OSVs to Brazil, in total 28 with 20 from the US and 8 from Japanese yards. The vessels were owned by Petrobras and at that time a bid was issued to the local market for the vessels' management, a fact which is considered an important milestone for the consolidation of local vessel management companies. Over

the next years the local OSV market grew with more players arriving on the scene to buy and/or operate OSVs in Brazil. In 1978 the number of OSVs totaled 91 with 40% flagged locally and 30% owned by Petrobras.

In 1981, led by a strong movement to privatize the OSV fleet, Petrobras sold its 33 owned vessels to local owners. Such measure promoted an increase in the number of shipbuilding orders in Brazil and increased investment from the private industry. This came to an end in the late 80's when the OSV market was totally opened. The protection of local OSV owners was reinstated in the late 90's to incentivize an increase of the Brazilian fleet, however the gap between local supply and

demand allowed for good opportunities for foreign tonnage.

The different foreign owners and operators over these years were crucial for the local OSV players' learning curve and the achievements of the Brazilian oil industry. Companies like Astromarine (USA), Sea Horse (USA), Arthur Levy Boating Service (USA), Maersk Supply Service (Denmark), Hapag-Lloyd A.G (German), Smit Lloyd (Netherlands) followed by Farstad (Norway), Tidewater (USA), DOF (Norway), Solstad (Norway), Chouest (USA) have all contributed to this at different stages, and their nationalities help us understand the predominance of the players in the segment. Until the beginning of the 21st century, it was



# 03 HEADLINE NEWS

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not difficult to predict which owners and vessels would be offered in the A, B or C Petrobras tenders. You could count in one, perhaps two hands the number of owners offering for Brazilian enquiries. It was not fun!

As from 2003 given the solid prospects in the offshore sector on a worldwide basis, we experienced the entrance of a number of new players in the OSV market. This was a consequence of investment funds eager for shipping /offshore financing projects and the low margins in the deep sea segment.

There may have been some hesitation about Brazil in the early stages due to lack of understanding of the Brazilian market in depth (or even the offshore market at all). However with a steep learning curve and Petrobras offering long term contracts, the temptation to

go for the lowest bid was too strong to resist. In this period we saw some offshore shipbroking firms establishing in Brazil, which contributed to a new wave of OSV players in the country. Given the background of the brokerage houses, Norwegian and European owners were frequently seen in the Brazilian enquiries.

New players were then seen on the Petrobras tender result lists, which generated a lot of noise and speculation from the "traditional" bidders during the public tender opening room at Petrobras head office building (the good old days, as all tenders are web based nowadays).

During the last couple of years, we have seen a new era in the OSV players in Brazil. Owners from the Far and Middle East have started establish in the Brazil-

ian Offshore market. With a combination of operational experience, a large fleet and low building costs from Asian shipyards they have momentum in a growing market where the lowest bidder always wins provided they comply with technical requirements. India, Malaysia, Singapore are a few examples of nationalities which have secured contracts in Brazil over the last two years.

For the local charterers, it's a win-win situation as they receive quality vessels and reliable operators at cheaper rates. The owners have the opportunity to employ their vessels on long term contracts in a demanding market using their competitive advantage. However they must do their homework as the local challenges are many, as described in the "Inside Story" article of this Edition.

## WESTSHORE BULLETIN BOARD



"I am really excited to be part of the Westshore team! I find the offshore market to be very thrilling with each day providing more challenges. I really hope I can contribute in the long term."

Paula Quirino / Shipbroker



"Oil spills have led to the development of technologies to protect the environment and better recover from incidents."

Douglas Moura / Shipbroker



"Is everybody gearing up for the Westshore Cocktail event during Rio Oil Gas 2012? Keep your eyes and ears open for the announcement coming soon!"

Eliana Lazarini / Office Manager



# 04 VESSEL NEWS

THIS MONTHS FIXTURES, REQUIREMENTS AND MARKET SCREENINGS



## REQUIREMENTS

DATE	CLIENT	VESSEL TYPE	PERIOD	COMMENCEMENT
16 Mar 2012	Repsol	PSV 3000	150 Days	01 Jul 2012
16 Mar 2012	Repsol	PSV 4500	150 Days	01 Sept 2012

## MARKET SCREENING

DATE	CLIENT	VESSEL TYPE	PERIOD	COMMENCEMENT
21 Mar 2012	Statoil	Consult, AHTS	60 Days	01 May 2012

## SPOT FIXTURES

DATE	VESSEL	TYPE	CLIENT	OWNER	PERIOD	DAY RATE
09 Apr 2012	Milan Tide	PSV	Tramp Oil	Tidewater	4 Days	RNR
02 Apr 2012	Karen Tide II	FSV	Technip	Tidewater	5 Days	25 000
01 Apr 2012	Cape Cumbria	PSV	Odfjell Drilling	Camorin	3 Days	RNR
29 Mar 2012	Reedbuck	AHTS	Ocean Rig	Chouest	5 Days	RNR
26 Mar 2012	Toisa Voyager	PSV	Modec	Sealion	12 Days	RNR
20 Mar 2012	Karen Tide II	FSV	Technip	Tidewater	7 Days	25 000

## VESSEL NEWS

**TS Soberano** - The Tranship tug has been fixed in the spot market by OGX to replace the line handler Fernanda M which has become unavailable.

**Reedbuck** - Recently released from a long term contract with Anadarko, the AHTS from Edison Chouest Offshore secured a short-term contract with Ocean Rig to transport cargo, increasing the activity on the spot market this month.

**Far Swift** - The Farstad DP2 PSV secured a contract with Shell Brasil upon concluding her contract with Petrobras. The contract firm period is of two months with further options.

**Karen Tide** - The Brazilian flagged DP1 FSV has been trading on the spot for a few months and has recently secured two fixtures with Technip to assist with cargo and personnel movement, mainly out of Technip's facilities in the Vitoria region, Espírito Santo.

**Milan Tide** - The Brazilian flagged DP1 PSV has secured a fuel run with Tramp Oil for approximately five days, the vessel is expected to remain in the spot market until delivered to Petrobras later this month on her recently secured term contract.

**Toisa Voyager** - the MPSV from Sealion has been fixed three weeks firm to MODEC in Brazil to support underwater FPSO inspections and further ROV work. The vessel is at time of writing on the spot market in Brazil.

**Sea Panther** - After a successful campaign with Statoil, the AHTS with DP2 capabilities is being redelivered by the Norwegian Oil-major. Deep Sea Supply is looking closely at the Brazilian spot market and has decided to keep the Sea Panther in Brazil. Her sister ship Sea Leopard has been



trading the spot with great utilization over the last 2 years, she is currently employed with BP as a front-runner for their Brazilian built PSV Sea Brasil, which will be delivered in Q2.

# 05 PETROBRAS TENDERS

UPDATE ON THIS MONTHS OUTSTANDING TENDERS

## VESSEL TENDERS

This month, the offers for the latest LH 2500 tender were revealed, but the final classification has not been officially released yet. This is Petrobras' 4th tender for this vessel type over the last year. On the last three tenders, Petrobras did not succeed in awarding as many contracts as demanded, mainly because rates were higher than they were willing to accept. The commencement date for the A and B types is June 2012 and for the C type is December 2012.

LH 2500 A				
NO PROPOSALS				

LH 2500 B				
#	VESSEL	OWNER	DAY RATE (USD)	YEAR BUILT
1	ACERGY SABIÁ	SUBSEA 7	8.900,00	2001
2	SN PALMARES	SULNORTE	10.125,00	1992
3	LAB 180	GEONAVEGAÇÃO	13.900,00	2003
4	SEABULK IPANEMA	SEACOR	14.950,00	2002

LH 2500 C				
#	VESSEL	OWNER	DAY RATE (USD)	YEAR BUILT
1	HULL 361	TRANSHIP	9.980,00	2012

## THIS MONTHS REQUIREMENTS AND MARKET SCREENINGS

This month, the requirements from Petrobras confirm recent consults, and sustain that Petrobras possibly remains the largest ever charterer in activity on the globe. As published in a NYT article on April 10th, Petrobras' investments expected for the next years are already greater than all investments made by NASA in the 1960's to take men to the moon!

DATE	CLIENT	SCOPE OF WORK	PERIOD	COMMENCEMENT
02 Mar 2012	Petrobras	AHTS 15000 TO	4+4 Years	01 Aug 2012
10 Apr 2012	Petrobras	AHTS 12000 OR	4+4 Years	01 Sept 2012

Petrobras has released one consult for AHTS 18000 of two types, with different commencement dates and slightly different specifications. The increasing trend of chartering AHTS in 2011 has so far remained strong thus far in 2012.

DATE	CLIENT	SCOPE OF WORK	PERIOD	COMMENCEMENT
30 Mar 2012	Petrobras	Consult, AHTS 18000 type 1	4 Years	01 Nov 2012
30 Mar 2012	Petrobras	Consult, AHTS 18000 type 2	4 Years	01 Apr 2013

## FOURTH BRAZILIAN NEWBUILDING ROUND

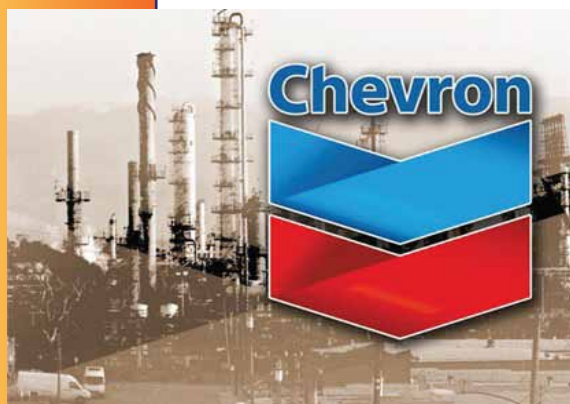
Petrobras has disclosed the results of the 4th Brazilian newbuilding round. For OSRV 750, daily rates ranged from USD 27,800 to 34,900 with offers received from Georadar, Astromarítima, Galaxia, OceanPact and Senior Navegação. Bidders for PSV 4500 were Starnav, Galaxia, Georadar, Astromarítima, Wilson Sons, Senior Navegação, Farol, Chouest, Swire Pacific and Solstad, with rates ranging from USD 34,368 to 58,000. Georadar and Norskan bid from USD 79,000 to 94,000 for AHTS 18000.

This tender provides the option for owners to bid up to four vessels in each vessel category with contract periods of four, six and eight years. The offers are not cumulative meaning each bidder can be awarded a maximum of four vessels under each category and contract period. The total number of vessels to be chartered will depend on ongoing negotiations with bidders.



## MUBADALA ACQUIRES 5.63% OF EBX CAPITAL

Abu Dhabi Mubadala investment group has made their first move in Brazil with the part acquisition of the EBX group for around USD 2 billion. The two parties were delighted with the deal. Eike Batista has said it is a milestone and that the investment considerably strengthens the entire group and its ability to successfully implement current and future projects. He has also predicted that this investment will help the two countries form a closer relationship. Khalidonn al Mubarak, Mubadala's CEO and MD stated this to be the first significant direct investment into one of the fastest growing markets, an important step in Mubadala's development in Brazil and Latin America.



## FRADE FIELD CHALLENGES BY CHEVRON

In the middle of March, Chevron detected a second oil spill in Frade while monitoring operation in the deep water field. There is apparently no direct correlation between this spill and the one in November 2011, but it could possibly be related to the geological issues of the reservoir. The second spill remains under investigation and Chevron has applied several methods of containment, as done for the first spill.

## OGX'S FIRST OFFLOADING

On March 28th OGX proceeded with their first transfer of Crude Oil stored in the FPSO OSX 1. The first of two contracted cargo deliveries of around 600.000 barrels of oil is being traded under the agreement with Shell Western Supply and Trading, and was transported to Europe. The Line Handler which supported the operation was the TS Soberano, from TS Tranship.



## CHEVRON DETECTED A PETROBRAS SPILL

Chevron during the monitoring of the seabed detected on April 8th a spill in the neighboring field of Roncador, solely owned and operated by Petrobras. Petrobras sources claim the spill is not of crude oil but of Drilling Mud, and the spill remains under investigation and testing. There is no drilling activity in Roncador for some time. In spite of newspapers giving a lot of attention to Chevron since November this Roncador spill is the 7th of Petrobras in 2012. The Roncador field is located 120 kilometers off the coast of Rio de Janeiro.





**TRANSOCEAN / VANCO** – The oil independent VANCO will take the contracted semi-sub Arctic 1, from Transocean. Having operated in Brazil for a number of years, the Arctic 1 (GlobalSantaFe later acquired by Transocean) has had major modifications before starting a 3 years campaign for Shell Brasil (2007-2010). The rig worked for Sonangol-Starfish and is now docked in Guanabara Bay before resuming her activities.

**DIAMOND / OGX** – OGX fixed a contract with Diamond Offshore in April 2011 for their semi-sub Ocean Star. After five months operating for Perenco under a cession agreement (Perenco and OGX are 50/50 partners on several blocks), the drilling unit is being docked until mid-May when it will return to OGX for further activity.

**OCEAN RIG / PETROBRAS** – The Ocean Rig drillship Mykonos was delivered in September 29th 2011 from Samsung, starting her operations with Petrobras in the end of March being mobilized from the Far East. The contract with the State-giant is for 1095 days firm. This is the third Ocean Rig drillship delivered to Petrobras, in addition to Corcovado and Poseidon.

**DOLPHIN DRILLING / SONANGOL** – The Aker Yards 1974 built Backford Dolphin re-built 2007/2008 at Keppel will soon conclude her drilling campaign with Sonangol-Starfish and readily move on to their awaited Anadarko contract. In between wells for Anadarko the rig will also operate for Karoon Gas Australia, in Brazil.

**SETE BRASIL / KEPPEL** – The Brazilian outfit has signed a preliminary deal worth USD 4.12 bln with Keppel Offshore and Marine. The company first ordered a single DSS 38E worth USD 809 mln in December for delivery in 2015, they have now secured a repeat order for five semi-submersible drilling rigs.

**MITSUMI OSK Lines / MODEC** – MOL and two Japanese trading houses have come to terms on each taking a stake in a Modec FPSO project. The three companies are investing in a project destined for Cernambi Sul area of the pre-salt oil field. The FPSO will be named Cidade de Mangaratiba and is being converted from a VLCC for deployment to Tupi B.V. in Q3 2014 for 20 years. The FPSO will have storage capacity for 1.6 mln barrels and a processing capacity of 150,000 boe/day.

**SBM OFFSHORE** – A 20 year charter for the FPSO Cidade de Ilhabela was executed this month for the North part of Sapinhoa development in the pre-salt area. The unit will be operated by a joint venture comprising of the affiliated companies of SBM Offshore, QGOG and Mitsubishi Corporation.



## THE NEXT BIG THING IN THE OIL INDUSTRY: PARTNERSHIPS WITH CHINA?



**In late March, China Petroleum & Chemical Corporation (Sinopec) concluded the acquisition of 30% of the assets of Portugal's Galp Energia S.A. in Brazil, bringing the total investment in Brazil to USD 15.37 billion. Sinopec is a Chinese state-owned company and China's second largest oil and gas producer. As of December 2011 Sinopec has had 297 exploration licenses covering 966,800 km<sup>2</sup> and 192 production licenses covering 20,300 km<sup>2</sup> in China, they are now moving on to Brazil to consolidate their position as an International Oil Company (IOC). This acquisition has paved the way for China's entry in the pre-salt Santos basin without having participated in any bidding rounds held by the National Petroleum Agency (ANP).**

Sinopec paid USD 4.8 billion for all Galp's exploration and production blocks, including a 10% share of Lula (former Tupi) and Cernambi (formerly Iracema) oil fields. The Galp subsidiary held stakes in 20 blocks in Brazil with a majority of these in partnership with Petrobras. In the pre-salt layer, the new company also has 14% of Bem-Te-Vi (block BM-S-8), 20% of Caramba (BM-S-21) and 20% of Jupiter (BM-S-24), all in the Santos pre-salt basin. This acquisition was only the second largest done by Sinopec in the country – in 2010 it paid USD 7.1 billion for a 40% stake in Repsol's Brazilian division. Earlier in 2010, Sinochem Group, the 4th largest Chinese oil company bought 40% of Peregrino field, controlled by Norway's Statoil for US\$ 3.07 billion.

These changes are definitely important to the IOCs local scenario, which since 1999 have been building up to be currently composed of 20 corporations, mostly from North America and Europe. The market is now witnessing the assertive entry of solid companies from a country that has been in the center of attention for a couple of decades showing the highest domestic growth rates in the world. There is an expectation of a more "discreet" growth rate in China

for the next few years (approx. 7.5% in 2012). However the fast developing demand for energy in China, stimulated mainly by growth in the automobile sector has made it necessary for the Chinese government to look for new sources of energy. Brazil has been one of these targets given their expected bright future in the oil and gas industry. According to Index Mundi figures, China consumes around 9.189 million of boe/day, but only produces 3.991 million of boe/day, which is partly exported. Therefore it is expected that China will import about 58% of the oil that it will consume in 2012, representing an increase of approximately 1.5% compared to last year's figures, according to Caixin magazine.

China became one of the main importers of Brazilian oil a few years ago, partly as a consequence of the agreement between Petrobras and Sinopec, in which the Brazilian Oil-major committed to sell 150K boe/day at market prices to the Sinopec in 2010. In 2011, the volume increased to 200K boe/day. This contract has functioned as a guarantee for the USD 10 billion loan China Development Bank granted to Petrobras. Many market specialists and Brazilian politicians believe that contracts like this one and

the growing presence of China in Brazil is very positive as it boosts the industry and promotes a healthy relationship between the two governments. Some also believe that the Chinese will become the main investors of the pre-salt fields in the medium and long term, because of their exponential growth and their audacious deals. The Chinese goal has been to fix a guaranteed supply from a stable country such as Brazil, unlike their current main suppliers Sudan and Iran.

Nonetheless, will having China as a main partner always be positive? The question arises whether the figures presented can be trusted, given the irregularities in data collection with regards to production, trade and consumption. What about the political matters and regulations that could keep China from continually developing in the long term or even make this trade more difficult? Will this be an impediment for reasonable oil prices and fair currency exchange rates in the future? Iron ore, soya beans and now crude oil in a large scale. These are strong reasons why Brazil should watch China closely, in order to play an important role in their growth, but also to secure the country from interdependency with such an avid nation.



The activity growth in the Brazilian oil industry has produced a few detached examples of how much prosperity a good economic cycle can generate. Shipbuilding is an example of such growth, and is after chartering activity one of the largest activities in the offshore industry. It is therefore no surprise that a company which can combine its prowess in commercial ability with its technical competence to build their own vessels end up as the leading offshore support company in Brazil. We are of course talking about Edison Chouest Offshore.



Through its three shipping companies in country (BRAM, ALFANAVE and ISLAND), Chouest has become the largest OSV supplier to Petrobras. Chouest has rapidly propelled from being the 3rd or 4th largest player five years ago to the number one spot. This has been achieved by bringing tonnage from foreign markets to Brazil and by delivering solid tonnage from its shipyard in Navegantes - Santa Catarina. The shipyard is able to deliver one vessel every two months adding to a total of six per year. However the company is working to be able to deliver seven to eight vessels per year when built in a series. The current orderbook at the Navegantes yard accounts for 19 vessels which is the largest offshore vessel newbuilding program of any individual company in Brazil. Chouest has reached the milestone number of 70 vessels operating in Brazilian waters. They plan to have at least 110 vessels in Brazilian waters by 2014.

Petrobras is a respected client of Chouest, and the relationship has reached a strategic level. At the same time Chouest has given attention to all Oil Companies in Brazil, and is working with just about every IOC in Brazil. It currently holds contracts with Shell, BP, Chevron while recently having worked with Repsol, BG, Anadarko, amongst others. It has developed an important partnership with OGX, having fixed many vessels to them since their establishment as an Oil producer.

Is there a secret formula behind their success? Well, not exactly, this is not like producing Coca-Cola. Chouest is a family-owned company. Close leadership is provided by Gary and Dino Chouest, and their company has no fear in entering deals that may not provide the highest returns in the beginning, but that enables them to build strategic market share where they become guaranteed suppliers. Their significant size

also helps them keep acceptable average earnings, which can be achieved without dependence on one specific vessel niche or market. In delicate times their vast tonnage can help them improve market earnings by controlling market supply - i.e. by bringing more vessels to a heated market and shortening the excess of vessels in a colder one.

It is interesting to see some consultants preach that the future will be brighter for those organizations that focus on one core business. Chouest has chosen a different route, making the offshore company one of many related entities. Chouest invests heavily in businesses that can be self-sustainable in the long term and that can at the same time be complementary to their offshore arm. This is the case for their Brazilian shipyard, one of five yards they currently own, but also of their other subsidiaries such as C-Innovation, an ROV specialized company with aggregated subsea engineering, and an in house developed Dynamic Positioning technologies division. In addition Chouest provides Integrated Logistics services owning and operating specialized port facilities.

What lies ahead for Chouest in Brazil? The company currently has plans to improve their capacity in the NAVSHIP facility while reducing costs and investing heavily in their integrated logistics services with their upcoming logistics hub, as well as increasing their presence in Brazil with highly specialized vessels like subsea light intervention tonnage. With the aggressive growth in recent years, it is no surprise that Chouest has become a major integrated service provider in Brazil and worldwide. The supply of Brazilian tonnage will only increase in the foreseeable future, and Chouest's specialization is only building their track record. A good example of this is their first ROV contract with OGX, on board their Brazilian flagged AHTS Olin Conqueror.



A special thanks to Ricardo Chagas, Director of Edison Chouest Offshore and President of C-Innovation, LLC for providing the information for the Spotlight Section this month.

# 10 INSIDE STORY

## A LOOK AT SOME OF THE ISSUES

### YOU OUGHTA KNOW!

Have you been through the experience of having your friends and family arrange a surprise party on your birthday, and when you got home they all jumped on you from behind the couch when the lights went on shouting: SURPRISE!! Well, that is a very good surprise, much more pleasant than the 'surprises' the unadvised can find after some time operating in the offshore support industry in Brazil. In our September 2011 edition, we have prepared a run-down of tips to inspire Owners to be prepared to work in Brazil. Since then we have been requested by several readers to elucidate a little further into what are the main challenges of the Brazilian offshore market for Owners. We have decided to do so in this edition in face of two recent events which might improve business condition: 1- The promise made by the Government to lower taxes directly related with shipping; 2- The expectation of a formal response by authorities to the request from Owners Association to make flexible the Brazilians/Foreigners proportions (NR 72) on board OSVs.

#### MANPOWER

First things first, the biggest challenge in Brazil is no different from other countries - Manpower (Brazilian Wave October 2011 Edition - The Crewing Crisis Article). What makes it particularly challenging in Brazil though, and truly different from other places is "total cost". Brazil is one of very few, in fact to the best of our knowledge the only country in the globe, that does not give direct tax exemption to employees and employers within shipping. The result is that crew of same positions take home less money in Brazil but cost more to the employer than in other countries. For many years this aspect of imbalance was laying low, but now it has become crisis, as the salary costs have skyrocketed for the employers, yet the Unions are legitimately right to claim the net levels are not yet comparable. Unless something is done in regards to taxes - the government filet mignon - Unions and owners will remain tied up to an endless fight.

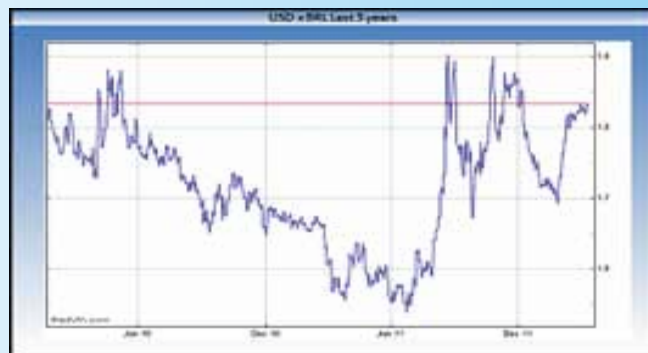
Yet manpower, six months after our crewing article, we regret to report that there has been no improvement in terms of education institutions in Brazil. The number of graduates have not increased in the 2012 class, and there has been no new entries in the market to provide specialized crewing training. Maersk Training Center (an A.P.Moller - Maersk Group division) have established in the country but are expected to conclude implementation within this year - for additional and specialization courses. Notwithstanding, it does not mean private

institutions will start training crews, from graduation - both on officers and ratings categories. Further, the deficit of crews is not reducing before 2014.

What the above means to owners is that crewing costs will escalate well over inflation in the next two to three years. The pressure for increase on wages is greater than any resolution from any of the involved parties can quickly mitigate. It is just not greater than rapidly agreeing on a salary increase percentile and avoiding a strike... Therefore, if bidding to one of the long-long-long term Petrobras contracts, beware of such increment on your costs. And remember, such costs are in Brazilian REAL, so a weaker US Dollar will not at all improve the results for owners.

#### CURRENCY EXCHANGE

Speaking of the devil, Foreign Exchange is another very challenging aspect to owners, and one of which only the oh-Mighty - hopefully - has control of. It is nearly impossible to predict where exchange rates will go over the next 2-4 years, but all signs seem to indicate that Europe and the U.S.A. will



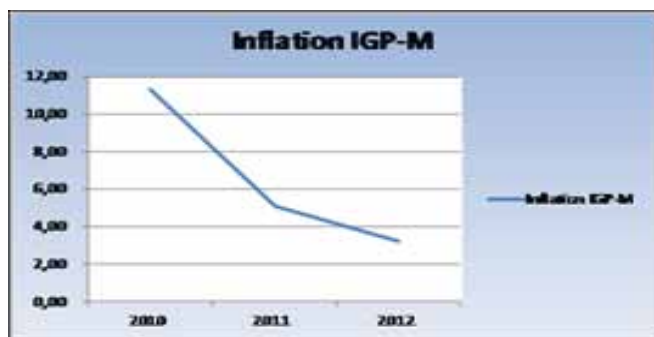
continue to use currency depreciation and their money making machines (really, fabrication of money) to try to become more competitive. In the last six years this has produced nothing but a much more expensive Brazil and a few complaints from the Brazilian Government when visiting Angela Merkel. It is time to reconsider the Reais/USD proportions on the Petrobras contracts and future bids. Not that Owners should increase the Reais portion on every contract from now on, especially as that means collecting higher taxes (PIS/COFINS and ISS are due on the local payments but not on the foreign); but this ratio decision will provide better balance - and like Warren Buffet's premise: Give priority to the Blue



and like Warren Buffet's premise: Give priority to the Blue Chips where it is safer on the long run, but make sure you diversify... \*Warren Buffet is considered a conservative.

## OPERATING COSTS

Because crewing costs is nearly and in some cases more than 50% of a vessel's OPEX, the crewing issue has attracted so much attention that many are not paying enough attention to the other half of OPEX - the running/operating costs. And in that respect, Brazil has inflation under control. The point is, however, regardless of control or lack of, inflation is there and it is not always soft. We have seen conservative owners incor-



porating some 5%-6% increase on non-crewing costs per annum; especially if the vessel is in a non-Petrobras contract, as it will possibly have no readjustment during the contract term. The Petrobras contracts on the other hand, will provide a readjustment formula for the local currency portion which is interesting and will improve the day-rate, but it is not possible to predict the formula results over the next years, and the readjustments are usually below real inflation. Therefore, it is paramount that these increments are considered by the owners before bidding.

## SAFETY AND EXPERIENCE

Traditionally, owners are used to implement safety action plans and train their crews to operate safely on board the vessels. The Brazilian offshore environment though is proving to be specially difficult in controlling not what is on board the vessels - but what is outside! The lack of experience that support vessel owners encounter is no different than what rig, terminal and charterers are facing. The result is an undesired combination of gaps in the system that will likely end up on an incident. Consider a rig move, for instance; the specific challenge for owners is, that the rig is in principle the focus - since the value of the equipment is greater, but it is on the back deck of the anchor handler that people and equipment are mostly exposed. In numerous recent incidents, the root cause has been tracked down to a fault on the rig winch, a

mistake by a rig operator, a ballast control issue, an interface issue between rig and vessel, among others. It has never been so necessary to invest on pre-job meetings and treat the interface issues beforehand. And lack of experience is behind it.

## LEGISLATION - REPETRO

About every owner in Brazil that has experienced applying for the REPETRO won't have a lot of positive feedback to give. The law in itself has not changed much, but the interpretation by local authorities of the REPETRO eligibility and the time to award the taxation suspension have been erratically driven, increasing the lack of clarity on the subject matter. In such regard, it has been less problematic to share such risk with charterers when hired by an IOC. Unfortunately, when being hired by Petrobras, the Oil-major contract leaves no option to the owner if not to collect proportional taxes and have the vessel on-hire, or to wait - unpredictably - for the REPETRO award for late on-hire. Petrobras have eventually recognized the issue and reimbursed for the proportional taxes. But the cash flow imbalance for the impacted owner, the uncertainty of reimbursement by the charterer, or even the end-cost to the charterer, be it Petrobras or any of the IOCs, only makes it even harder to predict the exact operating costs in Brazil.



These are the topics we see as being currently specially challenging in Brazil and where Brazil-experienced owners are increasing focus. None of them, regrettably, can be resolved with individual actions. Cooperation between all parties has never been so necessary and is possibly the only way to improve the industry and remove some of these challenges.



by Alexandre Vilela, Marine Advisor



## GOING FROM RIO TO NITEROI?

### THE BACKSTROKE IS PROBABLY YOUR BEST OPTION!

Crossing the "Ponte Rio-Niteroi" bridge during peak hours is a nightmare, however there has always been a good alternative option in using the ferry boat. However this has changed, nowadays the cost of the service stings the pockets of local people in Rio de Janeiro. In March this year, the Department of Transportation along with the state government approved a 60% increase in the fare in a moment of overcrowded ferries and huge queues on the ferry boats, causing protests and speculation.

The Barcas S.A. company has been transporting passengers in Guanabara Bay since 1853 and is currently experiencing problems in handling the service due to the major increase in passengers over the last 10 years. The ferry-boat is on a daily basis used by approximately 97,000 passengers who have been experiencing an inefficient service quite regularly, this combined with the inherent lack of other options has made it difficult to comprehend and accept the surprising decision to increase the fare.

Demonstrations have been a common occurrence with an atmosphere of dissatisfaction given that the many users regularly deal with delays, endless queues and overcrowded boats.



#### PASSENGERS TRANSPORTED

Year	Passengers
2002	14 928 505
2003	14 646 365
2004	15 778 985
2005	15 130 083
2006	19 415 351
2007	22 892 314
2008	24 364 689
2009	24 958 103
2010	26 685 135

The last improvement to the waterway system occurred in 2006 when they unveiled new high tech ferry-boats called "Social Catamarã" with a capacity of 1,300 PAX equipped with air-conditioning, closed circuit television, padded armchairs and a computerized system for monitoring navigation. The company aimed to reduce travel time with up to 12 minutes due to the Italian design of the dual bow and the modernized navigation system which eliminated the need for excessive maneuvering. The replacement of the older boats lead to an improvement in the service, but the number of commuters has continued to grow and a great deal has unraveled since this last development.

In 2011 Barcas S.A. transported 29.2 million passengers. The company has been struggling to meet the

demands of the continued increase in commuters and seems far from able to solve the problem. The company has sent a group of engineers and technicians to visit countries in order to find suitable foreign vessels in an attempt to increase the fleet. This month the business group CCR, which has concessions from the "Ponte Rio-Niteroi" bridge, acquired an 80% stake in the service with the other 20% remaining in the hands of Barcas S.A.



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FINAL THOUGHTS FOR THIS MONTH



A SPECIAL THANKS TO THE EDISON CHOUET GROUP FOR PROVIDING PHOTOGRAPHS!

## STAFF ANNOUNCEMENT



Westshore do Brasil is pleased to announce that Miss Paula Quirino will be strengthening the chartering team as a shipbroker. She has joined the team as from 15th of March.

Paula holds an MBE degree in International Trade from the Federal University of Rio de Janeiro. Her last position as commercial manager for a leading tug operator allows her to bring a strong commercial understanding of the Brazilian offshore and towage market.

We wish Paula success in her new role and are sure she will be providing our clients with the best possible service going forward.

## OTC HOUSTON 2012

The Offshore Technology Conference has been an annual happening in Houston since 1969 and represents a major event in Offshore Market, revealing the development of offshore resources in the fields of drilling, exploration, production, and environmental protection. The event attracts millions of visitors and exhibitors every year from all parts of the world. This year the OTC Houston event runs from Monday the 30th of April to Thursday the 3rd of May.

