March 2017

NAVIGATOR

THE WESTSHORE NORTH SEA REPORT

GET READY

Out of layup & back to work

CANADA

An update from the frozen North

THE BREAKERS YARD

Why so few offshore vessels are sold for scrap

WESTSHORE
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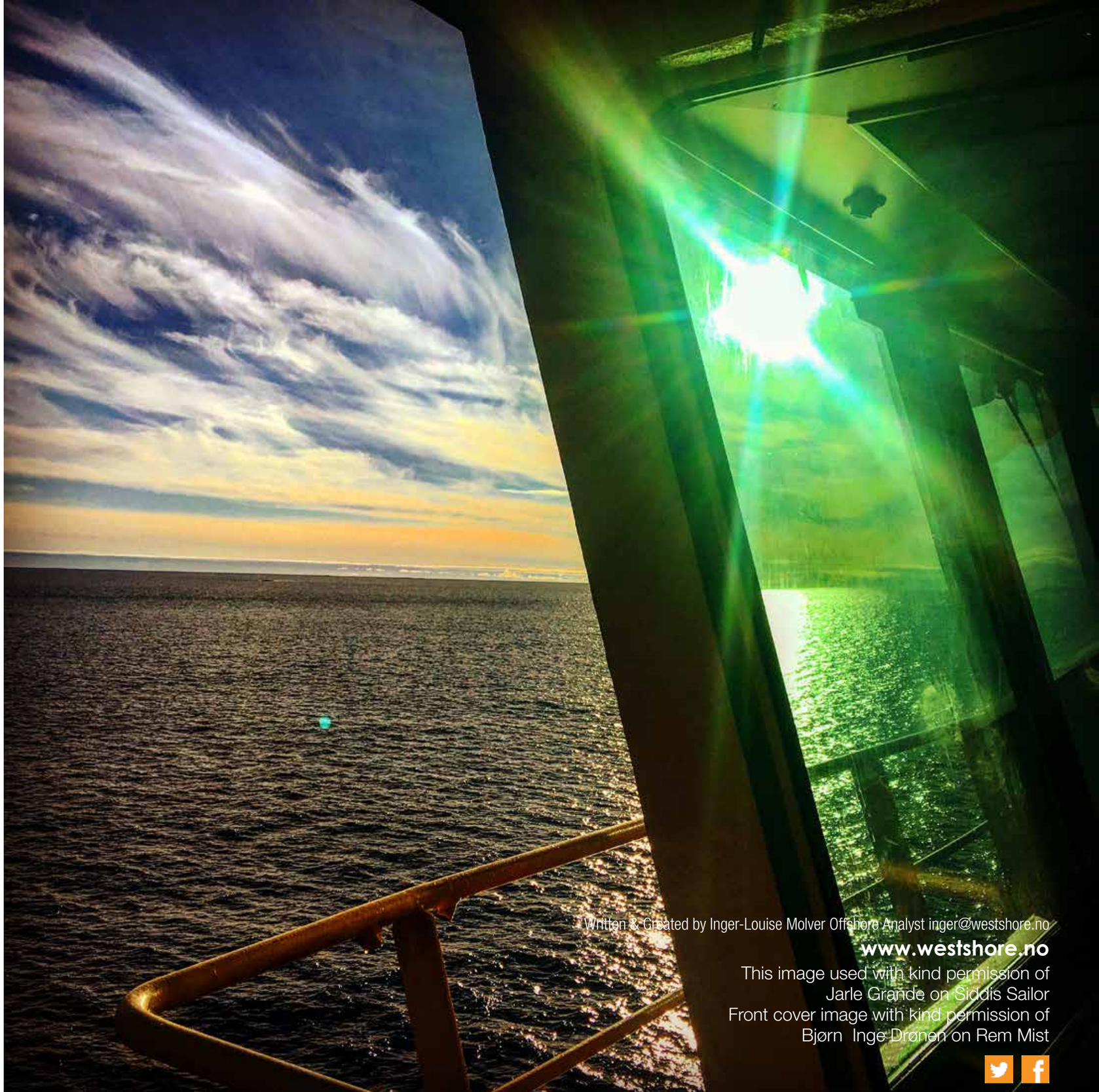

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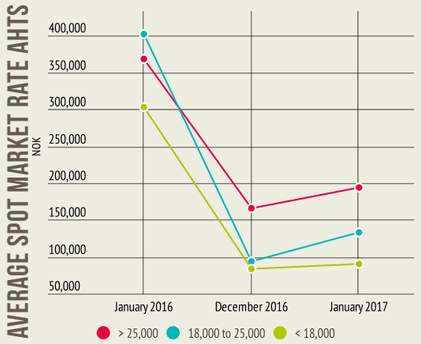


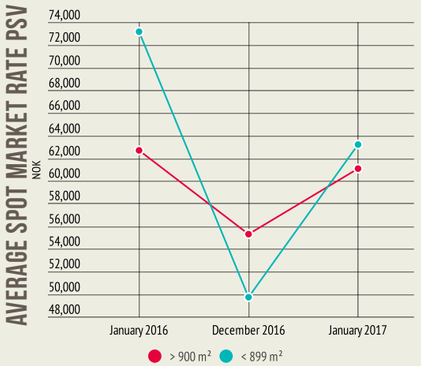
41.6%
Average AHTS utilisation in January

78.3%
Average PSV utilisation in January

	December 2015	January 2016	December 2016	January 2017
Number of supply spot fixtures	84	68	72	74
Number of AHTS fixures	43	39	20	38

14
Rig moves in January 2017

14
Rig moves in January 2016



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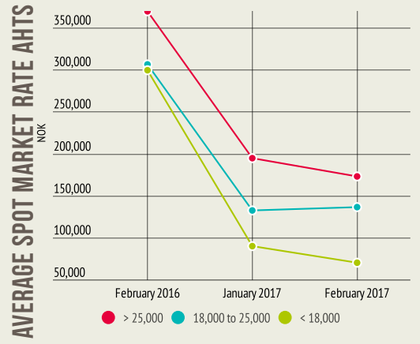
JANUARY

The end of 2016 was particularly quiet on the spot market but the start of 2017 failed to produce much of a pick up in activity either. Just 14 rig moves carried out over the whole of the month, en par with the number in January 2016. The month's major happening was when at the end of the month Statoil came to market looking for AHTS tonnage and scooped up no fewer than nine vessels in a single day for four separate rig moves. This meant every available vessel on the Norwegian side was put into operation and the market was sold out right into the start of February. One new AHTS vessel went into layup, Olympic Hera, while one came out, Island Vanguard.

A moderate increase for supply work on the spot market in January as utilization largely stayed over 75% the whole month. The main contributing factor to this was the Norwegian market which was tight for long stretches of the month.



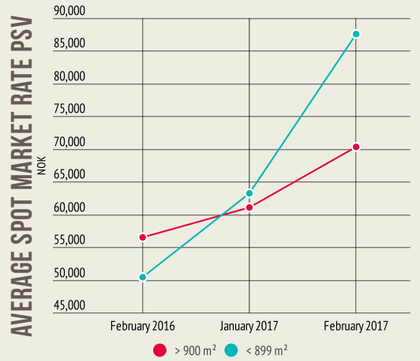
46.8%
Average AHTS utilisation in February

83.5%
Average PSV utilisation in February

	January 2016	February 2016	January 2017	February 2017
Number of supply spot fixtures	68	86	74	73
Number of AHTS fixures	39	54	38	21

13
Rig moves in February 2017

18
Rig moves in February 2016



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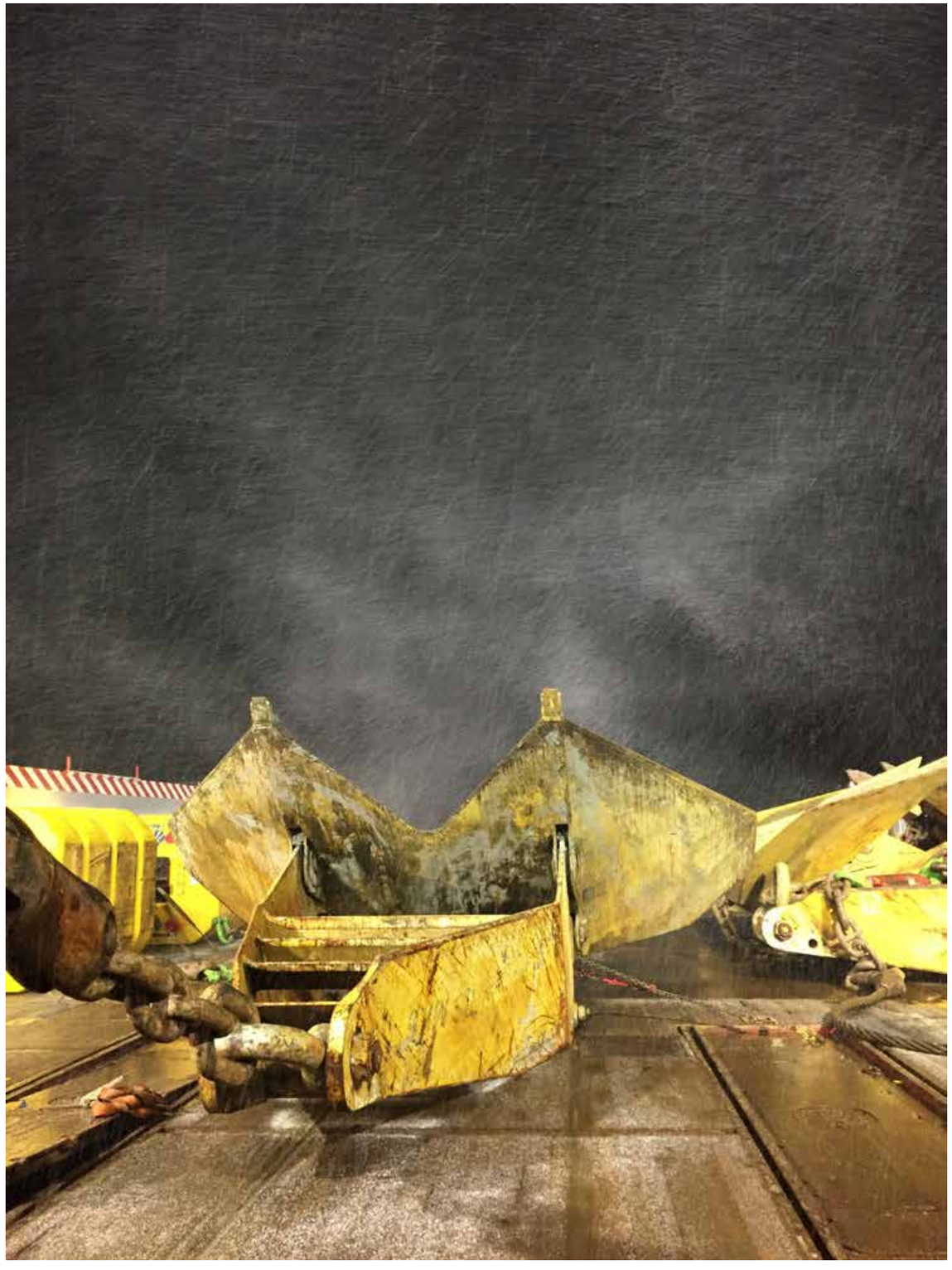
FEBRUARY

In contrast to the AHTS, the market for PSVs was fairly tight over most of the month. At several points the market neared being sold out but despite this the rates failed to go through the roof. Nobody expects them to go through the roof anymore it would seem, even if there's barely any vessels left in the harbor, the austerity market prevails. Several extensions were done over the course of the month which would have boosted earnings for some owners however, again playing into the high market utilization over most of the month. And for the second month in a row it was the smaller vessels that on average secured the higher fixture rates. This is partly as a result in the reversal of fortune for vessels trading out of Aberdeen, the UK market was reasonably busy all month and as it's largely the smaller vessels that trade there, this category of vessel benefitted.

Another slow month for fixtures with a miserable 21 AHTS fixtures over the whole of the month. Although Island Innovator was moved as it came out of layup and went on to drill for Lundin, Sedco 712 completed its contract for ConocoPhillips and went into layup. This unit will be back out and drilling for Fairfield in a month or so however.



OUT OF LAYUP & BACK TO WORK

The worst is over, the layup list is decreasing. But after the most brutal downturn in memory, what are we left with?

AHTS will see the quickest recovery

Around a third of the AHTS vessels trading the spot market have disappeared since the high point back in mid-2014, mostly in to layup. The list of vessels laid up in the North Sea was at its highest point in January this year after six months of one rig after another going in to port to be stacked. The rig count literally nose-dived in the second half of 2016 which meant the number of jobs available for the remaining spot vessels fell off a cliff too. We predicted that the rig count would reach its lowest point in February 2017 and from there we could expect a gradual but definite increase. We have reached the bottom, the only way is up. And the rig count is slowly starting to increase, rigs are coming out of layup and back out drilling. So far this year Island Innovator is back out and drilling for Lundin, West Phoenix is back out drilling for Total UK, Stena Spey will come out start of April and drill for Repsol and Paragon B391 is due to start its contract with Centrica late March. It is not an influx of contracts, Invergordon is not being emptied, there is still a very long list of rigs without work and still limited prospects of reactivation within the next six months or so. BUT! The trend of rigs rolling off contract and going into layup has stopped, the upturn is gathering momentum. At time of writing there are 58 rigs stacked in Europe, despite the Norwegian sector being a relatively transparent market in terms of having a clear picture of which company will need a rig and when, we are still seeing signs that additional drilling plans are being added and additional rig capacity is being sought. By the summer that list of stacked rigs will be lower, although I am reluctant to put an exact figure on where it will be.

Image on previous page and page opposite
Ove Daniel Fløysand
Skandi Iceman

cont...

For over a year if a spot AHTS in Norway was not working for Statoil, it wasn't working at all. The list of companies that have exited the Norwegian continental shelf is frankly frightening. We need a diverse list of clients to keep the market buoyant. Between strategic decisions to sell up and focus on areas elsewhere and acquisitions from the larger players, there is a long list of companies no longer operating or partnering in anything on the Norwegian sector. We have been completely dependent on Statoil's activity this past year or so, when Statoil sneezed we all caught the cold – which is basically what happened as its activity was scaled back. But as the drilling rig count is starting to climb, so is activity from a handful of other players – and it is making a huge difference. Wintershall, Aker BP and ConocoPhillips Norway have all taken tonnage from the spot market over the last month and the result has kept utilization up and day rates getting tantalizingly close to OPEX.

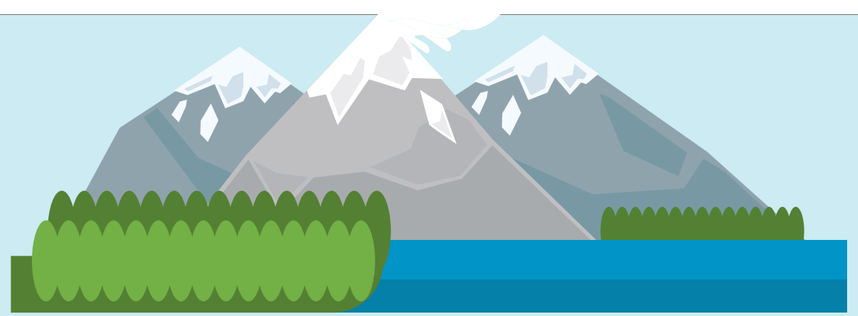
Plans for the summer?
Summer project work over the past two year's has been sluggish. Few vessels secured work that took them out of the spot market. We believe that trend will also be reversed this year, several large projects will mean AHTS vessels will be busy outside of the spot market during the summer months. ExxonMobil's new Hibernia platform offshore Canada will be towed out and installed this summer. In addition bypass work at the Brents field, several smaller IRM work scopes on the UK sector for a variety of operators, plus work in the Kara Sea and Sakhalin. Again there will not be an exodus of vessels leaving the North Sea but we can expect a healthier market. To the extent it's realistic to assume we will see some vessels come out of layup, at least more than just what has come out so far. To put a figure on it, we can cope with an extra seven or eight vessels, more than that and we prolong the period of depressed day rates.
Too many vessels too soon is the swing factor for this summer. It is the difference between rates being at 2014 levels, or staying at the levels we saw in 2016. Either way we still have some time to go before activity levels are back where we were three years ago, but we are on the road to recovery at least.

.....we can cope with an extra seven or eight vessels, more than that and we prolong the period of depressed day rates.

CANADA

Of all the offshore regions around the globe that are gearing up for recovery and some much needed activity, Canada is worth keeping an eye on. Westshore looks at what's happening in the frozen North.

IMAGE - SHUTTERSTOCK



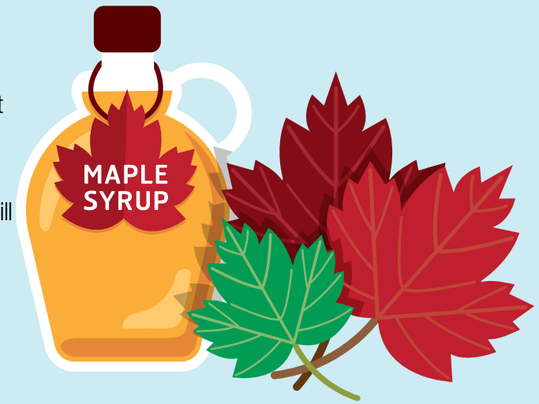
ExxonMobil

Hebron field

Located about 200 miles south east of St Johns in Newfoundland, the Hibernia field was discovered in 1980 and has an estimated recoverable reserve of 700m boe. The field will be developed using a huge gravity based structure, currently under construction at Bull Arm fabrication yard in Canada. Fabrication is nearing completion and the contract for tow out and hook up has been awarded to Maersk Canada. The operation should see several vessels utilized for the project and will start before the summer 2017. ExxonMobil is aiming for first oil from the field in 2017.

Hibernia

Located close to the Hebron field, the Hibernia field has been producing since 1997, also with a large gravity based structure. In fact the platform on the Hibernia field is the world's largest oil platform. ExxonMobil currently has the semisubmersible West Aquarius drilling development wells on the field as part of an 18-month contract that will come to an end in April 2017.



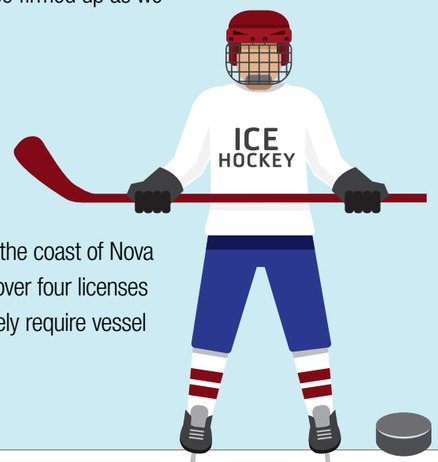
Sable Project

The Sable Project was Canada's first offshore natural gas project and began producing in 1999. Plans for decommissioning of the field began in 2012 and a tender was issued to secure a rig for the plug and abandonment work. The Noble Regina Allen was awarded the contract in February 2017 and will commence the contract in October 2017, the unit is currently working for Repsol Sinopec on the UK sector but will be towed over to Canada in September. The initial scope of the project covers 22 well abandonments, in terms of vessel support a tender for this has been ongoing for some time but realistically could be firmed up as we near the commencement of the rig contract.

BP

The Scotian Basin

BP is expected to secure a rig for an exploration programme roughly 300km off the coast of Nova Scotia. Current indications are that a rig will be needed in 2018 to cover drilling over four licenses although a firm rig tender has yet to come out. Once awarded the project will likely require vessel support, we estimate two PSVs plus standby/safety vessels.



Suncor

Terra Nova

Suncor surprised the market by securing the semisubmersible Transocean Barents for a 15-month contract starting in July 2017. Suncor is operator of the Terra Nova field which produces via the Terra Nova FPSO, there have been rumors in the market that a semi would be needed for development drilling at the area, although it came as a surprise when it was revealed one had been secured. Transocean Barents is currently stacked in the west coast of Norway but will be making its way to Canada around June 2017. A few months after the rig was secured the tender for vessels came out in support of the drilling campaign. This is currently ongoing with Suncor seeking both AHTS and PSV tonnage for various durations.

Statoil

Mizzen, Flemish Pass

Statoil will take the West Aquarius on contract a short while after the rig finishes up work with ExxonMobil on the Hibernia field. The Statoil contract is for two wells plus two further well options. An expression of interest was issued for vessel support covering both PSV and AHTS, award of contracts has yet to be finalized.

Husky

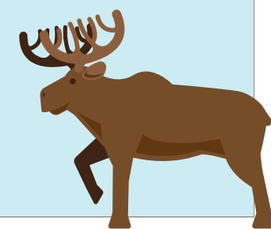
White Rose

The White Rose Extension project was in the news again this month as the FID is expected to be nearing and could come as early as May 2017. It will mean a new gravity based structure will be built for the field and in the long term it is expected that this will require more PSVs to support it on a term basis.

Shell

Shelburne Basin

The Stena ICE max drillship completed drilling of the second well in January 2017, neither of the two wells hitting oil. Skandi Flora which was fixed to support the drilling campaign is back in Norway following completion of her contract. There is currently no news as to further drilling campaigns to be carried out by Shell in the region.



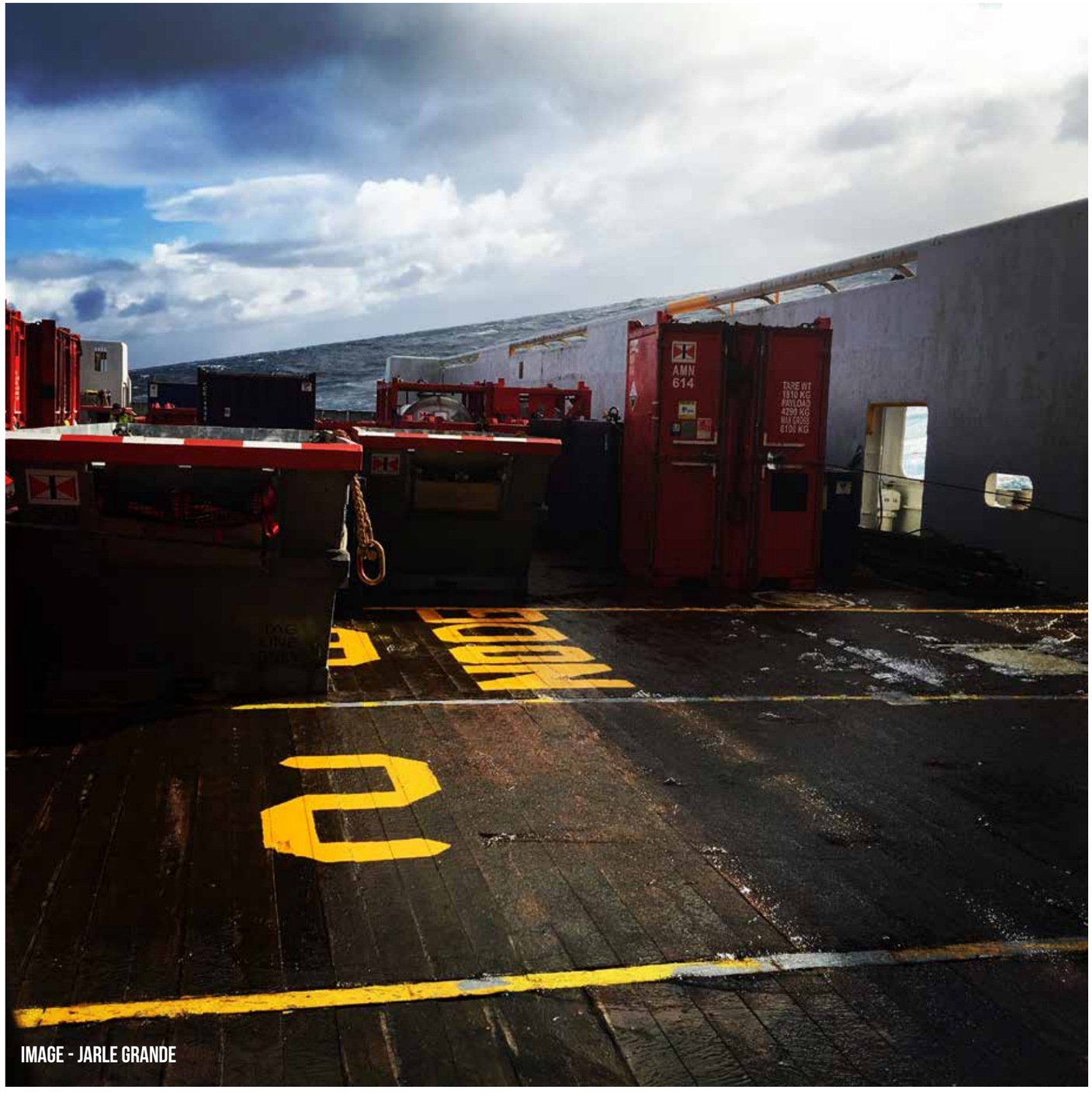


IMAGE - JARLE GRANDE

The PSV Tight Rope

Things have been relatively decent on the spot market for the PSVs for most of 2017, but a continued robust market depends entirely on that looming list of vessels currently in layup, staying exactly where they are.

A split market

The number of PSVs working on term contracts in the North Sea has fallen over 40% since the middle of 2014, a reduction of over 70 vessels. Couple this with the reduction in the number of spot fixtures done (2016 saw 22% fewer fixtures than 2015) and it's easy to understand how we arrived at almost 100 PSVs in layup just in the North Sea.

But the past couple of months have seen very few vessels available at any given time out of Norway and even over in Aberdeen the market has tightened on occasion. The Norwegian market has benefitted greatly from the increased activity for a greater range of players. This relates to both the spot and the term market. The market has been tight almost consistently even without any boost in activity from Statoil, and that's down to other players such as Wintershall and AkerBP needing just enough tonnage to keep things interesting. More rigs are set to go on hire on the Norwegian side as we head into the summer months coupled with a handful of projects that will see some PSVs head off for term work. We can tentatively say at least that the market is looking stable and there's little in the pipeline to suggest that this will deteriorate – UNLESS! Too many vessels get taken out of layup.

We had periods last year when the market looked like it was turning, those watching where the rig count was headed knew that this was no light at the end of the tunnel – it was the train heading straight for us. This is not the case now, we are on the road to recovery.

The improved market conditions have seen a trickle of vessels switch sides and sail from Aberdeen to trade from the Norwegian ports. We may see more of this as owners see greater opportunity out of Norway and to an extent there is probably room for another vessel or two trading the Norwegian spot market. Any additions to the spot fleet will reduce market volatility which is a benefit to charterers. There have been a handful of occasions so far this year when the market has totally sold out and extensions have been done in the region of NOK 150000, something that's not happened in a long time. The introduction of just a few more vessels would take the sting out of the rate hikes when the market tightens. Whether this is a good or a bad thing depends on which side of the table you're sitting on, and of course as brokers – we are always on you're side.

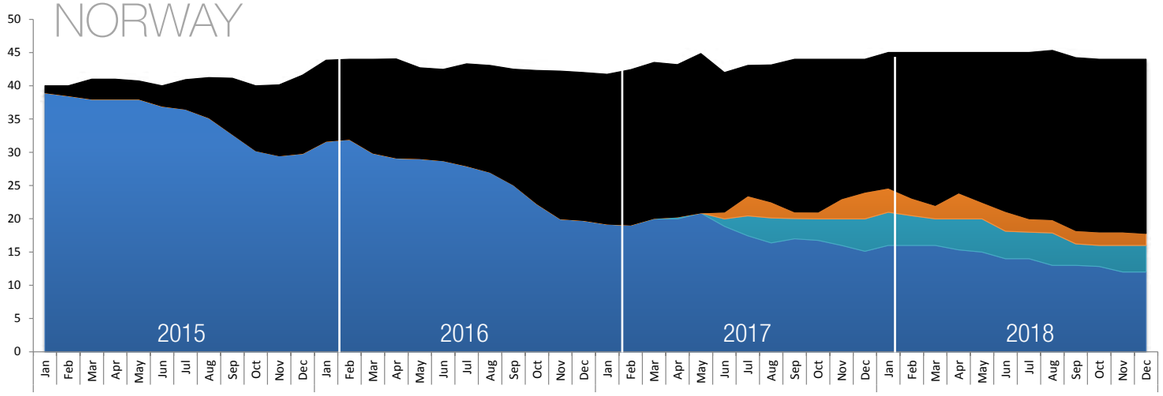
Rig Forecast

The number of operators entering the market looking for rigs has picked up pace in the past couple of months. We take a look at how the rig pictures looks this year and next.

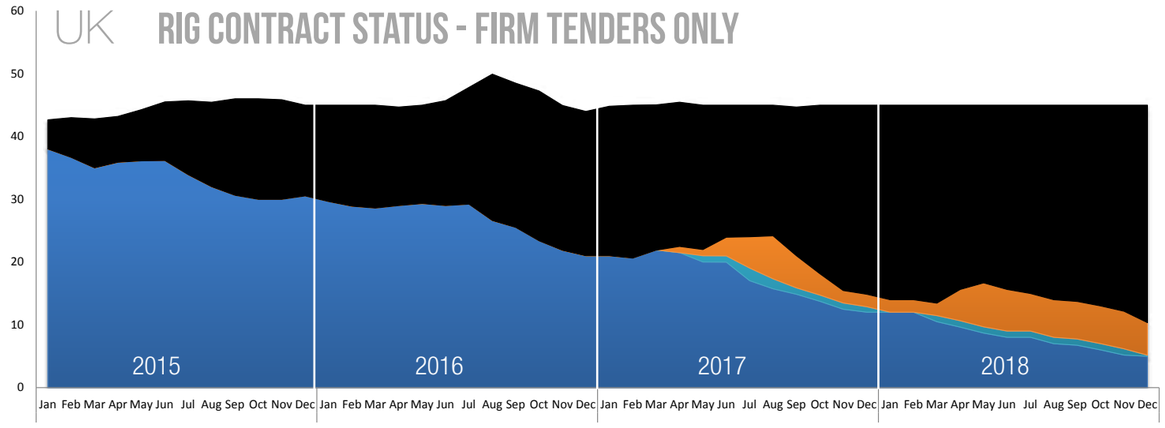
Norway

The list of operators with interests in the Norwegian sector has shrunk considerably since 2014. Many companies have been bought up and now form part of larger orginisations such as Aker BP and some have simply sold up for other reasons. The latest exit is ExxonMobil whose Norwegian assets have been purchased by Point Resources (a firm owned by private equity outfit HitecVision). The resulting situation has left a relatively small pool of companies that we know will be out looking for a rig or has secured a rig over the next couple of years. It's a transparent market like it never has been before. The upturn is coming make no mistake, oil companies need to go out and drill if they want to have a future, but for the Norwegian sector this will be comprised of two or three big players and a very small handful of smaller companies.

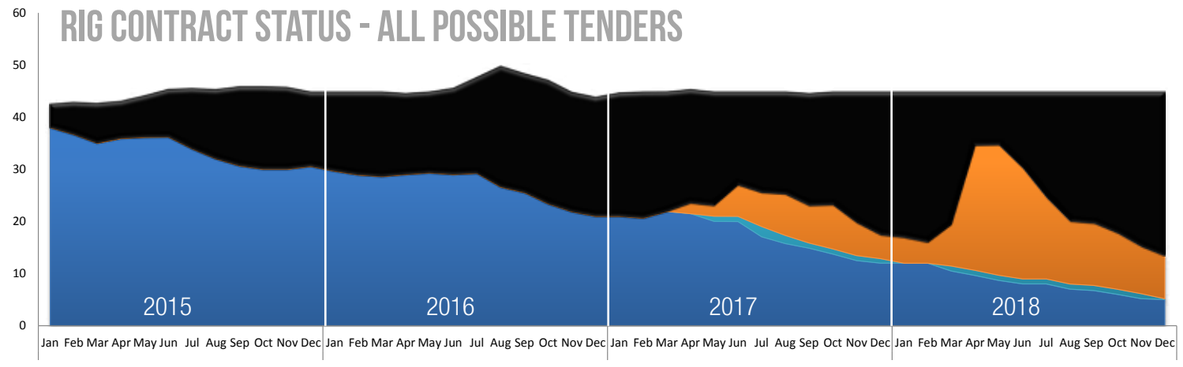
IMAGE - RONNY S JOHANSEN



When we look at the forecast for rig contracts out to the end of 2018, the prognosis is a slow but definite recovery. Tenders to keep an eye out for is Repsol, still looking to secure a rig for P&A work for 2017, AkerBP's additional rig demand will likely not come before 2019 with the exception of a potential Barents Sea job in summer 2018. Statoil, after a period of reduced activity, has yet to declare a rig award for the drilling at Aasta Hansteen but that decision could be imminent and could commence before the end of 2017 (six wells plus options duration). Wintershall may also require a rig before the end of 2017 though this has yet to be confirmed.

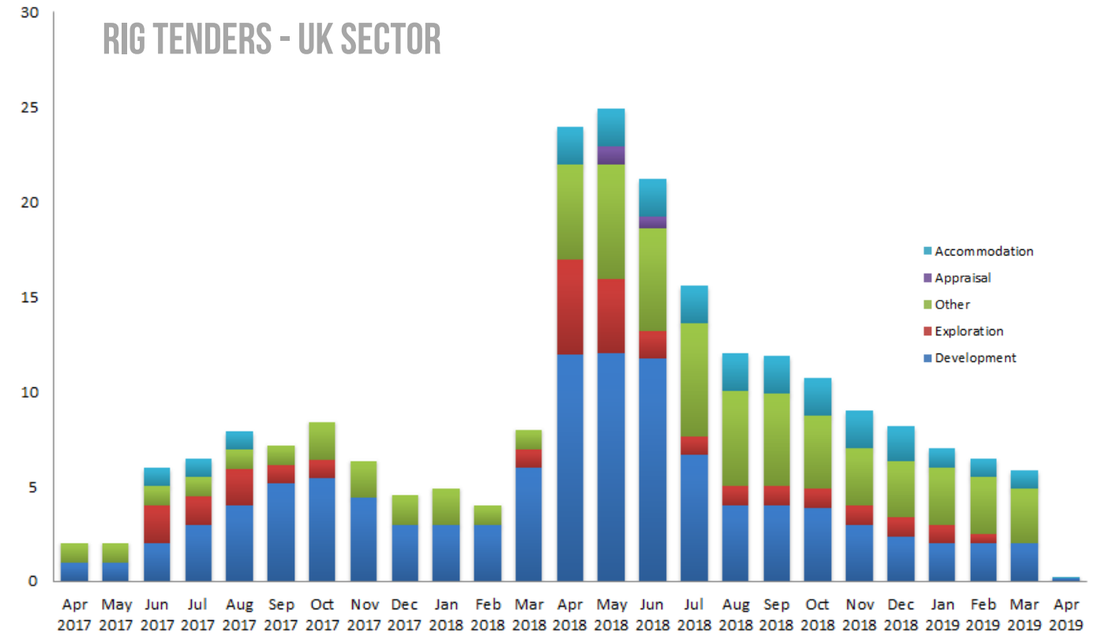


There is a far bigger question mark hanging over the UK sector. A fantastic recovery or a double dip downturn? Tenders for this year are still emerging but what could really end up being interesting is summer 2018. Conditions on the UK sector have meant a few things have happened, a combination of the range of assets and infrastructure already in place coupled with a review of the current fiscal regime. The UK Oil & Gas Authority recognise the need for a diverse range of companies operating on the UK sector, the right assets in the right hands will maximize recovery it has long been said. But that's difficult if the sale of an asset means the new owner could be lumbered with a decommissioning burden and does not qualify for any of the tax exemptions that were available to the original operator. Removing these barriers is key to facilitating more transactions of late-life fields and opening the playing field up to more companies. Though there is still some way to go before this has been completely resolved, the discussion is on the table and appears to be bearing fruit already.



Above are two scenarios for how the rig count could play out of the UK sector, one with just the firm tender and pre-tenders out in the market. The second takes into account all rig tenders that are out plus RFIs and other market screenings that could result in an award of a rig contract – a best case scenario to put it another way. Now maybe we are just oh so ready to hear some fantastically good news, but looking at this second scenario we can see that summer 2018 could result in a very busy year for the UK sector. The biggest contributors to this are for companies seeking rigs for development drilling and secondly plug and abandonment work – i.e. decommissioning. This feeds into the argument for a solid fiscal regime supporting companies willing to take on later life fields – development drilling for assets still capable of producing for another few years given the chance, and P&A work while it's still possible to secure a rig at rock bottom prices.

The eventual picture will likely lie somewhere in between these two scenarios and there is still a worrying lack of exploration wells set to be drilled. But although all good things come to an end, it would seem that the volume of work left to do in the UK sector will see a few good years yet.



VV MINI MATRIX MONTHLY CHANGE

14 MAR 2017

YEAR OF BUILD	LARGE PSV	MEDIUM PSV	SMALL PSV	SUPER AHTS	MEDIUM AHTS	SMALL AHTS	DRILLSHIP	SEMI-SUB	JACK-UP
	DWT			BHP			FT		
2017	+0.8% 5200	-1.9% 3600	-4.5% 1700	-5.4% 24k	+1.5% 8200	+3.6% 5500	-0.2% 12k	-0.2% 12k	-0.5% 400
2012	-0.7% 4800	-3.1% 3300	-5.2% 1700	-20.7% 24k	-2.9% 8000	+4.3% 5200	-0.2% 10k	-0.2% 10k	-0.6% 375
2007	-2.2% 4800	-4.6% 3300	-6.8% 1600	-30.0% 24k	+4.8% 8000	+7.5% 5100	-0.8% 10k	-0.5% 7500	-0.7% 375
2002	-4.2% 4700	-6.4% 3300	-8.5% 1600	-25.5% 24k	+5.6% 8000	+7.5% 5000	-1.0% 10k	-1.3% 7500	-0.7% 375
1997	-5.4% 4700	-8.3% 3100	-10.5% 1200	+7.4% 19k	+12.0% 8000	+10.0% 4800	-1.3% 8500	-2.0% 6000	-0.8% 350
1992	-5.9% 4600	-8.9% 3100	-10.3% 1200	N/A --	+19.1% 7200	+20.0% 4800	N/A --	-2.3% 6000	-1.7% 300

VesselsValue Monthly Valuations Analysis

"PSV values softened slightly due to continuously worsening market conditions. Skandi Waveney (3,200 DWT, Nov 2001, Vard Brevik) was sold by DOF ASA to a buyer outside of the offshore industry. Delivery of the vessel is due to take place once she has completed her current contract. Greatship Disha (3,100 DWT, Jul 1999, Vard Brattvaag) was sold by Great Eastern Shipping to an undisclosed buyer. AHTs Elbe and Ems (7,180 BHP, Apr 2006, Zamakona Shipyard) were sold to an undisclosed buyer. Larger AHTS values were reviewed and have fallen significantly.

In the MODU sector, Jack Ups Hercules 350, 300 and 173 were sold to White Fleet Drilling after being bought in January by Enterprise Offshore Drilling. Semi-Submersible West Mira (9,840 FT, Jul 2017, Hyundai Samho Heavy Industries) was bought at resale by John Fredriksen's Seatankers."

CHARLIE HOCKLESS
Senior Offshore Analyst

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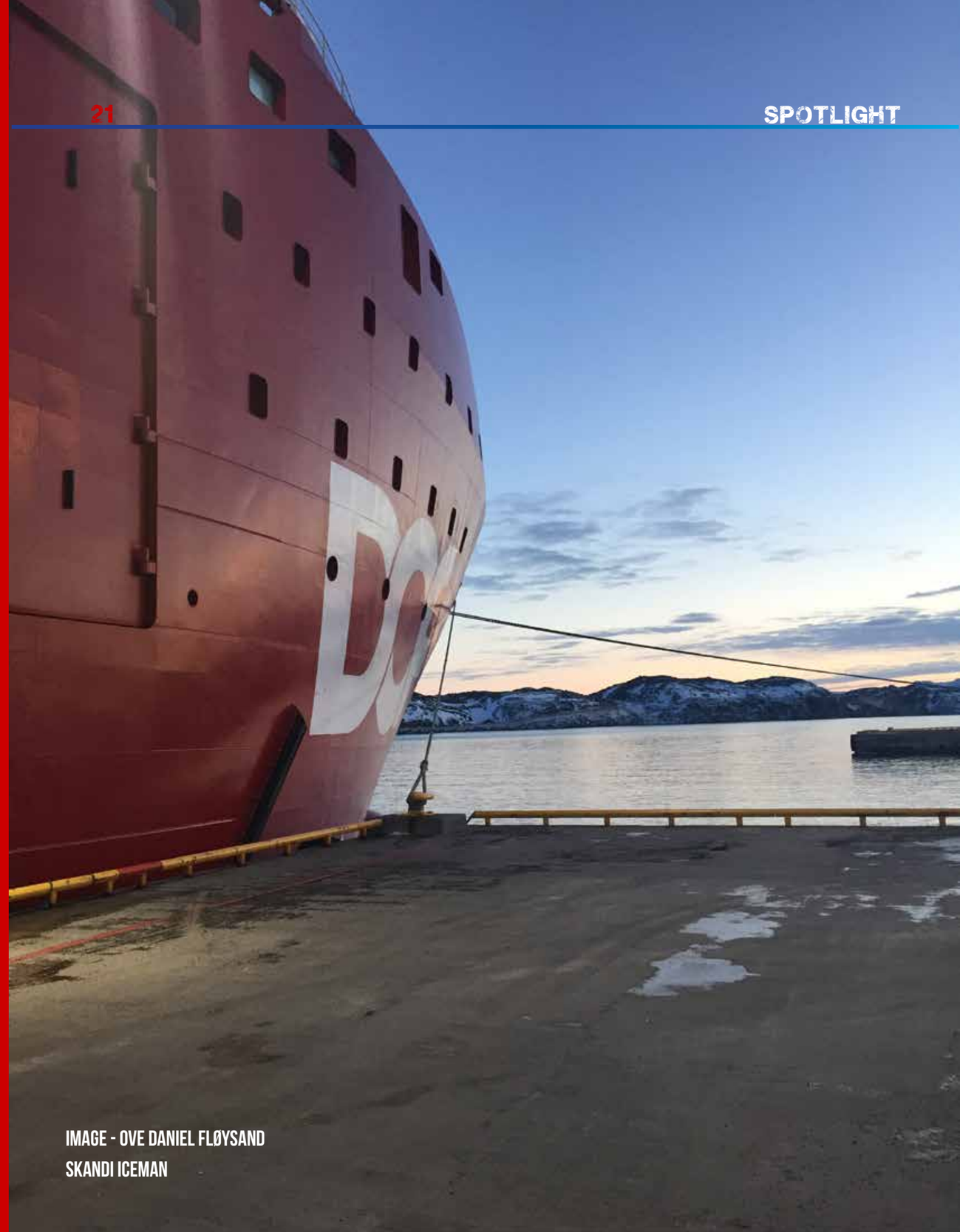

IMAGE - OVE DANIEL FLØYSAND
SKANDI ICEMAN

OFFSHORE VESSEL SCRAPPING

Why so few vessels get scrapped despite hundreds of vessels with no work to do.

THIS PAGE - IMAGES OF CHITTAGONG SHIP BREAKING, BANGLADESH 2014
NEXT PAGE - IMAGES OF SHIPBREAKING YARDS IN GADANI, PAKISTAN 2016

COURTESY OF NGO SHIPBREAKING PLATFORM 2014 & LUKASZ WYPIOR

There is a gulf of distance between the analyst sitting in front of a spreadsheet detailing the age of a fleet of vessels and a shipowner gazing out the window at a fleet of ships built decades ago which he cannot find work for. But the analyst rarely appreciates the plight of the shipowner and the shipowner has little time for the 'bigger picture' highlighted by the analyst's spreadsheet. It will be the analyst who will grab the most headlines with conclusions of the number of vessels that "need" to be removed from the market. But both sides have a point, and here it is broken down.

The need for scrapping

On a global basis as well as in Europe, the fleet of offshore vessels is relatively young in comparison to other shipping sectors. Advancements in technology plus increasing demands in safety standards have seen the offshore fleet burgeon in the past decade. Sixty percent of the global fleet of AHTS and PSVs is less than ten years old, 74% is less than 15 years old. This leaves a small yet not insignificant number of old vessels still in existence. Around 20% of these vessels are over 20 years old and some of these were built back in the 1970s. In the North Sea the standard of vessel has sky rocketed. While in many cases the rigs being moved are the exact same rigs that were moved back in the 80s (Bideford and Blackford Dolphin are two semisubmersibles currently drilling in the North Sea and were built back in 1975), the vessels required to move them have gone from a Ford Model T to a Tesla Model X. With vessel utilization at an all-time low and even the space ships struggling to get work, how can a thirty year old vessel still trade in a market that has advanced at this rate?

Last month we looked at the vessels that are currently in layup in the North Sea. Of the 102 PSVs that were in lay up at the time of writing, around 15% of them were over 15 years old. On the one hand it can be argued that as the competition is so much younger and more technologically advanced, these older vessels will really struggle to compete against the newer vessels.

Why it just aint gonna happen

Cash is king as we all know. Ships are sold for scrap based on the value of the weight of the steel. For an offshore vessel the value of the ship lies in its technical capability, not just in the sheer weight of the metal. The weight of steel in an offshore vessel is a fraction of that of a tanker or dry bulk vessel, to the extent that the sale of an offshore vessel for scrap may not even cover the cost of towing the thing to the breakers yard. Moreover for vessels that still have debt attached it could force the owner to breach debt covenants. This has meant we have always seen extremely low levels of offshore vessel scrapping. In 2016 offshore units (including drilling platforms) represented just 6.3% of all scrapped units worldwide. Typically it is owners with diversified fleets that tend to scrap vessels, offshore-only owners rarely venture to the breakers yards. Then there's the issue that in many cases we are talking about perfectly good vessels here, well maintained and capable of carrying out offshore operations. In the case of some of the Norwegian PSVs (although not exclusively) these vessels have been kept to a high standard and if a willing buyer can be found, a twenty year old well maintained Norwegian PSV can be a good buy. But therein lies the rub, finding the willing buyer. Looking at the list of vessel sales that have concluded over the past couple of years among the older vessels, many if not most have gone to players out of the offshore market. Finding a small company in the back waters of nowhere with a genuine need for an old PSV is far preferable to sending her to the supply vessel glue factory. But in the end the effect on the market is the same, sale or scrap – that old girl is gone from the market forever.

The current market down turn is as much as a result of over-supply of vessels as it is lack of activity offshore. But the key to digging ourselves out of this hole is not scrapping older vessels, and even if it was, resting any hope on that is unrealistic.

THE HIDDEN COST OF OFFSHORE WIND

The cost of generating power from offshore wind farms has rapidly declined over the past two years, but there's one huge problem that nobody is talking about...

The race to reduce costs and set offshore wind farms en par with other forms of power generation has been advancing at a phenomenal pace. New wind turbines are now bigger than the London Eye, these massive structures can generate as much as 8MW of power and there are no signs that advancements in the industry will stop any time soon. Statistics of how much energy is generated from an offshore wind field make for easy reading when they are expressed in how many households can be powered. For example the offshore wind farm that currently holds the record for being the largest in the world – London Array, meets the energy needs for some 500,000 homes. This huge field covers an area of 122km2 and has 175 turbines. But there's one particularly troubling problem with these impressive statistics. What happens when the wind changes direction? Experts say that when this happens the turbines are forced to turn in the opposite direction – the result being that instead of generating power, these massive turbines start sucking power from the grid! So that feel good factor of clean, green wind turbines generating nice clean wind energy for half a million innocent households suddenly becomes a giant energy drain on society with the simple change of wind direction.

#fakenews
Happy April fool's day in advance.

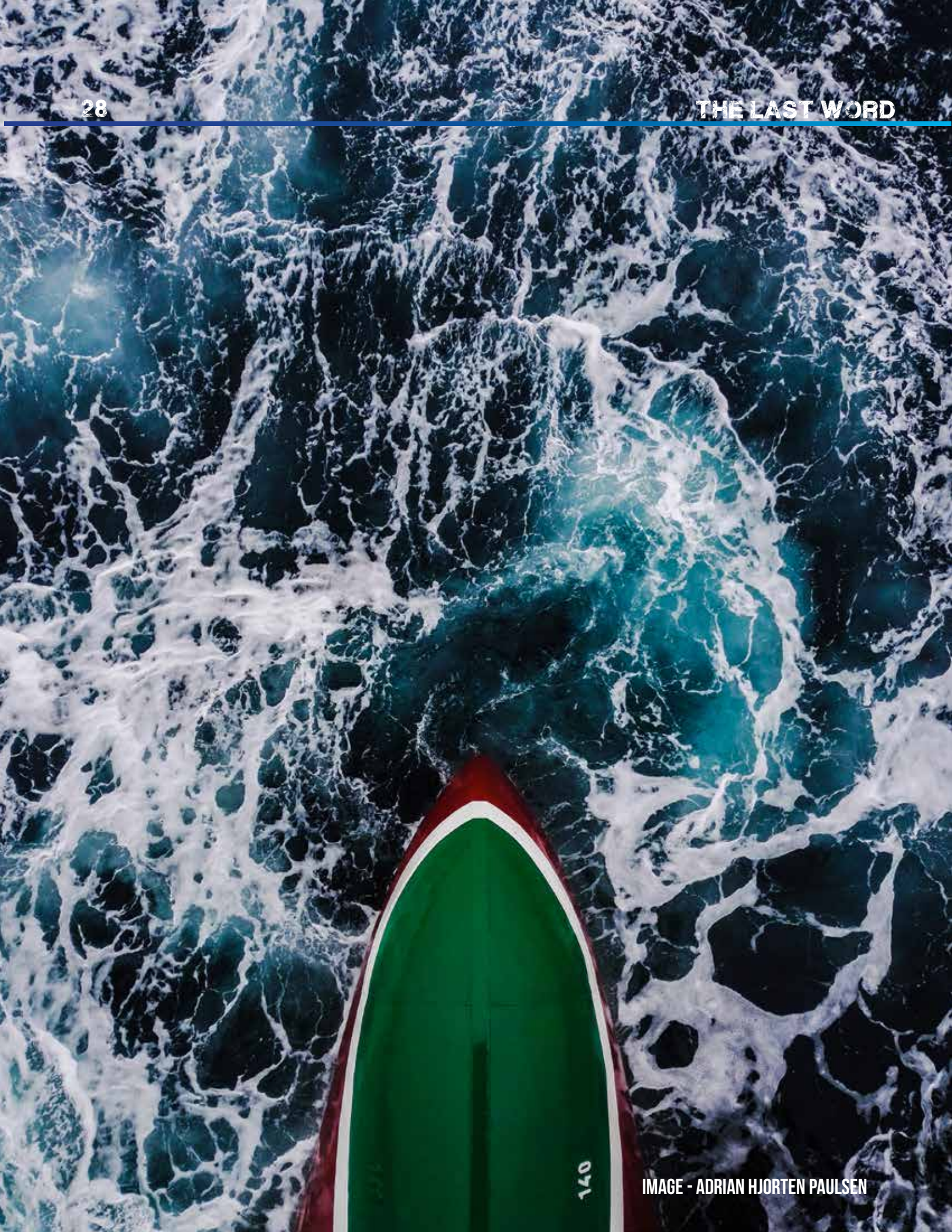

IMAGE - ADRIAN HJORTEN PAULSEN