# THE NAVIGATOR

WESTSHORE'S MONTHLY NORTH SEA REPORT

## All eyes on the East

China's influence on oil and gas the world over

## The PSV market

Will the tight market prevail?

WESTSHORE
SHIPBROKERS AS

AUGUST 2013

ISSUE 24

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## Edison Chouest

Edison Chouest is a family company based out of Louisiana and whose reach into the offshore support vessel world goes further than most know. This month it announced a massive expansion programme that will see an additional 40 vessels contracted to bolster the Chouest fleet. The company encompasses shipbuilding and ship design in addition to the owning and management of nearly 250 vessels in existence. While the company's home territory is undoubtedly the US Gulf of Mexico, a successful impression has been made in several other oil hubs, not least in Brazil. There Chouest has established NavShip, a 124,000 square foot facility providing shipbuilding, inspection and repair services to the Brazilian fleet. The establishment of the Brazilian shipyard and resultant Brazilian-built vessels has allowed Chouest to circumvent many of the problems faced by foreign owners with Brazilian aspirations.

The announcement of 40 new vessels to be built takes into account new tonnage for the US Gulf, Brazil and crucially the Arctic. Two new ice class vessels are destined to join the Chouest Arctic fleet, which will total six when the vessels deliver and will support Shell's drilling activity in Alaska. Shell's drilling activities are at present on hold with no plans to resume operations this year.

## Increased interest in Eastern Europe

While the construction of hulls in countries such as Romania, Ukraine etc. is nothing new for the Norwegian owners who then take these hulls for outfit in Norway, many are beginning to turn their attention towards complete construction at Eastern European facilities.

This month two new orders for LNG-fuelled PSVs were placed at Polish shipyard Remontowa. The owner behind the orders is known to be a major-Norwegian player. Meanwhile the yard has recently delivered two PSVs to Gulf Offshore, the Highland Defender and Highland Chieftain. Other orders have been placed this year for increasingly specialised vessels to be built at Remontowa and relations between Norwegian players and the Polish outfit has certainly gone from strength to strength.

The Bergen Group, which among other activities is actively involved in the building of advanced offshore vessels, has just announced an acquisition by Ukrainian Shipyard Zaliv, of 51% of its shares. The Ukrainian company has then an option to acquire the remaining shares at a later date. Bergen Group was responsible for the construction for such vessels as Island Enforcer, Normand Pacific, Ocean Response and several seismic vessels.

## Deliveries

**August 2013**
World Peridot Damen 3300CD
Toisa Envoy VS4616
Highland Chieftain MMC879CD
Makalu Havyard 832

**September 2013**
Blue Protector PX121
Demarest Tide PSV 09 CD
Skandi Iceman STX AH 12
Highland Guardian MMC887CD

**October 2013**
Island Duchess UT 717CD
Toisa Explorer VS 4616
Highland Knight UT755XL
Edda Ferd ST920

**November 2013**
North Cruys ST216 Arctic
Seabed Supporter 'Sawicon Design'

**December 2013**

**January 2014**
Ugland TBN Salt 100 PSV
Island Dawn UT717CD
Troms Arcturus PSV 07 CD

**Recently Delivered**
North Pomor ST216 Actic
Highland Defender MMC887CD

# Activity mounts in the Arctic as Westshore celebrates its first birthday



As we saw last month in our Westshore update, the Arctic office has come a long way in the months since its inception. This month however Managing Director Darrell Cole is hosting a small gathering at the office to celebrate being in business for one whole year. The Arctic team have been busy since the office opened and this very much echoes the activities in the region in general. Going forward the view is still the same, increased activity, more players entering the market and more and more interest being shown in the icy North.

One such player is Singapore outfit Swire Pacific, recently announcing it had joined forces with St John's-based Petroforma to create a company able to best serve its clients in Canada and Greenland. The company has stated it intends to be present in the region 'for the long haul' supplying marine services to the offshore industry. The growing interest from offshore supply vessel owners has burgeoned in the last 12 months with most if not all serious players investigating opportunities there and dropping into the Westshore Arctic office whilst doing so.

From the oil companies perspective news is eagerly awaited on a number of projects which will see business opportunities presented to many. Seismic acquisition has been in full flow this year with Shell currently shooting and analysing the results of surveys which will lead to a multi-well programme in 2015. BP has yet to establish an office in Nova Scotia but this is expected to happen imminently at which point seismic acquisition would be the next step, a contract for this is anticipated in the coming weeks for surveys to begin early 2014.

In the Northeast area of the Barents Sea the Norwegian Petroleum Directorate has resumed a 2D survey that is had begun in 2012. The survey is being done on behalf of the Norwegian Government in an attempt to gain an overview of potential resources in the environmentally sensitive area. At present only the NPD has permission to acquire seismic data in areas not currently open for petroleum exploration.

# DRILLING & PRODUCTION

## Technip Awarded EPIC Contract

Technip has been awarded an EPIC contract with Chevron for the North Sea Alder field. The contract is scheduled to be completed in 2H(15). The contract value was not disclosed, but Technip deems substantial subsea contracts in the range EUR100-250m.

## DOF Subsea bags mooring work

DOF Subsea Norway has been awarded a contract for mooring pre-installation, tow-out and hook-up for Teekay Petrojarl 's newbuild FPSO, which will be installed on the Knarr field during 2014.

## Rig players battle over Johan Sverdrup jackup

SDRL is understood to be competing with Maersk Drilling and Transocean for Statoil's USD1.2bn 8Y Johan Sverdrup newbuild jackup charter, commencing Q4(18). The Johan Sverdrup jackup is expected to cost USD650m. The contract will be awarded in November 2013

## Stena pair set for North Sea

It is understood that the two USD800m harsh semis (Moss CS60) ordered by Stena Drilling will be built at Samsung and will be deepwater capable but targeted primarily for the North Sea (incl. Norway). Deliveries scheduled for Q2(16) and before YE17.

## Maersk Giant fixed

Maersk has been awarded a 1Y contract offshore Norway for the jackup Maersk Giant from an undisclosed operator. The charter will commence Q3(14). Maersk Guardian is contracted until Q4(14), and leaves it as the only available jackup in Norway before mid-2015.

## OMV expands

Austria's OMV is undergoing major expansion plans for its North Sea activities as it prepares to increase staffing levels by 1600 personnel. The company has recently made significant upstream investments in Norway and the Black Sea, and will be recruiting primarily to support these projects. OMV is a partner in developing the Aasta Hansteen and Zidane gas fields in the Norwegian Sea, where its activities will include building a large, state-of-the-art gas platform. In the Black Sea, OMV is working on developing what it says may be the largest gas discovery in the company's history. OMV said it is planning on investing $2.6 billion during the next few years on upstream activities.

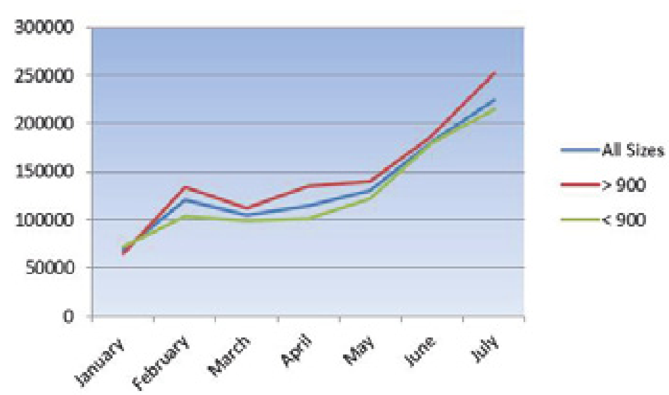
# The PSV Market

**Will the good times seen so far this year continue on? Or do rough seas lie ahead for the PSV fleet?**

The PSV market this year has gone from strength to strength. With rates for the larger-decked vessels at all-time highs on the spot market. This flies right in the face of concerns voiced from several people regarding over supply from too many newbuild contracts being placed. As despite the steady stream of new vessels entering the market they have all been successfully absorbed, many of which enjoying brief yet lucrative periods on the spot market before commencing solid medium to long term contracts.

The summer of 2013 has given PSV owners in the North Sea plenty reason to smile. Utilisation rates on the spot market have rarely fallen below 90% and rates have climbed to (at time of writing) not far off GBP 30K per day. The tight market has resulted in a shift of contracting approach from many of the North Sea charterers, planning ahead being the key. Longer option periods in charterer's favour have been an obvious stipulation but firm periods have also been longer than normal in order to reduce charterer's exposure to the climbing market. Instead of waiting until the moment of absolute need, a wise charterer or at least one with a wise broker, has approached the market in good time ahead of commencement of the contract itself. This is shown in the number of new fixtures done month on month compared to previous years, far fewer this year than what's come before.

Monthly average rate for PSVs (NOK)

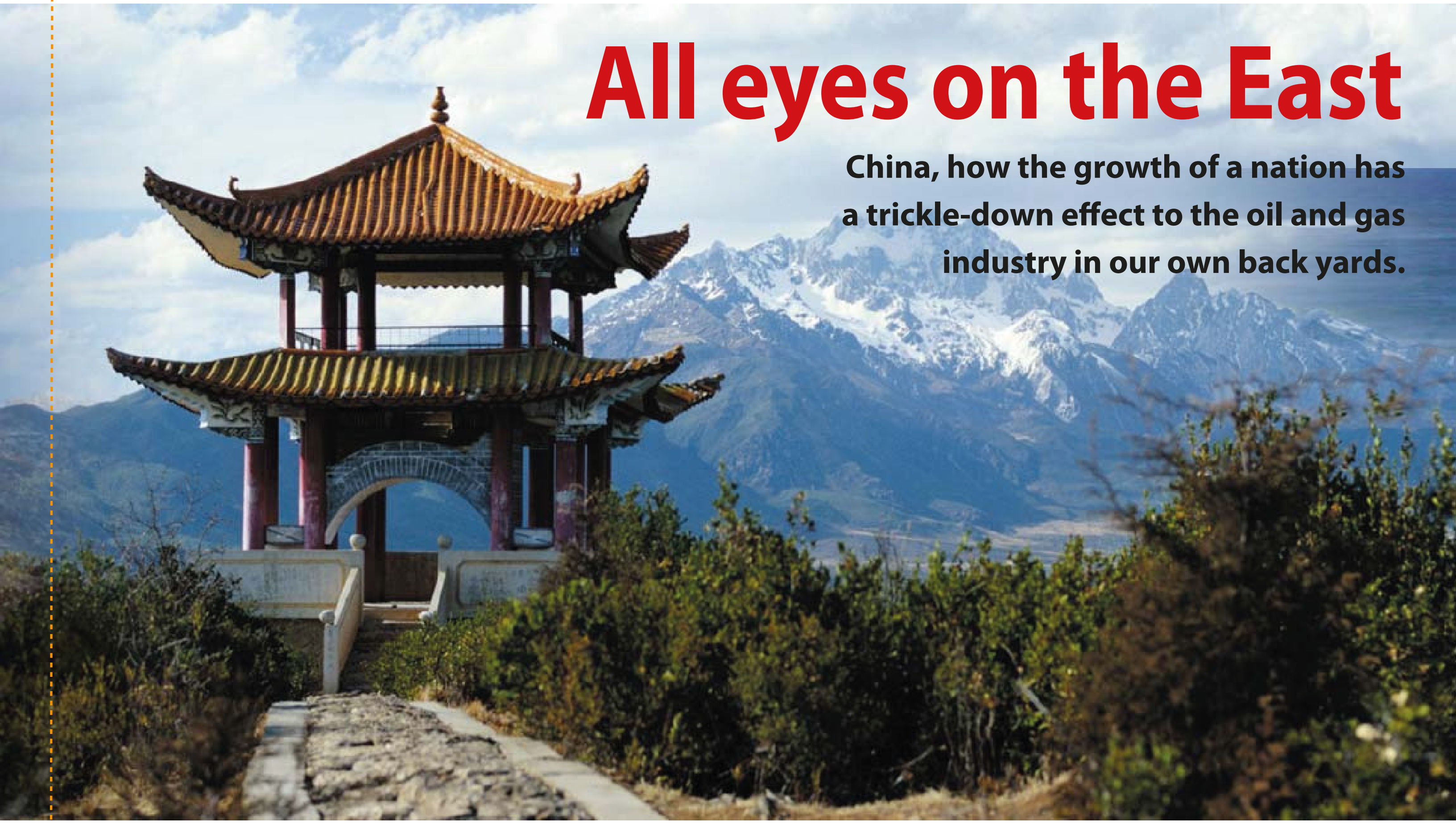


## So what lies ahead for the PSV market?

On the supply side the delivery schedule of new vessels shows little change from the past 12 months with between one and four vessels delivering per month over the next six months at least. The heavy term contracting activity seen at the start of the year largely involved mid-term charters of two to four wells, keeping vessels on hire over the summer at least but many could return in the autumn if options are not taken. But therein lies the key, and we are already seeing Statoil start to take up options on contracts closest to expiring. The spread of charterers is fairly wide with Statoil coming top as most prolific taking the biggest portion of PSV vessels on term contracts. This reflects Statoil's policy of taking more vessels on term charter and reducing its exposure to the spot market this year. Having accurately anticipated the demand for this type of tonnage and work scope several vessels were taken on four plus four month contracts at the start of the year, the options are now beginning to come up for declaration. Moreover excess capacity from AHTS vessels is being successfully utilised for cargo work thereby further reducing the need for Statoil to dip into the spot pool.

All indications coming from charterers are demand for supply work will not diminish. There is no let-up in drilling commitments for the remainder of this year at least and with the supply of new tonnage not at a level to play a significant role the market could very well remain buoyant for the rest of 2013. Rate-wise it would seem reasonable to say that fixtures on the spot market for the larger vessels particularly on the Norwegian side will stay at around NOK 250-275K per day over the summer and if not maintaining such a high level after that, then still remain relatively high.

If anything with autumnal storms not far round the corner, small jolts in the ability of operations to go ahead could cause periods of exceptionally high rates.



# All eyes on the East

**China, how the growth of a nation has a trickle-down effect to the oil and gas industry in our own back yards.**

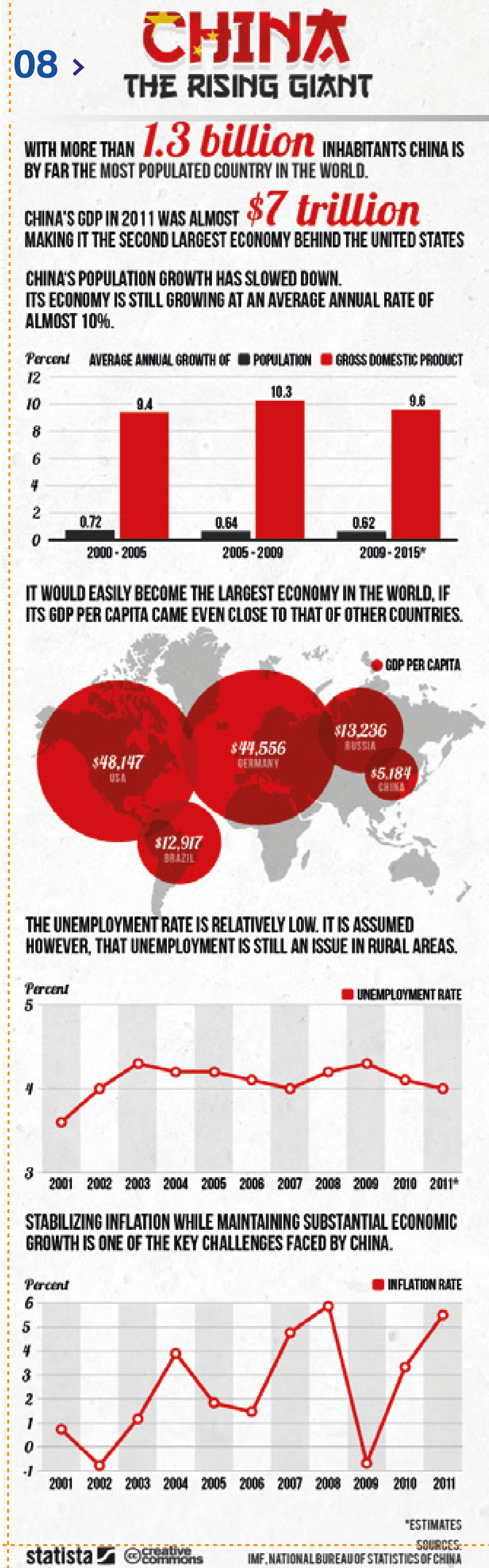
We in the West go about our business planning and executing drilling programmes, speculating on the profitability of projects, enjoying the fruits of a high oil price and an excellent economy thanks in part to this industry we work in, but the landscape we thrive in now would look very different if it were not for one country, China.

The most populous nation on the globe has propelled itself through massive growth since the late 70s through a series of fiscal and economic reforms. As the fourth largest country in the world it is better viewed as a collection of several regional economies, with great imbalances existing between the rural and urban areas.

The Chinese economy has consistently grown since then, the average over the last 20 years being around 10% per annum. This aggressive growth has had a global impact, not least through the oil and energy sector. The move away from agriculture to a focus on manufacture and industrialisation resulted in huge demand for oil. Oil for transportation, for manufacture, for fuel of the increasing number of people elevated into the middle classes and to sustain the growth of new infrastructure. The extent of this demand has taken us to a situation today where China is the second largest consumer of crude oil after the US and is rapidly closing that gap. The figure in 2011 showed China imported 5.5 million barrels per day, that means the entire recoverable reserves at Johan Castberg wouldn't keep China going for more than 50 days.

The largest suppliers of China's crude needs are met from the Middle East, Russia and parts of West Africa but the supply of resources is far from limited to these areas. So much so that oil price has been heavily affected by the rising demand that's come from China. And it's been a two way street as far as the investment is concerned with China heavily investing in emerging nations in Africa in particular. This investment has allowed several projects to get off the ground in the oil basins surrounding the African continent, without which many could not have gone ahead.

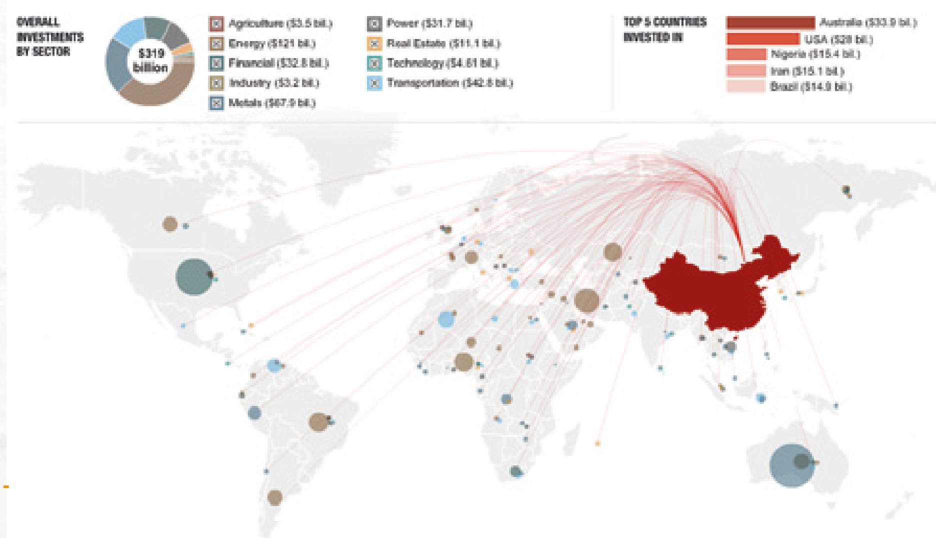
General consensus asserts that the growth seen over the




past 20 years in China is not sustainable, the Chinese Government is therefore taking steps to curb the growth to a more 'manageable rate'. Whether this proves to be successful is another matter. Economists the world over are watching and forecasting the growth rate with keen interest with the knowledge that a slow-down will have wide reaching implications. At present the experts are predicting anything from growth slowing to 3% to it remaining at current levels. A range of factors come in to play, one of which is the shift in social demographic that has come about in the last 30 years. Literally millions of people have been lifted above the poverty level, many elevating themselves to the middle classes where items such as cars, or even second cars are an 'essential'. The luxury goods market has seen a boom in China and the energy requirement that comes with it has had to keep pace.

The key issue for the rest of us is the dependence we have come to have on this growth. Without it, oil price will drop and many of the projects on the cards in more challenging areas offshore will be called into question. Recent tax changes by the Norwegian government resulted in loud protests from operators regarding on-going profitability of marginal fields. Many of these fields were dependent on oil price remaining at around USD 80 per barrel and fiscal regimes and benefits staying as they were. Tax changes aside the forecasted oil price is the deciding factor for oil companies when deliberating new projects. The effects of shelved offshore projects would cascade right down the supply chain from the largest to the smallest suppliers affecting the economy as a whole.

The conundrum will unlikely be resolved soon. If anything with other developing nations like India and parts of Africa hot on the heels of China, the picture is just getting fuzzier. We live in an increasingly interdependent world where supply and demand form links far and wide. But there's no doubt that a shock from the emerging nations could lead to some pretty serious consequences for the whole world and it may be closer on the horizon than we think.



# IN & OUT

## AHTS

| Vessel | Design | Manager | ENTRY | From |
|---|---|---|---|---|
| Siem Garnet | VS491 CD | Siem Offshore | Mid-Aug | BARD |
| Maersk Laser | Maersk L Type | Maersk Supply | End - Aug | BP UK |
| Skandi Iceman | Vard AH12 | DOF | Mid - Sept | Newbuild |
| Strilborg | Ut722 | Møkster | Mid - Sept | AGR |

| Vessel | Design | Manager | EXIT | To |
|---|---|---|---|---|
| Siem Amethyst | VS491CD | Siem Offshore | Start - Aug | Hebron |
| Maersk Assister | Maersk A-type | Maersk Supply | Mid - Aug | DeepOcean |
| Normand Atlantic | UT740 | Solstad | Mid - Aug | Technip |

## PSV

| Vessel | Design | Manager | ENTRY | From |
|---|---|---|---|---|
| Bourbon Topaz | Ulstein P105 | Bourbon | Start - Aug | ExxonMobil Ireland |
| Bourbon Calm | Ulstein P105 | Bourbon | Start - Aug | ExxonMobil Ireland |
| Bourbon Clear | Ulstein P105 | Bourbon | Start - Aug | ExxonMobil Ireland |
| Stril Odin | MT6000MKII | Møkster | Start - Aug | BP Norge |
| UP Jasper | VS483MkII | Gulf Offshore | Start - Aug | Allseas |
| World Peridot | Damen 3300 | Remøy | Mid - Aug | Newbuild |
| Sea Trout | VS470MkII | DESS | Mid - Aug | EnQuest |
| FD Incomparable | UT755L | Gulf Offshore | Mid - Aug | E.On |
| Highland Chieftain | MMC879CD | Gulf Offshore | Mid - Aug | Newbuild |
| Olympic Princess | MT6000MKII | Olympic Shipping | End - Aug | Petersons |
| Energy Insula | VS485 MkIII | Golden Energy | End - Aug | COP |
| Olympic Energy | PSV06LNG | Olympic Shipping | Start - Sept | COP |
| Viking Nereus | UT755L | Eidesvik | Start - Sept | BG UK |
| Skandi Captain | MT6009FSV | DOF | Start - Sept | Petrobras Brazil |
| Highland Guardian | MMC887CD | Gulf Offshore | Mid - Sept | Newbuild |
| Olympic Orion | MT6015 | Olympic Shipping | Mid - Sept | BP UK |

| Vessel | Design | Manager | EXIT | To |
|---|---|---|---|---|
| Bourbon Rainbow | Ulstein PX105 | Bourbon | Mid - Aug | TBA |
| Rem Supplier | UT755LN | Rem Maritime | Mid - Aug | Centrica |
| Stril Odin | MT6000MKII | Møkster | Mid - Aug | Esso Norge |

**Sales concluded**

| Vessel | Design | Previous Manager | Year Built | Sold to | New Name |
|---|---|---|---|---|---|
| Highland Champion | UT705 | Gulf Offshore | 1979 | COG Offshore | NSO Champion |

# The Market in July

| Average Monthly Rates (NOK) | | | | | |
|---|---|---|---|---|---|
| | *Vessel Type* | *jul.13* | *jun.13* | *jul.12* |
| AHTS | > 25,000 | 466 934 | 583 338 | 274 293 |
| | 18,000 to 25,000 | 380 393 | 535 010 | 192 854 |
| | < 18,000 | 282686 | 305331 | 172086 |
| PSV | > 900 m² | 252 612 | 187 081 | 110 614 |
| | < 899 m² | 215 108 | 179 768 | 83 240 |

| | jul.13 | jun.13 | jul.12 | jun.12 |
|---|---|---|---|---|
| # of spot supply fixtures | 60 | 58 | 70 | 74 |
| # of rig moves | 20 | 19 | 26 | 27 |
| # of AHTS fixtures | 70 | 63 | 77 | 74 |
| Average Utilization (%) | | | | |
| *AHTS* | 72.6 | 81.0 | 74.7 | 70.2 |
| *PSV* | 97.1 | 94.6 | 81.0 | 88.3 |

July has proved to be an exceptional period on the spot market, more so on the PSV side but the AHTS vessels have fared well too. The utilisation figure didn't drop below 90% the entire month and the PSV market was completely sold out for days at a time. The rates were impacted greatly by the squeeze, coming in at levels not seen in years. Although the number of new fixtures this past month was down on last year, charterers choose to keep vessels on hire as long as they had a perceived need and beyond that too in some cases. This resulted in a lower number of fixtures but kept the utilisation high. A profitable month indeed for owners of larger PSVs. Term charters that commenced at the start of the year are creeping into option periods now and one by one charterers are beginning to declare these options while the spot market stays at this level.

The AHTS enjoyed a steady month with average rates this July higher than they have been in the same month the last three years. The market opened up considerably at the end of the month as the list of available vessels grew quickly in Aberdeen and utilisation plummeted. The gap between day rates for PSVs and AHTS shrunk by the day as the AHTS market opened up but the PSV market stayed tight and the number of AHTS vessels being fixed for cargo work was on the up too.