THE NAVIGATOR

WESTSHORE'S MONTHLY NORTH SEA REPORT

The Market in 2014

Our view on what is on the horizon for the North Sea

Norway vs Global Builders

Competing in the international construction market

UKCS needs a new vision

Sir Ian Wood lays out his plan to revive declining fortunes

WESTSHORE
SHIPBROKERS AS

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Cover photo courtesy of BG Group

Can Sir Ian Stop the Sun from Setting on UK Oil?

When the UK Government asks one of the industry's biggest heavyweights Sir Ian Wood to carry out a review into the industry you know it means business. This has come against a background of falling production rates, ageing infrastructure and ever complex and burdensome bureaucracy and tax regimes. Despite the fact that current investment is at an all time high of GBP 13.5 billion, production rates have plummeted by 38% over the past three years and there has been a rapid fall in production efficiency from 70% to 60%. This has hit the UK Government where it hurts, in the pocket. The production drop has cost the UK Treasury an estimated GBP 6 billion in potential tax at a time when the entire economy was slowing down and the money was needed most. At the same time exploration declined and led to less than 50 million boe being discovered in 2012.

Although the former head of Wood Group might consider himself an unlikely hero, that is exactly what he could be to an entire national industry if he is able to turn the situation around. In the period between 2012 and 2013 the industry paid GBP 6.5 billion in corporate taxes on production which

made up for over 15% of all corporate taxes in the UK. The industry supports 450,000 people and accounts for the international export of related UK goods and services worth GBP 7 billion.

After more than 80 interviews covering companies that account for more than 95% of the UKCS production and investment and also meeting with regulators from the USA, Norway, the Netherlands and Australia he has laid out his initial findings ahead of a full report which is set to be published in early 2014.

His report puts forward a new strategy for Maximising the Economic Recovery from the UKCS (MER UK). There have already been 41 billion barrels of oil equivalent produced from the UKCS although it is estimated that there is potential for a further 12 to 24 billion boe more.

In his report Sir Ian Wood gives high importance to the West of Shetland area as a vital area for development under a new regime that can help make the most of this frontier region. Exploration drilling has halved in the last ten years on the UKCS and in his report he makes the case for encouraging a surge in this work.

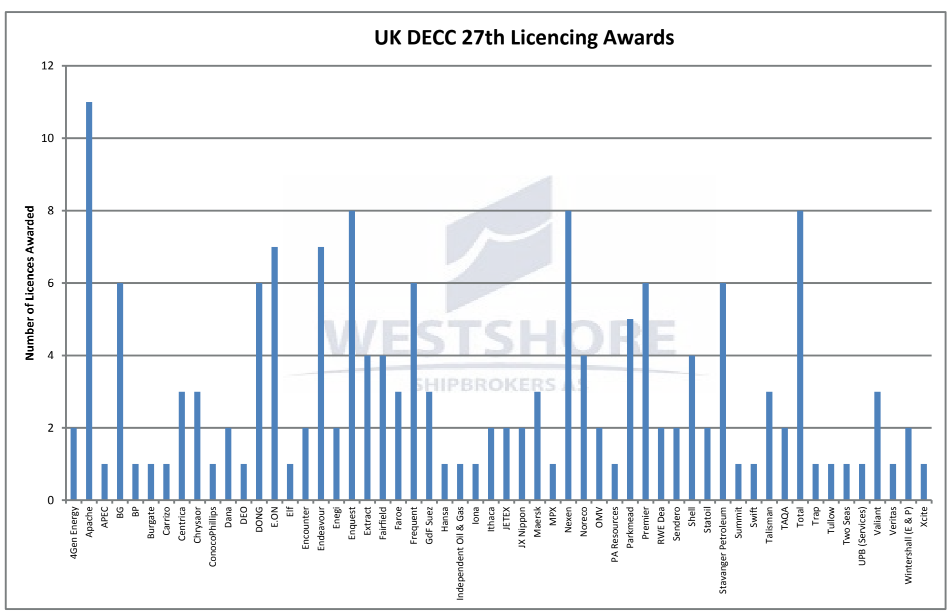
The fact that the Johan Sverdrup discovery of 1.8 billion boe in Norway was made so close to the border of the UKCS has shown the potential for future exploration and the importance of incentivizing additional seismic and exploration activity.

A stronger more robust and powerful regulator will be required to enforce the proper industry stewardship of the UKCS resources going forwards. This body will also be required to ensure that the fields and infrastructure are developed for the benefit of the country as a whole to extract the maximum potential rather than left up to individual oil companies to pursue their individual commercial interests and neglect the bigger picture.

"With such high stakes involved it would pay for those in power to sit up and take notice."

One of the key areas omitted from the report is the tax structure which has been deliberately excluded from the terms of reference although Sir Ian Wood makes a deliberate point of stating that it featured heavily in the interviewees' comments.

Essentially the report wants to beef-up rather than do away with the existing regulator, which he views as working hard with the resources it has but as essentially overwhelmed by the complexity and the size of the modern offshore industry. With the UK regulator containing only 50 personnel compared with 220 at the Norwegian Petroleum Directorate and 100 in the similar body in the Netherlands it is inadequately staffed when compared to its peers.



This new body, which Sir Ian believes should be set up at the earliest opportunity, would have responsibility over governing the stewardship of assets and infrastructure in the UKCS to maximize the economic recovery of resources. In addition it would act as an arms length regulator over field development and infrstrucutre disputes and push for rapid resolutions and development of resources and encourage further exploration in the region.

"The new body should be set up at the earliest opportunity."

It would oversee a new code of practice that would see the industry required to commit to the principle of maximizing the recovery from the UKCS and committing to working with the regulator to develop effective clusters with nearby licence holders to make economic use of existing infrastructure and production facilities and allow sharing agreements for the same.

He believes it is only through this collaborative new plan of cooperation between the oil companies with the regulator providing an oversight and an independent channel for communication that the UK Government will be able to reverse the recent trends.

The latest licencing round in the UK has shown there is still a thirst among some oil companies for the opportunities in the region although there were also a record breaking number of awards to independent oil companies. Apache stole the show by taking 11 new licences with Enquest, Nexen and Total the next biggest holders taking eight each. Among the smaller companies Endeavour took seven licenses, Frequent took six along with Stavanger Petroleum and Parkmead got five. Some big names in the UK failed to show much interest and BP took only one licence, Taqa took two and Talisman took on three.

In conclusion Sir Ian Wood believes the recommendation in this report could potentially deliver an additional 3-4 billion boe more than would otherwise be recovered. This figure would be worth around GBP 200 billion to the UK economy at today's prices.

With such high stakes involved it seems it would pay for those with the power to change the structure of UK regulation to sit up and take notice. This first draft of the report is a shot across the bows of those who have overseen the decline in the UKCS. The full version, which comes out next year, will be a call to arms for those who believe a new robust regime will be the only way for the UKCS to fulfill its potential as a vital part of the UK energy mix and wider energy security in the future.

UKCS in Figures

UK Fields rose from 90 in the early 1990s to over 300 today.

41 Billion barrels of oil equivelent have been produced to date.

12 to 24 further billion boe could be produced in the future.

Average UKCS Discovery Size in the past 10 years: 25 million boe.

90% of UK Fields are producing less than 15,000 boe a day.

Development costs have risen five-fold in the last decade.

By 2030 Oil & Gas will still be 70% of the UK's primary energy mix.

The UKCS provides 66% of UK oil demand and 50% of the UK's gas demand.

Market anticipates further Goliat Delays

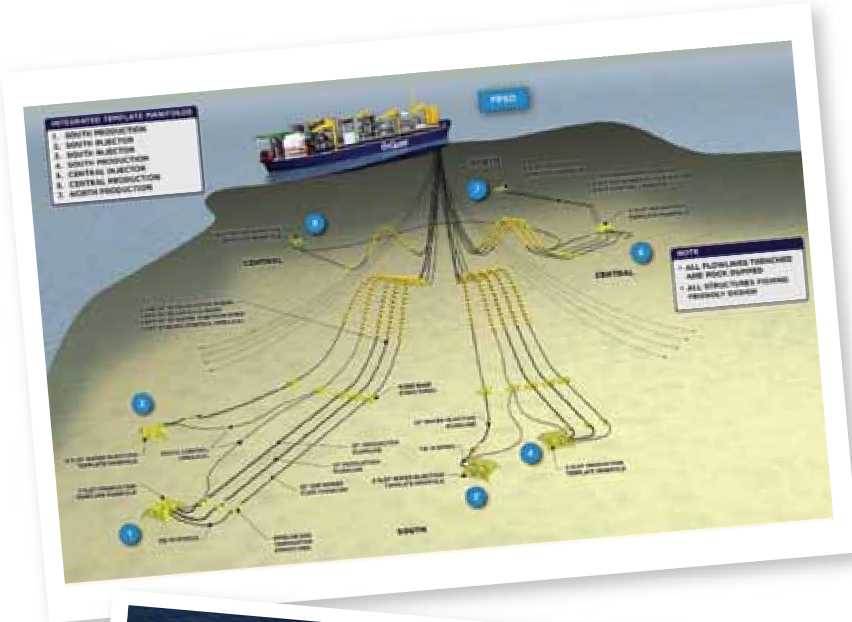
Eni's flagship Barents Sea project Goliat could potentially encounter further delays according to a series of market rumours. It is understood the complex cyclindrical FPSO which is under construction at Hyundai Heavy Industries maybe be more delayed than initially anticpated. The platform has been built with a 20m freeboard and designed to withstand temperature of minus 18 degrees. The Goliat project has experienced a number of issues as Eni seeks to break new ground with what will be the first oil field to come on stream in the Barents Sea. The field contains around 174 million barrels of oil and 8 billion standard cubic metres of gas which will be developed via FPSO.

Statoil Geitungen Spud

The Norwegian national oil com-mpany has announced plans for a an appraisal at its Geitungen discovery which will target further potential resources near the Johan Sverdrup find offshore Norway. Furthermore it is understood that a resources update on the mammoth Johan Sverdrup find, due before the end of the year, could increase the potential recoverable resources at the field. Current estimates range between 1.7 and 3.3 billion barrels of oil in place.

Lundin Petroleum is also expected to carry out work near the Johan Sverdrup find when it takes on the Island Innovator semisubmersible rig. The oil company is planning a sidetrack at it Torvastad prospect estimated to take around 45 days before it moves the rig on to a further well at the Kopervik prospet in PL 625 west of Utsira High.

Kraken Gets the go Ahead



Enquest has been given the approval of the DECC for the GBP 4 billion Kraken development in the East of Shetland. The scheme represents the largest investment in the UK North Sea this year and plans to extract 140 million barrels of oil over a 25-year period. The field development will consist of 25 wells tied back to an FPSO from Bumi Armada.

Bumi Armada chief executive Hassan Basma said: "We expect that the heavy oil production technology applied in the Kraken FPSO will unlock similar heavy oil reserves in the North Sea and other parts of the world." The unit will have a storage capacity of 600,000 barrels and will be moored via a buoy turret mooring system. First oil from the Kraken project is expected to be delivered in either late 2016 or early 2017.

Pharos hits Gas for Dana

Dana Petroleum has made a gas discovery in the Southern North Sea with its Pharos exploration well. The well, which was drilled by the Noble Lynda Bossler rig, will undergo detailed technical and evaluation work to assess its commercial potential. Meanwhile, the Noble Lynda Bossler rig returned to the Dutch Sector of the North Sea for further operations with Dana.

Jasmine first gas for BG Group

BG Group has announced that has produced its first gas from the Jasmine field in the North Sea. Once the project reaches peak production it is expected to contribute around 30,000 barrels of oil a day net to BG Group. The Jasmine field is the largest discovery to come on stream in the North Sea since the Buzzard field began production in 2007.

Newbuild orders come in

Østensjø Rederi has taken delivery of the Edda Ferd which it claims will be the world's most environmentally friendly PSV. The vessel was delivered from the Astilleros Gondon shipyard in Spain before sailing to Aberdeen to commence a five-year contract with Shell.

Fincantieri has secured an order from the Institute of Marine Research in Norway for construction of an oceanographic icebreaker for operating in polar waters. The vessel, which will be named Kronprins Haakon, will be built in Italy before undergoing outfitting and sea trials in Norway at Vard. It is expected to be launched in the second half of 2016 and will be fully operational from the beginning of 2017. It will have a gross tonnage of 9,000 tonnes, a length of over 100 metres and be able to accommodate 55 personnel. The Norwegian government promoted project will have a total value of around EUR 175 million.

Meanwhile, Island Offshore has ordered a newbuild vessel from Vard at a contract price of around NOK 400 million. The UT-776 designed vessel is sceduled for delivered from Vard Brevik in Norway in the first quarter of 2015 although the hull will be delivered from Vard Braila in Romania.

Island Offshore has also teamed up with Edison Chouest Offshore for constructio of two new offshore construction vessels through the company Island Ventures. The new pair will be of Ulstein SX165 design although one will be built at Ulstein Verft in Norway and the second will be constrcuted at Edison Chouest's own yard LaShip in the USA. The vessels will have an LOA of 145.7 and be equipped with 400t and 140t cranes as well as ROVs and moonpools.

Subsea market active

Harkand has entered into an agreement with Siem Offshore that will see the Siem Spearfish offshore construcution vessel chartered for five years firm with three yearly options. The agreement, which will commence in May 2014, will see the vessel providing inspection, repair and maintenance service in the deepwater Gulf of Mexico. The vessel is equipped with DP2, a 250 tonne and will be fitted with two Triton XLX ROVs.

Oceanteam's CSV Southern Ocean has now been extended on its existing bareboat contract until the end of 2018. The vessel is jointly owned between Bourbon Offshore Norway AS and Oceanteam Shipping and is currently on charter with Fugro TS Marine Australia. The orignal contract was due to run out at the end of 2015.

Deliveries

December 2013
Seabed Supporter Sawicon

January 2014
Juanita SALT 100
Troms Arcturus STX PSV 07 CD
Island Dawn UT717 CD
Sea Spear PX105
Sea Titus STX 05L CD

February 2014
Møkster UT766 CD
BP TBN UT 776 CD
Sea Spider PX105
Sea Tortuga STX 05L CD
Far Sigma UT731 CD
North Cruys ST 216 Arctic

March 2014
Ocean TBN VS 485 MKIII L
BP TBN UT 776CD
Highland Princess UT 755 XL
Boa Bison VS 491 CD

April 2014
Far Sirius UT 731 CD
EDT Hercules PX 105
Sea Spring PX 105
Sea Triumph STX 05L CD

May 2014
Far Sygna STX PSV 07 CD
Island Dragon UT 717 CD
BP TBN UT 776CD32

Norway vs The world
- where to build

Norway has for a long time been considered to be at the cutting edge of the offshore industry and has been the prime location for engineering from vessel construction through to design, engineering and delivery of complex offshore platforms. Recent years, have seen an attempt by other countries to move-in on this dominance and yards in Southeast Asia particularly have competed directly for projects that traditionally would have been seen as certain business for Norwegian companies. However, the constant battle between price versus quality has seen the argument begin to swing back towards native Norwegian construction in recent times.

Looking at recent history, Norwegian yards lost five big contracts in a row to Asian yards. The Ekofisk platform is being built in Asia by SMOE and the quality is being reported as being able to take on anything being built in Norway. Asian yards are looking at designs and learning fast and the standards are improving all the time. However, YME, Valhall, Skarv and Goliat have had combined overruns of NOK 49 Bn. Almost 80% of this has been covered by the Norwegian tax payer which is a heavy burden for the state tax payers to tolerate.

Earlier this year Det Norske Oljeselskap was criticized by major owner Kjell Inge Rokker for opting for a foreign yard to carry out fabrication work on the Ivar Aasen field. The belief behind the attack was that it could

The market awaits the decision as to where the majority of the mamoth Johan Sverdrup work will go.

potentially lead to the risk of serious delays and cost overruns. It is well documented that the Goliat FPSO which is planned to be the first project to extract oil from the harsh environment of the Barents Sea, has suffered a number of delays which could put the whole scheme back by a year and possibly more. The USD 1.1 billion tender to build the unit was won by Hyundai Heavy Industries and it was originally hoped it would be in place by mid-2013. How much of that is down to the location of the construction facility and the nationality of the workforce and how much is down to the complexity of the project is always going to be difficult to calculate. ENI should be praised for aiming for their Goliat project to act as a hub for the area and it is being built with an extra 50% capacity to accommodate other finds in the area. The company has also heavily invested in Norway and the whole Goliat project will be run from ENI's new office in Hammerfest.

On the vessel side, Seatankers has seen some success with the 12 PSVs of Ulstein PSX105 design being built at Zhejiang yard in Ningbo China. The vessels which have deadweights of 4,500 tonnes, deck areas of around 1,000 square metres and are equipped with diesel-electric propulsion system are impressive in their specification. Apache has already given its seal approval to the vessels having taken a number on long-term charters plus options. Seatankers is expecting another nine PSVS to be delivered next year, which will consist of a combination of a continuation of the Sinopacific PX105 vessels and a number of STX 05L CD's being built at Cochin. However, it seems unlikely that these will be able to compete directly against Norwegian tonnage and we anticipate that they could find work in the UK sector and we believe they will be popular with international charterers.

The latest sign that Norway is able to still compete for some of the high-end technologically advanced vessel contracts comes in the form of the newbuild Havyard 843 Ice vessel which will be built for FEMCO at Leirvik in Sogn for September 2015 delivery. The vessel will also be designed by Havyard Design & Solutions in Fosnavaag. It will have DNV ice class Icebreaker Ice 10 and will be winterized cold for (-30C). The vessel will be capable of breaking ice that is more than 1m thick and will also be able to carry out anchor handling and stanby duties. The Russian shipping company also holds an option to return to the yard for a further vessel.

The Edvard Grieg jacket that will be floated out in April next year after being constructed in Norway was the first to break the run of recent Asian awards. Lundin believes building in Norway has also saved them about NOK 1 Bn compared with if they had had the jacket build in Korea. So far the jacket is looking like it will be only two days late and the oil company states that high quality and the timing are a big win and it is certainly a significant money-saver when things arrive on schedule.

The open question in the market is where will the work for the Johan Sverdrup scheme go. The infrastructure will probably be a steel jacket at those water depths and Norwegian companies will certainly be competitive. The Johan Svedrup concept selection will take place at the end of 2013. The PDO will be next year and the project should be on stream in 2019 with further developments there in 2020 and 2022. In an increasingly global market Norwegian yards can not rely on their past records of engineering success but must ensure they stay competitive in all elements from price, to quality and delivery timescales in order to keep their edge into the future.

Looking forward to 2014

Stormy weather or plain sailing: We take a look at what we expect from the AHTS and PSV markets in the coming 12 months.

The last few years have been an exciting time in offshore with the market at the whims of the cylical nature of investment and influenced to a certain extent by the turbulence in the macro-global economic picture. The oil price is one of, if not the, biggest driver for the offshore vessel industry and looking at the latest figures from the IEA we see their new policies oil price prediction is USD 97.6 by 2020. The general concesus now seems that the impact of US Shale on oil price will be relatively minimal and instead it is anticpated that this could in fact drive down coal prices due to increased exports from the USA and a lack of native demand for coal. Through 2014 we believe the oil price will range between USD 95 and 110. This security in the near term has driven demand for rigs and global rig numbers are due to increase rapidly in the next two years with the numbers of drillships particularly expected to rise. Figures from IHS-Petrodata show the existing fleet of 101 units will rise to 126 in 2014 and again to 144 through 2015. In the meantime Semisubmersibles will increase by a further four rigs next year and nine more the following year to a total of 231. Jackups are due to see a rise of 33 in 2014 and another increase of

60 to 617 by the close of 2015.
In 2014 the figures show there will be 81 rigs working in Europe with 37 of these in Norway, 31 in the UK with eight and five in the Netherlands and Denmark respectively. In addition to this there are still a significant number of oil companies seeking rigs for 2014-wells however the tightness of the market next year and the high levels of utilisation means that we expect a lot of this outstanding demand will be pushed to the right and the work could end up being carried out in 2015 instead. There are few units available on the market with the potential to meet the high specifications required to carry out work in the North Sea never mind the extra demands for those units working in Norwegian waters.

As Norwegian companies begin to look further North with exploration activities increasing in the Norwegian Sea and the Barents Sea this push for top end rigs continues. Statoil is planning for a very active year in 2014 and has plans for between 20 and 25 exploration wells. These will be drilled at the King Lear area in the North Sea, Aasta Hansteen area in the Norwegian sea and around the Hoop Area and Johan Castberg in the Barents Sea. With the latter area being described internally at Statoil as 'like a bag of sweets in terms of the potential opportunities' we can expect an increasing amount of drilling to be heading North in the future.

After reviewing the potential demand in the coming year it is now time to turn our attention to the supply. Much has been written over the past few months of the potential forthcoming over-supply as the large orderbook of recent times continues to deliver on to the market. On initial appearance the outlook does not look good. There are 33 PSVs set for delivery in 2014 that we believe could influence the North Sea market.

This number of vessels entering an already overcrowded market would naturally have a detrimental impact on dayrates and skew the supply and demand dynamic. However, 11 of these vessels already have term contracts before delivery although a number will be pushing older tonnage back on to the spot market. We are anticipating that the delivery schedule of some of these vessels will mitigate the impact with around half to join the spot market in the first six months of the year and four in the third quarter with another five in the final quarter although some of these could slip into 2015.

Amongst the newbuilds are 10 vessels being built at Sinopacific and Cochin for Seatankers and although similar PSVs have picked up term work in the UK we do not anticipate that they will enter the Norwegian market and they could be more suited to international waters. When we look globally it is also worth noting that Petrobras are expected to return to the market once more and begin chartering vessels after their recent lull.
On the AHTS market we are looking at a different story with two Farstad UT-731 CD vessels and the Boa Bison expected to join the North Sea market. We are anticipating that these deliveries will be more than cancelled out by the demand for tonnage in the forthcoming Kara Sea campaign which is due to take place between May and October in 2014 and 2015.

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Our View

- *A substantial chunk of the PSV Deliveries will be absorbed by international demand – the North Sea spot market will absorb the rest of the fleet at rates similar to those experienced through 2013.*

- *The North Sea AHTS fleet will be stretched due to only four deliveries this year, and the Kara Sea work. Dayrates will hit highs not seen in the past few years.*

- *Demand for Ice Class Vessels will outstrip Supply forcing up Prices and generating newbuild orders for Specialist Ice Class AHTS tonnage.*

- *Towards the end of 2014 we anticipate a surge in Term Contracts as Oil Companies attempt to secure tonnage against a background of few shipyard orders and limted 2015 deliveries.*

AHTS

Vessel	Design	Manager	ENTRY	From
Normand Ranger	VS 490	Solstad Shipping	End-Nov	Technip
Highland Endurance	UT722L	Gulf Offshore	Mid - Dec	Congo Spot Market
Magne Viking	VS 4622 CD	Viking Supply	End - Dec	Chevron Canada

PSV

Vessel	Design	Manager	ENTRY	From
Bourbon Front	PX105	Bourbon Offshore	Early-Nov	Statoil
FD Unbeatable	UT755 XL	Fratelli	Mid-Nov	Team
Bourbon Rainbow	PX105	Bourbon Offshore	Mid-Nov	BP
Olympic Commander	MT6015	Olympic Shipping	Mid-Nov	Fugro
Mana	UT755 LN	Garware Offshore	Late-Nov	Centrica
FD Untouchable	UT755 XL	Gulf Offshore	Late-Nov	Noble Israel
Normand Corona	MT6000 MKII	Solstad Shipping	Early–Dec	Saipem Angola
Siddis Skipper	VS470 MKII	Siem Offshore	Early-Dec	ABB
ER Narvik	UT755LN	ER Offshore	Mid-Dec	Dalby Offshore Italy
Blue Thunder	PX121	Atlantic Offshore	End-Dec	Statoil
Troms Castor	VS485 CD	Troms Offshore	End-Dec	Chevron Canada
Troms Capella	PSV09 CD	Secunda Marine	End-Dec	Chevron Canada
Troms Sirius	PSV09 CDL	Troms Offshore	End-Dec	Statoil
Energy Swan	ST216L	Golden Energy	End-Dec	Wintershall
Volstad Princess	ST216L CD	Volstad Shipping	End-Dec	Statoil

Vessel	Design	Manager	EXIT	To
Island Challenger	UT776E	Island Offshore	Early-Nov	Talisman
Siddis Supplier	VS470 MK II	OH Meling	Early-Nov	GDF Suez
NSO Champion	UT705	COG Offshore	Early-Nov	Layup
SBS Typhoon	VS470 MKII	Viking Supply	Early-Nov	Enquest
NSO Fortune	UT706L	COG Offshore	Late-Nov	Layup
Rem Supplier	UT755 LN	Rem Offshore	Late-Nov	West Africa

the last word

Once again the Christmas season is upon us and Westshore kicked it off in style with a select gathering at the Kristiansand office. Offshore Analyst Sean Bate gave a presentation on the company's growing international success and our view of the market into next year. Also included in the presentation were a number of insights gathered from the recent Norwegian Operator's Conference held in Stavanger. Between taking notes and handing out business cards he was able to get this picture of the Island Crown in the crisp winter sunshine.

We would also like to take this opportunity to thank you all and to wish all our readers a very Merry Christmas and we very much look forward to a succesful 2014.

Average Monthly Rates (NOK)				
	Vessel Type	*nov.13*	*okt.13*	*nov.12*
AHTS	> 25,000	352 809	307 333	67 425
	18,000 to 25,000	239 878	249 201	101 544
	< 18,000	145 404	147 359	142 002
PSV	> 900 m²	82 275	120 227	68 526
	< 899 m²	67 363	79 166	54 730

	nov.13	okt.13	nov.12	okt.12
# of spot supply fixtures	76	82	79	84
# of rig moves	22	28	22	21
# of AHTS fixtures	64	79	63	58
Average Utilization (%)				
AHTS	69.6	69.1	67.7	68.3
PSV	83.3	85.1	77.1	85.7

November's Market

The spot market in November is traditionally a relatively quiet time as the seasonal weather comes into the North Sea and impacts directly on the potential for rig moves and other offshore activity. Last month was no exception and for the majority of the time we saw the spot market at the mercy of the inclement conditions.

This situation caused periods of inactivity in the AHTS market as charterers waited on weather. These times were punctuated by surges in demand as oil companies sought to take advatage of potential windows for rig moves and prelay activity. Dayrates for the main part were relatively static and the fluctuations were kept to minimum due to the ready supply of tonnage both in the UK and Norway in most instances.

On the platform supply vessels side, the main point of note in the month is the lay up of two vessels with both the NSO Fortune and the NSO Champion being removed from a spot market that was sagging heavily from the weight an oversupply of vessels. The potential for further vessels to follow them is there with the number of prompt units in the UK entering double digits on multiple occasions through November. Even Norway experienced the unusual situation of having five vessels with no work for the first time in a long time.

As we move into December it seems likely that the market will continue in a similar vein with limted activity generally but intersected by spurts in offshore demand for rig moves in the few patches of good weather.

One glimmer of relief on the PSV side is the expected emergence of a number of longer term requirements as charterers approach the market early in an attempt to secure superior tonnage for the 2014 season.