THE NAVIGATOR

WESTSHORE'S MONTHLY NORTH SEA REPORT

East meets West

Westshore's new Singapore Office and the man behind it

Under Pressure

Leaks and Shut downs plagueing UK production

New Norwegian tax regulation

What will the future hold as a result of the changes?

WESTSHORE
SHIPBROKERS AS

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Contents

NEWBUILD NEWS

A host of new PSVs delivered to the market this month, some with term commitments in place, others destined to try their fortunes on the spot market. The Rem Fortune secured a D/D 10 spot job for MLS on delivery, testing the water as it were ahead if its term contract with ConocoPhilips, due to start end-May. Island Offshore's latest offering, Island Crown which is described as a walk to work maintenance and subsea support vessel delivered at the end of May from Vard Brevik. The UT776 CD design vessel has accommodation for up to 100 persons, helideck and 50t subsea crane.

The Ulstein PX 121 new PSV Ocean Scout managed by Atlantic Offshore delivered mid-May and has already commenced her term charter with Statoil. She joins the growing list of large PSVs that have been snapped up for term work by Statoil and others. Lundin, Wintershall and various consortiums have displayed a strong inclination towards taking large PSVs on mid-long term charters this year leaving few vessels in this class available over the summer. Concerns over overbuilding have thus far been quashed as tonnage has been successfully soaked up. How the picture will look after the summer however may be quite different as these vessels are released from the mid-term work scopes.

Ålesund – based Golden Energy announced it is to build two UT776 CD design PSVs for five year contracts with BP Norge. The vessels are set for delivery in March and May 2014 and will be operationally-managed by Golden Energy. In addition to the initial five year periods, options of 2 x 5 years could see the vessels work for BP Norge for a significant length of time.

Farstad announced its latest PSV Far Starling, an STX PSV 08 design built at Vung Tau in Vietnam has delivered. The last in the series of this type of vessel, Farstad still has two further PSVs to deliver in 2014. The christening of the Far Statesman was also held this month, the UT 731 CD anchor handler enjoyed a large reception held in Tomrefjord as the vessel prepared for a slightly earlier than expected delivery. The vessel was constructed at Vard Langsten and has a bollard pull of 265t, is capable of work in most global oil hubs and no commitment has been confirmed yet.

Deliveries

June 2013
Blue Guardian PX121
Island Duke UT717CD
Sea Titus STX 05 LCD
Skansi Havyard 833 TBN

July 2013
North Pomor ST216
Iceman STX AH 12
Toisa Envoy VS 4616

August 2013
Makalu Havyard 832 CD
Toisa Explorer VS 4616

September 2013
Tidewater STX PSV09CD
Blue Protector PX121
Edda Fred ST 920
Sea Frost PX 105

October 2013
Island Duchess UT717CD

November 2013
Norside VS 485
North Cruys ST216

Recently Delivered
Ocean Scout UT755 LC
Far Starling STX PSV 08CD
Far Statesman UT 731 CD
Troms Lyra STX PSV 08 CD
Island Crown UT 776 CD
Rem Fortune VS 485 MkII
Blue Thunder PX 121
FD Untouchable UT 755 XL

Under Pressure

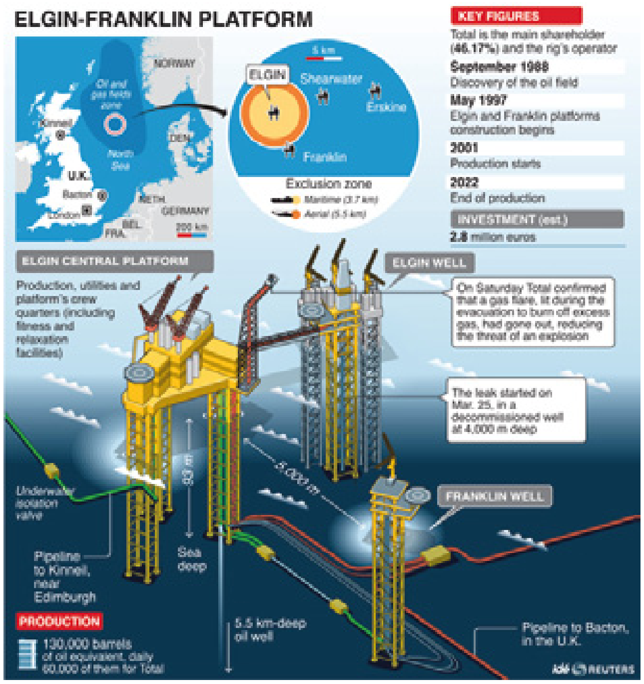
Ageing structures and challenging environments putting pressure on production in the UK sector.

Cormorant Alpha tow out 1979

Last month we looked at how the oil and gas industry in the UK could be affected in the event of Scotland gaining independence in next year's referendum. But as the arguments rage in Whitehall over the North Sea oil, the structures producing the UK's oil and gas are suffering huge challenges. Leaks and lengthy shut downs are becoming a worrying feature and the result is a direct impact on the UK economy. So much so that shut downs in 2012 are being directly attributed to the fall back into recession seen last year.

Cormorant Alpha is a production platform operated by TAQA. As well as producing up to 10,000 boe per day from the South Cormorant field it also acts as a conduit for oil and gas coming from several other fields and platforms – most notably the Brent field. The four Brent platforms send up to 90,000 boe per day through Cormorant Alpha en route to the Sullom Voe oil terminal in Shetland. As much as 10% of the UK's oil output comes through Cormorant Alpha and for a large part of this year, it has been shut down. The platform was constructed in 1978 making it 35 years old and pushing the boundaries of its original estimated life expectancy. Bearing in mind the location of this platform, in the harsh North Sea where high winds, waves and chilling temperatures are the norm. This ageing giant has been tested by the elements to an extent seen in few other oil basins around the world.

In January this year a leak was discovered. A hydrocarbon release was said to be coming from one of the legs, the platform was immediately shut down and the Brent Pipeline System was shut down for several days. Then in March a further leak was discovered, this time in a different line but within the same leg and a further shut down was necessitated. At this point the need for an extensive IRM programme is screamingly obvious. Planned shut downs for maintenance of a couple of weeks a year are normal but this month Taqa announced the platform would remain shut down for an extended period whilst a maintenance programme was undertaken.



The Cormorant Alpha is far from being alone here. Last year's major leak at Total's Elgin platform resulted in shut down for almost a year, only re-opening in March 2013 but it could be two years before pre-shutdown output can be resumed. As much as 3% of the UK's gas comes from Elgin and some said as much as 0.2% of the UK's GDP is attributed to it. While Elgin can hardly be classed as an 'ageing giant', her claim to fame comes from the pressures involved in the wells she produces. In 2003 production began through the platform of the world's hottest, high pressure reservoir in what was already the world's largest HP/HT development. This environment poses significant development challenges for operator Total.

At the end of April news came of the Nexen-operated Buzzard Oil-field being forced to shut down following a leak. Operations were halted for a matter of days but the Buzzard field is a key development for the UK. The largest North Sea discovery in the past two decades, it currently constitutes the largest component of the Forties Blend and has altered the characteristics of the blend. The closure for maintenance in the third quarter of last year is said to be the leading cause of the UK economy contracting by 0.3% in the period.

Unplanned shut downs are now being blamed for the UK teetering on the brink of descent into a triple dip recession. The ratings agencies have downgraded the UK from its previous triple-A rating and the forecast for the UK is heavily dependent on successful offshore oil and gas production. While new drilling projects and the advancement in technology is resulting in promising signs for the UK's oil and gas sector, the decline in existing fields is not the only concern. Maintenance issues as a result of infrastructure built in the 60s and 70s will continue to pose serious threats to output even without the added challenges of the harsh North Sea environment. While government ministers fight over the spoils of oil and how long they will be able to line their coffers with it, a far greater emphasis needs to be placed on the long term future of the industry in terms of the infrastructure. If not, not only will there be no oil wealth to allocate but the economy could find itself in serious trouble – be that an independent Scotland or a United Kingdom.

While we are looking at these leaks and shut downs from a purely commercial and financial perspective, the human aspect cannot be downplayed. Each of these leaks has resulted in evacuation of the platforms, to varying extents. In the case of the Elgin platform all 238 works needed to be evacuated and the Cormorant Alpha was partially evacuated and is now running on reduced staff levels during current shut down. July this year will mark the 25th anniversary of the Piper Alpha disaster when 167 men perished and stands as the world's worst offshore oil disaster in terms of lives lost. Regulation changed following the disaster, safety measures were tightened and lessons were learned. We will be taking a look at exactly this in next month's Navigator.


Alexander Pettersson, Westshore Raffles

East meets West

Westshore is now proud to announce the addition of a local presence in Singapore. As promised, we take a look at the Asian operation, the man behind it and how our clients can reap the benefits of the Westshore service becoming truly global.

The Set-up

Westshore has formed a joint venture with Raffles Shipping Projects forming Westshore Raffles. The operation is headed up by Alexander Pettersson, a Norwegian national who has lived abroad, mainly in Asia, for most of his professional career. Alex has a Masters from London's City University and has worked for the Raffles Group for the last eight years. His connections and extensive experience in Asian Shipping will provide a valuable addition to the Westshore service.

Alex started ship broking in the traditional shipping sector, namely tankers and dry bulk on the newbuild side. Latterly this developed into sale and purchase activities and chartering. The last five years have seen a steady shift in focus towards the offshore market in his professional activities as a result of the burgeoning interest in this sector in Asia. Alex not only brings a wealth of contacts and experience to Westshore but crucially, significant knowledge on navigating the often complex and greatly varied ways of doing business in different Asian countries.

Services offered

Initially the Westshore Raffles focus will centre around sale and purchase and newbuilding. In addition we can facilitate partnerships between Asian companies and individuals, primarily investors, and foreign parties. Eventually chartering will also be included in the scope of the business as the success of the solid work accomplished by the Westshore offices in Norway and Brazil is built upon. Interest in Asia from Norwegian and other owners has blossomed in recent years, largely in regard to newbuilding but increasingly for drilling campaigns in Asian waters. Conversely the interest being shown locally in the offshore sector is substantial, so pairing with an offshore broker with the experience that Westshore has provides an advantage. The aim is to provide a wide range of products that caters to the needs of local Asian clients and those familiar to the other Westshore offices. Moreover to keep them up to date on investors, partners, banks and operators. Westshore will be able to provide a valuable link between Europe, Brazil and Asia through the establishment of Westshore Raffles, something few offshore brokers can claim.

Bridging the gap

The addition of Westshore Raffles will mean our clients have access to valuable knowledge in doing business in Asia. But how specifically can Westshore add value and smooth the process of doing business in Asia?

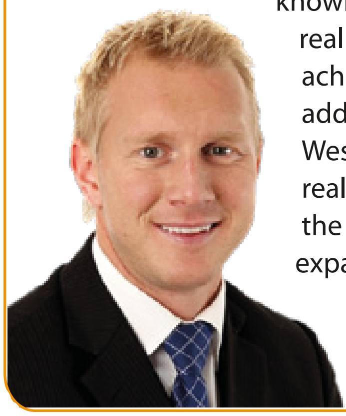
Newbuilding

The possibilities for building new tonnage in Chinese, Korean and other yards are numerous, but the vast cultural differences mean building in Asia make it a very different experience from say building at a Norwegian yard. There is no doubt that several Asian yards are gathering considerable experience in building high-spec tonnage while others have yet to venture far into this area. Either way the journey from the signing of the newbuild contract to the delivery of the vessel can take an owner into unchartered waters without the relevant experience and knowledge.

Partnerships and Contracting

It wouldn't be accurate to talk cultural issues under one Asian heading because the fact is huge differences exist between Indian, Chinese, Korean and other business parties. And it's not just the cultural differences but the regulatory and judicial frameworks that surround both newbuilding and chartering business. This is mostly keenly felt in countries where cabotage regulation is in place, where although foreign involvement is not ruled out, particular care must be taken and again, knowledge is key. On a financial note, the expectation of investors often differs to the expectation of their European counterparts. Because of this for successful business deals to be executed, local expertise is invaluable.

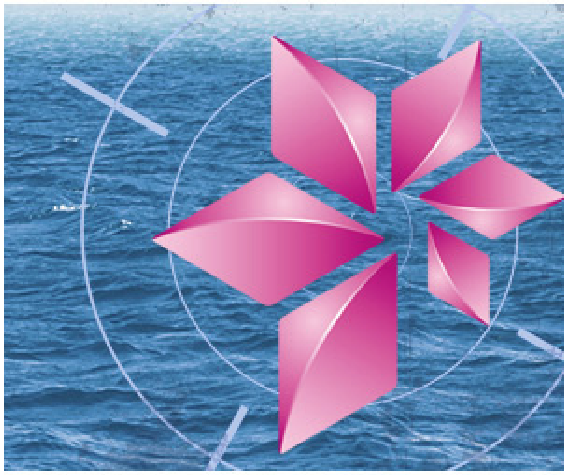
For us the establishment of an office in Singapore was a natural progression from the success of the offices in Norway, Brazil and Canada. One of the main reasons for this step was to provide the link between Asian shipbuilders and investors and the abundance of activity in Brazilian waters. Great synergies can be seen between these two markets. In addition to this the offshore market has become more global and competitive than it was five years ago. This has being clearly demonstrated by Asian shipyards that are now in a position to actively compete with European yards on most levels. Local knowledge for Westshore is really important and this is achieved through the addition of Alex and Westshore Raffles. We are really excited about what the future holds with this expansion.



Sølve Høyrem

Success for Statoil at Grane

As part of Statoil's 'near field' exploration strategy, drilling operations are in the process of being concluded at an exploration well in the Grane unit about 150km west of Stavanger. Semisubmersible Songa Trym was used in the campaign which encountered an estimated 18 – 33m barrels of recoverable oil. Statoil stated that although the find is moderate in comparison to the large finds being reported in recent years, " these are fast, high-value barrels that are important for extending the production life of existing installations."



Yard Stay for Borgland Dolphin

A short trip to the CCB Yard is planned for semi-submersible Borgland Dolphin for minor repair work. The rig is currently working for a consortium of operators while vessel requirements for supply and rig moves is being handled by MLS.

Speculative rig ordered

The shortage of floaters, particularly in the North Sea in the near term has led one design firm to decide to build speculatively. According to IHS-Petrodata, Friede & Goldman have three such drillships it will build speculatively in a Chinese yard which is yet to be selected.

Seismic survey started in the Barents Sea

A 2D high resolution seismic survey will be started in the next few days which will map around 6,000km in the South East area of the Barents Sea and be carried out by Seabird's Harrier Explorer. The multi-client survey is expected to be available from the fourth quarter of 2013 ahead of the area being available for exploration. The Snøspurv survey as it is known will encompass the Finnmark and Bjarmeland platforms.

BP seeks Jackup for Valhall

The redevelopment of the Valhall field came to a successful point in January this year as the new platforms began oil production. The redevelopment should ensure continued production from the field until 2050 but decommissioning work on the old structures is expected to kick off in 2016. BP is looking for a harsh environment jackup for a five year contract to cover the work. Newbuilds are said to be in the discussions as possible candidates for the work scope.

Current North Sea rig utilisation

Jackup	100
Semisubmersible	97,78
TOTAL	98,85

	Semisubmersibles Globally	Jackups Globally
2010	195	478
2011	208	482
2012	217	480
2013	218	533

AHTS

Vessel	Design	Manager	ENTRY	From
-	-	-	-	-
Vessel	**Design**	**Manager**	**EXIT**	**To**
Island Valiant	UT787 LCD	Island Offshore	End – June	Esso Norge + other work
Magne Viking	VS 4622 CD	Viking Supply	End – June	Chevron Canada

PSV

Vessel	Design	Manager	ENTRY	From
Olympic Electra	MT6009L	Olympic Offshore	Mid – June	Esso Norge
Viking Nereus	UT755L	Eidesvik	Mid – June	Centrica
Highland Pride	UT705	Gulf Offshore	Mid – June	Talisman
Toisa Vigilant	In house design	Sealion	End – June	Red7marine
North Promise	PSV 09 DE	Gulf Offshore	End – June	Senergy
FD unbeatable	UT755XL	Gulf Offshore	End – June	Team
Frigg Viking	VS 470 MkII	Viking Supply	End – June	Heerema
Maersk Forwarder	UT745	Maersk Supply	End – June	CNR
E.R. Athina	UT776 CD	E.R Offshore	End – June	BG UK
Sea Titus	STX 05L CD	DESS	End – June	Newbuild
Blue Guardian	PX 121	Remøy Shipping	End – June	Newbuild
Island Duke	UT 7171 CD	Island Offshore	End – June	Newbuild
Normand Corona	MT6000 MkII	Solstad	Start - July	Shell
SBS Typhoon	VS470 MkII	Viking Supply	Start - July	RWE – Dea
Rem Fortress	VS 485	Rem Offshore	Start – July	ConocoPhillips
Vessel	**Design**	**Manager**	**EXIT**	**To**
UP Jasper	VS 483 MkII	Gulf Offshore	Start – June	Allseas
Mana	UT755LN	Garware Offshore	Start – June	TBA
Island Captain	UT776 CD	Island Offshore	Mid – June	Drydock
Dina Supplier	Ut755 LC	Myklebusthaug	Mid – June	Shell UK
Far Server	Havyard 832 CD	Farstad	Mid – June	Nexen
Troms Capella	STX PSV 09CD	Troms Offshore	Start – July	TBA
Troms Castor	VS 485 CD	Troms Offshore	End – June	Chevron Canada
Island Contender	UT776 CDG	Island Offshore	End-June	Lundin
Island Crusader	UT776 CDG	Island Offshore	End – June	Lundin
Brage Trader	STX PSV 09CD	Møkster	End – June	SPD
Toisa Coral	AS516	Sealion	End – June	TBA

Fears over new projects in the Norwegian sector

Will the changes in Norwegian tax regulation put the brakes on developments in places like the Arctic Circle? Or is it high time the oil companies took greater care over costs in developing new projects…

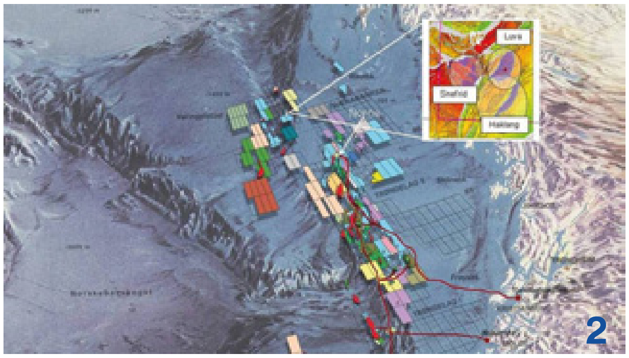
Norway has long prized itself as being a safe, stable and reliable place to conduct business, and the oil industry being perhaps the pinnacle of this. Well established regulation and taxation, built on common sense as much as good intentions, resulted in a steady stream of interest from oil companies over the past decades. But the announcements regarding taxation in the oil industry made on May 5 by the Norwegian Prime Minister, Jens Stoltenberg, were unexpected. And the resultant backlash in the weeks that followed has done little to change the position of the government.

A few changes are proposed that will have a direct impact on oil activity in the Norwegian sector, firstly the change in corporation tax. This will reduce slightly to 27% from the existing 28%. A move that was predictable given the levels of corporation tax in the other Scandinavian nations and the direction they were heading in, i.e. to lower it.

The Special Petroleum tax will increase from 50% to 51%, a small but significant increase nevertheless. But what's really put the cat amongst the pigeons is the changes to uplift. Uplift or "friinntekt" is the amount of earnings a company can earn before taxable earnings kicks in. This is particularly relevant for new project costs. The new rules state that only 5.5% annually will be awarded as a tax break on new energy projects, giving a total of 22% over 4 years. Current levels are set at 7.5% annually and 30% over four years.

The government has stated that cost overruns on new projects and lack of cost awareness in general has led to the tax payer footing the bill for new energy projects, something that must be drastically curbed. But the generous scheme in place for new projects has been one of the main attractions for oil exploration in Norway and has gone a long way to offset the high taxation rates on profits. What was surprising was that the industry was not asked for comments or to participate in the discussion on the new scheme at all. When Statoil head Helge Lund initially asked to meet with ministers to put the industry case forward, his request was declined. Later, when a meeting was permitted, his arguments bore no effect. The tax changes are widely anticipated to go through as the elected party has the majority in parliament.

It is important to note however that the changes will only affect new projects for which developmental plans were submitted after the 5th of May cut off, anything prior to that will fall under the current guidelines.

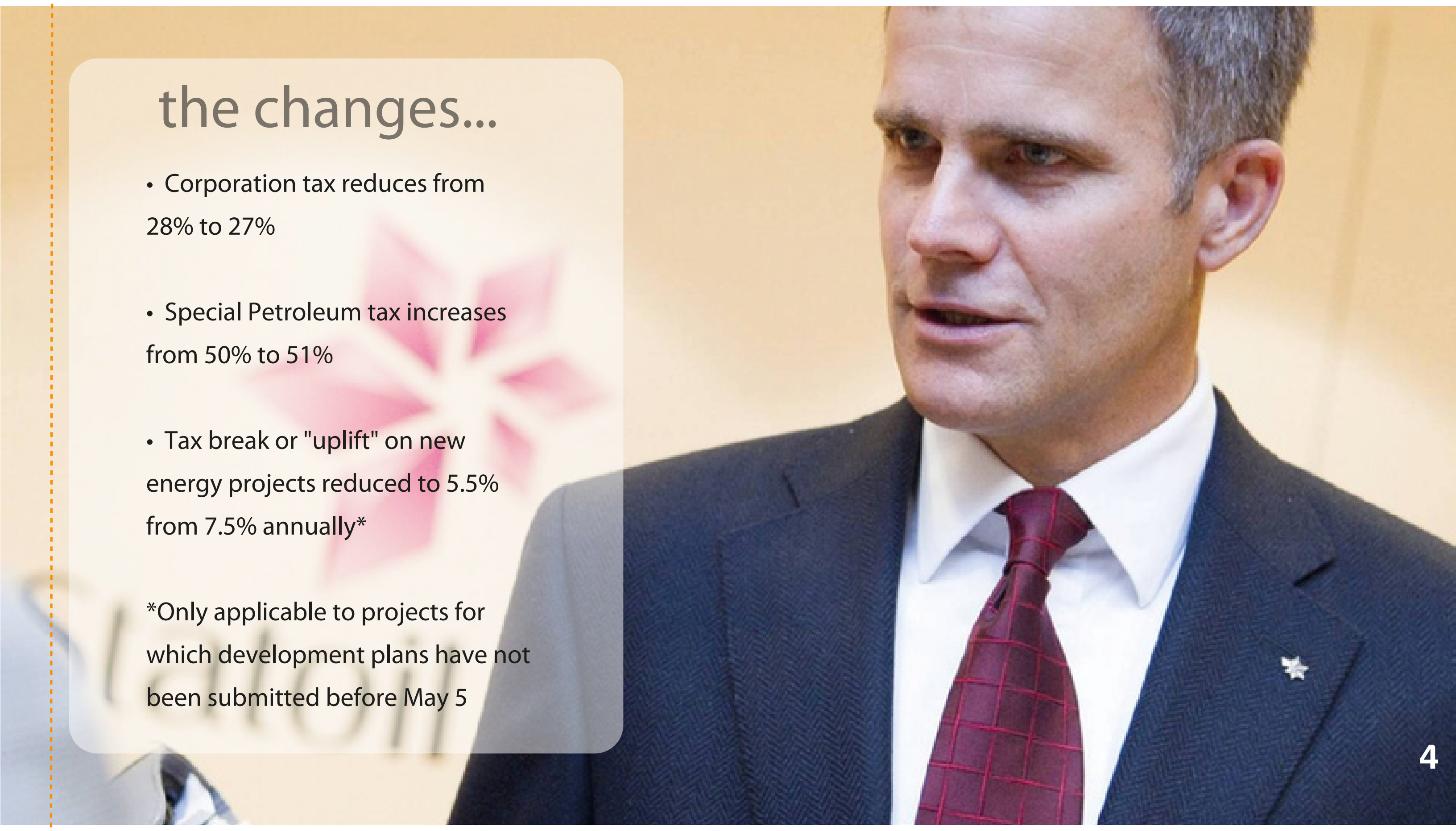


The concern amongst the industry is also where the changes will end, what will be next? If the changes to the tax system will be further altered in the next budget, or by the next government planning with any certainty becomes that much harder. Norway may be viewed on the international scene as an expensive country, but stability and reliability stands out as two overwhelmingly redeeming qualities. If these factors are now called into question it may put potential investors off taking the leap into Norwegian waters.

But for future programmes, ones for which profitability is a close call anyway and highly dependent on an oil price above $100, serious doubts linger over whether or not they will go ahead or not. The so-called marginal fields have been in the press a lot recently, in part due to the areas they lie in. The Arctic is case in point, the costs of developing the infrastructure needed to take resources to land in this environment is extremely costly. So much so that oil price and tax breaks play a decisive role in whether or not they will go ahead. The analyst's consensus at the moment points to the oil price remaining at around $100 if not dipping lower. The cheap energy coming from the shale revolution definitely accelerating this.

So which projects are potentially affected? Though no projects have been officially shelved, several are highlighted as coming uncomfortably near break-even. The Aasta Hansteen gas project above the Arctic Circle has just been confirmed that despite fears over the tax changes, it will go ahead. Sceptics are saying however that the reason for the go ahead is less to do with the tax fears being alleviated, but more to do with the cost of getting out of contracts already in place exceeding 1 billion kroner.

In a presentation given by Statoil it was claimed that plans for boosted oil recovery at Snorre would be 30% less profitable as a result of the government's announcement. It was stated that the project would be "more difficult to realise" with the break-even price rising by $7 to $88 a barrel. The Bjarmeland platform in the Barents Sea which is yet to be sanctioned, would "be unprofitable after the tax" as the break-even price would increase by $8 per barrel, according to the company.



the changes...

- Corporation tax reduces from 28% to 27%

- Special Petroleum tax increases from 50% to 51%

- Tax break or "uplift" on new energy projects reduced to 5.5% from 7.5% annually*

*Only applicable to projects for which development plans have not been submitted before May 5

The twin discovery of Havis and Skrugard known as Johan Castberg, also located in the Barents Sea, was already highlighted as being a challenge from a cost perspective. New infrastructure needed to bring the oil to land in addition to the two structures planned for production will push the boundaries of technology and cost management to new levels. Again, Statoil has not said the project will be scrapped but was implicit in stating the challenges in completing the project to a profitable end point would be that bit more challenging.

Consultancy firm Rystad Energy conducted an investigation into the impact of the changes and concluded that on average new projects would have the break-even price raised by $5 a barrel. Several marginal fields were named as possible casualties of the tax changes namely Norvarg, Linnorm, Victoria, Peon and Zidane.

Numerous others are being discussed and Statoil has openly said that the changes "will definitely stop the most marginal projects." The North Sea and Norwegian sector in particular pose so many environmental challenges which translate into cost increases there leaves little room for another slice of the pie to be taken. If casualties of the tax changes will surface it will likely be in the months to come as development plans are formulated for future projects, rather than those already submitted to the Ministry. At this stage a clearer picture of the impact will emerge.

1. Norwegian prime Minister Jens Stoltenberg

2. Aasta Hansteen Development

3. Snore Platform

4. Statoil head, Helge Lund

Cash Squeeze

Westshore's Jon Inge Buli looks at the current financial climate for offshore owners and the interest in the bond market

The Norwegian offshore support owners have been increasingly turning to the bond market with eight different companies having sourced from the bond market so far this year. Despite the whispers in the hall that the banks have begun to open up slightly, there is still high demand for bond issues on both sides of the fence and rates attained by shipowners are at fairly decent levels. The question is when this will turn or whether it already has for some players.

Those players that never diversified into different geographical markets or jumped onto the subsea train earlier will likely be struggling cash wise after a long hard year. Companies like Solstad for example has for some time been invested in the offshore construction sector and during these extended poor times for support vessels see that the OCV segment easily covers more than 50% of their net freight income. Many of the companies are no longer pure North Sea players. Farstad is a good example of a company that has looked to other regions with more than 50% of operating income coming from the Indian Pacific region. Those companies that have not followed one of the above mentioned strategies will be noticing that coffers may be running on low. These companies may find it slightly more difficult to find interested parties for bond offerings, especially at the margin levels some of the bigger offshore owners have recently been able to attain. There is no doubt that many owners have significant short term liabilities given we operate in a highly leveraged industry and the need to roll over their debt is a continued issue that may become a lot more expensive. An improving offshore market will be necessary in order to keep these costs down, and current signs show that some of these companies may be saved by the bell. This could see owners repaying some of their debt instead of continually rolling it over and increasing it. It may also go some way in explaining the eagerness to capitalize on pockets of high rates available on the spot market. The short term gain outweighs the long term pain potentially inflicted on a disgruntled charterer.

At the NOR Shipping Conference this week the sentiment from the banks was that the strong bond market was likely to continue throughout this year, following on from what has already been a strong start to 2013. More bond placements are expected but a shift in the typical investor has been noticed. The investors showing an interest are not just your typical Norwegian investor, but from all over Scandinavia and increasingly from UK and elsewhere in Europe.

Another situation facing some of owners is many Subsea orders seen last year right before what many expected was going to be a stellar summer. Owners were confident after an improvement in 2011 and a solid start to 2012. They wanted to invest in other areas and we therefore saw a number of subsea orders, these orders were warranted given the market at the time, however the issue here is not the vessel as the Subsea sector is doing well, however the capital costs that follow. Although some of the companies have put together very favorable payment terms and/or JVs, the total additional debt is another cash flow negative. There have however been a number of solutions recently, offshore companies have found different approaches to improving cash flow like with Farstad entering into a sale and leaseback for their two Anchor handlers to Ocean Yield, or with Viking Supply doing the same with Odin Viking to Norseman Offshore an SPC set up by Pareto. This is a solid method to sure up the cash flow and potentially something we will see more of in the year to come should the rates on vessels continue their rollercoaster ride.

The Market in May

This month there has been two distinct peaks when the market was nigh on sold out but between those times availability soared and rates plummeted. The question is will we continue to see peaks like this, or will they last longer? Our feeling is that in general the market conditions are stronger than they were last year. The PSV market has continually buffered itself against the dire predictions of over supply as consistent utilisation is maintained and this month some of the highest spot rates were recorded, the likes of which have not been seen in quite some time. A fair few newbuild PSVs delivered this month but went on to start term work or picked up first spot jobs relatively easily. The AHTS market is as volatile as ever, at the time of writing a drop in activity is expected following a busy couple of days which saw rates shoot up. The rollercoaster ride is set to go on…

Average Monthly Rates (NOK)				
Vessel Type		*mai.13*	*apr.13*	*mai.12*
AHTS	> 25,000	466 162	412 749	152 383
	18,000 to 25,000	316 125	308 017	152 231
	< 18,000	263 355	200 041	147 672
PSV	> 900 m²	139 931	134 836	119 513
	< 899 m²	122 212	101 576	94 839

	mai.13	apr.13	mai.12	apr.12
# of spot supply fixtures	76	88	68	66
# of rig moves	22	28	13	20
# of AHTS fixtures	64	82	49	57
Average Utilization (%)				
AHTS	71,4 %	70,1 %	67,2 %	78,8 %
PSV	89.7%	86,5 %	85,6 %	88,7 %

17th May

How Norwegian National Day was celebrated offshore

Thanks to the guys from island Valiant for sending in photos!