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Can Petrobras limit the number of suppliers?

Good News on Cost Reduction
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ANTAQ 3638: Benefit or Threat?
The new resolution could impact competition



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Karoon is set to commence drilling in Brazil soon.

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Drilling & Production

The latest from Brazil

P-72 and P-73

Initially scheduled for September 22nd, the tender for the construction and integration of topside modules of the FPSOs P-72 and P-73 has been postponed until October 22nd by Petrobras. The units are the last two of eight FPSOs “Replicantes” ordered at Brazilian shipyards for the pre-salt of Santos Basin and which will have a capacity to produce 150,000 boed and 8 million cbm of natural gas.

Heading to the Field

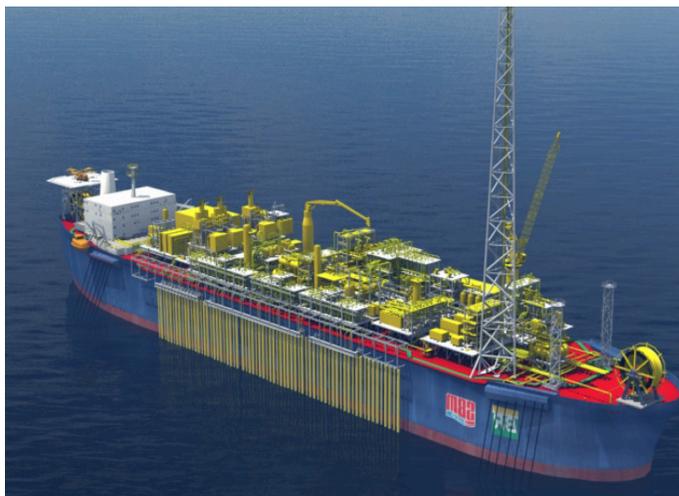
The FPSO Cidade de Ilhabela is finally completed and heading to Sapinhoá field where it is expected to start production by the end of the year through eight producer wells and seven injector wells. The unit, owned by a joint venture between SBM, Queiroz Galvão Oil and Gas and Mitsubishi, was finalized at the Brasa shipyard, in Niteroi, where integration of the hull and topsides took place.

Time for pipeline

Italian company Saipem is set to conclude the construction of its CTCO (Center for Technology and Offshore Construction), in Guarujá – SP, this year. Initially the industrial complex will be used as a logistic base focused on supporting the construction of gas pipelines, and then will also start the production of submarine equipment. The CTCO covers a total area of 350 thousand of square metres including a main pier of 435 meters in length. The site will also be used as the base for the manufacturing of pipes, joints and coating risers. It will have the capacity to produce 30 thousand tons/year of iron, and cost around USD 300 million.

Coming Soon

The joint venture Odebrecht/Teekay, responsible for the construction of Libra’s FPSO has signed a lumpsum contract with the Jurong shipyard for the conversion of the hull. The unit will have a capacity to produce 50 thousand boed and compress 4 million cbm of gas per day. The consortium plans to send a team of around 50 people to Singapore where they will work exclusively on the conversion to be 100% undertaken at Jurong shipyard.



Headline News



The latest guidelines from Petrobras could have a big impact on the number of eligible OSV suppliers.

PETROBRAS

Can Petrobras Limit the Number of Suppliers?

In a time of unprecedented corruption allegations at Petrobras for cartel formation, the company is making moves to limit its OSV suppliers. The question is does this adhere to the public contracting guidelines?

As a Company controlled by the State, Petrobras is subject to public tender rules, the so called 8.666 law, published in 1993. This establishes the procedures for any contracting process of the Union, State, Federal State and Municipalities, which basically consumes a lot of time and involves bureaucracy, but gives full access of information to the public. As a result of the oil and gas market opening in 1997, predicting the competition

of private companies, a simplified contracting process was established for Petrobras through the Decree 2.745 issued in 1998, which is presently in use by the means of legal injunctions.

This simplified process still applies strict principles and guidelines, such as open public access to all parties interested in the object of the contracting process (item 1.8.1); being forbidden to apply any measure in the tender that may restrict or frustrate the competitiveness; nor establish preferences or distinction due to the nature, head-office or domicile of the bidders (Item 1.8).

There are five different contracting models to apply,

which must be chosen beforehand by Petrobras. These take into consideration: the need to reach the specific industrial segment; the broad participation of firms with the intended capacity, knowledge and specialty; search for international standards of quality, productivity and efficiency. To contract OSVs, Petrobras makes use of the "Invitation" of best price model, which can invite pre-registered bidders but also any other interested party.

Since 2012, in the midst of the recently sworn Petrobras President full efficiency speech, the company realized how its OSV fleet drastically grew, pushed by its intense activity surged offshore logistics demand. The company, which previously dealt with few suppliers established in Brazil or that used dedicated agents/EBNs, found itself dealing with several new contracting parties. Many of these were naturally not acquainted at all with Brazil and were operating through a non-dedicated third party Brazilian Shipping Company (EBN). In the midst of very tight efficiency targets (please read HSE requirements) and in a rush for short-term results, Petrobras spuriously concluded that most of its operational problems occurred on contracts where foreign owners and independent EBNs were jointly involved.

What should have been an expected consequence of sudden fleet growth became an evil to be fought by Petrobras, leading the company to openly and strongly discourage such set up, disregarding not only the public contracting premises, but also the long term effect of that posture. After all, there are challenges in putting two different entities to work together (with a different culture, systems, languages) in an extremely demanding contract and most of the fleet was composed by that set up. It is thereby statistically inevitable that most problems would occur there, which should not logically mean that this route should be eradicated.

Petrobras has been implementing measures to limit its suppliers list even more. All offers must now be submitted in the name of and by Brazilian Shipping Companies (EBN). The ones unable to reach a minimum HSE ranking are prevented from securing contracts with Petrobras until a minimum standard set by Petrobras (which increases each year) is met. On top of that, and in addition to the encouragement then given for the EBN to focus on marketing instead of operational efforts, the company must also have a full Petrobras supplier registry

(CRCC), with no outstanding issues. This is different from before when any EBN could be invited to participate in tenders. They would simply have to be an EBN holder of ANTAQ license, and present protocol related to its Petrobras suppliers register enrollment at the moment contract is signed i.e. after bid proposal is submitted, negotiated and fully accepted by Petrobras. Nonetheless, Petrobras also resolved to evaluate EBNs' financial records prior to inviting them for tender. If financial data of a highly leveraged EBN is shown, or considered as not financially healthy by Petrobras for the intended work, a parent corporate guarantee is required to suffice these criteria. Failing this the company will not even be invited for Petrobras consults and tenders.

In conclusion this means that offers are now only done through a very limited number of EBNs, mostly the ones already established in Brazil and belonging to financially strong groups. The truly Brazilian and independent EBN, which are mostly struggling to grow due to demanding newbuilding program and/or heavy operational investments required, face massive challenges to survive. Foreign owners that want to take part in a Brazilian OSV market venture have EBN options severely limited. This often discourages them from their first step in the country and they can end up investing in another market. After all, no Owner will ever think of getting established in Brazil right away without having an operational trial in here.

The intention of these hurdles may be a noble effort to improve operational efficiency and mitigate risks, however they favour the formation of a cartel. This not only goes against the premises of the original contracting procedures rules but also best economical practices. Once we add in the new ANTAQ resolution proposal 3638 (please see "Look Ahead" article in this edition), this paints an extremely dangerous scenario for the Brazilian OSV industry in the years to come. Though some already locally established owners may celebrate the reduced competition (and envision higher rates), such overprotection and interventionism does not contribute to a stable and balanced environment for long term business and investment. ■

Vessel News

Chartering Activity



The Far Sea is continuing work for Van Oord.

CHOUEST - Brazilian built and flagged PSVs Campos Captain and Santos Supplier have been fixed on the spot market to Ensco Drilling for cargo runs. The vessels are both awarded contract for four plus four years on the PSV4500A tender with Petrobras.

ASTROMARITIMA - Brazilian built and flagged Astro Badejo has been fixed to Tramp Oil (WFS) for a fuel run after her re-delivery from Petrobras. Following on from the vessel's fixture to Odebrecht for a cargo run. The vessel is prompt available Guanabara Bay at moment of writing.

DEEPSEA SUPPLY - AHTS Sea Leopard has been fixed to Brasdril (Diamond Offshore) to assist on anchor handling duties late last month. At moment of writing the DP2 AHTS is prompt available Guanabara Bay.

SIEM - Brazilian built and flagged DP2 Siem Giant has been fixed to Shell Brasil to assist on cargo runs for FPSOs Fluminense and Espírito Santo. The vessel was still in service during publication, expected to return to Karoon remaining on standby until commencement of activities for the Australian charterer.



The Skandi Santos has been awarded a contract with Petrobras.

FARSTAD - AHTS Far Sea remains in service with Dutch company Van Oord, end user Saipem/Petrobras, assisting the pipelay barge Stingray together with the Mutlicat Atlas. The Far Sea is expected to remain on contract with Van Oord until at least the end of October.

BRAVANTE - PSV Bravante VIII has had its departure delayed from the Gulf of Mexico towards Brazil in expectation of a charter currently under discussion.

DOF - The AHTS vessels Skandi Giant and Skandi Admiral have left Brazil for Europe and the Mediterranean respectively, after conclusion of their charters with Petrobras. The oil major has awarded contracts

to the Skandi Santos and Skandi Hav for five and four year contracts, in direct continuation from their current contracts ending in the first quarter 2015 and November 2014, respectively.

“The Skandi Santos and Skandi Hav have secured contracts with Petrobras for five and four years.”

ECOTUG - OSRV 1050m3 capacity Eco Octo has been re-delivered after successful completion of her charter with HRT. The vessel is prompt available Guanabara Bay fully equipped.

BRAVANTE - PSV Viking Surf is undergoing modifications in anticipation to her new contract with Petrobras starting later this year.

Operator Update

Brazilian Activity

Ups and Downs

A few oil companies are currently reviewing their offshore projects in Brazil, which shows that the previous hype concerning the Brazilian market does not have the same intensity anymore. This can be seen in the increasing number of assets for sale as well as the number of farm-outs in the country, some of which we have described below:

Canadian Niko Resources has decided to sell its two assets: PEPB-M-621 and PEPB-M-729 located in the Pernambuco-Paraíba Basin and awarded as operator in the 11th Round with 30% stake. The decision was taken after the company decided to focus its strategy in India and Bangladesh, leading to sale of assets also in Indonesia and Trinidad.

American firm Anadarko is still looking for companies interested in buying its stakes in blocks C-M-101 and C-M-202 in the Campos Basin, where it is the operator of the consortium formed of BP (25%), IBV (25%) and Maersk (27%). The assets have been for sale since 2011 but no suitable offer has been seen so the company has decided to send to Brazil a team to study the possibility of farm-outs.

Australian company Karoon is focused on reducing its risks before new investments, so the company plans to sell part of its 65% stake in five shallow water blocks in the Santos Basin (S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166) where Pacific Rubiales holds the remaining 35%, but intends to stay as operator of the area. The company is committed to drill up to four wells in the Kangaroo prospect located

in blocks S-M-1101 and S-M-1165 which oil deposits extend through the blocks S-M-1102, S-M-1037 and S-M-1166. The drilling campaign should start within the next few weeks.

On the other hand, Ouro Petro has recently concluded the acquisition of the American El Paso Brasil for USD 100 million, which guaranteed a total of four offshore blocks in shallow waters: two in Camamu-Almada, one in Rio Grande do Norte and a remaining one in Espírito Santo.

Leaving Parque dos Doces

Shell has announced that it has sold its 20% share in Parque dos Doces (BM-ES-23) in Espírito Santo Basin, to the Thai company PTTEP where Petrobras is the operator with 65% and Inpex holds the remaining 15%. In August this year, the Thai company received ANP's approval to buy 25% of the exploratory blocks BM-BAR-215, BM-BAR-217, BM-BAR-252 and BM-BAR-254, owned by BG in Barreirinhas Basin and awarded in the 11th round.

Betting on 2016

ExxonMobil plans to drill an exploratory well in the block POT-M-762 (Potiguar Basin) in 2016. The area was awarded in the 11th round in partnership with OGpar, where each company holds 50%, the American company being the operator. The campaign will likely be performed via a drillship or a semi-sub and three offshore support vessels. This exploratory campaign will re-introduce ExxonMobil as operator in Brazil, which has not happened since 2012.

Inside Story



The latest views on ICMS tax could have a positive impact for Owners.

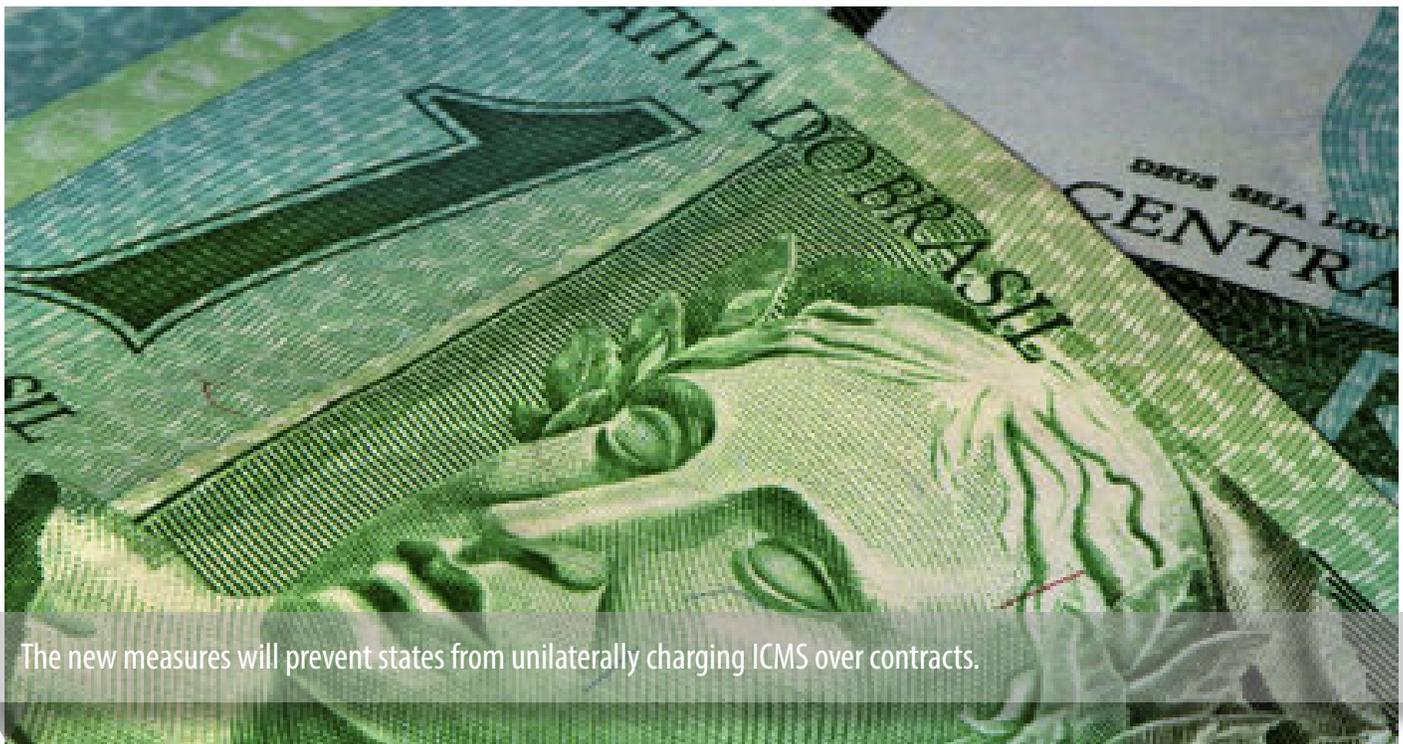
Good News on Cost Reduction

The good news is that the Superior Court (STF) ruled in favour of claimants of over 400 injunctions in several instances of Brazilian courts for the non-incidence of the ICMS tax, generally of 3% of the asset value in the case of OSVs to be paid upfront on the importation of the item.

ICMS is a tax charged by the States of the Brazilian Federation, and has its legal foundation in the constitution of 1988, being charged over the “circulation” of products. It has always been the formal interpretation that “circulation” would have an economic and a juridical meaning. Economically, the definition can be vague, whereby the simple fact of the goods being sent from one place to

another, or being imported for that matter, would constitute “circulation”, therefore allowing the states to charge the ICMS. Legally though, the term “circulation” would have a more restricted meaning, implying that goods or assets would have to change ownership (title) to circulate, meaning a legal act of transfer of title over the good or asset.

Although the taxation system in Brazil is complex and difficult to interpret, one should recognize that the country offers ample room for discussion. Often the interests of all sides are analyzed and considered before a final decision is made. Some argue that the country is slow, and only acts to defend the interest of the Federation. How-



The new measures will prevent states from unilaterally charging ICMS over contracts.

ever this is not always the case. The ICMS definition is from 1988. It is important to put in context though that Brazil has been a generically closed economy until the late 1990's, when foreign trade really picked up as part of the economic changes implemented after Cardoso's government. This is even more important when put in the context of the oil and gas industry, which resurged after the monopoly of Petrobras was broken after 1998.

Therefore, Brazil is in reality discussing the ICMS "in bulk" for circa 15 years. Although the time might seem excessive, it seems it has been important in order to have the maturity for the final decision, which is not ample, in the sense of covering all importation contracts. On the contrary, it establishes a limit which is quite important in face of some importation contracts.

The ministers of the STF have decided that the ICMS is not incident over those leasing contracts (in Portuguese: Arrendamento Mercantil) where an effective change of title over the cargo/good does not exist. The main con-

“This is a major change in the right direction for providing a stable and more investment friendly environment for the country.”

sequence of this decision is to provide a superior ruling for all claims where the ICMS was being charged over contracts where the change of property was not taking

place. This covers the vast majority of the vessel contracts under the REPETRO regime for instance.

This measure will prevent the states from unilaterally charging the ICMS over contracts often taking place as charters, as in the contracts between the foreign owners

and the local shipping company receiving the vessels. The only restriction made to the ruling and which makes sense and justifies the careful study behind this decision is that, on the contracts with a purchase option, the ICMS is incident.

This is a major change in the right direction for providing a stable and more investment friendly environment for the country and especially for the oil and gas and the shipping industry.

Petrobras News



PSV 1500 Cancelled

Petrobras has recently cancelled the tender issued in April this year for PSVs 1500 type and up to three years contract. The tender will likely be reissued within one month with the possibility to increase the contract period to four years.

Pipeline to the NE

Petrobras is analyzing the construction of a new pipeline to flow the gas in deep waters of the Sergipe-Alagoas Basin. The company has been expanding its presence in the region recently including a new seismic data acquisition that has been taken of the basin and is forecasted to be conclude early 2015. By the end of this year Petrobras should also receive the proposals for two FPSOs which will be responsible for the oil production of the area. The units will be capable of producing up to 100 boed.

Record in the Pre Salt Fields

Petrobras reported that the oil and gas production of the pre salt areas grew 11% in August this year, totaling 2.89 million boed. The Roncador field in the Campos Basin, had the highest oil production, with an average of 287.8 thousand barrels per day. The largest producer of natural gas was the Lula field in the Santos Basin, with a daily average of 7.5 million cubic meters. The P-52 platform, located in the Roncador

field, produced through 14 wells, about 132 thousand boe per day and was the unit with highest production.

Undefined

Petrobras, has not yet defined a conclusion for its offshore support berths tenders. The company received only one proposal for the consortium Nitshore/Bandeirante to attend the Santos basin in the tender issued in February this year and has postponed until next month another tender for chartering six berths in the Campos and Santos basins. Petrobras has been having difficulties in obtaining offers due to unavailability of some projects which are under construction.

“Petrobras has cancelled the tender issued in April this year for PSVs 15000 type for 3-year contracts.”

CMM awards 5 contracts in Brazil

Further to our June edition, Petrobras has made some progress on the FSV OSRV tender issued in December 2013 for 4 + 4 years. The single winner CMM awarded 5 contracts for three vessels on batch one (TBN 547292/ TBN 547293/ TBN 547294) offered for USD 17.950,00 and 2 vessels on batch 2 (TBN 547295/ TBN 547296) offered for USD 17.750,00. The delivery is scheduled within 15 months for batch one and 21 months for batch two. Note that dayrates offered are subjected to change once there is a negotiation between Petrobras and the winner before signing the contract.

Look Ahead



ANTAQ's latest draft resolution could impact the number of potential suppliers.

ANTAQ 3638: Benefit or Threat?

In September 2014, a new resolution draft was approved by ANTAQ (National Agency for Maritime Transportation) to be submitted for public hearing. The new proposition aims to regulate the charter of vessels by Brazilian Shipping Companies and in addition to bundle regulation for all vessel types in one resolution. However, the proposed changes deserve specific attention from the Offshore market.

In the case of OSVs, the proposed document would replace the Resolution 2919 from June 4th 2013, which in turn replaced the resolution 495 from Sep-

tember 2005. At that time, the main change was referring to the implementation of ANTAQ's new IT system and the guidelines for its use on the chartering application process.

The text which is being presently discussed, involves much more as it imposes additional limitations to Brazilian Shipping Companies when chartering foreign flag vessels. The legislation presently in force allows any Brazilian Shipping Company (EBN) to charter foreign flag vessels if the company has followed the so called "circularização" process, which basically consists on consulting all other Brazilian shipping com-

panies (through the ANTAQ IT system) if they have a similar Brazilian flag vessel available.

There is no limitation on the number of foreign flag vessels that one EBN can charter, provided the official consult (“circularização”) is followed and no local tonnage is available.

The text now proposed for approval, stipulates that the number of foreign flag OSVs to be chartered by an EBN will, in addition, be subject to the existing fleet of the EBN, limiting them to charter from abroad up to two times its existing Brazilian tonnage. In addition they must own at least one vessel similar to the one intended for charter.

Other sections leave room for interpretation but suggest that foreign vessels trading under flying Brazilian flag through the REB system (Brazilian Special Register - demands vessel to be under bareboat and local crew), will have its charter authorization period limited to 36 months, regardless if it is replacing a shipbuilding order at a local shipyard or based on its existing fleet.

Another issue to highlight is ANTAQ’s now clear demand that another “circularização” process needs to be made if a foreign flag vessel authorized to operate in Brazil needs to be sub-chartered by another Brazilian Shipping Company.

The number of charter authorizations that one Company can obtain from ANTAQ being limited to its existing Brazilian fleet, is the item deserving the most attention. As the operation of any EBN in Brazil becomes limited to the size of its local fleet, which means that if the Company is unable to buy existing tonnage or order the same from local shipyards, then they will never be able to grow.

Nevertheless, and taking in consideration the main actors in the Brazilian OSV sector, Petrobras as a

Charterer but also as the EBN that applies for the charter authorization towards ANTAQ, would be severely affected, as the company practically has only one OSV of its own, an 1975 built OSRV of no more than 2.000t DWT.

So how could they keep the more than 200 foreign flag vessels chartered? Even if the new resolution interpretation gives room for Petrobras to make use of its Brazilian tanker fleet tonnage allowance to charter OSVs, it does not sound logical nor sustainable at all. Even if Petrobras changes its contracting policy, putting the obligation of the charter authorization to the EBNs and then hires the OSVs through a services contract, it does not help either.

“This resolution may hurt the competitive market in the OSV sector in the long run by favouring oligopolies.”

This would extremely limit the number of suppliers on the OSV sector i.e. the ones with its own shipyard and able to build competitively. The resolution proposal is open for discussion through public hearings. Market

players are invited to make their comments and interests heard. Short sighted firms may think this resolution can stimulate the Brazilian shipbuilding industry even more in addition to the already existing local flag preference.

However, such imposition and exaggerated protection actually discourages serious and sustainable investments, especially when our independent shipbuilding industry reality is far from being efficient and internationally competitive. Add in the fact that the main charterer (Petrobras) continues to not accept dayrates which are not in line with the international levels and also heavily penalizes Owners for late delivery for local newbuildings.

In the long run besides directly affecting the logistics/ operations of Brazilian Charterers, this resolution may in fact favor formation of oligopolies in the OSV market, hurting the premises of a competitive market. ■

É Isso Aí



Westshore do Brasil attended the Asian OSJ Conference in Singapore. Photo: chensiyuan

Westshore do Brasil at Asian OSJ Conference

The second Asian OSJ Conference took place in Singapore on October 8th and 9th, and reached the goal of identifying the real growth opportunities in Asia and beyond. Among the renowned speakers, Westshore do Brasil gave its contribution by bringing to light the present challenges and the prospects of the Brazilian OSV market in the years to come. The conference had 35 speakers and over 250 industry leading attendees from 15 countries.

Surprises in the Brazilian Election

The results of first round of the Brazilian Elections which happened on October 5th were a surprise. Several polls from different sources throughout the campaign period showed a completely different scenario. President Dilma Rousseff for the Workers Party (PT) was set to get 40% of the votes according to the poll one day before the first round, and ended up getting 41.59%, which is within the error margin. However, the center-right candidate Aécio Neves (PSDB), expected to receive 24% of the votes and to be left out, actually received 33.55% of the votes, which eliminated the environmentalist candidate for the Brazilian Socialist Party (PSB) Marina Silva of the runoff for

president, who in turn received 21.32% of votes (less than expected).

Some specialists say that Aécio Neves' late surge in support to grab second place is due to his better performance in the last debate on TV, to some recent scandals involving Petrobras which directly affected a few politicians from the Workers Party, and to the loss of power of Marina Silva's speeches at the end of campaign period, after being harshly confronted by Rousseff and Neves.

Regardless of the reasons, the surprising runoff between Dilma Rousseff and Aécio Neves on October 26th is expected to be a nail-biting round, the fiercest race since Brazil took up presidential elections, after 1985. Votes for Marina Silva in the first round are being disputed one by one by the two candidates, and specialists are indicating a "tie" as of now, that is, very hard to predict. But one thing we know for sure: the polls are not to be trusted anymore. In times of frequent protests, growing active political awareness and access to real time information through internet, social media, etc, no results are known before the votes are counted. ■

Spotlight



Chouest's strategically positioned B-Port

Chouest's New B-Port

Located in a strategic area in the Açú super port in São João da Barra – Rio de Janeiro, the new venture covers a total area of 574,200 square meters. In partnership with Prumo Logística and the project was inspired by the C-Port located in the Gulf of Mexico which serves as the hub of material movement at Port Fourchon and was designed to increase efficiency and reduce port turnaround time.

There are two expansive terminals comprising 18 specialized slips configured to safely and efficiently transfer cargo and provide a wide range of support services to accommodate the largest of deepwater offshore vessels.

There are ten covered slips, nine 25.2 m wide regular

slips, each with two 25-ton overhead cranes; one 38.4 m wide heavy lift slip with two 100-ton overhead cranes.

In addition to the covered slips, the straight docks provide more than 525 linear meters, which can easily accommodate five large platform supply vessels (PSVs).

Located in the south breakwater of Açú Port's Terminal 2, B-Port will feature a floating dry dock with a lifting capacity of 13,700 MT. The B-Port can fully support 15 vessels simultaneously;

The construction work has been taking place and operations are expected to commence during the first half of 2015.