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# WAVE

To Extend or Not to Extend?  
*Should owners keep tonnage on with Petrobras?*

Contracts vs Local Legislation  
*Cracks in the system due to over regulation*

Prorefam: A Balance for the Future  
*OSV demand still going strong*



**WESTSHORE**  
DO BRASIL

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FPSO Cidade de Niteroi MV18, source: Modec.

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Westshore do Brasil, Cover image: Bravante VIII - source: Bravante

# Drilling & Production

## The latest from Brazil

### UDW Rigs on Extension

Ocean Rig announced that it has signed a three-year contract extension worth USD 1.1 billion with Petrobras for two ultra-deep water drilling ships, the Ocean Rig Mykonos and Ocean Rig Corcovado. The new contracts will commence in direct continuation with the end of the current agreements with the oil company, in Q1 and Q2 of 2015 respectively.

Diamond Offshore has also agreed with Petrobras a three-year contract extension for three ultra-deep water semisubmersible units, the Ocean Baroness, Ocean Courage and Ocean Valor, all set to stay in Brazil until 2018. The new dayrates are USD 310,000, USD 455,000 and USD 455,000 respectively.

### Time for Hanging up Boots

While some drilling rigs are extending their contracts, for others it is time to retire. This is the case for six units owned by Diamond Offshore, the Ocean Concord, Ocean Yatzy, Ocean Winner, Ocean Epoch, Ocean New Era and Ocean Whittington. The Ocean Concord and Yatzy had been working for Petrobras and are currently idle in Brazil and pending stacking while the Ocean Winner is awaiting the conclusion of its contract with the state major in March next year. According to the market, another of Diamond's unit will leave Brazil in February 2015, the Ocean Worker, after the completion of its six-year contract. This means a reduction of a fleet of a dozen units that once worked in the country to only five units.

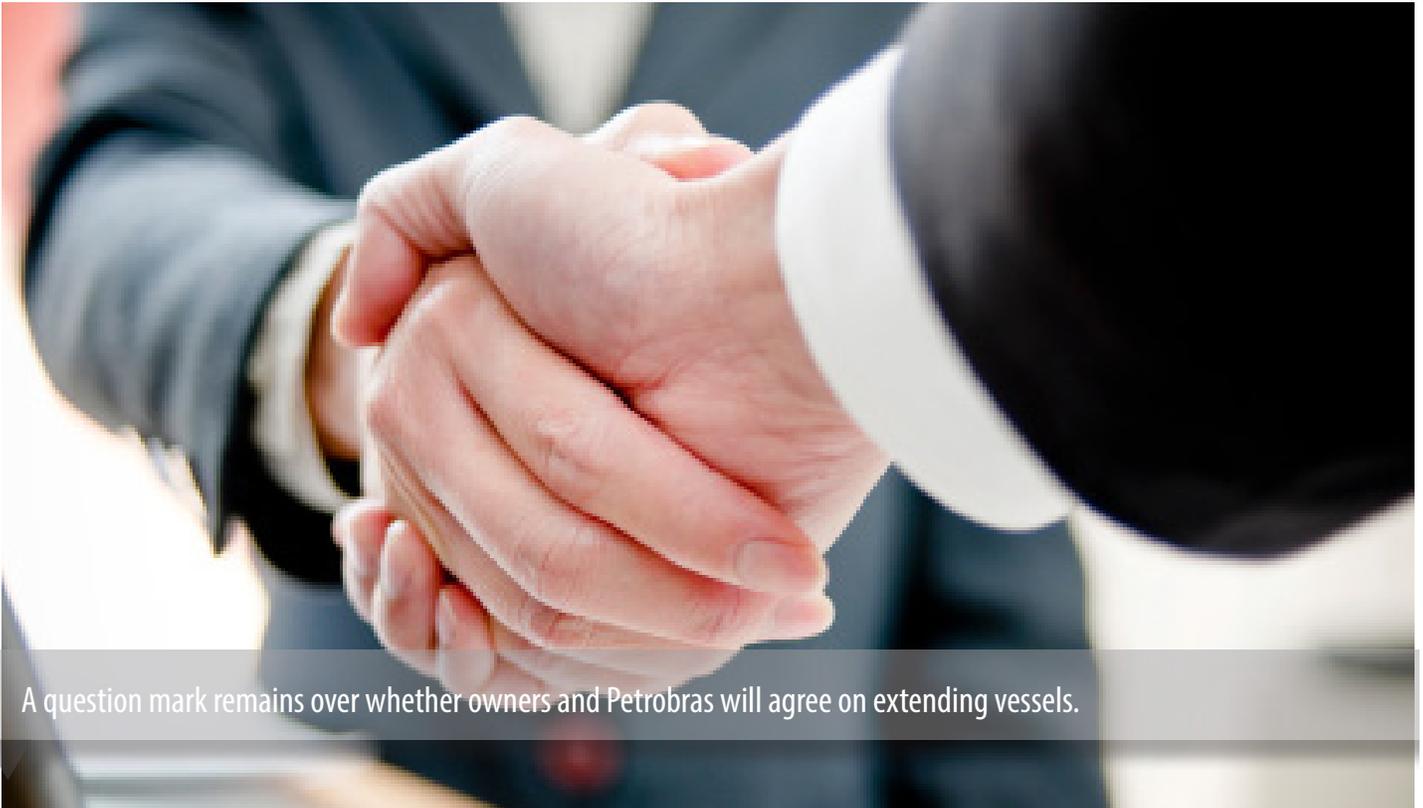
### Karooon to get Started

The semisubmersible rig Olinda Star, owned by QGOG, has finally received the green light to drill the appraisal well Kangaroo-2 on block S-M-116 in the Santos Basin operated by the Australian firm Karoon. The next step is to study and evaluate the results of the well for determining its commerciality and then begin the process for the front-end engineering and design work to put the project on stream. The campaign, which was supposed to start in July this year, consists of two wells firm plus two well options. The rig will be supported by the AHTS Maersk Provider, AHTS Maersk Puncher, AHTS Far Senator, PSV Siem Giant, OSRV Astro Vermelho and the boom handler Marimar XII.

### On Time

The hull of the FPSO P-76 has left Cosco shipyard in China, and is on the way to Brazil where it is set to operate in Búzios III in 2017, located in Santos basin. The unit is scheduled to arrive in the national waters in mid-December in Inhaúma shipyard, Rio de Janeiro, to conclude works on the hull. It will later be transferred to Pontal do Paraná where the integration of the modules will be performed by the consortium Technit/Technip, with the work planned for July 2015.

# Headline News



A question mark remains over whether owners and Petrobras will agree on extending vessels.

## To Extend or Not to Extend?

In the light of several OSVs contracts due to expire in 2014/2015 and in case Petrobras send signals that they intend to extend it, it is time for some Owners to make a decision. Is it worth extending these contracts or not?

Between 2010 and 2011, Petrobras took delivery of circa 40 foreign flag PSVs (PSV 1500, 3000, 4500 and OSRV750) to start its four year term charters, with an additional four years period. Whilst the exercising of the optional period must be mutually agreed, negotiation on a new rate (please read higher rate) is extremely unlikely due to public tender rules. So what is left to be agreed is basically the mutual intention to extend the contract on the

existing dayrate.

A lot has changed in the past four years including contractual terms and the worldwide OSV market scenario. Owners now have an experienced understanding of whether these contracts have been giving them any good results or not. They also have the right to decline the optional period, likely forcing Petrobras to enter the market with new tenders, where they can try offering revised dayrates, but subject to competition.

Some years ago there was a clear feeling that the rates for PSV 3000 in a Petrobras contract would increase due to surging operational costs and lower utilization.



Petrobras demand for OSVs is expected to remain at least at current levels

However the reality has been to the contrary, the market has instead witnessed the larger PSVs (PSV 4500) getting lower, to the rate level one desired for the PSV 3000. Some owners' frustration has recently been confirmed when some other owners agreed to extend contracts for their original lower rate i.e. the four-years old rate. Although most of these extensions were for one year period instead of four, it was feared by some areas of the market that it may send negative signals to the market for next year. There are already a few negative market pointers that could hamper owners expectations of higher dayrates. Low oil price, lack of new exploratory campaigns and saturated availability are just some of them.

On the global stage Mexico and India are offering a substantial volume of PSV requirements, the North Sea may have no room to absorb any mid-size DP1 PSVs back to the spot market. The Southeast Asian market is expected to keep offloading competitive speculative newbuildings which if not pressing rates down for commoditized tonnage will not add to its increase either. West Africa can still be a possibility despite the lack of substantial long term prospects and a very effort-intensive spot market.

On the large AHTS side, owners of foreign tonnage have been more reluctant to extend contracts with Petrobras as they feel the present dayrate is not giving them enough return. Tenders running in parallel are showing rates expected by owners are still higher than the ones in force, however the gap is narrowing.

The present orderbook for large-Petrobras-spec AHTS is not vast making its supply scarce. At the same time demand is expected to increase due to the need of installing 32 FPSOs by 2020. These projects directly affects Petrobras oil production targets and thus mean the large AHTS is considered critical equipment by the company. Petrobras demand for OSVs is expected to remain at least at current levels. The company will be doing everything it can to extend contracts with as much tonnage as possible as it represents a good deal for them, keeping rates down.

On the owners side, they would be to evaluate their contracts' operational results on existing rates, and if not enough, assess how competition would behave in a potential new tender, whilst remembering to check if the worldwide market can offer anything better in the short term. ■

# Vessel News

## Chartering Activity



The Maersk Vega has now been extended with Petrobras.

**FARSTAD** - AHTS Far Sea has successfully concluded her charter with Van Oord in support of the pipelaying barge Stingray, with Saipem and Petrobras as the end users. The vessel is undergoing planned maintenance in anticipation of future activities.

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**BRAVANTE** - PSV Viking Surf is finishing her modifications to enter a PSV contract with Petrobras. The vessel is expected to be ready in the first half next month.

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**DEEPSEA SUPPLY** - Brazilian built and flagged PSV Sea Brasil is undergoing maintenance and modifica-

tions in anticipation of her next charter expected to start this month.

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**MULICEIRO** - Brazilian tug owners Muliceiro have made available their upgraded M Aveiro, with around 100m<sup>2</sup> free deck area and fitted with a new winch and 22 t bollard pull. The vessel is prompt available.

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**MAERSK** - Brazilian built and flagged PSV Maersk Vega has been extended with Petrobras for one-year until Q4 2015. Sister PSV Maersk Ventura is expected to become available in December.

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The Far Sea has concluded its charter with Van Oord.

**SIEM** - Brazilian built and flagged PSV Siem Giant has resumed her contract with Karoon after having successfully worked for Shell Brasil. The vessel is expected to remain in service with the Australian operator until the end of Q1 2015.

**BRAVANTE** - PSV Bravante VIII has left the Gulf of Mexico and is expected to arrive in Brazil in late November. At the moment of writing the vessel remains uncommitted.

**CHOUEST** - Brazilian built and flagged AHTS Elizabeth C is in Itajai undergoing planned maintenance. PSV Bongo has been relocated to Rio de Janeiro for her contract with Petrobras.

**STARNAV** - PSV Starnav Aquarius has been extended with Saipem and is expected to become available in

December together with the Bravante trio (V, VI and VII), if no further options are exercised.

**DEEPPSEA SUPPLY** - AHTS Sea Leopard is promptly available in Guanabara Bay.

**“Deepsea Supply’s AHTS Sea Leopard is currently in Guanabara Bay seeking further work..”**

**LABORDE** - After working for Repsol Sinopec through Oceanpact as an OSRV since early 2014, the PSV 1500 LAB 152 is currently under repairs and is expected to be available in the spot market by the month end.

**OCEANPACT** - OSRV Astro Vermelho (owners Astromaritima) has recently replaced Astro Enchova in the Karoon campaign in the Santos Basin, and is expected to remain on contract until Q1 2015. Meanwhile, LAB 152 was replaced by Macaé in the Repsol Sinopec contract until Q3 2015.

# Operator Update

## Brazilian Activity

### All Attention on Pão de Açúcar

Repsol Sinopec has been focusing on finding solutions and alternatives to start production in the Pão de Açúcar pre-salt discovery by 2021 or even 2020. The company is set to drill three appraisal wells in the area scheduled to be concluded in late 2015 and then, if the campaign is successful, Seat-3 and Gavea-2 may be the next to be deployed. The Pão de Açúcar, Gávea and Seat discoveries are estimated to hold 700 million boed and 3 trillion cbm of natural gas. The Spanish/Chinese joint venture has been investing around USD 1 billion per year in Brazil to achieve the goals in the area.

### Expanding Portfolio

Brazilian company QGEP plans to put the Atlanta heavy oil field on stream by early 2016. The 30% stake and operatorship of the area were acquired from Shell in 2011 with an estimated 2.1 billion boed in place and which is expected to more than double company's revenues once in operation. The group has also recently obtained environmental licensing to purchase 3,000 sqm of 3D seismic data in the Pará-Maranhão basin awarded in the 11th round, and anticipated difficulties in securing licenses for drilling campaigns in the basin. QGEP is taking the opportunity to expand its portfolio in the Brazilian offshore market.

### Farm Out Denied

The National Agency of Petroleum (ANP) has rejected the sale of 40% stake by the Danish firm Maersk in the Polvo field, in Campos Basin, to the Brazilian

company HRT which is currently the operator and owner of the remaining 60%. The Brazilian company was awaiting ANP's approval to continue some activities at the field i.e. investments of USD 75 million for up to nine months including the drilling of two new wells. ANP did not give details to explain its decision, saying only that the denial was "due to the project and its economical indicators presented in the latest revision of the Field Development Plan." HRT can appeal the decision.

### Guaranteed by 2015

OGpar has announced that it will continue producing in the Tubarão Azul field until March 2015, at least. The company's decision came out after a technical analysis in the reservoir area and evaluation of its parameters since the resumption of its activities. The company produced a total of 525,251 boed in September this year, of which 433,862 reflects the production in Tubarão Martelo and 91,389 in Tubarão Azul.



# Inside Story



The Brazilian contracting system is beginning to crack under the weight of regulation.

## Contracts vs Local Legislation

**O**ffshore contracts in Brazil must be adapted to suit the local legislation. This creates a number of challenges and unnatural contractual circumstances for the offshore industry.

Around the globe, a general principle exists where the parties shall be free to choose the terms and conditions of their agreements, and any unresolved matter or dispute which arises from such a contractual relationship can be resolved considering the intent of the contract as a last resource, in case the contract in itself does not provide a clear resolution to the point of disagreement.

It is also true that in some countries, the law will try to protect the parties with some generic governing principles. Often those are related to competition law and other circumstances such as an unforeseen economic imbalance. Otherwise, the parties should know of their responsibilities and liabilities very clearly before they commit.

Brazil has however a paternalistic system where the legislation is detailed and in several circumstances will prevail over the differentiated contents of a contract signed between parties. There is a limit to what parties can independently agree upon. Some “blame” the Roman law system for such; however the matter is even more



In Brazil contracts are based on a complex paternalistic system of legislation.

complex than just the character of the legal system.

In reality, a contract in Brazil will have to follow several contractual principles of the law, inevitably leveling the contracts with the local system and preventing industry standard contract models to be fully adapted. The consequences of such are the parties must plan their business around the local legal demands, adapting the mode of contracting and operation in detriment of standardization and efficiency.

This means that the focus becomes somewhat deviated from "the business" (employ and operate a vessel) into "the how" (interpret, evaluate and mitigate legal risks). Moreover, protected by such a system, authorities and regulators can act in favor of local (national) interests, mainly in terms of tax collection and related matters, without being bothered by the industry (without standard), or the ability of companies to debate such regulations.

An example of such is the current interpretation of the law where oil companies, for instance, must enter a "Services" contract in the case that they are not Brazilian Shipping Companies. As well as adding a tax to the final cost, in this case 2% to 5% ISS tax depending on the municipality, a "Services" contract is so different in nature

to a chartering contract, a full array of liabilities, responsibilities and insurances have to be re-addressed.

One could argue in favor of a simple replacement of words, where "charter" is replaced by "service", "charterer" by "company", "owner" by "contractor" and so forth. In reality though if this was tried, even though not at all impacting the governing principle or legal stability of the contract, local authorities would demand a full adaptation. Such as happened in 2013 as an example, when customs refused to analyze REPETRO applications where such adapted charter contracts were being utilized.

**"One could argue in favour of a simpler contract where several terms are replaced but getting this agreed would be difficult."**

It can be concluded that Brazil is steadily becoming a country with too much regulation, where the freedom of parties is compromised, and so is their ability to enter into known and stable contractual relationships - with an easy reference or comparative basis to what is done elsewhere in the world. At the end of the day, the lack of transparency and forwardness in Brazil can sometimes scare foreign investment away and diminishes the ability of the country to keep growing and moving forward with the industry.

# Petrobras News

## Flotels on the Horizon

Petrobras has recently received 20 proposals from 11 different firms in the tender to supply the company with an accommodation and maintenance platform, known as a flotel, for a contract period of three years plus three optional years and delivery in the first half of 2017.

Petrobras is also considering chartering newbuild units. OOS International submitted the lowest bid for the Jasper Cosmopolitan and the Millenium flotels with dayrates of USD 135,000 each. As competitors, Sevan Marine offered a newbuild unit for a dayrate of USD 139,500; Forum Services offered two units for USD 141,500 each, the Sedco Express and the Cosmopolitan Express. Meanwhile, Prosafe bid in the Safe Euros and Safe Notos, currently under construction, for USD 141,500 each; PACC Offshore Services offered the Posh Xanadu for USD 150,800; GranEnergia offered the newbuild Thalassa for a dayrate of USD 154,500; the companies Eide Marine, Axis Offshore, Floatel International, Frigstad Offshore and Sapura also submitted proposals to Petrobras, but were disqualified due to excessive price or non-compliance with the tender. The results of the tender will possibly be revealed in early 2015.

## “Unitization” of Tartaruga Mestiça field

Petrobras and PPSA (Pré-Sal Petr leo S.A.) have signed a production individualization agreement (PIA) of the Tartaruga Mestiça, located in the Campos pre salt basin. The development of Tartaruga Mestiça shall occur in conjunction with the Tartaruga Verde Basin (100% Petrobras) and there are plans for the

installation of a production unit, such as an FPSO, as well as the drilling of production and injector wells. The startup of the FPSO commercial production of Tartaruga Verde and Tartaruga Mestiça from one well is scheduled for 2017 and startup of commercial production of the Tartaruga Mestiça field is scheduled in the first half of 2018. The PIA defines Petrobras as operator of the shared field. The PIA and Tartaruga Mestiça Development Plan were jointly submitted to ANP approval.

## Almost There

Petrobras has postponed until December the signing of the 7th Prorefam contracts which were supposed to happen in late October. The Prorefam program is expected to see the hiring of a total 146 vessels and investment of around USD 6.7 billion.

“Petrobras has postponed until December the signing of the 7th Prorefam contracts for 146 vessels.”

## Farm-in Approved

Cade (The Administrative Council for Economic Defense) has approved the sale of 30% and 40% stake from Petrobras to BP in five blocks located in the Potiguar basin. The blocks are POT-M-663 and POT-M-760 (30% each) and the POT-M-665, POT-M-853 e POT-M-855 (40% each). Even reducing its participation, Petrobras will continue as operator of all areas of the consortium. Petrobras said that the decision was taken due to the necessity to reduce its exposure to risk in case of not finding a substantial quantity of oil and gas in the area. Meanwhile BP, in turn, justifies the purchase saying that it is part of company’s business strategy to increase its presence in Brazil.

# Look Ahead



Brazil still needs a significant amount of tonnage to meet future demand.

## Prorefam: Balance for the Future

**A**fter completion of the fleet renewal plan for offshore support vessels (Prorefam), it has been hard for Petrobras to fulfill the goal of hiring 146 Brazilian vessels by the end of the year as planned.

Now, missing 50 units to complete the program, the company has postponed until December the signing of contracts of the 7th and potentially last round and a rumor of an 8th phase is all over the market.

Since its launch, in 2008, the Prorefam has aimed to increase the level of nationalization of the Brazilian

offshore support vessels fleet. However, over the past five years, the foreign fleet operating in Brazil has grown to twice the national fleet. Today, there are around 450 vessels in operation in the country, of which around 50% are foreign flag. Hiring overseas is seen by Petrobras as an alternative to get international market price levels as well avoid further delays in the production, while there are difficulties in securing Brazilian tonnage.

By the sixth round of Prorefam, Petrobras had already chartered 110 OSVs but only half of the AHTS had signed contracts. Six AHTS were hired in the 2nd



round (2010): four AHTS 21,000 and two AHTS 18,000. It was only in 2013 that this type of vessel would be chartered again, when five AHTS 21,000 signed contracts in the 5th round and four other AHTS 18,000 were hired in May this year, in the 6th cycle of the program. Most of the demand for this type of vessel is still being filled by foreign vessels.

Petrobras has attributed the slow hiring pace for this type of units to the difficulty of shipowners submitting competitive proposals. However, the company noted that hiring of PSVs and OSRVs (oil spill response vessels) was a competitive solution in Brazil, as these type of vessels are the one mostly offered by owners.

Building an 18,000 BHP AHTS in Brazil can cost more than USD 120 million, depending on the design and specification of the vessel, and this budget is up to 70% more expensive compared to the cost offered by some shipyards in Asia, which can reach USD 70 million. A PSV that costs USD 30 million in China, can cost between USD 60 million and USD 70 million in Brazil. Today, there are at least 10 newbuild vessels of the Prorefam delayed and some companies have not yet begun the construction of their units. In addition, from a total of 110 vessels hired in the program, only 26 have actually been delivered and are on hire.

The high costs, the difficulty in building sophisticated vessels and the pressure to have 100% of national crew are not encouraging owners to build and operate vessels in Brazil.

The bureaucracy on the financing side added by the requirement of substantial guarantees for funding is another difficulty for these companies. In addition the industry complains of operating costs, taxes and delays in the shipyards. The Brazilian Association of Offshore Support Companies (Abeam) has been working with shipowners and labor unions on crew matters as there are only two training centers in Brazil to meet this demand, one in Rio de Janeiro and another one in Belém (PA). Furthermore, qualification and training of national crew is a challenge. The lack of qualified national crew is one of the main difficulties for Brazilian flag AHTS operations.

Brazil will need at least 154 additional OSVs within next six years due to the growth of the production forecasted in the Petrobras Business Plan. It is expected that the Prorefam will step up in the next few years and the demand for OSVs (both Petrobras and IOCs) will keep growing with the pre salt projects on stream and the drilling campaigns of the 11th round scheduled for 2016/2017, not to mention ANP's future rounds for offshore block concessions.

In Brazil inevitably the challenges can be numerous and require coordination and proactivity among companies and the government. However, the demand for more OSVs in the country will always exist as long as new discoveries are made and when production targets need to be met a way will be found to meet the demand.

# É Isso Aí



## Westshore's Lecture at IMAPOR: Charter Contracts Highlights

Westshore do Brasil was invited by IMAPOR ("Sea and Ports Institute") to give the first of a series of lectures in which the focus is to present a more practical overview of the most relevant topics in the market.

The lecture about types and challenges of time charter contracts in the offshore support sector took place at IMAPOR headquarters located in Downtown Rio on October 28th, and was open to the public, being well received by the floor. IMAPOR is a non-profit association focused on increasing competitiveness of the offshore, harbor and international trade sectors in Brazil, especially through training and regular courses (mostly short-term) throughout the whole year.



## Dilma Rousseff's Re-election

Following the prediction of polls in which she had a slight advantage over candidate Aécio Neves in the runoff, President Dilma Rousseff has been re-elected president of Brazil, after securing 51.6% of the vote. In her victory speech, Rousseff said she hoped the nation could rally together: "Instead of increasing differences and creating gaps, I strongly hope that we create the conditions to unite," she told supporters in Brasilia. "I want to be a much better president than I have been until now." Also, she said dialogue would be her top priority. During the campaign period, Rousseff and the Worker's Party had to fight several charges involving corruption at Petrobras, and now with the re-election, there will still be turbulent days ahead with the ongoing investigations. ■

# Cocktail Party 2014

Save the Date

December 3rd, 2014

**Westshore do Brasil  
Cocktail party 2014**

