

Brazilian Wave

April 2015 Issue: 44

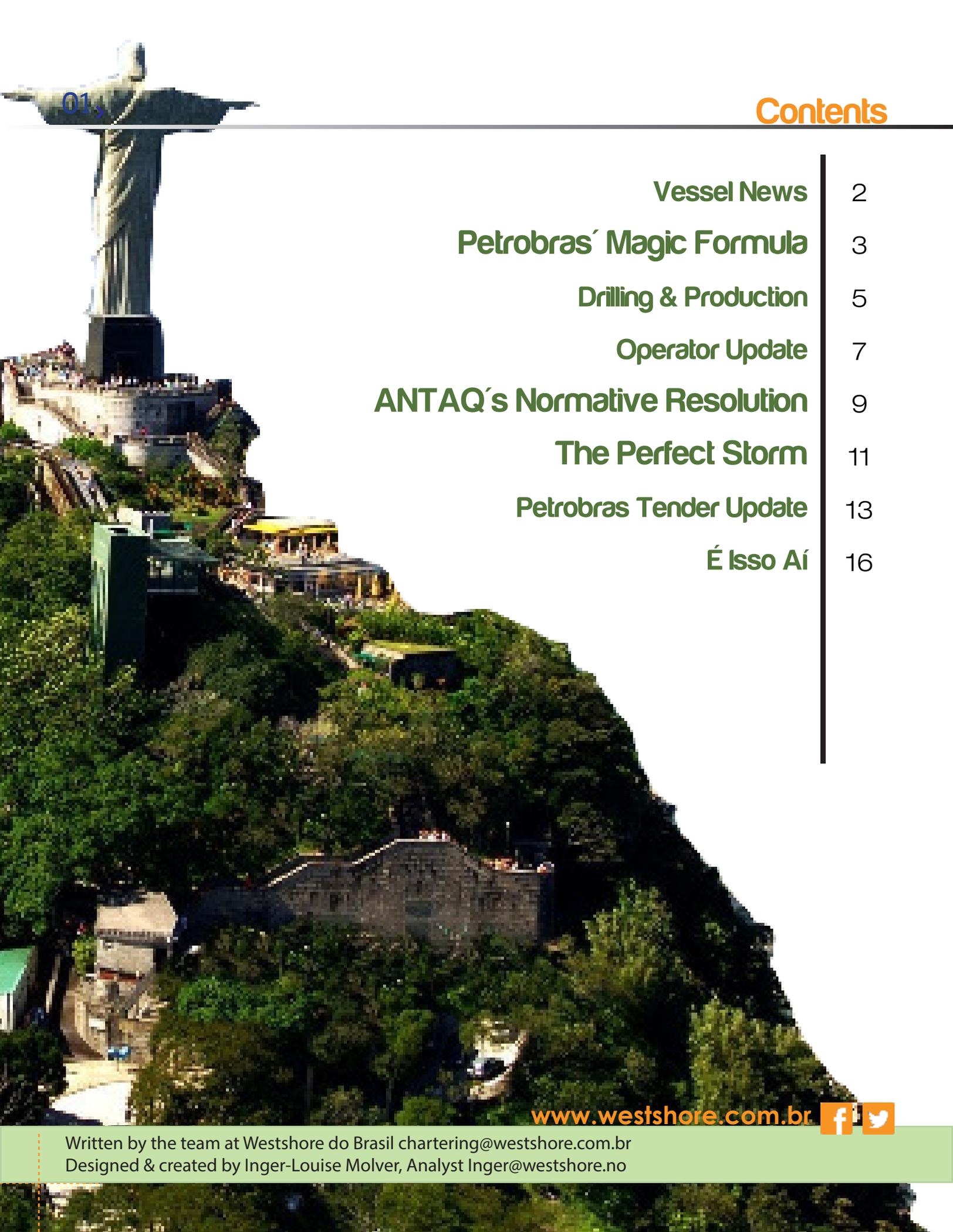
The Perfect Storm

Rising inflation, cost pressures and a worsening economy. The clouds are gathering over Brazil



WESTSHORE

DO BRASIL



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FARSTAD - Brazilian built and flagged AHTS BOS Turquesa has been fixed to Queiroz Galvão Óleo e Gás mid March to assist on the anchoring of S/S Gold Star in Guanabara Bay.

DEEPSEA SUPPLY - AHTS Sea Leopard has been fixed to Schahin for 3 days firm plus options for cargo runs starting 5th April. The vessel is prompt available Guanabara Bay.

FARSTAD - Brazilian built and flagged AHTS BOS Turquesa has been fixed to Seadrill all duties for 3 days firm plus options. After this the vessel stopped for regular maintenance, expected ready Guanabara Bay on 24th April.

FARSTAD - Farstad has fixed the AHTS Far Sea to Oceanpact for 30 days firm + options.

OCEANPACT - AHTS Far Sea has been fixed to Karoon replacing Astro Vermelho as OSRV until the end of the campaign, expected late May 2015.

ASTROMARITIMA - Brazilian built and flagged Astro Parati has arrived in Guanabara Bay and is soon available for charter. The vessel is DP1 classed.

ASTROMARITIMA - OSRV Astro Vermelho has been fixed to OGPar for 4 days firm plus options starting 18th April. The vessel is expected free for charter after this period and prompt available as OSRV DP1 1050m3 capacity.

DEEPSEA SUPPLY - Brazilian built and flagged PSV DP2 Sea Brasil has started supporting Shell Brasil on the BC-10 installation of PLETs. The vessel is firm 3 weeks plus options, after which she will be delivered to Petrobras for her long term charter.

CHQUEST - Brazilian built and flagged AHTS Elizabeth C was offhire for Shell while awaiting the mobilization for the BC-10 PLETs, set to start 21st April and will last for approximate 3 weeks. The vessel is expected being released after conclusion of this activity.

CHQUEST - DP1 PSV Navegantes Pride has been released from her charter and is prompt available in Navegantes, South Brazil at time of writing.

BRAVANTE - PSV DP2 Bravante VI has been fixed to Saipem for 20 days firm + options.

SEACOR - Brazilian built and flagged DP2 PSV Seabulk Angra has been fixed to BW Offshore for 4 days firm plus options. The vessel has arrived in Guanabara Bay and is prompt available at time of writing.

SOLSTAD - AHTS Normand Borg has left Brazil to Europe after a couple of days available in the spot market.

MAERSK - AHTS Maersk Advancer is available in Brazil after having concluded work with Petrobras and awaits results of the latest multi-categories tender of Petrobras.

STARNAV - PSV 4500 DP2 Starnav Aquarius is prompt available Itajaí.

SIEM - Brazilian built and Flagged OSRV Marati has been extended until 19th April plus options to cover for Petrório (HRT) as OSRV until OSRV Astro Pargo is delivered and approved by IBAMA.

SWIRE - Swire Pacific Offshore (SPO) has canceled contracts to build four PSVs 5000 with the Eisa shipyard in Rio de Janeiro. The decision came after months of negotiations requested by the shipyard, which concluded that would not be able to deliver the units in the time agreed.

PETROBRAS' MAGIC FORMULA: WITHHOLDING IR

There is no magic formula that will save Petrobras, but something had to be done to provide some quick relief. Following some legal changes Petrobras began withholding 15% of payment for foreign vessels on current Petrobras charters.



Vendors were initially asked to submit documents for analysis by Petrobras. Declaration of whether or not a relationship existed between the EBN and the ship owner (economic or otherwise) was then requested. The deductions of IR commenced prior to completion of analysis of documents and were furthermore back dated to January 2015 – without any confirmation of which companies were covered by the new law and which weren't. The taxation has been further applied to any pending payments from January 2015.

The Federal law 13.043 published on November 14th 2014 by the Official Gazette, modified the law 9.481/1977 which amongst other items, applied a zero rate of IRRF on contract payments of foreign vessels.

According to the new law, in the case of simultaneous execution of charter contracts or leasing of maritime vessels and service contracts, both related to prospecting and exploration of oil and natural gas and awarded to companies linked to each other, the charter contracts or rental cannot exceed 85% for vessels with Floating Production Systems, 80% in the case of Drill ships and for all other types of vessels it there was a percentage of 65% established in total value of contracts.

However, for contracts above 65%, Petrobras applied the new rule irrespective of the societary composition and allegedly while its applicability was being analyzed. On such contracts Petrobras issues two USD Measurement Reports, first for up to 65% exempt of income tax and another

complementary (called RM with split) to withhold 15% of IRPJ, without a publicly known criteria to determine the retention. Petrobras just informed the ownership the percentages to be considered for each contract to find the total days of the operation that are applicable for the retention of the “Magic Formula”.

Apparently sister vessels with exactly the same day rates, contract duration, ownership, Brazilian shipping company etc. can have different percentages applied by Petrobras on the RM split.

This new Petrobras taxation system does not accurately and fairly demonstrate how the deductions are being calculated and is creating a lot of disturbance in the market and impacting the cash- flow of companies affected.

As questions have arisen, many companies not part of the same economic group of the other part of analysis, protested against the retention individually or through the ABEAM - Associação Brasileira das Empresas de Apoio Marítimo. Letters were presented to Petrobras asking for an explanation on the analysis and the calculation methodology used, so the market could understand the formula for retention as it has so far remained a mystery.



SEADRILL'S NEW
#WESTTELLUS.
ITS PROGRESS ON
INSTAGRAM FROM
DELIVERY FROM THE
YARD IN SINGAPORE,
MAKING ITS WAY ROUND
AFRICA STOPPING IN
GRAND CANARIA BEFORE
FINALLY ARRIVING IN
BRAZIL.



FPSO POLVO EXTENSION

BW Offshore has signed a one-year contract extension for the FPSO Polvo with PetroRio (ex-HRT), which now ends on the third quarter of 2016. It is said that the oil company is planning new investments at its Polvo field to keep the area operating for an additional three years.

JOINT VENTURE UNTIED

Odfjell Drilling has confirmed it has initiated a legal process to finish the joint venture with Queiroz Galvão Oil and Gas for building three drilling rigs (Guarapari, Itaoca and Siri) for Sete Brasil. The first two units are being built at Jurong Shipyard originally scheduled to begin operations in 2016 and 2017 respectively, construction of the third unit has not yet started. The three drill ships have daily rates ranging from USD 518,000 to USD 524,000. This is not the first stepping down of companies contracted by Sete Brasil. Petroserv and Etesco have already formalized the end of the joint venture for the construction of five drilling rigs. If Odfjell decides to terminate involvement in the project, eight of the 28 rigs will be without contract.



SEADRILL'S NEW DRILLSHIP IN BRAZIL

The drillship West Tellus, owned by Seadrill, and chartered by the Libra consortium has arrived in Brazil for the evaluation campaign at the Libra pre salt field. A second unit, West Carina, is expected to arrive within the next couple of months. Both the West Tellus and West Carina have been chartered until 2018 for a daily rate of USD 494,000 and USD 484,000 respectively. Meanwhile, two semi-sub rigs, West Taurus and West Eminence are leaving Brazil, leaving the driller with five drilling units operating in the country.

SCHAHIN HALTS OPERATIONS

Schahin Oil & Gas has interrupted the activities of two semi-submersible rigs operating for Petrobras, the Pantanal and the Amazônia, and intends on shutting down three drill ships, the SC Lancer, Cerrado and Sertão due to serious financial problems. The company has faced financial issues for the past four years but the situation worsened after allegations in Operation Car Wash indicating involvement in the corruption scandal with Petrobras. Recently reports released point to a debt of USD 1 billion. Schahin will continue to operate the drillship Vitoria 10000, currently on contract to Petrobras.

SETE BRASIL SCALES DOWN

Sete Brasil, the company responsible for the construction of drilling rigs for Petrobras, should be able to deliver at least 13 to 17 units, of the total order of 28. Each contract for construction of drilling units is around USD 1 billion and the partial fulfillment of the order is due to financial difficulties of the company in the midst of corruption investigations by the Car Wash Operation, which have impacted Petrobras investments.



setebrasil

QGEP'S ATLANTA FIELD

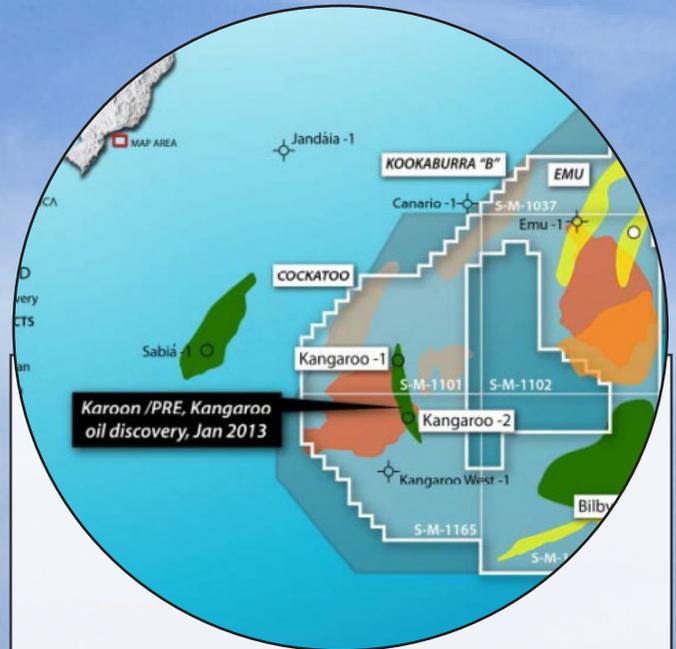
McDermott and GE Oil and Gas will be responsible for providing subsea equipment for the early production system in the area. McDermott will provide the engineering and installation of all subsea hardware, including flexible pipes, umbilicals and other equipment, while GE Oil will supply all flexible risers, flowlines and associated equipment. Queiroz Galvão chartered the FPSO Petrojarl I, for five years and is due to start operations mid-2016. McDermott will use the PLSV North Ocean 102, currently chartered to Petrobras, as soon as the FPSO Petrojarl I is available. The project is due for completion in the second quarter of 2016.





SHELL TAKES BG

Anglo Dutch Shell has confirmed acquisition of BG after closing a deal of around USD 70 billion. This is the largest fusion in the oil and gas industry in over 10 years and represents a new power in Brazilian pre salt since becoming Petrobras' main partner during this crisis period. The mega acquisition will make Shell the second largest oil producer in Brazil, second only to Petrobras, raising its oil and gas production in the country from the currently 46.4 thousand boed to 183.6 thousand (adding 137.2 thousand barrels of BG, which has shares in some blocks). Besides taking part in an important production asset in the pre-salt (BG has 25% of Lula), BG's significant business also includes reserves with good quality of oil and shares in other relevant areas such as Sapinhoá, Lapa and Iara.



KAROON DRILLS ECHIDNA-1 WELL

The Santos Basin campaign is being led by the Olinda Star drillship at a water depth of 312.7m and the company expects to reach the top of the reservoir in about three weeks. The chance of drilling success is 43%. Echidna-1 is the first of four wells planned in the Discovery Evaluation Plan (DEP) comprising the SM-1166 block SM-1165, SM-1102, SM-1101 and SM-1037. The company has drilled two firm wells, one of which was declared dry. The plan is valid until December 2016. Karoon has a 65% share, while the other 35% is held by Pacific Rubiales.

ANTAQ'S NORMATIVE RESOLUTION 1:

The outcome of an effective collaboration of stakeholders

After a time-consuming debate over Resolution 3638, Antaq came up with the first Normative Resolution issued February 13th and valid from April 6th. It contained changes to the procedures and rules of chartering vessels by an EBN for harbor and offshore support, cabotage and long hauling vessels. This new resolution extinguishes the 2013 resolutions 2919, 2920, 2921 and 2922; each one relating to a specific type of vessel.

Some say Antaq's intention over resolution 3638 was to restrain the "flags sale" in cabotage. However it ended up proposing severe limitations to EBNs linked to offshore support that would not have enough local tonnage to keep the foreign vessels in Brazil, threatening the viability of several ongoing and new projects.

The initial proposal intended to limit the Brazilian Shipping Companies ability to charter foreign flag vessels. In addition to the absence of similar Brazilian flag vessel availability in the market, the Brazilian Shipping Company (EBN) would be limited to chartering foreign tonnage only up to two times its existing Brazilian tonnage. In other words, an EBN would need to build and/or buy Brazilian tonnage if it wanted to bring in more foreign tonnage. This in itself would directly affect local charterers' ability to charter OSVs, depending on the existence of local tonnage, limiting their ability to secure the required OSVs for its exploration or development campaign. If on the one hand this measure could force players to build OSVs in Brazil, it would be a very high price for the ticket to operate in Brazil, as building cost would be high and reliability very low, favoring very few set ups in Brazil and risking cartel formations.

Therefore at the end of 2014, Antaq issued the Normative Resolution 1, which still provisioned two scenarios for chartering in foreign tonnage into Brazil: a mode which basically does not depend on ANTAQ's authorization (bareboat with temporary suspension of its original flag limited to two times the deadweight of a vessel under

construction in Brazil added by half of the deadweight of its existing vessel); and subject to ANTAQ approval (time charter subject to the unavailability of similar Brazilian flag vessel and replacing a vessel being built in Brazil for a minimum period of six months and limited to 36 months limited to its gross tonnage).

“...it would be a very high price for the ticket to operate in Brazil, as building cost would be high and reliability very low, favoring very few set ups in Brazil and risking cartel formations.”

There were also changes with regards to the deadline for the charter and the vessel details registration on SAMA (the Antaq's web-based system), which increased from seven working days to 15 consecutive days after acceptance in the chartering contract, as well as the deadline for the charter contract presentation to Antaq, which has increased from 30 to 60 running days from the vessel arrival date.

The Normative Resolution 1's outcome shows the regulatory agency's public and legal interest

in cooperating with the players of the market, instead of appealing only to an increasing protective mentality along with the need to stimulate local content availability. If we had the right tools to provide all this local flag availability it would be great, however radical changes in the short term will not stimulate that, but merely result in an instable environment for investments and growth.

THE PERFECT STORM

It seems charterers have combined to lower operational costs by the same proportion, a warning sign of what's to come.

Ah, the sweet life of being at the top of the food chain... being governed by supply versus demand, nothing but an ocean of customers dependent on the black gold you produce.... Who could complain?... But then the oil price goes below USD 50. The sweet life turns sour, and the only advantage of being at the top of the food chain is having the greater bargaining power to mitigate losses by cutting costs. Good luck oil industry suppliers!

We know it's not that simple, but to some degree the above scenario does reflect what's taking place in Brazil and all around the globe. Oil Companies and other charterers did attempt to renegotiate with suppliers, vessel owners included when the oil price crisis started hitting the main upstream projects.

It's not like these low oil price levels have never been seen before. They have. Previously however, time and patience were enough to settle things down. The oil price would conveniently increase again and as equipment contracts got renewed a new balance was established, keeping charterers and owners in their regular place. What's different this time is the perception that the low oil price is here to stay, or at least for the next two to three years. In this scenario, most projects i.e. in ultra-deep water in Brazil become unviable, or at best can barely break-even. In a wave of *déjà vu*, charterers start calling in owners to renegotiate. And as life is full of coincidences, funnily enough the request is the same: can you give us 30% discount? The 30% OFF season is officially opened! One just needs to take a look at what happens on the other side of the Atlantic with the owners.

While the low oil takes a hit on the income of the oil companies, the economic scenario for the shipping industry deteriorates. Impacted by a high number of new buildings hitting the water and lower demand, fixtures start to disappear and average rates to dive. Meanwhile in Brazil the economy worsens, inflation rises, crew salaries are readjusted by at least double the inflation rates and maintenance and repair costs double by the year. It's the perfect storm.

Charterers and owners are facing one of the most difficult times in our industry: how to find balance and survive against such challenges?

Current actions will shape the playing field for years to come: those oil companies who got stronger during the golden era and stock piled resources will successfully push for lower costs and grow by acquisition. Owners that strengthened in the recent positive wave and invested wisely will see the benefit of surviving hard times from fierce competition and pressure for lower rates, while also growing by acquisition. Those that did not save or invested poorly counting on an endless positive environment will grasp the last bits of fresh air before being mercilessly swallowed up. Hard times.

PETROBRAS TENDER OVERVIEW



● LH 2500

All five companies competing in the tender were technically qualified by Petrobras: Camorim, Starnavm OceanPact, Internav and Tranship. The commercial proposals have not been released yet and still have no firm date defined.

● PSV 3000/4500 NATIONAL FLAG

Previous to our last issue, only the vessel Seabulk Angra owned by Seacor and offered in the PSV 3000-A category was declassified in the tender for non-compliance with the item 4.2.5 (dry bulk capacity).

● PSV 1500 FOREIGN FLAG

Petrobras has not indicated when it will release the commercial proposals in the PSV 1500 foreign flag vessels tender. The proposals are still going through economic analysis.

AHTS 18000/21000 UNOFFICIAL RANKING

Previous to our March edition, please see below the unofficial ranking of offers after fuel consumption criteria.

AHTS 21000 - INVITATION E&P 1691982148

RANKING	SHIPOWNER	EBN	VESSEL	DESIGN	YEAR	DAILY RATE (USD)	PV (CLASSIFICATION CRITERIA)
1	Siem Offshore	Siem Consub	Siem Diamond	VS 491 CD	2010	47500	66674,79209
2	Siem Offshore	Siem Consub	Siem Pearl	VS 491 CD	2009	47500	66674,79209
3	Siem Offshore	Siem Consub	Siem Emerald	VS 491 CD	2009	47500	66674,79209
4	Siem Offshore	Siem Consub	Siem Sapphire	VS 491 CD	2010	47500	66674,79209
5	Olympic	Olympic	Olympic Hera	Ulstein A122	2009	55000	68272,11663
6	Siem Offshore	Siem Consub	Siem Aquamarine	VS 491 CD	2010	49900	69074,79209
7	Siem Offshore	Siem Consub	Siem Opal	VS 491 CD	2011	49900	69074,79209
8	Siem Offshore	Siem Consub	Siem Amethyst	VS 491 CD	2011	49900	69074,79209
9	Siem Offshore	Siem Consub	Siem Topaz	VS 491 CD	2010	49900	69074,79209
10	Siem Offshore	Siem Consub	Siem Garnet	VS 491 CD	2010	49900	69074,79209
11	Swire Pacific	OSM	Pacific Diligence	Havyard 844 XL	2013	51000	71441,84214
12	Swire Pacific	OSM	Pacific Dragon	Havyard 844 XL	2014	51000	71441,84214
13	Farstad Shipping	Farstad Shipping	Far Senator	UT731CD	2013	53995	72335,03193
14	Swire Pacific	OSM	Pacific Dolphin	Havyard 844 XL	2013	53000	73441,84214
15	Swire Pacific	OSM	Pacific Duchess	Havyard 844 XL	2014	53000	73441,84214
16	Farstad Shipping	Farstad Shipping	Havila Jupter	Havyard 845	2010	56900	73875,54571
17	Farstad Shipping	Farstad Shipping	Far Statesman	UT731CD	2013	56000	74340,03193
18	Farstad Shipping	Farstad Shipping	Far Scorpion	UT731CD	2009	56000	74340,03193
19	Farstad Shipping	Farstad Shipping	Far Sagaris	UT731CD	2009	56000	74343,83061

AHTS 18000 - INVITATION E&P 1691982148

RANKING	SHIPOWNER	EBN	VESSEL	DESIGN	YEAR	PREVIOUS BID (USD)	PRESENT BID (USD)	PV CLASSIFICATION
								CRITERIA
1	Havila	OSM	Havila Mars	UT786CD	2007	-	41750	58306,7539
2	Solstad	Solstad	Normand Borg	UT 722L	2010	55500	43500	59310,96703
3	Finarge	Finarge	AH Valletta	MOSS 424	2010	58500	43900	60346,67129
4	ER	OSM	ER Luisa	UT786CD	2010	-	49000	61187,13225
5	ER	OSM	ER Vittoria	UT786CD	2010	-	49000	61187,13225
6	Solstad	Solstad	Normand Mariner	Ulstein A101	2002	-	43900	61435,19396
7	Solstad	Solstad	Normand Master	Ulstein A101	2003	-	42800	62435,19396
8	DOF	Norskan	Skandi Admiral	UT741	1999	-	54000	62941,09154
9	Olympic	Olympic	Olympic Pegasus	Ulstein A101	2002	63595	49000	63366,43693
10	Olympic	Olympic	Olympic Hercules	Ulstein A101	2002	43900	51500	63766,43693
11	Finarge	Finarge	AH Varazze	UT12CD	2014	-	43500	63782,09372
12	Siem Offshore	Siem Consub	Siem Diamond	VS 491 CD	2010	62589	48500	64167,19472
13	Siem Offshore	Siem Consub	Siem Emerald	VS 491 CD	2009	62589	45000	64167,19472
14	Siem Offshore	Siem Consub	Siem Pearl	VS 491 CD	2009	62589	45000	64167,19472
15	Siem Offshore	Siem Consub	Siem Sapphire	VS 491 CD	2010	62589	47500	64167,19472
16	Swire Pacific	OSM	Pacific Diligence	Havyard 844 XL	2014	55000	43885	65441,84214
17	Farstad Shipping	Farstad Shipping	Far Senator	UT 731 CD	2013	64000	47000	65670,03193
18	Farstad Shipping	Farstad Shipping	BOS Turquesa	UT722L	2007	-	48000	65821,22457
19	Siem Offshore	Siem Consub	Siem Amethyst	VS491CD	2011	-	45000	66667,19472
20	Siem Offshore	Siem Consub	Siem Aquamarine	VS 491 CD	2010	59000	45000	66667,19472
21	Siem Offshore	Siem Consub	Siem Garnet	VS 491 CD	2010	59000	48900	66667,19472
22	Siem Offshore	Siem Consub	Siem Opal	VS 491 CD	2011	59000	45000	66667,19472
23	Siem Offshore	Siem Consub	Siem Topaz	VS 491 CD	2010	-	47330	66667,19472
24	Swire Pacific	OSM	Pacific Duchess	Havyard 844 XL	2014	-	42885	67441,84214
25	Farstad Shipping	Farstad Shipping	Far Statesman	UT731CD	2013	63500	49875	68215,03193
26	Farstad Shipping	Farstad Shipping	Far Sagaris	UT731CD	2009	63500	47500	68218,83061
27	Farstad Shipping	Farstad Shipping	Far Sovereign	UT741	1999	-	46017	68250,67997
28	Swire Pacific	OSM	Pacific Dolphin	Havyard 844 XL	2013	-	46000	68441,84214
29	Sealion	Sealion	Toisa Elan	VS4616	2013	59500	47500	69522,08927
30	Sealion	Sealion	Toisa Envoy	VS4616	2013	59500	47500	69522,08927
31	Sealion	Sealion	Toisa Explorer	VS4616	2013	59500	47500	69522,08927
32	Farstad Shipping	Farstad Shipping	Far Sigma	UT731CD	2014	66000	49875	69840,03193
33	Maersk	Maersk	Maersk Asserter	A-Type	2004	-	52000	70048,27421
34	Swire Pacific	OSM	Pacific Discovery	Havyard 844 XL	2014	-	44000	72441,84214
35	Swire Pacific	OSM	Pacific Dispatch	Havyard 844 XL	2014	-	44000	72441,84214
36	Maersk	Maersk	Maersk Advancer	A-Type	2004	-	52000	73048,27421
37	Maersk	Maersk	Maersk Laser	L-Type	2010	-	44750	81298,27421
38	Maersk	Maersk	Maersk Lifter	L-Type	2009	-	53000	82298,27421



OLYMPIC TICKETS NOW ON SALE

The start gun has been fired! The ticket sale for the Rio 2016 Olympic Games has begun. From March 31st, Brazilian residents will be able to apply for tickets in the first of two draws, while non-residents can find out who is the authorized ticket reseller (ATR) in their country. The ATRs will be responsible for ticket sales in their territories. To find out who is the ATR in your region, access www.rio2016.com/spectators.

In total, about 7.5 million tickets for the Rio 2016 Olympic Games will be put on sale, with more than half being priced at BRL 70 (about 22 US dollars) or less. The cheapest tickets will be BRL 40 (about 13 US dollars), while the most expensive ticket for a sports event will be BRL 1,200 (372 US dollars), and the most expensive opening ceremony ticket will be BRL 4,600 (1,425 US dollars).

Residents of Brazil have until 30th of April to request tickets in the first draw, with the results being announced in June. Only those who entered the first draw will be able to apply in the second draw, which opens in July, with results to be announced in August. There will also be a first-come-first-served online sales phase for Brazilian residents in October.

Both residents and non-residents of Brazil will be able to purchase any remaining tickets at box offices in Brazil from June 2016.

OSV BRAZIL 2015

From May 19th to 20th, Informa Maritime Events will host the annual OSV Brazil Conference at Sheraton Hotel in São Conrado, Rio de Janeiro.

The event is an opportunity for shipowners to identify and discuss key challenges that the Brazilian offshore support sector is facing. Westshore do Brasil will be one of the speakers, giving an updated presentation about the Brazilian offshore market. We hope to see you there!