

# Brazilian Wave

May 2015 Issue: 45

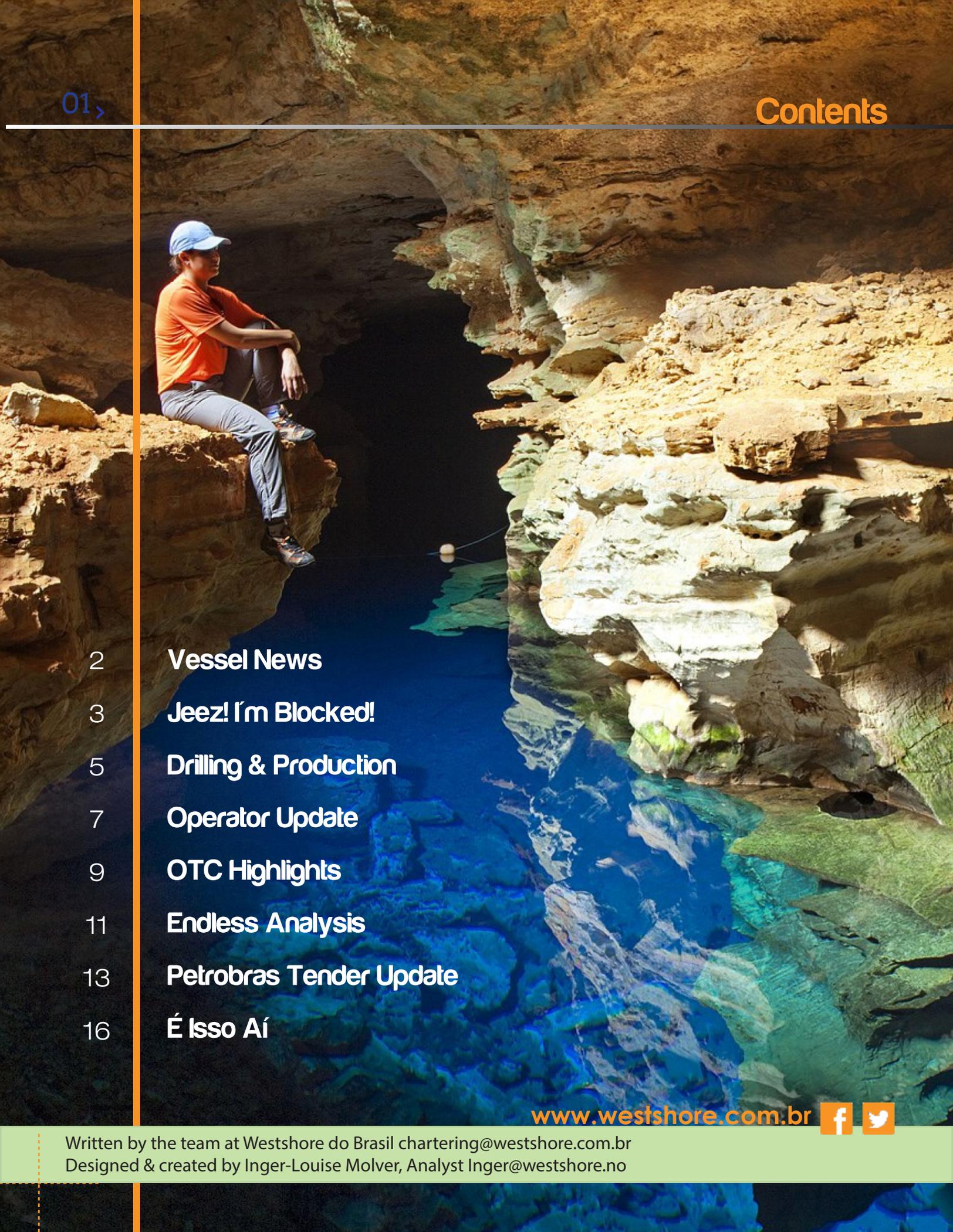
## \$9 FOR A BARREL OF PRE-SALT OIL?

Brazilian bargains hint at recovery  
for the beleaguered offshore sector



**WESTSHORE**

DO BRASIL

A person wearing a blue cap, an orange t-shirt, and grey pants is sitting on a rocky ledge. They are looking out over a deep, blue, cavernous space. The walls of the cavern are made of layered rock, and the water below is a vibrant blue. The scene is lit with dramatic, low-key lighting, creating a sense of depth and mystery.

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**SIEM** - Brazilian built and flagged Siem Giant is being traded on the market as the campaign of Karoon comes to an end. The vessel is expected free until late September when the contract with Petrobras is expected to start.

**BRAVANTE** - Sister ships Bravante V, VII and VIII have been extended by Total in Argentina and are now expected to head north towards Guanabara Bay starting one-by-one late this May.

**ASTROMARITIMA & OCEANPACT** - Brazilian built and flagged Astro Vermelho has secured via Oceanpact two 4 days firm periods with OGPPar this month, to serve as Oil Spill vessel for the Brazilian oil company. The vessel is currently uncommitted and ready to work in Guanabara Bay through Astromaritima.

**OCEANPACT & FARSTAD** - AHTS Far Sea is currently employed as OSRV through Oceanpact with Karoon, and expected to come free in early June as Karoon campaign comes to an end. The vessel is able to work as an OSRV but also as AHTS.

**MAERSK** - AHTS Maersk Advancer has left Brazil after no conclusion of its charter process and the uncertainty regarding the ongoing tender for its category with Petrobras. At time of writing, the vessel is on the West African Coast, heading north.

**BRAVANTE** - PSV DP2 870m2 deck Bravante VI is available Guanabara Bay, subject customs clearance (the vessel detains a valid CAA).

**DEEPSEA SUPPLY** - AHTS DP2 Sea Leopard has been fixed to Odebrecht for 7 days form plus options. At time of writing the vessel is concluding its works and expected ready and prompt Guanabara Bay afterwards.

**SOLSTAD** - AHTS Normand Borg has left Brazil after no conclusion of its charter process with Petrobras.

**STARNAV** - DP2 PSV Starnav Aquarius has secured a 60 days job starting late May, with an as yet undisclosed charterer.

**CHOUEST** - Brazilian built and flagged AHTS Elizabeth C is being released by Shell towards early June for her next employment. DP1 PSV Navegantes Pride remains in the south at Chouest's yard.

**SEACOR** - Brazilian built and flagged DP2 PSV Seabulk Angra is working non-stop. She has been fixed to Ensco for 4 days firm plus options, for a cargo run. On completion, she has been fixed again (on top of last months fixture) to BW Offshore for 4 days firm plus options, then returning to Ensco for another cargo run.

**FARSTAD** - Brazilian built and flagged BOS Turquesa is being kept well employed on the spot market as well. After finishig repairs, the vessel has been fixed to Seadrill for a cargo run, then to Brasdril for a rig move and anchoring in Guanabara Bay, and at moment of writing to Transocean to support the 706 on anchoring and cargo runs.

**MAERSK** - AHTSs Maersk Puncher and Maersk Provider are expected to be the last vessels to be released by Karoon, towards the 15th of June. the vessels are uncommitted afterwards and expected to leave the country should no employment be secured locally.

**CBO** - Both DP1 Brazilian built and flagged CBO Campos and CBO Valentina are set to become available after the conclusion of its contracts with Petrobras on May 25th and June 3rd respectively.

# JEEEZ!! I'M BLOCKED...

Owners are struggling to obtain the yearly renewal of ANTAQs CAA for foreign flagged ships, as the market (Petrobras) freezes the chartering of Brazilian flagged vessels

**T**here was a time when the demand for vessels in the Brazilian market was so heated, the news articles would focus on things like: “Not enough shipyards to build local tonnage in Brazil”, “Owners are no longer keeping REB on foreign flagged vessels, as demand absorbs it all”, and so forth...

Truly, in 2009 and 2010, several owners that had converted their vessel flags to REB (temporary suspension of the foreign flag) went back to the original flag. In parallel, due to sky-rocketing prices and lack of shipyard availability, very few kept a local programme of new building. This movement was backed up by the fact that the local demand, notoriously pushed by Petrobras, was so high there was no need to use a local flag as a strategy to get employed; the market would absorb all vessels, regardless of which flag the vessel would carry.

One energy sector global crisis in and the world’s largest corruption scandal ongoing, and the demand from Petrobras, planet earth’s single largest charterer dropping to the floor and the scenario has completely changed. PSVs, AHTSs, and even categories where local legislation is so strict noone would dare think would see lower demand, OSRVs, and all vessel categories are in crisis. Brazilian owners in the absolute use of their legal right start making use of their weapon to survive: block the Circulares throughout ANTAQ.



A lot of complaints arise from owners not understanding the procedure. The most common is why, for instance, an OSRV fully equipped and into a very detailed contract with i.e. Petrobras can be blocked by a generic OSRV vessel which does not carry even a skimmer? That's the law! It is not the accessories a vessel carries that determines its right to block, but the vessel type. Similarly, owners struggle to understand why a single vessel blocks another 10. Again, the legislation seeks to defend the local tonnage, giving the right to the local owner to block as many vessels needed until the assurance of his own vessel getting employed.

The latter brings us to the most polemic of the points under this process: the feeling that a certain local owner is chasing a certain foreign flagged vessel. It is important to state that when a Circular is issued, the local Owner has no knowledge or mentioning of which vessel contract is in question, the process is impersonal. Every month several vessels are put through Circular, for a CAA that will expire in a couple of months. It would take a very accurate guess to know exactly which vessel is being blocked. Owners will eventually know who is blocking who, when ANTAQ calls in for mediation, or if the charterer opens up a dialogue.

All of that however exists because of the lower demand. Petrobras as the main charterer has cancelled several tenders and are not absorbing local tonnage. Owners are being promised contract extensions and renewals, and in the last minute - literally in the last day to renew the contract - Petrobras comes out and cancels the whole process keeping foreign and locally flagged vessels unemployed.

The only existing gasp of air is for local Owners, to give charterers the trouble of not getting a foreign flagged vessel contract to continue, by blocking. Possibly the Brazilian market will be back to times where owners, to secure employment, will have to fly Brazilian flag, as built or under REB.



**SEADRILL'S NEW  
#WESTCARINA  
ITS PROGRESS ON  
INSTAGRAM FROM  
DELIVERY FROM THE  
YARD TO ARRIVING IN  
BRAZIL .**



## LIBRA FIELD AT FULL SPEED

The newly-arrived drillship West Tellus has begun drilling the new appraisal well in the pre salt of Libra field. The campaign is expected to last four months and will see the well drilled to a final depth of more than 5800 meters and is the third appraisal well of the programme in the area so far. A fourth well will start soon, as another Seadrill drillship, the West Carina, chartered for a three-year period to work exclusively at Libra, is due to arrive in Brazil this month.

## HEADING TO BRAZIL

The FPSO Cidade de Marica is ready to head to Brazil after its conversion at Chengxi shipyard in Chin. The SBM Offshore owned unit will undergo integration at Brasa yard in Rio de Janeiro before commissioning in early 2016 for operations on the Lula Alto and Lula Centro areas. A twin vessel, the FPSO Cidade de Saquarema, is expected to join it on the fields after departing the shipyard early third quarter. The units will be moored at a water depth of about 2,300 meters and have a combined cost of around USD 3.5 billion.



## OLINDA STAR FINISHES AT KANGAROO

The SS Olinda Star chartered by Karoon has completed the drilling of the four wells planned in the contract for the evaluation of Kangaroo and is set to be handed back to its owner Queiroz Galvão. The unit can operate in a water depth of a thousand meters and can drill wells up to seven thousands meters depth. Queiroz Galvão has not announced further plans for the rig yet.

## RETIREMENT

Transocean has confirmed plans to retire 18 drilling rigs including the semi-submersible Sedco 707 recently delivered by Petrobras after a six year contract on a daily rate of USD 388000. Other units confirmed are: GSF Aleutian Key, Deepwater Expedition, Transocean Legend, Transocean Rather and GSF Arctic III.



## CHEVRON

The American company has issued a RFQ early this month for a DP1 OSV to work in Frade FPSO turn around in Frade field for 25 days with 4 extensions options of 5 days each and commencement in June 10th 2015.

## STATOIL

Statoil has come out with a RFI for DP2 PSVs 3000/4500 to assist its Peregrino Field. The company asked budgetary prices for three scenarios: 2, 3 or 4 years plus 2 optional extensions of 1 year starting from January 2016.

## REPSOL SINOPEC

The company is preparing to develop a huge gas project in ultra-deep waters in Campos Basin. Estimated to contain a potential production of 15 million cubic meters day of gas, equivalent to half the volume that Brazil imports from Bolivia, and about 15% of the country's demand. From the three fields owned by Repsol Sinopec in the BM-C-33 block the main one is Pão de Açúcar (Sugar Loaf) where estimates being confirmed indicate reserves of over 700 million barrels of oil and 3 TCFs (trillion cubic feet) of gas is recorded including the Sean and Gávea discoveries. It's a great discovery and the first major gas reserves which should become commercial in Brazil operated by a foreign company.

## STEPPING ON THE BRAKE

No cash on hand and difficulties raising funds in the financial system, Sete Brasil hosted two events this month to meet together with investors and detail the restructuring of the Drilling Rigs Production Program. The number of rigs scheduled to be built should reduce from 29 to 16.

# OTC HOUSTON 2015

## The Brazilian Highlights

Pre-salt barrel cost at USD 9,00 and new offshore blocks concession auction in October. All good news?

**T**he Offshore Technology Conference (so called OTC) was held during the first week of June in Houston and may have attracted less interest than seen in previous years. However, optimism came along with the presence of a Brazilian delegation mainly composed by the Minister of Energy, National Petroleum Agency Director and Petrobras' E&P Director, who presented some good prospects for the Brazilian E&P market. Is that all good news?

Petrobras was positively in the spotlight this year by receiving OTC's higher prize for its distinguished achievement of technologies developed for the Pre-salt. The award was received by Mrs Solange Guedes, Petrobras E&P Director, who two days later delivered a presentation on the history and prospects for the pre-salt. She highlighted the challenges overcome on the pre-salt which led to 13 maritime units now producing on the pre-salt at around 800,000 barrels per day.

But no other news produced a shocking effect as the information about the production cost at the pre-salt: according to Mrs Guedes, it costs USD 9 to produce one barrel of oil at the pre-salt field. In days of low oil barrel crisis which is preventing many oil majors from continuing some exploration programs, this information confused the audience as this could mean smooth seas for Petrobras in a turbulent market. It is however worth mentioning, that this cost does not include Governmental Participation, and may refer to the output from one single well at Lula NE pilot field. On the other hand, the production level at most pre-salt fields are surprisingly higher than initially foreseen. Instead of 25,000, producing 40,000 barrels per day helps a lot on diluting the cost per barrel and improving the field economic feasibility. A 92% of operational efficiency also corroborates this scenario.

On another event, the Minister of Energy in Brazil, Mr Eduardo Braga, informed that a new offshore blocks concession round will take place in October this year, highlighting a theoretical

stable environment for business in Brazil, allied with Government will soften some local content requirements. Although the fact that the now planned auction (number 13) is important to keep the cycle of activities and investments in the country going, mainly by non-Petrobras Companies, any flexibility in ANP's local content requirements shall be only taken in consideration in the future

“General Director of ANP, Mrs Magda Chambriard, officially announced ANP's 13th concession round which will consider 269 blocks of which 84 are offshore, all at non pre-salt areas.”

auctions, if any. A couple of days later, the General Director of ANP, Mrs Magda Chambriard, officially announced ANP's 13th concession round which will consider 269 blocks of which 84 are offshore, all at non pre-salt areas. Pelotas and Sergipe basins will offer most of the offshore blocks, also including Campos

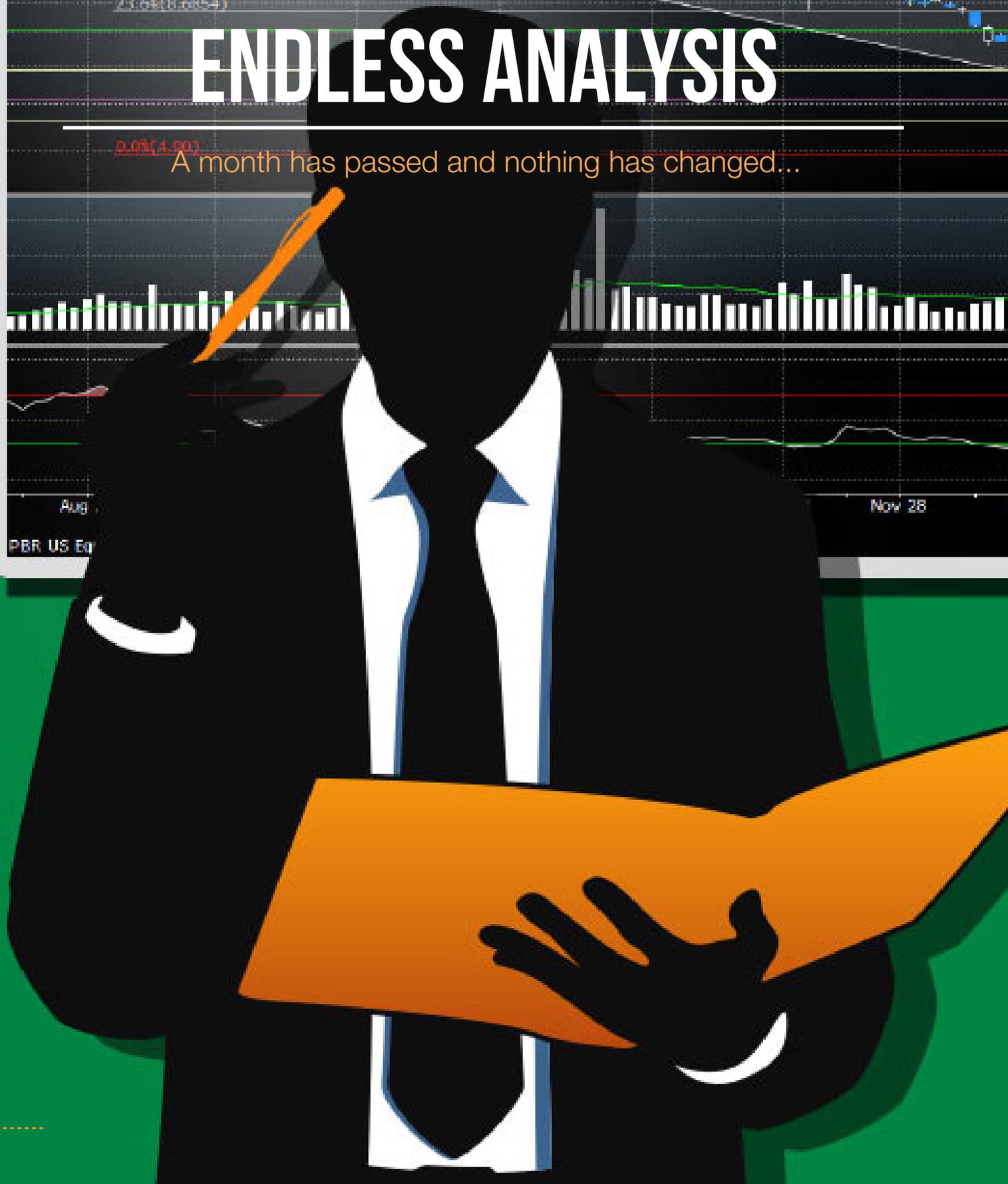
Espirito Santo and Camamu-Almada basins. Mrs Chambriard also informed a new concession round involving pre-salt blocks is expected to take place next year, latest 2017.

The optimism and projections are indeed positive for the industry, mainly if avoiding huge gaps of activity as seen now (due to a five year period without promoting offshore concession rounds) and

dependency on Petrobras as main operator. However, changes on the existing system (e.g. local content, Petrobras sole pre-salt operator) should be seriously taken in consideration to attract investors in today's oil price turbulent moment and global competition.

# ENDLESS ANALYSIS

A month has passed and nothing has changed...



76.48(1745.46)  
51.88(14,9127)  
50.0%(12.92)  
38.23(11,0273)  
23.64(6,6854)

0.09(4.50)

Aug

Nov 28

PBR US Eq

In our last edition, we looked into the new law 13.043 published on November 14th 2014, which provides the application of zero rate of IRRF on charter contract payments of foreign vessels. Among other topics, the law states that in case of simultaneous execution of charter contracts or leasing of maritime vessels and services contracts, both related to prospecting and exploration of oil and natural gas and awarded to companies linked to each other as member of the same solitary composition, the parcel for the charter contracts or rental cannot exceed 65% for all types of vessels except for FPSO (Floating Production Systems) and Drilling ships which receives a different value of tax.

A month on from our last article on this matter, nothing has changed. The companies that have had the new retention taxing system applied by Petrobras since January 2015, are still awaiting the end of analysis from the Legal department of Petrobras which continues to request more and more documents from the owners. Also, the calculation methodology used to withhold the IR has still not been disclosed by Petrobras. The delay in completing the process of analysis which aims to identify which companies should or not to suffer retention continues to impact the cash-flow of the companies currently contracted to Petrobras.

In addition to this and coupled with the economic climate plus Petrobras scandals the Owners are facing further calamities: Charterers attempts to lower operations costs, supply/demand ratio, the uncertainty in renewal of contracts that are expiring and consequently the undefined future in the Brazilian market.

While the situation could also force Petrobras to wipe the maximum costs, the Owners left to fend for themselves are struggling to survive in the middle of the jungle.

It is still too early to say anything about the upcoming years, the oil and gas industry will always have its ups and downs. While it is said that the future will be difficult for Owners, Charters, Supplies, etc. Others are working to adapt structures seeking improvements. In the case of Petrobras, specialists are optimists and betting that the company will rise with the support from the Government that will give the soul to place the Giant on the Top again. Let's see...

# PETROBRAS TENDER OVERVIEW



## LH 2500 NATIONAL FLAG — OFFICIAL RANKING

Previous to our last edition please see below the official ranking of offers for 4 + 4 years contract. Only the vessel Afon Alaw owned by OceanPact were declassified due to excessive price.

RANKING	BIDDER	VESSEL	DAY RATE	PV (CLASSIFICATION CRITERIA)
1°	Tranship Transportes Marítimos Ltda	TS Ouriçado	USD 7.110,00	USD 6.967,80
2°	Tranship Transportes Marítimos Ltda	TS Fabuloso	USD 7.443,00	USD 7.443,00
3°	Internav Navegação Ltda	Eco Warrior	USD 7.600,00	USD 7.524,00
4°	Tranship Transportes Marítimos Ltda	TS Fissurado	USD 7.743,00	USD 7.743,00
5°	Camorim Serviços Marítimos Ltda.	C-Nevoeiro	USD 8.340,00	USD 8.256,60
6°	Starnav Serviços Marítimos Ltda	Starnav Aries	USD 8.911,33	USD 8.911,33
7°	Starnav Serviços Marítimos Ltda	Starnav Altair	USD 8.911,33	USD 8.911,33
8°	Starnav Serviços Marítimos Ltda	Starnav Antares	USD 8.911,33	USD 8.911,33
9°	Starnav Serviços Marítimos Ltda	Starnav Orion	USD 8.911,33	USD 8.911,33
10°	Starnav Serviços Marítimos Ltda	Starnav Pegasus	USD 8.911,33	USD 8.911,33
11°	Starnav Serviços Marítimos Ltda	Starnav Sirius	USD 8.911,33	USD 8.911,33
*	Oceanpact Serviços Marítimos S.A.	Afon Alaw	USD 13.000,00	USD 12.740,00

## PSV 1500 FOREIGN FLAG

Petrobras has technically and financially approved all the bids in the PSV 1500 tender and will revert with a date for the release of commercial proposals in due time.

## PSV 3000/4500 NATIONAL FLAG — OFFICIAL RANKING

Petrobras has finally revealed the official ranking of offers on the PSV 3000/4500 National tender and previously reported in our March issue as below. Both the Skandi Flamengo and the Skandi Leblon competing in the PSV 3000-C category were declassified for being offered with no day rate.

PSV3000 A					
					PV CLASSIFICATION
RANK	VESSEL	BIDDER	DAY RATE (US\$)	FUEL (CQM/DAY)	CRITERIA
1	SAVEIROS GAIVOTA	WILSON SONS	27099	5,73	26828,01
2	SAVEIROS FRAGATA	WILSON SONS	27399	6,99	27399
PSV3000 B					
					PV CLASSIFICATION
RANK	VESSEL	BIDDER	DAY RATE (US\$)	FUEL (CQM/DAY)	CRITERIA
1	CBO VALENTINA	CBO	27450	8,57	26901
2	CAMPOS CLIPPER	BRAM	28522	10,37	28522
PSV3000 C					
					PV CLASSIFICATION
RANK	VESSEL	BIDDER	DAY RATE	FUEL (CQM/DAY)	CRITERIA
1	FAR SWAN	FARSTAD	25750	8,13	25750
2	CBO ANNA GABRIELLA	CBO	27300	8,57	26754
3	NAVEGANTES PRIDE	BRAM	28522	10,37	28522
4	VEGA ANGELICA	OCEANPACT	30500	7,34	30500
5	VEGA EMILIE	OCEANPACT	30500	7,34	30500
6	SKANDI FLAMENGO	NORSKAN	ZERO	7,65	
7	SKANDI LEBLON	NORSKAN	ZERO	7,65	
PSV3000 D					
					PV CLASSIFICATION
RANK	VESSEL	BIDDER	DAY RATE	FUEL (CQM/DAY)	CRITERIA
1	FAR SWAN	FARSTAD	26250	8,13	26250
2	CBO ANNA GABRIELLA	CBO	27350	8,57	26803
PSV3000 E					
					PV CLASSIFICATION
RANK	VESSEL	BIDDER	DAY RATE	FUEL (CQM/DAY)	CRITERIA
1	SAVEIROS ALBATROZ	WILSON SONS	27399	6,39	27399
PSV4500					
					PV CLASSIFICATION
RANK	VESSEL	BIDDER	DAY RATE	FUEL (CQM/DAY)	CRITERIA
1	FAR SERVICE	FARSTAD	24950	9,83	24950
2	SEA SPIDER	DESS	31000	9,03	31000
3	BRAM BUZIOS	BRAM	31222	11,33	31222
4	BRAM BELEM	BRAM	31222	11,33	31222
5	SANTOS SERVICE	BRAM	31222	11,38	31222
6	SANTOS SCOUT	BRAM	31222	11,38	31222
7	SANTOS SOLUTION	BRAM	31222	11,38	31222
8	SANTOS SAILOR	BRAM	31222	11,38	31222
9	UP AGATE	UP OFFSHORE	31550	9,47	31550
10	UP JASPER	UP OFFSHORE	31550	13,1	31550
11	STARNAV AQUARIUS	STARNAV	31863	11,32	31863
12	SIEM SUPPLIER	SIEM OFFSHORE	32360	7,98	32360
13	FAR SEARCHER	FARSTAD	33900	10,11	33900
14	SABLE	BRAM	34525	9,16	34525
15	ORYX	BRAM	34525	9,16	34525
16	KUDU	BRAM	34525	9,16	34525
17	GEMSBOK	BRAM	34525	9,16	34525
18	SEA BRASIL	DESS	35000	11,67	35000
19	MAERSK VEGA	MAERSK SUPPLY	35695	17,38	35695
20	MAERSK VENTURA	MAERSK SUPPLY	35695	17,38	35695

## NOR-SHIPPING 2015

Nor-Shipping 2015 celebrates its 50th anniversary this year and the exhibition organizers have prepared a week-long industry-wide event filled with conferences, professional networking gatherings and various other activities. The biennial exhibition will be held at the Norges Varemesse in Oslo, Norway and will gather more than 40,000 trade visitors and over 1,000 exhibitors. In addition more than 22 national pavilions will showcase the latest technologies, products and innovations moving the industry forward. For the first time NBCC will participate at the event and co-host a series of business seminars with the presence of the Westshore team. See you there!



### COMING UP...

Westshore Seminar 2015  
during OTC Brasil. Stay tuned!



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DO BRASIL