

# Brazilian Wave

June 2015 Issue: 46

## BLOCKING & RENEGOTIATING

Foreign owner's continued  
struggles with Petrobras



**WESTSHORE**

DO BRASIL

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**SEACOR** - Brazilian built and flagged DP2 PSV Seabulk Angra has been kept busy these last 30 days. End May she has been fixed to Ventura Petroleo for 3 days firm + options, Odebrecht for cargo runs over 10 days, than fuel runs to TrampOil (World Fuel Services), Cockett Marine and one cargo run to Oceanrig. This week the vessel has entered a term contract with BW Offshore for 90 days firm + options.

**DEEP SEA SUPPLY** - AHTS DP2 Sea Leopard has been fixed to TrampOil for a fuel run and in the sequence to Transocean to assist on general duties for 3 days firm plus options. In early June, Sea Leopard was again fixed to TrampOil for another fuel run. The Sea Leopard is prompt available at moment of writing.

**FARSTAD** - Brazilian built and flagged AHTS DP1 BOS Turquesa has been fixed to Statoil Brasil to assist on the replacement of the offloading hose of FPSO Peregrino, for 10 days firm plus options. In the sequence the vessel has worked with Diamond Offshore (Brasdril) and then assisted the unmooring of Sedco 706 (Transocean). At the moment of writing the vessel is supporting Seadrill's West Eminence drillship.

**CBO** - Brazilian built and flagged DP1 PSV CBO Campos has been fixed to Odebrecht for general cargo for 7 days firm + options. Also Brazilian built and flagged DP1 PSV CBO Valentina has been fixed to Diamond (Brasdril) for supply duties during 4 days firm + options.

**MAERSK** - AHTSs DP1 Maersk Puncher and DP2 Maersk Provider have been released from Karoon and are re-exported. At moment of writing the vessels are available in Guanabara Bay, subject to clearance. The vessels are being offered to opportunities in and out of Brazil.

**BRAVANTE** - PSV DP2 Bravante VI has been fixed to Chevron Brasil for 25 days firm + options, for cargo runs and assistance to Chevron's FPSO Frade.

**FARSTAD** - AHTS Far Sea has been fixed to Ventura Petroleo to assist in general duties for 10 days firm plus options. At moment of writing the vessel is under this charter expected free in Guanabara Bay towards the end of the month.

**ASTROMARITIMA** - Brazilian built and flagged PSV/OSRV Astro Vermelho is undergoing preventive maintenance and is expected back in the spot market in early July.

**SIEM** - Brazilian built and flagged DP2 PSV Siem Giant is expected to be released from her current charter with Shell towards the end of this month. The vessel has a forward commitment with Petrobras in Q3/2015 but shall be available for charter until Petrobras delivery.

**BRAVANTE** - Sister PSVs Bravante V, Bravante VII and BRAVANTE VIII have arrived back in Brazil and are available for charter, subject to customs clearance.

**DOF** - PSV Skandi Chieftain is available subject customs clearance.



# KEEP BLOCKING AND RENEGOTIATE

An update on the recent foreign flag OSV offhires, vessel redeliveries and Petrobras renegotiating contracts.

Owners have long been aware of the Brazilian flag vessel preference over foreign ones. Although Petrobras may fix an OSV on a long term charter, it would need to apply for charter authorization on a yearly basis. During this process the vessel could be prevented from working (and contract terminated early) if a Brazilian flag vessel of similar spec becomes available. Previously this was never a problem as demand for OSVs was surging. Speculative local new buildings that sought to secure a charter by exercising flag preference were granted additional separate contracts.

Today the scenario is totally different. The Brazilian flag OSVs that had contracts expiring this year were not renewed nor extended by Petrobras. The owners of local tonnage that were not keen to work for Petrobras anymore and in some cases took vessels overseas, now see the flag preference as their best tool to secure a charter in times of low demand and increasing lay ups. This has led to a scenario never seen before, rumour has it that not less than 50 foreign flag OSVs are being prevented from working for Petrobras by the availability of around 10 Brazilian flag vessels. If once the fear was to have vessels stopped due to lack of charter authorization, this is a reality already for circa 15 foreign OSVs, presently offhire and with no prospects of resolution.

As Petrobras seeks to reduce costs, owners fear the early termination clause will be applied liberally. Foreign owners are anxious to have vessels working, local owners are frustrated with the lack of progress for a charter award but Petrobras is in the driver's seat. Using the justification of internal issues, the rumours are that contracts have not been awarded nor extended due lack of internal "green light", to be resolved when the investment plan is finally issued and an internal drive and

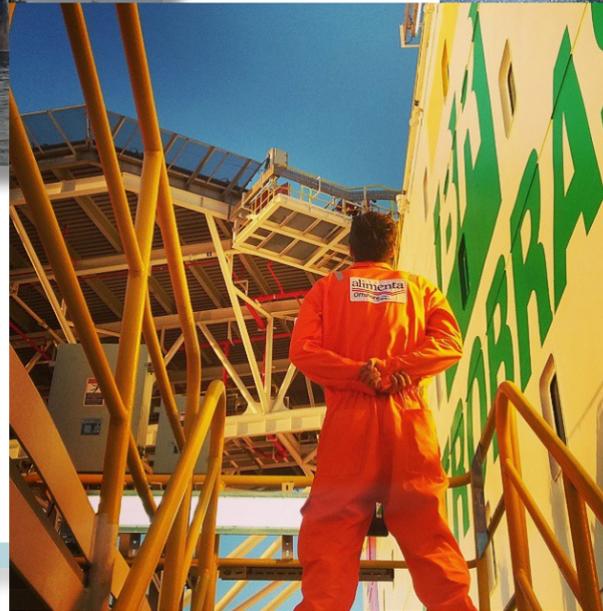
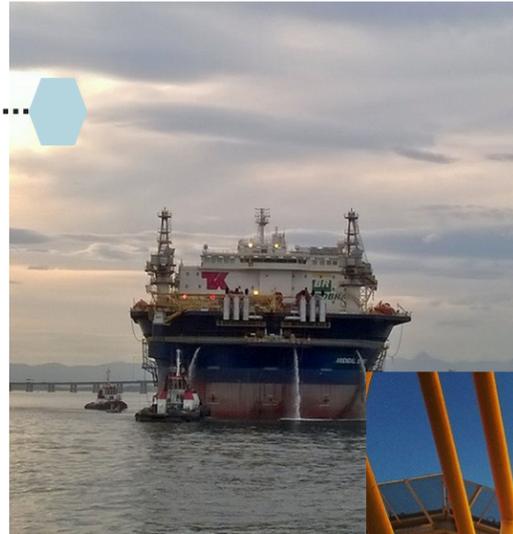
planning is set. Meanwhile, it seems there is no authorization to either increase the fleet or diminish it, but OSVs with contracts that are expiring are simply being let go.

If the OSVs with on-going term contracts are being prevented from working due to the availability of Brazilian vessels in the charter authorization renewal process, in a simple math, some existing contracts could be terminated early and make way for local tonnage. One could guess that Petrobras would adopt a criteria keeping the foreign OSVs with best performance and "kick out" the worst ones among that list, however but not that surprisingly, it has been flagged that price will be the main if not the only criteria. In that respect, Petrobras has recently initiated a renegotiation round with all OSV Owners requesting for its best proposal for ongoing contracts, whether it is presently blocked, foreign flag or not.

Everything points to Petrobras keeping blocked foreign flag vessels that are willing to drop the rate, letting the more expensive vessels be redelivered. For vessels which are not blocked and even for the Brazilian flag ones, it is not yet clear the consequences (if any) if there is no reduction on rate levels, although one may conclude Petrobras could terminate early these contracts using other clauses.

The question is will owners with already loss making contracts be willing to reduce rates further, particularly in the light of the Brazilian seafarers union now calling for a 15% salary hike? Moreover is Petrobras willing to shoot itself in the foot by terminating long term contracts early, destroying the existing financing system behind most of the OSV charters that considers firm long term contracts as guarantee? We trust not, but the survivors will be there to tell the story.

TEEKAY'S NEW  
#ARENDALSPIRIT  
ITS PROGRESS ON  
INSTAGRAM FROM  
DELIVERY FROM THE  
YARD TO ARRIVING IN  
BRAZIL .



## BRAVA STAR DRILL SHIP

Owned by Queiroz Galvão and chartered by Petrobras, drill ship Brava Star (NS-45) is en route to Brazil following delivery from the yard in South Korea. The unit is designed to operate in water depths of 3,000 meters, drill wells up to 12,000 meters deep and is scheduled to arrive in July this year when it will be installed in the Lula field, Campos Basin.

## NOT A SURPRISE

After being postponed six times, Petrobras decided to cancel the two tenders for drilling rigs designed to operate at 2,000 and 2,400 meters. The information did not surprise the market once the E&P area had already requested the cancellation of the demand due to breaks in the investments but it was still depending on the formal approval from the board of directors.

## NEW TENDER FOR P-75 AND P-77?

No agreement between Petrobras and QGI (Queiroz Galvão and Iesa consortium) is creating rumors in the market over a new tender for both. The cost of the FPSOs, taking into account the services of QGI, was around USD 1.6 billion upon signing the contract in September 2013. The consortium says that 8% more is needed for the contract to conclude but Petrobras claims that this value is excessive. Another point that will have to be renegotiated is the schedule of delivering as Petrobras expects construction to be carried out outside Brazil.

## ARENDAL SPIRIT START UP

The Teekay's UMS (Maintenance and Security Unit) Arendal Spirit has started operation for Petrobras in the Campos Basin. The DP3 flotel has accommodation for 500 people and has secured a three-year contract with the state major.

## PETROBRAS PRE-SALT INVESTMENTS 2015

Petrobras has allocated a USD 4.1bn budget for development of the frontier production in the pre-salt areas, almost double what was spent in 2014 (USD 2.2bn). The company will increase production development of its Santos transfer of rights from USD 803m in 2014 to USD 1.3 bn in 2015 however it reduced production development investments for the Campos and Espírito Santo basins, dropping from USD 3.04bn to USD 1.92 bn. 2015 total investment is expected to be USD 23.3 bn, which is down USD 900 m from the USD 23.2 bn expected to be invested in 2014, but in line with the USD 21 bn that effectively had been invested last year. By March, Petrobras had disbursed USD 13 billion.

## BG TO USE AÇU SUPER PORT

Recently acquired by Shell, British BG has decided to use the Açú super port in Rio de Janeiro for their logistics center of exportation. The company signed a 20 year contract with Prumo and will be the first oil company to use the port complex oil terminal. The company wants to speed up cargo shipments to the consumer markets, particularly Asia and the Americas. The agreement provides for the moving average of up to 200,000 boed, equivalent to 17% of the terminal's capacity. The first operation is scheduled for August 2016.

## STATOIL GETS GREEN LIGHT

Norwegian company has received from IBAMA the operation license for drilling the development of Peregrino field in the Campos basin by 2020. The operations will be carried out by both fixed platforms Peregrino A and B, the plan is to drill 21 new wells of which 15 are producers and 6 are water injectors. The investments are around USD 3.5 bn and expect the installation of a third fixed platform (Peregrino C). In all, the Peregrino field has 64 wells drilled. The local operation is the responsibility of Statoil, which holds 60% of the field, while the Chinese Sinochem owns the remaining 40%.

## PETROBRAS CONCLUDES FPSO INVESTIGATION

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.

# THE UNINTENTIONAL SPOT ACTIVITY UPTURN

While most eyes are on Petrobras and the complex comings and goings with long term OSV contracts (existing and potential) and on the IOCs that are reportedly postponing their investment plans in Brazil, things are happening on the spot market. Relying on spot activity has never been the focus for either the charterers or the shipowners in Brazil, since it usually represents vessel availability issues, unstable demand and time consuming negotiations, among other peculiarities that undeniably do not resemble the more dynamic North Sea spot market, for instance. Nonetheless, May to mid-June racked up 24 spot contracts, compared to the first four months of the year which saw just 18 spot contracts concluded. The first half of 2014 saw 40 spot contracts in total, however the oil price was around USD 110/barrel and many projects expected in the near future – the picture was very different than it is these days. At present, with the oil price at around USD 60/barrel and vessels being laid up globally, it is possible to assume that all this activity is triggered not by good news, but by the complicated situation that many companies operating in Brazil are going through.

In the last forty five days, the drillers Diamond, Ensco, Transocean, Ventura, Schahin, Odebrecht and Bambu (a new company which took over a couple of rigs formerly operated by Schahin) intensively demanded AHTS for rig moves and PSVs for cargo and fuel runs to their units not under the responsibility of Petrobras; some of them are docking, but most of them are unfortunately being demobilized from Brazil, either to be cold-stacked or to keep operating for a much lower rate somewhere else. We also saw Chevron, Statoil, Shell, BW and OGP turning to vessels on the spot to cover docking or breakdown of their usual fleet, and special operations like offloading hose replacements, deck extension for FPSO, etc. Meanwhile, with the market flooded with vessels of all sizes coming off of Petrobras contracts and having nowhere else promising to operate, there has been a combination of high demand but even higher availability of vessels, causing the daily rates to keep decreasing. Today, it would be possible to hire a foreign DP2 PSV of 4500 DWT for USD 28,000/day (including local taxes and temporary admission taxes) when she is competing against Brazilian DP1 PSV of 3000 DWT (more frequent than ever). Even AHTSs of 15000 BHP can go as low as that rate when operating in supply duties, in order to compete with other six DP AHTSs and around 12 DP PSVs currently sitting in Guanabara Bay.

It is possible to say that the survival instinct of both charterers and shipowners will still prevail for a long period, thus we will live in a lower daily rate scenario at least until Petrobras starts truly absorbing the available tonnage either through its ongoing tenders or through Brazilian blockage of foreign vessels currently in its fleet. Another important aspect which affects the balance of the spot market

is the volume of rigs that are set to leave the country, which at first creates a great rush of cargo, water, fuel, towage and anchor handling needs, nonetheless leaving a huge and unsustainable gap of activity afterwards: Petrobras is focusing more each day in production while new FPSOs and drilling units are not supposed to start operating so soon due to delays mostly provoked by the State major itself.

“ MAY TO MID-JUNE  
RACKED UP 24 SPOT  
CONTRACTS, COMPARED  
TO THE FIRST FOUR  
MONTHS OF THE YEAR  
WHICH SAW JUST 18  
SPOT CONTRACTS  
CONCLUDED ”

Even though this is tough to admit, especially because it was not “part of the plan”, the spot market has been a consolation for about three or four shipowners in Brazil providing intense activity, while they avoid laid-ups somewhere else and wait for something bigger to happen in a few months, essentially with Petrobras and their long-awaited contracts. It is not possible to predict how and when this market upturn will occur, so all stakeholders should take this time to learn valuable lessons and get prepared.



## BRAZILIAN PRESENCE AT OFFSHORE CONFERENCES

Last month was a busy month with several opportunities arising on the Brazilian spot market, but also for industry reunions in and out of Brazil. In Rio de Janeiro, 26th to 29th May, Informa and Lloyd's Maritime Academy hosted in Sheraton São Conrado the OSV Conference, surrounded by focus days in Crewing and Dynamic Positioning. In Norway the industry was gathered at Nor-Shipping Oslo, with intensive Brazilian presence in seminars and reunions promoted by the Norwegian-Brazilian Chamber of Commerce NBCC.

In all events, the attention was naturally drawn to the current market situation, both in Brazil as well as in the North Sea, where the activity is cold and the industry players Owners, yards, charterers, service providers are seeking business wherever the opportunity arises. It was in this context that the conferences developed, with a positive atmosphere in spite of the delicate period the industry is in. On the OSV conference, the attention was drawn to the subsea projects and other activities related to the production units. Speakers highlighted that even with a conservative review of the business plan by state giant Petrobras, the changes towards cost saving is much related to exploratory activity. Petrobras remains strong and focused on increasing production and it seems no concessions will be made towards reducing the installation of ultra-deep water assets such as pipelines, manifolds, X-trees, risers and umbilicals, etc. The same applies to FPSOs and other production units. Construction and chartering may be delayed but not cancelled. Westshore participated in the OSV conference opening the event with a market overview given by Daniel Del Rio.

During the DP conference, a number of concerns have been raised regarding the indiscriminate use of DP for any and all offshore unit approaches. The speakers were pretty much aligned on the overuse of DP, where charterers are giving too much focus on equipment and testing however somewhat neglecting the human factor behind the DP console. The attendees had the opportunity to practice real time simulation with a simulator brought by SMSC Norway. Westshore had the introductory section by Marine Advisor Alexandre Vilela.

Nor-Shipping Oslo was also surrounded by a positive atmosphere, where more focus was given into the opportunities and developments during these difficult times than analyzing the problems. Brazil had an important role to contribute to this outcome, with seminars being given around the legal aspects covering the current challenges with "circularization" of vessels and the apparent trend given by Petrobras to not exercise contractual options. There has been attention given to the activity outside Petrobras as well. Over 30% of Year-to-date charters in Brazil are related to IOCs and other charterers such as rig owners and bunkering companies. Further, some agility has been attributed to the local market with several vessels trading on the spot market. There is a number of vessels released from long term charter that have been trading on the spot and utilization has been over 50%. Not a bad situation at all, considering the industry surroundings.

# PETROBRAS TENDER OVERVIEW

VESSEL	BIDDER	FLAG
Maersk Vega	Maersk Supply Services	BRA
Maersk Ventura	Maersk Supply Services	BRA
Santos Solution	Bram Offshore Transportes Marítimos	BRA
Santos Service	Bram Offshore Transportes Marítimos	BRA
Santos Scout	Bram Offshore Transportes Marítimos	BRA
Santos Sailor	Bram Offshore Transportes Marítimos	BRA
Bram Buzios	Bram Offshore Transportes Marítimos	BRA
Bram Belem	Bram Offshore Transportes Marítimos	BRA
Sable	Bram Offshore Transportes Marítimos	REB
Oryx	Bram Offshore Transportes Marítimos	REB
Kudu	Bram Offshore Transportes Marítimos	REB
Gemsbok	Bram Offshore Transportes Marítimos	REB
UP Agate	UP Offshore Apoio Marítimo	REB
UP Jasper	UP Offshore Apoio Marítimo	REB
Far searcher	Farstad Shipping S.A.	REB
Siem Supplier	Siem Offshore do Brasil	REB
Sea Springer	Deep Sea Supply Navegação	REB
Skandi Caledonia	Norskan Offshore Ltda.	REB
Monty Orr Tide	Maré Alta do Brasil Navegação	REB
Bravante V	Asgard Navegação S.A.	REB
Bravante VII	Asgard Navegação S.A.	REB

VESSEL	BIDDER	FLAG
Navegantes Pride	Bram Offshore Transportes Marítimos	BRA
Campos Clipper	Bram Offshore Transportes Marítimos	BRA
Seabulk Angra	Seacor Offshore do Brasil	BRA
Skandi Leblon	Norskan Offshore Ltda.	BRA
Skandi Flamengo	Norskan Offshore Ltda.	BRA
Danko Tide	Maré Alta do Brasil Navegação	BRA
Olympic Helena	Olympic Marítima Ltda.	REB
Olympic Progress	Olympic Marítima Ltda.	REB
Olympic Pomoter	Olympic Marítima Ltda.	REB
Poet - TBN 1606	Wilson Sons Offshore	REB
Poet - TBN 1607	Wilson Sons Offshore	REB
Far Swan	Farstad Shipping S.A.	REB
Skandi Captain	Norskan Offshore Ltda.	REB
Asgard - TBN 629-9	Asgard Navegação S.A.	REB
Asgard - TBN 629-10	Asgard Navegação S.A.	REB

## ● PSV 3000/4500 BR FLAG E&P Nº: 1784835150

Petrobras has commercially and financially classified all offers in the PSV 3000/4500 Br flag issued in April this year for 2 + 2 years contract and delivery up to January 2016 as below:

## ● AHTS 18000/21000 E&P 1691982148 CANCELLED

Petrobras has recently cancelled the tender for anchor handlers issued in December last year for 2 + 2 years contract and previously reported in our March and April edition. 38 vessels were competing in the 18000 type with daily rates ranging from USD 41.750,00 to USD 53.000,00 while the 21000 type 23 vessels were running between USD 47.500,00 to USD 60.000,00. According to Petrobras the rates offered in the tender are not aligned with the oil and gas market.

# BRAZIL'S ENERGY SWEET SPOT

While the troubles facing Brazilian oil and gas are well documented, what's less well known is that Brazil is considered the first sustainable biofuel economy and a world leader when it comes to the biofuel industry.

Produced from cheap sugar cane, Brazil is the world's largest producer of ethanol fuel and in 2010 Brazilian ethanol was designated as an advanced biofuel owing to its reduced level of greenhouse gas emissions. In 1976 the Brazilian government declared all light vehicles driven in Brazil must run on fuel with a minimum component of ethanol. That level has been subsequently raised to 27%. The automobile industry reacted by designing cars that could run on flexible fuel with any proportion of gasoline to ethanol which aids in seasonal fluctuations of ethanol supply.

Reforms to economic policy this year have kept this industry a priority for Brazil in the face of falling oil prices and reduced demand for ethanol. The Brazilian biofuel success story might be difficult to echo in other countries as it has one of the world's most vast areas of agricultural land, but the success of Brazilian biofuel is surely a sweet victory given current energy woes.

Sugar in Brazil

