

Brazilian

October 2015 Issue: 50

Wave

4 YEAR CONTRACTS

Not worth the paper
they're written on?



WESTSHORE
DO BRASIL

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THE PEOPLE OF RIO ENJOYING
SUMMER WEATHER ON
IPANEMA BEACH THIS MONTH



FARSTAD - Brazilian built and flagged AHTS BOS Turquesa has been fixed to Odebrecht for 7 days firm plus options to assist with their ODN Tay 4. At time of writing the vessel is prompt available in Guanabara Bay.

CBO - Brazilian built and flagged PSV Anna Gabriella has been fixed on the spot market to Tramp Oil for a fuel run. The vessel is prompt available in Guanabara Bay at time of writing.

CHOUEST - Brazilian built and flagged PSV Bram Buzios has been fixed by V Ships to support the drillship Sertão for 4 days firm plus options. The vessel has returned to Rio de Janeiro having arrived in Guanabara Bay 20th October.

MAERSK - AHTS Maersk Puncher has been fixed to BW Offshore for 90 days firm plus options. The vessel will be primarily assisting cargo operations on the FPSO Cidade de São Mateus and additionally with towing / AH duties in connection with the unit demobilization.

FARSTAD - AHTS Far Sea has been fixed to Ventura Petróleo for 7 days firm plus options. The vessel is expected to become available on or around October 23rd.

CHOUEST - Brazilian built and flagged Santos Service has been fixed to Paragon for cargo run. The vessel was replaced by the Elizabeth C which resumed operations for Paragon. Both vessels are available in Guanabara Bay at time of writing.

DESS - AHTS Sea Leopard has been extended with Shell Brasil. The vessel is approaching 90 days charter and is expected to be released at the end of the month, when she will be made available for other works in Guanabara Bay.

FARSTAD - PSV Far Strider had its contract early terminated by Petrobras following the oil major plan to reduce its fleet.

DESS - PSVs Sea Bass and Sea Halibut have been redelivered to Deepsea Supply after successful conclusion of their charters with Petrobras. The vessels have left Brazil towards the Far East.

ER OFFSHORE - ER Offshore have decided to demobilize their PSVs E.R. Tromsø, E.R. Bergen, E.R. Haugesund and E.R. Arendal to Trinidad and Tobago for laying up. All four vessels have left Brazil.

BRAVANTE - Brazilian flagged PSV Bravante VII has been fixed to Shell Brasil for 06 months to support the oil major production activities. The vessel has been delivered 02nd October and has been modified to suitably recover oil and respond as an OSRV for the operation.

SEACOR - Brazilian built and flagged Seabulk Angra has been fixed to Tramp Oil for a fuel run in Campos basin. The PSV has been serving OGP as frontrunner for the OSRV Marica on the Oceanpact contract with the local oil company.

OCEANPACT - Brazilian built and flagged OSRV Marica has been delivered to OGP for her 120 days firm contract as OSRV, after having concluded its charter with Chevron.

MAERSK - Duo AHTS Maersk Provider and Maersk Asserter have left Brazil to Canary Island after conclude long term contract with Karoon and Petrobras, respectively.

OLYMPIC SHIPPING: The PSV 3000 Olympic Elena has been released by Petrobras in late September after the conclusion of its 4 years contract. The vessel remains in Brazil at time of writing.

THE END OF LONG TERM CONTRACTS?

How the challenges from blocking foreign flagged ships is contributing to a new understanding of the real firm period of Brazilian vessel contracts.



A typical Petrobras contract to date for offshore vessels has four years firm, newbuild tonnage occasionally securing eight years firm. IOCs have been chartering vessels on contracts with over a year's duration. The firm period of a contract can have a series of exceptions and termination clauses that favor the charterer. Over time vessel owners began to rely on an expectation that despite these clauses existing, a four year contract was just that – a four year contract. Not that shipowners have blindly trusted charterers' goodwill; but the charterers have done their part in providing a perceived assurance that the firm period of the contract was safe, in spite of termination rights. In Petrobras' case, there is no history of employing early termination clauses. On the contrary, for decades it has worked intensively prolonging the firm period of their contracts and exercising all options.

On the other hand, ship owners generally speaking, make few demands with regards to contract terms and conditions before entering a contract. To a greater extent, a ship owner's ability to contest and implement changes to an oil major marine contract is somewhat limited, and usually connected to the supply and demand ratio on a given market. Often, contracts in long term business are "charterer" contracts. In a market where the supply of vessels is abundant, the ship owner will have very little room to implement contractual changes. In Brazil, even in times of low supply Petrobras has been very successful in imposing their contract terms. There are two main reasons for this: firstly, Petrobras has always been a

strong charterer, taking in several vessels at a time on long term contracts which appeals to owners' desire for secure long term cash-flow. Secondly the bid process is strictly formal and bureaucratic. Contract changes will only be promoted in open space and Petrobras will unilaterally give their response. It is a 'take it or leave it' situation.

With this in mind, on a supposedly four year firm contract, the real firm period of the contract is... a few months. The main reason for this applies to foreign flagged vessels, the early termination right in case of non-award of the CAA - Certificate for the Authorization of Charter present in most contracts in Brazil - IOCs and Petrobras. The certificate is issued by the Brazilian agency ANTAQ, after a process in which the Brazilian owner in possession of similar tonnage may "block" the issuance of the certificate to a similar foreign flagged vessel. The block may be total, for the full maximum one year of CAA validity, or partial, that is, an authorization given just for the period the Brazilian tonnage is employed, which may be a few days, weeks, or months within the requested CAA period.

Recently, Brazilian flagged ship-owners have been using their right to block foreign flagged vessels of similar type. This happens as a consequence of Brazilian tonnage not being absorbed by the local market. Therefore when the market turns, last seen 15 years ago when the local tonnage was much more limited, charterers start to make use of termination rights - most noticeably Petrobras. The consequences are enormous, and it seems the oil companies have not yet realized how this will kick back.

The situation starts with the fact that charterers are not making use of the right to terminate the contract upon the expiry of the valid CAA. In most cases, the oil company is placing the blocked vessel offhire until the situation is resolved, i.e. the blockage is lifted. The question is though: If the CAA is charterers' responsibility as shipping company face ANTAQ (case of some oil companies), can the vessel owners be placed off-hire due to CAA? Questionable. Secondly if the charterer does not make use of its termination right upon blockage and keeps the vessel in contract (downtime discussion apart), can it make a later use of the termination right to terminate the contract on convenience, at a time of its own choice? To say the least, in such a situation the vessel owner is being held hostage without a clear and firm termination of its contract, whilst at the same time being offhire. It just doesn't sound legal.

The possibility of being offhire and stuck in a contract is an enormous risk. Furthermore the unreliability of the firm period in local contracts has become a reality; the inability of the charterers to deal with the situation more so. The decision on which day rate to offer will take these factors inevitably into consideration. The perception of risk is now elevated across the board. Shipowners will have to depreciate their investment to enter a contract against the REAL firm period, and not the firm period on paper. In addition this uncertainty will be reflected in terms from banks and financing which will not only elevate cost but also lower the credit. Action is needed or the consequences will be negative for all, charterers included.

PETROBRAS FLEET REDUCTION

The state major has announced that the total number of its offshore fleet is 336 vessels of which 135 are PSVs, 60 AHTSs, 35 OSRVs, 15 PLSVs, 67 LHs/P/Uts, 17 RSVs, 4 SDSVs, 2 DSVs and 1 SESV. Petrobras plans a 10% reduction in the number of vessels it had on hire when compared to fleet levels last year and this number will be maintained for the coming two years.

CHEVRON EXTENDS

After releasing a RFI for an OSRV 1050 for a one year contract to operate in the Frade field for the replacement of the OSRV Magé with contract due to expire by the end of this year, the American company has decided to keep the OceanPact vessel on contract for a further year after the offers received on the bid.

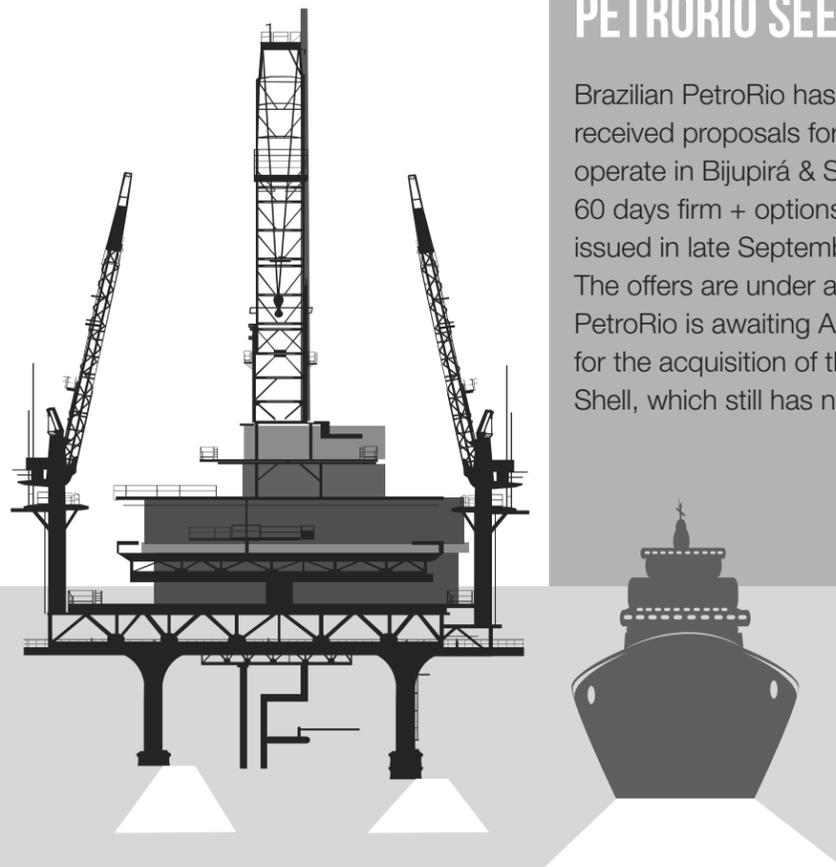
PETRORIO SEEKS AHTS

Brazilian PetroRio has recently received proposals for AHTSs to operate in Bijupirá & Salema field for 60 days firm + options in a tender issued in late September this year. The offers are under analysis while PetroRio is awaiting ANP's approval for the acquisition of the field from Shell, which still has no date yet.

SEISMIC SCRUTINY

Petrobras and Statoil are analyzing 8000m² of seismic data acquired by CGG of ten exploratory wells to be drilled in the six deepwater blocks of Espírito Santo (ES-M-598 ES-M-671, ES-M-673 and ES-M-743 operated by Statoil), (ES-M-596 and ES-M-669 operated by Petrobras) awarded in the 11th Round. Both operators plan to charter two rigs to operate simultaneously in the area in 2017 as the campaign must be executed within a year and a half.

SEISMIC SURVEY BEING
CONDUCTED OFF THE
COAST OF BRAZIL



OSRV 750 RENEGOTIATION — PART 2

After more than a month since the first rate reductions were submitted through sealed envelopes, which generated amendments to current contracts of this vessel type considering the discounted rates, Petrobras is currently asking for a second reduction in rates for OSRVs, due on October 20th through Petronect. We expect rates reduction about 20% to 25% over rates agreed about four years ago.

PSV 1500 — RENEGOTIATION OF CURRENT CONTRACTS

After asking for a second reduction in rates of 23 foreign flagged PSV 1500 that are on long term contracts and were blocked by local tonnage, Petrobras released through the Petronect system all the discounted rates proposed, however without revealing the vessel names. The discounted rates ranged from USD 14,500 to USD 18,900 per day, which represents an average reduction of 25% over rates agreed about four years ago. Most probable owners which participated in this process are Bourbon, Deep Sea Supply, Garware, Otto Candies, Gulf, TMS and Oceana. Petrobras did not say for sure, but we expect only one of the 23 vessels to be let go, the most expensive one.

UT 4000

Petrobras has recently issued a tender for an UT 4000 (FSV) type for 2 years (730 days), 3 years (1095 days) or 4 years (1460 days) contract renewable for an equal period and commencement in 120 days after delivery. The proposals must be sent by November 6th 2015.

RSV

In early June this year, Petrobras issued a RSV tender for 2 years contract (730 days) with commencement by January 2016 and July 2016 (batches 1 and 3 respectively) or 3 years contract (1095 days) with commencement also by January 2016 and July 2016 (batches 2 and 4 respectively). Since the delivery is in 120 days after contract signed and due date has been postponed, Petrobras cancelled batches 1 and 2. Nonetheless the number of vessels to be hired is expected not less than before and remains undisclosed by Petrobras.

PSV 1500 AND UT 750 / BRAZILIAN FLAG

Petrobras is on the market for vessels UT 750 type and PSV 1500 dwt Brazilian flag for 2 years (730 days), 3 years (1095 days) or 4 years (1460 days) contract renewable for an equal period and commencement in 120 days after delivery. The proposals must be presented by November 6th 2015.

ONE MORE DRILLING UNIT OUT OF CONTRACT

The semi-sub unit ODN Tay IV from Odebrecht recently had its contract terminated early with Petrobras. The contract was supposed to end in 2019. The company has not yet decided the future of the unit. Meanwhile, the semi-sub Norbe VI will go through some repairs this month and is generating demand on the spot market to demobilize some equipment to shore, and then will resume its contract with Petrobras.

PETROBRAS LEASES P-52 AND P-57

Petrobras has concluded the leasing process with the Industrial and Commercial Bank of China Leasing (ICBC Leasing) for the P-52 and P-57 FPSOs on 10 year contracts. The deal will enable Petrobras to raise USD 2 billion in a move to find alternative financing sources. The P-52 and P-57 are operating at the Roncador and Jubarte fields, respectively.



SCHAHIN SELLS DRILLSHIP

It is said that the Brazilian Schahin has recently sold the drillship Cerrado to the Greek Ocean Rig. The unit had been working for Petrobras in the Libra field but had operations suspended due to Schahin's financial problems. Ocean Rig has not defined yet any plan for the drillship.

PARAGON HEADS FOR US

Paragon's drillship DPDS2 has concluded its long term contract with Petrobras and left Brazil for the US in early October. The Noble David Beard will go through some repairs around Santana Island in Macaé for about three weeks in November, and then will resume its long term contract with Petrobras.

TERMINATION RISK FOR MYLOS

The seventh generation high spec Ocean Rig Mylos received a notice of contract termination, giving just 75 days notice. Reasons for termination were not specified but Ocean Rig has good reason to work to remedy the unspecified issue before the deadline as a trio of units (SS Eirik Raude, SS Leiv Eiriksson and Ocean Rig Olympia) is due to complete their contracts next year and expected to be stacked. The Ocean Rig Mylos is contracted by RepsolSinopec out to mid-2016 with an option by 2018.



Brasil 13ª Rodada

Licitações de Petróleo e Gás



THE 13TH ROUND LETDOWN

The Uncertainties that Drove Stakeholders Away

37 companies had applications for registration approved by ANP for the 13th bidding round, which really got market hopes up. Unfortunately only 17 of them actually made offers, securing 37 blocks in total (14% of the 266 blocks offered – including both on and offshore blocks). It's clear that most of

those that applied for the tender pre-qualification were only doing it pro-forma. The ANP accumulated around US\$31.2 million in signature bonuses for all blocks, only a small fraction of the US\$500 million that the government was expecting to attract. More remarkably, only the Brazilian oil company Queiroz Galvão (QGEP) bid for offshore

blocks, and got two of them in Sergipe-Alagoas basin. Due to a complete lack of competitors it paid around US\$ 26 million in signing bonuses. Sergipe-Alagoas was considered one of the most promising basins following the results of 2D seismic campaigns done over the last couple years.

For the first time in the history of the Brazilian oil industry, Petrobras did not participate in an ANP auction. The oil major declared it chose not to participate in the round following a technical and economic analysis of the blocks on offer and the current state of its oil and gas reserves, since the company has already marked presence in 10 sedimentary basins offered in all previous rounds. After the investment cuts announced in the 2015-2019 Business and Management Plan, Petrobras is prioritizing the development of its portfolio of exploration and production assets (mostly production), focusing on capital discipline and profitability as part of its leverage reduction strategy. **This past June**, Petrobras had reported that it would not participate in the 13th round; later, however, the company changed its position, stating that it would take a selective stance toward participating in the round, which revealed once more the turbulent period that the company is going through, motivated by the oil price drop, a weakened currency and the scandals that slashed capital investment for the next years. Meanwhile, Queiroz Galvão plans on investing between US\$ 15 million and US\$ 20 million over the next five years to acquire seismic data in the two blocks acquired in Sergipe-Alagoas Basin. The blocks are between 80 and 100 km away from the coast, in ultra-deep waters and

have a total area of 1,512 km². State-controlled Petrobras has made several discoveries in this basin. Petrobras produced its first oil offshore in Guaricema field in 1968, located in the same basin.

ONLY THE BRAZILIAN OIL COMPANY - QUEIROZ GALVÃO BID FOR OFFSHORE BLOCKS

The 10 blocks that had been offered there hold an estimated 20 billion boe. Petrobras currently produces light oil through 25 fixed platforms in six different blocks in the region. Overall, oil companies showed very little appetite for extensive acreage offered. No bids were received for 50 blocks in the deepwater Pelotas basin near the border with Uruguay, neither for four offshore blocks in the Jacuibe basin (located south of Sergipe basin). Nineteen offshore blocks in the Camamu-Almada and Espírito Santo basins also got no offers, even though the region was successfully auctioned

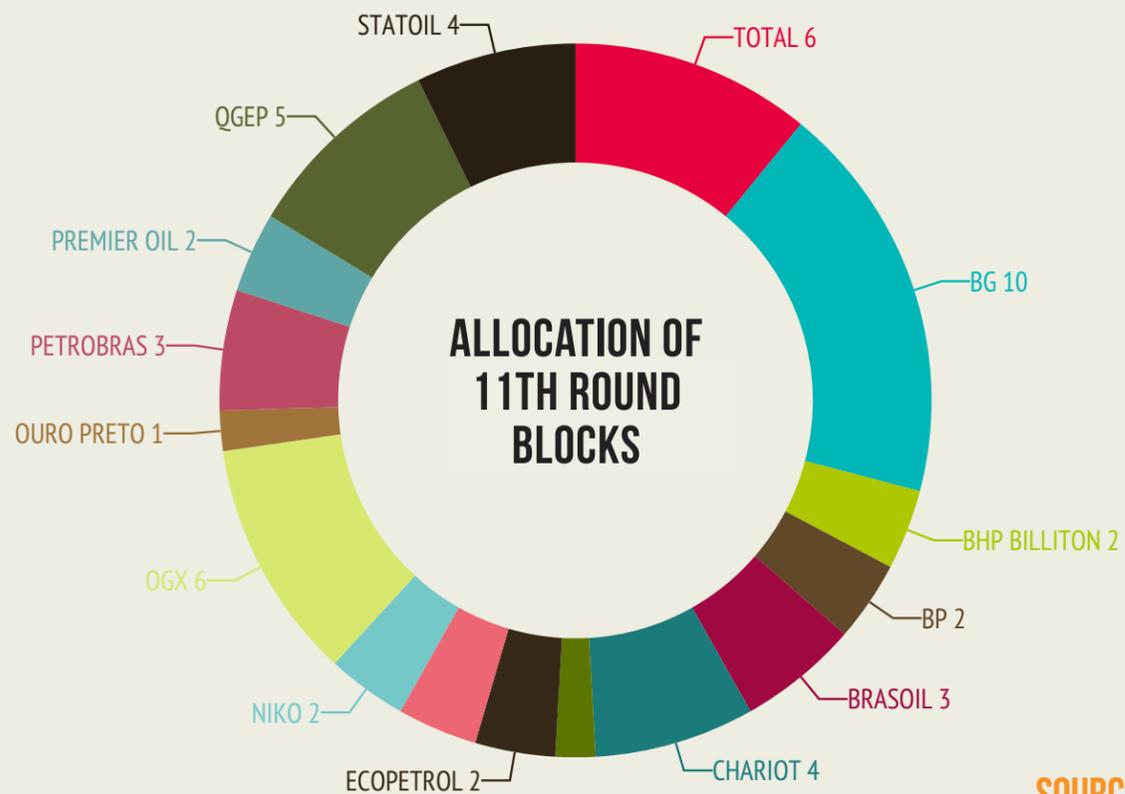
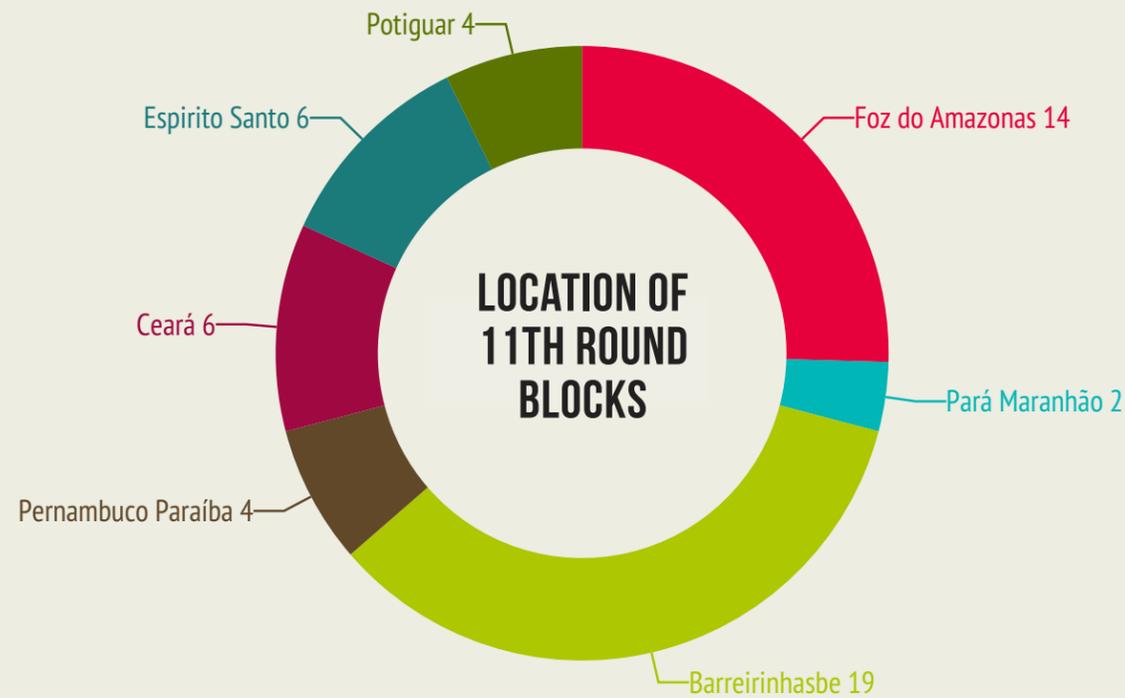
in previous rounds. Despite the fact that stakeholders did not expect a great outcome, the final results were very disappointing. **Some specialists** say that the government failed to adopt more attractive terms for this round, like easing local content rules, especially nowadays that large local construction and engineering companies are facing financial problems after being affected by the corruption scandal at Petrobras. Also, the round took place under a cloud of political uncertainty, as President Dilma Rousseff and her party and allies fight off accusations of corruption and maladministration that could lead to impeachment. ANP publicly put the blame solely on lower oil prices for the unsatisfactory turnout. The combination of all these adverse factors leads us to another wait of minimum one year for the next bidding round, as the regulatory agency promised in 2014 to keep a satisfactory pace in exploration and production of various regions in Brazil. **Somehow** Brazil needs to avoid another gap of activity in the offshore industry, as the one between the 10th and 11th rounds (2008 until 2013 with no auctions) We hope the government and ANP can work hard and fast to build a more trustworthy environment for local and foreign investors, as the low oil price does not depend only on them to get back (or close enough) to reasonable levels.

THE EXPLORATION GAP

A man in a dark blue suit is shown in a precarious position, balancing horizontally on a narrow, dark brown rock ledge. His hands are pressed against the edge of the ledge on the left, and his feet are on the edge on the right. The background is a soft, hazy landscape with a light blue sky and a bright sun or light source in the upper right, creating a lens flare effect. The overall mood is one of risk and uncertainty.

A five year break in concession awards and licenses enabling operators to actually do something with the acreage facing a barrage of bureaucracy, is causing a gap in activity. Given that this is the precedent, is it surprising interest in the 13th round was muted? As if the Brazilian offshore industry wasn't under enough strain, will the government take action to remedy the situation?

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SOURCE: BRASIL ENERGIA; GEOFÍSICA BRASIL, FOLHA DE SÃO PAULO

The As the country opens the results of the 13th round of oil blocks auction, companies that acquired areas in the 11th round in 2013 haven't even started work on the fields awarded. It's two years since the 2013 auction and Ibama has granted only two licenses to perform the seismic research in the Brazilian equatorial margin - the first phase of an exploratory campaign. More than 30 environmental licenses must be awarded if the deadline set by the ANP is to be met. Majors such as Petrobras, BG, BP and Statoil, as well as newcomers in the country - Chariot and Ouro Preto, are amongst the companies involved.

11TH ROUND

The difficulties in licensing blocks from the 11th round auction is one of the industry's uncertainty factors in Brazil. The 11th round came after a five year interval with no auction, which is now reflected in the low exploratory activity in the country, considerably reducing the demand for environmental licenses for wells and seismic. This would then be the perfect time for the federal government to provide Ibama increased technical and human capacity. It is necessary that the government looks favorably on environmental licensing

of offshore oil activity in the country. It is nonsensical that a government auctions off acreage then proceeds to deny the company permission to explore it. It is incumbent upon the Ministry of Mines and Energy to coordinate this dialogue. Brazil needs long-term planning for exploration blocks auction. Oil companies need it and so do suppliers. The whole industry understands the importance of environmental licensing. No one is saying that oil exploration should not be done at any cost. But clarity on what will be asked of the investor during the process should be given. The industry cannot understand how natural the federal government receives a bonus during award for an area that cannot be exploited by the concession holder. But all lessons learned do not seem to have been understood by the government. Not even the fact that the oil companies that invested in the country in the 11th round are not getting licensed to explore the areas that rounded off at auction. How can the same companies now invest in the 13th round? Crisis is a great opportunity to make adjustments. During low demand companies and government can become more efficient, more productive and achieve sustainability for business. These are also excellent times to correct attitudes.

IT IS NECESSARY THAT THE GOVERNMENT LOOKS FAVORABLY ON ENVIRONMENTAL LICENSING OF OFFSHORE OIL ACTIVITY IN THE COUNTRY. IT IS NONSENSICAL THAT A GOVERNMENT AUCTIONS OFF ACREAGE THEN PROCEEDS TO DENY THE COMPANY PERMISSION TO EXPLORE IT.

BRAVANTE



SPOTLIGHT ON THE 100% BRAZILIAN FIRM OPERATING THAT COUNTS SHIP OWNING, MANAGEMENT, BUNKER SUPPLY AND A SHIP YARD AMONGST ITS CAPABILITIES.

Despite tough times in the offshore industry Bravante Group has continued to develop business and maintain a strong presence in the industry. The Brazilian group provides services spanning offshore support, bunkering, shipbuilding, ship repair and environmental protection. As the second biggest operator in Brazil, with a fleet of 28 vessels, Bravante is also a leading company in bunkering activities and is important in the Brazilian environmental market.

Due to the rigorous Brazilian environmental legislation, Hidroclean – the environmental arm of Bravante Group – is counting on growth despite the downturn. Innovative solutions to prevent and respond to oil spill emergency are becoming increasingly demanded - says Denys Machado, environmental commercial manager.

Bravante owns six Oil Spill Recovery Vessels (OSRV), which were built by the shipyard São Miguel, also belonging to the Group. Construction prioritized the national content policy to use national equipment and technology (over 70% local content).

For offshore supply duties, Bravante has incorporated four PSV 4500 in the fleet -

new-generation vessels, new building, DP11 and Fi-Fi class System. After delivery of the first three vessels, Bravante V, Bravante VI and Bravante VII, the trio worked successfully for Saipem Brazil, from March to December 2014, supporting the PLSV Solitaire.

Afterwards, Bravante V, Bravante VII and the newly delivered Bravante VIII, sailed to South Argentina, chartered by Vallianz Holdings on a five month contract to support Total Austral operations in Punta Quilla, Tierra del Fuego. Back to the Brazilian waters, Bravante V and Bravante VII were included in the REB - Brazilian Special Registry – and now are operating under Brazilian flag.

With recognized tradition in the O&G industry, quality, agility and safe operations are Bravante's targets - says Carlos Cordovil , CEO.

NEW CONTRACTS:

Subsea 7 chartered PSV Bravante VI on a 55 – 80 days contract. The vessel will support activities in the third development phase of Parque das Conchas (BC-10), operated by Shell, in Campos Basin.

Bravante VII was chartered by Shell on a 180 days firm contract.



OTC 2015 BRASIL

The third edition of OTC Brasil in Rio de Janeiro will take place between 27 and 29 October 2015 at Riocentro Exhibition and Convention Center. The event is organized by the Offshore Technology Conference and the Brazilian Institute of Oil, Gas and Biofuels – IBP, a private institute, organizer of the leading industry events in Brazil such as Rio Oil and Gas.

The event is a good opportunity to network, gain knowledge and builds relationships. In addition some of the leading experts in offshore technology will be there sharing experiences and presenting recent advances in the oil and gas sector. The event consists of a trade show and technical conferences covering amongst other issues deep and ultra-deep waters in Brazil and around the globe.

This year the theme will be: “The Atlantic: From East to West – An Ocean of Innovation” which intends to cover all aspects of offshore oil and gas exploration, offshore drilling, floating structures as well prospects and challenges of the offshore industry.

A novelty this year will be ‘The University R&D Showcase’. A chance for Brazilian universities to share innovative research projects and new technologies under development specific to the industry.

FMC technologies will receive the award ‘Spotlight on New Technology’ which has become a tradition at the OTC Conference Houston and will be delivered for the first time in the Brazilian Edition.

OTC Brasil 2015 comes at a complicated time for Brazil industry, affected severely by the investigations by Public ministry and Federal police of scandals in the sector, the low price of oil and the rampant price of the dollar. Nevertheless, the expectation of the sector for the conference seems to be focused on the intention to feel which way things are going and to determine when the market is expected to recover. Mostly in regards to Petrobras and their next move following the “Operação Lava Jato”.

