Brazilian Wave

April 2017 Issue: 60

STATOIL & THE PRE-SALT
Legal action looms

VESSEL DEMAND
Who needs what, where and when

WESTSHORE
DO BRASIL

Contents

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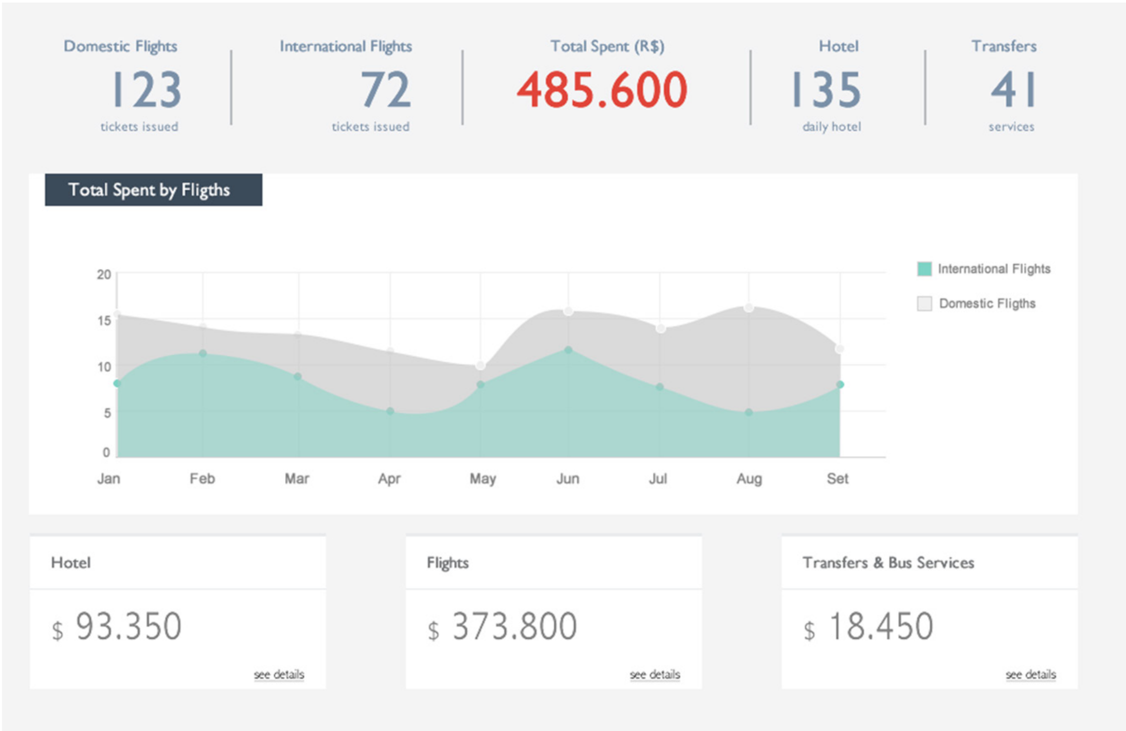
WESTSHORE MARKET INTELLIGENCE

by Omar Darian

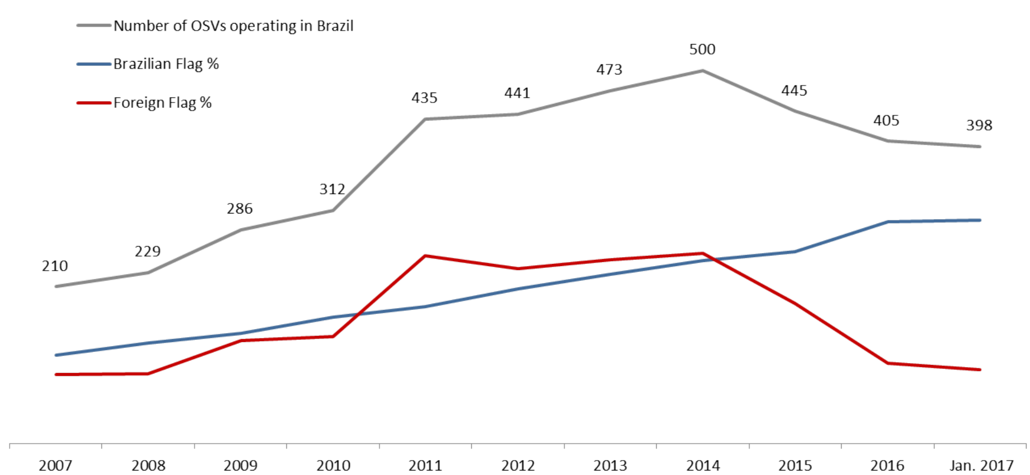
In addition to our leading brokerage services, Westshore is involved in several other areas within shipping and oil and gas. Drawing from continual contact with owners and charterers, Westshore has consolidated market data in to one of the most comprehensive databases available in the market. We currently provide tailor-made market studies which uniquely combines broker expertise and solid empirical data. Westshore will soon launch Westdata, an essential tool for those engaged in the offshore industry, be it owner or charterer, as the system will track OSVs operating in Brazil, reporting not only the technical specifications but also the current charter and estimated availability date. A multitude of information, graphs, utilization information, reports, rate averages, etc. will be available at a click. After Brazil, the system will be expanded to other relevant markets.

In addition the market intelligence services our annual seminar, hosted by Westhore Brasil, attracts key industry players from up and down the value chain. The seminar has quickly become an essential event in the Brazilian offshore calender.

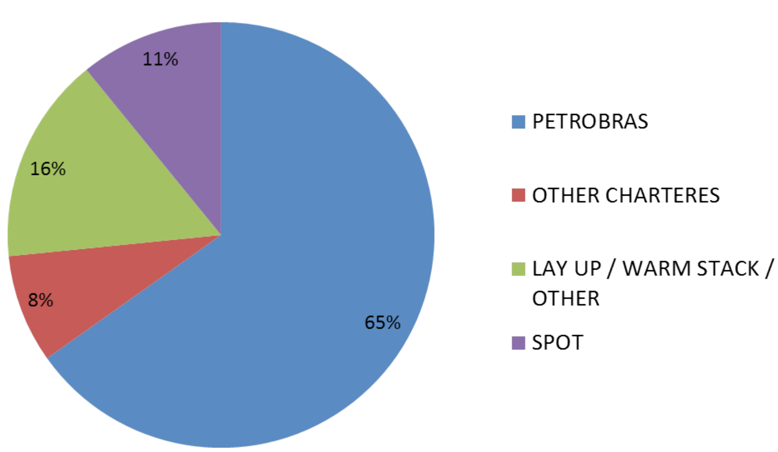
Another area of development has been expanding partnerships with specialized service providers, in order to broaden the support to our customers.



Domestic Flights
123
tickets issued
International Flights
72
tickets issued
Total Spent (R$)
485.600
Hotel
135
daily hotel
Transfers
41
services
Total Spent by Fligths
20
15
10
5
0
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Set
International Flights
Domestic Fligths
Hotel
$ 93.350
see details
Flights
$ 373.800
see details
Transfers & Bus Services
$ 18.450
see details



Number of OSVs operating in Brazil
Brazilian Flag %
Foreign Flag %
210
229
286
312
435
441
473
500
445
405
398
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Jan. 2017



11%
16%
8%
65%
PETROBRAS
OTHER CHARTERES
LAY UP / WARM STACK / OTHER
SPOT

cont...

Westshore has helped develop the Blueopex system. This system which manages the key Opex drivers in shipping companies (personnel, logistics, downtime), has been saving hundreds of thousands of US dollars to customers, enabling them to get to the current historically low rates the marketplace offers by reducing their Opex and helping maintain the net result. Oil companies have shown a special interest in the tool, as the reduction of costs are a reflection of optimized compliance management - which is directly related to the contract management for operators.

Our consultancy division thus gains in volume but also in promoting and participating in strategic solutions and agreements, such as the first oil company to become a registered shipowner under the current prevailing ANTAQ regulations, and the first shared tonnage agreement between two shipowners to provide the end customer (the oil company) with a functional yet well managed vessel contract structure.

STATOIL FURTHER FROM PRE-SALT?

Carcará comes to a halt?

by Alexandre Vilela

April 17th 2017, exactly five months after Statoil and Petrobras settled upon payment of USD 1.25 billion (50% balance) for the full acquisition of the Petrobras participation (and operatorship) of the Carcará (BM-S-8) field, the district court of Sergipe state granted an injunction to suspend the deal, until further court deliberation. The claim is raised by a federative organization representing labour unions - a typical Brazilian arrangement to provide a smoke screen to the unionized interests.

We can see two possible ways out of this situation: Statoil and Petrobras may fight in court for their rightful deal, by proving the necessary steps have been taken for the acquisition; or Petrobras may reenact negotiations for the field with various parties in order to comply with latest court recommendations (which arose after the Carcará deal) - for instance taking minimum two contenders to the very last stage of negotiation.

This court decision is taken to supposedly defend workers´ interests, and as a last resort, Brazil´s. However, the court ruling is also perceived as a bias to the process of divestment, almost a unilateral act of political origin, which in the end of the day damages the image of the country and the perception of stability. It also disregards any major investments taken by companies, a valuable employment factor: direct foreign investment. If not, let´s analyze: the deal was announced almost 1 year ago, concluded over five months ago with payment, and is now stopped. Petrobras declares and books attest that the amounts received were used in full for early settlement of part of the financing contract between Transportadora Associada de Gás S.A. (TAG), a wholly-owned Petrobras subsidiary, and the National Bank for Economic and Social Development (BNDES), where such a measure was adopted to reduce its indebtedness. This has created a major repercussion in the 2016 results of the oil-giant, as well as a major impact on the bank accounting, directly linked to the federal government.

Is it not completely irresponsible, given the stage of the transaction, and the length of its consequences, that so late this questioning is raised by court in the form of an impeditive injunction? Or further, what will happen to Statoil´s efforts and investments already taken to source out in the market a drill rig, offshore support ships, offshore supply base and all other products and services required for the exploratory campaign in Carcará?

The outcome is regretful. We believe that Petrobras will take the legal fight, and will succeed. What that probably means, however, is a potential delay on the drilling campaign of Statoil in Carcará. It is true that the exploratory Carcará well, with a well test, were preceding a potential drilling in Espírito Santo where Statoil has further concessions. It is not certain however, and most unlikely, that Statoil may be able to simply invert the order or the drilling campaigns and take the Espírito Santo venture ahead of Carcará. Apart from Ibama licensing required, the shift is not that simple from a perspective of support supply base and other necessary resources.

The delay on the Carcará campaign has further implications. The drilling campaign precedes the Early Production System and the full development of the Carcará field. Its delay may be damaging to the economics of the conceived project by the least hurting its predicted cash flow. In the end of the day, a delay on investment, royalties, employment, taxes, etc.

This is not the first time such court decision prevents the closing of Petrobras divestment. In Karoon´s Tartaruga Verde and Baúna cases, the claim was defeated by the very TCU (Federal Accounting Court) after realization that the process was well advanced.

SUMMER'S NOT OVER

Ongoing and future vessel demand

by Joana Rodrigues

After a turbulent two years in oil and gas, the question on everyone's lips is when and how the industry would finally come up for air.

Despite continued uncertainty, the winds of change have started to blow. The pre-salt is opening up to foreign companies, the changes in the Production Sharing Contract, the flexibility of the Local Content, the new rounds of the ANP's bidding, the prospects for an increase in the oil price - these are important actions which attest to the industry revamping.

The offshore market, one of the most affected by the oil crisis, was resilient in the period, but the heat came on strong in the first quarter of this year. Bidding processes with the capacity to absorb most of the vessels working in Brazilian waters were released. Approximately 10 long-term bidding processes were released by the main companies in the sector. The oil-giant Petrobras has launched four bids for AHTS (2x AHTS 12000, 1x AHTS 15000, 1x AHTS 18000), one for a SDSV, an RFI for Integrated Logistics Service plus others. Other bids that are still open and shall be concluded this year are the RSV and OSRV. Further, new tenders for PSV 1500 and DSVs are a given for this year.

But it is not only Petrobras that drives the heated demand in Brazil. Shell, Chevron, Total and Statoil are also moving the market. Total´s equatorial margin campaign (still to be awarded) plus the blocks acquired from Petrobras or where operatorship was changed, for example Lapa with Total, and Carcará, from Statoil. In addition Shell has awarded a two year contract to Farstad's Far Star, and released a tender for a two years firm AHTS 165tbp opportunity, to replace (or maintain) Edison Chouest's Waterbuck.

The 11th round of ANP bidding, which took place in May 2013, will also begin to bear fruit. In addition to Total that already has requirements for Foz do Amazonas, the expectation is that the other operators will begin the bidding process this year-end as well as Statoil for the four blocks in Espirito Santo (in fact maybe covered by their Carcará tender), BP and QGEP for the blocks in Foz do Amazonas and Para-Maranhao, and Premier Oil leading the field pool of Ceará, which has a total of four blocks with Total and Chevron. Last but not least, Karoon may eventually resume their requirements once they sort out the operations for Bauna. In regards to further divestment plans with Petrobras, these are expected to come in in 2018. And they will come.

To better illustrate the opportunities, we have outlined the existing plus expected vessel tenders on the following page.


DOF
RESCUE ZONE

Ongoing Tenders

Petrobras

RSV Tender (June 2015)
Status: On hold, due to blockings negotiations
14 vessels offered (4 short listed)
Q2 2017 730 or 1095 days firm
OSRV Tender (2015/2016)
Status: BR flag tender commercially qualified
13 vessels offered (5 qualified)
Q2 2017 430, 1095 or 1460 days firm
SDSV Tender (March 2017)
Expected Q2 2017 2 or 3 years
AHTS Tender
2 x AHTS 12.000 (March 2017) 365 days
1 x AHTS 15.000 (March 2017) 220 days
1 X AHTS18.000 (April 2017) 365 days
1 X AHTS 10.000 (April 2017) 365 days

Total

FZA Basin - 2+2 wells (up to 9)
2 PSV 3500+, 1 PSV 2000+, 1 OSRV + ROV
1 MPSV
Q3 2017 1 year + option
Lapa (RFI)
3 PSV 4500 , 1 AHTS 12.000/15.000, 1 OSRV
Q3 2017 5 years firm

Shell

BC-10 / B&S Fields
1 AHTS Q2 2017 2 years firm

Statoil

Carcará/Espirito Santo Basin
3 PSV 4500, 1 PSV 3000, 4 2017
6 months + option

Chevron

Frade field
1 LHSV, Q3 2017, 3 years firm

Expected Tenders

Queiroz Galvão

Atlanta Field (TLD)
1 OSRV, 1 AHTS
Start: expected Q1 2018
Duration: 1 year firm

Petrobras

DSV Saturated Diving
Start: expected Q1/2018
Duration: 2, 3 or 4 years
PSV 1500
Start: expected Q1/2018
Duration: 2, 3 or 4 years

Premier Oil/Total/Chevron

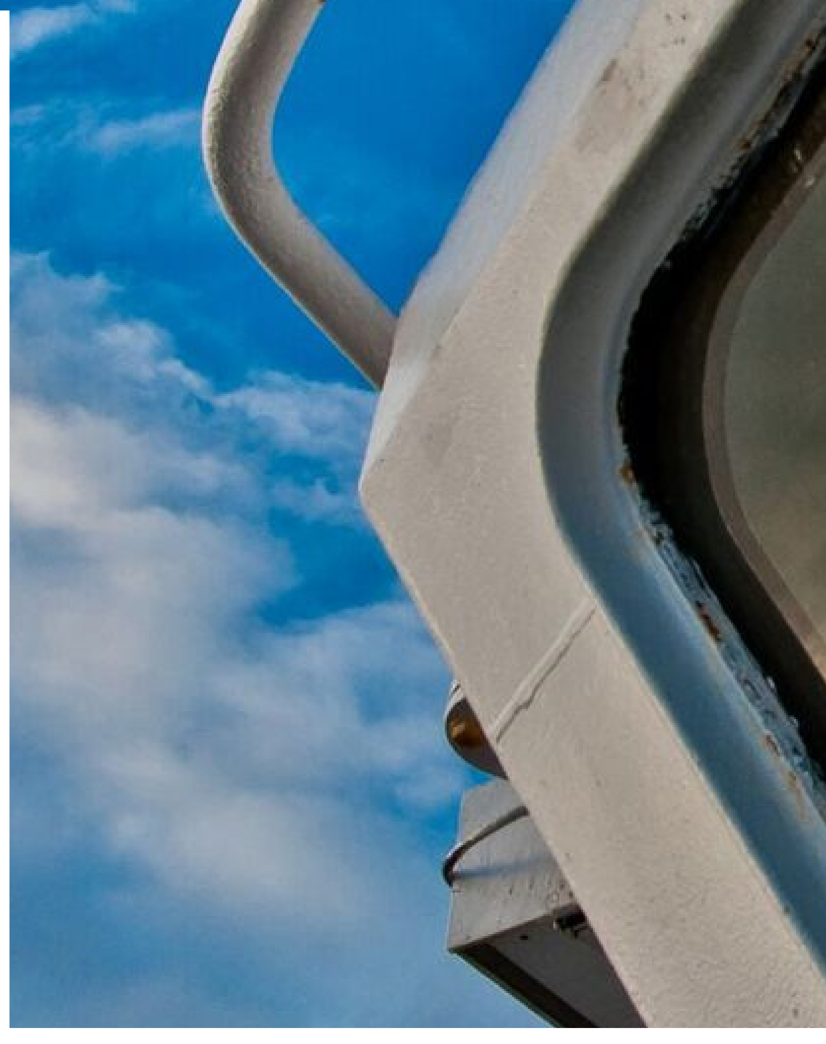
Ceará Basin
2018

Statoil

Carcará/Espirito Santo Basin
3 PSV 4500, 1 PSV 3000, 4 2017
6 months + option

THE POWER OF TRANSPARENCY

The Brazilian government through its Petroleum Agency ANP has announced the softening of the local content rules. This is a mature step towards promoting a stable business environment. Here's our take on the matter.



by Alexandre Vilela

For the last two years the Brazilian economy has been in recession. The oil industry has contributed to this, due to external as well as local issues, foreign investment has decreased from circa USD 67 billion in 2011 to circa USD 62 billion in 2014. An increase in direct foreign investment precedes a virtuous economic cycle. Reduced foreign investment is a consequence of the lack of trust in a country's economy and - its potential.

And why is that? Why has Brazil faced such a slowdown in investment whilst the capital markets remain eager to invest? For the oil industry the answer is straight forward: lack of a stable environment, too much political uncertainty, too much governmental interference.

Investors see themselves excessively exposed to this economy, this country, this one major national oil company. And the low oil price? No, if Brazil is able to produce at below USD 10 / bbl in the pre-salt (already around 25% of local production), a subject which we discuss in another article in this edition, oil price is not the problem. USD 40 / bbl profit is magnificent!

Cont..

The problem is, at the root of a lack of trust, the unstable business environment, which derives from unclear rules - at the core of it the local content regulations, possibly the highest penalties an oil operator can face. The absence of stable and clear rules scares investment.

ABESPETRO, the association that represents the service providers of the Brazilian oil industry, states: “It is the first link of the supply chain that is responsible for the greatest generation of all Local Content in E&P”. This is a sentence from José Firmo’s presentation at IBP in March 2017. It couldn´t be more accurate. The local content grows as a consequence of investment, not as a consequence of rules on a piece of paper. 100% of local content in zero activity is equal to zero local content! Oil majors, in support, state openly that the uncertainty over local content regulations prevents investment.

But in 2016, despite the economy continuing to slide, something changed. The foreign direct investment, according to the Brazilian Central Bank, rose to nearly USD 80 billion, a historic high. This came in the sequence of a political change, with the accused corrupt party impeached from government, an interim government established, and a professional, market orientated board at the helm of... Petrobras. Meanwhile the regulating authorities took a closer look into how to attract new business, and again for the oil sector ANP has finally moved.

Aware of the deteriorating scenario, without the artificial and political agenda as the only target, the government has reacted. The new set of rules is based on the following pillars:

- More flexible percentages for local content, towards achievable targets;
- Streamlining and standardization of the rules, simplifying criteria and making them clear;
- Establishment of effective mechanisms to adjust the contractual obligation to the market reality (currency fluctuations, adjustments, inflation over years, etc.);
- Waiver rules (ruling of the waivers for contractual stability and predictability).

Therefore, if “the first link of the supply chain is responsible for the largest portion of local content”, and we arrive at a point where “the first link” becomes satisfied with a local policy that addresses one of the highest political risks of their activity, the country gives a clear sign as to what can be expected in the near and also distant future, releasing the investments that is otherwise blocked.

There is no downside to the latest events. The only word of caution is not to expect this will generate an immediate effect to immediately compensate for the lost time.

It will take some time, anything between two to four years, until the pickup in activity is perceived by the service chain, until the “first link - exploratory activity driven” effectively demands from the local industry.

However for the time being, it is a relief to see that better times are coming, and positive economic signs, following foreign direct investment, are starting to show.

Breaking Even at USD 10

THE FACTS BEHIND THE PRE-SALT CLAIMS

After A few weeks ago it was announced that the operational cost of the pre-salt fields is below USD 10 per barrel. This is good news as it shows that even with a low oil price, Brent is around USD 50 a barrel, it indicates that the development of Brazilian pre-salt reserves can be a commercial success.

However Petrobras should be clear and objective in these statements, there are several factors that need to be taken into account, not least the following;

1 - Not all pre-salt fields operate below USD 10. This is an average of all fields that are at different stages of development. If we take the Lapa Field for example with current production around 30,000 bbl per day and take a daily FPSO rate estimated at USD 500,000 per day, we easily come to an operating cost of USD 16,000 per day and we are not taking into consideration all other logistics costs, maintenance of submarine systems and others that apply directly to the operation, also we can't forget that the FPSO was on site from July to December, not producing, with high operating costs all because other wells were not connected to the FPSO thereby increasing production and lowering operating costs.

2 - How much the exchange rate helps Petrobras in USD / barrel costs, is also interesting but the company does not currently disclose the cost of R $ / barrel. It is worth remembering that in the first quarter of 2016 the R $ / USD exchange rate was close to 4, and in the first quarter of 2017 we are around R $ 3.10 to 1 USD.

3 - Another important cost that Petrobras should share with the market is the indirect cost of the company to produce the pre-salt oil. The impression of the market is that the non-operating costs are very high with new offices in prime areas of the city of Rio de Janeiro and a new building in Santos that seems oversized for an operational region. A big question is how many USD per barrel the Petrobras' cost of production increases when all costs of the organization are considered as well as the royalties and special participation that are paid upon field production and oil quality, and which are often disbursed before production is even weighed in the flow of the company.

So USD 10 per barrel produced is good but Petrobras is still seeking solutions through partnerships with our suppliers to jointly find ways to further decrease the direct operating cost so that even with a 20 to 30% drop in the Brent price, projects remain profitable.

But what we see is Petrobras' policy of forcing suppliers to reduce day rates by making them work at the limit of keeping the businesses running with a noticeable loss of efficiency, will certainly come back on Petrobras as increased operating costs. And let there be no doubt that in the new rounds of negotiations the discounts will not be generous because after two or three years of reduced payments the suppliers cannot make any more concessions because the adjustments have already been made and the excess of capacity has already been directed to new markets .

It should be borne in mind that even in high productivity fields, over time operating costs tend to increase and if a good future strategy is not enacted from the beginning, these fields that today produce at a relatively low operating cost can become a pain. With a larger head than the mature fields of the Campos Basin, some of which have been producing for more than 30 years such as Enchova.

WORLD CRUDE OIL SUPPLY & DEMAND DYNAMICS

How production cuts have impacted the tanker market

DANIEL BUCKLEY
Tanker Broker
Westshore do Brasil

In the wake of the OPEC production cuts agreement, Brazil has been one of the leading producers contributing with the excess global supply with an average monthly increase of 27 million barrels/day followed by Russia with 18 million barrels/day and Canada with 16 million barrels/day.

It is believed there are two issues driving this performance: One, resulting from latter investments coming to fruition and a second one the retraction of local demand.

With the noticeable switch of cargo shipments bound East from the Middle East to the Atlantic Basin, with the addition of the USA now becoming a net exporter albeit without the full structure after years being banned, we have identified reported fixtures out of Brazil in Q1 2017 of 11 VLs, 16 Suezmaxes as well as 5 VLs loaded off Uruguay (La Paloma) on ship-to-ship operations with only a third not moving East.

The only exception to this scenario is Iran: Since the lifting of sanctions early 2016, the production is being boosted to recover lost ground and market share, up to that point exports having dropped from almost 2,5 million barrels/day to about 1 million barrels/day, basically left with China, India, Japan and South Korea.

Currently, the primary target remains Asia but European buyers are gradually returning to the table and a very eloquent sign of the increased activity has been the surge in employment of NITC´s VL fleet after a long period in the doldrums of floating storage usage.

With all the above shaping up, we are left with the main question yet to be answered: How will the freight rates react? We saw the year kicking off with volumes high and steady rates, then slipping sideways only to face a dramatic fall in the Atlantic for the Suezmaxes, followed by deterioration out of the Middle East with the supply/demand balance shifting in Charterers´ favour. As it stands and for a change, we have the influence of politics coming into place, pressing the oil prices up which traditionally is followed likewise by the tanker market trends.

Forthcoming Ballast Water Management Convention (BWMC)

by Raphael Montes

The International Convention for the Control and Management of Ships' Ballast Water and Sediments, adopted by the IMO Conference in 2004, will enter into force on 8 September 2017 thanks to the accession of the convention by Finland last September 2016.

The BWMC aims to prevent the transport of harmful aquatic organisms from one area to another, where each relevant ship is required to manage their ballast water and sediments to certain standards, in accordance with an approved ship-specific Ballast Water Management Plan. These ships will also have to carry a ballast water record book and an International Ballast Water Management Certificate, issued by the Flag State.

However, eventually all relevant vessels will need to install an on-board Ballast Water Treatment System (BWTS) meeting the biological standards set in the Convention. The implementation of a treatment plant will be mandatory on new ships constructed on/after 8 September 2017 and on existing ships not later than the first MARPOL IOPP renewal survey carried out on/after the entry into force of the convention.

This will be a big deal for ship owners as it implies that vessels that do not already have a BWTS installed must make the proper arrangements to do it so during 2017-2021 – according to the expiry date of each vessel's IOPP certificate.

The administration of few flag authorities is willing to allow ship owners/managers of vessels to anticipate the IOPP renewal survey, subject to specific circumstances. This will not relieve the obligation to comply with the Convention demands but may buy some time and money for the companies in this difficult market.

As for Brazilian vessels, the local Authority by its present regulation exempts Offshore Supply Vessels from this Convention, as long as the ships are trading only in Brazilian Waters. The regulation might change though as the Maritime Authorities are set to have another meeting to discuss and review once more how the convention will apply in Brazil now that it is certain to enter into force.

For vessels engaged in long course such as tankers, bulkers, and container ships the convention most certainly will be applied by Brazilian Authorities. Cabotage vessels are yet to be mentioned in the regulation.

ZemaxLog

Since 2008 ZemaxLog has offered a multi-disciplined team of experienced professionals providing a high-quality of corporate solutions on maritime transport, logistics, cabotage, technical support for port and terminal projects along the Brazilian coast keeping with overall the excellence as main the objective.
Zemax Log has a partnership with Interoceanica Chartering and Logistic Ltda where Interoceanica is in tittle to develop some business regarding deep sea and cabotage Brazilian flag affreightments agreements such as between countries which Brazil has bilateral agreements being Argentina, Uruguay and Chile, as well as, export / cabotage of Oil products.
ZemaxLog is a Brazilian Shipping Company - "EBN", duly authorized by ANTAQ, for Port Support, Maritime Support, Cabotage and Deep Sea – all of them currently in full activities, committed to conducting its operations with the highest regard for efficiency and transparency and constant respect for the environment and its workers.

The Fleet & Structure configuration:

· Tugs, Barges, Motorboats and a Floating Crane;
· Terminal for cargo storage, containers, loading/unloading of materials, cargos, and passengers located in São Gonçalo/ RJ (2,500m2 of covered area + 1,000m2 of uncovered area, with access to the sea), close access by BR-101.
· Waste management for vessels in anchorage areas and/or moored
· Private Terminal in Vitória/ES, with berths for mooring and maritime support logistics base.

About TUP ZEMAXLOG

Operating within the offshore segment the company has a private use terminal (TUP) to serve its customers by offering mooring berths, back-area for general storage, handing and loading equipment and machinery, maritime support services, water supply, electricity supply, containments barriers etc.

With a good location both on land and sea, the TUP ZEMAXLOG is the first stop in access to the Bay of Vitoria which then connects to Vitoria.
The TUP-Espírito Santo terminal is extremely capable and able to dock vessels with Draft of 6.70m, deadweight up to 5,500 tons, 95m long and 32,49m of maximum mouth (one vessel on the quay and another on board, respecting the maximum limit of 36m), furthermore, 6,000 M2 of fully paved backspace to better serve everyone.

With its base in Rio and two subsidiaries one in Vitoria / ES and another one in Navegantes / SC, the company has been developing partnerships over the years seeking to improve its services to the satisfaction of its customers.