

Brazilian Wave

June 2017 Issue: 61

THE STORY OF THE FRENCH GUY IN BRAZIL

Total, one of the few
IOCs to watch right now

FPSO GROWTH

Brazil prepares for expansion

TANKER PANEL

Petrobras reviews and renews



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ANP FUTURE BIDDING ROUNDS BETTER EXPECTATIONS AHEAD?

by **Raphael Montes**

For the first time ever, the National Energy Policy Council (CNPE) has approved a calendar for bidding rounds. There are nine bidding rounds planned to occur between 2017 and 2019, creating new opportunities for all kinds of exploration and production companies. Three auctions are set to happen still in 2017: The 14th bidding round, in September and the 2nd & 3rd production sharing bidding rounds in October - with blocks in the pre salt area. The 14th bidding round is right ahead of us, and will count with a total a total of 287 blocks located in 29 sectors of nine Brazilian sedimentary basins being offered. Offshore basins represent 38% of this total, with 110 blocks spread out between the most relevant basins in the Country:

Sergipe-Alagoas, Campos, Santos and Espírito Santo. The disappointing outcome of the last ANP bidding round in 2015 is still fresh in our minds, only 14% of the total blocks were sold, but improvements in the Energy Policy and Regulation are on their way, a new Local Content policy is already in place for the next bidding rounds this year and private companies can now operate blocks in the pre-salt region. In addition, the rules for the concession regime were simplified, with reduction on the royalties' rate and in the minimum net equity for non-operators, as well as incentives to increase the participation of investment funds. The goal is to encourage acquisition and further activities on these areas.

Whilst Petrobras is still focused on the divestment plan, we should not expect it to play a major role in the bidding rounds this year. However with the recent changes that were implemented we can expect a better overall outcome of the auctions, which will help the O&G industry in Brazil to get back on its feet.



OPERATOR ROUND UP

It's been a slow start to 2017, which operator will eventually lead the pack in spurring on more activity?

by Luiz Monteiro

As the first half of 2017 draws to a close, it's fair to say E&P activity offshore Brazil left a lot to be desired thus far this year. Petrobras, even with drastic cuts in activity and investment, still steers the market and sets the tone for service companies attempting to plan for the coming years.

Petrobras currently has three tenders outstanding for FPSOs (Libra, Sépia and Buzios 5). Sepia and Libra are expected to be signed by the end of 2017, which could then unlock well and subsea investments related to the FPSO. Buzios 5 should be signed in 2018 with first oil in 2021, with similar associated investments in wells and subsea also expected.

IOC activity in Brazil is still very much muted. Limited investment is expected well into 2018, which could very well result in missed opportunities for some operators that could have capitalized on low supplier rates.

Statoil, even with the purchase of Carcará, is not expected to make any investment in 2017. Exploration in the

Espirito Santo Basin should at best occur in the first half of 2018, and Peregrino's phase 2 is increasingly looking like a distant reality (although some obligations exist for activity in 2019/2020). Shell and Chevron continue work on production and maintenance activities but no exploration or investment expected in the short term. The exception will be Total, which in 2017 will take over the Lapa field, which means assuming the investments of the field in 2018. Total actually seems to be the only IOC with significant investments in Brazil both in the Santos Basin and exploratory North and Northeast of Brazil.

So the Brazilian offshore market still remains totally dependent on Petrobras and as it stands today this does not seem like it will change over the next decade at least. The conclusion for service providers is to position themselves as best they can to capitalize on contracts presented by Petrobras and take advantage of the small windows of opportunity that will crop up from other operators. In order to secure longevity in the Brazilian offshore industry, for the years to come it's Petrobras that will count.







ON THE VERGE OF GREATNESS

The story of the French oil company in Brazil

by Joana Rodrigues

Total has been present in Brazil for over 40 years through various subsidiaries and aside from E&P activities is involved in gas, refining, chemicals and marketing services. The E&P portfolio is diverse, composed of 17 areas of exploration but focussing mainly on deep water. The jewels in the crown being the 20% stake in the Libra field, a 22.5% stake in Lara and 35% in the Lapa field. In addition to the strategic alliance with Petrobras, Total is operator of five blocks in the Foz do Amazonas Basin, acquired in the 11th round of ANP bids that took place in 2013.

Despite the strong desire to take the leap into becoming operator in Brazil, Total's ambitions have struggled to make it into reality. Adding to the beaureucratic woes that come with doing business in Brazil are the pretty extensive environmental complications that have arisen. In May 2017, the Federal Public Ministry in Amapá (MPF / AP) recommended that the Brazilian Institute of Environment and Natural Resources (Ibama) suspended all exploration activities in the Foz do Amazonas pending further environmental assessment. The area is home to a huge coral reef, the full extent of which is only partially understood and which the authorities now wish to conduct further assessment before oil exploration can get the go ahead. Moreover it was recommended that the liscensing process in the area should be completely reviewed. For Total, it was back to square one in an area it had previously had high hopes.



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The existence of this coral system, which stretches a thousand kilometers in the Foz do Amazonas, has been known since the 1970s. It was highlighted in several studies subsequently, including the environmental analysis conducted by the National Agency of Petroleum (ANP), together with Ibama, prior to the offer of the Blocks of the 11th Round that were acquired by Total. The recent study, published in 2016, brings more detail on the coral systems.

Whether Total was aware of the environmental implications of the area or not, or indeed if the MPF/AP decision was an over reaction or not is at the end of the day by the by. Ultimately the result is another negative impact of the Brazilian offshore segment, which already has a lot to bear. The delay of Total's exploration campaign creates even more uncertainty and instability to the oil and gas market.

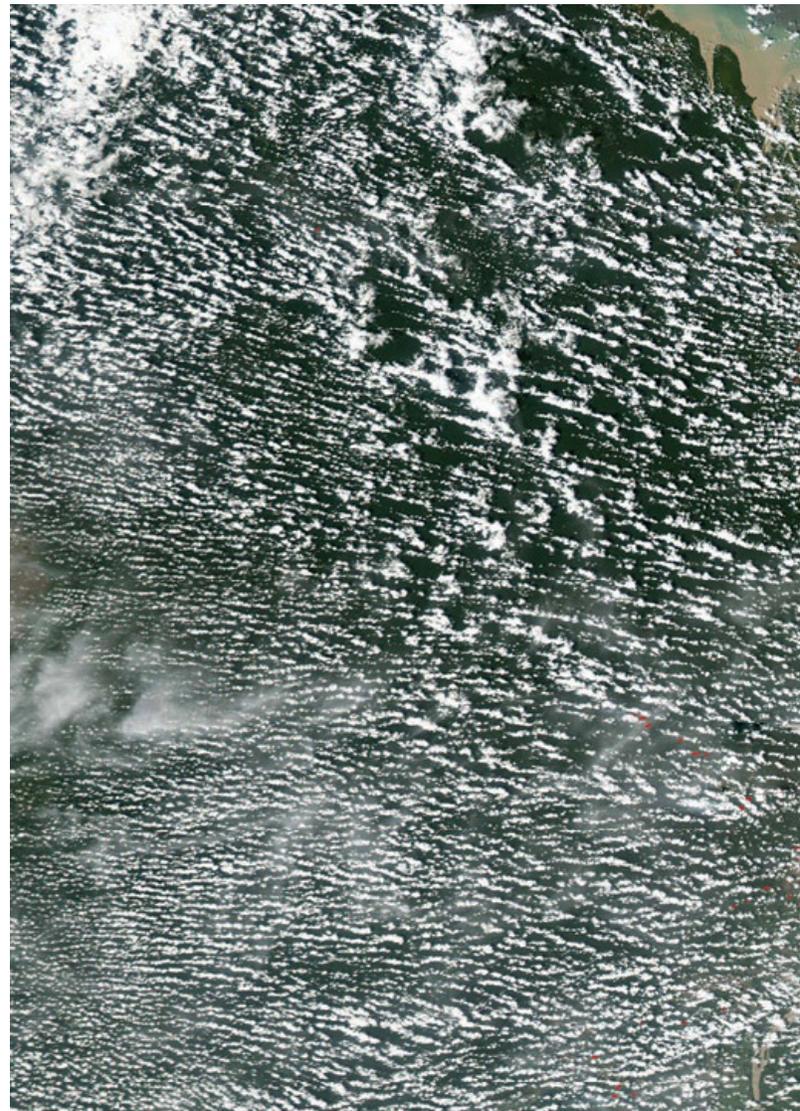
For oil companies, this can be a decisive factor to choose to return the blocks already acquired in the equatorial margin. For industry suppliers, who have been participating in this campaign's tenders for more than a year, the question remains whether it will be feasible to keep resources and proposals valid any longer.

In the last public meeting held in Brasilia this June, by the Environment Commission, the Amazon oil exploration was discussed at length. The commission also specifically addressed the activities of Total and although IBAMA's Environmental Licensing Director, Larissa Carolina Amorim Dos Santos, has stated that it does not guarantee Total's license, the public audience was evaluated positively by the operators. In addition to representatives of the ANP, the IBP and the MME, Cláudio Costa - Director of Security, Environment and Health at Total was also present. In a bid to clarify the measures being taken by Total to ensure environmental responsibility, he discussed the impact

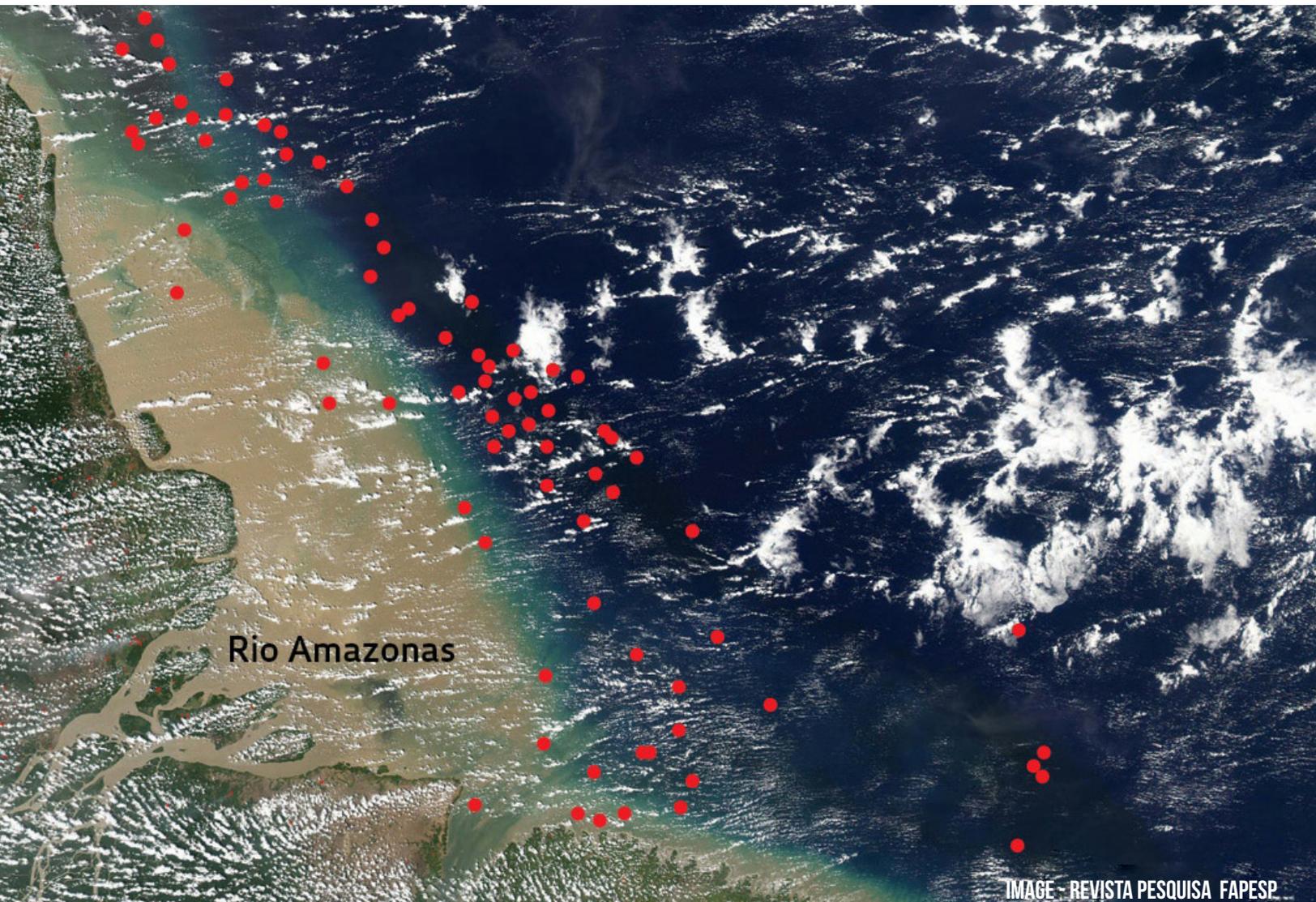
studies that had already been carried out as well as emergency plans.

The public meeting was not conclusive, but it was clear that for proponents, the activities could open a new production frontier in the country, with job creation and royalties for the northern states. For those who are opposed, they warned of the impacts of the oil industry activity on a sensitive ecosystem.

Although no deadline has been set by IBAMA for the conclusion of the licensing process for Total's drilling activities in Foz do Amazonas, the environmental license is expected to be issued in August or September. The deadline established by ANP for the activities of the 09 wells remains the same, August 2020.



● Foz do Amazonas coral



BREAKING RECORDS & PUSHING BOUNDARIES

Brazil to become the world's leading FPSO region

And it's not just the number of units, but the complexity of the projects plus the volumes involved makes Brazil at the frontier of the FPSO market.

by **Alexandre Vilela**

There are currently 39 FPSOs operating in Brazilian waters with the last two being added in 2017 - Petrobras' FPSO P-66 in Lula South (150k bpd) and OOGTK's Pioneiro de Libra in Libra (50k bpd). Brazil now has more units in operation than Africa, which counts 37 operating units. Out of those 39 units, 33 are working for

Petrobras, the remainder are contracted to Shell Brasil (two units), Petrorio, Chevron, Statoil and OGP.

South East Asia and the Pacific is currently home to the biggest number of FPSOs of all the world's offshore regions with a total of 48 units. But that could soon change, in spite of struggling with the oil price and a political scandal which directly hit Petrobras, projects and planning for the construction and commissioning of new FPSOs is continuing. By 2020, Petrobras will add a further 14 units to its operated portfolio, most of which are already tendered and awarded.



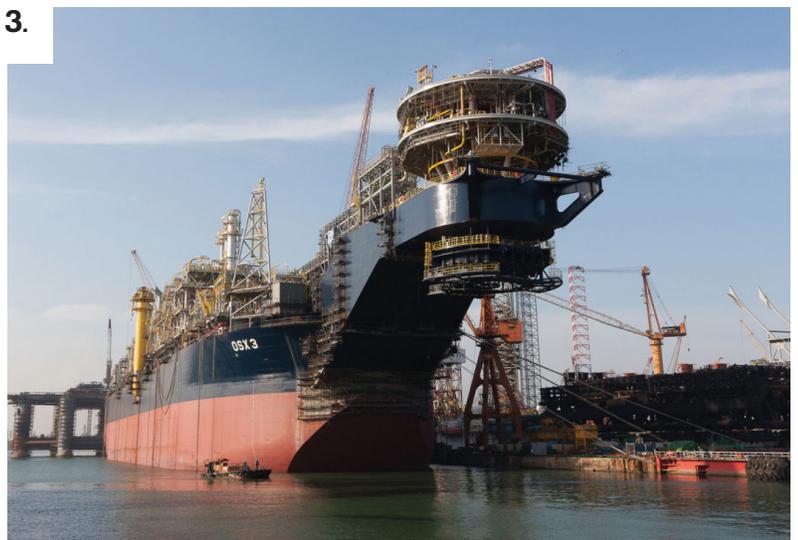
1. Petrobras 74 2. Cidade de Itaguaí for Petrobras in Santos Basin 3. OSX-3 for Petrobras in Campos Basin



2.



3.



Cont..

It's the pre-salt region that can be credited with the continued deployment of new units. A closer look at the outcome of exploration by Petrobras (the combination of ultradeep water and wells breaking the salt layer) added to the new production figures means the company must commit to its production ramp up. In recently developed post-salt wells the production (per well) ranges between 6k bpd to 15k bpd, early pre-salt wells have a continued production of between 40k bpd to 50k bpd. That number is enough to justify any exploratory costs, but most importantly, it shows how vital it is for Petrobras to hook as many fields (and less wells) as they can onto new units.

Meanwhile, it's being reported that the pre-salt fields have a breakeven price of under USD 10 per barrel, with some isolated cases already under USD 7 per barrel. Petrobras has been working extensively to lower the unitary cost beyond the FPSO directly related structure, but into the logistics side of things, by optimizing lifting costs, ship-to-ship transfers and local temporary storage and overseas shipping. This is possibly the most complex crude oil logistics operation under one operator in the world. "It is an incredible scale in operation and world's leading project engineering and deployment of workforce for any offshore operation seen by human kind, ever".

But these developments do not come without challenges. Problems relating to acidity, CO2 and other corrosive gases in some of the Petrobras fields were recently discussed in the local press. Petrobras has opted for flexible production lines which are more maintenance intensive, with eventual replacement in years to come, as opposed to rigid production lines. Scale and project engineering have anticipated and justified the choice, and the first wells connected a few years back, some with flexible structures already available from previous ventures in fields, are now facing the a spike in maintenance demands.

The new 14 additions are focused on those pre-salt areas, with Santos basin being deployed with two FPSOs in the Lula fields, five in Buzios', two in Iaras' and one in each Libra and Sepia. Marlim and

Tartaruga Verde / Mestiça are the FPSOs deployed in Campos basin, which demonstrates that this major production basin in Brazil remains actively under development. Sepia and Piloto de Libra are both in the bidding phase. The technical offers have been opened and shortly the company will move onto the commercial award. On the Sepia FPSO market information has it that Modec has presented the best offer. FPSO "Buzios 5" tender has been opened, with the peculiarity that the GTD - General Technical Description has been disclosed to bidders, but not the T&Cs (Terms and Conditions). For the Marlim module 1 the RFI - Request for Information process has been closed, however the bid date is yet to be confirmed. All other units as seen on the enclosed table are already committed and awarded.

FPSO OUTLOOK

2017

P-66

Lula South, 150kbpd

Pioneiro de Libra (OOGTK)

Libra, 50kbpd

MV29 (Modec)

Tartaruga Verde e Mestiça
150kbpd

2018

P-67

Lula North
150kbpd

P-68

Iara NW
150kbpd

P-74

Buzios 1
150kbpd

P-75

Buzios 2
150kbpd

P-76

Buzios Sul
150kbpd

P-77

Buzios 3
150kbpd

2019

P-69

Lula WO
150kbpd

P-70

Iara Horst
150kbpd

P-71

TBD (Atapu or Berbigão?)
150kbpd

2020/2021

Piloto de Libra TBC

Libra
180kbpd

Sepia (Modec best offer)

Sepia
180kbpd

Buzios 5 TBC

Buzios
150kbpd

Marlim Module 1

Marlim
>50kbpd



Images:
Top - Petrobras 63 FPSO
Bottom - FPSO Marlim Sul.
Images by Sebastian Salvia





HOS
310 EQH

SPOT MARKET SO FAR, 2017

BY OMAR DARIAN

As was pretty much expected, the spot market in the first half of 2017 showed little change on the previous year. The market remained dry. This year we have had a total of 37 fixtures, 22 relating to supply duties and the rest split among STS support, towing duties and diving support. The volatile spot market together with the lowest rates we have seen for OSVs resulted in vessels being put in lay-up directly after conclusion of their long term charters. Owners are desperate for spot demands. The few opportunities that come up are pounced upon by owners who will do anything to get their vessels on contract, including lowering the daily rate below market levels. The lay-up situation did not have a big impact on the availability of PSVs. We have had around six vessels prompt in Guanabara Bay for the past months, mostly PSVs 4500. In other words vessels that are DP2, over 900m² deck area and fuel oil capacity around 1000m³ or more. Big ships that are currently offering a daily rate around USD 16000.

If we look at AHTS, it's a whole different story. Rate wise, anchor handlers are going through the same problem as PSVs, large

tugs with over 18000 horse power trading around USD 22000, very low rates for such ships. The difference from the PSV story is availability. Petrobras absorbed through blocking bids, four Brazilian flagged vessels that were active in the market and will soon take another one. At the time of writing, we only have one anchor handler prompt available in Guanabara Bay. That leaves us with one question: will foreign flagged ships make their way back to the Brazilian shipping industry? With no Brazilian flagged vessel available to block a circularization, the CAA can be easily obtained by them. RSVs and OSRVs had a tiny share of the spot demands. The small demand we had for ROV work this year was performed by prudent AHTS owners that mobilized ROVs onboard. No spot requirement for OSRVs however Petrobras' bid kept them quite busy. Uncertainty hangs over the remainder of 2017. Rigs concluding charters with Petrobras should result in towage demands and cargo runs. IOCs are expected to have little change in demand from the spot market, perhaps three to four fixtures per month. A few surprises can always crop up, but the remainder of this year will be unlikely to produce a vast amount of requirements.

PETROBRAS' BROKERS PANEL RENEWED SELECTION

A new set up with hopes of greater efficiency and transparency

DANIEL BUCKLEY

Tanker Broker
Westshore do Brasil

Following a period of extensive restructuring, Petrobras has announced the format of the Brokers Panel for the next 12 months on a three phase basis: Selection, Filing and Evaluation. Brokers that have provided services for the past two years as well as new ones applying to join the Panel have been invited.

In the invitation, Petrobras explained that this will be an opportunity to strengthen on going dialogues and objectives that will result in greater competitiveness while keeping the rules of sustainable and ethical governance.

The Panel will comprise of a limited number of brokers with periodical analysis of their performance with emphasis on merit, working jointly to recognise superior performance in obtaining results that value the presence of the participant(s) in the Brokers Panel.

Notably, particular attention is being given to anti-bribery and anti-corruption compliance, both past and future, with adequate policies and procedures expected to be in place.

This reorganisation was extensively discussed internally, each step painstakingly analysed by the various departments involved in the production, planning and the commercial aspects concerning

the logistics including input from the offices abroad. Additional managerial responsibilities were given to selected personnel to overview and monitor the entire process. The internal structure was also reshuffled to accommodate the changes and become responsible for the Tanker affreightment and chartering. A final scrutiny and approval was due from the Governance Management

Market studies are made and suggested prices are set as targets for the respective freight, service or project. The brokers that form part of the panel will continue to receive the cargo requirements – on a spot and/or contract basis – and work the various offers involved through the in-house developed Petronect system that ensures and guarantees transparent, foul proof negotiations. For period requirements, the owners are solely addressed and invited to propose albeit being at owners' discretion to refer to brokers for their assistance. The Petronect system is pretty straight forward and user friendly but is inclement on what concerns deadlines: If the offer is not uploaded prior to the official expiry time to the second.

We look forward to servicing Petrobras in this new era and facing the challenges involved including Petronect playing tricks on us.

