

THE NAVIGATOR

Westshore's Monthly North Sea Report

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Owners Prepare for Lay Ups

Downturn begins to hit shipowners

Winners of the \$50 Oil Price

Not everyone is suffering as the price of oil falls

Tide Turns on Wave Energy

The beginning of the end for wave or the end of the beginning?



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Written & Created by Sean Bate & Inger-Louise Molvær
Cover photo credit: Valemon courtesy of Andre Osmundsen - Statoil ASA

Headline News



Farstad have put three AHTS in lay up including the Far Statesman.

Owners Prepare for Lay Ups

The winter period often brings a lull which results in older tonnage facing a period of lay-up but this year the situation is exacerbated by a particularly weak market.

Owners we talked to agree that bringing vessels out of the spot market for (what's hoped to be) a short period of layup will collectively ensure the market rides out this depressed period. Collective responsibility is the general sentiment amongst owners, that everyone

should take their share of the hit in terms of laying up vessels, that it should not be left to a select few to bear the brunt while others continue to trade in an improved market with fewer vessels to compete against.

But understandably owners will be reluctant to take the actual leap and issue notification to loyal seafarers that their vessel will be out of commission for a period. Owners are keeping a close watch on which of the other owners chose to layup which vessels, bearing



The Normand Jarl is one of a trio of Solstad AHTS which came out of the market in December.

in mind who was first to act in previous downturns, I went first last time, surely it's his turn this time!

At time of writing we are aware of at least three owners that have publicly announced layups, seafarers have been informed and the vessels are being prepared. Of course in the event of a charter being secured this can be relatively quickly overturned.

Solstad decided to take a trio of AHTS out of the market mid-December, namely Normand Jarl, Normand Skarven and Normand Neptun. Solstad stated that the decision was not taken lightly but the steps were necessary and there was no other choice given the current climate.

Farstad quickly followed suit with the announcement of three of its AHTS vessels to be taken out of the market. The three vessels Far Sigma, Far Statesman and Far Sigma and represent a lay off of around 100 seafarers. The unfortunate situation was likened to the severely depressed market that was seen in the 80s by Farstad CEO Karl Johan Bakken.

Bourbon Norge has just issued notice to the crew of its 2013-built PSV Bourbon Rainbow that the vessel will be laid up. Again should a contract be secured the owner was quick to assert that this could be overturned.

The market is awash with rumors surrounding what the other owners will do and certain vessels in particular which could be earmarked for lay up but no formal announcement has been made yet. It is understandably a sensitive issue and one which owners will wish to deal with carefully.

Crew layoffs were announced for the subsea crew at Island Offshore and DOF Subsea at the tail end of 2014. A total of 31 ROV and survey crew are affected at DOF Subsea and 41 at Island when the crew of Island Constructor were given notice that lay offs would commence. This is echoed by the number of onshore redundancies that have been announced in recent months by the subsea companies in particular. Oil hubs such as Stavanger, Bergen and Aberdeen will be bracing themselves for what could be a turbulent year.

Drilling & Production

North Sea Activity

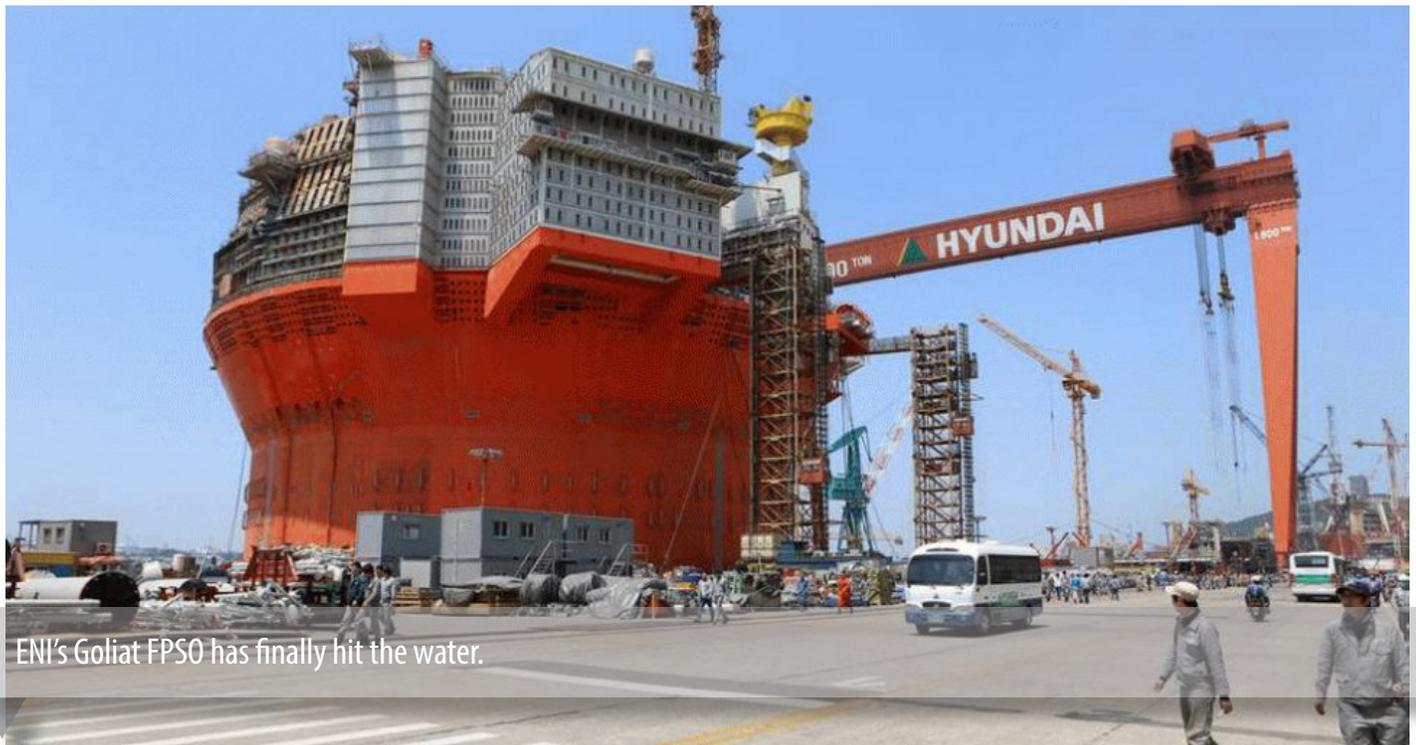
On the back of news that Talisman Energy is to be acquired by Spain's Repsol in what some analysts expect to be the first of more large M&A deals as the oil price plummets, news comes of its Canadian-operator's UK arm cancelling a rig contract. The Archer Emerald was due to commence operations for Talisman Sinopec Q1 2016 but will now no longer do so. Talisman has incurred a termination fee of USD 34-43m.

The cylindrical Goliat FPSO currently under construction in South Korea has finally hit the water with mobilization to the Barents Sea set for Q1 2015, a full two years later than originally expected. The pioneering project which operator ENI Norge hales as setting the industry standard for operations progressively further north has incurred cost overruns of NOK 14bn.

Production at Statoil's Valemon field has commenced. The gas and condensate production unit will be remotely controlled from shore and once drilling is complete in 2017 it will produce from 10 different wells. The platform is located in the Norwegian North Sea.

Lundin announced first oil from the Brynhild field which has been tied back from Shell's Pierce field in the UK sector which is produced via the Haewene Brim FPSO. This is Lundin's first field development as an operator and drilling of a third development well is ongoing with the final development well expected to be completed in 2015.





ENI's Goliat FPSO has finally hit the water.

The world's largest rig owner Transocean released details of its fleet at the end of 2014 including details that it intends to scrap seven lower-spec deepwater and mid water semis. The current candidates for scrapping are Sedco 710, Sovereign Explorer, Sedco 700, Sedco 601, J.W. McLean, GSF Arctic I, and Falcon 100 although Transocean says further units may be identified in a bid to evaluate long-term competitiveness of its fleet. Transocean had a difficult 2014 as stock prices fell 60% following tumbling oil prices and 2015 is predicted to be similarly challenging.

According to a recent survey from Cowen & Co global exploration and production companies are expected to push through 17% spending cuts in 2015. The study of 476 companies suggested that the market has yet to show signs of the oil price stabilizing and this means there is still a lack of conviction that oil prices have bottomed out leading to continuing uncertainty and

cost-cutting.

“Lundin Petroleum is set to drill the Gemini prospect in the Central North Sea using the Island Innovator.”

The UK's Morecambe Bay has marked 30 years of gas production. Centrica Energy has stated that the area has produced 6.5 trillion cubic feet of gas since it first came online on 9th January 1985. British Gas acquired the rights to the field after it was discovered in 1972. Director of operated assets Andy Bevington said: “Morecambe was a massive find, developed in a really innovative way for its time, so to still be producing 30 years later is a great achievement.”

Lundin Petroleum has got permission to use the Island Innovator semisubmersible to drill the Gemini prospect in the Central North Sea off Norway. The well is expected to be spudded later this month and is expected to take around 45 days although this could be extended if a sidetrack is required following a discovery.

Vessel News

Including Newbuilds & Subsea

Weather woes coupled with a slow period over Christmas resulted in little action over the last month for the supply sector. However owners with fingers in the subsea pie have been quick to assert that that market will escape the worst of the slump.

Despite several subsea players announcing on-shore redundancies recently, the optimistic sentiment from owners was echoed this month as several new contracts were announced for subsea work. The latest of which came from DOF, the 2012-built Skandi Hawk secured a seven year deal with options for a further three in the Asia Pacific region. The workscope is reportedly project management, engineering, ROV and diving services.

Siem Offshore continues to strengthen and diversify its fleet with another announcement of secured subsea work for its 2009-built Siem Stork (to be renamed Siem N-Sea). The vessel begins work in January 2015 on a three year deal with contractor N-Sea Offshore Ltd on 'market terms'.

Farstad announced in mid-December that a five year framework agreement had been reached with Technip Norge AS which was quickly followed by the news that the owner was back at Vard for a subsea/IMR vessel. The vessel will be built in Vietnam for delivery Q4 2016 and work for Technip expected to start Q1 2017. The vessel will be of Vard's 3 17 design, 98 meters long with a 900m² deck and 150ton offshore crane representing a 520 million NOK investment for Farstad.





The Siem Stork is to be renamed Siem N-Sea.

Meanwhile REM announced it would be delaying the delivery of its construction vessel to be built at Vard for a year taking delivery out to Q1 2017. Reasons cited were the market downturn and falling oil prices.

Worsening market conditions will inevitably force companies to take a long look at the books and while this may not be anything new we are seeing more incidents of companies positioning themselves to ride out the storm. Sale and lease back agreements are cropping up more frequently, the reasons for which may vary but essentially freeing up cash sums it up for most.

A lack of genuine buyers available to purchase tonnage at acceptable levels, a hesitance from the banks to loan funds and the bond market being essentially closed to all but few.

Island Offshore has just completed the sale of the

2007-built Island Champion to a company within the Island Offshore Group and a 5 year lease back (bare boat) contract has been put in place.

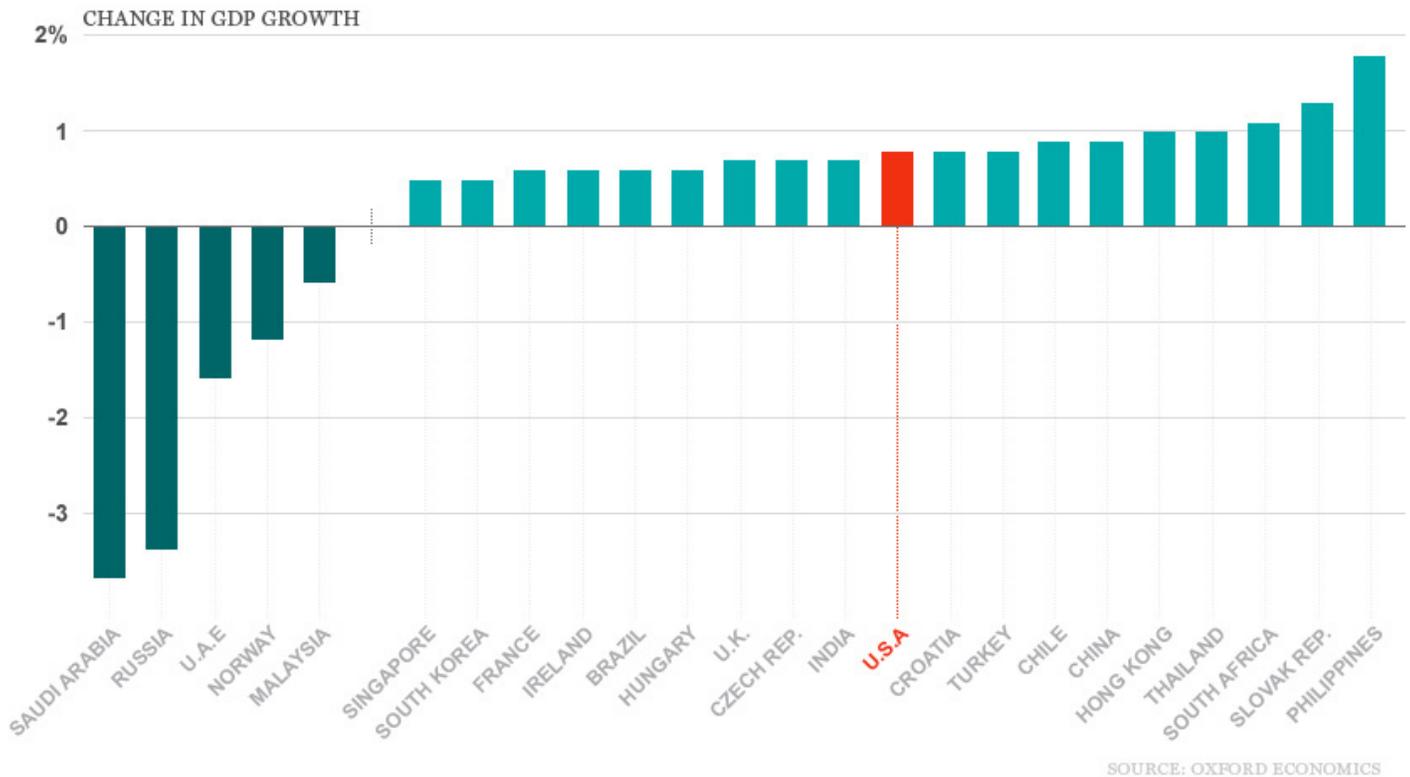
The previously mentioned Skandi Hawk will carry out its seven year charter under the new ownership of a DOF subsidiary.

Bourbon has undergone an extensive process of sale and bareboat charter beginning in 2013 expected to continue out into this year which will result in over 50 vessels from the French owner's vast and diverse fleet falling under the scheme.

This is a situation we can expect to see more of in the months to come as difficult economic conditions make it increasingly hard for owners to sell on older tonnage. Shipowners are attempting to secure the best advantage now in order to weather the upcoming storm of budget cuts and belt tightening forced by the low oil price.

“Worsening market conditions will inevitably force companies to take a long look at the books.”

Inside Story



The Winners of the \$50 Oil Price

The grim prognosis for plummeting oil prices is well documented. Latest reports from analysts show there will be cuts in E&P spending for most if not all of the oil majors. This will filter down to oil service companies in the near future with drilling companies pegged to be amongst the hardest hit.

As we prepare to ride out the rough weather in the offshore supply sector there are countries, industries and indeed individuals that are in fact benefitting from the diminished oil price. It is interesting to note how many countries are net importers of oil and by

what margins. The US has topped the list of net oil importers since the 1970s. Despite consecutive presidencies pledging energy independence from the rest of the world, the current world climate is such that for the Americans at least, a low oil price is certainly not all bad news.

Cheap imports coupled with a massive boom in US shale gas exploration has resulted in the average American being able to heat their homes and drive their cars for less. China comes in second to the US on the list but some estimates from 2014 showed that China had surpassed the US and would continue to

gain ground, again impacted by the supplementation of shale gas for US energy needs.

Indeed some reports say that the average household in an oil importing nation will see direct financial improvements from reduced fuel costs. That means travel costs will be lower, cargo and transport costs could go down and for commodities that incur heavy transport costs – like fruit and veg that need shipped daily – savings could be seen too.

It is worth noting that any reduction in air fare costs is likely to be moderate as fuel savings are absorbed by the travel industry following a turbulent past few years.

A lower oil price will have indirect implications for several countries. A recent report from Oxford Economics shows which nations it believed stood to

gain and lose the most from the change in the price of oil. Changes in monetary policy can be expected leading to changes in interest rates, thereby altering financial wellbeing. Moreover several countries that could be said are not as efficient as some in the West will have a greater demand for oil relative to its population and in this instance will actually benefit from that.

The OPEC nations, particularly Saudi Arabia it said will be hardest hit. As the head of the OPEC nations Saudi Arabia has been reluctant to cut production, perhaps to instill some discipline into its fellow OPEC nations or put pressure of the booming US

shale supply. Saudi Arabia faced a similar situation back in the 80s when it did choose to make cuts but the result on oil price was negligible while its own economy was badly affected.

The economic not to mention political situation of the individual OPEC nations differs greatly. Consequently the decision to maintain production levels has come under increasing pressure internally to the point where an emergency meeting ahead of the cartels' scheduled summer session is expected.

Uncertainty and instability more than anything can create havoc in a market. On top of sanctions imposed on Russian business, oil and gas accounts for 70% of Russian export revenues. Interest rates have shot to 17% and the World Bank has warned that the Russian economy could shrink by 0.7% if oil prices do not recover.

Despite this Moscow is refusing to cut production, citing that this would put it in a weaker position in what is its niche market.

Failure to control the oil price by OPEC has brought about the notion that perhaps the era of OPEC is coming to a close. That perhaps the future of the oil price may be plain and simply a result of cost, supply and demand. Whether we are on the verge of a new era of world energy or just riding another low point in this cyclical industry it is fair to say that there will certainly be winners, as well as losers that emerge from this.

“There are countries, industries and indeed individuals that are benefitting from the reduced oil price.”



Market Forecast



The Pelamis Wave Power device which has been seen as the flagship for the industry is now under threat.

Tide Turns on Wave Energy

The Offshore wave industry has reached a crucial crossroads in its potential future. The financial collapse of a number of high profile firms has led some to speculate that the whole industry could go under. However, is it too early to predict wave energy's demise and what could emerge from the turbulent time in this particular sector of offshore renewables?

Pelamis, the snake-shaped wave energy generator, which for many represented the pin-up project for the industry, has already gone into administration. Meanwhile, a second Scotland-based firm Aquamarine Power, which is developing the Oyster 800, has made most of its workforce

redundant. Some industry observers have suggested that these companies represent not just two important Scottish companies but two of the two of the most vital companies in this industry worldwide.

KPMG who are acting as administrators for Pelamis Wave Power have said it could take some time to select a preferred bidder but have been encouraged by the level of interest in the company. The trade body Scottish Renewables believes there is still strong future for wave energy.

Senior policy manager for Offshore Renewables Lindsay Leask recently stated: "We're still at the forefront of this world leading industry and we will continue to be there."



Aquamarine's Oyster which is also one of the pioneering devices currently being tested.

We have built up so much experience through both Aquamarie and Pelamis that will continue to play a huge role in the development of wave energy."

The Scottish government has been blamed by some for causing the current situation through a lack of financial support. However, the politicians there are hoping a new organisation named Wave Energy Scotland will be able to tackle the issues facing the sector both now and in the future.

Rather than considering this the beginning of the end for offshore wave energy it may in fact merely turn out to be the end of the beginning for this sector. It is worthwhile looking back at the offshore wind industry, which in its embryonic stages struggled to cope with the economics of an emerging market. A number of the initial key players including owners of some of the pioneering wind turbine installation vessels did not survive the difficulties of making new technology meet the money making demands of investors.

"With the right incentives and innovation it is a matter of time until the tide turns again for wave energy."

Just over ten years ago the Mayflower Resolution was sold to a management buy-out team for GBP 12 million. The wind turbine installation ship had cost around GBP 53 million to build but was the first of its kind and had only completed one contract when administrators moved in.

The new owners went on to become MPI Offshore and after a difficult few years managed to prove the concept. The real proof of success came when the firm ordered two more vessels: the MPI Discovery and the MPI Adventure. The rest, as they say, is history.

But it is worth using this history to put the current crisis of the offshore wave industry into context. There are few who will dispute that there are going to be difficulties in the coming years however it is wrong to write off this sector. With the right government incentives and continuing innovation it is a matter of time until the tide turns again for the wave energy sector.

The Last Word



Welcome to 2015 from all at Westshore Shipbrokers.

Happy New Year to all of our readers and we look forward to working together in a prosperous 2015. Westshore is also anticipating the Chinese New Year which will see the Year of the Wooden Sheep begin on the 19th of February.

As we look to the East our Singapore office has been going from strength to strength and Westshore Raffles Offshore is expecting to continue this success into the coming year.

We hope you continue to enjoy reading the Navigator and our sister publication the Brazilian Wave.

A few changes in Westshore's analysis department as Inger-Louise Molvær returns from maternity leave and resumes the position as offshore analyst. We would like to take this opportunity to thank Sean Bate who has diligently written and created the Westshore monthly publications over the past year.

“There are a few changes at Westshore as Inger-Louise Molvær & Eirunn Brekke return from maternity leave.”

Eirunn Brekke will also be returning from maternity leave and resuming her role as office manager during the course of January. We

will be saying goodbye to Galina who has covered Eirunn's maternity leave and wish her all the best for her next endeavours!

Market in December



The Normand Oceanic photo by Alf Terje Sande.

The winter slow down continued in its downward spiral in December with utilization rarely creeping over 50% for the AHTS. PSVs fared slightly better achieving an average utilization of just under 80%, only slightly down on the figure for December last year.

The high number of available AHTS on both sides of the North Sea throughout the month inevitably resulted in those vessels beginning to encroach on the PSVs traditional work scopes. A reasonable number of AHTS were fixed for supply and cargo duties and this will likely be the case going into the New Year.

The number of rig moves and spot fixtures concluded in December was up on last month's figure but bad weather and shorter requirements resulted in the actual utilization of the vessels being down on the previous month.

Rate wise the low utilization levels had a knock on effect on rates with the larger AHTS vessels bringing in on average a third of what they did the previous month. For many this is barely a break even cost and the decision to commence lay ups has been witnessed from several of the Norwegian owners and more expected to follow suit. ■

Vessel Type	Average Monthly Rates (NOK)		
	dec 14	Nov-14	dec 13
AHTS			
> 25,000	106,653	320,434	596,099
18,000 to 25,000	67,495	296,535	455,676
< 18,000	64,831	304,800	302,274
PSV			
> 900 m ²	61,906	105,723	113,989
< 899 m ²	61,791	89,606	81,568

	dec 14	Nov-14	dec 13	Nov-13
# of spot supply fixtures	100	81	99	76
# of rig moves	28	18	24	22
# of AHTS fixtures	49	53	68	64
Average Utilization (%)				
AHTS	41.5 %	71.0 %	80.2 %	69.6 %
PSV	78.3 %	83.1 %	85.9 %	83.0 %