

NOVEMBER 2011

ISSUE 3

THE NAVIGATOR



THE MONTHLY REPORT FROM WESTSHORE SHIPBROKERS AS



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WESTSHORE

SHIPBROKERS AS

02 HEADLINE NEWS



Spot market takes a turn

It's been a good few years since we have seen the level of rates some owners picked up this month. It was the AHTS market that approached the record level rates, but the PSV side rates didn't fair badly either compared to what we have seen over the past couple of years. This month's highest recorded fixture went to Siem Opal, Siem topping its own record from just one week before that when Garnet was fixed with Statoil at a fraction under Opal's rate.

Those of you who regularly follow the fluctuations on the spot market will have seen a sold out status for AHTS a few times this month. Adverse weather has plagued anchor handling operations this month resulting in some vessels remaining on hire way past the expected duration of the job. Some charterers chose to postpone rig moves until a better weather window was on the horizon, but this left them at the mercy of the spot market in a period of high volatility.

The winter is fast approaching and with vessels returning from Greenland and other term commitments it is reasonable to assume these inflated rates will be a

temporary feature and things will stabilize as we near the end of the year. But many sources are saying, ourselves included, that next year could see a serious under supply of large AHTS tonnage. Few would have thought it this time a couple of years ago when the news of large AHTS deliveries seemed never ending, but they have all found work, some here and some elsewhere and now we see the cycle starting to begin again.....



AHTS (rates in GBP)



Thank you to..



Statoil

Statoil reported Oct 21 that further appraisal drilling at Aldous Major South has confirmed that Aldous and Avaldsnes is one giant field and one of the largest ever found on the Norwegian Continental Shelf. To celebrate this, the images taken for this month's Navigator are from Statoil's image bank all relating to the discovery. Photographers responsible for the images are; Ole Jørgen Bratland, Harald Pettersen, Øyvind Hagen and Anette Westgård.

A WORD WITH WESTSHORE...

Lars Heimdal

New at Westshore Norway
Trainee Shipbroker

Its been a great time to start at Westshore with such a tight market and a high level of activity. Both the AHTS and PSV markets have seen unseasonably high levels of activity keeping everyone on their toes. My previous background is from

the finance sector although still within oil and gas and I am really looking forward to the challenges that shipbroking at Westshore will bring.



03 NEWBUILDING NEWS

Waiting on the next wave

No news on further newbuild orders this month – or none that will be of significant size to compete in the North Sea market at least. But market rumours abound regarding the next potential wave of new AHTS newbuilds. It almost seems like a market consensus has been reached that the supply of larger AHTS vessels could be restricted

next year – its prime time for new orders to be placed. At present only Farstad has come to the market declaring its intention to build new AHTS vessels, selecting a yard in Vietnam and the UT 731 CD design. The vessels are of 20,400 bhp still big enough to be classed as a North Sea work horse but veering away from the space ship end of the scale

that we became accustomed to seeing over the last newbuild wave. What may be hampering some owners from taking the leap is financing. Whilst market conditions may be ripe; yard space reasonably plentiful, newbuild prices down on what they were – without cash in the bank no new projects are going to get off the ground.



BOURBON FRONT - THE LATEST PSV FOR BOURBON NORGE

NEWBUILD ANNOUNCEMENTS THIS MONTH

Olympic Shipping will host the naming ceremony for new PSV 'Olympic Electra' November 18 which is expected to enter the market at the end of the month.

The name giving ceremony for Møkster's new PSV 'Stril Orion' was held 29th October, the vessel will now commence a term charter with Maersk Oil.

The Rem Server, delivered at the end of October has secured term work with ExxonMobil upon delivery. The vessel has been chartered for two years plus options for work in the North Sea.

Scandinavian domination

There has been much spoken about regarding the number of newbuild PSVs that will enter the market next year, but what is also of note is the fact that the vast majority of these will arrive to Norwegian owners – and owners that traditionally trade their vessels from Norwegian ports. The vessels are not necessarily being built at Norwegian yards, meaning mobilization time could add some weeks to the official delivery dates. Moreover some of these vessels, albeit very few of them, have secured term work on delivery, again lessening the impact on the spot market. On the list of owners taking delivery of new PSVs in 2012 is; Bourbon Norge, DOF, Rem, Olympic, Island, Møkster, Eidesvik, Farstad along with a host of smaller and/or new players to the scene.

Newcomer to the PSV scene is Vestland Offshore, current manager of seismic vessel 'Ocean Europe' the company has a number of VS 485 PSVs on order at various locations. The Ulstein Group, under the name of 'Blue Ship Invest' has two PX 121 PSVs under construction, the first of which is reportedly named 'Blue Fighter' and due for delivery in January. The list goes further with newbuilds under construction at Simek and two in India for Norwegian outfit Brage Supplier, although whether or not these last vessels will enter the North Sea market is unclear at present.

So 2012 is shaping up to be the year of the new Norwegian PSV!



04 RIG RUNDOWN



ON THE MOVE IN NOVEMBER...

- TO Prospect (Nexen)
- Maersk Gallant (COP to Statoil)
- West Alpha (BP Norway)
- Bredford Dolphin (MLS)
- Borgsten Dolphin (TAQA)
- GA III (Asco)
- Sedco 704 (ADTI)
- Energy ENhancer (Perenco)

UPCOMING & ONGOING

Atwood Oceanics has signed a contract with DSME for the construction of a 12,000 ft rated drillship, expected for delivery in June 2014 and named 'Atwood Achiever'

Awilco Drilling has secured work with Ithaca Energy in the UK for drilling of the Hurricane discovery in the central North Sea in the first quarter of 2012. Semisubmersible WilHunter will be used for the work.

BP has announced plans to double exploration spending and increase the number of exploration wells from six in 2011 to 12-17 in 2012 and about 25 in 2013.

Statoil is in discussion with several rig contractors for the construction of a new Jackup design dubbed the 'Cat J' and would go on to work on long term charters with Statoil.

ExxonMobil has upped the spending budget for 2011 by 9% to USD37bn compared to the previously quoted figure in March last year.

Rocksource drilled another duster this month with Borgland Dolphin at approximately five kilometers north east of the Linerle discovery. The well has now been plugged and abandoned

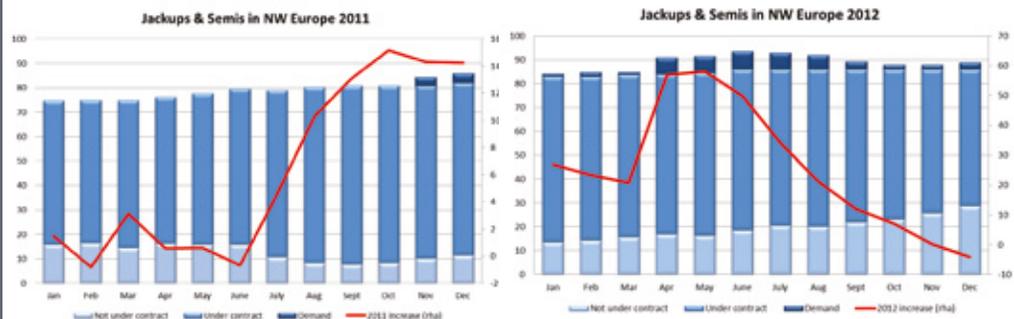
Rise in North Sea drilling in 2nd half 2011 - more to come in 2012

Contracted rig time took an upswing this summer, what started as a slow start to the year, activity down on the level at the same point in 2011, took a turn around in June/July. Then as more rigs went to work, some coming out of cold or warm stack and others delivering as newbuilds – it was a far busier second half of 2011.

This of course translated as more demand for the support vessels and is in part why we saw an increase in the rates on the spot market from the summer months onwards when you compare it to the situation in 2010. But the activity in 2012 appears to go way beyond what's happened in 2011. Several new deliveries of semis and jackups will arrive in the North Sea next year namely the two new COSL semis which Statoil will take in addition to the recently

declared contract for the West Hercules. The market for deepwater floaters is tight on a global basis over the next year but in terms of the North Sea – particularly with regards to the Norwegian side where strict regulation governs which rigs can work in the water – the market has a near nil availability.

It's all positive signs for the support vessel industry where a rise in demand will hopefully absorb some of this additional tonnage we see coming in on the PSV side. The graphs below go some way to illustrate this. Worth noting is that the apparent decline in the increase of activity for 2012 will more than likely change as more contracts are declared and operators position themselves to cover drilling work next year.



Source: ODS-Petrodata

05 IN AND OUT

Vessel	Design	Manager	ENTRY	From
Bourbon Front	PX 105	Bourbon Offshore	End-Nov	Newbuild – Yard China
Olympic Electra	MT 6009 L	Olympic Shipping	Mid – Nov	Newbuild – Yard Norway
Solvik Supplier	VS 485 CD	Vestland Offshore	Mid – Nov	Newbuild – Yard Russia
Vessel	Design	Manager	ENTRY	From
Olympic Poseidon	AHTS	Olympic	End – Nov	Capricorn
Balder Viking	AHTS	Viking	End – Nov	Capricorn
Toisa Valiant	PSV	Sealion	Start - Nov	Fugro
Durga Devi	PSV	Durga Offshore	Mid – Nov	PA Resources
North Truck	PSV	Gulf Offshore	Mid – Nov	PA Resources
Rem Supplier	PSV	Rem Offshore	Mid – Nov	SPD
Sea Trout	PSV	DESS	Start – Dec	Enquest
Northern Wave	PSV	Trico	Mid – Nov	ASCO
FD Indomitable	PSV	Gulf Offshore	Mid – Nov	TAQA
Havila Neptune	AHTS	Havila	End – Nov	Total Angola
Vessel	Design	Manager	EXIT	To
Malaviya Twenty	PSV	Great Offshore	Start – Nov	Senergy
Rem Provider	PSV	Rem Offshore	Start – Nov	ADTI
Highland Trader	PSV	Gulf Offshore	Start – Oct	BHP
SBS Cirrus	PSV	SBS	Mid-Dec	Premier Oil
Viking Athene	PSV	Eidesvik	Start – Nov	MLS
Saeborg	PSV	P/F Supply	End – Dec	DNO
North Stream	PSV	Gulf Offshore	End – Nov	DNO

06 MARKET FORECAST

THE FATE OF THE PSV MARKET IN 2012

For PSVs, 2011 has been a year in which rates on the spot market remained stable and largely above the OPEX line. However much has been spoken about the 'influx' of PSVs due for delivery to North Sea owners next year, and on the surface there would appear to be more than usual. We have taken a look at the numbers in an attempt to get a clearer picture on the fate of the PSV market next year.

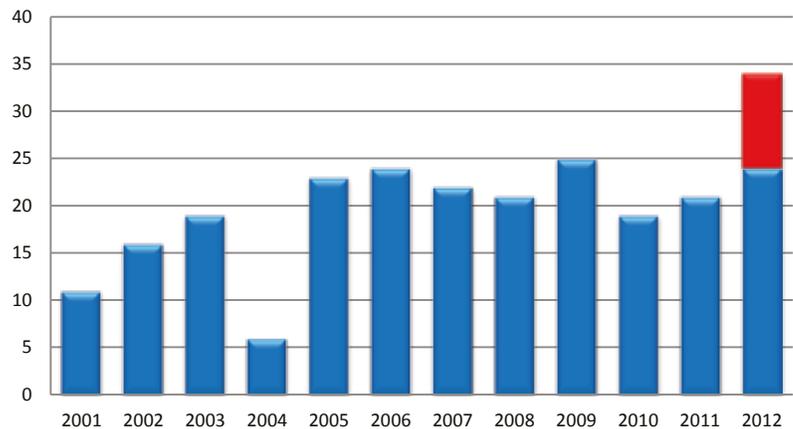
The official delivery schedule given to us by owners shows that many of these PSVs are due for delivery in the latter part of 2012. Even with the best of intentions delivery dates slip, this is more commonly seen in less experienced yards in some corners of the world, but it can happen anywhere. Moreover a vessel delivering from a yard in the Far East easily needs another month to mobilise to the North Sea and undergo final preparations for service before entering the market officially. With this in mind it may be reasonable to expect that some of these vessels penned in to be part of the fleet towards the end of 2012, will in fact not make it in before 2013.

If on this basis you discount the ten vessels expected to deliver November and December 2012 you are still left with 24 new PSVs delivering next year – still seems high right? The next factor to look at is how many vessels actually come into service each year and what we see is that 24 may still be on the high side – but not by much. Now some of these new vessels already have term commitments in place, namely a few of the new DOF vessels and one for Havila.

In this edition of The Navigator we have looked at the increase in demand for support vessels that is expected next year from higher activity on the drilling side – but the same is also true on subsea construction and production activities. On the surface it would seem like higher activity levels and an 'average' number of new PSVs in the market would not lead to any dramatic reduction in rates or drop in utilisation levels. However what can never be measured empirically is the psychological factor – that is to say the perception of the market often has a greater impact than what the numbers should necessarily suggest.

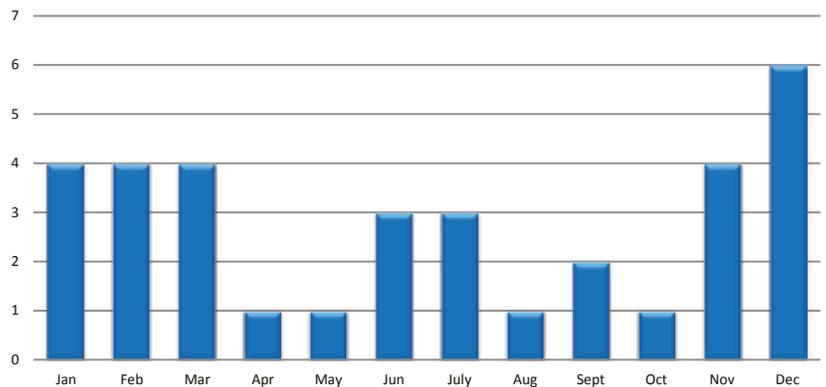
There's an argument on both sides of the table for the PSV market next year but what we believe will be the deciding factor has less to do with the actual numbers relating to supply and demand – but how the market perceives these deliveries on a day to day basis. The waters are far from clear for next year!

Delivery of new large PSV into North Sea



VESSELS ABOVE 3,000 DWT - AS MANY AS 34 COULD ENTER THE MARKET NEXT YEAR

New North Sea PSVs 2012



'OFFICIAL' DELIVERY SCHEDULE FOR PSVs > 3,000 DWT CAPABLE/PROBABLE FOR NORTH SEA OPERATIONS

Inger Louise Molver

Offshore Analyst

"Lots going on at Westshore right now, the App for the iPhone will shortly be followed by a similar version for Android and our new and improved website is almost ready for launch too!"



07 THE INSIDE STORY

A look at what was one of the world's most active offshore oil basins: Post Macondo Gulf of Mexico

WRITTEN BY

Inger Louise Molver
Westshore Shipbroker



18 months have passed since the terrible events surrounding the Macondo disaster in the Gulf of Mexico unfolded. After a period of emotion, questioning, blaming and of course high profile litigation the drilling industry in the Gulf is slowly edging back to where it was two years ago. So what does this mean for the vessel industry?

Brazil may be on many support vessel owner's hearts and minds when they envision a future for their fleet, but further up the value chain the rig contractors are keeping a close eye on the developments in the Gulf of Mexico. The US government has been understandably cautious in reissuing drilling permits for further exploration in the region and it was only a week ago that BP received its first deepwater permit since the disaster. In late February this year Noble Energy received the first permit to resume drilling in deepwater areas and was closely followed by BHP Billiton, ATP O&G, Chevron and Shell. Albeit these newly issued licenses came with far greater focus on safety and environmental implications, although not before time some would say.

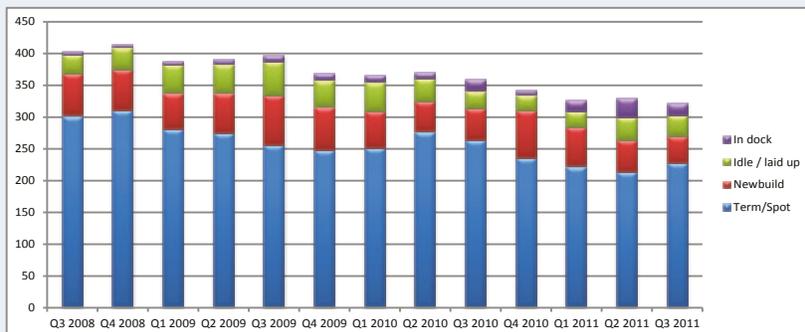
But the region is a far cry from the level of activity it was at two years ago. Many environmentalists and lobbyists would have this reduced situation maintained a good while longer to allow for further investigation into the impact of Macondo and the potential impact if it happened again. But as we all know money talks. Some see the issuance of drilling permits less than a year from the disaster was evidence of Secretary of the Interior Ken Salazar buckling under political pressure. Whether this was the case or not it is a fact that offshore drilling in the Gulf of

Mexico provided a source of income for thousands of people in and around the Gulf and around the globe.

For vessel owners, demand for their services was initially felt as tonnage was needed for oil spill response operations, in fact some vessels were drafted from other regions to meet with the demand over the period. But as that work dried up and the de facto drilling moratorium in place, activity ground to a halt.

Friday golf sessions between oil industry individuals is almost a way of life. What Macondo has resulted in is a change in the business landscape between oil company and vessel owner. The tighter regulation cannot be underestimated and this in itself has resulted in new players entering the system meaning new relationships need to be formed.

Moreover a host of operators have received permits for drilling in 2012 leading to some



PSVS & AHTS IN US GOM SOURCE: ODS-PETRODATA

This left owners with the decision to seek work outside the region or contemplate lay-up. Around this time we started to see the main US players take a heavier interest in what was going on in Brazilian waters and more and more vessels previously flying US flags sailed down to commence service there. The lay-up option was also heavily utilised.

For OSV owners the Jones Act makes contemplating work in the Gulf of Mexico difficult if not impossible should you not already be an American company, although loop holes do exist. But the Macondo incident has shaken up the playing field quite dramatically. The nature of business conducted between ship owner and oil company is often built on business relationships built between key individuals. This is most keenly felt in the Gulf where

doubt as to whether or not there will be enough deep water tonnage to meet with the demand, this will invariably lead to an increase in day rates too. It must be noted that many of the vessels that left for Brazilian and other service have subsequently been reflagged and tied in to long term commitments meaning their return to the US Gulf is unlikely if not impossible in the short term.

So it seems that after a tough period for support vessels in the US Gulf there is finally light at the end of the tunnel. If 2012 ends up having a deficit in supply of deep water capable tonnage in the US Gulf, rates will go up and critically for those of us on the outside looking in, it means less global competition on those tenders where US owners have been actively involved over the last year.

08 THE LAST WORD

Westshore Asks:

“What will be the average fixture for a cargo run out of Aberdeen in November?”

And the winner is..

The rate levels for rig move fixtures in October surpassed levels that most industry players anticipated. Adverse weather coupled with a prolonged squeeze on the supply of tonnage led to rates approaching a three-year high. And for those of you that don't remember what happened three years ago in October of 2008, several vessels were fixed at over 2 million NOK and nothing had been seen like it before that or since.

Last month's panelists ended up giving broadly similar answers but one man emerged victorious and that was **Olaf Hafredal from Deep Sea Supply**. He was therefore asked to answer this month's probing question...



This month joining Olaf Hafredal is Kim Locke from Sealion Shipping and Anette Hansen from Troms Offshore

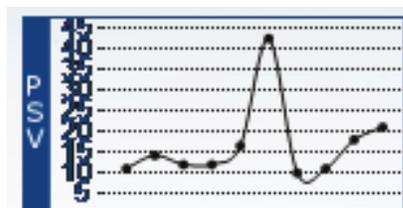
Their answers were;

Olaf Hafredal – GBP 14,000
 Kim Locke – GBP 11,685
 Anette Hansen – GBP 13,500

For interest readers, here's the average rates for a cargo run out of Aberdeen these past few months, the panelists were also provided with this information

before making their decisions:

July average	GBP 15 814,29
August average	GBP 13 729,73
September average	GBP 18 087,41
October average	GBP 11 707,14



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