

NAVIGATOR

August 2017

THE WESTSHORE BRAZIL REPORT



WESTSHORE
SHIPBROKERS AS

STACK 'EM
The pros and cons of
rig stacking in Brazil

**RECOVERY ON
THE HORIZON**
preparing and
positioning for
an upturn

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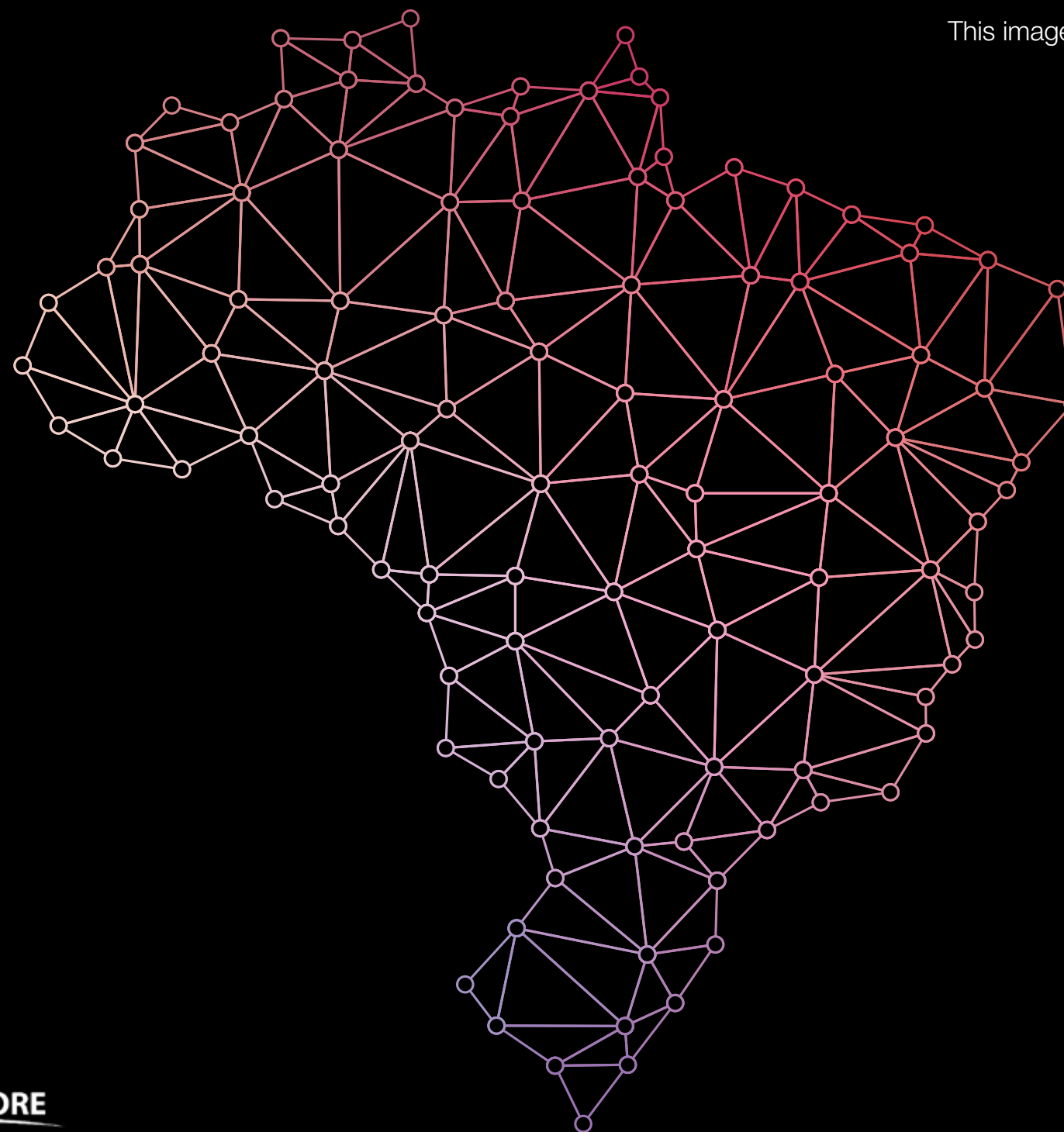
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STACK 'EM!

Laying up a rig in Brazil is an expensive activity, but if all the rigs leave, there will be trouble ahead finding equipment when it's once again needed.

by Alexandre Vilela

Oil prices started to fall and at the same time Petrobras - for numerous reasons - reduced activities in Campos and Santos basins. Macaé Imbetiba port calls were reduced as the quays were undergoing maintenance, a number of vessels appeared to be anchored in Guanabara Bay in Rio de Janeiro. Some ships were waiting for port entry - in the Triunfo port operating for Petrobras, however some foreign flagged ships in contract were awaiting their CAA to resume operations, some vessels were idle as contracts ended. The anchorage in Guanabara Bay has never seen more congestion. It is a very pleasant tour taking the ferry to Ilha do Governador by the way, passing by so many known and unknown vessels.

The current low level of activity is now the reality for drilling rigs. Hardly a day goes by without a rig being spotted at the entrance of the bay, just beyond the Santos Dumont airport (named after the Brazilian inventor of the self-propelled airplane - flown in Paris in the Bagatelle field with the 14-Bis). The Alpha Star, recently released from

from Queiroz Galvão Oil and Gás, is currently there awaiting a decision on where she will be stacked. Cold or warm staking a rig is not a simple decision. We have experience assisting rig owners in the decision process and the variables are many. First and foremost, as most equipment is imported, Brazil would not be genuinely interested in keeping loads of rigs in Brazilian waters. The obvious environmental impact it may generate, the risk of incidents and even a potential abandonment of the unit, if the owners face severe financial issues - are all serious concerns.

Furthermore stacking a rig doesn't necessarily mean laying off most of the personnel - like on a ship. Rigs will require more people and maintenance proportionally and this means jobs and demand for supplies and services. That is of interest to everyone - manage the risks and keep at least some of the jobs. It might not be as good as a fully operational rig, but a stacked rig in Brazil is better than no rig at all.

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Many have just left though. And this is not only due to the low level of new contract opportunities, but also due to Brazil being possibly the most expensive place in the world to cold or warm stack equipment. Forecasting a solution is tricky. Anchoring the equipment is not cheap: two stand-by vessels will be required, transportation from and to the unit for supplies, bunkering, personnel transportation, maintenance while not berthed, etc. In addition, evacuation plans and response structures, exposure to incidents while anchored (from a collision as well as personnel transfer perspective) are all factors in detriment of staying at anchor. Oil booms required - and a blizzard will enter the bay you will have to change the whole thing... not easy. Berthing addresses many of those issues, but costs more (if you can find a port with enough draught for a semi with thrusters - which is another problem in SE Brazil). Berthing costs are a big factor here - but even more so is pilotage. This is a high cost anywhere in the world, but

one would have to agree that entering with a rig into a port in Brazil will cost many more hours (yes, always charged by the hour) and have less planning than in many other places, opening up for operational delays and unforeseen events. And the unpredictability of this cost - or the need to incur it all again if you need to move one meter alongside, can really impact the rig owner. On the plus side, once alongside, the owner will not have to deal with any of the anchorage issues described above. Behind closed doors, plans to drill are gearing up. Operators with aspirations of mid-2018 wells are right now concerned about the upcoming problems associated with the stacked rigs departing Brazil and have suggested a scenario where the rig owners could group together and ensure that a certain amount of equipment could at least remain in Brazil ready for the upturn. The extent of the Brazilian reserves is undisputed, but it is clear that in order to realise this bounty a stable platform with equipment that can be easily inspected, visited and mobilized needs to be in place.



THE DEVELOPMENT OF SHIP-TO-SHIP TRANSFERS IN BRAZIL



IMAGE - TEEKAY

DANIEL BUCKLEY

Tanker Broker
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Several alternatives have been attempted to address the necessary transfers on Brazilian offshore offloadings. Given the challenges and related safety precautions/ procedures, sophisticated but consequently more expensive DP shuttle tankers have to be used between the FPSOs and conventional tankers performing the long hauls crude export shipments.

La Paloma in Uruguay has traditionally been used for the transshipments from DP to conventionals – as well as in compliance with crew regulations – however, involving the transit time and weather constraints. In many cases, up to 10 days were lost waiting for weather improvements to allow a safe ship-to-ship operation.

There are not many safe harbours where local and/or Federal authorities permit the transfer operations.

Angra dos Reis was used in the past but unfortunate events putting the local environment at risk have marred the ability to carry on further transfers. An alternative safer location and some pre-emptive measures are being sought so that it could be brought back as an option.

Recently, ship-to-ship transfers have been attempted off Santos waters but, a combination of weather conditions similar to what is faced in La Paloma and technical faults have seriously hampered this location to become a trustworthy solution.

Just as an example of what the weather conditions may be and its effects, the ports located along the entire coastline between Rio de Janeiro and Rio Grande: Santos, Paranaguá, São Francisco do Sul, Itajaí and Imbituba –

all had manoeuvres suspended between Aug, 10th to 15th during which time a container ship attempting to enter Santos lost 45 boxes and one vessel grounded on a test to sail from Paranagua.

Attention is now being focused further north up the coast, at Vitoria and Salvador (where historical data shows a remarkable 98% of the year has favourable conditions) considering that, even offshore locations are reported to be safe and reliable, resulting in almost no weather related delays. As a plus, from these locations practically no mileage increase is involved in the routes the exporting ships will follow to reach their destinations.

In addition to crude exports, it is also worth mentioning that the ship-to-ship transfers will also include the imports and distribution of fuels, on the rise since end 2015 when Petrobras decided it would focus on E&P as its core business area

In line with this surge in the interest on ship-to-ship transfers and taking the opportunity to update and improve the rules set forth under its ordinance nbr 170/2002, ANP have opened a public consultation from August 11th to September 11th for comments and suggestions for a revised wording of the rules and regulations concerning all issues on the waterborne transport of crude oil, derivatives, natural gas and biofuels involving long haulage, coastwise, offshore support, in-port support and inland waterways basis a proposed draft that will lead to a final public hearing to be held on Oct 30 at ANP's head offices in Rio de Janeiro. This is an excellent opportunity for all players in our industry to come forward and contribute with ideas, suggestions or amendments to the draft that will enable improvements and eventual adjustments, ensuring that we go forward making the most out of these – in the words of the poet - “a-changing times” in Brazil.

Where Did All The Anchor Handlers Go?

BY OMAR DARIAN

In our last edition, we wrote a small summary of the Brazilian spot market in the 1st half of 2017. Although short, it became clear to many readers that the availability of anchor handlers dropped drastically. In fact, if Westshore received a demand for anchor handlers now, we wouldn't have any vessel to offer. Over the last two weeks, we have had three requirements for such vessels but have had no vessel prompt to offer. So what actually happened to the market? We hear all the time that the problem is the drop in demand but we see now that the lack of vessel availability impacts the market too. At the beginning of the year, we had three anchor handlers available. Of course we are talking about Brazilian flagged vessels or under REB, which don't need to worry about being blocked or getting a CAA. They had a few jobs, some rig moves, but nothing significant. At the same time, Petrobras was circularizing their foreign flagged anchor handler fleet, and that's where our Brazilian anchor handlers went. In summary, Petrobras absorbed five anchor handlers ranging from 7000BHP

to 220000 BHP. The rates disclosed by Petrobras were confusing to say the least. We had owners offering AHTS 22000 for USD 22.000,00 while others offered smaller anchor handlers, such as 15000 BHP for USD 25.000,00. All the vessels were awarded a one year contract so will be out of the spot market for some time. This situation seems to be far from concluding as we approach the end of 2017. Farstad's vessel BOS Turmalina which was one of the few survivors from Petrobras' thirst for anchor handlers and that remained in the spot market for the first half of the year will soon commence a two year charter with Queiroz Galvão Exploração e Produção. Maersk has vessels working on charters coming close to an end but we can't be certain that they will be available in the market after concluding their contracts as they seek the CAA. After concluding its term charter with Petrobras, AHTS Camogli was patiently waiting and recently got a CAA valid until the end of the year. Evidently this gives foreign owners a bit of hope for their ships. If we continue with the absence of Brazilian vessels, foreign ones might find their way back into the market.

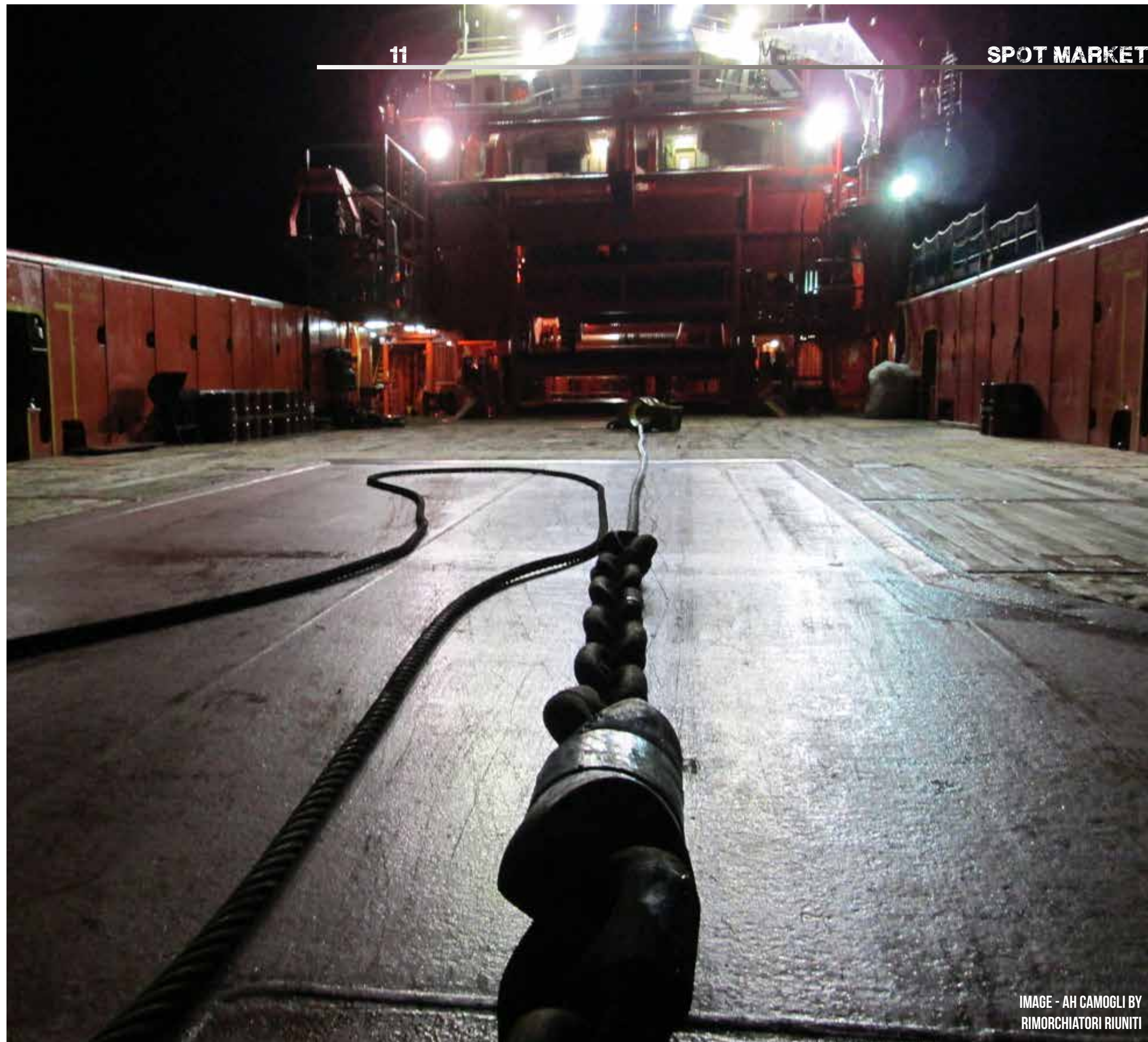


IMAGE - AH CAMOGLI BY RIMORCHIATORI RIUNITI



2018

The Recovery Year For Offshore Brazil

by Luiz Monteiro

Everyone is ready for recovery. After three long years of political instability, economic trauma and an abrupt halt in investment, gearing up to move forward appears to be easier said than done. But that is exactly what's needed, in order to retain market share when the oil price seems to have stabilized a little, forging ahead despite the lingering political uncertainty is essential.

By the end of 2017 Petrobras will finally go ahead with the Libra and Sepia projects, the FPSO proposals have already been delivered and are in the final negotiation phase. Once the winner is announced, Petrobras will also award the contracts for well construction and installation of subsea

facilities over the course of 2018. Following on from the pre-salt fields, Total is expected to take over the operation of the Lapa field, and is expected to drill four wells (two producers and two injectors) from the end of 2018, this campaign should occupy the entire first half of 2019.

Also in 2018, Queiroz Galvão EP should start production of the Atlanta field, and that if successful should unlock other investments in the block. Statoil will conduct an exploratory campaign in Carcará, drill ship West Saturn has been contracted for the job. Besides Carcará, Statoil will continue with activities to Peregrino Phase 2 and will probably initiate development activities in BMC-33 (Pão de Açúcar and Gávea).

Chevron and Shell are under study and are likely to sanction in-fill Wells projects in Frade and Parque

das Conchas respectively, and Karoon to finally drill some wells in Echidna and Kangooro before the decision to go ahead with field development.

Service providers should focus on the period from 2018 to 2020, because those who are better positioned in the market and are willing to take some risk can achieve excellent results. Resource bottlenecks are already starting to appear where the downturn has slashed the level of a resource to a level that now activity is slowly gearing up again, certain resources are suddenly lacking. Lack of AHTS for spot contracts is a good example of this.

The message is clear, another 12 to 15 months for the industry to be back to where it was, but it is no use waiting for this period to make decisions, so it is imperative that companies start working now in order to have a competitive advantage in the market.

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OFFSHORE SEISMIC, A FRESH START FOR BRAZIL?

by Raphael Montes

With the resumption of ANP exploratory block auctions, seismic companies are already preparing to conduct surveys in regions that will be part of future bid rounds

This year, from January to April, ANP has already approved 18 requests for seismic activities in Brazil, of which 16 were for new campaigns. This shows an upward trend for this activity in the country, since during all of 2016, between new campaigns and extensions, 31 authorizations were issued.

The increased interest in seismic activity in Brazil is related to the prospect of new bidding rounds and to the announcement of an auction calendar out to 2019 by ANP. Considering there are three rounds scheduled still for 2017, and with the 14th round just around the corner, offering a total of 54,000km² offshore,

distributed in several regions, including some eminent basins, such as Santos, Campos and Espírito Santo, we can expect new data acquisition contracts.

What actually dictates these projects is the issuance of environmental licenses by IBAMA, which tend to take, on average a year and a half going by recent cases. However, to compensate for delays with environmental licenses, ANP has been taking steps to reduce the time to issue their own permits from 4 months to 20 days, which addresses much of the bureaucracy.

Noticing an increase in opportunities and commercial activities, seismic companies are demonstrating huge focus in Brazil's offshore market. Companies such as Spectrum and EMGS obtained permission from ANP to acquire and process seismic data on a non-exclusive basis for every Brazilian offshore basin. The expectation for this year is to collect data of 14,200km² of 3D seismic and 3,000km² of 2D seismic, mostly offshore. If the future bidding rounds are successful, hope lies in seismic activity to be the little push we need to put the Brazilian Oil & Gas market back on track.