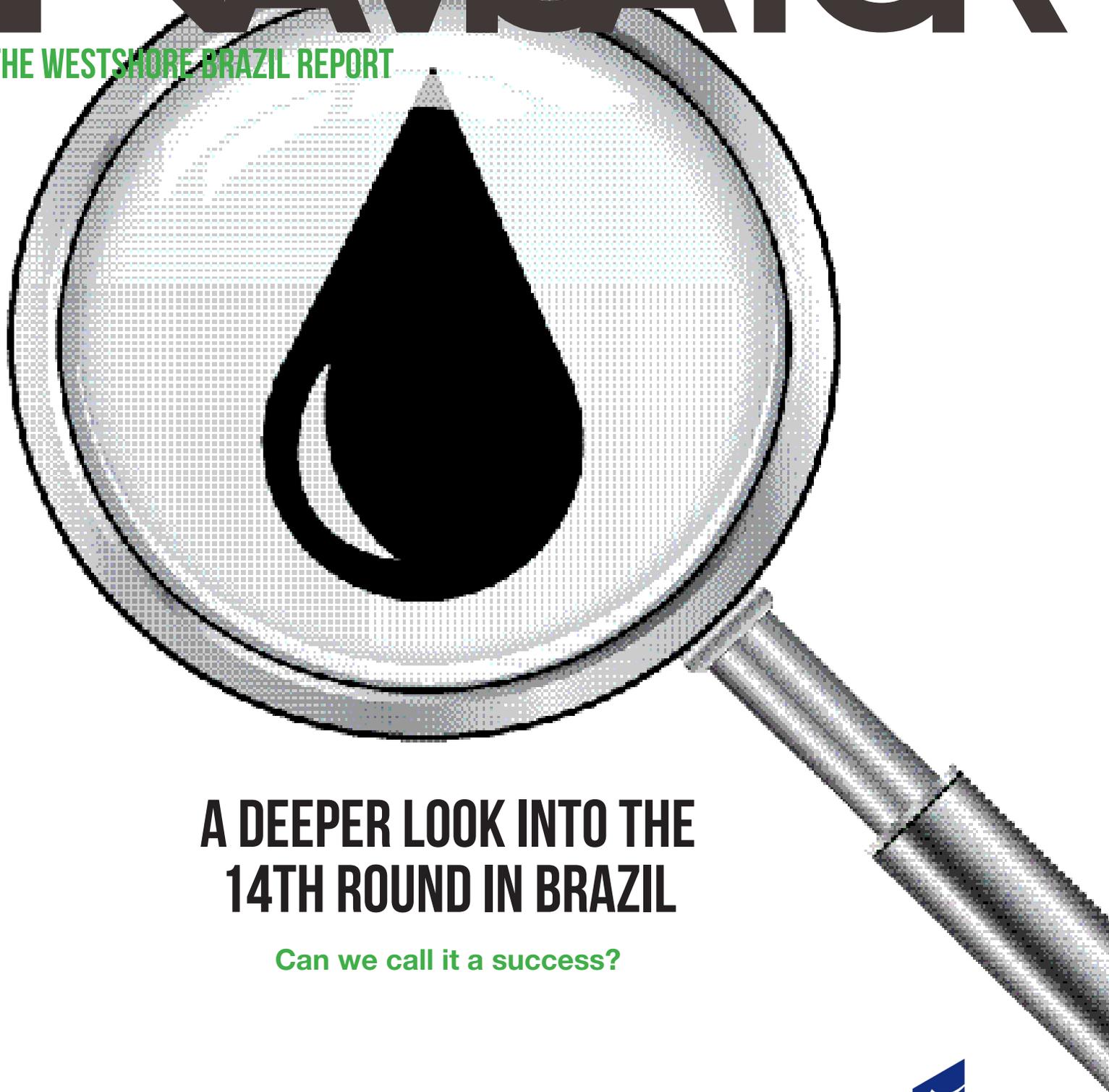


October 2017

NAVIGATOR

THE WESTSHORE BRAZIL REPORT



A DEEPER LOOK INTO THE 14TH ROUND IN BRAZIL

Can we call it a success?

Contents

October.2017

- 4. The 14th Round
- 6. Tanker Insight
- 8. Vessel of the month
- 12. Petrobras & The Others

Written by the team at
Westshore do Brasil.
chartering@westshore.com.br

Designed & created by
Inger-Louise Molver, Analyst.
inger@westshore.no



www.westshore.com.br

This image and front cover image
from Shutterstock





**A DEEPER LOOK
INTO THE 14TH
ROUND IN BRAZIL,
CAN WE CALL IT A
SUCCESS...?**

by **Alexandre Vilela**

The 14th round of oil field concessions in Brazil can be seen as a success, or not, depending on the perspective one has. It is however possible to confirm without a shadow of a doubt that the round has been partially successful.

From the government's stand-point the 14th round has been a tremendous success. With a surplus of 1.556% over the set value of the concessions, the Brazilian government has achieved an historic high signature bonus. That means ca. 1.2 billion USD in bonus over only 121 million from the last round and over the 800 million USD from the previous record set in 2011. Also not bad for a federal government facing political challenges from all sides, and one more collectable mark for the president who in spite of all issues has the official interest rate and inflation at the lowest in several years, as industrial activity and the economy start to react.

From a separate perspective, Petrobras shines in this 14th round as the big winner. Six offshore blocks in Campos Basin awarded in a 50/50 partnership with

ExxonMobil, a company that has been missing from major acquisitions for quite some time. The SC-AP3 area where the blocks are located in Campos Basin sit right on the edge of the expected pre-salt reservoirs, in other words, the expectation is to explore and produce on the more regular post-salt. And this is not a problem. In fact, as realtors say: location, location, location. These blocks will join a hub of other vicinity fields and possible share the resources from infrastructure further south, that should bring the production cost down: in these times the one factor that may separate this acquisition from being a success or not in the future. So, the acquisition seems to makes sense.

“

**...Petrobras shines
in this 14th round
as the big winner.
Six offshore blocks
in Campos Basin
awarded...**

”

cont....

However, Petrobras and ExxonMobil have invested in only two blocks, isolated the amount of 670 million USD and 380 million USD each. Together these represent just over 1 billion USD of the 1.2 billion USD obtained in total. So the 14th round sets another record: never before the bonuses were as concentrated as on this round. 287 blocks were put out for auction. 37, that is just below 15% of the blocks had proposals and were awarded to 17 companies, of which only seven are not Brazilian. From this perspective, the round was not able to attract as many foreign players as anticipated by the government and by the market - but sometimes all it takes is one brave leader to win a war.

Unfortunately for the support industry eager for a market warming in the oil and gas sector in Brazil, such concentration is not the bearer of positive news. Evidently if half or more of the blocks would

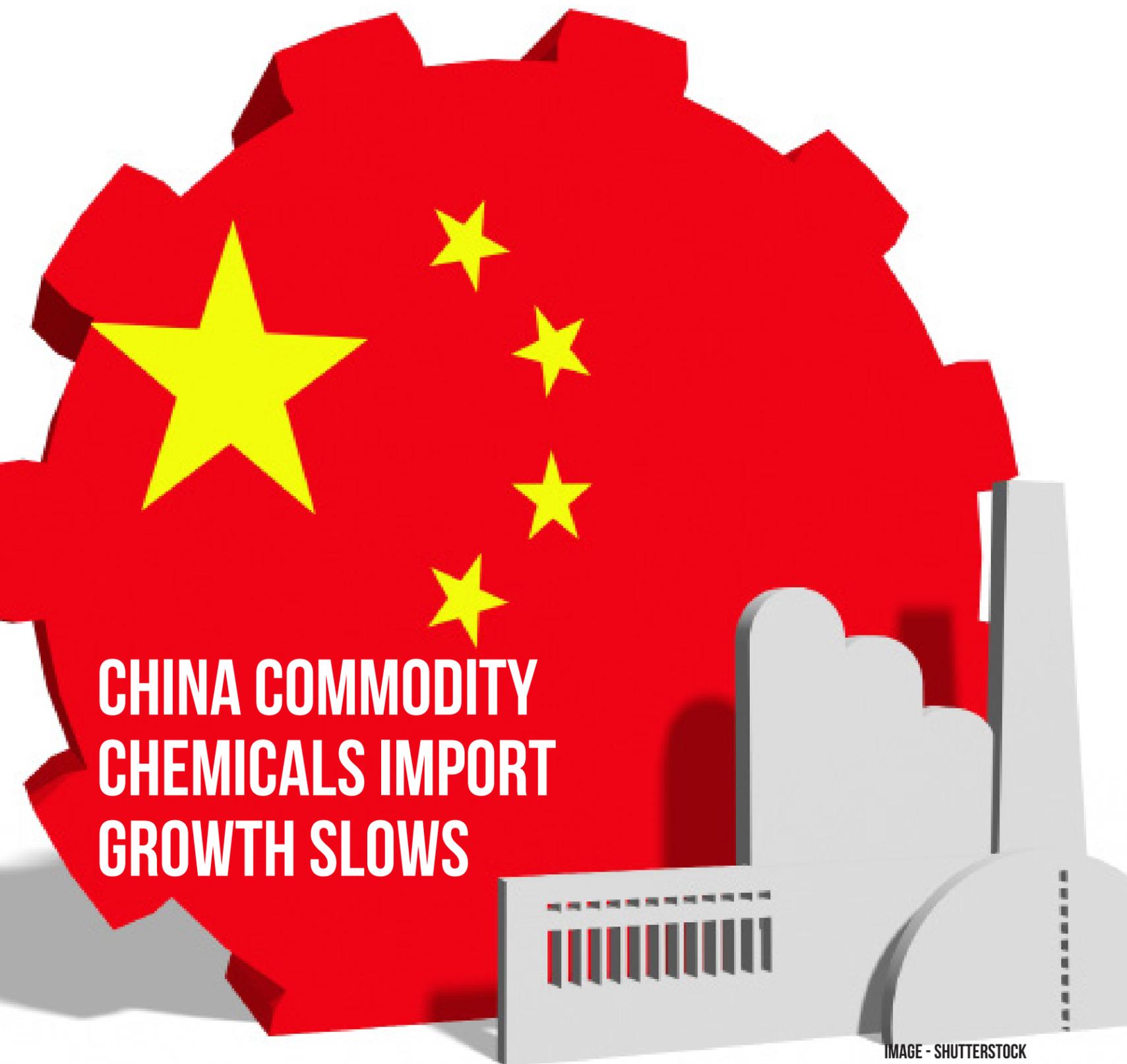
have been awarded to a larger variety of companies, the demand for services would turn out to be much better. In reality, with the concentration of blocks with Petrobras and very few other offshore blocks awarded to players such as Karoon, QGEP, Murphy Oil, and others, this is not material to drive vessel and unit requirements upwards in the years to come. Even if the results would have been more diverse, in any case the ANP rounds still have the 3-4 year gap before activity really kicks in. In a nutshell, for the vessel and rig owner and for service companies of the sector, the 14th round has produced very little practical results.

“

287 blocks were put out for auction. 37, that is just below 15% of the blocks had proposals and were awarded to 17 companies

”





CHINA COMMODITY CHEMICALS IMPORT GROWTH SLOWS

DANIEL BUCKLEY

Tanker Broker
Westshore do Brasil

A year-to-date comparison of total China commodity chemicals imports up to August shows they increased year-on-year by 3% to over 25 million tonnes. By comparison, total commodities imports for 2016 were 9% up on those in 2015, suggesting a slowdown in the increase in trade.

Ethylene glycol imports increased the most, by just under one million tonnes to 5.8 million tonnes, with increased volumes from the Middle East, Asia, and North America. Paraxylene shipments grew by 11% to just over 9 million tonnes. Benzene imports increased by 79% to 1.7 million tonnes with most of the gains coming from South Korea while other xylenes saw a marginal increase mainly due to gains in ortho-xylene.

All other products saw a fall in volumes with most of the decline being for ethanol which dropped from 557,000 tonnes up to August last year to just 6,000 tonnes so far this year. The import tariffs imposed in January this year have reduced the volumes coming into the country. Methanol volumes dropped by 8% to just under 5.5 million tonnes, in contrast to the large increases we saw between 2015 and 2016 when annual imports for the product surged by 56% to 8.6 million tonnes due to the increasing demand as feedstock from MTO and MTP capacity.

The main reductions in methanol imports were from Oman, Trinidad & Tobago and USA totalling 755,000 tonnes which were offset by increases from Malaysia, Qatar and Iran, reducing the impact by 364,000 tonnes. Styrene imports also slumped by 18%, to just below 2 million tonnes. Some of this reduction may be due to the start-up of 1.2 million tonnes of new capacity last year in

China.

Overall, the largest declines in Chinese imports across all commodity chemicals were in supplies from USA, Oman, and Trinidad & Tobago, which fell by a combined 1.4 million tonnes. This was more than offset by an increase in shipments mainly from short sea sources in Asia and the Middle East.

Chinese commodity chemicals exports this year have more than doubled when compared with last year's shipments, reaching 381,000 tonnes. China is not a major exporter of commodity chemicals but the 2017 year-to-date level figure has already exceeded the annual 2016 total. The major increase in exports was for methanol, which grew more than five-fold from 19,000 tonnes in the first eight months of last year. The most significant rise was to USA with methanol exports this year reaching 54,000 tonnes, from negligible levels last year. The emergence of Chinese methanol exports and the decline in imports has partially come about due to a reduction in demand from MTO and MTP plants due to technical issues and reduced operating rates prompted by lower margins. The next sizeable increase was for ethanol which grew more than six times from the same period in August last year to 93,000 tonnes with 61% heading to Saudi Arabia and the remainder being shipped to Asia. Ethanol shipments have been encouraged by an export tax rebate and subsidies. Styrene exports also increased to 63,000 tonnes this year, which is much higher than the annual volume last year which was insignificant. Apart from this, acrylonitrile and ethylene glycol saw marginal gains.

Overall Chinese exports have risen mainly to Asia, by a net figure of 107,000 tonnes from 150,000 tonnes last year, particularly to South Korea. Other significant increases were to Saudi Arabia and USA, by 57,000 tonnes and 54,000 tonnes respectively, from negligible amounts last year. Based purely on changes in year-to-date trade figures, total China exports of commodity chemicals this year would increase by 119% from 2016, while China imports of commodity chemicals would increase by 3%.

VESSEL OF THE MONTH

DSV KELLY ANN CANDIES

DSV Kelly Ann Candies was granted a one year contract extension, valid until the 25th of September 2018. She and another vessel from Otto Candies - Wyatt Candies - are the only DSVs operating for Petrobras currently. Both vessels are operated by Farol Apolo Marítimo. She has very low incident and accident track records, with high uptime levels. Designed and built to comply with Petrobras' technical requirements, the vessel is equipped with an integrated diving system. Recent innovations and the adaptation of existing technologies for diving applications have resulted in significant operational advantages.



PETROBRAS & THE OTHERS

An overview of the operators involved offshore Brazil today

by Omar Darian

The Brazilian oil market opened for business in 1997 and 20 years later Petrobras remains the dominant oil company in Brazil. Petrobras currently has a total of 134 production units (semis, FPSOs and fixed platforms) and August 2017's oil production came in at 2.11 million bbl/d. Production levels of this magnitude requires a vast support network of not least offshore vessels and it's why Petrobras accounts for the largest offshore vessel fleet in Brazil with a total of 195 vessels.

Aside from Petrobras, other oil companies have shown varying degrees of willingness to become involved in the area. The share in production from other oil companies is still modest in comparison to that of Petrobras however, but it is the activity from the spread of other companies that has kept activity on the spot market alive.

Statoil has the largest oil output after Petrobras. With two fixed platforms – Peregrino A and Peregrino B – currently producing an average of 71.000 bbl/d. The production of the two wellhead platforms flows in multiphase to FPSO Peregrino, which is located at Campos basin in a water depth of 100m. Statoil's

fleet is currently composed of two PSVs 3000 from CBO – CBO Carolina and CBO Anita – and an AHTS 16000 Skandi Peregrino, from DOF. Statoil recently approached the market with an RFI for the potential replacement of its anchor handler which has contract expiring by the end of 2017, but no feedback has been heard since the indications were submitted. In addition to the RFI, there is an ongoing RFP for the provision of two PSVs to attend Caracara's exploration drilling campaign. Caracara was recently acquired from Petrobras. Statoil is one of the most active companies in 2017 on the spot market, with an average of one cargo run requirement per month.

Shell follows after Statoil and has two FPSOs currently producing – FPSO Fluminense and FPSO Espirito Santo – both located at Campos basin with an average combined oil production of 50.000 bbl/d. Their fleet under contract is composed of three OSVs: one PSV 4500– Far Star – one AHTS 15000 Waterbuck and a MPSV Island Enforcer from Edison Chouest. As all vessels commenced their contracts this year, Shell is not likely to be approaching the term-market for alternatives. In 2017 Shell has a reduced spot requirement compared to previous years. However following a RFI issued two months ago, they have now approached the market with a formal RFP for one or possibly two AHTSs, one of them with a ROV onboard.

Chevron with its FPSO Frade, also located in Campos basin, is currently responsible for an average oil production of 17.000 bbl/d. The company recently awarded LH TS Fissurado from Tranship a three year contract in direct continuation. Besides that, they have two AHTS from Edison Chouest – Campos Contender and Elizabeth C – one of them fitted with a working class ROV and one dedicated OSRV from Oceanpact named Mage. The American company recently renewed the contract of the two anchor handlers for the period of four years, commencing in January 2018. Chevron is not very active on the spot market, but has occasionally approached the market for specific campaigns for filed monitoring.

Lastly, two independent Brazilian oil companies currently operate out of Rio de Janeiro. PetroRio, former HRT, operator of Polvo Field acquired from BP has one wellhead platform (Polvo A) which is connected to FPSO Polvo. The units process and the FPSO stores the oil. Currently PetroRio produces an average of 7.000 bbl/d of oil. In order to support field operations, they have under long term contract AHTS 18000 Maersk Handler from Maersk Supply Service which recently replaced Maersk Pacer after the contract expired, and an OSRV Astro Pargo from Astromaritima. The company is not active in the spot market however has recently approached the market looking for a PSV for 6 months starting January 2018 to support infill well operations at Polvo field. The other Brazilian independent is Dommo Energia (former OGP/AR and OGX), operating Tubarão Martelo field through FPSO OSX-3, with an average production of 5.600 bbl/d. The production dropped

after June mainly due to the temporary closing of a well after pressure drop in the wet Christmas tree. Before that, the company was producing around 8,000 bbl/d. Dommo has one anchor handler 15000 Sea Tiger from SolstadFarstad and one OSRV from Oceanpact, Marica. Dommo is currently engaged on the abandonment of Tubarao Azul field and is using the rig Atlantic Zephyr for the project. The AHTS 15000 Maersk Pacer was recently chartered for this purpose, which moved the rig from Tubarao Martelo to the field to be abandoned, and recently chartered AHTS 16000 A.H. Camogli from Finarge in order to perform maintenance services at its FPSO.

“

...The share in production from other oil companies is still modest ..., but it is the activity from the spread of other companies that has kept activity on the spot market alive.

”