

December 2017

NAVIGATOR

THE WESTSHORE BRAZIL REPORT

SPOT MARKET ROUNDUP

A look back at spot activity in 2017

OIL PRODUCTION

New fields and more investment



STATOIL, CHARTERER OF THE YEAR

New charters announced



WESTSHORE

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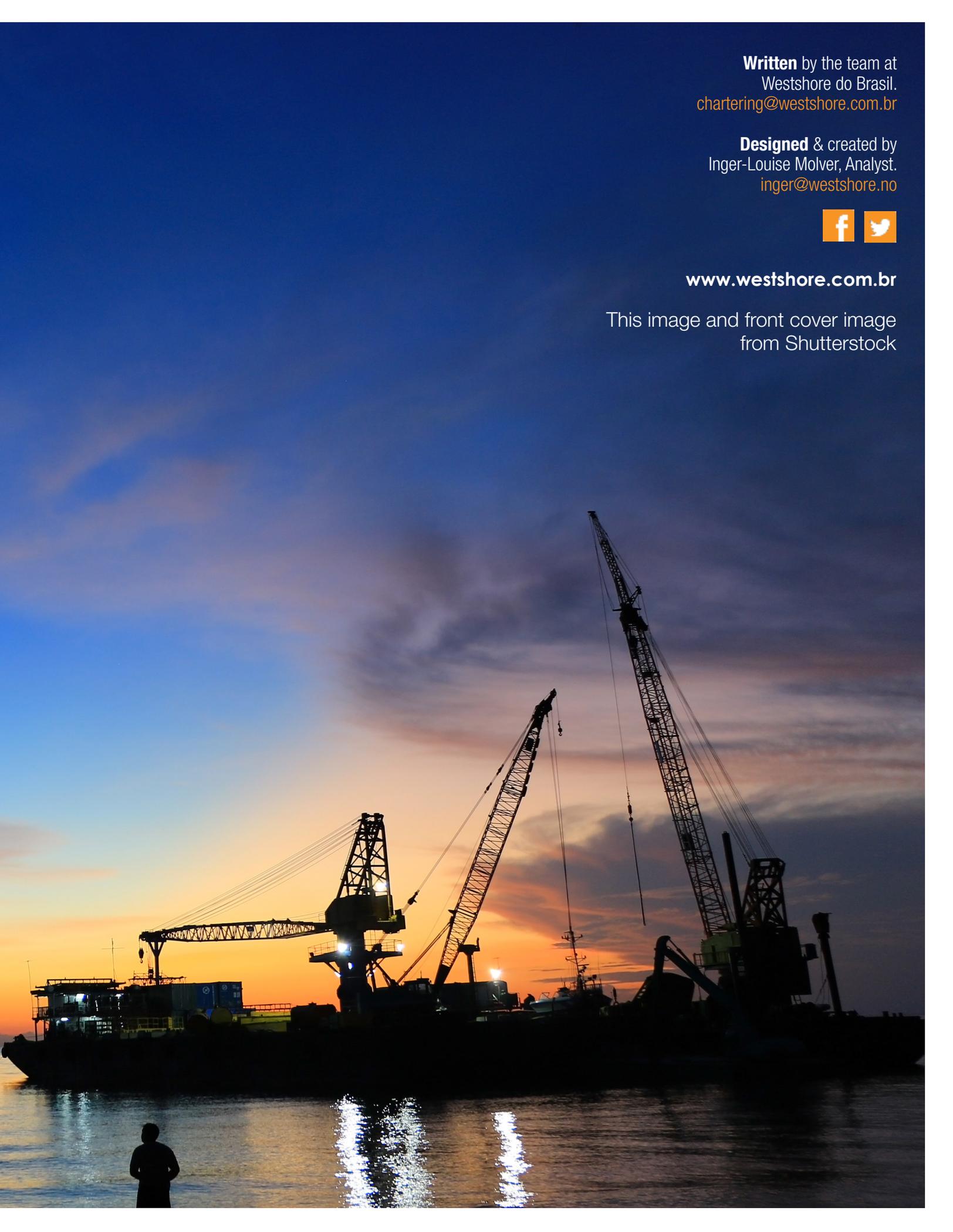
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The North Star

by Joana Rodrigues



She arrived in Brazil in 2001, participated and won some auctions conducted by the National Petroleum Agency (ANP) for the Exploration and Production of Oil and Natural Gas.

But it was through a field discovered in 1994 that the company began to gain strength in Brazil. In 2005 she acquired 50% of this field, in 2007 the Development Plan was approved by the authorities and in 2008, the remaining 50% was bought by the Norwegian company. BMC-7 was the right shot.

In 2011 she registered her first oil in Peregrino field and in 2015 reached the mark of 100 million barrels produced since the beginning of the operation of the company. And she did not stop there. Ambitious and full of projects STATOIL is who we want to honor in this last edition of 2017.

Statoil Operations

Statoil has grown up along with the emergence of the Norwegian oil and gas industry, dating back to the late 1960s. Today, the company is one of the world's largest suppliers of oil and gas and has operations in more than 30 countries.

In Brazil, the company has a diversified portfolio, being present in the Santos, Campos, Espírito Santo and Jequitinhonha basins. In the Santos Basin, Statoil is the operator with 76% of the BM-S-8 offshore block which contains a significant part of Carcará field, one of the major findings of the pre-salt in recent years.

In addition to the Peregrino Field (BMC-7 and BMC-47) Statoil holds the operation of the BMC-33 block (35%), in the Campos Basin. Three discoveries were made in this pre-salt area: Seat (2010), Gavea (2011) and the discovery of gas and condensate prospect "Pão de Açúcar", announced in 2012.

In the Espírito Santo Basin, Statoil is present in 10 blocks, 04 as operator, from the acquired blocks in the 11th round of ANP bids.

Jequitinhonha - 40 % interest in license BM-J-3 was awarded to Statoil in the 4th bid round in 2002. Petrobras is operator of the block with a 60% interest. Statoil participates in the Lua Nova oil discovery and will take part in the appraisal work of this area, wich programme is temporarily suspended, awaiting environmental licensing.

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...Despite the political crisis facing Brazil, Statoil did not change their investment plans in the country...

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cont....

The next exploratory campaigns of the Norwegian state-owned company in Brazil will begin later this month, starting with Carcará, following the 04 blocks acquired in the 11th round in Espírito Santo. These operations demanded from Statoil two supply vessels, which had their contracts signed recently – Far Scotsman and Far Serenade. The total contract time can reach two years. Under the License obtained, Statoil will also count for these blocks, with the two recently replaced Plataforma Support Vessels (PSV) that was serving the Peregrino Field. The CBO vessels, which operated for over six years for Statoil, gave way to Sea Brasil and Monty Orr Tide. In addition, Statoil advances in the development of Peregrino. Located in deep waters of the Campos Basin, Peregrino will receive US \$ 3.5 billion investment in a new production phase for 2020. The field Phase 2 will extend its useful life and will add 273 million barrels of recoverable reserves. The field is one of the top ten producers in the country and is among the top 20 Statoil in the world.

Meanwhile, the company is still evaluating options for developing the BM-C-33 licence in the Campos Basin. There is not bidding scheduled for supply vessels at the moment, but the company is moving with the project. Two specialized positions were opened on LinkedIn for this project, last month.

The Charterer of the year

The good times from Crude Oil to USD 100 a barrel are gone and all companies have had to adjust to the new reality. With Statoil it was not different. The company that had 03 supply vessels composing its fleet until 2016, started the following year with one less vessel. PSV Manoella was dismissed at the end of 2016. In addition to having savings of at least \$ 7 million dollars last year, only at the cost of chartering and services, excluding diesel and parts aggregated as berthing, Statoil has created opportunities in the spot market and opened the door to new suppliers. This paradigm shift, moved the industry and made the company the largest contractor in 2017.

The company made 13 spot market hirings, which would be a high number compared to the 14 spot hiring mark between 2011 and 2016.

Spot market prices in the last year were at least 20% lower than the current CBO contracts.

This would not be a sustainable rate for a long-term contract, but still, that change in Statoil's profile was good both sides.

Next Steps

Despite the political crisis facing Brazil, Statoil did not change their investment plans in the country.

The company consolidated its position in Brazil during the Second Round of Production Sharing after conquering the area of North Carcará, in the Santos Basin.

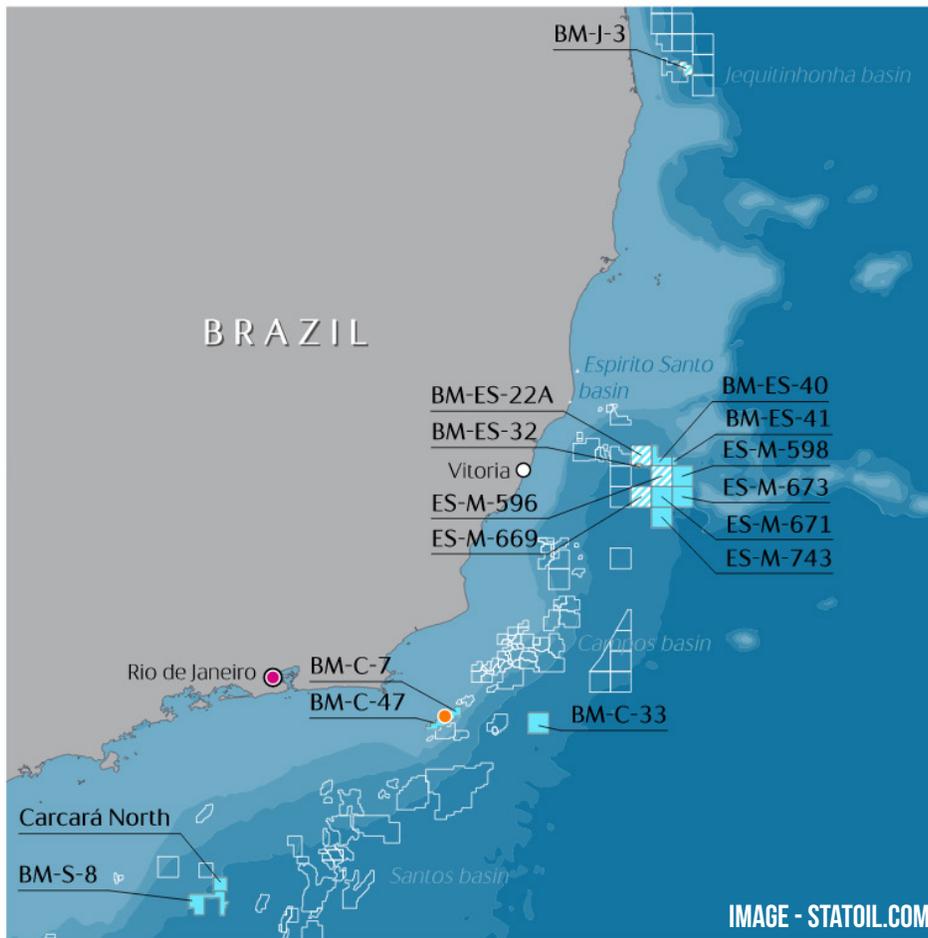
Together with ExxonMobil, with 40% and Petrogal with 20%, Statoil also announced the restructuring of the BM-S-8 Concession, where Carcará's discovery is located.

As a result, both Statoil and ExxonMobil will have a 36.5% interest in BM-S-8 and a 40% interest in Carcará North. Galp will have 17% in BM-S-8 and 20% in Carcará North.

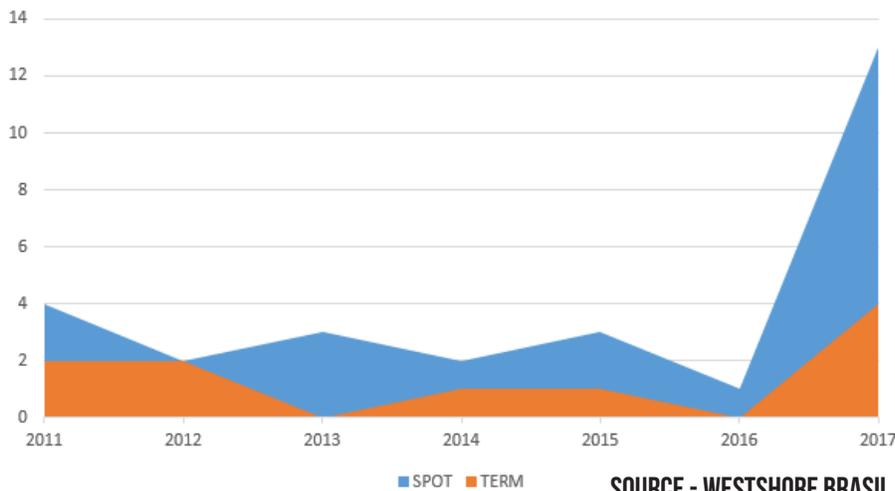
Statoil will be the operator of the unitized field in the development phase, subject to government approvals. In a statement, Statoil Brazil president Anders Opedal said the idea is to start oil production in Carcará by mid-2020.



SOURCE - WESTSHORE BRASIL

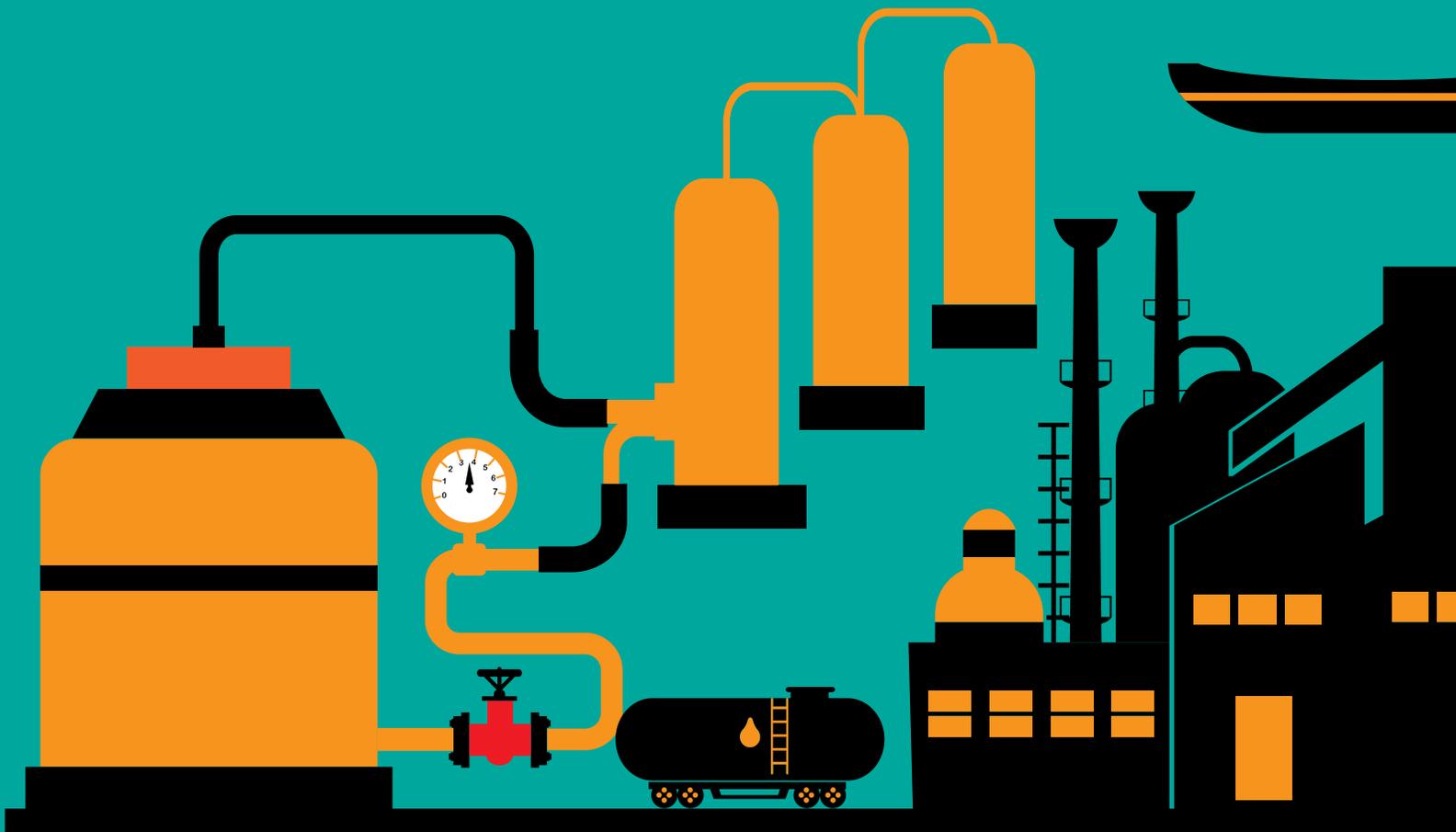


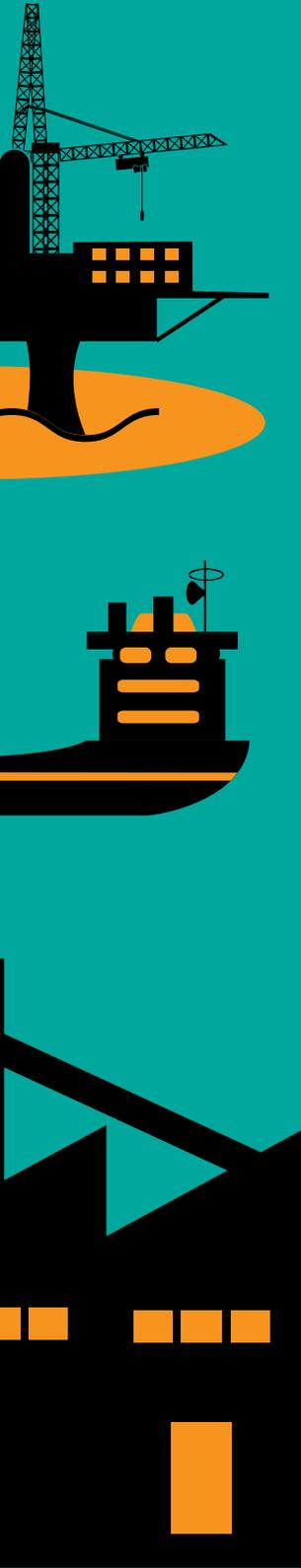
Statoil Contracts



SOURCE - WESTSHORE BRASIL

PETROBRAS INCREASES FLEXIBILITY FOR BUNKERS SUPPLY & DISTRIBUTION





DANIEL BUCKLEY

Tanker Broker
Westshore do Brasil

Petrobras is going through a major transformation with a new policy of seeking partnerships in the supply, refining and logistics sectors, which will result in new players emerging. In order to achieve new investment need to be attracted to the sector. Brazil exports crude oil and imports fuels meaning a very large logistical waste of resources highlighting the need to invest in refining. The country's growth and the increasing demand for fuels creates many investment opportunities. With an estimated population of 206 million and a territory of 8.5 million km², Brazil was the seventh largest consumer of fuels and derivatives globally in 2016, reaching three million barrels/day. Regionally, Brazil accounted for 43.3% of the total consumed in South and Central America.

National policies for the energy sector as a whole and for the oil and natural gas sector in particular, have gradually had as one of the main objectives, to promote free competition. Gradually, a regime of freedom prices in all segments of production, distribution and resale has been implemented.

The country is still the third largest consumer of fuels in the transport

segment. The domestic supply is currently composed by the net importing of derivatives. In 2016, these imports reached 442 thousand barrels / day including gasoline, diesel, jet, LPG and naphtha according to Government figures.

A segment which is in dire need and presenting a lot of difficulties for the operators whilst opening a wealth of opportunities is bunkering: Petrobras has been focusing mainly on the services at the main South-eastern ports of Vitória, Rio de Janeiro, Santos and Paranaguá where supply is more effective. It is worth mentioning that there has been an increased demand for the thermo electrical plants adding pressure to their operations. It was reported by ANP (the national regulatory agency) that the fuel oil production in 2016 had a drop of 20%, the worst result since the year 2000 whereas in the period Jan-July'17 it registered a 2% increase y/y. Ship owners, both local trading coastwise as well as foreign, have struggled with irregular supplies, particularly in the North/Northeast, queuing up to be replenished. Many are being forced to bunker before or after calling at Brazilian ports, sometimes hampering their ability to carry more cargo given load/discharge ports' drafts. With the steady improvement of oil production related operations, fuel runs are picking up for the supply of PSVs and FPSOs with an upward trend. We believe time is ripe for bunkering service providers to take the opportunity to firmly establish themselves in Brazil filling the gap left open by Petrobras.

VESSEL OF THE MONTH

PSVS FAR SCOTSMAN & FAR SERENADE

Solstad Farstad's two PSVs were recently awarded a significant contract in Brazil, with an operator that has consistently increased its presence in the region – Statoil. Competing against several Brazilian flagged vessels, the Solstad Farstad pair secured the contract and will subsequently be changed to REB flag. Contracting of additional tonnage has been fairly sparse over the past two years as operators looked to reduce vessel capacity, there have been very few cases where foreign tonnage has mobilised to Brazilian waters recently, so this marks a notable reversal of fortunes. Far Scotsman is a PSV 08 design, built in Norway in 2012. The vessel has accumulated a global track record of service having worked in the North Sea, East Africa as well as several parts of central and south America including Trinidad and Tobago, The Falkland Islands and Surinam. The vessel will commence its six-month charter with Statoil Brazil by the end of 2017. Far Serenade is a 2009 built - UT751CD design vessel also built in Norway. The vessel's work history spans an extensive list of clients mainly in the North Sea for both UK and Norwegian clients with additional periods spent in Ireland as well as in the Mediterranean. The two Solstad Farstad vessels will join the Tidewater vessel Monty Orr Tide on the Statoil charter supporting operations at Carcara.





2017 FOR PETROBRAS

by Omar Darian

Slowly recovering from operation Car Wash along and a turbulent offshore market in general, Petrobras is showing why is it the Brazilian oil major. In 2017 six tenders for different types of vessels

were issued, with contract periods of one year or longer. In contrast to tenders issued in the past, Petrobras opted for tenders with shorter contract periods – not the 4+4 we are used to seeing – and the possibility to select slots with distinct technical specifications and delivery dates. In a few tenders, owners had the possibility to choose the contract period as well.

The first tender of the year was issued on the 14th of February for a Shallow Diving Support Vessel (SDSV). Currently, there are only six vessels performing this scope of work for Petrobras. The contract duration is of two or three years, with the possibility of extension for 2 or 3 years. Different from tenders issued afterwards, owners had to upload the Brazilian Especial Regime (REB) certificate along with the other documents, not allowing them to place a vessel under REB upon contract award. After the technical and commercial analysis, 13 vessels were short listed - nine Brazilian/REB and four foreign flagged. Subsequently two vessels

from Wilson Sons Ultratug Offshore together with the diving company Sistac are currently waiting for contract signature. Both vessels are PSVs 3000 Brazilian flagged. Next on Petrobras' list was the OSRV 750 tender. Issued on the 4th of May and different from any other bid ever released by Petrobras, owners had the possibility to choose the commencement date (December 2017, May 2018 or December 2018) and the contract duration (two, three or four years). As expected, since any adapted PSV with ORO equipment onboard could be offered, a significant amount of owners placed bids. As for flag concerns, owners were allowed to offer foreign vessels, with the commitment to deliver the vessel under REB. In total 36 vessels were offered but only 18 were approved after Petrobras' technical and commercial analysis. On the 2nd of November, Petrobras communicated that for type A (delivery on Dec 2017) two vessels from Bravante and six vessels from Edison Chouest were awarded; of type B (delivery on May 2018) one vessel from Wilson Sons and type C (delivery on Dec 2018) one vessel from Edison Chouest and two from Marlin. Following the bid for oil spill response vessels, Petrobras issued an opportunity to hire anchor handlers with 15000bhp. Different from tenders issued previously this year, contract duration was for only one year. Vessels had

to be Brazilian flagged or under REB upon contract award, which is expected to happen around June 2018. Petrobras has already released the technical and commercial results, in which only five vessels were approved and is currently negotiating with the best positioned owners. We believe the award will be given early next year.

The last quarter of the year saw Petrobras releasing a substantial amount of bids. The sequence began with the Diving Support Vessel (DSV) tender - released on the 26th of October - in order to substitute charter of the Wyatt Candies and Kelly Ann Candies, both managed by Farol Apoio Maritimo. The contract is for three year's firm with commencement expected for August and only diving companies were invited to participate, so the only way to place an offer was through them. This tender was divided between Brazilian and Foreign flagged, and even though the position is hold by foreign ships from Otto Candies, we saw mostly Brazilian or under REB vessels offered. We know that seven vessels were offered - five Brazilian/Reb and two foreign. Petrobras has not released the technical or commercial results yet.

Lastly the most unusual tender of the year; the one for anchor handlers with different BP, BHP, with and without ROV. Petrobras divided the tender in five different slots ranging from 15000 to 18000 BHP, 150 to 178t bollard pull, DP1 to DP2, with and without ROV and delivery date between April and June 2018. This tender was also divided between Brazilian and foreign flagged however national

tonnage would have preference if available. From the 21 vessels offered, seven are foreign and 14 Brazilian. Most owners decided to offer for type C which specified anchor handlers with 178t bollard pull, DP1 and with delivery on June 2018. Neither technical or commercial results were released yet. The last tender of the year was the one for RSV, quite unexpected. Petrobras released a tender to hire foreign or Brazilian flagged RSVs for the period of two of three years. Owners could choose among two slots with different delivery dates (December 2018 or January 2019) but same technical specifications. This time, we saw mainly Brazilian vessels which were 16 and only three foreign ones. As this was recently closed, we are still waiting for technical results.

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Spot Market Round Up

by Raphael Montes



IMAGE - SHUTTERSTOCK

As the end of the year approaches, the two questions in everyone's mind when it comes to the spot market in Brazil are: how was the activity level throughout the year and what can we expect for the coming one?

Well... 2017 is not actually so dissimilar to 2016.

December started with a total of 84 spot fixtures year to date, compared to the 90 fixtures during 2016 shows which some stability in the market and that the huge drop in activity has bottomed out.

Over 85% of the spot demand this year was for PSV and AHTS, the core business for OSVs in Brazil. The combination of the high number of laid-up Brazilian flagged vessels, added to the foreign flags continuously leaving Brazilian waters after conclusion of their term contracts leaving only a handful of Supply vessels and even fewer Anchor Handlers left trading in the spot, we actually saw the competition tighten up.

With some rigs stopping for planned maintenance/dry-docking, units being mobilized out of the country, and a few IOCs being active in the spot, the market registered a total of 53 fixtures related to supply duties, including cargo, fuel and water runs, among others and just about five PSVs available during most of the year and their owners trying to be as competitive as possible resulted in daily rates increasing to an average rate of USD 15000 per day.

This situation however seems to have changed during the last months of 2017 where almost every PSV available in the spot was drawn into a long term contract, leaving the market completely dry of vessels. The effect of this was fixtures registered with rates over USD 19000 and charterers having to work on sublet vessels due to the low availability of PSVs in the spot to fulfil them.

For the AHTS vessels it is safe to say that it met our expectations from the middle of the year. The market remained dry of vessels and with a quite strong level of activity for anchor handlers, such as rig moves, FPSO heading control and assistance in other maintenances, and even Ship-To-Ship operations that had a noticeable presence in the spot market. Counting with only one Brazilian AHTS that was not able to attend to all demands due to availability windows or technical limitations, we saw some room for the foreign flags to get back into game. Daily rates in the spot have risen and established around USD 30000 for most opportunities.

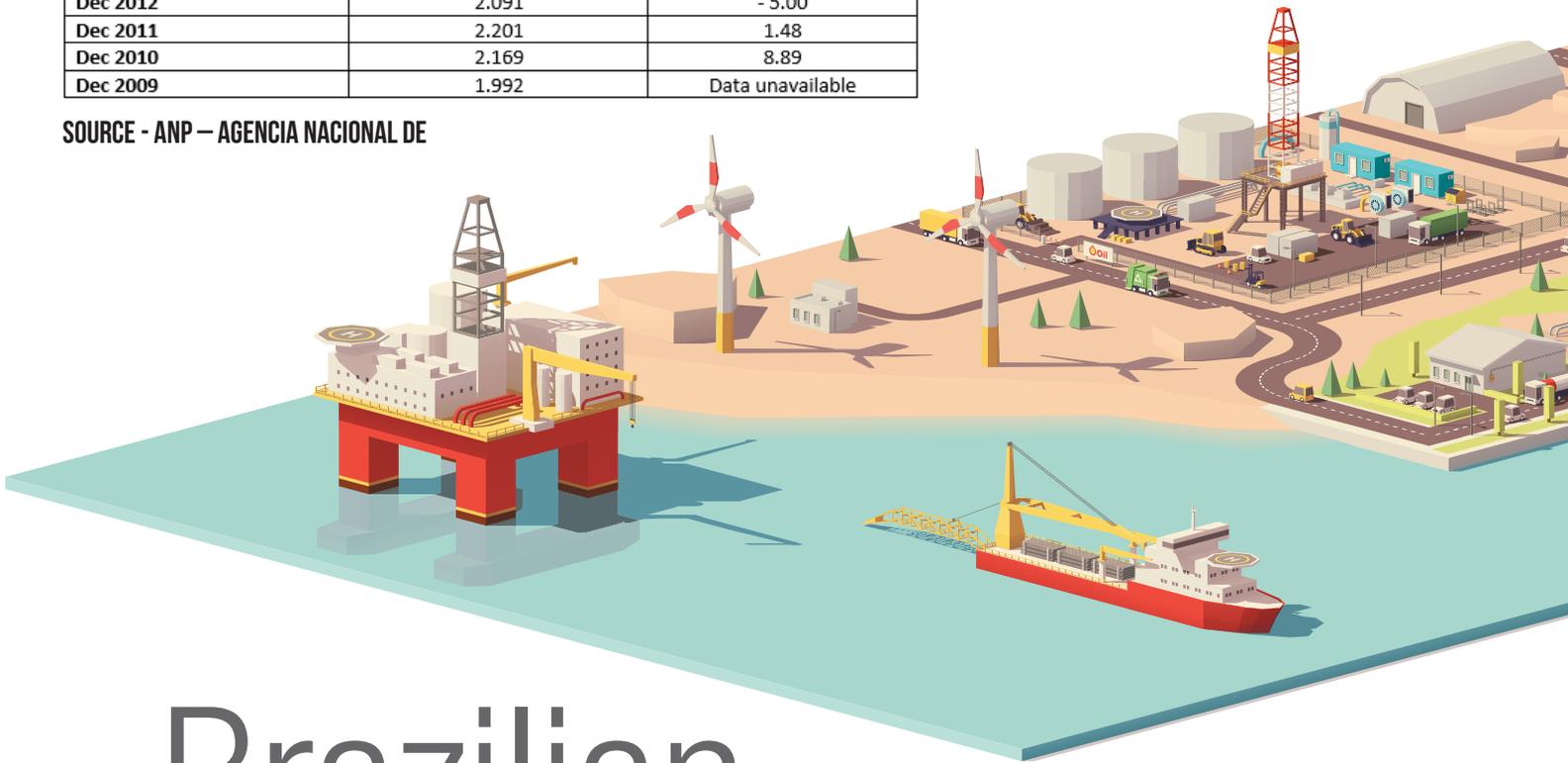
Many owners and vessels were actively engaged in the spot market in 2017 but the undisputed champion, with most fixtures in the year at the time of writing, is the HOS Brass Bring, from Hornbeck Offshore. Being fixed 14 times, mainly for supply duties but performing ROV duties as well.

Moving on to the Charterers' side, we have seen requirements from every type of company, going from IOCs all the way to rig and FPSO owners/operators, Bunker traders and engineering/project service providers, though Statoil was the company that most demanded this year with 13 spot requirements, all related to supporting their production at Peregrino oil field.

Overall, the spot market in Brazil is in an odd place right now, where although not completely recovered from the downfall of the whole oil & gas industry, the momentary lack of options for charterers turned it into a very competitive environment with potential to fix under rates we haven't seen in quite a while around here... and it looks like it will be like this at least until Q1 2018, when we can expect some vessels returning from their long term contracts.

Year	Oil Production (million bbl/d)	Variation from previous year (%)
Dec 2017 (estimative)	2.7	stable
Dec 2016	2.713	7.74
Dec 2015	2.518	1.49
Dec 2014	2.481	18.37
Dec 2013	2.096	0.24
Dec 2012	2.091	- 5.00
Dec 2011	2.201	1.48
Dec 2010	2.169	8.89
Dec 2009	1.992	Data unavailable

SOURCE - ANP – AGENCIA NACIONAL DE



Brazilian Oil Production Outlook

by Luiz Monteiro

The turbulent period in the Brazilian offshore industry is well documented, as is its massive potential. Though investment from Petrobras and from other international players has stagnated in recent years, it has still continued at some pace. More critically however is the fact that several of the pre-salt fields have now come on stream but despite this the oil production at the end of 2017 is pretty much en par with the levels recorded

at the end of 2016.

The table below shows the year-end production of Petroleum in Brazil since December 2010. Where we can make some observations;

The table above shows the year-end production of Petroleum in Brazil since December 2010. Where we can make some observations;

1 – 2010, 2014 and 2016 produced significant increases on previous years.



2- The years after a year with increased production generally meant a year with stable production or even a slight decrease.

3 - 2017 will not have increase in production and a similarly stable figure is forecasted for 2018 too. The reasoning behind year on year production at the end of 2018 being at the same level as 2017 comes from several factors. Firstly, not all the production planned to come on stream in 2018 will commence on schedule. Secondly operational efficiency issues generally happen in the first year of production meaning the full production capacity will unlikely be realized immediately. Moreover, there will be a long pull-in campaign to connect additional wells and add this to any unavailability in the supply chain at critical points in the production process will mean additional delays, as in November 2017. Other delays arising from various issues, such as what was seen at the Lapa field by Total added to the natural decline of a producing reservoir.

Turning to 2019 and 2020, a number of Petrobras' production units are expected to be operating at full load which means an increase in production is probable.

But starting in 2021 taking into account the current scenario of new projects in Brazil we must have one or at most two units entering production every year, which

will lead us to another period of stability, or even a decrease in production. For we must not forget that the current fields that are producing will experience natural decline in production together with the problems of operational efficiency.

The scenario described above is a scenario with a very high probability of occurring due to the country's production history, as well as the ANP's lack of action to promote oil production, every year we see the ANP approve the postponement of drilling campaigns, giving more time to International Oil Companies (IOCs) and Petrobras. Each year of delay in investments will cost the country not only in production but also in maintaining and growing the capacity of the local market to provide products and services for the oil and gas industry.

Despite more than 10 years of the new law in Brazil allowing other companies to be into the E&P business no other company besides Petrobras has taken a project on stream.

When we look at the OSV industry, this means the maintenance of the current fleet with small variations in the next three years, and the increase in the contracting of OSVs in Brazil should only occur from 2021, with the contracting being closed from of the second half of 2020. Westshore has been keeping a close watch on this market for further information please get in touch.