The offshore market
Rig market fundamentals

The "great recession" hit the Mobile Offshore Drilling Unit (MODU) hard in 2009. Our records show that new rig commitments were cut in half in 2009 to just below 400 rig years.

A further breakdown of activity shows that the floater sector was the hardest hit and new rig commitments were reduced by as much as 80 percent in 2009. It may seem counter-intuitive that the more rapidly growing deepwater sector was the hardest hit. However, the extensive backlog "forced" upon operators over the last cycle may have given them more breathing room in 2009 than otherwise. Also, it should be noted that 50 percent of all fixtures in 2009 in the floater segment were made by one company: Petrobras.

The absence of new rig commitments led to repercussions through all the MODU sectors. The jackup segment saw utilisation levels not seen since 1998 and day rates fell on average in 2009 compared to 2008 by close to 40 percent. By the end of 2009, nearly 140 jackups were inoperative and cold stacking was still increasing rapidly. We observed the development of a two-tier market between newer 375ft units and older 70-80s-built 300ft units, where newer units achieved both better day rates and easier access to new work. Whether this earnings gap is permanent or not is uncertain as a cyclical component is also driving this trend. In view of the increasing costs to upgrade and class the older jackups, it will be interesting to see how many of the older units will return to the marketed fleet.

The floater market also suffered, but to a lesser extent, as a result of the extensive backlog built up over the previous cycle. The average backlog per deepwater rig is still above three years, while the average backlog for midwater units is two years. The backlogs mirror the partially divergent paths of the deepwater and midwater sectors. Fleet utilisation rates for the deepwater sector remained at 100 percent throughout 2009, while midwater utilisation rates dropped towards the end of the year and ended at 91 percent. Day rates for the deepwater segment fell on average 15 percent, while the midwater day rates fell 30 percent, on average, in 2009 compared to 2008.

Future prospects for the industry are linked to the increasing difficulty in raising oil production levels. At the same time, the world economy is accelerating and is likely to increase its demand for energy. One recurring observation is that new offshore oil production onstream is substantially lower than what was predicted; implying the likelihood of relatively higher

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oil prices could be underestimated. It follows that we expect higher fixture activity as we move through 2010 and 2011. Utilisations are expected to bottom out and day rates, especially for floaters, could reclaim some lost ground towards the end of 2010.

The offshore support vessel market

In line with exploration and production spending cuts and a weaker drilling rig market, the offshore support vessel (OSV) market has been in decline since about January 2009 when we first noted a decrease in term charter rates for all segments of tonnage worldwide. This was the first major decrease in rates registered since the OSV market started rallying in autumn 2004. The decrease in term charter rates for supply tonnage from peak levels at the end of 2008 has been approximately 40-50 percent, so far, as owners fight to secure work for their vessels. While newbuilding and sale and purchase activity was markedly still in 2009, the newbuilding delivery pace reached record high levels in 2009 as the tidal wave of newbuildings began to hit the market. According to our records, the anchor handling tug supply (AHTS) fleet is scheduled to expand from 1,400 ships to close to 1,800 ships by the end of 2012. Similarly, the platform supply vessel (PSV) fleet will increase from about 1,000 ships to about 1,200 ships in the same timeframe. Finally, the high end construction fleet is projected to grow from about 240 ships to 340 ships. To sum up: about 700 newbuilding deliveries in the next three years.

After a rally that began in autumn 2004, the term chartering market started to decline in January 2009. Term charter rates have declined on average 40-50 percent for contracts with about a one-year firm period. At the same time, spot rates in the North Sea were on average 65 percent lower than the previous year. The main factors for the decrease in rates are fewer requirements issued by oil companies, drilling rig operators that have been cancelling and delaying offshore development programs combined with a rapidly increasing fleet. Overall, ship owners have been vigorously competing to keep their vessels on charter in the short term and this has contributed to pushing rates down.

On the worldwide market, we estimate that demand for AHTS and PSV decreased about 3 percent in 2009 in the wake of the financial crisis. Despite last year's dip, demand for supply vessels in 2010 is expected to increase. Drilling support will be the main driver for supply tonnage demand in 2010. Assuming the jack up utilization picks up in 2010, we can expect demand in the supply market to increase up to 15 percent over the course of 2010. On the other hand, the supply


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fleet expanded 14 percent in 2009 and is expected to grow an additional 18 percent in 2010. Considering the expanding supply figures in the context of lagging demand, rates in 2010 are expected to remain relatively depressed and possibly even deteriorate more with a possible start to recovery in 2011. Despite the current challenging market conditions for owners, the long term demand for OSV seems intact. According to the latest reference scenario of IEA, oil demand is expected to grow from about 85 million barrels in 2009 to over 100 million barrels per day by 2030. The portion of offshore oil production is also steadily increasing relative to onshore oil production and it is projected to grow to about one third of total production by 2020. These trends together represent a long term requirement for all types of offshore support vessels (OSV) but particularly in rapidly expanding areas such as Brazil.

Rs platou: adding value in brazil

RS Platou is an investment-, ship and offshore brokering company established in 1936 in Oslo, Norway. Our company has steadily increased the capacity and worldwide coverage, now most recently with regional office in Rio de Janeiro, Brazil. Having supported Brazilian shipping industry since the 1970s, primarily on dry cargo and forestry products, Platou have now established an office to serve the emerging offshore industry of South America and Brazil in particular.

Our company knowledge and experience in the offshore, as well as worldwide network of investors and shipyards, will be merged with local knowledge to further support an industry in rapid growth. As Brazil is taking on the forefront of deepwater drilling and production, we look forward to supporting oil companies, service companies, vessel owners and yards in the challenges – and opportunities – ahead. ■