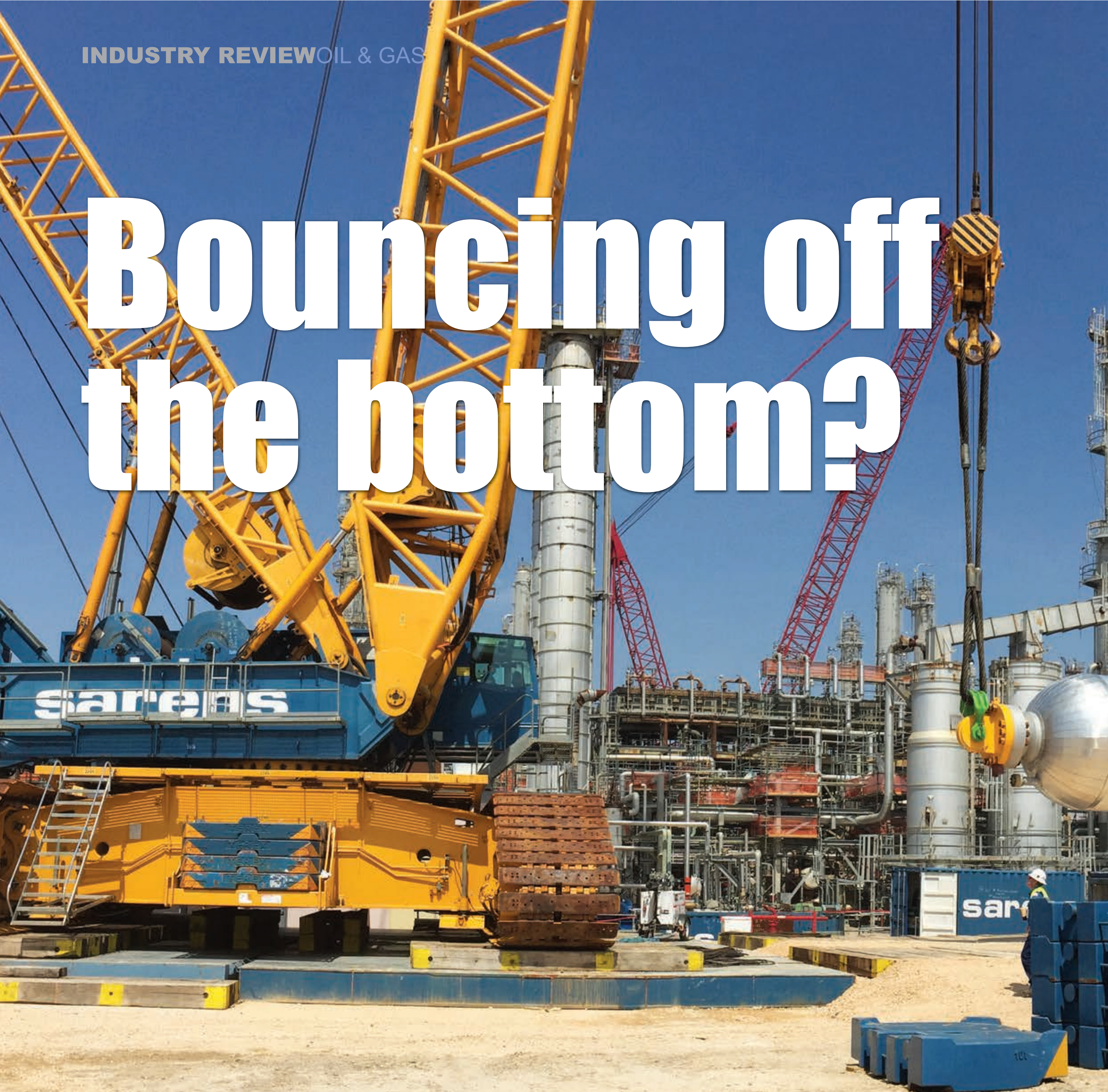


# Bouncing off the bottom?

**Following the shutdown and deferment of many oil and gas industry project pipelines over the last couple of years, heavy lift carriers and forwarders servicing the market are hoping some of the taps will be turned back on again during 2017. Phil Hastings discusses.**

The oil and gas industry is anxiously waiting to see how two major developments seen at the end of 2016 – an Organization of the Petroleum Exporting Countries (OPEC) agreement to cut oil production by 1.2 million barrels a day from the start of 2017, and the election of a pro-hydrocarbon industry US President Donald Trump – pan out in terms of global investment trends.

In the case of the former, key questions include: will the planned production cuts hold through 2017; if they do, and oil/gas prices increase significantly, will the prospect of improved returns on investment encourage production increases elsewhere, either through the resumption of existing operations or the development of new ones; and will that subsequently lead to a return of over-supply?

The continuing uncertainty was highlighted by Fitch Ratings, the global credit ratings and research organisation, which commented that while the OPEC deal, and a subsequent potential production cut agreement with non-OPEC countries, "should help accelerate market rebalancing and increases the chances of more rapid oil price recovery than previously expected, implementation risks remain".

Expanding on the last point, Fitch said one significant risk is that OPEC members will produce crude oil above quotas, "as has happened in the past", which could slow market rebalancing. Another unknown is how quickly US short-cycle crude production reacts to higher oil prices. "In addition, the deal is for six months and there

Sarens said it is seeing cashflow-positive companies showing an interest in pursuing projects that had been previously taken off the table.

is no guarantee OPEC members will reach a consensus to extend it."

Immediately prior to the events of late 2016, anecdotal reports and recently published research all pointed to a mixed picture across the various sectors of the global oil and gas industry regarding current and short-term future levels of project activity.

## Industry assessment

One typical logistics industry assessment was delivered by Namir Khanbabi, managing director of the tramp and projects division of worldwide multipurpose heavy lift vessel operator AAL. "We are expecting a slight upward trend in oil and gas industry investment in new projects during 2017, but with oil prices predicted to peak at USD55 a barrel in that period any growth will be slow and incremental," he stated. "Regions that we envisage will show growth over the course of the year are the Middle East, USA and intra-Asia."

Expanding on those observations, he said the Middle East is continuing to see "substantive investments in oil and gas as well as the petrochemical sector", the intra-Asia market is "still buoyant" and in the USA "we perceive the recent election of Mr Trump as having a positive impact on the oil and gas sector".

Maximilian Harmstorf, director project management for ocean carrier Hansa Heavy Lift (HHL), suggested that more generally, while low oil prices have led to upstream projects being pushed aside, there are still

**Regions that we envisage will show growth over the course of the year are the Middle East, USA and intra-Asia.**

– Namir Khanbabi, AAL

business opportunities in the downstream sector, such as ethylene crackers.

"Regulatory procedures, local approvals, the sale of the product and other factors influence the momentum of final investment decisions. Some of those involve offshore developments, such as floating liquefied natural gas (FLNG) projects, but we are also seeing growing activity exploring tiebacks to onshore trains," he reported.

Steve Harley, president, energy sector, customer solutions and innovation, for logistics group DHL, said the oil and gas industry's recent attention in the upstream sector has been more on onshore and shallow water projects.

"In light of that, looking ahead, we have got quite a focus on managing ongoing operational logistics and providing support for existing upstream businesses. We have also got involved in a lot of ad hoc work where there have been refinery upgrades, LNG plant extensions, for example – particularly in North America."

## Mixed picture

On the onshore side, UK based global energy business research and consulting firm Douglas Westwood (DW) suggested 2016 would see the bottoming out of the industry downturn for the oilfield services (OFS) market, with the year's total expenditure of USD126 billion increasing 11 percent year-on-year through to 2020, when it will hit USD188 billion.

"All regions, with the exception of Australasia, are expected to see positive onshore expenditure trends as oil prices rise and onshore drilling rebounds. The strongest growth will be seen in North America, at 19 percent year-on-year 2016-2020 for OFS, as rising oil prices bring lower-quality shale acreage back into economic viability. However, overall spend onshore North America will be depressed when compared with the highs observed in 2014," reported DW.

It said the latter trend would be apparent onshore in most regions, aside from Eastern Europe and the former Soviet Union (FSU) where activity will be boosted by large investment in gas-targeted drilling in Eastern Siberia in the latter part of the decade to satisfy large export agreements with China and the Middle East.

DW analyst Matt Cook said: "It may be too soon to start talking about a general recovery, but if you look at the US shale oil and gas industry, for example, there has been an increase over the last few months in the number of wells being drilled. That is significant in the light of the fact that the scale

Blue Water Shipping believes the modest recovery in the onshore sector is due to lower construction and logistics costs.

of those activities dropped off a cliff over the previous couple of years," he told HLPFI.

Prospects for the oil sands industry in Canada also appear positive in the near term, he continued. "For a lot of those projects, there are quite long lead times between sanctioning and implementation. So projects which were sanctioned a couple of years ago are still being brought to the fold now."

According to heavy lift carriers and forwarders interviewed by HLPFI, in many cases the main factor behind the recent modest recovery in new onshore project activity is the opportunity to take advantage of presently lower construction and logistics costs before a possible sharp increase in overall oil and gas industry activity in 2018/19 and subsequent price increases for services and equipment.

"That is what we are hearing from some of our clients, particularly in relation to lower cost onshore projects, and it makes sense to us as well," confirmed Thomas Bek, global manager, oil, gas and industrial projects, for forwarder Blue Water Shipping.

**Just in the last few months we have seen certain cashflow-positive companies starting to show an interest in pursuing some of the projects that they had previously taken off the table.**

– Mike Hussey, Sarens

## Reviving interest

Expanding on that point, Mike Hussey, regional director North America for worldwide heavy lifting and engineered transport group Sarens, reported that "just in the last few months we have seen certain cashflow-positive companies starting to show an interest in pursuing some of the projects that they had previously taken off the table.

"The rationale for that is that because there is not a lot of work around right now, labour prices and the cost of construction are lower than they were two years ago, so people who have the cash are thinking they may want to do that work now rather than wait until, say, 2018/2019 when everyone else might be looking to execute their projects," he added.

DHL's Harley confirmed that the chance to take advantage of ready equipment availability and lower construction costs is one of the factors driving a recent slight upturn in onshore and lower cost oil production projects. But he added: "Also, people need to keep a core development programme in place – if you are an international oil company you cannot cut everything back to zero."

However, even the prospect of lower construction and logistics costs is currently proving insufficient to encourage the advent of many new projects in the offshore oil sector, particularly where deepwater drilling and resulting higher production costs are involved.

"The projection for offshore OFS expenditure (in the period 2016-20) is markedly less positive. A significant drop in project sanctioning, coupled with low rig day rates will see expenditure over the forecast period average USD49 billion annually, down 26 percent from the highs of USD66 billion reached in 2014," stated DW.

Steve Robertson, DW's research director, highlighted the scale of the current caution over prospects for the offshore oil sector during a webinar held to discuss one of the company's regular World Drilling & Production Market Forecasts.

"There is a hiatus in final investment decisions in the offshore sector, with only a small number of projects moving forward," he stated. "If you compare the deepwater outlook for that market at the beginning of 2015 with that at the beginning of 2016, the anticipated expenditure for the period 2016-20 was down from USD210 billion to USD137 billion. Of the 210 project prospects originally expected to come on stream in that period, the number at the beginning of 2016 had dropped to 122 – in effect, 90 projects planned for the next five years have been cancelled."

Summarising the current overall prospects for oil and gas industry project work, DW's Cook suggested: "It is going to be longer term before the offshore sector picks up to where it was before the oil price downturn, well into the 2020s. Whereas on the onshore side, while we are not expecting a surge in activity to the levels of 2014, we certainly expect to see some recovery in the market during 2017."

From a logistics industry perspective, DHL's Harley added: "We are seeing some projects coming through and from our discussions with service companies, we feel the market may well have hit the bottom now and things are starting to pick up slightly. However, it is still pretty uncertain how quickly that will happen." HLPFI

We are seeing some projects coming through and from our discussions with service companies, we feel the market may well have hit the bottom now.

– Steve Harley, DHL


A 70-tonne stripping tower being delivered by Volga-Dnepr from Bakersfield, California, to Erbil, Iraq.

# Logistics costs set to remain under pressure

**Lower oil prices have resulted in a squeeze on service suppliers to achieve substantial cost savings, writes Phil Hastings.**

Two related trends that emerged during the downturn in world oil and gas prices – a sharpened industry focus on reducing project costs and resulting pressure on logistics service supplier margins – are expected to continue through 2017.

The impact of lower oil and gas prices on project development costs was highlighted by industry analyst Douglas Westwood (DW) in late 2016 following a review of over 250 upstream capital projects (onshore and offshore, including unconventional) sanctioned over the last four years.

Steve Robertson, the company's research director, explained that faced with much lower free cashflow from producing fields, the focus for many exploration and production (E&P) companies has been on managing costs so that dividends can be maintained through the downturn.

However, he continued, while the sanctioning of many new projects has been deferred during that period, a number of trends have helped to drive a "remarkable reduction" in upstream capital costs and bring some uneconomic fields over the threshold of viability.

## Squeeze on costs

One of those trends, he said, is a squeeze on the supply chain by the E&P companies, with demands to service and equipment companies for 10-15 percent price cuts being common. Other relevant trends include a "massive" oversupply of some asset classes, such as rigs and vessels, which has led to rates for such units "plummeting", and the re-engineering of existing projects, returning to conceptual or front-end engineering and design (FEED) studies to re-work the development scheme to achieve substantial cost savings.

The impact of those trends on logistics suppliers was summarised by Bill Hill, GAC executive group vice president, oil and gas. "The oil and gas industry has become more cost-conscious as project volumes have declined in the past 24 months," he confirmed.

"With that industry currently consolidating, we are focusing our efforts on reducing costs and increasing value for our clients while maintaining strong and clear compliance practices. We are always looking to develop new opportunities and services, but right now we have to be realistic that such opportunities are limited."

Similar points were made by Mike Hussey, regional director North America for Sarens, which last year secured the largest project contract in its history from energy industry partnership Tengizchevroil (TCO) covering the provision of land transport and installation services for a major expansion of the Tengiz oilfield and refinery in Kazakhstan (HLPFI, November/December 2016, page 27).

"Everyone in our industry is under a lot of pressure on margins at the moment because we are all going after the same jobs. So it has been a challenge, not just from the perspective of there not being a lot of work to get, but also that the work we do win does not have the same margins," he stated.

On the plus side for logistics management providers, those same financial pressures are creating new business development opportunities for companies able to provide wider-ranging and potentially more cost-efficient project supply chain services.

"We are certainly seeing that and we are increasingly getting involved in different ways to what we did in the past," confirmed Thomas Bek, global manager, oil, gas and industrial projects for Blue Water Shipping, whose most recent developments in that

**Companies are really analysing how much they are spending to achieve their targets.**

– Fayçal Boumerkhoufa, Volga-Dnepr

BWS said financial pressures are creating new opportunities for logistics services providers.

context included being part of consortia that last year secured three major module transport and logistics contracts from TCO relating to the Tengiz project.

"That trend had started to develop even before the recent oil industry crisis and now that it is established we anticipate it will continue regardless of what happens to the oil price in the future. That is reflected in the type of people we employ today. They are not necessarily forwarding or logistics staff but rather engineers, naval architects, construction managers, etc."

## Tougher competition

Meanwhile, tougher competition and squeezed margins are also apparent in the oil and gas project logistics supply chain served by ocean and air carriers offering heavy transport options.

A spokesman for German line SAL Heavy Lift said competition in the sector is likely to remain "fierce". At the same time, he continued, some engineering, procurement and construction (EPC) companies are moving away from using forwarders and managing their logistics in-house.

"In general, we are feeling pressure on margins. With a lower feed-in rate for the oil and gas companies, EPCs are exposed to a requirement to deliver projects at lower costs as well, which drips down to us in the logistics sector. So we do not expect things to be easier in the times to come."

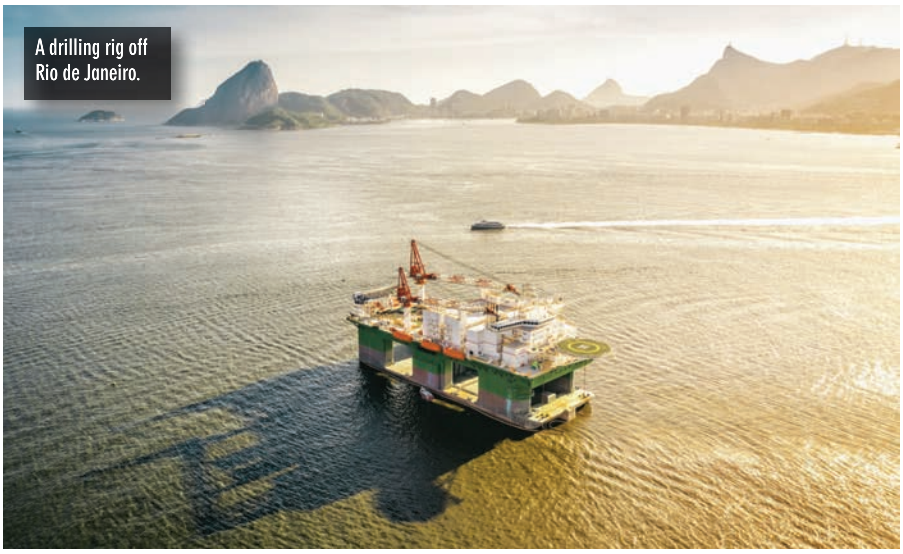
Fayçal Boumerkhoufa, global director oil and gas for Russian freighter airline group Volga-Dnepr, said the oil and gas sector crisis over the last couple of years has forced everyone involved with projects in that market to review how best to achieve maximum cost efficiency.

"Companies are really analysing how much they are spending to achieve their targets. Everything is driven by cost-efficiency and both they and we are looking at the way their projects are being run to see whether things are being done in the most efficient way or whether there is overkill to mask inefficiency," he reported.

In that context, Boumerkhoufa said that in addition to continuing to organise charter flights for oil and gas sector customers using its large fleet of AN 124, IL76 and Boeing 747/737 freighters, Volga-Dnepr is also looking to make greater use of the scheduled Boeing 747 freighter services operated by group carrier AirBridgeCargo Airlines (ABC), in order to be "more flexible" in servicing that industry. HLPFI

**We are increasingly getting involved in different ways to what we did in the past.**

– Thomas Bek, Blue Water Shipping



A drilling rig off Rio de Janeiro.

# Brazil opens pre-salt fields to global investors

**International access to Brazil's offshore fields will generate work, but Phil Hastings hears that the region's players are divided over how long it will be before they see the benefits.**

A decision by Brazil's Congress last October to approve the opening up of the country's 'pre-salt' offshore deepwater oilfields to large-scale investment by international companies is expected to generate new project logistics business opportunities.

A few early signs of such developments were already apparent by the end of 2016, with global energy major Shell announcing a related USD10 billion investment in Brazil over the next five years and a leading Brazilian project forwarder revealing plans to step up its focus on the oil sector.

## Funding shortage

Prior to the recent Congress move, Brazilian state-owned energy company Petrobras effectively had monopoly control of the national pre-salt fields. However, high debt levels and low oil prices have left the organisation unable to fund the capital expenditure required to lead the large-scale development of those resources.

Brazilian logistics providers spoken to by HLPFI had mixed views about the prospects of the recent regulatory change triggering any international rush to invest heavily in such a capital-intensive sector as offshore deepwater while global oil prices remain low.

Pedro Arruda, managing partner for Baggio Shipping & Chartering, whose activities for the Brazilian oil and gas industry include transporting heavy lift modules weighing over 1,000 tonnes and chartering vessels for offshore operations, suggested that "the influx of international operators will have a positive impact on the oil and gas market", and also that more generally there might be an improvement in Brazil's oil and gas sector project work market this year compared with 2016.

"We did not see new projects being signed in 2016 but for 2017 there are contracts to be awarded in the market for at least six floating production, storage and offloading (FPSO) vessels and the continuation of a few scopes of the Comperj facility [an integrated refinery and petrochemical facility being built by Petrobras at Itaborai in the State of Rio de Janeiro]."

**Our understanding is that the oil business in Brazil will come back and the recent announcement by Shell is a very positive sign.**

– José Luis Vidal, WV Logistics

Similar optimism was expressed by José Luis Vidal, managing director of Sao Paulo based industrial project forwarder WV Logistics, which late last year decided to reopen a Rio de Janeiro branch, previously shut down in 2013, to support the development of a new partnership with "some big companies" in the oil and gas sector.

"Our understanding is that the oil business in Brazil will come back and the recent announcement by Shell is a very positive sign. The regulatory change means there is no longer an obligation for Petrobras to have a minimum 30 percent involvement in any oil and gas projects so there is now a window of opportunity for private companies to come in and decide where and how much they want to invest," he stated.

## Experience

Vidal added that while WV Logistics does not have a long history in the oil and gas business, it does have experience in other major industrial sectors. "Our intention now is to offer the oil and gas industry that general industrial project expertise," he said.

Other Brazilian logistics providers, though, are more cautious about the prospects of any immediate upturn in the Brazilian oil and gas project market.

"Pre-salt reserves are expensive to drill and while world oil prices remain low, even if that sector is opened up to other companies, it will take a while before such operations become economically viable," commented Cyro Paulo Flores, project business developer for Fox Brasil. "Overall, I think it will be 18 months before business in that sector starts to pick up."

More positively, though, he suggested the current moves to clear up previous large-scale corruption in Petrobras will result in "a whole new Petrobras" in the next couple of years, "and in the medium to longer term that should be positive for the Brazilian oil and gas project market". HLPFI

## Yarmouth facility wins decommissioning contract

A partnership between Paris based Veolia and Netherlands based logistics firm Peterson has been awarded two platform decommissioning contracts for recycling at their facility in Great Yarmouth, UK (pictured).

With an aim of reaching a 96 percent recycling rate, the work to recycle materials and assets is expected to begin in spring 2017 when the platforms arrive onshore.

The contracts include the onshore receipt and disposal of offshore materials and several assets for a major gas producer.

The partnership's aim is to establish Great Yarmouth as the centre for decommissioning, and to further expand the facilities to meet the growing need for this type of decommissioning.

# Cautious outlook on decommissioning

**Phil Hastings investigates the conflicting opinions over whether the decommissioning of ageing oil and gas platforms will provide significant levels of new work.**

In an otherwise flat overall worldwide oil and gas project market, one developing source of business, report some logistics providers, is the industry's growing need to decommission and relocate equipment.

To confuse the picture, though, not all companies take that view. A senior manager at one heavy lift carrier, for example, suggested the oil and gas industry is still in two minds over decommissioning, while a major logistics group executive reported that the company was currently "not aware" of any such business opportunities.

## Possible developments

On the decommissioning front, much of the discussion to date has focused on possible developments in older offshore production regions, notably the North Sea and Gulf of Mexico, although the recent industry downturn has reportedly also led to increased activity in certain newer locations such as Brazil.

Commenting on the general issue of decommissioning, a spokesman for SAL Heavy Lift went so far as to suggest that where potential oil and gas industry project business is concerned, "that is perhaps the area where the biggest opportunities rest currently".

He added: "Especially in the North Sea and Scandinavian waters, there are a great deal of old structures that are up for decommissioning which could be very interesting for our type of vessel. So it is certainly a business area we are looking into."

However, Maximilian Harmstorf, director project management for Hansa Heavy Lift (HHL), said the oil and gas industry still appears to "be in two minds" over the subject of decommissioning. "While one side is recommending 'getting off the decom bandwagon', others are actively preparing their structures for abandonment," he stated.

## Retention of labour

Expanding on some of the other issues surrounding decommissioning, HHL's Harmstorf said regulatory bodies and governmental authorities are strict when it comes to the disposal of items, especially once they cross borders. One of the drivers behind decommissioning is the retention of labour and promotion of local content in the country where the structure is to be removed.

"From that perspective, I would foresee removal, disposal or safe abandonment of units in proximity to their location, if not in the same country, by the installation vessel itself. Certain topsides can get recycled and there have been cases where platforms were refurbished. That, though, is rare," said Harmstorf.

## Brazil market

While logistics providers are divided over the general international potential of such work, Giovanni Baggio, managing partner of Baggio Shipping & Chartering in Brazil, claimed the Brazilian energy industry's increasing need to decommission and relocate equipment is already creating additional business opportunities in that country.

"We have seen and worked on a lot of those projects in Brazil over the past two years," he said. "The offshore/onshore drilling entities are adapting to the market challenges and that is triggering a lot of shipments of dismantled onshore rigs, risers, reels, thrusters and other parts and pieces related to drilling activity."

Cyro Paulo Flores, project business developer for Fox Brasil, highlighted a trend for equipment to be relocated out of Brazil. "We have seen FPSOs and offshore vessels being relocated from various parts of Brazil to Chinese shipyards for finishing work," he said.

He explained that a lot of new oil and gas industry equipment parts, which were originally sent to Brazil to construct plant and vessels for drilling work, are now being sent back "and the ships which are built from them will probably operate somewhere else".

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