20 JUNE 2008

TradeWinds

EDITORIAL OFFICES

E-mail:	letters@tradewinds.no
Athens:	(+30) 210 724 5541; fax: 9508
Genoa:	(+39) 0185 362 331
London:	(+44) 20 7842 2720; fax: 2725
New Delhi:	(+91) 11 4050 0000; fax: 0001
Oslo:	(+47) 2200 1200; fax: 1210
Singapore:	(+65) 6557 2771 or 0014; fax: 0444
Shanghai:	(+86) 21 6329 6312; fax: 6307
Stamford, CT:	(+1) 203 324 2994; fax: 3368

SUBSCRIPTIONS & ADVERTISING

E-mail:	sales@tradewinds.no
Bergen:	**(+47) 5530 2238**; fax: 2239
Dubai:	**(+971) 4364 2059**; fax: 4369 7363
New Delhi:	**(+91) 11 405 000 00**; fax: 000 01
Oslo:	**(+47) 2200 1200**; fax: 1260
London:	**(+44) 20 7842 2700**; fax: 2705
Singapore:	**(+65) 6557 0555**; fax: 0444
Shanghai:	**(+86) 21 6329 6301**; fax: 6307
Stamford, CT:	**(+1) 203 324 2994**; fax: 3368

DISTRIBUTORS

Benelux & Paris	Peer Fredriksen (+32) 16 47 00 10
Copenhagen	Connection2denmark (+45) 32 52 52 92
Cyprus	Hellenic Distribution (+35) 7 2878 500
Greece	Costas Papaconstantinou (+30) 210 429 3618
Hamburg	Media Distribution (+49) 408 537 6313
Hong Kong & China	Cel South Asia (+852) 2796 9228
India	India Book House (+91) 22 2494 0534
London	Dawson News Delivery (+44) 208 511 6979
Singapore	Cel South Asia (+65) 6440 5707
South Korea	PNJ International (+82) 51 363 3406
Turkey	Dunya Super Dagitim (+90) 216 681 1971
USA	Stream Inc (+1) 908 464 0667

Visit **www.tradewinds.no** for subscription information, advertising rates or a free trial subscription. Annual subscription fees for 2008 are United Kingdom (GBP 495), Norway (NOK 6,250), Europe and Africa (EUR 675), Asia and Americas (USD 835).

E-mail any of our **EDITORS & REPORTERS** by using "firstname.lastname@tradewinds.no" — **Athens**: yiota.gousas and gillian.whittaker; **Genoa**: ian.lewis; **London**: paul.berrill, adam.corbett, gary.dixon, geoff.garfield, lucy.hine, john.landells, jim.mulrenan and eoin.ocinneide; **New Delhi**: pinaki.routray; **Oslo**: trond.lillestolen; **Shanghai**: hans.thaulow; **Singapore**: irene.ang, jonathan.boonzaier and dale.wainwright; **Stamford, CT**: joe.brady and bob.rust; and **Wavelength columnist**: terry.macalister

MARKET FOCUS

IN DEMAND: The 100,000-dwt tanker "Yuri Senkevich" (built 2005) sits connected to Bluewater's 103,000-dwt floating production, storage and offloading (FPSO) vessel "Munin" (built 1997) in the Lufeng oil field, South China Sea.

Photo: Reuters

Floating a solution

The reasons may be complex but rapid growth in floating production is a near certainty, says a leading bank.

Darrin Griggs Oslo

A surge in demand for floating production seems all but certain, says a market specialist — but whether this spurs purpose-built units or converted tankers is a complicated question.

The sector for floating production, storage and offloading (FPSO) units can look forward to "exponential growth" in coming years, with deepwater solutions set to tap the most potential, according to the shipping division at DVB Bank's research & strategic planning (Rasp). The current 132-strong fleet of FPSOs may need to increase by an additional 110 to 140 vessels over the next five years, with part of this demand fulfilled by conversion candidates and the rest by newbuildings further down the road.

Four major drivers — high crude prices, rising demand for oil, tighter supply and increased spending on exploration and production (E&P) — have combined to lift the prospects for FPSOs.

The high price of oil needs little documentation, although the reasons are constantly debated. "This upward movement in oil prices to unprecedented levels provides a positive trigger to the floating production market since high prices justify costs associated with such projects," wrote DVB in its report.

Demand for oil is also a key driver. Figures from the International Monetary Fund (IMF) for 2008 point to a rise of 2.1%, while Opec speaks of a 1.4% rise. The International Energy Agency (IEA) expects a yearly average of 1.5% for a total increase from current levels by as much as 35% by 2030. Regionally, China's demand had already risen 7.8% year-on-year by February 2008.

Tight supply is making an impact. Depleting fields were already a top concern, meaning that a substantial amount of new discoveries are needed to offset rising demand. But DVB notes that oil supply has remained tight, while most Opec countries have been running close to capacity, some at 100% in 2007, according to the IEA. Production as a percentage of capacity in 2007 was still relatively high for the countries on the low end of the scale — Saudi Arabia (84%), Nigeria (87%) and the United Arab Emirates (90%). DVB says Opec nations are also concerned about a "bearish effect" arising out of an increase in production while the US economy slows.

Investment in efforts to find new oil is another key driver. High day rates for deepwater rigs, which are in short supply, are likely to increase the focus on orders for such rigs, meaning even more focus on deepwater. DVB says global E&P capital expenditure (capex) is expected to increase from $282bn in 2007 to $311bn in 2008, while deepwater capex is expected to rise 11% from 2007 to $18.2bn this year. DVB cites Infield Services from July 2007 as saying another 26% rise to $23bn may occur by 2011.

> **DVB Bank: "This upward movement in oil prices to unprecedented levels provides a positive trigger to the floating-production market since high prices justify costs associated with such projects."**

"FPSOs are an 'all-in-one flexible fast-track package' that could be deployed and moved as required with oil-well-compatible refits," wrote the bank. They are a preferred solution for marginal fields, harsh environments and remote deepwater areas. As per a Lehman Brothers survey, of the 148 companies that are planning to boost E&P spending, 126 (85%) of those will focus on deepwater. Unlike semi-submersibles, FPSOs have enough storage capacity and can work at greater depths.

As demand surges and the need for fast-tracking projects grows, will suitable single-hull tankers suddenly become highly-sought after vessels?

Conversion has its advantages. The bank says a new FPSO can take as long as three years to build, whereas a vessel conversion can be completed in one year — provided the yard space is available, as well as the topside equipment. In the current market such availability is a big proviso.

However, conversion candidates among the VLCC fleet are limited. DVB says VLCCs built before 1980 are unsuitable because of age and those built after 1985 are mostly unsuitable, or uneconomical, because of hull-optimisation technology and use of high-tensile steel. The suitable section of the fleet, between 1980 and 1985, numbers only four.

Some 44 ships built between 1985 and 1990 could also be used for conversion but with substantial structural reinforcement because of high-tensile steel. Dry-side conversion and high scrap prices have also drawn these ships in a different direction.

Meanwhile, the bank calls the sector "highly fragmented" with new players and says this may point to lower entry barriers. But it adds that experienced companies with healthy cash flows may be in "enviable" positions for consolidation because high fixed costs for assets are likely to put a focus on economies of scale.

DVB puts the total number of floating-production systems in service as of April 2008 at 294 units, excluding mobile offshore production units (MOPUs) and production barges. Of the 45 FPSO owners, 20 own only one unit each, while 11 own two each. Just nine of the top companies own 55% of the fleet, 63% of storage capacity and 57% of equivalent oil-production capacity. They are SBM (14 units), Petrobras (11), China National Offshore Oil Corp (CNOOC) (10), Modec (8), Bluewater (7), BW Offshore (6), ExxonMobil (6), Maersk (6) and Prosafe (5).

The 294 units comprise 132 FPSOs, 40 floating-production semi-submersibles (FPSSs), 21 tension-leg platforms (TLPs), 15 single-point articulated riser buoys (Spars) and 86 floating-storage and offtake (FSO) vessels.