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## MARKET FOCUS



**SOMETHING TO TALK ABOUT:** Billions of dollars are being spent on new offshore-support vessels. Pictured, workers at Europe's largest shipbuilding group, Aker Yards.

Photo: Dagens Naeringsliv

# Offshore boom time

Oversupply fears are growing as new and old investors pile mountains of cash into the offshore-support sector.

Geoff Garfield

London

Billions of dollars have been ploughed into orders for new offshore-support vessels as some of the big players in shipping such as John Fredriksen and AP Moller-Maersk capitalise on the world's insatiable demand for oil and gas.

Moller has been in the offshore business for a long time but in recent years the sector has attracted plenty of new recruits, among them Nordcapital, the shipping-investment group of Germany's Erck Rickmers.

They have been piling in with orders that have benefited, among others, Europe's largest shipbuilding group, Aker Yards.

Second-quarter results from Aker last week show that at the end of June it had orders for 31 platform-supply vessels (PSVs) and 20 anchor-handling tug-supply (AHTS) vessels.

Nordcapital alone has placed contracts for 10 PSVs, the latest

pair of UT-776 CD units each costing a reported NOK 340m (\$57m). Such vessels are not cheap. The German owner's outlay on offshore hardware at Aker is now estimated to have reached around \$350m.

Maersk is also building a series of at least 10 AHTS vessels at Aker, together worth NOK 3.3bn, while Fredriksen-controlled Deep Sea Supply (DESS) has invested in more than 20 offshore newbuildings at ABG and Cochin in India.

Other yards are looking to capitalise on the boom in orders, including in Croatia and even Fincantieri of Italy, best known for cruiseships. Germany's Hartmann Logistik in March ordered eight multipurpose (MPP) AHTS vessels at Fincantieri, on top of a couple already booked.

"Higher oil prices have increased the levels of offshore exploration and, thus, the demand for PSV and AHTS vessels will continue," said analysts from

German-Dutch transport bank DVB.

LR Fairplay statistics show 351 AHTS vessels and 25 AHT units for delivery between 2007 and 2012, with an amazing 104 of them ordered since December 2006.

DVB says PSV fleet growth seems under more control. Some 210 vessels are listed as on order but only 18 newbuildings have been booked in the past six months. The bank warns that the overall backlog of approaching 600 offshore-support vessels of different types worldwide threatens oversupply and pressure on rates. Much depends on how many vessels are retired from the market.

In recent years, owners and operators have enjoyed earnings not seen since the first purpose-built supply vessel, *Ebb Tide*, was delivered in 1955.

For example, in the Gulf of Mexico region, larger AHTS units

upwards of 8,000 bhp have been earning an average of around \$75,000 per day, with spot rates in June reported at roughly \$150,000 per day.

Exploration and appraisal activity in the region is expected to remain busy for several years ahead. The US Gulf is the busiest supply-vessel market in the world, although competition is stiff. Some 100 owners operate more than 600 vessels.

**DVB analyst:**  
**"Higher oil prices have increased the levels of offshore exploration and, thus, the demand for PSV and AHTS vessels will continue."**

DVB highlights a Lehman Bros survey showing that, globally, operators expect to spend over \$300bn on exploration and production in 2007 alone, some 13% higher than last year.

Newbuilding prices of the support vessels needed for this to go ahead are rising fast. In some cases up more than 50% in the past 12 months. The level of sophistication, including dynamic-positioning capability, is reflected in the cost.

Recent orders reported by TradeWinds include a PSV at Aker for UK-based owner Portosalvo, which cost in total NOK 310m, in dollar terms similar to a panamax bulker newbuilding. It has dynamic-positioning and diesel-electric propulsion.

Secondhand prices have risen in tandem. Clarkson Research shows that average values of used offshore-support tonnage soared again last year.

DVB says the only reason it can see for a dramatic decrease in oil and gas prices is a major recession in the world economy.

However, returning to its cautionary note on potential oversupply, it says that utilisation could fall from 94% in 2006 to 82% by 2010. It compares demand predictions by offshore research for deepwater-capable vessels with current orderbook statistics.

Day rates, says the bank, are expected to remain above historic earnings, especially for high-specification units. But current asset values do not fully justify investments because amortisation will extend through this period of softening rates. Earnings have already peaked.