US oil puts the brakes on

Demand for offshore service vessels is slowing as the falling price of oil discourages exploration. **Barry Parker** reports

The fortunes of offshore oil service vessels are closely entwined with the underlying outlook for oil exploration and production. At lower oil price expectations, projected returns on drilling projects fail to meet required hurdles and activity slows. Experts suggest that even the multinational oil companies with the deepest pockets might cancel projects when expectations of crude oil prices point below $40/barrel. For mid-tier oils, the threshold rises towards $60/barrel.

As prices have dipped under $40/barrel (basis is the WTI marker) during early 2009, planners around the oil patch have, not surprisingly, cancelled or deferred exploration projects. The knock-on impacts of reduced drilling have been reduced demand for anchor-handlers, platform supply vessels and other offshore craft. Industry leaders include Seacor with 78 vessels deployed in the Gulf of Mexico, Tidewater (US fleet of 48 vessels), Hornbeck Offshore (47 vessels, mainly in the Gulf), Gulfmark Marine (33 vessels, including 20 absorbed in its Rigdon Marine acquisition) and Trico, with 16 vessels in the Gulf of Mexico.

Hornbeck said: “We expect levels of oil and gas exploration, development and production activity to continue to be volatile and affect the demand for our upstream services.”

Demand for service vessels stems from exploration activity. Data from ODS-Petrodata shows year-on-year decline in rigs working in the Gulf of Mexico from January 2008, when 125 units were working, to March 2009 when 117 were active. With 73 rigs under contract, the overall utilisation has dropped to 62.4%, down from nearly 77% a year ago.

Deepwater ‘floaters’, typically employed on lengthy contracts, would see a much higher level of utilisation, while jack-up rigs, which work in shallower waters under shorter contracts, would be more vulnerable to the decreased activity.

A US-flagged OSV calls at a Shell platform in the Gulf of Mexico. Such vessels are facing the prospect of reduced demand for their services

Company responses have included vessel lay-ups, cutbacks in personnel and even financial write-downs where customers’ business prospects have dimmed. Seacor announced in late February that it had “cold-stacked” 15 vessels that had been serving the Gulf of Mexico and said that it “will cold-stack additional vessels as it deems appropriate”. As of the end February, Seacor added that it “cannot predict when conditions might warrant reactivation of the cold-stacked vessels”.

Trico’s CEO Joseph Campofelice mentioned another set of strategies – redeployment, and cost-cutting. He told investors: “In the OSV business in the US Gulf, you might see us take another boat to West Africa and a couple of boats down to Mexico where we have 100% utilisation.” Tidewater mentioned that it had shifted seven vessels away in 4Q08.

Focusing on cost containment

Campofelice added: “We are trying to focus on cost containment as the overall jack-up rig count, which our fleet is most sensitive to, continues to tail off.”

Seacor’s views echoed the positive element of the industry slowdown – that the cost side of the business has also slowed. In discussing 2008’s cost increases for vessel repair components – principally labour, parts and repair facilities – Seacor said: “These upward cost pressures moderated in the latter part of 2008 and Offshore Marine Services expects this moderation to continue in 2009.”

Market conditions can also vindicate strategic shifts in companies’ business mixes; Trico’s Campofelice stressed the shift away from commodity type vessels into higher value subsea services: “I could not imagine just being in the OSV business, at this point.”

Looming in the background and impacting the future of ultra-deepwater activity are the new faces on the scene in Washington, DC. At the Department of the Interior (which oversees leasing of deepwater exploration plots), the new interior secretary, Ken Salazar, has announced he will take a fresh look at plans for offshore drilling that had been put in place by Obama’s predecessor, George W Bush, when oil prices exceeded $140/bbl.

In early April, Salazar will be conducting a series of meetings, including one in New Orleans, that will discuss policy options with various offshore drilling stakeholders. F