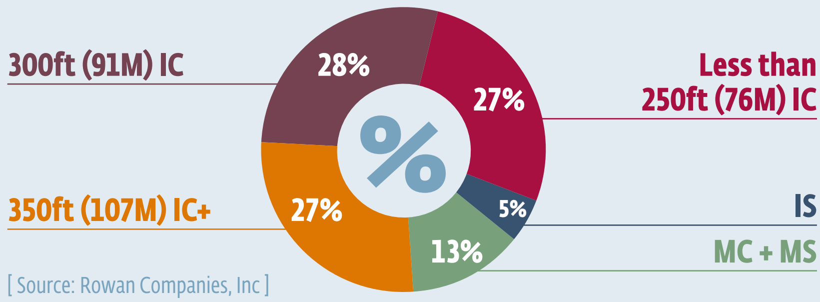
Jack-up drilling rig fleet utilisation

	No of rigs	Utilisation	Percent of global jack-up fleet
350ft (107M) IC+	128	90%	27%
300ft (91M) IC	128	76%	28%
Less than 250ft (76M) IC	122	76%	27%
IS	24	66%	5%
MC + MS	62	32%	13%
Total	**464**	**73%**	**100%**
High spec	27	93%	6% of total fleet

IC: independent leg cantilever
IS: independent leg slot
MC: mat cantilever
MS: mat-supported slot

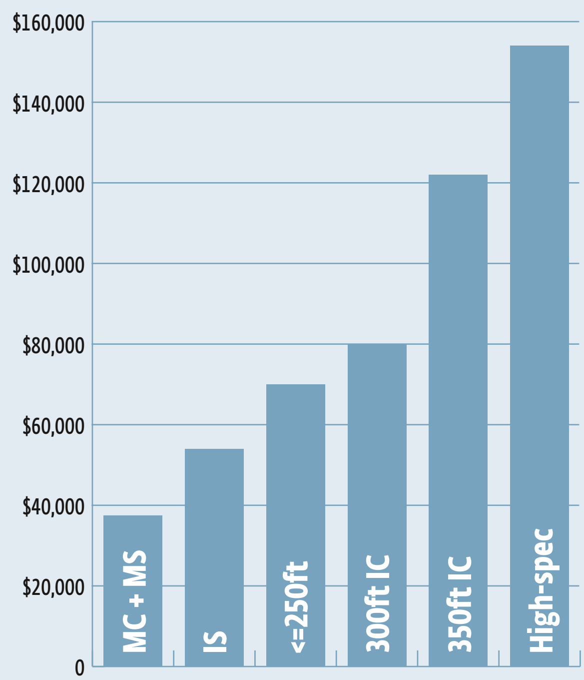
Utilisation is at/above 90% for the highest capability jack-up drilling rigs

Global jack-up fleet breakdown



[Source: Rowan Companies, Inc]

Average fixtures



Global offshore oil and gas growth increases high-specification rig demand

Offshore oil and gas exploration still have many projects requiring high-specification rigs. **Barry Parker** reports

David Williams, Noble Corp CEO, quipped recently: "if you are asking me what will happen in the Gulf of Mexico as a result of Macondo, we don't have a clue." The remark in his presentation at the Barclays CEO Capital Energy-Power Conference (CEP) beat the questioners to the punch.

The offshore oil industry's attention is on the US Gulf of Mexico where the new regulations are expected to incorporate results of a late May report to President Barack Obama from the Department of the Interior's newly-formed Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE).

BOEMRE, established in the wake of the *Deepwater Horizon* accident, is aiming for a late September deadline for issuing new rules governing the operating and safety practices of drillers.

Two interim rules issued in June this year are already impacting drillers – who have complained about a dramatic slowdown in the permitting for new wells. At the strategic level, US legislators are considering bills that would alter the financial and insurance landscape.

A House bill, passed in late July, would remove caps on liability for responsible parties, while Senate versions, still being hashed out, would raise the liability ceiling substantially.

Offshore oil will continue to grow along with overall oil production. The International Energy Agency's (IEA) mid-September report projects worldwide oil demand to be around 86.6M bpd in 2010, increasing to 87.9M bpd in 2011.

The agency cautions that downside risk, if the fragile economic recovery stalls, still remains a concern.

Data from the US Department of Energy's economists in its Energy Information Administration (EIA) show that offshore oil contributed 1.7M bpd of a total of 9.1M bpd of US production of liquid fuels (which is largely crude oil) in 2009. US Gulf production accounted for 1.6M bpd of this.

An expected shift of deepwater drillship *sans* semi-submersibles out of the Gulf of Mexico, as a result of the moratorium on deepwater exploration, has not happened.

In mid-September, Rebecca Blank, the Undersecretary for Economic Affairs in the US Department of Commerce, told a Senate panel probing the drilling moratorium's impact on small businesses: "of the 46 rigs in the US Gulf in April, 41 of them were still there."

The EIA has estimated that the moratorium, expected to end on 30 November 2010, would reduce production by 31,000bpd in 4Q10, and by 82,000bpd in 2011.

Companies exploring in deep and ultra-deep waters are resigned to delays in projects that had previously been slated to begin production in 2010 and 2011.

Reducing production

Petrobras said it expects to be producing at the end of 2010 from the Cascade field (which it now wholly owns, following the buyout of Devon Petroleum) and the Chinook, where its partner Total has a 33.3% stake.

At the Barclays Conference, a top Exxon Mobil executive said it will be resuming drilling at two development projects, Hadrian North and Hadrian South, once the moratorium is over.

In a larger context of production, the slowdown in the US Gulf presents a small bump rather than a major blockage. Alf Thorkildsen, of Seadrill, told his CEP conference audience that long term market factors are intact.

Thorkildsen cited the maturation of traditional fields and the need to replace production as a driver of offshore demand, and added that exploration will move into more difficult areas that benefit operators of higher specification equipment.

John Rynd, the president of Hercules Offshore, said, "E&P [exploration and production] capital spending is on an upward trajectory in 2010 and the oil price outlook is supportive of continued growth."

Mexican oil major, Pemex, is on a mission to boost the rate at which replaces sliding production as the offshore Cantarell Field is depleted. Output peaked in 2004 at 3.4M bpd, and declined to 2.8M bpd by 2008. Randy Stilley, the CEO of Seahawk Drilling, which operates jack-ups in both US and Mexican waters, is optimistic about Pemex.

80%

the utilisation of jack-up rigs worldwide, excluding those in the Gulf of Mexico

'The slowdown in the US Gulf presents a small bump rather than a major blockage'

In his CEP conference presentation, he described an 8.7% increase in Pemex's investment budget for 2010, intended to increase oil production. A possible tender for as many as 21 jack-up rigs is expected later this year, as the Mexican oil company strives to produce 3.3M bpd. Its 2010 production run-rate stands at 2.6M bpd.

Optimism about Asia

Noble's David Williams spoke about the market's likely course, saying, "we expect the demand recovery to continue." In the high-specification jack-up segment, he pointed specially to demand for drilling in Asia-Pacific, Mexico and Middle East.

His optimism about Asia has been borne out by a recent Dahlman Rose (DR) report by shipping and energy analyst Omar Nokta. DR told investors in late September, "Chevron has come to the market looking for several jack-ups and tender rigs to work in Thailand for roughly three years each in a move that could be favourable to Seadrill".

In the North Sea, declining production has prompted concern from the Norwegian Energy Ministry. Statoil announced plans to extract more oil and gas from existing discoveries through enhanced recovery techniques.

Norwegian media reported a Statoil representative saying: "we believe it is possible to pick up additional resources equivalent to a Statfjord field, or 675M m^3 of oil and gas (around 4.2Bn barrels)."

Matt Ralls, CEO of Rowan Companies (an operator of high specification jack-up rigs) in told the CEP conference about Rowan's largely cash acquisition of Norwegian rig owner Skeie Drilling and Production (SKPD) – which is building three Norway compliant, harsh environment jack-ups to be delivered by mid-2011.

Highlighting concerns about marginal fields (and redevelopment of fields that had been previously abandoned), he also pointed to strong production incentives from the Norwegian tax regime.

"The Norwegian market is ultimately the best market for this equipment [Rowan's fleet], but by no means the only market," he said.

Mark Keller, a Rowan executive handling business development, said, "we are seeing tender requirements, all over the world, becoming more stringent." High-spec rigs will feature strongly in Rowan's business plans.

Offshore oil exploration and production will continue to be a vibrant part of the petroleum business. The drillers are focused on getting past the *Deepwater Horizon* accident, and pushing further into offshore fields all over the world. F

Pressure to merge on banks

German shipping bankers are calling for sector-wide consolidation

German shipping is poised for a consolidation among small shipowners over the coming years as scale becomes key for obtaining financing, leading ship finance figures have warned.

Maritime consultant Henning Winter, a former executive board member of Hamburg Süd and Deutsche Schiffsbank, told the Hansa Treuhand symposium in Hamburg, that the pressure on small owners to merge will soar in 2012 due to renewed investment requirements in the container ship fleet.

The sector, dominated by German owners, has seen almost two years of nil or very little contracting; based on the current orderbook and delivery schedule ordering activity is expected to spike once more around 2012/13, Winter explained. Small owners with only a few ships might then face huge hurdles for debt finance because of stricter risk management by the banks following the financial markets crisis. Financiers would generally prefer larger, diversified shipowners with stronger balance sheets because of greater resilience and supplementary demand for value-added financial services, Winter predicted.

Nordic bank Nordea offers extra advice on how German owners can obtain finance. Ulf Andersson, CEO of Nordea in London told *Fairplay* recently that owners should continue to cancel or defer all unfinanced newbuildings and use every opportunity to tap into the equity and bond markets. F