

Energy Shipping

Pemex taps into deepwater potential

Mexican oil company loaned more than \$1bn from US Export Import Bank in 2009 for offshore equipment



Barry Parker — New York

FINANCIAL transactions in the Americas, recently in the US and international news, underscore two important aspects of the offshore energy business.

In mid September, reports circulated about the US Export Import Bank providing finance approaching \$1bn to the Mexican oil company Pemex. Normally, actions of export credit agencies like Exim are routine in promoting sales of big-ticket capital equipment. Around the world, the Norwegian ECA's, in conjunction with South Korean agencies, have been instrumental, for example, in supporting construction of drillships costing \$800m, in South Korean yards.

Mexico is actually US Exim Import Bank's largest customer, with \$7.8bn of finance outstanding at the end of 2009, having benefited from support spread over direct credits, insurance and guarantees of finance. The mid-September release of Exim's 2009 annual report revealed that Pemex had benefited from \$1bn of actual loans for purchases of "oilfield and gasfield equipment". A further \$300m in guarantees, mainly set aside to support payments to US small business, was also authorised. According to reports, another \$1bn of US Exim Import Bank authorisations for Pemex funding is in process for 2010 approval.

These Pemex transactions, plus mentions of recent US Exim Import Bank financing of Petrobras (with end 2009 exposure of \$2.6bn), aroused the ire of anti-Obama bloggers, who have accused the US administration of exporting US jobs. Mexican purchases of US manufactured jack-ups (from LeTourneau, a part of Rowan Co), have been supported in the past. More typically, the funds might provide a portion of a Mexican buyer's financial package in acquiring a production or wellhead platform with significant US content.

Though Brazil has garnered more attention lately (before the bloggers went to work), Mexican waters will be a fertile area for offshore drillers, because of Pemex's mission of bolstering its "replacement rate" — where it must develop new reserves that equal or exceed its production. Concerns about the declining production of



SeaDragon 1, a high specification semi-submersible now being fitted out at Jurong: the rig gives Pemex a presence in the deepwater sector.

its Cantarell field, once one of the world's largest, has negatively impacted Pemex credit rating. A late 2009 credit downgrade by Standard & Poor's specifically mentioned its "unfavourable reserve replacement rate compared with that of

other investment-grade oil companies". A recent announcement by Mexico's energy agency put Mexico's reserves at 13.9bn barrels (on a crude equivalent basis), which is enough to support 10 years of oil and gas production.

Pemex will be increasingly active. After a four unit tender earlier this year, recent market talk has the state-owned oil company tendering for charters of up to 21 jack-ups, albeit with restrictions on the age of the equipment. David Williams,

PROVEN OIL RESERVES, BY COUNTRY

Country	Barrels
1. Saudi Arabia	266.7bn
2. Canada	178.0bn
3. Iran	137.6bn
4. Iraq	115.0bn
5. Kuwait	104.0bn
6. Venezuela	99.4bn
7. UAE	97.8bn
8. Russia	79.0bn
9. Libya	43.7bn
10. Nigeria	36.2bn
11. Kazakhstan	30.0bn
12. Qatar	27.2bn
13. United States	21.3bn
14. China	16.0bn
15. Brazil	12.6bn
16. Algeria	12.2bn
17. Mexico	10.5bn
18. Angola	9.0bn
19. Azerbaijan	7.0bn
20. Sudan	6.8bn

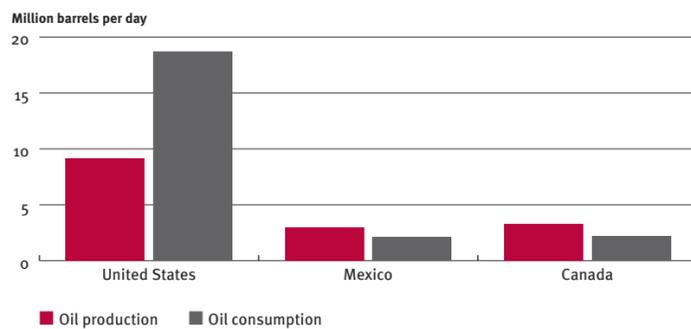
Source: CIA World Fact Book

chairman of Noble Corp, a leading jack-up operator in the Gulf of Mexico with 12 rigs in Mexican waters, said at the Barclays Capital Energy Conference: "Nobody in the world needs hydrocarbons more than Mexico, clearly they need the rigs."

Mr Williams said that he believed Pemex would quickly drop the age restrictions because it would not get the response it wants. Other operators who might benefit from Pemex's shallow water appetite include Seahawk Drilling (formerly part of Pride International), Hercules Offshore and Enasco.

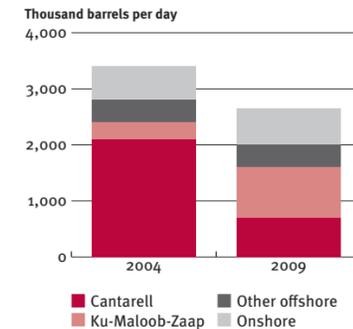
Pemex also a presence in the deepwater sector. SeaDragon 1, a high specification semi-submersible now being fitted out at Jurong, is expected to go onto a five-year charter to Pemex, at \$503,000 per day, after delivery from the yard in December 2010. ■

NORTH AMERICA OIL PRODUCTION AND CONSUMPTION 2009



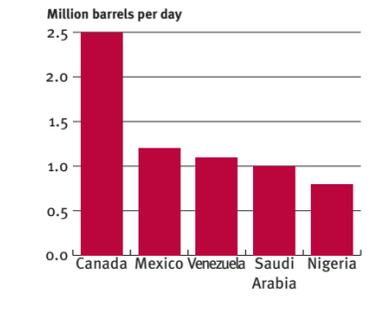
Source: EIA Short-Term Energy Outlook

MEXICO CRUDE PRODUCTION BY AREA 2004-2009



Source: Sener

SOURCES OF US PETROLEUM IMPORTS The top five sources in 2009



Source: EIA Petroleum Supply Monthly

Producers train sights on Arctic frontier oil and gas reserves

REVISIONIST views of lines that might be drawn on maps around north of the Arctic Circle, where Canada, Denmark, Norway, Russia and the US are each set to exploit oil and gas reserves rivaling those of long time energy producers, writes Barry Parker.

As world economic growth resumes, and projections of improved demand butt up against supply constraints, attention will again focus on the region (after a two year hiatus) and the disputed claims to vast untapped oil and gas reserves.

A US Geological Survey study, in 2008, had estimated the depths above the Arctic Circle could hold as much as 90bn barrels of crude oil and 1,670trn cu ft of gas. The USGS said that 84% of these resources would be found offshore. Another expert, Manouchehr Takin, from the Centre for Global Energy Studies, estimated potential Arctic reserves at 100bn-200bn barrels and gas at 1,000trn-2,000trn cu ft.

Offshore Alaska, indisputably under US jurisdiction, an argument has erupted concerning the state government, eager for drilling jobs, and the US Department of the Interior, which has refused to grant approval to applications by Shell for drilling in the Chukchi and Beaufort seas.

Alaska's Governor, Sean Parnell, had estimated reserves of 27bn bbl of oil and

Drillships favoured but support vessels needed

STEVEN Kopits, New York-based managing director for consultants Douglas Westwood, points out that Arctic drilling goes back to the late 1960s when Arco struck oil at Prudhoe Bay, Alaska, writes Barry Parker.

More recent projects include Statoil's Snoehvit LNG project in the Barents Sea, with gas transported via a 143 km pipeline to a liquefaction terminal at Melkoyea Island, closer to shore.

In a presentation on the Arctic, Mr Kopits also mentioned ENI Offshore's field at Goliat where subsea oil production will be shuttled ashore in tankers, starting in 2013, from a Sevan 1000 FPSO, with 110,000 barrels of oil per day processing and 4m trn cu m per day gas capability, on station. Statoil has a 35% interest in the Goliat field.

Mr Kopits said that drillships would be favoured for exploration due to their ability to transit under their own power,

mentioning the ice-class vessel types Stena DrillMax IV (similar to units such as Stena Forth, but with an ice-class hull) and the Bully Class drillships from Frontier Drilling (acquired by Noble Drilling for \$2.2bn, earlier this year).

The Bully Class vessels, under construction at Keppel in Singapore, are Arctic capable ultra-deepwater drillships owned jointly with Shell. Both will be operated under multi-year contracts with Shell.

In Mr Kopits' view, there is a need for more ice-class construction and support vessels. "The Arctic is incredibly large, remote and in most cases, lacking even rudimentary infrastructure," he said.

"Robust support for operations in the region, including the ability to maximise on-station time in adverse weather, will be critical in exploiting the Arctic oil and gas resource, and that will require a generation of specialised vessels." ■

12trn cu ft of natural gas in offshore fields, according to local media. Shell had paid an attention-grabbing \$2.1bn for its blocks in a 2008 round of lease sales.

Statoil has also acquired a significant stake in the fields in north Alaska, after swapping licenses to explore in the US Gulf, with Conoco Phillips. BP has said that it will delay its plans to drill in the Beaufort Sea for at least a year.

Another emerging frontier is the east and west coasts of Greenland (under Danish jurisdiction). The USGS has estimated its waters might hold reserves of nearly 50bn bbl.

Cairn Energy, a driller based in Scotland, has been active in Greenland, with exploration wells already working off

the west coast. The drillship Stena Forth (a sixth-generation dynamically positioned unit), committed under a longer-term contract to Hess, has been working for Cairn on a short-term sub-charter in Baffin Bay (west coast).

The driller, which has now announced an oil strike at one of its exploratory wells near Disko Island, Alpha-1S1, has also bid on six blocks further north in Baffin Bay. Cairn, which has recently sold interests in India to pay for its Arctic activities, has been acquiring and reviewing seismic data, in advance of a 2012 bid round for offshore fields in northeast Greenland.

Statoil had also explored along the Greenland coast in the early 2000's and came up empty, but got back in the game with some exploratory work during 2009. Statoil and Shell were bidding in the same round with Cairn, earlier this year.

As far as the map-makers are concerned, Norway and Russia agreed in mid-September, to divide a disputed area in the Barents Sea, north of Norway. Other disputes, including a Russian claim to territory stretching up to the North Pole, will remain in sharp focus.

Warmer weather has led to melting ice, which will make for easier conditions for exploration and, eventually, the transport of oil and gas to consuming markets. ■

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