

Northern promise

Russia's Arctic waters return to top of the agenda

Deal between ExxonMobil and Rosneft for mapping and exploring in the Kara Sea follows tanker voyages through the ice to Thailand



BARRY PARKER — NEW YORK

THE Russian Arctic is again at the forefront of energy and transportation planners' minds. As September began, oil giant ExxonMobil announced that it had made a deal with the Russian state oil company Rosneft for mapping and subsequently exploring in the Kara Sea. This deal in effect takes the place of an arrangement between Rosneft and energy behemoth BP which failed earlier in the year.

At the same time, the SCF-owned suezmax tanker *Vladimir Tikhonov* had moved through the Bering Straits on a voyage from the Novaya Zemlya archipelago in the Russian Arctic to Thailand, hauling condensate for Russian gas producer Novatek. The vessel, delivered from Daewoo in 2006 especially for exports from Primorsk, is designated ice class IA and features a bow thruster complemented by controllable pitch propellers. Voyages through the northern sea route are still in very experimental stages; last year, another SCF-owned vessel, the afamax *SCF Baltica*, completed a northern voyage discharging in Ningbo, China.

Earlier last month a Scorpio-managed long range tanker, the 2008-built, 73,956 dwt *STI Heritage* (a more typical size for the Russian Baltic trades) had delivered a smaller cargo, 61,000 tonnes of liquids derived from gas production, on a similar run along the northern sea route starting in Vitino on the White Sea, also into Thailand. The vessel, also of ice class IA, is



STI Heritage used the northern sea route to carry a 61,000-tonne cargo from Vitino on the White Sea to Thailand.

Scorpio Tankers

owned by the listed company Scorpio Tankers and chartered out to the Norwegian operator Gard Shipping which, in turn, entered into a sub-charter with Novatek. According to Scorpio, its tanker had been escorted by two nuclear powered icebreakers owned by Atomflot.

Ice levels in the Arctic are approaching the recent record lows of 2007, according to the National Snow and Ice Data Centre, whose sponsors include US weather agency NOAA and the space agency Nasa. In a mid-August report titled Arctic Sea Ice at the Crossroads, the data centre wrote: "Sea ice is low across almost all of the Arctic. It is exceptionally low in the Laptev

and Kara Sea areas." It added that: "The southern route of the Northwest Passage now appears to be free of sea ice", according to closely monitored data sources.

As the northern sea route moves from its present experimental status towards true commerciality, real supply chains will evolve. The Norwegian supply chain expert Jan Husdal, quoting an academic article by Halvor Schoyen of Vestfold College and Svein Brathen of Molde University, points to substantially shorter transport distances for Russian oil through the northern sea route, 40% shorter than a Suez Canal route, against the trade-off of

unreliable and highly seasonal scheduling. "Unless the schedule reliability is improved, the northern sea route should primarily be explored for bulk rather than for liner shipping," the geographers suggest.

They counsel that oil companies and shippers of dry bulk cargoes such as iron ore from Narvik to Qingdao, or fertilisers from Porsgrunn to Shekou, think in terms of supply chain flexibility. Instead of wholesale switches in cargo routing, they suggest that "the northern sea route choice option may facilitate supply chain agility and adaptability". ■

www.lloydslist.com/ships

Harsh environment rigs catch financiers' attention

THE harsh conditions of the Russian Arctic will require suitable equipment. The premium earning power of harsh environment rigs has caught the eye of financiers, who have sought to make money from these premium hires through spin-offs of owners with fleets capable of garnering the higher tier of earnings, writes Barry Parker.

This trend has been highlighted by Transocean's offer to purchase shares in Aker Drilling — partly spun out of Aker ASA only six months earlier, with Aker retaining a 41% stake. According to a late August offering memo prepared by Fearnley Fonds and Morgan Stanley, Transocean's financial advisers, its assets include "two sixth generation semi-submersible drilling rigs *Aker Barents* and *Aker Spitsbergen*, built for year-round operations, in harsh environment and in ultra deepwaters worldwide — including on the Norwegian continental shelf and in sub-Arctic regions". The rigs are on to Det Norske at \$550,000 per day and to Statoil at \$485,000 per day, respectively. An Aker Drilling presentation described these rigs as having "excellent motion characteristics to minimise weather related downtime" and "winterised for performing operations in cold climates". These rigs can be moored at depths of up to 500 m.

Transocean's fleet also includes the semi-submersible *Henry Goodrich*, described as a Mitsui Arctic design, presently drilling for Statoil off the Newfoundland coast. The fourth generation unit, contracted under a sharing deal with Husky Oil and Suncor, is rated for drilling in depths of up to 5,000 ft.

The drillship *West Navigator* is one of six vessels with which the Seadrill offshoot North Atlantic Drilling began operations.

Transocean's fleet also includes two Aker designs — *Paul B Loyd Jr* (working for BP in the North Sea at a dayrate of \$510,000) and *Transocean Leader* (working for Statoil at \$471,000 per day, also in the North Sea). The harsh capable fleet is rounded out by two additional units, Transocean Arctic (on to Statoil at \$300,000 per day through May, 2012) and *Polar Pioneer* (working for Statoil in the Norwegian Sea at \$500,000 per day and working on the BP-operated Skarv project).

Another entity that emerged during the past winter is North Atlantic Drilling, an offshoot of the Fredriksen-controlled Seadrill. In February, Seadrill placed shares valued at more than \$400m with institutional investors, representing 25% ownership in NADL. The new entity began

operations with six units — three semisubmersibles, *West Phoenix*, *West Venture* and *West Alpha*; a drillship, *West Navigator*; and two harsh environment jack-ups, *West Epsilon* and the newly-delivered *West Elara*, which will be starting a five-year charter to Statoil in the fourth quarter of this year at \$350,000 per day.

The new addition, described as "Gusto MSC CJ70 150A" rig, was delivered from Jurong and is now being fitted out at a Norwegian yard. A sister to be delivered in late 2013 has been fixed forward to Conoco Phillips at \$360,000 per day. Dayrates on these new jack-ups, which can drill in water depths of up to 150 m, are more than double those of conventional jack-ups. Seadrill's benign environment jack-ups

are chartered at dayrates ranging from \$108,000 to \$159,000.

The fortunes of OceanRig, another player in the midst of an ongoing series of transactions aimed at transitioning the rig owner from a wholly-owned subsidiary of DryShips into an exchange-listed entity in its own right, owns two Bingo 9000 fifth-generation DP-3 semi-submersibles suitable for harsh environments. Its *Leiv Eriksen*, presently drilling for Cairn off Greenland's west coast (along with one of OCR's new drillships, *OCR Corcovado*), will be mobilising to the Falkland Islands to begin work for Borders & Southern. The *Eirik Raude*, one year newer with its 2002 build date, though presently working for Tullow in West Africa, has logged time previously working offshore Canada and Norway.

Maersk Drilling, emphatically not in the "spin-off" category, ordered two high-specification jack-ups from Keppel FELS in Singapore, for delivery in late 2013/mid-2014. At \$600m each, the two rigs "are especially suited for operation in the harsh environment of the North Sea at water depths up to 150 m", according to Maersk Drilling. These units, which will comply with Norwegian requirements, will not be classed for work in ice.

The Aker Drilling presentation at its spring annual general meeting offered that: "UDW and harsh environment [are the] fastest growing market segments with high barriers to entry." As exploration of the Russian Arctic emerges, the growth trajectory of the harsh segment will accelerate, likely with new rigs designed for the gruelling conditions. ■

www.lloydslist.com/finance

ExxonMobil and Rosneft seal \$3.2bn Kara Sea and Black Sea deal

MOVING ahead of a pack of rival bidders including Chevron, Statoil and Total, oil giant ExxonMobil has announced a deal with Rosneft worth \$2.2bn for exploration and development of three huge blocks in the Kara Sea eastward of the Novaya Zemlya peninsula, writes Barry Parker.

ExxonMobil will be funding the initial exploratory stages.

The deal, signed at a ceremony attended by Russia's Prime Minister Vladimir Putin, also secures ExxonMobil access to Rosneft acreage in the Black Sea, where exploration costs could be worth another \$1bn.

Reserves in the Kara Sea and Black Sea blocks are estimated to be 36bn and 9bn barrels respectively. Rosneft will maintain a 66.7% interest in the Arctic and Black Sea investments. In the quick pro quo, Rosneft will also be able to participate in development of ExxonMobil holdings in the US Gulf of Mexico. The companies have also committed to work jointly on other projects, including in "tight" (rock) formations in Western Siberia.

Analysts viewed the signing as a nail in the coffin for BP's efforts at teaming up with Rosneft; its deal, which had also included a swap of shares, had been stymied earlier this year by a rival Russian company. Business strategists had noted Rosneft's eagerness to bring in a major-league partner after the BP debacle concerning the Kara Sea licences and the failure of a deal with Chevron regarding exploration in the Black Sea.

From a political perspective, an agreement with the Houston-based ExxonMobil represents the realisation that the administration of US President Barack Obama desires to "reset" business relationships, especially in the energy sector, between US and Russian interests. Mr Putin could list the deal as a "success" in future political endeavours.

Mr Putin, in his celebratory remarks, said: "ExxonMobil is certainly

ExxonMobil chairman Rex Tillerson alluded to its 16 years of co-operation with Rosneft, which emerged in the mid-1990s

one of the world's leading companies that also operates in difficult conditions of the Arctic."

Analysts have mentioned ExxonMobil's experiences in harsh environments — notably the Hibernia Field in Atlantic waters far out from Newfoundland, which features a concrete production and storage platform designed to resist encounters with large icebergs. Tankers load from a submerged buoy linked to the platform via undersea pipelines.

At the deal-signing ceremony, ExxonMobil chairman Rex Tillerson alluded to its 16 years of co-operation with Rosneft, which emerged in the mid-1990s, in producing oil offshore Sakhalin Island in the Pacific. Through affiliate Exxon Neftegas, the US oil giant is the operator, with a 30% stake in the Sakhalin-1 project, where reserves spread over three fields are estimated to be 2.3bn barrels of oil and 17.1trn cu ft of natural gas.

The search for commercially exploitable oil will be challenging. A Rosneft announcement describes the Arctic fields, at water depths varying between 40 m to 350 m, as being under ice for 270-00 days per year. A company executive was reported to have pegged the beginning of exploratory drilling, to be funded by ExxonMobil, around 2015, with decisions on commerciality being taken around 2017 and production beginning some time in 2020, or later. ■

www.lloydslist.com/offshore