

Maritime security tops agenda at East Asia Summit

Disputes over undersea resources, which have simmered beneath the surface for years, are once again on the line-up



Barry Parker — New York

THE South China Sea has made news recently due to renewed discussions of maritime security at the now concluded East Asia Summit, held last week in Bali, Indonesia.

Concerns about the rising strength of China, were underscored by President Barack Obama's announcement that US forces would now be deployed at Darwin, in northern Australia. Indicative of the shipping/security connection, Darwin is the site of a liquefied natural gas terminal, fed by the Conoco-operated Bayu-Udan field in the Timor Sea exporting LNG to Japan.

Offshore energy considerations have simmered beneath the surface throughout the region for years amid disputes over undersea resources. Disputes between China and the Philippines, where US forces have long been based, have bubbled upwards earlier this year as Chinese naval forces harassed a seismic vessel working on behalf of UK-based, majority Philippine-

owned, micro-cap Forum Energy in the Reed Bank, South China Sea.

Exploration offshore Vietnam has also been the subject of disputes; in early 2011, a Chinese fishing boat disrupted Petrovietnam seismic efforts, cutting the streamers trailing the *Binh Minh 02*, in the Vanguard Bank near the disputed Spratly Islands, also claimed by Taiwan and, informally, by Brunei.

Diplomatic discussions at Bali saw the Philippines using the Summit venue to push the Association of Southeast Asian Nations to bring China to the negotiating table. The Chinese, who have resisted such efforts, proposed a Maritime Fund to support trade flows in the region, a key concern of US conference attendees.

The economic backdrop for the diplomatic wrangling in Southeast Asia is tied to the interests of both mid-sized and major oil companies. Canadian exploration and production player Talisman, working offshore since the mid 2000s, expects to continue ongoing seismic operations, and begin exploratory drilling in 2012 at the Thach Anh 3 and Ngoc Thach 4 wells in the less contentious Nam Con Son region, an offshore region not claimed by China.

Talisman hopes to drill up to four wells, a combination of exploration and appraisal, in blocks 134/135 in the south and Block 148, have overlapped with areas where China has asserted claims.

The majors have also gone into offshore Vietnam. ConocoPhillips, an investor in a gas pipeline linking Nam Con Son to



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southern Vietnam, has partnered with Petrovietnam. Market rumblings had ConocoPhillips seeking to sell a stake in a closer in field in the Cuu Long Basin, where it controlled 23.5%, for \$1.5bn, to Petrovietnam. Crude oil from the field is processed and exported through the floating production, storage and offshore vessel *Cuu Long Thai Bien*.

Late last month, ExxonMobil had reported a discovery at block 119, off the coast of Danang. The oil giant, which in 2008 had acceded to requests from China to cease drilling at a nearby field, has utilised the Seadrill-owned semi-submersible West Aquarius.

Total, in a partnership with Petrovietnam, has employed two jack-ups, Vantage Drilling's Topaz Driller and Seadrill's Offshore Resolute, in the Cuu Long Basin, in shallow waters near the coast.

The Vietsovpetro joint venture (linking Petrovietnam and a Russian entrant, Zarubezhneft) had employed the semi-submersible Essar Wildcat off Vietnam's southern coast through mid 2011. After a special survey at Keppel Fels in Singapore, the rig has now moved into a contract with ConocoPhillips, doing well completion work in Indonesia's Natuna Sea.

ExxonMobil recently extended for two years the West Aquarius' charter, which has

been described as a worldwide contract at \$527,000 per day, expiring in early 2013.

In mid September, the rig had moved on to Southern Chinese gasfields for additional drilling and is expected to be working China/Vietnam until at least mid-2012. A communication to the rig's crew on Facebook indicated that Seadrill was assisting ExxonMobil in evaluations of the

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Council on Foreign Relations

rig's suitability for development work in eastern Canada after its activity in Asia is concluded. However, the near-term plans call for at least three well completions in China, with a planned move for the West Aquarius back to Vietnam in the second quarter of 2012 for drilling one well and testing another.

Political think-tanks do not follow the programmes of individual rigs, but ExxonMobil's plans are known at a higher

level. The Council on Foreign Relations' Joshua Kurlantzick, a Fellow for Southeast Asia, wrote: "Despite Chinese warnings, India and Vietnam are planning to go ahead with their exploration project west of the disputed Spratly Islands, while ExxonMobil plans to drill an exploratory well off the coast of Vietnam next year."

On the even larger palette of worldwide shipping movements, The New York Times writer Mark Landler put the South China Sea at the locus of "A new era of gunboat diplomacy". He wrote: "As countries race to erect drilling rigs and send oil exploration vessels to comb the seabed, conflicting maritime claims are helping to fuel a naval arms race."

The Chinese have their own concerns about energy security, wishing to lessen dependence on movements of imports through the Straits of Malacca. Mr Landler said: "For China, the South China Sea has long been crucial as a supply route for oil and other raw materials to fuel its economy."

Mr Kurlantzick described a growing list of alliances between the US and nations in Southeast Asia, which he said would "continue to play the role of protecting Asean nations, international shippers and oil companies' rights to navigate and explore the South China Sea." ■

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Ophir Energy stakes claim in early exploration phases

THE high stakes world of oil exploration has attracted financial investors, who play an important role in funding entrepreneurial geologists in phases from seismic through production, writes Barry Parker in New York.

Ophir Energy, which describes its focus as "the early part of the exploration lifecycle", has been a success by any measure.

Founded in 2004 with the backing of steel magnate Lakshmi Mittal, the company moved to the public stage this summer with a \$350m initial public offering, with proceeds earmarked for exploration drilling. Its shares trade on the London Stock Exchange.

On a recent Morgan Stanley webcast concentrating on Exploration Basins, Ophir Energy chief operator officer Mike Fisher said: "We are well funded, following the IPO that we carried out in July of this year. We have a cash position of something like \$410m... that will take us well through the middle part of 2013."

Mr Fisher described a programme of between nine and 13 wells that Ophir will be drilling through mid 2013, in "a mix of proven and frontier plays" around Africa.

The company's presentation mixed geology and drilling, in line with Morgan Stanley's emphasis on worldwide basins, with specific applications of financial portfolio theory, where shareholder equity is created and risks carefully managed.

Much like a consultant presentation, Ophir breaks down offshore oil projects into four quadrants, delineated by risk level versus prospect size.

Mr Fisher described a graph quadrant of lower risk (higher probabilities "de-risked" through exploration and appraisal) and higher volumes as "the place where you want to be".



Ophir Energy has made three commercial gas discoveries earlier this year offshore Tanzania in the Rovuma and Mafia Basins drilled out by Odfjell's semi-submersible Deepsea Stavanger, top, while Deepsea Metro 1 drillship has been reported fixed through summer 2012 at \$430,000 per day. Odfjell Drilling



The exploration lifecycle is also managed in a way that creates value through sales of stakes in fields, with Ophir being focused on the early part of the exploration cycle, starting with "opportunity capture, where you take on a virgin, untouched piece of acreage".

In explaining how the company seeks to deploy its cash, and harvest its investments, Mr Fisher enumerated investments in 3-D seismic and then exploration drilling.

As a relatively small capital company, Mr Fisher explained that the early part of the cycle "is where we feel that we can add the maximum value". Value has indeed been added as Ophir has made three commercial gas discoveries earlier this year offshore Tanzania in the Rovuma and Mafia Basins drilled out by Odfjell's semi-submersible rig Deepsea Stavanger in late 2010 and early 2011.

The drilling programme unfolds over time, depending on how the seismic programme unfolds. When describing Ophir's plans for moving up the value chain in the East Pande block, where it has a 70% investment, in a partnership with RAKGas, exploration director Andy Oldham told webcast listeners: "It's obvious that we need 3-D work; we would not be happy with the 2-D... we are just about to award the contract. We will start acquiring data in December."

He added: "We will potentially be drilling in late 2012."

Results of the seismic study in the East Pande block will be reviewed, starting with preliminary data generated early in 2012.

In practical terms, the early stage value creation has brought in cash. Mr Fisher said that, after adding value early on "we have been able to divest down and bring in larger companies". As an example, Mr Fisher cites Ophir's activities in both Equatorial Guinea

and Tanzania, where BG was brought in, saying: "We've worked very hard in putting clear monetisation plans in place. So, we can see a roadmap to monetisation for both of those."

'Commercialisation', the movement from appraisal through first production, requires more capital. BG has been selected as the farm-in partner (that is, an investor) for blocks 1, 3 and 4, at least in part because of its abilities to develop LNG export chains.

In conjunction with the farm-in, BG has become the operator of a port at Mtwara, which serves Petrobras and Statoil, in addition to Ophir. According to Ophir, "it is likely that operatorship [of the port] will eventually be handed to an independent third party".

Mr Fisher added more colour in Ophir's five-well East African programme. He said: "BG has taken over operatorship" on the three areas offshore Tanzania, adding "they have a 300-day commitment on the Deepsea Metro 1" drillship.

The vessel, newly delivered from Hyundai, has been reported fixed by owners (an Odfjell/ Metrostar joint venture) through summer 2012 at \$430,000 per day. Market reports hint at charterers' options for three additional six-month periods.

Ophir's expansion is moving up the risk path in other ways; in October, it announced that it would be acquiring the smaller Dominion Petroleum for £118m (\$184m) of stock.

In the choppy equity markets of summer 2011, Dominion, which has staked out a position in the adjacent Block 7 in Tanzania, had failed in an IPO attempt.

Dominion had invested in a 1,200 sq km 3D-seismic study, contracting with Fugro Geoteam's vessel *Geo Barents* and subsequent processing by CGG Veritas. ■

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