

# Northwest Europe offshore rig market softening

**THE NORTH SEA**, the world's largest semisubmersible market, is weak and there are few signs of an improvement despite the onset of the summer drilling season. Of the 47 semisubmersibles in the region, 10 are without contract, utilization is just 78 percent and one unit, Transocean Wildcat Explorer, is cold stacked in the UK having worked in Norway for the past five years. In Norway, which is traditionally a stable market, the fourth generation semisubmersible Transocean Arctic has been off contract since early February and is not being marketed for short-term work.

2002 was always going to be a tough year for drilling contractors in the North Sea due to underlying cyclical market factors, but cutbacks in some operators' 2002 budgets have added to the woes. Insufficient new demand is emerging to sustain existing levels of fleet utilization through the second half of the year.



Jackup demand is softening in the North Sea. Here, GlobalSantaFe's jackup Monitor is working for BP in the UK sector of the North Sea.

While not having an immediate impact, the recent decision by the UK Government to add a 10% supplementary charge on North Sea profits by increasing Corporation Tax will act as a further disincentive to operators to invest in the North Sea. Under the changes, corporation tax will increase from 30% to 40%, which would generate \$5.3 to \$11 billion in additional revenues over eight years, based on oil prices of \$15-\$21.50 per barrel.

The North Sea is a mature environment and often projects tend to chase marginal oil recovery. Capex outlays are conservative, but so are margins. An additional tax in the UK will trim margins further and could provide the impetus for oil companies to redirect spending to other basins such as lucrative deepwater plays. In West Africa, as in many other locations, the cost of producing a barrel is significantly cheaper than in the UK. To counteract the possibility of capital fleeing

the country, the UK Chancellor **Gordon Brown** simultaneously announced that first year allowances will be raised from 25% to 100%, encouraging new investment, and that royalties will be abolished.

## **NORTH SEA OUTLOOK DISCOURAGING**

"Activity in Norway is decreasing," said **Eric Schou**, General Manager, Commercial, for **Maersk Contractors**. "We recently had to move a rig from Norway to the UK and we will soon move another of our rigs from Norway to Denmark."

"I believe similar activity will happen with other contractors."

A number of large projects are coming to an end, Mr Schou noted, and the slack is not being taken up with new projects. He says the reasons could include the lack of exploration licenses as well as oil companies reluctant to invest in new exploration.

"Traditionally the North Sea has been slower to react to world oil prices and economics," Mr Schou noted. "I think there has been uncertainty about the future from last fall now having an effect."

**Duncan Weir**, Vice President, Contracts and Marketing for **Diamond Offshore** in Aberdeen, agrees: "The work is not being brought to the tables by operators for a number reasons," Mr Weir said. "Consolidations have not helped, the tax situation in the UK has not helped either. But generally the most significant thing is that operators just seem to want to sit on their thumbs right now and not drill."

"The basic malaise with respect to operators not coming to market with drilling needs was prior to the recent change in the UK taxation situation," Mr Weir said. "So I think a lot was what was being held back last year was because oil and gas prices weren't good."

"But the operators don't seem to have woken to the fact that oil and gas prices are better. They are still sitting on their thumbs."

## **SEMISUBMERSIBLE ACTIVITY SOFTENING**

**Bassoe Offshore Consultants** reports that the slump in Norwegian drilling activity is a reflection in the continuing reduction of development projects. Norsk Hydro, Bassoe reports, is planning significant reductions in its Norwegian rig fleet late this year and early 2003, reducing its rigs under contract from eight semisubmersibles presently to half that level or less. Statoil is also dramatically reducing its stable of contracted rigs, from a high of 10 in the second quarter of 2001 to only three semisubmersibles by the end of 2002.

With concern over eroding UK sector semisubmersible activity, which will likely see some impact from increased taxation, the Northwest European semisubmersible market could be impacted for the next couple of years.

North Sea semisubmersible activity in 2001 totalled just over 40 rig years and it seemed likely that despite the anticipated cyclical downturn in Norway, there would be sufficient addi-

tional demand in the UK to sustain activity at around the 40 rig year mark.

However, based on current expectations for semisubmersible activity, Northwest European semisubmersible demand is on course to fall by around 12 percent in 2002 compared with last year to an average of 35 rig years worth of work.

The outlook for idle rigs is bleak. Prospects for working rigs coming to the end of their contracts in the next few months are only a little better. Dayrates for standard semisubmersibles have already fallen from a high of around \$95,000 to between \$70,000 and \$80,000 and further slippage seems inevitable as a surplus of units chases a dwindling volume of new work.

Ocean Nomad is expected to commence a one well plus one workover option with BHP on Keith in early June, but the other idle rigs have little prospects of work. In addition, nine more rigs are scheduled to come off contract in June, four of which have no follow up work yet in place.

Rigs due off contract in the period to September include the Transocean Prospect and Deepsea Bergen in Norway and the Glomar Arctic IV, Stena Dee, Borgny Dolphin, Borgsten Dolphin, Noble Ton van Langeveld and J.W. McLean in the UK.

Against this increase in availability, requirements in the market for third quarter starts are limited to Veba, ExxonMobil, Agip and ChevronTexaco. In Norway, ExxonMobil may still pick up a semisubmersible for an exploration program in the second half of the year. Into the fourth quarter in the UK, Britannia Operators Ltd is planning a well, Talisman may pick up a rig, and EnCana (PanCanadian) may drill on Selkirk.

## **MERGERS IMPACT MARKET**

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Merger activity continues to have a dampening impact on drilling. There is no sign of new demand emerging from **Conoco** or **Phillips** while their merger works towards final consummation. **Enterprise Oil** was planning a semisubmersible program in the UK beginning in September and potentially running through into the Irish Corrib completion campaign in 2003. However, with the **Shell** takeover of Enterprise, there now appears to be little prospect of this program progressing under the Enterprise banner.

## **JACKUP DEMAND DRYING UP**

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Demand for jackups is also depressed. Three heavy duty jackups, Enseo 100, Rowan Gorilla VII and Maersk Guardian, have had to accept accommodation jobs because of the lack of requirements in the drilling market. Rowan Gorilla VII has been hot stacked in Rotterdam since arriving in the North Sea in early February.

The strong market in the last two years has encouraged contractors to continue to move jackups into the region on a speculative basis but this strategy now looks to be backfiring. While Rowan Gorilla VII has taken an accommodation job, the recently arrived Glomar Labrador I is taking advantage of the lull in demand to undergo a three-month yard visit.

Overall jackup demand offshore NW Europe is falling in 2002 compared with 2001, yet jackup supply is increasing. In 2001 jackup demand in the region totalled just over 32 rig years.

This year demand is on course to total about 31 rig years, a drop of three percent. Jackup supply in 2001 totalled 33.75 rig years compared with an anticipated total of 35.9 rig years this year as a result of the arrival of the Rowan Gorilla VII, Glomar Labrador I and the Maersk XL1 newbuild due to arrive in October.

While jackup demand is weakening into the third quarter of 2002, there is some hope that there will be an improvement in demand in the fourth quarter. Wintershall is planning to increase its Dutch activity to two rigs from the fourth quarter through 2003. Veba Oil is planning a two-well program in Holland and BP could pick up a rig for between one and four wells from late in the year.

In Denmark, **DONG** is planning a development campaign on its Nini and Cecilie fields involving up to 14 wells. However, the start has drifted from the third quarter of 2002 into the fourth and now may be delayed into 2003. However, Maersk Oil may only continue through the remainder of 2002 with five rig strings, compared with six over the past 18 months. In the UK, Calenergy is still pursuing approvals for one or more wells from the fourth quarter.

Drilling contractors are now resigned to lower activity for both semisubmersibles and jackups in NW Europe for the remainder of the year, with most expecting a marked improvement in demand in 2003. ■