SECTOR FORECASTS

Supply constraints set to slow robust floaters growth


The sun still shines on the floating production sector but there are one or two worrying clouds looming, report Dr **Roger Knight** (*left*) and **George Venturas** (*right*) in today's exclusive sector forecast from Infield Systems (**Booth 2559**).

With floating production now central to the growth of offshore oil activity, the rate of increase observed in the last five-year cycle (2002-2006) is expected to continue, however at a decelerated pace in the next five years as this sector is currently plagued by stretched capacity leading to some chronic project delays across all geographical regions.

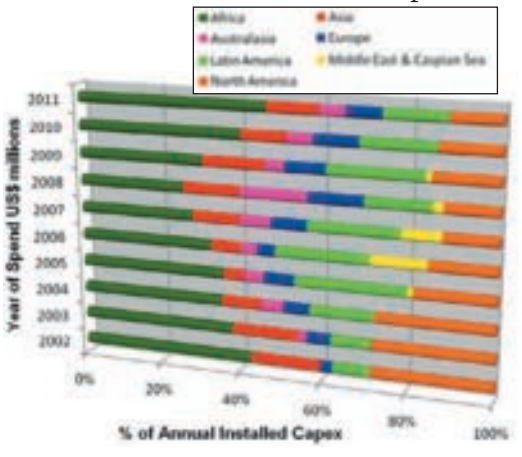
From the OFFPEX Market Modelling and Forecasting System, Infield believes, in monetary terms, the peak of this current wave of capital expenditure on floating production systems will be in 2011 with an estimated total installed cost of $7.7 billion forecast. This can be illustrated in reference to Total's staggering its costs for its completed 67-well Dalia project and its ongoing 43-well Akpo project, suggesting a similar staggering arrangement when engaging in its Usan and Pazflor projects in Nigeria and Angola respectively.

We are already seeing early signs of a second wave of major expenditure commencing in 2009, relative to the previous five-year period (2002-2006). The past two years have been characterised by concerns over project schedules and costs as a buoyant offshore market struggles to cope with the reality of increased activity and increased costs put at greater than 50% by some well-respected authorities. These two themes dominate any detailed assessment of this market. In numerical terms the wider floating production market continues to develop in most regions although the degree of growth varies, with 182 units forecast to be installed globally in the period 2007-11

In 2007-11, Africa is forecast to continue its regional dominance in terms of capital expenditure with deepwater and, increasingly, shallow water activity accelerating. The region is expected to account for the largest share (35%) of the total global floating production facilities capex for the period.

Although in numerical terms Asia is expected to witness the highest individual number of floating units, equating to a 23% share of the total 182 units forecast for the period, in capex terms this equates only to a 12% share of the total world because of the smaller scale of the projects involved.

Overall, in capex value terms deep and ultra-deep water units are expected to account for a 58% share of the total global forecast value in 2007-2011. Units expected



Global floating production systems capex (%) by region, 2002-2011. (Source: OFFPEX Market Modelling and Forecasting System)

to be deployed in shallow waters during this period will account for the rest. In terms of the type of floating production units predicted to be deployed between 2007-2011, FPSOs represent the bulk of global totals both in numerical and capex terms. FPS type units will constitute a 13% and 17% share of the 2007-2011 total global floating production unit numbers and capex respectively.

Looking beyond the 2006 peak in global capex within the previous five-year period, we expect the floating production sector to continue to maintain a pivotal position within the offshore industry. Combined with increasing levels of innovation, these factors provide a solid position to allow the offshore industry to exploit reserves in difficult and dangerous parts of the world. As the overall fleet continues to grow, opportunities for consolidation and alternative strategies for ownership and development will present themselves and we could see further structural change in the floating production sector.

As mentioned previously, in terms of market constraints the traditional market has been disrupted by limited yard availability and subsequent extensions in delivery schedules. At the same time we have seen activity levels rise in response to improved economics on higher commodity prices, which have also added to the pressure on schedules by increasing the 'opportunity premium' that is 'lost' by any delays in bringing developments onstream. Over the past couple of years we have therefore seen oil companies become desperate to get hold of vessels to produce oil, creating a tight market with reduced supply.

The size of the 'opportunity premium' has even forced some projects to switch from intended newbuilds to converted alternatives. This 'frenzied' period of activity is the key point underpinning many of the assumptions and investments currently being made in relation to FPSOs, and in particular to converted vessels (many of which are being built on a speculative basis).

The number and diversity of vessel owners is increasing, as is the number of operators with both experience and/or opportunities to utilise floating production systems. These operators are already looking at increased diversity in financing, ownership and production and profit sharing agreements. Innovation in the floating production sector is a positive point and one that bodes well for the future, but one that also maintains a clear caveat: redeployment.

In the current bull market it is easy to forget the inherent difficulties and costs related to redeployment. There are an increasing number of vessels that have passed their original cessation date and/or are operating at lower production levels than were initially regarded as economic. Eventually we expect to see an increase in vessel redeployments from the current fairly flat market. The interaction between these redeployable vessels and additional vessels entering the market could be a defining factor in shaping this sector for the next decade. The key impact here will be in the assessment of residual asset value and its influence on financing and investment.

● Infield is dedicated to the provision of data, analysis and forecasts to offshore oil and gas industry professionals.

Region	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Africa	43%	38%	36%	36%	33%	29%	26%	31%	41%	47%
Asia	17%	16%	10%	5%	7%	12%	14%	16%	11%	12%
Australasia	0%	2%	5%	5%	4%	8%	16%	5%	6%	6%
Europe	3%	6%	6%	7%	4%	9%	13%	10%	11%	8%
Latin America	9%	10%	15%	27%	22%	22%	15%	23%	18%	15%
Middle East & Caspian Sea	0%	0%	0%	1%	13%	9%	2%	1%	0%	0%
North America	28%	28%	27%	19%	16%	13%	12%	15%	14%	12%