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FrontRunner

Under the skin of Subsea, Engineering and Construction Contracting

STRATEGIC OFFSHORE RESEARCH

Big project risk hiding in plain sight

It's reckless to ignore the lessons of history. Particularly when it comes to offshore contracting.

Look back decade upon decade and you'll see regular and frequent moving of the contracting goalposts. Usually that's driven by the end clients and is pretty much always a reaction to costs going up and contractors making more, or any, money.

Every downcycle sees the supply-chain battered into a babbling submission. As the cycle turns up once more, contractors eventually can make some return again. But as that gets pushed on up, then something has to give. Usually that's by sliding more risk into the contracts.

More often than not that works. But it's also not that long ago in the last market, for want of a better term, "super-cycle" that end clients were starting to talk about only having the option of postponing or cancelling work as a means to influence contractor pricing. That was probably the first time in living memory that the clients had truly lost control of the supply-chain.

At that point they had nowhere left to turn apart from to say "It's our ball and we're not playing any more" and sulk off to their room in a huff. And it's telling that a massive market crash then followed hitting that point. A commodity price crash brought about the supply-chain price slash the clients had wanted in any case.

This time around, for once, something's a little different. As *FrontRunner* has said already, the only part of the market making big profits from the latest commodity price switch-around is the end client oil companies. When they've spent years re-setting both the supply-chain and their own internal cost bases, then that's only to be expected.

Subsea market prices might be firming, but they are not skyrocketing by any means. The dynamics of the market seem somewhat obtuse at the same time as diversification into renewables has only brought a world of pain and a sea of blood red ink that seems never ending and big enough to sink even the most robust of contractors.

After a few years of being backed into a corner and watching the end clients making money, the major subsea contractors do have a forthcoming chance to make some decent money again.

There's still a little waiting to do though. Those much better times might start in 2023, but it will be 2024, 2025 before the better conditions really kick in. Much of that comes from huge contracts in Brazil, LNG projects in Australia, and target new projects like the Equinor Canada Bay du Nord project.

More immediately, it's interesting that financial analysts are referring to big swathes of backlog as "legacy contracts" just from their vintage. Any-

thing relatively new is expected to have much better margin and everything slightly older, somewhat unfairly, is being looked down on.

Already we've had TechnipFMC be-moaning what it considers a far too low share price, and the other players seem to feel that way too. Yes, part of that might be these "legacy" contracts creating a time-lag the contractors have to work through until better results appear, but there's something else there. Something else that some of the players seem to be missing or are brushing under the carpet.

Something seems to be being rather conveniently ignored in the move to more integrated deals, which remember is contractor driven, where the supply of subsea production systems are bundled with the subsea construction and installation programme. Integrated does mean more contractual risk. Lots of it.

The contractor or contractor alliance holding an integrated deal carries all the interface risk. If something goes wrong with the manufacturing schedule, then the contractor is carrying the can for all the knock-on costs. And that's a problem when integrated contracts are supposed to mean quicker project deliveries. TechnipFMC likes to chant the integrated contracting mantra on that faster project delivery, but operators using that method know they are offloading risk as well.

That's fine as long as the contracts go well but watch out when they don't. So

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Inside this issue: *Brighter future sees owners limit future offers... Oversupply a recurring curse...*

Owners reluctant to commit too far

The subsea support vessel market often displays unique behaviour. Sometimes perplexing, the market has so many subtleties, it can seem like it's trying to be anything but straightforward.

While the market is turning, the scar tissue from very recent oversupply is anything but healed. Yet, newbuilds on the ROV support side are starting to be talked about. The only problem there is how green does the specification have to be. That and when you could expect to get delivery when yard quotes are two to three years at least. And also steel prices are only now appearing to stabilise after easily doubling, and supply from Ukraine is still removed from the equation. Everyone likes the idea of newer ships and better fuel efficiency, but it would be a brave owner that jumps in with both feet on newbuilds.

As it is owners really don't seem keen to commit ships for more than one or two years ahead. After that they are hoping for a big leap in rates. If a newbuild was to come out for that expected higher rate period, it would have been ordered now.

In the meantime, some sale and purchase is taking place and even some of the stranded newbuilds in China are finding a way to make an appearance.

A new deal for the sale of the ROV support vessels Guo Hai Min An and Guo Hai Min Kang (originally the Toisa Resolute and Toisa Reveille) appears well advanced. October is due to see the sales complete and the vessels reflagged away from China. Market insiders say the buyer is the Fredriksen-backed Seatankers. Further details are still to be confirmed, but there is a strong suggestion the ships will be managed by Ostensjo and renamed Edda Sphynx and Edda Savannah. Refit work is expected in Singapore before transfers to the North Sea. Other sale attempts, including to Siem, came to

nothing, and then for a while it looked like the ships would stay in China and were mooted going to the domestic wind-farm market there.

Also sold is the Boa Deep C. Both the Deep C and Sub C recently saw ownership transfer to bondholders, though Boa retained management of the ships. The Deep C is definitely sold to Singapore interests, which appears to be POSH. The vessel is nearing the end of Indian construction support with McDermott and then would be handed over. The Sub C, meantime, is fixed to Subsea 7 for next year and for this season continues with Boskalis.

Another couple of sales are driven by the renewables market. The Global Orion (originally owned by Olympic) but latterly working in the Mexican and Gulf of Mexico diving market is sold to Geoquip. The vessel will be converted to a geotechnical survey role and has al-

Geoquip spots Orion

ready sailed from the Gulf enroute Den Helder under a new name of "Geoquip Elena". Geoquip will market for wind-farm work both in Europe and the east coast USA with a cone penetration spread on board.

Also sold is the Seabird-owned 2008-built Petrel Explorer. While full details remain to be confirmed, Chevalier of Holland is understood the buyer with an intention to convert to a wind-farm walk-to-work support role.

Driven by renewables work, Van Oord from the first quarter 2023 is taking a five-year charter on the now getting long in the tooth Subsea Viking to support the SMD-built Q1600 Dig-It trencher. Eidesvik adds the charter on the one-time BP west of Shetland field support vessel also includes extension and sale call options beyond the firm period. The Dig-It trencher is currently in Taiwan on the Topaz Tangarua which Van Oord appears releasing. ◀◀

I'm alright Jack

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far, none of the initial wave of integrated contracts has gone wrong or pop, though when one does, then losses could be huge. It also is not a question of if, but of when.

New contracting methods always sound great until something goes wrong, and something always does. As the market heats up and the supply-chain gets strained and under pressure it is very likely that problem projects will appear.

Then it's just a question of how big the losses are, and how the contractors that are all in on integrated contracting find a way to dial back risk again, as clients will not want to pay for it. When the project is integrated there's a risk that hitches become compounded and the clients just shrug their shoulders and say it's not their problem, even if production is delayed.

Some have never gone for the integrated format at all. And many will view unbundling as much work as possible as a means to try and manage cost increases, even if it means they have to spend much more on contracting and project staff.

This time, the contractors have done the shifting of the risk off their own back, and that may come back to viciously bite them. There might later be a bitter irony that the contractors have done this to themselves

When the move to integrated started it had obvious intentions. Get project costs down and cut lead times for the end client in an attempt to stimulate new jobs getting approved.

Effectively contractors, but really it was mostly from TechnipFMC when Technip and FMC were still separate, were trying to make new demand happen so they could improve their own lot. How that applies in a much better and rising market compared to one on its knees can be very, very different. ◀◀

Hysteria never good for market supply

Hysteria loves to grip the modern world. Make a crisis out of a drama at every opportunity. But hysteria is one of those things that can be both self-sustaining and self-amplifying.

The wind-farm market seems to love a good bout of mania. Tumult in any market that involves ships and marine assets always leads to one thing and one result: speculative newbuilding and, sooner or later, oversupply.

That frenzy attracts lots of money and lots of parties wanting to take advantage of its expected availability. Even if people think that means a red-hot market, it's a market that's overheated.

You can see it for the Service Operation Vessels that are involved in wind-farm commissioning and then remain on the farms once they come on stream, rather like an old-fashioned oil and gas field support vessel. That feverishness could typify the current and next phase of the wind-farm market. The speculative newbuilding is starting to ratchet up several notches.

Given how long-term, publicly planned and telegraphed wind-farm developments are, it's not difficult to see how SOV demand is going to develop. But like everything on the wind-farm side, it is easily embellished and now attracting speculative newbuilds. Olympic just ordered two SOVs from Ulstein with an option for two more, but there's lots more on order too. Something like 22 SOVs are already on order, but as little as seven of them are against firm contracts. That's a lot of ship steel being built on faith.

However, brokers are suggesting that sourcing financing for more speculative orders could be "problematic for many". Current day-rates are around €25,000 to €30,000 with an operating cost under €10,000 a day, at least for now. The same brokers expect demand by 2030 to increase five-fold but a huge amount of that demand is expected to come from the Americas where the Jones Act is a feature and many projects still need their timings nailed down. That doesn't stop brokers and market sages saying that more newbuilding is a sure thing.

James Fisher with Graig Shipping in tow is another looking at "pioneering" SOV newbuilds, complete with garish Union Jack flag paintjobs, with an end 2024 delivery aim. Not that long ago out of financial distress Bourbon is another that's at it. Bourbon has a strategic partnership with IWS of Norway for CSOV (bigger SOVs) operations in the French market. IWS is already building four "Skywalker" class vessels with options for two more. All are speculative with as soon as second and third quarter 2023 deliveries then first half 2024 for the remaining two.

With it being for wind-farms, speculative orders could be caught out by changing specifications. Boats will be asked to get greener and greener. The Olympic newbuilds will be pre-

pared for full electric operation as a result. But that's an expense an owner is unlikely to splash out on without a firm contract.

For wind-farm installation work, again there's umpteen graphs in the public domain that suggest expected shortages. Newbuilds are then expected to be sure things. Yet we've already seen some newbuilds announced and then fizzle out to nothing, like OIM in Norway, though the Chinese yard OIM ordered with is thought to have kept building for its own account. Morgan Stanley's newbuild programme in China, to be operated by Havfram, was also long ago announced but still doesn't appear to have nailed down yard details and financing or started construction. Doesn't quite sound like the can't miss prospect as billed.

Yet, anyone with a wind-farm installation newbuild mock-up seems to be able to get publicity and become a darling of LinkedIn. The latest there is new start-up Zero-C which has developed and priced a bespoke floating wind-farm installation newbuild with Ulstein based on a HX-118 design. Whether any financing for the project is secured is unclear, after all it's rather vulgar to talk about money. Triumph years ago announced plans for ultra-green, advanced floating wind-farm installation builds in Croatia, and they haven't started construction.

All of this renewables wind-farm building seems to completely ignore the interaction with the oil and gas market. What were key offshore assets like the Saipem 7000 are now close to being dedicated wind-farm units, and more from the heavy end of the construction market could follow. Plenty of subsea support ships are filling SOV roles. Some will stay there, some will return to the oil and gas side, but it still gives the supply side some elasticity.

All done with mirrors

Anything to do with renewables often at the moment feels like it's a new Klondike Gold Rush. And anything goes. Xlinks and XLCC get full marks for thinking big with an intention to lay four 3,800km high voltage cables to take solar and wind generated power all the way from Morocco to the UK. *FrontRunner's* not really sure what marks that idea gets for energy security, but it's quite an idea.

XLCC can think big when the company obviously plans to play with other people's money. So, the intention is to also build cables-ships and a cable manufacturing plant. No need to bother the existing supply-chain, but making a new, dedicated one is a way for some people to make a chunk of money irrespective of if the project ever happens. XLCC has planning permission for a new cable plant at Hunterston, but a planning go-ahead is far from being the same as starting con-

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FrontRunner also features contributions from our associate, upstream analyst [Maarten van Mourik](#)



Still wind in Avalon

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struction or having project financing. But renewables projects like that are full of smoke and mirrors.

At the same time there's moves a plenty to try and bring down the carbon intensity of offshore oil and gas production. Already some Norwegian fields have moved to power from shore, which does save on using gas or diesel for power generation offshore, though there's plenty of carbon needed to manufacture and install the cables from shore.

That's going a stage further with Equinor this year installing a floating wind-farm to power the Tampen area fields.

Better get a bigger gun

Remember what good news is? In the offshore market the words almost feel incongruous.

Yet, reports of the offshore market's death have been greatly exaggerated. The offshore market is certainly not dead yet, and if someone wants to kill it off, they had better get a much bigger gun.

The market is turning. The cycle profile might be different, but we're out of the bottom of the trough. Much better times are ahead thanks to a stronger commodity price and concerns about both energy supply and security.

That's going to lead to stronger demand just as the subsea industry is finally getting a handle on the need to reduce vessel supply. Demand out to 2028 is going to get better year on year and the balance of the market will keep on improving as well.

The future ain't exactly what it used to be. There are new factors in play as well. The industry does not have to be scared of the word "transition". Moves to try and move away from fossil fuels completely are well intentioned but rather half-baked and na-

ive. Energy transition will still generate work for subsea support vessels both on the renewables side but also from work to make oil and gas production much less carbon intensive. Decommissioning work is finally becoming consistent and adds another slice of demand on top of the industry as well.

Suddenly, the subsea market's look ahead is much more positive than it has been in a long time. Both the market players and end clients will have to sit up and take real notice.

The new report runs through a forecast horizon of 2028 because the market drivers are that long-term. All aspects of what's going to happen are closely examined in a thought-provoking and direct fashion.

People need things distilled right down to the brass tacks of what it will mean to their business and their market, and that's what this report does every time. And there's no shying away from some inconvenient truths that are thrown up too. For further details contact Jo Slade at jslade@strategicoffshore.com, visit [this page](#), or call +44 (0) 1224 498023. ◀◀

Even for smaller projects wind power could be used. Ping has an agreement with Cerulean Winds (which just happens to be led by ex McDermott/io Consulting managers) to power the Avalon development. Avalon is 2025 due on stream re-using the Hummingbird Spirit cylindrical FPSO. A round FPSO seems to have Arthurian appropriateness for Avalon. The turbine part of the project appears to have UK government support. It has to. The floating wind turbine is reputed to have an £80 million to £100 million cost range. That's a huge amount to add to the economics of any relatively small development.

Although the Scottish Government has

a first floating wind licensing round in progress, floating wind-farms are still very expensive. Great for subsea installation players, but expensive.

TechnipFMC has promoted a combined turbine and hydrogen generation concept but showing TechnipFMC and the spun-off Technip being anything but friends, Technip has a new deal with Equinor. Just the sort of client TechnipFMC would love to demarcate. Equinor and Technip are forming a "strategic collaboration" to "industrialise floating wind-farms". The two will develop a steel hulled semi-sub concept to reduce costs and also "develop local value opportunities". ◀◀