

development of the offshore drilling sector. The drilling market in particular is a key market driver for both supply and anchor handling services and it is interesting to see their perspectives on these two very different but symbiotic markets.

Risk allocation

Whilst there is good news for the offshore market as a whole there are some market trends in contracting that present significant insurance issues. These are not always capable of being solved by the club as many of the risks contemplated within offshore contracts fall beyond the scope of P&I cover. One of the challenges for our contract review team is to manage the ebb and flow of liabilities under contracts that cascade down from field operators; many of these risks may be covered under different insurance covers. The most frequent example of this is in respect of the interface between P&I and Construction All Risks (CAR) covers. We routinely face questions in respect of the access of marine contractors to CAR covers and Gayner Warner from Marsh has generously offered her insight in to this complicated interface from the perspective of the marine contractor.

Contracting trends

Contracting trends are subtle and take some time to identify. However, Joseph Divis, our offshore syndicate deputy underwriter, shares some of his contracting insights. We are always interested in receiving feedback from our membership and one item identified is more visibility of the trends in contracting. We hope that this article goes some way to addressing that. There has been an increase in requirements for insurance covers to be fronted by local insurance

companies. John Croucher, offshore syndicate underwriter, addresses some of the issues raised by this development.

Our team

A critical element of our ability to service the offshore sector is the quality and training of our offshore syndicate team members and the growth and development of the team. I am pleased to welcome Leanne O'Loughlin to the syndicate as a claims executive who moved to us from another team at the club. Leanne is admitted to the New York State Bar and was practicing as a qualified solicitor for six years before joining the club. Finally we are pleased to announce the promotion of Sian Meadows to syndicate deputy underwriter.

Reinsurance

The club's non-pool programme continues to offer industry leading limits of cover. This tower of insurance cover supports most of the entries of the offshore book of business either as the security underpinning the extensions to mutual cover as provided by the Standard Offshore Extension or as the security underpinning the Standard Offshore Rules. There are still significant inflationary pressures in the worldwide insurance markets. These are principally driven by increasing claims costs coupled with greater market discipline and tightened rating following sustained underwriting losses.

We would like to thank all of the contributors. We are always interested in hearing from you with suggestions for content in our bulletins or offshore forums. We look forward to welcoming you to our 12th Offshore Forum on 3 October 2012 at Trinity House in London.

North Sea OSV market



Sigrid Ramuz Bomann-Larsen, Offshore Market Analyst
Fearnley Offshore Supply AS

+47 22 93 64 00
srbl@fearnleys.no

North Sea activity levels are at an historically high level, and with the renewed optimism from the recent discoveries, the activity is expected to remain high. However, the heavy influx of new ships to the market is a worry.

We record a renewed optimism in the North Sea now. Just a few years back, there was a consensus that the sun was about to set for the Norwegian and UK oil industries and that production levels would decline. However, the recent discoveries have turned this around. 2011 was a game-shifting year in terms of oil discovery. There had been quite a few new discoveries in previous years, but none of them were of such significant size as the discoveries in 2011 such as Skrugard, Havis and Johan Sverdrup in the Norwegian sector.



Platform supply boat

The industry's positivity was confirmed with the immense interest in the latest licence round on the Norwegian continental shelf early in July this year. A large number of oil companies submitted bids for the different new blocks located in the large areas in the Barents Sea and offshore Mid-Norway.

The current North Sea activity is almost at an all-time high. There have never been as many offshore vessels operating in the North Sea as there are today. The number of rigs certified to work on the Norwegian continental shelf is a cooling factor on the heated exploration activity, but with more rigs now approved for operations in the North Sea, Norwegian Sea and the Barents Sea, the demand for support vessels, both production support vessels and anchor handling tug (AHT) supply vessels, will increase.

Subsea solutions will play an important role in oil and gas development and production in the coming years. The demand for subsea construction tonnage will be strong, and we also believe that the market will absorb supply tonnage equipped with cranes and

remotely operated vehicles, and hence nourish a good activity level for AHTS and platform supply vessel (PSV).

The last couple of years have seen a large influx of AHTS ships originating from the contract boom in the years before the financial crisis and the trend continued into 2011 with almost 200 ships leaving yards worldwide. Fortunately for owners in this segment, we are now at the end of the AHTS delivery wave, and the orderbook for the coming years is more modest for larger ships. The situation is different for PSVs. More than 100 new orders were placed in 2011, and almost 50 ships have been ordered so far this year, adding to an already bulging orderbook. We will experience two to three years with a rapidly growing fleet of PSVs, especially large PSVs of more than 4,500dwt. Many of these are targeted for Brazil, Australia and West Africa, but some of these will search for work in the North Sea. As charterers prefer new ships over older ships, this is a threat to the existing ships, which might need to mobilise to other areas (with lower day rates).

The recent year's exploration frenzy has been good for the supply/demand balance in the North Sea. The high oil price has justified exploration drilling in 'expensive' areas with harsh environments and/or large water depths, and many ships have been mobilised out of the North Sea. Examples are the 10 to 12 ships chartered to Cairn Energy for drilling in Greenland, and several ships mobilised to the Mediterranean Sea to support the deepwater drilling in Egypt. The current anxiety relating to the development of the oil price may affect the attractiveness of exploration campaigns where high-end tonnage is needed.

Currently, the supply/demand relation is only at balance at peak activity periods. This means that most of the time there is quite a lot of idle tonnage, often as many as about 10 to 12 ships fighting for work.

The first half of 2012 has been very volatile. Large PSVs could obtain about £10,000 per day in the beginning of the year (£20,000 for a large AHTS). A few months later, in March and April, the same ship could obtain £22,000 (large AHTS £40,000), and today (early July) the fixing level is again down at about £10,000 for large PSVs (about £25,000 for large AHTS). The number of ships trading in the North Sea is expected to increase, with more than 10 new PSVs in the next couple of months, most of them leaving the yard without firm work. The number of new ships entering the market is likely to keep the utilisation low in the short run, but hopefully for the owners of North Sea tonnage the market will pick up as a result of the renewed optimism.



Mobile offshore drilling unit

Offshore market commentary



Stephen Gordon, Managing Director
Clarksons Research Services Limited
+44 20 7334 3439
research.crs@clarksons.co.uk

The following commentary is taken from Clarksons' annual Mobile Drilling Register and provides a basic introduction to the sector and a review of key developments in this important and quickly growing market. The commentary was produced by the Offshore Market Research team at Clarksons Research and their managing director, Steve Gordon, would be happy to discuss any feedback readers may have. Clarksons Research produce registers reviewing each of the major offshore fleets and oil producing regions, details of which can be found at www.crs.com.

Mobile Offshore Drilling Units (MODUs) are moveable structures designed to drill exploration, appraisal and development wells offshore. The MODU fleet comprises four major sub-groups: jack-ups, semisubmersibles, drillships and drill barges/tenders, each capable of performing drilling operations at different water-depths (see Figure 1).

Major sub-sectors of drilling rigs Types and capabilities of drilling rigs

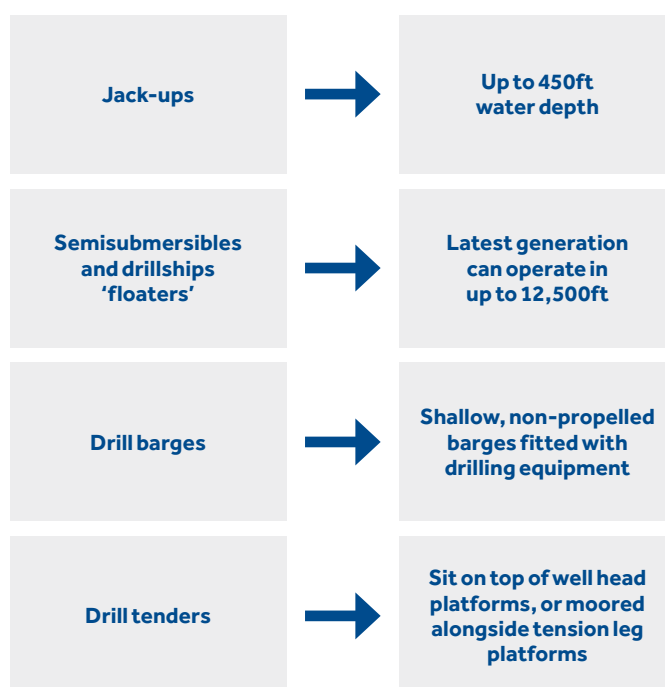


Figure 1 – Overview of the MODU sector. Source: CRSL.