

Special Edition: Offshore

Welcome to the seventh edition of the *Standard Bulletin: Offshore Special Edition*. We are pleased to report that the offshore book of business continues to grow with the addition of three new supply boat members and one new Floating Production Storage Off-take (FPSO) operator this year.

FSPO

FSPOs are an area of the market that we have focused on for over 25 years and one which we will continue to focus on in the coming years. In this edition we have three articles concentrating on the FPSO industry:

- Charles D’Alton, underwriter of Standard Asia, gives his perspective on the Asian FPSO market
- Sharmini Murugason, our offshore syndicate claims director, looks at some of the legal issues currently being address within the industry as to whether an FPSO is a ship or a platform
- Julian Hines, of our safety and loss prevention department, looks at some of the regulatory issues that face the FPSO industry.



Swire Blue Ocean *Pacific Orca*

Activity

The offshore market appears to be weathering the economic turbulence of the last four years with more fortitude than the blue water shipping market. We believe that this is the case as the number of contracts that are reviewed by the club continues to significantly increase; there has been an increase of more than 50% over the last three years.

In the main, the contracts that we review are for supply and maintenance operations that will take place within a 12-month period. That said, installation and construction projects are longer-tailed and typically involve project engineering timelines spanning up to five years. For example, the club reviewed 35 tenders for various elements of the Gorgon Project LNG development off Barrow Island. As the project has matured the contracts are now contributing to a significant increase in demand for offshore support craft in Australia. The increased level in offshore development activity anticipated in contracts approximately 18 months ago appears, on current evidence, to be continuing and strengthening.

The levels of capital expenditure in the offshore industry are difficult to track, and it is therefore difficult and dangerous to predict the strength of individual markets. However, we would like to thank both Fearnley Offshore in Norway and Clarksons Research Services for taking the time to contribute their views respectively upon the offshore supply and support market in the North Sea and the growth and

Setting the Standard for Service and Security

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In this edition

- | | |
|----|---|
| 2 | North Sea OSV market |
| 3 | Offshore market commentary |
| 7 | Offshore regulatory issues |
| 8 | Contract exposures |
| 10 | Suitability of CAR cover for offshore contractors |
| 11 | FPSOs in Asia Pacific |
| 12 | Definition of a ship – applicability of CLC 1992 and Fund Convention 1992 and 1976 LLMC to FPSO and FSU |
| 15 | Fronting/local content requirements |
| 16 | Standard Offshore |

The Standard



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



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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