Floater market 'caught in price storm'

The deep-water floating production sector is being caught in a “perfect storm” caused by low oil prices and the ongoing investigations involving Brazil's Petrobras that is stymieing the near-term market, according to a new analysis.

While more than 170 projects involving oil production floaters and 35 floating liquefaction projects are in various stages of planning, low oil prices has meant final decisions for many of them are on hold, Washington-based consultancy International Maritime Associates (IMA) said.

“Oil company capital budgets are being trimmed to offset the downturn in revenue and investment decisions are being deferred until oil pricing rebounds - and the investigation involving Petrobras is impacting its ability to order new production floaters,” commented IMA managing director Jim McCaul.

McCaul predicted that the deep-water sector will however see a rebound once prices start to recover and cash flows feed capital spending budgets based on a long-term price outlook.

“What we have is a short term out-of-balance in supply and demand. This will self-correct. The question is when (not whether) prices will rebound to a higher level,” he said.

“No one expects oil and gas prices to remain at the level they have dropped to over the last few months. The futures market, for example, is pricing crude eight years out at $25 more that the current spot price. Demand and supply fundamentals have not really changed,” he said.

IMA also predicted that Petrobras will in time resolve its financial and contracting issues and return to its five-year plans to grow oil production.

The consultancy expects the Brazilian oil giant to begin its process of re-normalisation by lifting the constraints imposed on who can bid for contracts.

“Prohibiting virtually all of its major local suppliers plus SBM from bidding on new contracts is hurting Petrobras as much as - maybe more than - the targeted companies. Common sense dictates it’s time to get on with normalising business,” IMA said.

Despite the near-term gloom, IMA said it does not believe that 2015 will see a repeat of 2008/2009’s year-long hiatus in floater orders seen in the wake of the financial crisis.

“More than a dozen floating production projects in the advance planning stage have reasonable likelihood to move to engineering, procurement and construction contracting for production facilities within this year,” the report said.

IMA expects the projects to result in orders this year for between three and five floating production, storage and offloading vessels in Brazil.

It also expects 2015 to see orders for two FPSOs in Africa, a floating liquefied natural gas vessel in Africa, a production semi in the Gulf of Mexico and several floating storage and offloading vessels in south-east Asia.

While orders are primed to bounce back, the supply chain will be forced to cut costs to meet tightening budgets, IMA warned.

"The pressure on reducing project cost will be intense over the next year at all levels of the floater supply chain - and, as workload slows, the balance in negotiating power in EPC contracts will tilt in favour of field operators," McCaul said.

"This will force suppliers to be more flexible in pricing, cause profit margins to fall and require expenses to be trimmed wherever possible," he said.