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Giampiero Soncini, CEO, SpecTec

TRICO MYSTIC



Brazil

A New Day Dawning in the Offshore Sector



The Trico Mystic, a GPA 640 PSV built by Bender Shipbuilding and owned by Trico Marine, heading to Brazil.

By Matt Gresham

One year ago, global oil prices quickly rose, topping \$100 per barrel in April of 2008. The cost for a barrel of oil continued its climb over the next several months - averaging above \$130 by July and peaking at \$147.30.

Some analysts predicted \$200 per-barrel oil at the time, others deemed the price inflated and called for calm. Then, as quickly as oil prices spiked, they crashed below \$30 amid news of a global recession and now a far-reaching worldwide economic downturn.

In late March, the U.S. Energy Department reported the U.S. crude oil supply at a 16-year high of 356.6 million barrels - up more than 15 percent from a year ago.

Higher supplies amount to falling rig counts, a six-year low for domestic activity, including a sobering 43 offshore drilling rigs in U.S. waters.

The dramatic slip in domestic production could hinder President Barack Obama's plan to downsize the nation's dependence on foreign crude, analysts say. Combined with potential federal oil

and gas tax hikes, natural disasters - such as hurricanes — and falling prices, some industry personnel don't see a bright future in the near term for domestic offshore activity.

Joe Bennett, a spokesman for New Orleans-based Tidewater Inc., said the world's largest offshore vessel company has little reason to invest in the Gulf of Mexico right now.

"We're down to about 20 to 25 boats working in the Gulf," Bennett said. "Quite frankly, the outlook in the Gulf of Mexico isn't very rosy. There's no reason to build a presence given the current and predicted activity."

Instead, domestic companies are investing in overseas markets, such as Latin American nations, namely Brazil, which is now Tidewater's second-largest customer next to Chevron Corp.

The effort to better relations with Latin America and begin to lure domestic exploration and production back to the U.S. could begin this month, as President Obama meets with the 33 democratically-elected leaders of the Western Hemisphere during the fifth

Summit of the Americas on April 17 in Trinidad and Tobago.

Topping the summit's theme: energy security. The United States' relationship with Brazil has grown in importance in recent years, as foreign policy makers see the nation as a counter to the region's Venezuelan influence. Venezuela produces about 2.35 million barrels per day in a region that provides the U.S. with a third of its oil.

According to energy experts, Brazil, Colombia and Trinidad are the Latin American markets with the best forecasts in the near-term.

However, many point to Petrobras, Brazil's national energy company as the leader moving forward. "Petrobras and Brazil have a clear vision and objective looking to the future, whereas many oil companies today are not investing in exploration and development with \$35 oil prospects," said Jorge Pinion, an energy fellow at the University of Miami. "In the next 12 to 18 months, I believe we'll see oil prices rebound and long-term we'll see oil return to \$75 per barrel. Now is the time to begin the

exploration and development process, so when prices rebound, companies like Petrobras are ready to take advantage of that recovery."

Pinion said Brazil is uniquely positioned for long-term success, which begins with vast oil and gas reserves he estimates at 18 billion barrels.

"As a national oil company, Petrobras is a very competent company," Pinion said, "probably the best out there, along with Norway."

Brazil, with a population of 180 million and the 10th largest economy, is already the world's biggest exporter of iron ore, chicken, beef, coffee and sugar. The nation also produces 1.9 million barrels of oil per day and could significantly grow that number when new reserves are brought online. Recent announcements by Petrobras CEO Jose Sergio Gabrielli of massive investments signal the company and the nation hope to make the commitment to improve those numbers. Gabrielli told state media the company is moving forward with its \$174 billion five-year investment plan through 2013.

Petrobras By The Numbers

Market Value (Dec. 2008)	\$96 billion
Employees:	74,240
Production Platforms	109
Thermoelectric Plants	10
Refineries	15
Avg. Oil & Gas Production	2.47 mbpd

That commitment includes the construction of 140 new domestically-built vessels to service its offshore oil and gas industry.


Ken Wells, president of the Offshore Marine Service Association, said most Gulf vessel operators are international players and hope to vie for lucrative contracts there.

"Brazil is another important market to compete in," Wells said. "Petrobras is developing so much expertise in deep-water projects that the more they learn, the more everyone learns and everyone benefits."

However, many U.S. vessel operators and industry analysts question whether Brazil has the resources and shipyard




Petrobras P-52 Rig. (Photo courtesy of Petrobras)




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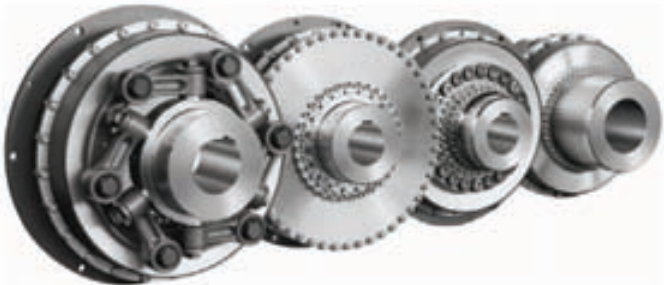


Petrobras CEO Gabrielli at 2008 Rio Oil and Gas.

(Photo courtesy of Petrobras)


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capacity to meet such a lofty goal.

"Clearly, Brazil wants to build a domestic oil and gas industry," Wells said. "And it's not lost on us that a lot of countries are seeking to build strong domestic workboat industries at a time when (the U.S. industry) is having to fight its own government to protect Jones Act laws."

Bennett, whose Tidewater company is currently building 56 new vessels worldwide, questioned Brazil's capacity, as well.

"Brazil doesn't have the shipyards to (build 140 vessels in that timeframe)," he said. "Certainly, Brazilians would like you to build vessels in their yards."

Bennett said of Tidewater's construction portfolio, 54 vessels are being built in foreign markets, such as Southeast Asia, Indonesia and Poland. Only two are being built in the U.S. at the company's own shipyard, Quality Shipyard in Houma, La.

"We look at the best quality, time frame and best price," he said. "That's why we're building the majority of our vessels overseas. With our good rapport we have with Petrobras, we'll get a look at (the company's new construction plan)."

Bennett said the bottom line is a lack of facilities in the country, labor shortage issues and costs.

"It's an expensive place to build," he said. "We'd love to do more business with (Petrobras) and we hopefully will be there every step of the way. Petrobras is professionally run with a good long-term outlook.

They are a good customer to have and are growing. Plenty of vendors would love to have the business we have with them."

About 40 of Tidewater's more than 400 vessels work for Petrobras. The vessels are a mix of offshore service vessels, anchor handlers and specialized deepwater equipment, Bennett said.

One firm aggressively pursuing Brazilian business is Guido Perla & Associates Inc., a Seattle, Wash.-based naval architecture, marine, mechanical, and electrical engineering firm. GPA has pursued business in Brazil since 2002 and recently provided design packages for the Petrobras platform

service vessel (PSV) tenders.

"We have been successful in the FSV (Fast Supply Vessel) tenders for Petrobras and are building these vessels for SIEM-CONSUB and Marimar," said Guido Perla, GPA's chairman.

Current construction contracts call for four GPA 150 FSVs and two GPA 134 FSVs to be delivered. Construction began at the end of 2008 and the first vessel is expected to be delivered at the beginning of 2010.

Perla said Trico Marine is moving one of two GPA 640 PSVs, which were built by Bender Shipbuilding in 2008, to operate in Brazil.

Perla adds the Brazilian culture, a "promising large market" for offshore vessels, and the growing economy made Brazil attractive for a firm like GPA.

"Our experience and extensive portfolio is a good fit with Brazil," he added.

"People are open and innovative and value your experience. The relationships have been excellent, but you have to approach the business at a different speed."

That approach has required GPA to provide more support for projects than originally anticipated, due to product availability, coordination and obtaining technical information. At the end of 2008, GPA established "Guido Perla Latin America" (GPLA) in Santiago, Chile.

"The local market is developing very attractive projects that we want to take part in and we need to be prepared to support and serve our clients during the complete execution of the projects," said Paulina Alvarez, GPLA's business manager.

"Communication with vendors has been somewhat difficult and slow in response, but it may have been also because of how we approached it at the beginning," Perla said. "Clarity and presentation of your requests for product information or preparation of your technical information requires a much larger effort and completeness than is commonly requested from us."

Overall, Perla said his company's experience in Brazil has been good and he looks forward to expanding further into Latin America, to compliment ongoing efforts worldwide.