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## Offshore Rig Sector Set For Major Change

The offshore rig sector has experienced several years of sustained growth on the strength of high global demand and restricted supply of suitable and available rigs. Day rates reached record levels during 2006 and remained relatively high during 2007. This has led to an orderbook of unprecedented size, with approximately 130 rigs – including over 60 jack-ups, 45 semi-submersibles and nearly 20 drillships.

Continued offshore exploration & development is forecast to increase in prominence in the near-term. However, it is forecast that the overall magnitude of the offshore rig orderbook will have a downward pressure on future day rates, but analysis suggests that rates will remain at historically high levels.

These are some of the findings in the new detailed Report – entitled – **‘Offshore Rigs: Global Prospects to 2020’** – which analyses the current and historical developments within the offshore mobile rig sector and examines the prospects for future offshore oil and gas production, fleet development under alternative scenarios, and market day rates through to 2020.

The following highlights some of the findings of the Report:-

### **World Offshore Oil & Gas Activity**

Offshore oil production has increased by an estimated 37% between 1990-2006, from 16m bbls/d to over 22m bbls/d. The leading offshore producers are Mexico, Norway, the UK, Saudi Arabia and the USA.

Offshore gas production has witnessed an even larger increase with overall production rising from 367 bcm during 1990 to an estimated 746 bcm in 2006, a rise of 103%.

Rising oil prices and the need to replace and locate new reserves have encouraged oil and gas companies to explore in offshore locations, with the main focus on deep water and harsh environments.

## **The Mobile Rig Fleet**

The world offshore mobile rig fleet currently consists of over 600 units – this includes the main rig types of jack-ups that represent 66% of the fleet, with over 400 units. There are over 170 semi-submersibles, representing 28% of the fleet, and a further 40 (6%) drillships.

Average newbuilding prices for a jack-up with water depth of approximately 300ft have almost doubled since 2004, from \$102m to over \$190m currently. For semi-subs, newbuilding prices for rigs that can operate in 3,000ft of water have increased from \$250m in 2000 to approximately \$300m currently. No drillships have been delivered since 2001. However, newbuilding prices are approximately \$620m.

Average rate levels for jack-ups in the North Sea developed from \$41,000/day in 2000 to \$196,000/day in late-2007. For the GoM, rates developed from \$30,000/day during 2000 to \$126,000/day during 2006. Since then, rates declined to \$84,000/day by late-2007.

For the North Sea semi-submersibles, average day rates since 2000 have increased from \$52,000/day to approximately \$368,000/day currently.

## **Mobile Rig Ownership & Employment**

Several large operators dominate the mobile rig fleet. Transocean has the largest fleet, followed by GlobalSantaFe and Noble Drilling. Of the top ten largest owners, nine are based in the USA, with the tenth based in China. However, the majority of the large-scale owners operate on a global scale, although there may be a specific local market that they mainly operate in, such as the Gulf of Mexico (GoM).

The USA is the main focus for rig employment in North America. The majority of the active rigs are employed within the Gulf of Mexico (GoM), which accounts for approximately 98% of active offshore rigs employed in US waters.

European rig activity has fluctuated between 40-60 rigs since 1993. Current rig activity approximates 52 rigs. The most significant region for offshore drilling is the North Sea.

For Asia / Pacific, rig activity has increased to 117 currently. India currently has the largest fleet of offshore rigs with 55 rigs, followed by Indonesia with 20 rigs, China with 18 rigs, Malaysia with 17 rigs and Australia with 11 rigs.

## Current Orderbook

Within Europe there are 4 semi-submersibles and 1 drillship currently under construction.

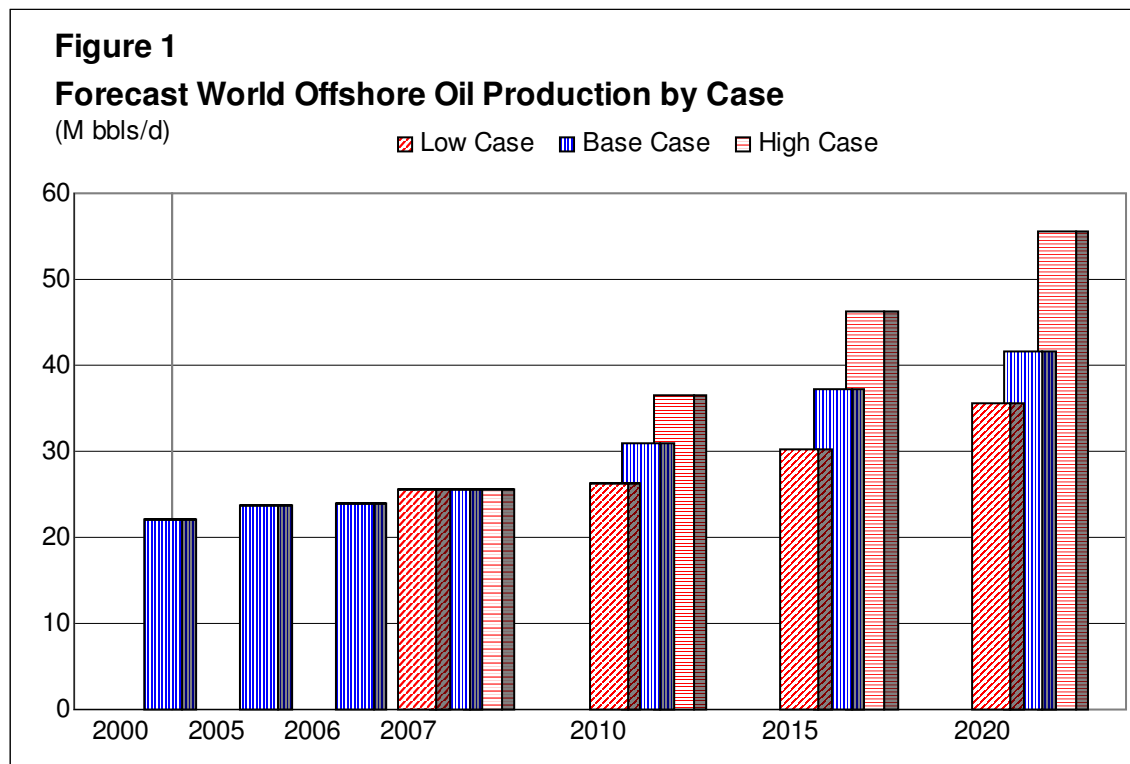
North American yards focus on the jack-up market and there are currently no semi-subs or drillships under construction.

The main focus of activity within the mobile rig sector is Asia. In total the region accounts for 86% of the current jack-up orderbook, 91% of the semi-subs orderbook and 94% of the drillship orderbook. In total, Asia accounts for 89% of the current total mobile rig newbuilding market, followed by North America with 7% and Europe with 4%.

## Offshore Oil & Gas Activity to 2020

The search for new hydrocarbon reserves has pushed the boundaries of technology to facilitate new discoveries in deeper water and harsher environments. Under the *Base Case*, offshore oil production is forecast to increase from an estimated 25m bbls/d during 2007 to 30m bbls/d by 2010 and 42m bbls/d by 2020. This equates to a rise in output of approximately 62%.

Under the *Base Case*, global annual offshore gas production is forecast to rise from the current estimated 790 bcm to over 900 bcm in 2010 and 1,152 bcm by 2020.



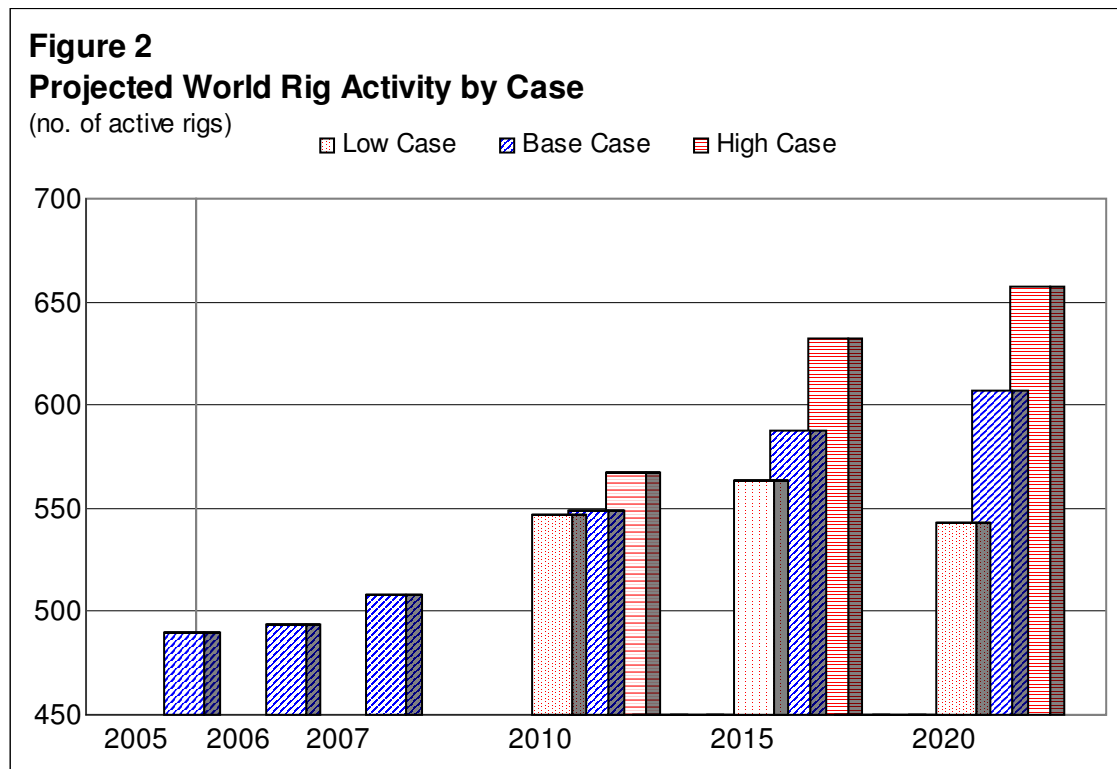
Source: OSC

**Offshore Rigs : Market Outlook to 2020**

Overall, average rig activity under the *Base Case* is forecast to increase by 8% in the period to 2010, from approximately 510 rigs currently to 550 active rigs. A further increase of approximately 7% is forecast through to mid-term, with around 590 rigs active. By the end of the study period, a further increase of 3% is expected with over 600 active rigs. Overall, rig activity levels are forecast to rise by almost 20% above current levels.

Jack-up day rates are forecast to decline in the near-term, albeit from historically high levels. For standard jack-ups, average day rates are forecast to decline from close to \$200,000/day during 2007 to approximately \$150,000 by 2010. A continued fall in day rates is expected ending the study period on \$74,000/day.

For the GoM jack-ups (300 IC), rates have already declined from the highs attained during 2006. This downward pressure on rates is forecast to continue into the future. Average day rates are forecast to decline from approximately \$85,000/day currently, to approximately \$34,000/day by the end of the study period.



Source: OSC

Demand for semi subs is so high, that even with the contracted 46 newbuildings being delivered through to 2011 (plus any other additional orders), day rates are forecast to remain high for the near-term. For N-WE standard semi subs, rates are forecast to decline from approximately \$370,000/day currently to an average of \$300,000/day by 2010. Thereafter

day rates are forecast to decline through to the end of the study period ending on \$100,000/day.

## **‘Offshore Rigs: Global Prospects to 2020’**

Available January 2008

Price : £850 (UK), €1275, US\$1750 (overseas) – for printed or electronic versions

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