

## COMMENT

# OSV continues to offer growth opportunities



**FAZEL A FAZELBHOJ**

**T**he global financial crisis was no doubt detrimental to the overall shipping and oil and gas industries in 2009. Shipping is dependent on global trade, transporting industrial and consumer goods from one continent to another. In fact, 99.3 per cent of all goods coming in to the UAE comes by sea freight primarily by tankers, bulkers and container vessels.

These three vessel segments have been, and remain under pressure due to lower demand and an oversupply situation fuelled by speculative new-build programmes. Although companies have come up with innovative countermeasures like slow steaming to save fuel, their margins are wafer-thin, if at all existent.

The Offshore Support Vessel (OSV) sector of the industry that Topaz Energy and Marine operates, in however, is a relatively bright spot of shipping and can even be seen as a segment of the oil and gas vertical. OSV operators serve offshore oil and gas fields often operated by large multinational bluechip oil majors.

The market is continuously growing as a result of the increasing importance of offshore oil and gas versus more traditional onshore fields. Brazil's Tupi field and Kazakhstan's Kashagan field are prime examples. Both discoveries changed the oil and gas map and elevated both the Caspian basin and Brazil's deep-water basins to superstardom in the hydrocarbon patch.

The OSV sector has also been affected by the crisis with reductions in dayrates and softening demand, although not nearly as significant as other shipping sectors. The OSV sector is more closely tied

to the exploration and production (E&P) spend of international and national oil companies. With a projected 2010 oil price of more than \$70 a barrel and global E&P spend to increase by 11 per cent, we believe that there is still opportunity for growth for progressive OSV operators with modern, high-spec fleets with exposure in the right geographies.

For another sector of the oil and gas vertical, offshore and onshore fabrication, construction and maintenance, we believe that 2010 will be a markedly stronger year than 2009. Late 2008 and early 2009 saw postponements of major projects because of the relatively low oil prices. Oil majors were reluctant to invest in new project exploration and to upgrade existing infrastructure.

As we are now looking at a higher oil price for 2010, we are seeing this trend starting to reverse. In fact, our fabrication unit is competing for several tenders in the offshore space in the multimillion dollar range and has recently won a string of onshore EPC (engineering, procurement, construction) contracts.

It's inevitable that the oil majors and national oil companies open the taps again. After all, existing fields require continued investment and many oil and gas assets today are ageing and needs replacement. In a global context of dwindling reserves and relatively resilient demand, holding back on strategic expenditure for exploration and development simply isn't sustainable. Looking at oil price fluctuations with long-term historical trends in mind, oil prices today are very attractive.

Certain highly complex offshore projects in ultra deep-water have been reported to be profitable at \$40 per barrel and oil can be extracted from the vast majority of the world's oilfields for substantially less than that. Therefore, at Topaz, we remain cautiously optimistic about the industry's prospects in 2010.

■ *The writer is CEO of Topaz Energy and Marine. The views expressed are his own*

