

# Asia Pacific region is one of strongest rig markets

**THE ASIA PACIFIC** rig market is one of the tightest jackup and semisubmersible markets worldwide with little rig availability. With what may seem as a constant flow of new rig tenders in the region, drilling contractors and others predict a continuing strong market with the possibility of a shortage of some units, particularly jackup rigs.

The regional jackup market is so tight, essentially at 100% utilization, that some contractors are mobilizing units from other markets to take advantage of its strength. At least three jackups are set to enter the area, which could upset a delicate balance. Additionally, with several jackups under construction in the area in Singapore, Korea and China, Southeast Asia may be the first place they look for employment. Despite this, one analyst is predicting a potential shortage of jackup rigs at least through early 2005.

The same is nearly true for the semisubmersible market. Several units are reported to be removed from the drilling fleet and converted into other modes this summer, further tightening the region. That is expected to result in a near balanced market during the third and fourth quarter of this year.

As a result of the strong market, dayrates have turned upward, especially for jackups, which saw a 50% gain in some cases since summer 2003. Some high specification units are reportedly commanding rates near \$90,000 per day. Dayrates for the standard, or shallower water semisubmersibles, generally range around the same area as the jackups.

## JACKUP DEMAND

According to **ODS-Petrodata**, jackups in Southeast Asia are effectively 100% utilized, with only one idle unit that has been stacked since summer 2000. Coupled with strong demand, the company predicts that the jackup market could see a shortage of 1-2 units during the second half of this year. Even with as many as three jackups mobilizing to the region this year, there still is expected to be a shortfall of available jackups.

Bid activity continues strong. "We have seen an increase in bid activity since the third quarter of last year," said **Anthony Gallegos**, Manager of Business Development for **Atwood Oceanics** in Houston.



**GlobalSantaFe's Compact Driller is working for ChevronTexaco offshore Thailand under a contract that runs through 2007.**

"That bidding activity has translated into increased work for us."

The company operates two jackups, two semisubmersibles and a semisubmersible tender unit in the area, primarily offshore Malaysia and Thailand, although the company has worked offshore most of the other countries in the area.

Most of Atwood's rigs are under contracts that expire this year but several have options that likely will be exercised, potentially keeping them active most of this year and possibly into 2005.

"We are continuing to market our rigs and build up a backlog for that part of the year," Mr Gallegos said. "We are looking forward to next year being a good year."

Most of the bids are for jackups, although several are for semisubmersibles. Quite a few of the projects currently being bid start potentially during the second half of this year but some are for projects that are scheduled to

commence during the first half of 2005.

The bids tend to be more project-specific rather than for any set term, but they are also usually for more than one well. In some cases operators are bidding for anywhere from a couple of wells to as many as six. Nearly all carry options for additional wells.

"We see enough demand over the short-term to keep the rigs that are working today continuing to work," Mr Gallegos said. "Obviously, if we were to see rigs from other parts of the world move into Southeast Asia, that would certainly impact what equilibrium there may be."

"Hopefully, we will see enough increase in demand that would make us want to move other rigs in," he continued. "I know there are other people looking at that."

**Roger Hunt**, Senior Vice President of Marketing for **GlobalSantaFe**, agrees: "Against some recent bids we see our competitors offering equipment from other regions."

GlobalSantaFe is one of those companies that sees enough strength to move a rig into the region, although not against any contract. It is mobilizing its Adriatic 11 jackup from the southern North Sea to Southeast Asia on speculation. The rig will first enter a shipyard for installation of additional leg, bringing the water depth capability to 300 ft. The rig is expected to be available by early September.

"I'm looking at my charts and I'm showing that the fleet (in Southeast Asia) is fully employed," Mr Hunt said, "and as we track visible demand it is a fairly good outlook."

"In fact," he continued, "one could argue that there is a net shortage of equipment in the area based upon the visible programs, and it is likely that there will have to be a rig or two moved into the sector to satisfy the demand."

GlobalSantaFe operates six jackups in Southeast Asia with contracts that run through most of this year and well into 2005 if options are exercised. One of its

rigs, the GSF Compact Driller, is contracted to **ChevronTexaco** until September 2007. This rig is currently drilling offshore Thailand.

One thing that could potentially knock the market out of balance are the number of jackups under construction in the region, Mr Hunt believes.

"One more thing to think about is that there have been announcements of quite a few new jackups being built in the region. They are going to be built in Singapore or China or Korea, but they are going to be delivered right into the region.

"The first place they are going to look for work is in that area," Mr Hunt continued, "so if I was looking beyond 2005 you might ask if there is enough demand to keep new capacity employed in the sector."

Other contractors bringing in jackups to the region include **ENSCO International**, which is mobilizing the ENSCO 67 from the Gulf of Mexico, and **Diamond Offshore**, which is returning the Ocean Heritage to Southeast Asia following a stint with **Noble Energy** off Ecuador. The latter rig previously was in Southeast Asia before mobilizing to Ecuador.

## JACKUP RATES INCREASING

Jackup dayrates have risen significantly during the past 12 months as a result of high demand. A year ago rates were in the mid-\$40,000 due to excess capacity, according to Mr Hunt.

"The highest fixture recently is a number in the mid-\$60,000, so there has been a nice rebound.

"What that speaks to was it wasn't an endemic overcapacity problem, it was particular contractors who saw potential idle time so they snapped up the work."

ODS-Petrodata reports similar dayrates ranging from the low \$50,000 to mid-\$60,000 for what it refers to as "standard" jackups but also says that high-specification units are able to command up to \$90,000 earlier this year.

## SEMI-SUBMERSIBLES

The Southeast Asia semi-submersible market is nearly as strong as the jackup market and is close to 100% effective

utilization, according to ODS-Petrodata. Operators will have fewer choices due to three semi-submersibles being removed from the drilling fleet in the region as Transocean's Sedco 600 and Sedco 602, and the Northern Explorer II are to be used in other modes, according to ODS-Petrodata. This is good news for drilling contractors with floating rigs in the region.

"Different segments of the marketplace are not quite as disciplined (as the jackup market)," Mr Gallegos said. "An example of that is the shallow water floater market.

"A lot of lower end equipment found its way into Southeast Asia," he continued, "and because of that when you are chasing these opportunities the lowest common denominator is typically what establishes your dayrate situation and to a certain extent your contractual situation.

"As long as there is that kind of capacity, it is going to provide somewhat of a

ceiling on the commercial side of the business."

Part of the reason for less discipline in the floater segment is that ownership is fragmented whereas the jackups tend to be more concentrated in terms of ownership, leading to a more level market, according to Mr Gallegos.

Atwood Oceanics operates two semi-submersibles plus a semi-submersible tender rig in Southeast Asia, all working offshore Malaysia.

ODS-Petrodata is forecasting a strong semi-submersible market through 2004, with demand very close to marketed supply beginning in the late third quarter and during the fourth quarter, with demand projected at nine units against a marketed fleet of ten rigs. Demand is projected to fall during the first quarter of 2005, down to seven rigs.

Dayrates for "standard" semi-submersibles, according to ODS-Petrodata, range from the low-\$50,000 to mid-\$70,000. ■