

Latin American countries could see mixed activity

LATIN AND SOUTH American E&P activity could wind up being disappointing for offshore drilling contractors, although Trinidad may hold the most significant opportunities for drilling contractors. Although **Pemex** was able to provide new homes for more than 20 US Gulf of Mexico rigs during the past couple of years, that ramp up in activity may have come to an end, at least temporarily, although there may be limited opportunity later this year.

Petrobras in particular will likely disappoint offshore drilling contractors as any outstanding rig requirements will probably not begin until late 2004 or even into 2005. Also, Petrobras is seeking to upgrade its rigs under contract with newer and more modern units, to the detriment of older drillships.

Also, Pemex may contract for turnkey work rather than dayrate contracts. By turnkeying the work, that is less work that Pemex would need to do.

Steve Cosby, Sales Manager, Gulf of Mexico and Canada for **GlobalSantaFe**, agrees. "I believe Pemex is trying to find a way to have a turnkey contract in place as opposed to a straight dayrate type contract," he said.

"Pemex just ran out of resources," Mr Cosby continued. "They don't have any people left because of ramping up their activity quickly, they are running out of supervisors and drilling crews, and they realized that they need the help (from turnkey contracts)."

Mr Cosby noted that Pemex went through a series of meetings and presentations and were hoping to begin a turnkey bidding process late last year but that the process is presently on hold. He said the contract was not very attractive to international turnkey contractors, and that if Pemex wants the turnkey contract to work Pemex is going to have to change it.

That may be easier said than done, as contracts are tied to legislation outlining procurement processes.

On the other hand, another offshore contractor believes there will definitely be additional work offshore Mexico in 2004.

"We believe there are going to be more requirements coming out," said **Bobby Benton**, Vice President, Western Hemisphere for **Pride International**. "We don't know what the mix will be but we understand there may be some deepwater work for Mexico. If that occurs it would be in the latter part of the year or the first part of next year."

Pride was one of the more successful US Gulf contractors in putting quite a few of their US Gulf rigs to work off Mexico. The company now has two semisubmersibles, 14 jackups and two platform rigs operating offshore Mexico.



Pride International's Pride Texas is working for Pemex offshore Mexico.

Dayrates for Pride's semisubmersibles in Mexico range from the high \$40,000 to low \$50,000. Dayrates for the company's jackups range generally from the low-mid-\$30,000 with one unit in the high-\$40,000. Contracts on it jackups run through 2004, with some not scheduled to expire until 2006 or 2007.

BRAZIL

Most drilling contractors believe there will be little change in Brazil other than Petrobras replacing some older drillships with newer semisubmersibles as drillship contracts come up for renewal.

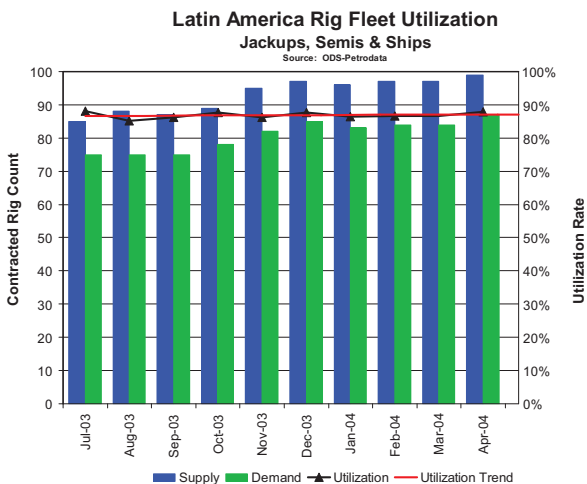
"They will have more versatility with a semisubmersible than a drillship when it comes to development work as well as exploration projects," Mr Benton said. "I believe this will give them more options should there be pressure to increase either exploration or production.

"At the same time," Mr Benton continued, "if they can bring in newer assets then some of the older units that they have, they will continue to do that.

"The market is going to dictate what they do but I believe what we will see is their preference will be to go to a semisubmersible versus a drillship because it is a much more stable platform."

Pride operates four semisubmersibles offshore Brazil, three of which are dynamically positioned units.

Mr Krenek agrees. "Petrobras has indicated that they want to upgrade some of their equipment," he said. "Several of



MEXICO ENDS RIG RAMP UP

There were thoughts as recently as late 2003 that Pemex may need an additional 8-12 rigs during 2004. However, that is unlikely to occur, many offshore drilling contractors believe, and that figure could drop to as little as 0-3 rigs now.

"Pemex needs to digest what they have bitten off already," said **Gary Krenek**, Vice President and CFO for **Diamond Offshore**. "They increased their workload so significantly that they need to get their hands around what they already have, so I don't think anyone believes they will take an additional 8-10 rigs this year."

the drillships they have under contract are some of the older rigs.”

That, of course, could be an opportunity to bring in more semisubmersibles to the area to the detriment of those contractors that operate older drillships.

Diamond Offshore operates three semisubmersibles and a drillship off Brazil, three of which were recently recontracted for 700 days, including two semisubmersibles and the drillship. Petrobras previously signed longer term contracts but a change in tax laws that stated, in effect, that contracts longer than two years (730 days) results in onerous tax implications for the drilling contractor as far as import fees are concerned.

TRINIDAD

Trinidad is a fairly active market, with exploration programs aimed primarily at natural gas prospects, some of which will support an LNG facility. Global-SantaFe currently has two jackups in Trinidad, and it is mobilizing its first

newbuild jackup Constellation I under a three-year contract with **BP** that is expected to commence in early July to develop gas supplies for an LNG facility.

“I think it is a safe bet that by the end of 2004 there will be space for another one or two jackups,” Mr Cosby with Global-SantaFe said.

“I think there will be another rig or two that will be needed there,” agreed **Richard LeBlanc**, Vice President of Investor Relations and Treasurer for **ENSCO International**. “They are probably going to attract rigs from the Gulf of Mexico or the North Sea.”

Dayrates offshore Trinidad are superior to rates for the same rigs in the US Gulf of Mexico. For example, GlobalSantaFe, which operates two jackups, soon to be three, is receiving rates in the \$60,000 area. The newbuild Constellation I, because of the rig’s specifications, is likely receiving significantly higher rates.

ECUADOR

Only one rig is presently drilling offshore Ecuador, Diamond Offshore’s Ocean Heritage, which was mobilized from Southeast Asia for a contract with **Noble Energy**. The operator had several wells it wanted to drill for some time but kept putting them off due in part to lack of equipment in the area. They finally decided that they wanted to drill the wells and paid the mobilization fees to move the rig from Southeast Asia. The six-month contract runs through late June 2004.

Diamond Offshore is talking with several operators who also have acreage offshore Ecuador. “We are talking with operators,” said Mr Krenek with Diamond Offshore. “If someone has a well to drill in six months it’s better to move that forward and drill it.

“If we don’t find additional work there is a demobilization fee in the contract and we expect to take the rig back to Southeast Asia.” ■

