





Joint effort

Plans by Brazilian state-run oil giant Petrobras to invest \$237 billion through 2016 is attracting every major equipment supplier in the offshore oil and gas industry.

This year's breakthrough for ABB Marine and Cranes' Brazilian venture came when they won an order worth \$160 million to supply the main electrical systems for seven next generation drillships that will operate in the deep-water oil and gas fields off the coast of Brazil.

On delivery, the drillships with ABB equipment on board will be chartered to Petrobras for 15 years. They will be built by the Estaleiro Jurong Aracruz shipyard in Brazil, a wholly-owned unit of the Jurong Shipyard in Singapore, with expected delivery in the second quarter of 2015.

Sembcorp Marine – the group with a network of five yards in Singapore and operations in Indonesia, China, India and the United States – established Estaleiro Jurong Aracruz on the central eastern coast of Espirito Santo.

Sharing risks

Competition was fierce. André Silva, Local Business Unit Manager for ABB Marine and Cranes, attributes excellent project execution of ongoing projects in Singapore, on the other side of the globe, as key to securing the contract in Brazil.

Silva, who moved back to Brazil at end of 2008 to start a new Marine Service Center and provide local service support for vessels operating offshore Brazil, says long, successful cooperation with the Jurong Shipyard built up a relationship that carries a lot of weight in a new market.



Sorocaba factory

ABB's factory in Sorocaba, São Paulo is set to generate 1,000 jobs by next year.

The facility, which was acquired in 2012, manufactures low-voltage and automation products for the infrastructure, energy and industrial segments. It will also meet the needs of national development projects, such as the 2014 World Cup and 2016 Olympics Games, as well as large investments in the oil, gas and mining sectors.

Using the know-how and technology employed at ABB Italy, the Sorocaba factory produces circuit breakers, motors, drives and instruments. Comprising 125,000 square meters, the industrial complex is close to major highways and an airport. It is the fourth ABB location in Brazil.

The investment includes an after-sales structure to provide predictive, preventive and corrective maintenance to help circuit breaker users.

According to Ricardo Hirschbruch, Local Division Manager for Process Automation, the production in Brazil will improve services in the local market, as well as reducing delivery time, compared with that of imported products. With this factory, ABB is expanding its production in Brazil and meeting the demands of the local market faster.

In 2009, Petrobras announced they were looking to build 28 drilling rigs locally. The following year, the private company Sete Brasil was established to administer the order of 28 drillships and semi-submersible rigs and to reduce costs and potential debt for Petrobras. Petrobras holds 10% of the equity interest in Sete Brasil while seven pension funds and banks became investors in the company: Petros, Previ, FUNCEF, Valia, Santander, Bradesco and BTG Pactual.

The Sete Brasil contracts will enable the establishment of two new shipyards in Brazil, Estaleiro Jurong Aracruz and Estaleiro Enseada Paraguaçu, and the expansion of the shipyards Estaleiro Atlantico Sul (EAS), OSX, Brasfels (the Brazilian subsidiary of Keppel Singapore) and Estaleiro Rio Grande (ERG2).

The Estaleiro Atlantico Sul (EAS) shipyard won the tender for the first seven Petrobras orders in 2011. Brasfels won the second tender for six semi-submersible rigs in April 2012. The third tender, for three drillships, was awarded to Estaleiro Rio Grande, seven to Estaleiro Jurong Aracruz and six to Estaleiro Enseada do Paraguaçu.

Industry partnerships

Of drillships to be built by Estaleiro Jurong Aracruz, three will be partially owned and operated for Petrobras by Odfjell and three by Seadrill, which has a 30% stake in the ships.

Alex Monsen, Vice President Asset Management for Seadrill, says the company normally builds its vessels in South Korea and Singapore, and selected vessel types in China. To build elsewhere is too costly and the risk too high, he explains.

When Seadrill goes against this principle and invests in vessels being built in Brazil, existing partnerships play a crucial role. "We know Jurong and the main suppliers, including ABB – and the design concept for the vessels is very familiar to us. The remaining unknown elements become the ticket for entering a very interesting market," Monsen says. The 15-year Petrobras charter further reduces risk for Seadrill, a company that has almost always taken the chance of building before securing contracts.

Local content

Authorities in Brazil are demanding that a certain portion of the fleet and installations be built locally with local content. According to Sete Brasil its drillship

orders will generate more than 100,000 direct and indirect jobs in the rig construction industry in the country.

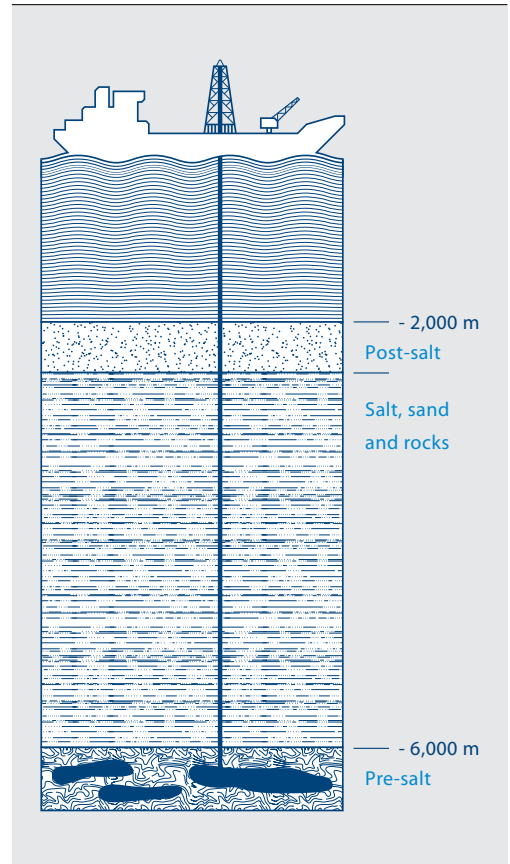
But according to *The Wall Street Journal*, Brazil's services industry is having trouble meeting demand. Abitam, a local trade group representing Brazilian manufacturers of tubing and other metal products, asked the National Petroleum Agency (ANP) to reduce the amount of local content in onshore drill casings to 95 percent from 100 percent. "None of Abitam's suppliers can meet demand for 100 percent minimum local content for this subitem," the trade group said.

Petrobras also asked Brazil's ANP to reduce the amount of local goods and services for 34 separate items related to offshore and onshore exploration and development. "The minimum percentages of local content for the cited items and subitems cannot be met by the national supply chain," Petrobras said in a recent request to ANP.

However, during a public hearing at Brazil's 11th auction of oil and natural gas concessions ANP officials ignored these requests, saying local content rules will be kept at the same levels as the country's last auction in December 2008. Contracts will demand between 37 percent and 80 percent local content for the exploration phase and between 55 percent and 85 percent for the development phase, with lower requirements for deepwater offshore blocks and higher requirements for onshore blocks.

ABB's Silva recognizes that local content was a big challenge, but securing the involvement of ABB factories to support ABB Marine and Cranes helped meet these requirements. In the end, ABB's ability to provide locally produced content and the expertise of its local organization were important factors in winning the order.

Extracting oil at 6,000 meters below sea level



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