

An Analysis of the Current Scenario and Future Prospects of The Norwegian Shipping Industry



ACKNOWLEDGEMENT



ABSTRACT

This dissertation analyses the business prospects of the boat supply sector of Norway. The future prospects of the sector is analysed in two phase. Since, the sector is closely linked with the world economy, in the first phase the domestic and worldwide economic conditions are discussed. In the second phase, case study approach is adopted in order to examine the performance of the existing firms and to utilise that information for assessing their future potential. Four large players in the industry are considered and their financial statuses are examined in details. The results show that the industry has significant growth potential driven by increased demand for fleet services, specifically from oil companies. However, in the coming years the companies may face tougher competition because of increased fleet services, advancement in technology as well as increase in the market shares of the competitors through mergers and acquisitions.

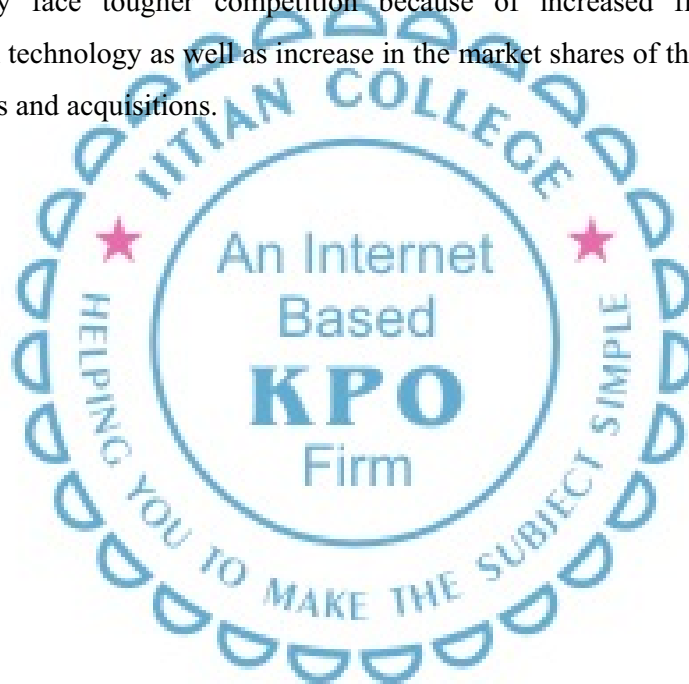


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1. Introduction

This dissertation analyses the boat supply sector of the Norwegian economy. The offshore boat supply sector consists of the boat operators, representing the supply side, and oil and gas companies representing the demand side. Supply boat operators provide transportation and services to offshore drilling rigs and platforms. Typical services are delivering supplies such as fuel and food, moving personnel to and from offshore rigs, towing rigs to new locations, retrieving rig anchors, and supporting offshore construction projects.

The boat owners typically charge a daily fee (day-rate) for the use of their vessels and the fee depends upon factors as: type of vessel, contract duration, the vessel supply and demand, and where the boat is located; e.g. West Africa, the North Sea, etc. Contract agreements can be done in the spot market, typically when the contract has a short duration, or the vessel can be on a long-term contract, ranging from a few months to a few years.¹ Owners must continuously inform the market about the price and duration of the contract, thus the spot market works similar to a transparent financial market.

Vessels in the Gulf of Mexico (GOM) and the North Sea have historically traded in the spot market, but today long-term contracts are common as well. In areas like West Africa and Brazil vessels tend to be employed on long-term contracts and some have been signed for as much as 7 years.² Longer contracts would usually imply a lower day-rate.

The day-rates also differ along with vessel type. Less advanced crew boats typically charge the least, followed by platform supply boats (PSV) and anchor handlers (AHTS). Rates can range from as little as \$2000 a day for a crew boat during lean times, to more than \$225,000 a day for an anchor handling during peak times.³

There are many different types of vessels within the industry. Some are particularly designed to transport crew and supply materials, while others are more advanced and

¹ Seabrokers (2006)

² Fortis (2007), pp.8-9

³ Fortis (2007), p.3

specialised for their operations (i.e. towing and anchoring a rig). Today, many new builds are designed to perform several different services so the line between different vessels can become somewhat blurred, although it is common to divide vessels into two main segments: Anchor Handling Tugs (AHTS) and Platform Supply Vessels (PSV).

AHTS vessels tow rigs from one location to another and are equipped with powerful winches which are used to lift and position the rig's anchors. In addition, they can carry moderate amounts of supplies such as drilling fluid or other supplies. In addition larger AHTS are also often used to support complicated offshore projects. The vessels are usually specified in terms of horsepower (BHP).

The current AHTS worldwide fleet counts 1,967 vessels with another 242 to be delivered over the next years, although it is unlikely that all these vessels still operate in within the oil service industry.⁴ It is worth mentioning that the fleet is somewhat old, about 69% of the vessels are over 20 years old.⁵ Average lifetime of a vessel is normally 20-25 years.⁶ New vessels are also more advanced, both in terms of greater horsepower (at least 8000 BHP) and winch strength (at least 250 tons), thus they should be very attractive compared to older vessels with less power and equipment.

Table 1: Age Profile of AHTS Boats

Age (Years)	0-5	6-10	11-15	16-20	21-25	26-30	Over 30	Total
AHTS	278	208	52	77	499	245	610	1967
% of Total	14%	11%	3%	4%	25%	12%	31%	100%

Source: Fortis (2007)

A PSV delivers drilling supplies such as liquid mud, cement, fuel, drinking water and a variety of other supplies to drilling rigs and platforms. The vessels are usually specified in terms of cargo capacity which is measured in dead weight tons (dwt).

⁴ Jefferies & Company Inc (2006)

⁵ Farstad Shipping (2006) p.33

⁶ Seabrokers (2006)

A sub-class of PSV vessels are Multi-Purpose Supply Vessel (MPSV) which is quite similar to a PSV, but in addition they are capable of performing more specialised services such as supporting in sub sea construction work or fire fighting.

Current worldwide PSV/MPSV fleet is estimated to be 1,577, with another 192 to be delivered during the next three years.⁷ The PSV fleet is also quite old, whereas 56% of the vessels are over 20 years old.

Table 3: Age Profile of OSC Fleet

Age profile of OSV fleet

Age (Years)	0-5	6-10	11-15	16-20	21-25	26-30	Over 30	Total
OSV	356	236	54	50	263	312	306	1577
% of Total	23%	15%	3%	3%	17%	20%	19%	100%

Source: Clarksons, Fortis

Source: Fortis (2007)

The new generation PSV are also more advanced than the older generation, built during the boom in early 1980. Newer vessels can carry more cargo as well as work on deeper water. This would probably lead to a stronger demand for newer PSV's, and thus favour firms with a modern fleet.

There are several other vessels such as specialised offshore construction vessels, crew boats, standby/rescue vessels and seismic vessels etc. which perform more specialised operations. The current fleet is large and day rates tend to vary along with size and operations.⁸ More specialised offshore construction vessels would likely experience higher day rates in the future, as demand for their services should increase with increased deep water investments by the oil firms.

Against this backdrop this dissertation attempts to analyse the future prospects of the boat supply sector of Norway. It is done in two phases. In the first phase, the domestic and international economic scenario is examined. This sector having close links with the worldwide economic conditions, is highly sensitive to changes in the same. Beside this macro perspective, the industry is analysed from micro perspective as well by analysing the cases of four companies operating in this industry.

⁷ Fortis (2007) pp.8-9

⁸ Jefferies & Company Inc (2006)

The dissertation is organized as follows: Section 2 presents a brief literature review on the Norwegian shipping industry. Section 3 describes the methods used in analysis. Section 4 discusses the potential impact of the macroeconomic factors on the business performance of the shipping industry. Section 5 presents the findings of this dissertation from four case studies. Finally, brief concluding remarks follow in Section 6.

2. Literature Review

As a leading maritime nation, Norway occupies an important role in global shipping industry. Nearly 200 Norwegian shipowners control 1,700 ships operating worldwide. This makes Norway the world's fifth largest shipping nation (measured in tonnage) following Greece, Japan, Germany and China. In Europe, Norway ranks as the third largest shipping nation. But the value of Norway's maritime industry cannot be measured by size alone. The number and diversity of leading companies operating in every sector of shipping make Norway's maritime industrial environment is one of the most complete in the world. Indeed, Norway is not only home to multinational shipowners, but leading equipment suppliers, marine insurers, shipyards, ship financiers, ship management agencies, maritime IT providers and one of the world's leading class societies.

This concentration of competence, and the close cooperation which exists between different business sectors, has created a highly sophisticated and dynamic sector which continues to act as a force for positive change for the whole industry. Norwegian shipping companies are internationally recognised as pioneers and global leaders in many sectors, including the transportation motor vehicles and rolling stock (Wallenius Wilhelmsen, Höegh Autoliners), chemicals (including Odfjell, Stolt-Nilsen, Eitzen Chemicals), Liquefied Petroleum Gas, including Bergesen Worldwide Gas, I.M. Skaugen) Liquefied Natural Gas (Bergesen Worldwide Gas, Höegh LNG, Knutsen OAS) and forest products (Star Shipping, Kristian Gerhard Jebsen). Norwegian shipowners also enjoy a prominent position in regional European cargo and ferry shipping (Color Line, Sea-Cargo, Wilson Management, etc).

Norway's shipyards continue to produce some of the industry's most sophisticated vessels. Oslo-based Aker Yards is internationally recognized for delivering next-