

Marine Construction Vessel Impacts of Proposed Modifications and Revocations of Jones Act Letters Related to offshore Oil and Natural Gas Activities

Executive Summary

IMCA has considered the implications of the CBP notice published on January 18, 2017 and conclusively demonstrated the practical reality that the coastwise approved fleet is unable, on its own, to support the deepwater Gulf of Mexico construction market. This has always been the case and unlikely to change.

Vessels Supporting the Offshore Oil and Gas Exploration and Production Industry

IMCA has analysed the worldwide offshore support vessel (OSV) fleet of over 8,500 vessels and defined a specific set of characteristics of ships technically qualified to be competitive in the deepwater markets.

There are only 528 vessels worldwide in five key categories which are suitable for working in water depths of 3,280 ft/1,000 meters(m) or greater, of which there are only 33 coastwise approved vessels.

Vessel Type	Coastwise Qualified	% Coastwise Qualified	Non-Coastwise	% Non-Coastwise	Total
Light Construction vessels	9	5.5%	156	94.5%	165
Pipelayers	0	0%	55	100%	55
Heavy Lift vessels	0	0%	26	100%	26
Well Intervention vessels	1	8.3%	11	91.7%	12
Seismic survey/geophysical	23	8.5%	247	91.5%	270
Total	33	6.3%	495	93.7%	528

Breakdown of worldwide deepwater fleet capacity

Source: IMCA analysis of Clarkson Research Services 2016 Worldwide OSV Database dated November 2016

Of the total global deepwater fleet, in 2016 there were only 30 non-coastwise approved vessels active in the GoM and 5 coastwise approved. To put these numbers into perspective, the US has the largest OSV fleet in the world with 1,004 vessels, of which 772 fall into the high volume commodity markets of supply vessels (PSV) and anchor handlers (AHTS); 474 were believed to be active in the GoM in 2016. This is the domain of the US marine services industry, which has clearly prioritized investment in the lower risk commodity sectors where commercial reimbursement is typically based on the dayrate business model.

The deepwater construction market is a completely different business model, with reimbursement typically based upon a fixed price basis, where the contractor is responsible for the complete engineering, project management and offshore execution of the work. This is the domain of large marine contractors based in the US but with their own specialist non-coastwise fleet of vessels and equipment. These ships are of a completely different asset class than the commodity markets, and far most costly to build and operate. They are often purpose built incorporating contractors' own intellectual property for equipment layout and offshore operation. These are niche markets and clearly demonstrated in a comparison of GoM deepwater vessels in 2013 (prior to the industry downturn) and in 2016.

Vessel Type	2016		2013	
	Coastwise Qualified	Non-Coastwise Qualified	Coastwise Qualified	Non-Coastwise Qualified
Light Construction vessels	2	18	2	16
Pipelayers	0	7	0	8
Heavy Lift vessels	0	2	0	4
Well Intervention vessels	1	1	0	1
Seismic survey/geophysical	2	2	2	15
Total	5	30	4	44

Deepwater Coastwise Qualified and Non-Coastwise Qualified offshore support vessels operating in the US GoM in 2016 and 2013.

Source: IMCA analysis of Clarkson Research Services 2016 Worldwide OSV Database dated November 2016

The data is remarkably constant, with only one significant deviation in the survey and seismic category. The remaining categories are very stable, and emphasise the narrow niches of the market that support the handful of high value deepwater developments that take place each year.

The coastwise fleet cannot meet the needs of the GoM for deepwater construction activities beyond 1,000 meters (3,280 feet). There are no coastwise qualified pipelay vessels, no coastwise qualified heavy lift vessels, and only one coastwise qualified well servicing vessel. Despite plenty of opportunity, historically the coastwise sector has not invested in larger, higher value deepwater capable construction and IRM assets outside of the LCV segment:

- Deepwater construction is a high risk business where work is often conducted on a fixed price basis, unlike the market for PSV and AHT vessels which is a day-rate business.
- In addition to specialised ships, contractors need advanced engineering, project management, procurement, and construction skills to manage large sophisticated projects on a fixed price basis.
- The specialised ships represent very high levels of unit investment, which can range from a lower end of around \$200 million to upwards of \$1 billion at the higher end.
- This is a world-wide market for the large marine contractors, as no single domestic market can support the levels of investment needed.

Should the proposed CBP modifications and revocations take place, the impact on business in the Gulf of Mexico could be catastrophic, simply because there would be no capacity to install the production facilities offshore. The resulting impact on the whole oilfield supply chain in the USA could cause a collapse in industry confidence and countless job losses onshore and offshore.

A strategy intended to support a limited number of vessel owners could well have enormous unintended consequences for the whole US offshore oil and gas industry.