Glenn Kangisser, Mark Johnson in Offshore Technology Focus: ‘Navigating Recovery in the Offshore Drilling Industry’

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Glenn Kangisser, partner at Haynes Boone, Carl Minikes, vice president of sales at Spinergie, Mark Johnson, partner at Haynes Boone, and Jean Cristofari, CEO and co-founder at Spinergie, explore how, in turbulent times, offshore drilling can work towards recovery.

Between 2008 and 2015, an unprecedented number of newbuild offshore drilling rigs were constructed and introduced to the market. However, the demand for offshore drilling rigs was already steadily decreasing due to technological developments and quicker returns yielded by investments in the tight oil market.

A tight oil investment can generate cashflow for an operator within 30 days of the commencement of the well being drilled; an offshore deepwater project, however, may not generate any profit for the first three to five years following deployment.

As a result, an oversupplied market, compounded with shrinking demand for offshore drilling services, has seen daily rates for offshore drilling rigs decrease significantly. In the ultra-deepwater drillship segment, the daily rates have decreased by approximately 70% since peaking between 2009 and 2013.

The Way to Price Recovery

A reduction of the marketed fleet of drillships of four per year over the next five years will allow utilisation to reach an 80% threshold by the end of 2023. Historically, daily rates start increasing where marketed utilisation for floaters exceeds this threshold. However, without such reduction in the marketed fleet, the utilisation threshold required to achieve price recovery would not be reached until 2024-2026.

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