Glenn Kangisser and Mark Johnson in Drilling Contractor: 'Offshore Drilling Reaching Calmer Waters After Several Turbulent Years'

By Glenn Kangisser | July 1, 2021

RELATED PRACTICES Shipping Dispute Resolution, Ship Sale and Purchase, Offshore Oil and Gas, Offshore Oil and Gas Dispute Resolution, Shipping

The last decade has been a turbulent time for offshore drilling. Having been buffeted by a supply glut-induced price plummet in 2014, the effects of which were long-lasting, hopes for a market improvement emerging at the end of 2019 were dashed by the COVID-19 pandemic and shift toward low-carbon energy sources. The question on offshore drilling companies' minds now is: How can we ride out the tail end of this storm and be ready to meet the commercial and legal challenges that could be created as the market revives? Drilling contractors will likely need to adopt bold thinking and focused measures to keep their businesses viable and profitable.

To identify routes to recovery, it's important to bear in mind the context behind today's tough trading conditions. The reality is that market oversupply – notably from the increased availability of floating drilling units fostered by the 2008-2015 construction boom – coupled with falling demand for offshore drilling services has resulted in daily rates of offshore drilling rigs falling sharply. Until recently, many new drillship contracts have barely covered their operating costs and have the potential to be impacted by recurring events, such as the costs of major equipment recertification, including five-yearly special periodic survey (SPS) costs.

In order to reverse this downward trend in daily rates, the marketed fleet of drillships available needs to be cut back substantially to allow utilization to reach 80%. Although that will be challenging, there is evidence of green shoots for the drillship segment in the US Gulf of Mexico, where high-specification seventh-generation drillships that are "BSEE compliant" in relation to the subsea equipment are now in short supply. It is also evident that the dayrate gap between sixth- and seventh-generation units (which had not previously been apparent) is increasing. This surge in demand is driving the drillship segment to recover much faster than the other rig types (Figure 1). However, if efforts to reduce the marketed fleet fail, prospects for price normalization for all segments could potentially remain bleak for another one to three years. For some players in the industry, such a delay could become existential.

Excerpted from *Drilling Contractor* to read the full article, click here (pages 52-53).

© 2026 Haynes and Boone, LLP