# Saipem deepens its thinking

Industry intelligence filtering back to Saipem's Milan headquarters in 1997 distilled down to one word: deepwater. The Italian contractor did not need to be told twice, as **Darius Snieckus** hears from chairman and CEO Stefano Cao, immediately setting in motion strategic plans to vie for a sizeable slice of that prospective offshore market via a $1 billion investment programme.

There is calmness in Stefano Cao's manner that one might suspect comes from seeing painstakingly calculated but ambitious plans finding favour in fortune's eyes. With the christening last month of his company's monumental new ultradeepwater drillship, the *Saipem 10,000*, and the recent groundbreaking effort in the US Gulf by its transformed *S7000* DP J-lay crane vessel, the final pieces of the Italian contractor's $1 billion deepwater investment plan look to be falling neatly into place.

Founded on a long run of robust annual results and launched after ten fast-paced months of deliberation in 1998, Saipem's deepwater programme was spurred forward by an 'incremental' construction and conversion strategy and an 'injection of capital' from principal shareholder ENI, which reasoned it was the 'right moment to give Saipem more visibility'. Visibility it is getting.

By dint of their sheer size, the giant vessels spearheading the company's drive in to deep and ultradeep water – the aforementioned *S10,000* and *S7000*, as well as the *Scarabeo 7* semisubmersible drill rig conversion and the Saibos JV 'field development ship', or FDS – could do nothing less. Yet it is in hearing Saipem chairman and CEO Stefano Cao (*pictured left*) outline the original corporate vision to have this foursome all plying their trade in frontier regions by 2001, that one begins to see their physical scale as an extension of the company's willingness to think big.

By 1997, when Saipem's deepwater plans first began to crystallise, the contractor had long been a household name in the North Sea based on its work in heavy lift and pipelay operations, and had carved comfortable niches for itself in the 'conventional' Southeast Asia, West Africa, and home Mediterranean markets. But 'crucial' changes to its business had been spotted on the horizon, and, according to Cao, the direction his company would have to take in order to continue prospering soon showed itself.

'Based on our annual results, we were a very profitable and healthy company,' states Cao, 'and had been breaking records year-on-year, looking at it from a financial point-of-view. But our world was changing – and at that time the direction this evolution would take was becoming clear.'

'Up to this point we had enjoyed the boom years of the North Sea, both in terms of pipelaying and heavylift operations for major developments in the region. Outside the North Sea we were already successful through our Saibos joint venture in West Africa, where the developments, at that time, were "conventional" turnkey projects for, say, a platform with associate flowlines, export line, and so on. In southeast Asia we had built up a fairly good position since breaking into that market in the late-1980s. And we continued to be satisfied with our market share in the Mediterranean.'

Past being past, the question as it emerged to Saipem, states Cao, was clear: how 'to find alternate means of getting utilisation for our assets' in what was a pan-industrially unpredictable future.

The answer pointing the way forward for Saipem came from its formulating a deepwater investment programme with the strictest of commercial logic: market capability by market capability. In Saipem's case, that meant offshore drilling, pipelaying, construction – and more drilling.

Front line drilling duties in the new world of deepwater, to Saipem's strategic thinking, would best be handled through 'major investments' in a conversion – the semisub *Scarabeo 7* christened last October (*OE* November 1999) – and a high-end newbuild – the mighty *S10,000* – the latter commercially justified by a long-term contract with ENI-Agip. There would also be serviceable upgrades to Saipem's stalwart drilling units, *Scarabeos 5* and *6*, to keep them fit for harsh environment DP drilling in the North Sea.

'It was immediately apparent that we would be investing in tools to go deeper and deeper,' explains Cao, 'but the key element around which we developed our drilling strategy was, in a word, deepwater.'

Offshore construction was another matter altogether – with

'issues of its own'. Foremost among these dealt with how best to adapt the *S7000*, at the time its greatest asset, to this strategy. A stalwart of the North Sea region, a market 'not disappearing, but certainly changing', the semisubmersible crane vessel needed to 'maintain if not increase its utilisation', recalls Cao. This meant finding a market for *S7000* that was close enough to the North Sea that it could viably travel back and forth dependent on the season: the US Gulf of Mexico was the 'obvious answer'.

'Looking at the Gulf of Mexico, we left aside the conventional side of the region – where the *S7000*'s capabilities would not be fulfilled – and concentrated on recent deepwater discoveries and the trend in licensing toward deepwater,' he explains. 'The picture became clear.'

Saipem's extensive discussions with the US arms of the likes of Shell, BP Amoco and ExxonMobil sharpened that picture. A vessel capable of covering the workscope of a full development in deepwater would be in utmost demand in the near future. The *S7000*, but for the shortcoming that it could not handle pipelaying assignments, fit the bill.

'The *S7000* was certainly good as a far as the new floating structures coming to market, but we needed to build in an additional capability – pipelaying. So we started negotiations with Exxon about Diana/Hoover, and I must add we have always been grateful that Exxon was willing to go ahead with the award of the contract while we were still designing the unit's J-lay tower.'

This landmark contract underwrote the beginning of a life-changing $150 million upgrade for *S7000* (*OE* June 1999), continues Cao, and translated into the 'opportunity which you always need after the in-house analysis on the return on investment you are expecting from the unit'. The extensive installation work carried out 'very smoothly' by *S7000* in 1460m of water recently on Diana/Hoover clearly rewarded the operator for its faith in Saipem and its vessel.

Souping-up the vessel with enhanced DP capability and a state-of-art J-lay tower in fact killed two birds with one stone for Saipem. Now the vessel would no longer be restricted by weather window or water depth – especially germane given the Blue Stream project discussions then already underway on a deal that will see the *S7000* lay twin 24in diameter sealines 760km across the Black Sea in water depths down to 2150m.

The ultimate large-scale piece in the deepwater capital investment puzzle for Saipem, not surprisingly, was the offshore West Africa market. As with most 'last pieces', here the Italian company found a perfect fit – by extending its old Saibos


## Supership sets course for south Adriatic

Leading the pack of vessels in Saipem's deepwater fleet is the $300 million *S10,000*, inaugurated recently at Samsung Heavy Industries' Koje Island yard in South Korea. Designed to 'explore and develop hydrocarbons reservoirs down to 10,000m' and operate in full DP mode in water depths as great as 3000m, the drillship was built in 16 months under an incentivised $165 million contract with Samsung.

The giant vessel – which has a displacement of 97,000t and measures 228m by 42m, and is some 120m tall – is now en route to begin a five-year worldwide contract with Italy's Eni-Agip with the spudding of an exploration well in some 1100m of water in the southern Adriatic Sea.

'We believe size has merit in deepwater,' emphasises Cao, 'based on our experience with the *S7000*. We have all had the experience where the world was saying deepwater designs needed to be simple, light, clean – and our initial experience in deepwater does not agree with that.

'Size, when it comes to efficiency in drilling wells in these sort of water depths, will play a major role,' he suggests.

Beyond the 'first class drilling equipment', Cao points to the fact that the vessel has equipment for extended well tests and crude storage capacity for some 140,000 barrels – 'enough to allow the client to fully evaluate a given reservoir'.

Cao explains Saipem's decision to opt for dual drilling capability for the vessel – something of a divisive topic among drillers on the grounds of 'excessiveness' – in relation to the *S10,000*'s storage capacity. 'The more time you can save by doing a number of operations in parallel, the better off you will be in deepwater in terms of cost,' he reasons.

The drillship's station keeping is being handled by means of class 3 dynamic positioning technology and six computerised azimuth thrusters.

Following the original contracted drilling programme for Eni-Agip in the Adriatic, the first work to come out of the deal sealed in January 1998, further unspecified drilling work off Nigeria, Angola, Gulf and Mexico, Brazil and potentially West of Shetlands is also on the cards for the *S10,000* at a 'formula' dayrate worth in excess of $200,000.