SHIP RECYCLING

A special report from Lloyd's List | lloydslist.com | Thursday 8th March, 2012

Overview

Ship recycling firmly on 2012 agenda

Shipping industry will continue to use demolition to counteract huge fleet growth this year but what lies ahead for the market?

Liz McCarthy

Demolition drive: the continued weakening of charter rates in the last year saw 2011 become the third biggest year ever for demolition with 41m dwt sold for scrap. *GMS*

WHETHER shipowners have got young, old or mixed age fleets, scrapping will be at the forefront of their minds at the moment.

They are either considering selling old inefficient vessels, which are having difficulty securing work in the charter market, or are hoping that their peers will get rid of some tonnage to bring down the huge fleet growth created by record newbuilding deliveries over the past three years.

With many companies reporting large amounts of red ink on their balance sheets during the full-year financial results season last month, you would be hard pushed to find one that is not looking at cost-cutting in increasingly competitive markets, particularly when 380 cst bunker fuel is averaging over $700 a tonne.

The continued weakening of charter rates in the last year saw 2011 become the third biggest year ever for demolition with 41m dwt sold for scrap, according to Braemar Seascope. This was not far off the 43m and 44m dwt dismantled in 1986 and 1985, when the shipping industry was coping with similar fundamentals.

"If macroeconomic conditions in 2012 continue to underwhelm, and scrap prices stay at their recent high levels, this year could easily surpass 1985 as a peak year for demolition"

Braemar Seascope

But in contrast with 30 years ago, the majority of ships sold last year for recycling were bulk carriers not tankers, at 24m dwt. Back in 1985 only 8m dwt of bulkers were scrapped compared with 25m dwt of tankers.

Some in the industry say this shift was a contributing factor that helped ensure bulker freight rates averaged out at healthier levels than the tanker markets last year.

Over the course of 2011, the Baltic Exchange reported an average time charter rate of around $15,639 per day for capesizes — the largest bulk carriers. By comparison, the largest tankers, very large crude carriers, earned an average $8,525 per day on its benchmark Middle East-Asia route.

So the big question is if owners will continue to offload their ageing tonnage if earnings stay at this level or even deteriorate?

Shipbroker Braemar Seascope, part of London-listed Braemar Shipping Services, thinks they will.

"If past experiences are anything to go by, steel traders can look forward to a bumper 2012 for the supply of vessels for recycling," it says. "If macroeconomic conditions in 2012 continue to underwhelm, and scrap prices stay at their recent high levels, this year could easily surpass 1985 as a peak year for demolition."

In the last few months, Braemar's demolition team has brokered five Mitsui OSK Lines-owned tankers for recycling at green facility Shree Ram Group of Industries in India, some as young as a 1998-built very large crude carrier, as the Japanese giant made a conscious effort to counteract fleet growth.

As the saying goes, every little helps, and it is hoped that other owners will adopt this view in the coming months rather than cling onto the ever-optimistic attitude of an earnings spike being just around the corner. After all, at least one VLCC is expected to enter service every week this year — so something needs to be done.

For the tanker market, and large crude vessels in particular, the International Maritime Organization's phase out of single-hull tonnage has drastically reduced the pool of ships that would traditionally be considered demolition candidates.

However, the unofficial preference from major oil companies to not hire ships older than 15 years of age has reduced chartering options for older vessels and put pressure on secondhand asset values — many are now not worth much more than scrap prices.

As dire earnings continue to hit companies' cash flow, it is expected that when expensive third and fourth special surveys are due for tankers in the next year or two, owners will choose to sell the ships for demolition rather than pay out millions of dollars to keep uneconomic vessels on the water.

These special surveys have to be conducted by classification societies every five years and involve a far more thorough inspection of the ship, its machinery and fabric, than annual ones, according to BIMCO. They invariably require time in a drydock with the ship out of service, which in turn makes them costly and as ships get older the inspections become more stringent.

The argument for disposing of ageing ships approaching special survey deadlines also applies to other shipping sectors as well.

"We're definitely seeing younger tonnage," says Steve Wansell, general manager for cash buyer Mideast Shipping & Trading. "A few years back if a shipowner had to put a ship into drydock, he'd knock on his bank's door and ask for $4m to get it through drydock and have it rolled onto his loan. Now you're finding that banks are not supporting this and are saying owners have to pay for it out of their own cash flow, and because ships are not generating decent cash flow to cover loans, interest and make profit, owners are being squeezed.

"We're seeing a lot of big owners that are now selling a lot of tonnage. We're talking about some of the big stock-listed owners, they just don't have the money."

So with more ships being marketed for demolition, who is benefiting from these additional sales?

For shipbreakers, the huge supply of vessels is great news as they are inundated with tonnage and can lower offers accordingly.

With steel prices and finance markets squeezing demand in certain recycling regions though, which can cause scrap rates to quickly change direction, it is increasingly challenging for cash buyers that act as the middle men of the industry — purchasing vessels off owners and selling them onto yards.

"A lot of people think you must be making a lot money right now but the reality is that actually it is more challenging because the price is moving so quickly," says GMS president and founder Anil Sharma.

Having worked in the cash buying sector for around 20 years, Dr Sharma says that the ship recycling market is going through the most interesting period he has ever seen. The shipping downturn seen since the financial crash of late 2008 has created so much business that he has more than doubled his staff count.

"People want to know what will happen to scrap and shipowners want to know how to plan. Everyone is talking about residual values, and the market is holding pretty well," Dr Sharma says.

Indeed the ship recycling market has become attractive enough that private equity funds are reportedly looking into investing in the sector, according to industry sources. This reflects a general pick up in non-traditional finance sources investigating if they can make cash out of the maritime sector.

But beyond financiers, brokers, breakers and cash buyers there are also a number of maritime services benefiting from the boom in ships being sold for recycling.

"We're seeing a lot of big owners that are now selling a lot of tonnage. We're talking about some of the big stock-listed owners, they just don't have the money"

Steve Wansell, Mideast

This includes flags that register ships for last voyages when cash buyers in particular buy vessels on 'as is' basis, which involves taking ownership at a designated place and sailing the ship to its dismantling destination.

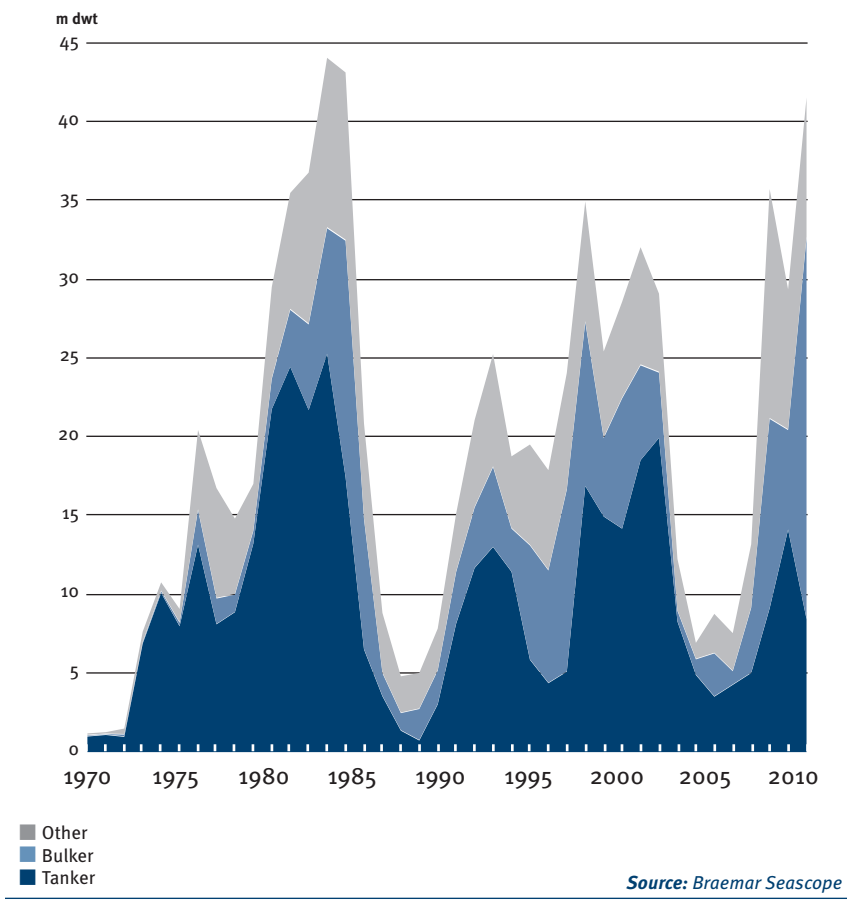
An example is St Kitts and Nevis International Ship Registry. It says that at the end of last year it started to see a notable rise in the number of customers requiring vessels to be flagged for a single voyage for demolition. With the right documentation, forms and certificates such transactions can take place within a few hours.

There is no doubt the ship recycling industry is warming up for another bumper year or two of volumes and if owners play their cards right deciding to sell ships for demolition could not only boost their balance sheets but also help bring down overcapacity that is crippling chartering markets. ■

www.lloydslist.com/shipops

FORTY YEARS OF DEMOLITION

Is another spike still to come?



Source: *Braemar Seascope*

Regulation

IMO adopts two more Hong Kong Convention guidelines

Marine Environment Protection Committee agrees to facility and authorisation specifications for ship recycling

THE International Maritime Organization's Marine Environment Protection Committee's 63rd session in London last week was successful in adopting two further guidelines to be included within the Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships, 2009.

The United Nation's body confirmed that the MEPC had adopted guidelines for safe and environmentally sound ship recycling at breaking facilities and also guidelines for the authorisation of ship recycling facilities that country authorities will use to carry out inspections.

These latest guidelines add to those adopted in 2011 at MEPC 62 for the development of the inventory of hazardous materials that all ships will require to hold when the convention comes into force, and also guidelines for the development of a ship recycling plan that is specific to each vessel and which is linked to a ship's IHM.

The IMO said the guidelines "are intended to assist ship recycling facilities and shipping companies to commence introducing voluntary improvements to meet the requirements" of the Hong Kong Convention.

"The MEPC established a correspondence group to further develop the draft text of guidelines for survey and certification under the Hong Kong Convention and Guidelines for Inspection of Ships under the Hong Kong Convention," the IMO announcement said.

The industry hopes that these will be adopted at the MEPC 64 next year.

The convention was adopted in Hong Kong in May 2009 and although a handful of countries have signed since then, no country has yet ratified it.

In his opening speech to MEPC 63, new IMO secretary-general Koji Sekimizu urged "countries with major ship recycling capacity, in particular, to redouble their efforts to ratify the convention in view of the environmental and safety benefits they would derive from such action".

He added: "It is imperative to secure the widest possible ratification of the Hong Kong Convention also in the context of promoting the convention as providing at least an equivalent level of control to that of the Basel Convention.

"I would urge all maritime administrations to liaise with their counterparts in ministries of environment so that everybody concerned is fully informed of the distinct benefits of the Hong Kong Convention in establishing binding requirements for safe and environmentally sound ship recycling that are practicable, achievable and globally enforceable, while at the same time taking account of the particular characteristics of world maritime transport." ■

Call for action: IMO secretary-general Koji Sekimizu has urged "countries with major ship recycling capacity, in particular, to redouble their efforts to ratify the convention in view of the environmental and safety benefits they would derive from such action". *Leyal*

Understanding the Hong Kong Convention

THE Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships was adopted in May 2009. It aims to ensure that when ships are recycled at the end of their operational lives do not pose unnecessary risks to human health, safety and or the environment.

Six sets of guidelines have been, or are being, developed to assist in the convention's implementation:

- Inventory of Hazardous Materials — referred to as IHMs these documents will be built up over the life of the ship through surveys. (adopted 2011)
- Ship Recycling Plan — specific to each ship's IHM, yards will be required to put together a plan detailing how the vessel will be dismantled, particularly with regard to the safe disposal of hazardous materials such as asbestos. (adopted 2011)
- Safe and Environmentally Sound Ship Recycling — will detail the processes that yards must implement to deliver a service that is safe for workers and environmentally-friendly. (adopted 2012)
- Authorisation of Ship Recycling Facilities — expected to detail how ship recycling countries will authorise yards, carry out on-site inspections, ensure the validity of certificates, etc. (adopted 2012)
- Inspection of Ships (to be discussed in 2013 at MEPC 64)
- Survey and Certification (to be discussed in 2013 at MEPC 64)

The Hong Kong Convention will enter into force:

- 24 months after the date on which 15 states, representing 40% of world merchant shipping by gross tonnage, have ratified it.
- the combined maximum annual ship recycling volume of those states must, during the preceding 10 years, constitute not less than 3% of their combined merchant shipping tonnage.

Recycling convention still on road to ratification

SINCE being adopted in May 2009, the International Maritime Organization's Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships has not been ratified by any country.

However, IMO head of marine pollution prevention and ship recycling Nikos Mikelis is confident that a number of countries are making steady progress towards ratification and accession to the convention.

"There is greater recognition now that the Hong Kong Convention will, in the years to come, become an integral part of shipping's and ship recycling's governance," he says.

"China and Turkey have well developed and regulated ship recycling industries and it is good to hear that in 2011 they have performed well and recycled much tonnage without problems."

Indeed, Dimitri Ayvatoglu of Leyal Ship Recycling says that discussions in Turkey are now taking place at a parliamentary level having been processed by individual ministries.

"I don't know if this will happen in 2012 or 2013 but it is important to keep things moving. When the Hong Kong Convention was adopted in 2009 there was a lot of hype but things have not happened so far," he says.

"Green recycling ideas should not fade away and so someone has to ratify and people will remember to push for the convention again."

As for major recycling centres on the Indian subcontinent, Dr Mikelis points out that India has worked hard to implement important improvements with regards to training workers and the management of hazardous materials and there are number of yards in Alang employing these methods.

"Green recycling ideas should not fade away and so someone has to ratify and people will remember to push for the convention again"
Dimitri Ayvatoglu, Leyal Ship Recycling

He adds that Japan is working with state and federal authorities in India to further enhance standards.

Similarly, Norway is supporting the Bangladeshi industry and is looking into technology and how to transfer it to the country's ship recycling industry. Dr Mikelis confirms that the IMO, the Secretariat of the Basel Convention, International Labour Organization and the United Nations Industrial Development Organization will be collaborating to support this.

He notes that the Chittagong shipbreaking industry has been making steady improvements and that the government's support in making the business more sustainable "is encouraging progress".

Lastly, he hopes that the IMO will have an opportunity to engage with the recycling industry in the coming year. ■

www.lloydslist.com/regulation

Ship recycling industry waits for detail on Brussels' waste shipment proposals

THE ship recycling industry is eagerly awaiting a draft proposal from the European Commission that is hoped could eventually see ships become exempt from waste shipment regulations and effectively put an end to the Basel Convention, which has been regarded as a failure by the maritime industry.

Members of the recycling sector are anticipating that the proposed regulation will be published within two to six weeks.

The commission first announced its plans at a Lloyd's List-associated conference in June last year. Julio Garcia Burgues, head of the waste management unit of the commission's environment directorate-general said it would be based on the International Maritime Organization's Hong Kong Convention but that it might include "some more stringent conditions".

The current system has been accused of pushing owners of European Union-flagged ships to use loopholes to export end-of-life vessels illegally to recycling facilities in countries outside the Organisation of Economic Co-operation and Development. Mr Burgues said it would work to develop a regime that would allow such tonnage to be dismantled in Asia.

He admitted at the time that it was unrealistic to expect ships sold for recycling outside the OECD to be pre-cleaned of hazardous waste as it would mean they were not fit for navigation on their last voyage.

With 90% of EU-flagged ships sold for recycling in 2009 ending up at breakers in countries outside of the OECD, there was a clear indication that the export ban under the Basel Convention was not being enforced, he said.

For the ship recycling industry, this admission was of huge significance.

"In my view, by far the major development of the year is the recognition by the European Commission and European Union that the Hong Kong Convention is the standard that Europe should be applying to ship recycling," says Nikos Mikelis, head of marine pollution prevention and ship recycling in the marine environment division of the IMO.

Not only has this meant that the commission has requested its member states ratify the convention but it has prompted the development of legislation to regulate this in the interim period leading up the Hong Kong Convention entering into force.

Mikelis: European Commission's recognition of Hong Kong Convention 'a major development'.

"I believe that this work of the commission has brought the entry into force of the convention forward by two to three years," Dr Mikelis says.

"The big challenge for Europe will be to get the new regulation proposed by the commission through the European Parliament and Council and then to implement it. This will not only be a challenge but will also be major progress in driving ship recycling standards internationally."

Other industry figures agree and says that as long as the commission's proposal is complimentary to the IMO's convention then it can be seen as nothing other than a positive and would force European nations into ratifying the Hong Kong Convention. ■

www.lloydslist.com/regulation

Business is booming for Turkish yards

AS THE ship recycling industry sees another 12 months of large volumes get under way, Turkey's often-overlooked shipbreaking yards are anticipating a prosperous year.

Although still restricted by a price handicap compared with the Indian subcontinent, due to higher overhead costs in Turkey, Europe's green recycling centre is benefiting from the wide range of vessels being sold for demolition.

"As the pie is getting bigger, so is our piece of that pie," says Leyal Ship Recycling's Dimitri Ayvatoglu.

Despite the size of vessels being sold for recycling in Turkey still averaging under 2,000 ldt — equivalent to a small chemical tanker or general cargoship — the country has witnessed a significant rise in demand.

The Ship Recyclers' Association of Turkey reported 341 ships totalling 650,000 ldt, or 1.1m gt, sold to the country's yards last year, which Mr Ayvatoglu believes to be a record.

These figures were up on 238 ships dismantled the previous year, of 420,000 ldt, and 127 vessels of 290,000 ldt in 2009.

Last year's volumes are thought to have seen Turkey's 20 yards working at a utilisation rate of about 70%, as total capacity is estimated at 900,000 ldt.

"The capacity was always there in Turkey and people have talked about green recycling and European owners not utilising that capacity. Now the capacity is being utilised but not because of the green, it's being utilised because of the sheer number of vessels that are being offered and the pie is getting bigger," Mr Ayvatoglu says.

Unlike other major shipbreaking countries, though, he says that Turkish recycling yards are not yet so busy that they can cherry pick sales candidates.

"We are in competition with the Indian subcontinent which is offering high prices. We are trying to give as much as we can in order to keep those vessels in Europe and dismantle them in Turkey, so that doesn't allow Turkish yards to relax. It is difficult," he says.

Although the UK government's sale of military vessel *HMS Invincible* to Leyal last year highlighted the country's green facilities on an international scale, Mr Ayvatoglu says that navy ships represent a very small portion of the country's purchases. Around 95%-98% of vessels recycled in Turkey are commercial vessels.

Fortunately for the breakers in Turkey the country has a huge demand for steel; it is the largest importer of scrap steel in the world.

As one of the world's leading steel producers and with GDP growth of around 8% last year, which is up there with Chinese and Indian levels, as well as being within the G20, Turkey shows no signs of slowing its thirst for steel as construction and infrastructure projects continue on a large scale.

"There is a lot of economic activity that translates into steel demand, which means we have a very good buyer for our dismantled steel; we sell exclusively in the domestic market," he says.

As long as this demand remains strong and the supply of ships stays high then Turkey should indeed be on track for another prosperous year. ■

www.lloydslist.com/europe

Pakistan sees early 2012 volume surge

PAKISTANI breakers are taking advantage of the boom in ships sold for demolition, particularly large tankers and bulk carriers, as uncertainty continues to cloud over the Bangladeshi market that historically would have taken larger vessels.

So far this year, Gadani yards are reported by Braemar Seascope to have bought 1.2m dwt of tonnage, which already represents 20% of the volume it beached last year.

Many of the ships that Pakistan is reported to have purchased are large tankers — aframax, suezmax and very large crude carriers — and panamax and capesize bulk carriers, which have helped to push up the dwt figure.

On an annualised basis this could see volumes top 7m dwt in 2012, which if achieved would represent growth on the 6.2m dwt bought up by Gadani yards last year.

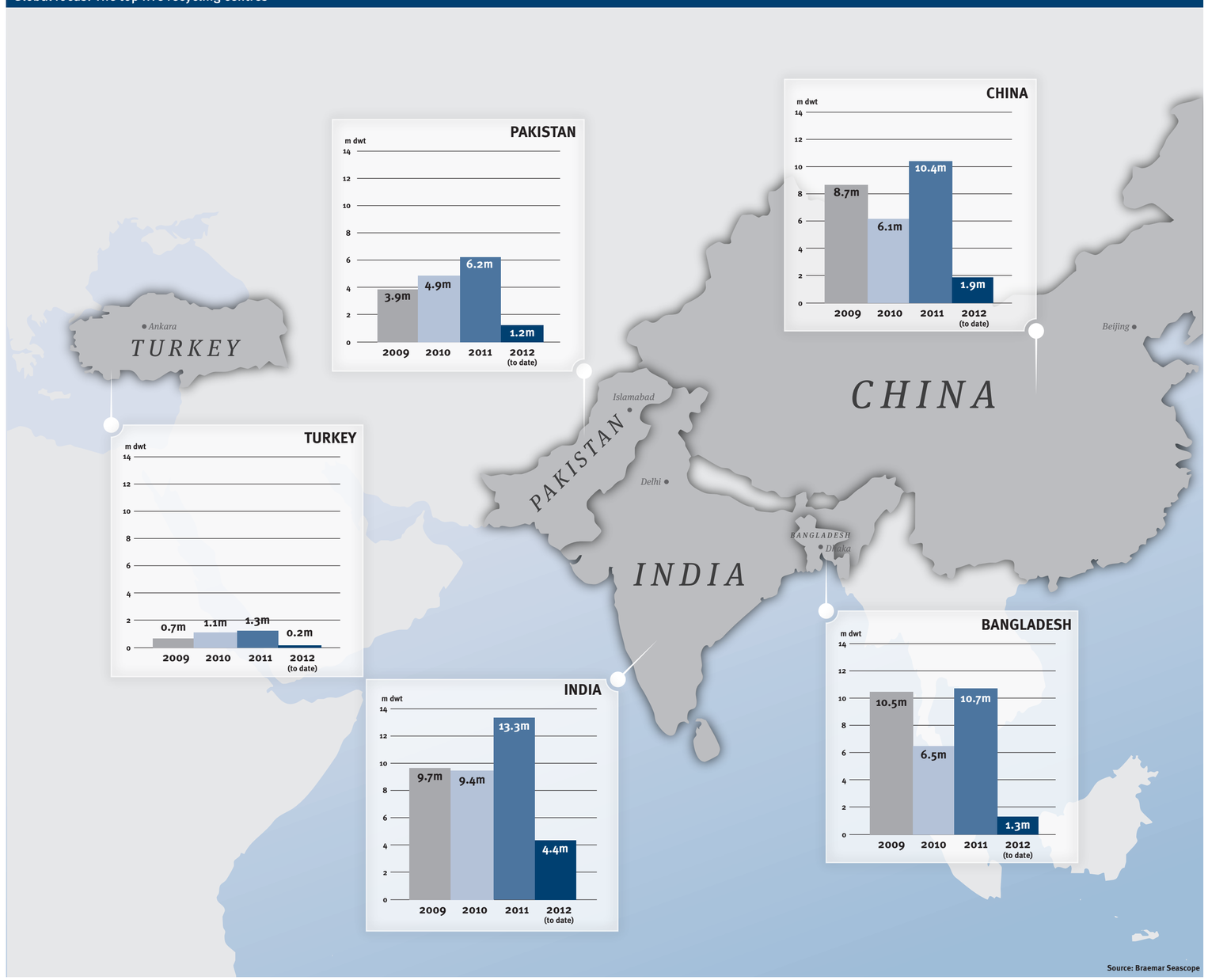
Volumes have grown in pace with global volumes, up notably on 2009's 4.8m dwt and 3.9m dwt the previous year, according to the Braemar figures.

But with less steel demand than India and Bangladesh, Pakistani volumes trail behind its Indian subcontinent neighbours and create a ceiling of how much it can take in.

In addition, cash buyers report that like Bangladesh, Gadani breakers have suffered from a squeeze on bank lending with a limited number yards able to open letters of credit.■

www.lloydslist.com/asia

Global focus: The top five recycling centres



Calls for China to use shipbuilding facilities for recycling

THE shipping industry has had a bit of a love-hate relationship with China in the last couple of years. Owners and operators are desperate for the country to import an ever-growing volume of commodities to keep ships employed.

On the flip side, many industry leaders have laid the blame on China for record deliveries creating huge oversupply in the chartering markets as its shipbuilding capacity swelled during the shipping boom.

With the industry concerned that China will keep its shipyards building no matter what, to ensure employment for their vast number of workers, the threat of shipbuilding overcapacity looms and could work against attempts to bring fleet growth down to manageable levels.

Several leading shipping figures have suggested that China could easily help the overall shipping industry and ensure employment of yard workers if some of the building facilities were simply switched to recycling facilities. The argument being that most of the infrastructure needed is already in place.

With China seen as perhaps the greenest destination of the four major ship recycling countries, this could quickly create a greater supply of facilities that meet the guideline standards set out by the International Maritime Organization's adopted convention.

Last year, Chinese breakers bought 10.4m dwt of tonnage for recycling, up from 8.7m dwt in 2009 and 6.1m dwt in 2010, according to figures from Braemar Seascope.

One project that many people are eyeing up is the development of a dedicated ship recycling facility by Dalian Shipbuilding Industry Co's marine services arm that will create a cradle to grave one-stop shop for shipowners.

The country's largest shipbuilder, a state-owned subsidiary of China Shipbuilding Industry Co, is building a state-of-the-art green yard on Changxing Island, in the Liaoning province of northern China.

When it was announced last year at a Lloyd's List-associated recycling conference in London, the 460,000 sq m facility was set to start up operations in June 2012. Its planned capacity will see it dismantle up to 75 vessels a year, ranging from 50,000 dwt up to 300,000 dwt, or a total 1m ldt. By comparison, the country's current capacity is estimated by cash buyers and brokers to be around 4m ldt, which would therefore add around 25% to possible recycling volumes.

However, Dalian Shipbuilding Industry Marine Services vice-president Gao Feng has told Lloyd's List that due to geological conditions construction of the recycling yard, and a shiprepair facility next to it, has been delayed and consequently it may not be open for business until the end of the year.

"There's some interest from shipowners so we've made lots of efforts to guarantee that the production time wouldn't be delayed any more," Mr Gao says.

As well as increasing its services portfolio and ensuring an increasing number of vessels, both domestic and international, can be recycled in a safe and environmentally sound manner, another major driver behind the project is China's growing thirst for steel.

Rather than become increasingly reliant on producing new steel from imported iron ore, the north Asian country is pushing for more scrap steel imports, in the form of both bulk cargoes and ageing tonnage for demolition.

75
number of vessels expected to be dismantled annually at Dalian Shipbuilding Industry Co's recycling facility

Not only will this reduce costs, as volatile freight rates and spot iron ore prices can create large bills for steel mills, but is also considered a more environmentally-friendly way to produce new steel.

Steel demand in the area of northern China alone, where the site will be based, is understood to total around 500m tonnes a year, and with Chinese state-owned manufacturer Angang Steel holding a 15% stake in the venture it means scrap steel cut from dismantled vessels will be melted to create new steel that will then be used by Dalian Shipbuilding to build new ships.

Recycling cannot get more true to its definition than that.■

10.4m
dwt bought for recycling at Chinese yards in 2011

India at all-time high and 2012 looks even better

INDIA has well and truly regained its position at the top of the ship recycling leader board and is on track to break another record this year, having dismantled 13.3m dwt in 2011.

According to Braemar Seascope, in the year to date recycling yards in Alang have already bought 4.4m dwt of tonnage, representing a third of last year's volume.

And showing their determination to dismantle the growing number of vessels coming onto the market, almost half a million ldt, equivalent to around 2m dwt, was beached in February alone, according to cash buyers.

"It is a brilliant market for shipbreakers in India," says MJR-One chief executive Sanjiv Agarwal, who runs a ship recycling business.

With so much tonnage beached, he says that the yards in India are more of less full at the moment and that breakers are putting a lot of effort into dismantling ships as quickly as possible to improve efficiency and accommodate even more vessels.

"The supply of ships is relentlessly coming along," he says.

India will see another record year for ship demolition volumes and Mr Agarwal believes that with breakers improving speed efficiency the country could take more than 4m ldt.

However, unlike other shipbreaking nations, such as China, the threat of increased competition is capped with India unlikely to see an expansion in the number of active yards, estimated at around 170-180 facilities.

"That is a very finite number and it's not going to change," says Mr Agarwal.

Cash buyers say that many of the ships that Indian yards are buying at present are under 10,000 ldt though, which roughly equates to a 1,500 teu boxship or a 45,000 dwt bulk carrier.

"There are not many buyers keen on big-sized tonnage — they will think twice before buying anything above 10,000 ldt because they do not want to block their yards when the market is expected to go down, when they will then want to take advantage of lower prices," says Wirana Shipping Corp chief executive Billu Khetan.

But despite this preference for smaller tonnage, with neighbour Bangladesh out of the market for much of 2010 and a major portion of 2011, Indian breakers have purchased large-scale tankers and other vessels in the last couple of years.

Compared with the 13.3m dwt of demolition sales that headed to India last year, Bangladesh breakers took in 10.4m dwt and China 10.7m dwt, according to the Braemar figures. It also represented a 40% rise on 2010, when Indian breakers purchased 9.4m dwt.

And with more business comes more cash flow that can be invested back into improving standards that keep yards competitive.

An increasing number of breakers in Alang are employing higher standards, both in terms of labour safety but also with respect to the environment. The industry has recognised the importance of training workers and managing hazardous materials, says the International Maritime Organization's Nikos Mikelis.

13.3m
dwt dismantled at Indian yards in 2011

Members of the industry believe almost half of Indian yards are green, but there is a wide range of standards within that group. Although about 100 yards have gained certification, it is thought that only around 40-50 are of a high quality that is fully compliant with guideline standards set out by the IMO's Hong Kong Convention and then even within that group some facilities are better than others.

Either way, India shows how government recognition of the economic importance of an industry can lead to processes that allow for safer and more environmentally friendly ship recycling. Hopefully other countries on the Indian subcontinent can use this as a template to support improved standards elsewhere.■

Bangladesh puts its breaking industry back together again

AFTER the closure of Bangladesh's ship recycling industry for a second period in 12 months, between October 12, 2011 to January 12, business is slowly and cautiously on the rise in Chittagong's waterfront district.

Unfortunately though the market is finding it hard to shake off the uncertainty that has surrounded the Bangladeshi shipbreaking industry over the last two years. In mid-2010 Chittagong yards had to down tools when the Bangladesh Environmental Lawyers' Association urged the Bangladeshi government to end unsafe and environmentally unfriendly work practices on its demolition beaches.

Although the industry reopened in March 2011, with a long list of new criteria to improve standards that included requirements for certification of pre-cleaning prior to import and safety equipment for workers, a dark cloud hung over the market and by October the door was closed again.

For these reasons, Bangladeshi fell from the top place as the world's largest recycler in 2009, taking just 10.7m dwt last year compared with India's 13.3m dwt, according to Braemar Seascope.

With owners, brokers, cash buyers and even breakers themselves unsure of whether another obstacle lurks around the corner, the Bangladeshi market is being treated with caution.

Along with banking issues and a lack of foreign reserves, only a limited number of Bangladeshi breakers can do business as many cannot open letters of credit. With delays being encountered, many cash buyers are advising owners to avoid Bangladesh. But unfortunately many sellers — particularly those looking to dispose of large tonnage — still remember the days of Chittagong breakers offering premium prices and are waiting to see if that pattern will re-emerge.

"Owners would love to go to Bangladesh but delivering ships into Bangladesh is very, very challenging and it takes a little bit longer, maybe two or three weeks," says Anil Sharma, president and founder of cash buyer GMS. "We are saying owners should consider India and Pakistan and China rather than wait for Bangladesh."

Despite the cautious market sentiment, since January 12 a number of ships have been beached for dismantling after being cleared. This has been done as per new rules from the Bangladeshi government published by the Ministry of Industry earlier this year, after they were accepted by the Supreme Court. They have been referred back to the country's High Court for verification as it was the latter that called for the rules.

"The shipbreaking industry is cautious and awaiting to see if there is any observation from the High Court. If nothing comes up from the High Court within a short time, things will be normalised," says Mohammed Anam Chowdhury, advisor to the Bangladesh Ship Breakers' Association.

"The new rules with a few practical amendments should fulfil everybody's requirements, including the [International Maritime Organization's] Hong Kong Convention."

Capt Chowdhury believes the introduction of the new rules will move the industry in a positive direction that will make it more user-friendly in the near future.

In addition to the new rules, the government has added a 5% additional income tax for every lightweight tonne imported for scrap, which translates to a cost rise for breakers of around $25 per ldt based on the $500 ldt or so being paid for tanker tonnage at the moment.

The biggest challenge facing Bangladeshi breakers in 2012 though is getting back to business and recuperating money lost when they have been forced out of the market.

"Shipbreakers in Bangladesh need to return to profitability, as losses due to the slide of the currency with respect to the US dollar, difficulties with obtaining financing in US dollars, the cost of ships in relation to the price of scrap steel, and no doubt the difficulties in importing ships following the litigation by BELA, have all combined to make recyclers lose money in recent times," says the IMO's Nikos Mikelis. "I hope that some of the adverse factors will be removed soon so as to support the industry's efforts to bring in improvements in safety and environmental protection."■

Record bunker prices drive changes in trade patterns

Taking on a load: according to GMS' Anil Sharma, ballasting a vessel from the US to India can lead to bunker costs exceeding $1m.

Ship recyclers are feeling the pressure of high fuel costs, with breakers taking advantage and cash buyers adapting business strategies

IT is not just regular chartering markets that are feeling the pressure of record high bunker prices averaging above $700 per tonne as ship recycling players are also seeing trade patterns change.

With every last drop of cash being squeezed out of earnings, phenomenally high fuel costs have been brought into focus for both owners selling tonnage and cash buyers acting as the middle man between shipping companies and breaking yards.

For Turkey, the smallest shipbreaking country of the five major recycling nations, this effect has been very apparent as owners and buyers are unwilling to spend vast sums of money on the bunkers needed to ballast ships to other ship recycling regions.

Although popular with Western companies with a keen focus on corporate responsibility due to its high standards safety and environmental standards, Turkey has seen a rise in the number of ships for demolition that originate in Europe but are not necessarily owned by European companies.

Dimitri Ayvatoglu of Turkey's Leyal Ship Recycling says that many of the ships being dismantled in the last year have discharged their last cargo in the European continent, or the north or west coasts of Africa, before making their way to Turkey.

"It doesn't really matter about the nationality of the owner. If it is a European owner and they have a ship opening up in Singapore then they will not consider Turkey," he says.

"The freight market is not doing that well so owners are trying to get even the last dollar out of a sale for scrap so they would not consider the green credentials that much."

If Turkey can offer a better value proposition it will take the business over offers from breakers in the Indian subcontinent.

"We have seen instances where in the past a good sized vessel of say more than 5,000 ldt-6,000 ldt positioned in the European continent could find a cargo that could reposition the vessel south of the Suez Canal and then do a final ballast trip to India," Mr Ayvatoglu says.

"Now there are no cargoes to reposition the vessel south of Suez and the bunker costs are very high so both of these factors are playing in Turkey's favour."

However, he points out that when vessel sizes get bigger Turkey cannot compete on the price differential with the Indian subcontinent and then it can make sense for a shipowner to ballast the vessel.

His comments ring true with those made by Anil Sharma, the president and founder of cash buyer GMS, who says that he has hired a full-time chartering broker.

"We are buying so many ships there is no sense in keeping on ballasting. For example, for a voyage from the US to India ballasting you're talking prices in excess of $1m on bunkers," he says.

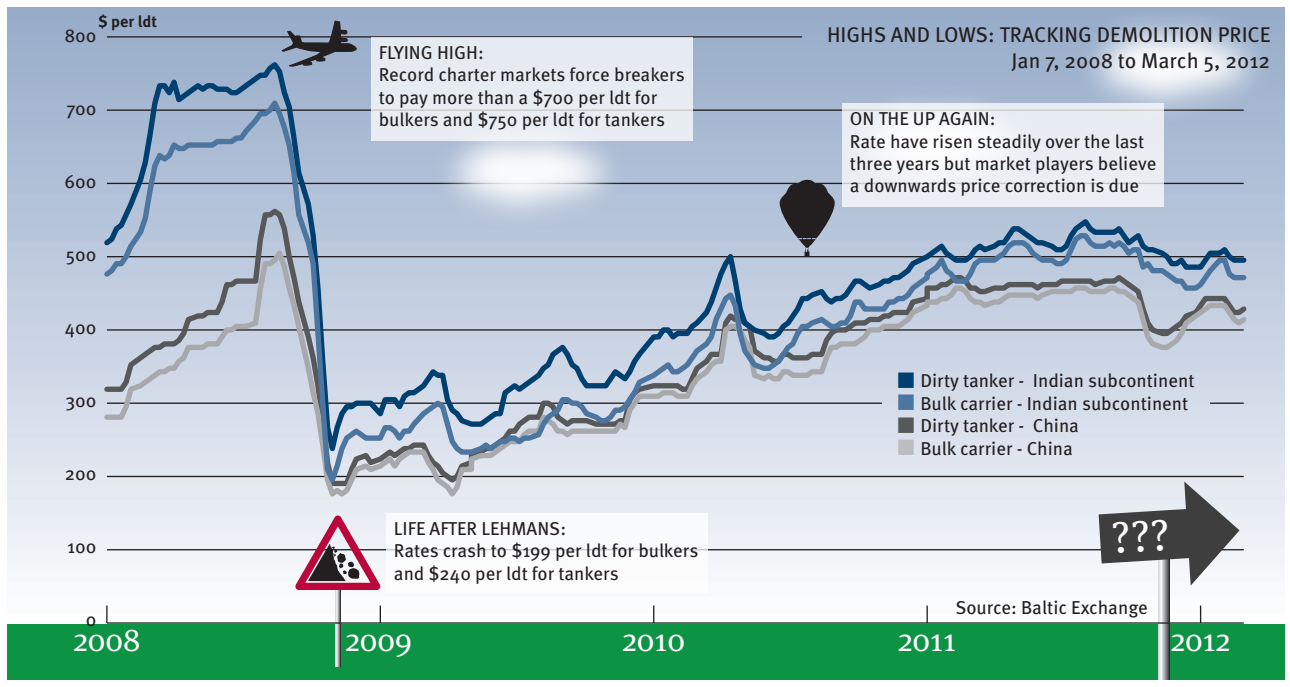
Using this example, Dr Sharma says that GMS looks for cargoes such as scrap steel and fertiliser requiring discharge in south Asia that reposition the vessel closer to the Indian subcontinent.

With bunker prices showing no signs of falling, as global crude oil prices remain high on increased demand from emerging economies and the threat of tightened supply in the Middle East, the ship recycling sector could see fuel costs shape trading patterns even more in 2012. ■

www.lloydslist.com/bunkering

Downwards price correction looms but how far will demolition rates fall?

An increased supply of ships for recycling is inevitable but there are many factors at play influencing the demand side of the equation



SHIPPING analysts have warned for a couple of years that owners should sell vessels for demolition sooner rather than later and take advantage of higher prices before everyone floods the market with tonnage and scrap rates fall.

Clearly some people listened, as the significant volume of tonnage sold in the last couple of years shows, but breakers and cash buyers warn that the industry is on the cusp of a downwards price correction.

Sanjiv Agarwal, the chief executive of Indian green ship recycling company MJR-One describes the volume of tonnage being marketed for sale as "relentless".

"There is a huge oversupply of vessels and therefore the prices are going down," he says, adding that Indian yards simply cannot buy and beach all the ships being offered.

"Steel prices are strong at the moment so that will create a floor but prices could go down by another $20-$30 per ldt."

His forecast matches that of Billu Khetan, the chief executive of Singapore-based cash buyer Wirana Shipping Corp. He says that a price correction of 5%-10% can easily be expected.

This week, the Baltic Exchange reported its weekly demolition assessments — with estimates provided by shipbroker panellists — at an average $497.50 per ldt for tankers and $475.50 for bulk carriers on the Indian subcontinent.

"There is a huge oversupply of vessels and therefore the prices are going down"
Sanjiv Agrawal, MJR-One

"People talk about how much money they are losing but in reality the prices at the moment are excellent," says Anil Sharma, president and founder of cash buyer GMS that has offices in the US, Dubai and Shanghai.

When freight rates and asset values plummeted in the fourth quarter of 2008 — as frozen trade credit caused chartering markets to come to a virtual standstill — scrap rates came under serious pressure and reached extremely weak levels compared with today's prices.

Having topped $700 per ldt for bulk carriers and $750 for tankers in August 2008, as shipowners raking in cash from the record-high chartering markets were reluctant to sell and forced breakers to bid extremely high prices to secure vessels, prices then came crashing down following the collapse of Lehman Brothers.

Less than three months later in early November 2008, the freight indices provider was reporting average prices of $199 per ldt for bulk carriers on the Indian subcontinent and under $240 for tankers.

Prices steadily increased over the following three years and reached a recent peak of $530-$550 per ldt in August last year.

Cash buyers are not confident the market will see these levels again anytime soon though, and say shipowners should factor price fluctuations into their planning.

"Supply and demand is fairly elastic. What we saw when the prices fell below $500 per ldt was a sudden reduction in the volume of ships. However, most breakers are making money when they buy a ship at $480-$500 per ldt so they want to keep the volumes up and carry on buying," says Dr Sharma.

"In contrast to what people like Greenpeace say, ship recycling has not been very profitable but the margins are probably better than they have ever been."

Unfortunately though, there are many moving parts that contribute to demand and these factors do not necessarily move in the same direction.

As Mideast Shipping & Trading general manager Steve Wansell says: "We've seen rain, hail and shine in the last three months. If it's not one thing it's another."

"In contrast to what people like Greenpeace say, ship recycling has not been very profitable but the margins are probably better than they have ever been"
Anil Sharma, GMS

Obviously the global economy impacts both owners looking to sell ships — increased growth and greater consumption leads to more cargo needing to be transported — and global steel demand, which creates need for scrap.

But, as detailed below, there are a number of factors that influence the supply-demand equation in ship recycling.

Supply factors

Owners selling ships

THIS side of the equation is quite simple; huge fleet growth from newbuilding deliveries that greatly exceeds cargo demand growth creates a surplus of ships in chartering markets and the older, more inefficient ships find it harder to secure employment, which in turn leads owners to market these vessels for demolition.

There is not expected to be any let up in supply over the coming year as shipping analysts forecast 2012 to be the worst year the chartering markets have seen in decades and an increasing number of companies are expected to face financial difficulty and bankruptcy.

Demand factors

Ship recycling capacity

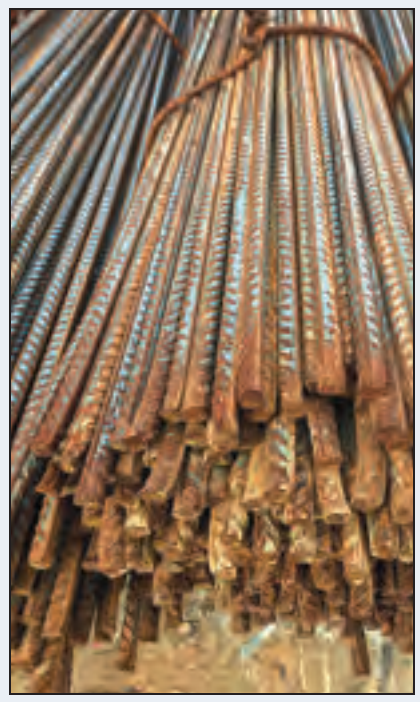
WITH the exception of China that could convert struggling shipbuilding facilities for reycling, the industry does not expect the capacity of yards on the Indian subcontinent to increase.

Even last year, global capacity was not fully utilised, says Wirana's Billu Khetan. He estimates that the four major Asian shipbreaking nations of India, Bangladesh, Pakistan and China have the capacity to dismantle a total of 12m ldt. By comparison, last year only 8.5m-9m ldt was sold for recycling, up from 7m-7.5m in 2010, he says.

Rival Steve Wansell of Mideast points out though that with such an inlux of ships coming in at one time, there is only so much tonnage that breaking yards can purchase. "With the Bangladesh market still unclear, and limited steel demand in Pakistan that puts a ceiling on how much it can take, India is creaking at the moment. That's when the brakes go on."

GMS' Anil Sharma says that although capacity is not going to run out, buying has become a lot more price sensitive.

"When the breakers give a price, that's it. If you sell you sell, if not they don't buy. I've been doing this for 20 years and there's negotiation involved. You see that less and less now. The word negotiation has been replaced by the word renegotiation," he says.



While the number of ships being sold influences supply, the appetite for steel and currency fluctuations are among the factors that govern demand.

Steel demand and prices

FOR shipbreakers there is little point in purchasing vessels if they cannot sell the scrap to be remelted into new plate or rods. So steel demand in individual recycling nations has a direct impact on the volume of ships yards will be wanting to purchase to dismantle.

All five major shipbreaking nations are emerging economies and therefore the global economy has a knock-on effect— if construction and infrastructure projects slow down or pick up that in turn will influence steel prices.

Mr Khetan believes volatile steel prices will be the market's biggest challenge this year. "The economy is not doing so well around the world and even in local Asian economies it has not been as good as it was supposed to be," he says.

However, Dr Sharma argues that commodity market analysts forecast that steel prices will remain relatively strong this year, which should bring some level of stability to demolition rates.

Currency fluctuations

THE huge impact currency fluctuations can have on demolition demand has been demonstrated in the last two or three months, after the Indian and Pakistani rupee and Bangladeshi Taka weakened against the US dollar.

As Mr Wansell explains, many breakers do not hedge their positions against fluctuations over a 12-18 month period.

"They buy their ships in US dollars but they're dealing in Indian rupees. If they go to the bank they've got to exchange their local rupee into dollars to open a letter of credit and the rates go against them then all of a sudden their appetite dissolves as they see it as a foreign exchange loss," he says.

This is what happened to the market at the start of the year; even though steel demand was firm, foreign exchange rates saw prices become 10%-15% more expensive for breakers. However, this has somewhat subsided now and prices are getting back up to levels achieved in mid-2011.

Access to finance

THE lack of banks lending to each has created a squeeze on ship recycling, as so little money is moving in financial markets.

"It's a massive factor," says Mr Wansell. "When we sell a ship to a breaker we're selling it on a letter of credit basis, we don't get cash.

"If the money markets are squeezed and banks stop lending the discount rates go up and you will find it hard to find a bank that will be able to discount your letter of credit. That's an issue you've always got to keep your eyes on."

Bangladesh's ship recycling industry in particular though is suffering from a shortage of US dollars in the country.

"This is having an adverse effect on its ability to open a letter of credit as Western banks refuse to lend the country money. Unlike India where 180-day deferred letters of credit are used, in Bangladesh 'sight' letters of credit are used that require funds to be immediately available and this is not possible on a significant number of large ships at one time," says shipbroker Braemar Seascope.

Dr Sharma adds that even breakers that have been in business in Bangladesh for a long time are struggling to gain bank approval, which means cash buyers delivering ships into Chittagong are facing challenges and this is creating delays. ■

www.lloydslist.com/specialreports

So, what lies ahead for the next year?

Regulators

"For Bangladesh it will be to get back into the regular business under the new rules developed by the Ministry of Industries. The big challenge for Europe will be to get the new regulation that will be proposed by the European Commission through European Parliament and Council and then to implement it"

Nikos Mikelis, IMO

Brokers

"The demolition sector will face certain constraints this year due to the fact it is an extremely volatile market with many factors that can affect prices. The most notable of these will be financing and the effect of the global economy on local exchange rates"

Braemar Seascope

Shipbreakers

"The understanding, implementation and getting used to the new rules [set out by the Bangladesh Supreme Court] will take some time. But the introduction of the new rules is definitely in a positive direction and with a few changes will make it [the ship breaking industry] user friendly in the near future"

Mohammed Anam Chowdhury, Bangladesh Ship Breakers' Assocation

"The challenge is to keep up with all the vessels that are being offered. I think it's going to be an even busier level compared to 2011, another record year or at least close. And I feel that 2013 is going to be a very busy year as well"

Dimitri Ayvatoglu, Leyal Ship Recycling

Cash buyers

"We have a lot of work to do to fulfil the requirement of the market, to educate hazardous material experts and get owners acquainted with the processs"

Jens Rogge, lead auditor ship recycling Germanischer Lloyd, picture 1

"It's going to be another busy year and I think we're going to have this rollercoaster again of it being off, then on. That's the challenge of being a cash buyer that is not always seen"

Steve Wansell, Mideast Shipping, picture 2

"I think it is time to be careful. There are many moving parts and they're not all moving in the same direction. It is much more challenging today than it has been in the past"

Anil Sharma, GMS, picture 3

"The biggest challenge is steel prices, which are under downwards pressure and then you have an oversupply of sales for demolition because of poor freight rates — it's a double whammy"

Billu Khetan, Wirana Shipping, picture 4

"It is a brilliant market. Breakers are having a ball at the moment and they expect will continue to do so. India will have a record year, for sure"

Sanjiv Agarwal, MJR One chief executive