

## RECYCLING

# Scrap trade discards its shady image

Today's buyers are "on the ball" and vessel descriptions need to be of a high standard.

Geoff Garfield

London

The ship-demolition business is strewn with the wrecks of deal renegotiations and allegations of shady practices.

It goes with the territory and, if all the market chatter is to be believed, involves big and small cash buyers alike.

Not to mention the recyclers, who, like their peers in the buying and selling chain, are quick to react when they face a potential loss of millions of dollars as prices move against them.

Lawyers these days are called on to go far beyond simply dotting

the i's and crossing the t's on sales contracts, although surprisingly only occasionally do disputes end up in arbitration or the commercial courts.

Why? Litigation is expensive and these are end-of-life ships, often with a limited value. Also, the scrapping industry involves a relatively closed circle of players and personalities whose mutual dealings often go back 20 years or more.

Also, cash buyers tend not to buy speculatively. Normally they have an end receiver lined up.

But those end receivers — the breakers — can be very picky. Any vessel misdescription, such as metal content, can swiftly lead to the cash buyer and in turn the seller being leaned on.

It is a situation familiar to Holman Fenwick Willan (HFW) lawyer Stephen Drury, who says the time spent drawing up a proper description of a ship being sold for recycling is time well spent.

Standard memoranda of agreement (MOAs) with a brief vessel

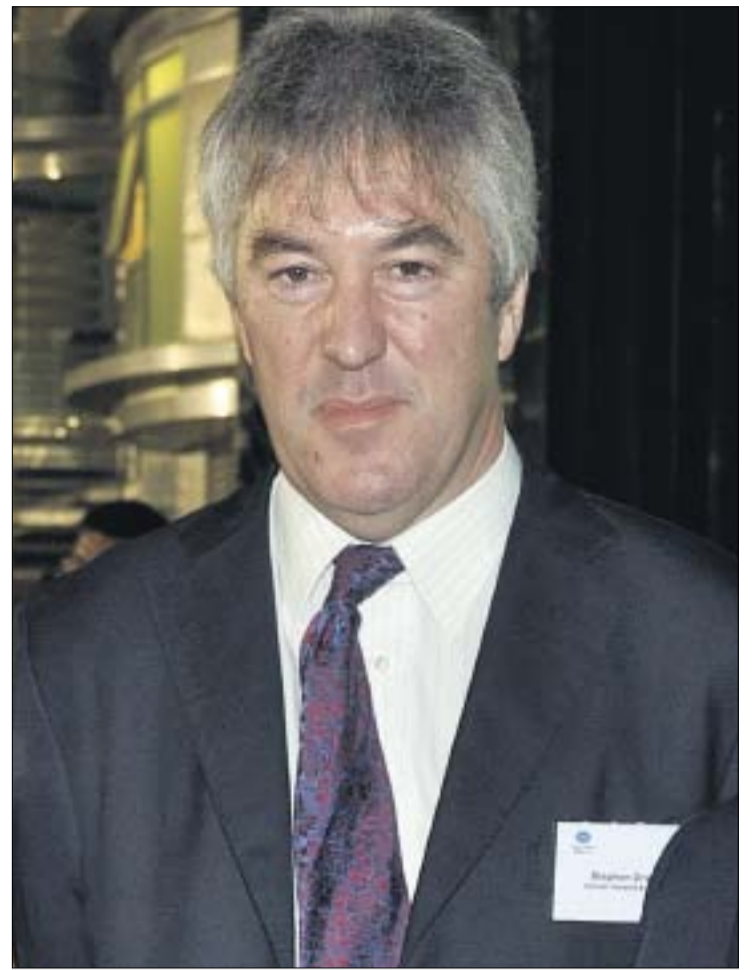
description have been replaced these days by much more detailed paperwork. The modern cash buyer, he says, is on the ball.

Drury has seen some "mega-arguments" but they typically get settled without resorting to the courts.

The root cause is often ship-owners failing to focus sufficiently on details key to the breaker, such as the number of generators on a vessel, rather than any evidence of "deliberate subterfuge or misrepresentation".

Typically, less time and effort by owners goes into selling ships for recycling than a normal sale or purchase when top management tend to get involved.

Owners are sometimes described as sloppy and forget they are actually dealing with substantial concerns in places like India. Recyclers are often family owned and not always run by highly sophisticated businessmen but significant sums of money change hands.



STEPHEN DRURY: The Holman Fenwick Willan lawyer has seen some 'mega-arguments' but they are usually settled before hitting the courts. Photo: Julian Bray

Much of it is said to be controlled out of Bhavnagar in Gujarat, a city about 80 kilometres (50 miles) from Alang where many of the end receivers have their offices and, comments one observer, "drive out to have tea at their plots in the afternoons".

They undertake to settle up with the cash buyer within, say, 180 days via a bank letter of credit,

which is turned into cash and used to pay the owner. For the banks, demolition tonnage is not viewed as particularly attractive compared with lending on newbuildings.

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## Cash buyers jostling for position as sector faces upheaval

Steve Wansell, general manager of United Arab Emirates (UAE)-based cash buyer Mideast Shipping & Trading, says the UK is probably the biggest place for purchasing recycled tonnage.

"The City offers everything — shipbrokers, banks and insurance," he said. "If you are sitting in London, you can meet brokers and sign contracts. It's a fantastic time zone to work in. Setting up in London is a no-brainer."

Cash buyer Mideast acquires around 30% of its ships locally in the Middle East, with the remainder coming directly from ship-owners or through brokers.

In recent years, well-educated, second-generation Indian, Pakistani or Bangladeshi shipbreakers have arrived on the scene, some of whom eye an opportunity to become, says Wansell, almost cash buyers themselves.

But with shipowners becoming increasingly fussy about who they sell to, he says a handful of maybe five or six large cash buyers may control the majority of the market within a few years. This is not just because of green issues but also the ability to perform, sufficient backroom staff and the resources to pay for vessels.

"A lot of these smaller cash buyers are just one-man shows," he said. "I am not knocking that but I am not sure they are going to be

around forever if they don't change their ways. The canvas is there. The way forward is having more structure to your operations."

He acknowledges that scrapping is way down the shipping food chain and cash buyers need to make life as easy as possible for owners, both on the delivery and payment fronts.



STEVE WANSELL: Mideast Shipping & Trading general manager

Photo: Geoff Garfield

Whatever goes on behind the scenes should not trouble the shipowner, says Wansell, who sees possible mergers among some of the smaller cash buyers.

Even some of the big names have worked together on projects but, as another observer commented: "It only takes one thing to go wrong and before you know it, they are fighting again."

Such joint ventures are said to have happened more frequently recently, for example where a cash buyer is stressed on finance, but often the shipowner is oblivious to what is happening.

At times, cash buyers may have eight or nine ships on the go simultaneously, with vessels on average maybe 30 to 60 days on the high seas. Money can be tied up for as little as a couple of weeks if a ship is in, say, the UAE but for "as is" deals, the norm is more like 45 days.

Not, surprisingly, not everyone agrees that the market could soon be monopolised by a breakaway

pack, including veteran shipbroker Ed McIlvaney of EBM Shipbroking.

He says the majority of cash buyers, if necessary, can finance deals themselves and often they have equity partners.

"One or two will always fall by the wayside but one or two appear in their place," he said.

Typically, cash buyers pay a deposit to owners of between 10% and 30%, which used to be paid into a joint account but compliance and anti-laundering requirements mean that banks no longer want to open accounts in the name of someone with whom they have no relationship.

It means that money now goes typically into the seller's account with arbitration clauses in the contracts in the event of a dispute.

When many millions of dollars were held in escrow accounts, there used to be plenty of talk in the market of demolition ships being a convenient vehicle for money laundering. Today, it would be much tougher.

"Business now has to be very transparent," commented one financial source. "You may have been with a bank 20 years but if you want to open another account, you still have to go through the due-diligence process. It's all about keeping records."

Transparency is an issue taken up by Wansell, who spent 24 years in banking, including with Bank Mandiri, handling plenty of scrapping deals.

He says these days some ship-owners, especially the Scandinavians, want to know plenty about the cash buyers with whom they are dealing.

"It isn't just the price," he said. "They want to know the background of the company, the individuals, bank references and your ability in terms of green recycling."

"There is a tick box of requirements, including a history of what vessels you have delivered. I can see that continuing in other countries."

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