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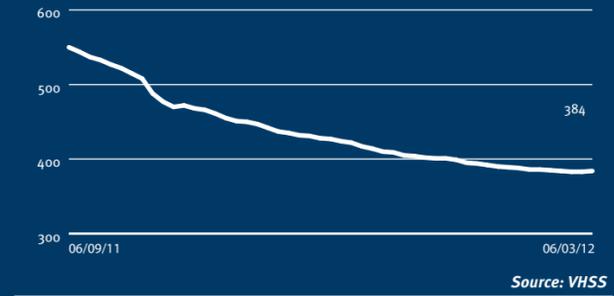


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Owners' cash claw back blocks green recycling push

Companies chase every last dollar on demolition sales

Liz McCarthy

INTERNATIONAL efforts to improve ship recycling standards are being jeopardised by the shipping downturn as owners attempt to claw back every dollar possible from vessels sold for demolition.

Brokers, cash buyers and breakers all report that while many companies' intentions are improving as more green recycling capacity becomes available, the price differential created by increased overhead costs curbs their enthusiasm.

The huge surge in ships marketed for demolition in recent months and a number of localised economic factors in recycling nations has already led to a fall in scrap rates since a three-year high was reached last July and August.

At the time, a tanker owner selling a 1990s-built, 300,000 dwt very large crude carrier with around 40,000 ldt could achieve a price of up to \$550 per ldt, or \$22m, in countries such as Bangladesh and Pakistan.

With these vessels now selling for around \$500 per ldt in Pakistan this has created a \$2m drop in overall prices.

Forecasts of further downwards pressure on prices in the coming weeks due to the relentless supply of ageing ships that owners want to dispose of will not help the push to sell to better facilities.

London-headquartered broker Braemar Seascope records over 9m dwt committed for demolition so far this year, already representing 20% of the 41m dwt sold for recycling last year.

As increased numbers of newbuildings deliver into service and put further pressure on chartering markets, 2012 is expected to set a new record for demolition volumes and surpass the 44m dwt dismantled in 1985.

But while Braemar expects to see a greater proportion of owners opting to sell to facilities recycling ships in compliance with the International Maritime Organization's adopted Hong Kong Convention guidelines, it says this tends to comprise larger listed companies that "feel they have a responsibility to recycle their vessels in China or India on a strict environmentally-friendly basis".

The broker's view mirrors that of GMS president and founder Anil Sharma, a cash buyer who has been working in the business for 20 years.

"If an owner wants to go green, we



The relentless supply of ships for demolition has seen scrap prices fall and green recycling efforts fall by the wayside.

love that. But while we still see the same standard shops continuing with green recycling, the shipping markets are so bad that this is not a time when owners want to consider leaving money on the table," he says.

When the IMO convention was adopted in May 2009 there was a lot of hype surrounding green recycling, and with vessel earnings healthier, then owners were able to more easily commit to environmentally friendly sales, says Dimitri Ayvatoglu of Turkey's Leyal Ship Recycling.

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"Now they are going for top dollar. We have seen that although interest in green recycling is still there, as soon as you get into commercial discussions their interest in green recycling fades away," he says.

Having argued the benefits of breakers reinvesting profit back into their businesses, the green credentials of Leyal's facilities saw it win a bid to dismantle the high-profile

UK military vessel *HMS Invincible* last year.

However, the extra overheads that come with green facilities in Turkey, ranging from yards employing an independent company to remove asbestos from ships to centralised training and health checks, means that the country's industry suffers from a price handicap against Asian breakers.

The same applies to green recycling yards in China and an increasing number emerging in India, where government investment has also helped to improve standards across the board.

So with publicly listed companies increasing their use of IMO-compliant yards, could these large-scale owners lead the wider shipping industry to see the advantages of pushing for improved standards?

"A number of big owners want to see something at the end of the sale that they can give to their auditor, bank or whoever asks to show 'this is how we disposed of our vessel' and which includes documentation of a dismantling plan, yard certification and photographic evidence," says Mideast Shipping & Trading general manager Steve Wansell, another cash buyer.

Aleksandar Stanic, relationship manager for Bank Mandiri (Europe), a wholly owned subsidiary of

Indonesia's largest bank, said that the finance sector could also play a role in improving ship recycling practices by restricting lending to only those that were working to high standards.

"Banks in demolition finance are certainly paying more attention to the transparency of clients, the ship being purchased, the insurance involved in the last voyage and the yard where the vessel is being recycled," he said

As an increasing number of yards in India and Bangladesh look to improve standards, those left behind could eventually lose out on business as the industry's expectations shift.

Dr Sharma is concerned about the shipping industry's perception of ship recycling and reality. Yards are continually improving and therefore standards across the business are getting better year on year.

"I've seen owners who are very sensitive to headline risk and thought that China was the best option but are now saying they feel India has reached that stage too," he said.

In parallel with these positive moves, classification society Germanischer Lloyd reports a growing number of companies requesting inventories of hazardous materials to be put together for existing ships and newbuildings, in compliance with guidelines set out by the IMO convention. ■

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NEWS HIGHLIGHTS

Cruise safety reform likely
 An operational safety review into the cruise industry, announced at the end of January, is underway and the results may be available as soon as August.2

CMA CGM reports \$30m loss
 CMA CGM posted a net loss of \$30m for 2011, with the relatively modest shortfall compared with other lines helped by the disposal of port assets.3



Owners call for UN to guard ships
 The Asian Shipowners' Forum has called for a United Nations resolution that would see the international body sponsor and manage armed personnel on board ships sailing through pirate-infested waters.4

Shippers braced for US strikes
 Shippers could divert cargo from US Gulf and east coast ports to Pacific gateways rather than risk being caught up in industrial action during forthcoming negotiations on a new labour contract.5

Box rate surge boosts mood
 Soaring Asia to Europe spot freight rates have boosted the mood among containership owners, although most of the time charter market is still in deep trouble.8

Indian rail to boost ore exports
 A cut in Indian rail freight rates could create a turnaround in its declining iron ore exports and provide a much-needed boost for supramax bulk carrier employment in the Pacific chartering markets.9



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