

Certain cash buyers to bypass the brokers

Cash buyer Steve Wansell (Mideast Shipping & Trading Ltd.) warns about a ship recycling market degenerative trend, spurred by the aim of saving the owners a commission fee

“We continue to see a number of cash buyers investing in, in-house broker’s with a view to working owners direct as opposed to going through the traditional broker” says Steve Wansell, General Manager, Mideast Shipping & Trading Ltd., in starting a perusal of the current scrapping market. “Traditional commercial lines are becoming somewhat blurred with ‘certain cash buyers’ trying to bypass the traditional broker working the owner direct saving the owners a commission”.

The brokers are specialist intermediaries/negotiators between the cash buyer and owners, representing the latter, Wansell explains. Apart from providing negotiating skills, they also provide a route to resolving any disputes which may arise. “We have seen a number of disputes in recent times where owners have engaged in dealing with the cash buyer direct and have encountered a re-negotiation on the sale, with no intermediary to assist we have seen owners lose significant monies” adds the London-based specialist, who believes it is good to see that a number of traditional brokers are abstaining from dealing with those cash buyers that are dealing direct. “Owners face many risks and pitfalls by not going through the traditional broker; this really is a ‘false economy’. How long can those cash buyers sustain the investment of taking on more staff especially in a quieter market it doesn’t at times add up?” he argues, pinpointing that on the market outlook 2014 demo levels have been significantly down on last year: “we are seeing other markets slowly

recovering; owners are more reluctant to consider selling a ship for recycling unless they really have to. Off course owners remain under pressure in certain sectors so a regular flow of ships will continue just how many we don’t know”.

A trading role

After 24 years in the bank sector, a few years ago Wansell joined Mideast Shipping & Trading Ltd., whose headquarters is based in Dubai. To be more precise, he previously worked for American, German and French



Steve Wansell

banks, his last position being with Bank Mandiri (specializing in financing vessels for demolition); so his specific experience – his main responsibilities are the sale and purchase and the banking relationships – was considered ideal by Shabbir Baig, an Indian manager who in August 2000, after gaining vast experience, set up Mideast Shipping and Trading Ltd., where he holds a position of Managing Director.

“We definitely need a cash buyer when we sell the ship to a recycling shipyard” Wansell remarks. A cash buyer is an entity that purchases a vessel on a prompt payment basis and delivers it to a recycling yard for the purpose of recycling; they are the ‘middle men’ although not at all brokers, so they can be compared to trader, their main function including sales (selling), financing (taking title of the vessel against payment) and market evaluation (forecasting future prices, demand/supply).

As mobile structures of comprehensive size and consisting mostly of steel, at the end of their active life vessels become a sought-after source of ferrous scrap; the process of dismantling a ship for recycling offers a possibility to reuse significant parts and equipment, as an alternative to the non-renewable resource of ore. Steel can be recycled to produce new steel, reducing the energy required for processing by two-thirds. Copper cables and aluminum are also recycled in similar ways.

Conducted on a pier, drydock or dismantling yard, it involves a wide range of activities: from removing all the gear



and equipment onboard to cutting down and recycling ships’ infrastructures.

The principal markets for recycling are India, Bangladesh, Pakistan, China and Turkey to a lesser extent since they predominantly provide a cheap supply of labour and growing infrastructures in need of cheaper steel products, also boasting the right coastal geography which enables vessels to be beached at certain high tides. The scrap price for vessels, like any other commodity, fluctuates with demand and supply; the demand is driven by around 300 recycling yards, while the supply side is driven by a combination of oil prices, freight/charter rates and aging profile of the vessel which will determine the viability of operating vessels of selling them for recycling.

The recycling market is actively supported by a large number of specialist shipbrokers who keep buyers and sellers aware of the current scrap steel price levels and actively match them; but it is very rare for a shipbreaker yard to purchase a vessel

directly from a shipowner, as it wish to pay for vessels on a deferred payment terms under a letter of credit issues by their bankers, whereas the ship owner is required to be paid on a cash basis. “This impasse is resolved by trading companies, the so called ‘cash buyers’, which stand between the shipowners and the recycling

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yards as principles in the transactions. We pay the owners cash for the vessels and are prepared to accept payment under letters of credit from the recycling yards” Wansell concedes.

There are two ways in which the purchase of vessels is effected by the cash buyer. In ‘Delivered Basis’ the cash buyer agrees to purchase the vessel from a shipowner subject to the latter delivering the vessel to the recycling yards within a certain time and subject to certain conditions; therefore risk, responsibility and the cost is borne by the shipowner.

In the ‘As Is Where Is Basis’ the cash buyer pays the shipowner for a vessel at

a price based on its condition at the point of sale and, at its own risk, responsibility, expenses, will then sail and deliver the vessel to the recycling yard against payment under a letter of credit from the breaking yard.

Mideast - one of the leading cash buyers globally - concluded hundreds of vessels over the years and averages some 70 deals per annum, and declares ambition is to increase the volumes of vessels, as reflected in the recent establishment of a UK/European office. The company is also a shipowner itself, owning an ocean going tug (Dominant) and a harbour tug (Ocean 7).

The world map of a controversial activity

Obviously the ship recycling industry has generated its share of controversies, arisen over the dangers involved in the work and the general working conditions workers were exposed to.

Ships have, for a long time, been built containing many of hazardous materials: asbestos, PCBS, and TBTs, which nowadays are no longer used in construction. The removal of these from ships would make the exposure to workers at dismantling yards greatly reduced.



The IMO recognised that ship dismantling should not be discontinued since most of a ship’s materials can be reused, but just needed to focus on the current dangers and make the thought of becoming a more environmentally friendly ship recycling yard more appealing to the owners of the yards and ships. One of the most influential moves was the Hong Kong Convention for the Safe and Environmentally Sound Recycling of Ships 2009 whose main aim was to lessen the dangers of ship dismantling; the convention turned the ‘green passport’ into an ‘inventory of hazardous materials’ as it is now better known as. Once the Hong Kong Convention is enforced all vessels, across the world, over the weight of 500GT will have to carry a ‘green passport’. Ship recyclers will also be required to detail the ship dismantling process to submit to the relevant authorities.

Alang (India) is the largest ship-recycling yard in the world, ever since its inception in 1982. There are 183 plots to carry out the ship-recycling activities which generate 30,000 jobs and 3 million tons of recycled steel every year.

Gadani (Pakistan) ship-breaking yard is

the world’s third largest ship breaking yard - in the 1980s it was the largest - consisting of 130 plots out of which 104 are active. Today it produces less than one fifth of the scrap it produced in the 1980s and now employs 6,000 workers, with annual capacity of breaking up 125 ships of all sizes, including supertankers, with a combined LDT of 1,000,000 tons.

Shipbreaking activities in Bangladesh are concentrated in Sitakund (Bhatiary to Barwalia), just 8–10 kilometres north of Chittagong city on the Bay of Bengal. There are 110 ship breaking and recycling yards out of which 90 are in operation and 22,000 workers employed and 200,000 indirectly employed through ancillary activities.

China has 90 breaking yards dotting the deltas of the Pearl and Yangtze rivers. The major ship-breaking yard is Zhang Jiagang in Jiangsu Province and there are additional breaking yards in Fujian and Guangdong provinces. It is the only nation where scrap ships are not beached and are docked, which makes it easier for shipowners and exporters to deliver them to be demolished.

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