Fairplay

Ship demolitions rise as Pakistan returns to the market

Jonathan Robins, senior reporter, and Xiaolin Zeng, east Asia | 25 May 2018

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The breaking beach at Gadani, Pakistan, has reopened for business. Credit: Getty Images

For the first time in more than a year, tankers have begun to appear on the Pakistani shipbreaking beach of Gadani, following a decision in April to resume tanker scrapping in the country.

"Pakistan has returned. This is what everybody's been waiting for. Most of the unsold VLCCs [very large crude carriers] have been committed there," Jamie Dalzell from cash buyer Global Marketing Systems told *Fairplay*, "although for the moment it is just absorbing the backlog of tankers that cash buyers were waiting to offload".

This has pushed the number of VLCCs sold for recycling to 30 units by mid-May, far exceeding the 10 VLCCs that were demolished for the whole of 2017. Unsold VLCCs that were being held by cash buyers have now been bought by end buyers, mostly in Pakistan.

Yet this backlog has meant that the expected upswing in demolition prices – that many in the market were expecting – has failed to materialise.

As India does not usually accept large units, the only other main alternative for recycling VLCCs is Bangladesh. Scrap prices there fell by about USD50/ldt in April, indicating that demolition rates are likely to remain under pressure. Bangladeshi shipbreakers are currently saturated with tonnage and reluctant to make further purchases for the time being.

"Prices will probably cool down. The aggressive buyers have filled their plots, so right now it is the second-tier buyers that are active. We also might see a slowdown in supply as owners seem to be holding off," Dalzell said.

The upcoming monsoon season will further dampen demand as end buyers avoid beaching vessels during that time, and the commencement of the Muslim fasting month of Ramadan – which runs until mid-June – will also see fewer sales concluded.

"It looks as though the market has taken a step back this past week, at least in the Indian subcontinent, with prices looking to have eased back slightly as appetite in the region seems to be softening," Allied Research said in a recent note.

"We are still seeing a fair buying drive from Pakistani breakers, though, with both India and Bangladesh having eased back their requirements and with poor weather conditions in the region already seeming to be causing disruptions despite being just before the monsoon season."

In April, the Pakistani government announced an increase in the country's sales tax to 2% from 1 July, which could reduce prices by a further USD15/ldt, an action that has been keenly opposed by end buyers. The Pakistani Shipbreakers Association is actively lobbying to have the sector give some form of exemption to those rates, so it is currently unclear whether the new rules will take effect as stated.

Meanwhile, the industry is also watching new legislation recently announced by the Chinese government, although with less concern. As part of a drive to limit heavily polluting industries, Beijing has said that from 1 January 2019 ships can no longer be imported for demolition, meaning that only locally owned vessels may be recycled.

However, cash buyers who spoke to *Fairplay* said the fallout for shipowners is likely to be minimal, as Chinese scrap prices are not as competitive as those on the Indian subcontinent, reflecting weaker demand for scrap steel in China.

In an attempt to attract tonnage from foreign shipowners before such imports are banned, Chinese ship recycling facilities have raised their prices to match those offered by Turkish yards.

According to Allied Research, Chinese scrap prices averaged USD230/ldt for tankers in the week ended 20 April, before firming sharply to an average of USD280/ldt for tankers as of 18 May after the announcement had been made. This equals the prices of USD280/ldt for tankers in Turkey.

However, China's price levels remain significantly behind those on the Indian subcontinent, where prices range from USD420 to USD435/ldt.

China's low prices are enough to dissuade shipowners from choosing the country as the final destination for their elderly vessels, cash buyers said. "In the past few years, Chinese shipowners were more or less the only ones recycling vessels in China because of state subsidies."

Those owners that do choose to scrap ships in China do so either because the last voyage of the vessel ended in East Asia, making it more economical to sail to China for recycling, or because they are particular about having the ships demolished in specialised yards.

For the whole of 2017, 170 ships were broken up in China, far fewer than the 566 ships recycled on the Indian subcontinent, while to date this year only three foreign-flagged vessels were scrapped in the country.

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