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Turkish shipbreakers catch a breather

Steel mills in the crisis-hit country are returning to buy scrap at higher prices, thus a total meltdown among ship recyclers seems to have been avoided. A clearer picture may only emerge after the Eid al-Adha holiday, though

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The largest shipbreaking industry outside of Asia may escape from catastrophe as Turkish scrap price recovers

THE SHIPBREAKING INDUSTRY IN TURKEY MAY BE ESCAPING FROM A MELTDOWN.

TURKISH shipbreakers are escaping from a “complete meltdown” as compatriot steel mills return to buy scrap metal at higher prices, according to one of the largest among them.

The crisis in the Turkish ship recycling industry, the largest outside of Asia, was triggered by Washington’s decision to double the tariff on Turkish steel imports to 50% last week.

All trading activity of Turkish ship recyclers halted last week, as Turkish mills stopped buying scrap after steel price collapsed, forcing shipbreakers to withdraw their offers for vessels, cash buyer GMS reported.

However, the situation has been improving this week as the Turkish currency lira’s value recovered after severe depreciation, according to Turkish shipbreaker Leyal.

With mills returning to purchase scrap as the Turkish economy shows signs of stabilising, scrap price rose to $310 per tonne in Turkey on a delivery basis on Wednesday, still lower than the pre-crisis level of $325 but higher than $250 on Monday, said Leyal's head of special projects and external affairs Dimitri Ayvatoglu, citing Platts figures.

"[This] is far from the previous reports of an $80-plus drop and a grounding halt of the sector, which thankfully did not materialize despite original fears," Mr Ayvatoglu told Lloyd's List in an email.

While Turkish shipbreakers still encounter some imminent challenges as scrap price has yet to return to the pre-crisis level, the risks lie in more with "the real economy and whether the recent developments will affect domestic steel demand, steel exports, bank lending, interest rates or even the imposition of capital controls as a measure of last resort," Mr Ayvatoglu said.

"Smaller yards with significant debt will suffer as an increase of interest rates is a very likely countermeasure. Other yards which run export operations to the US will also be adversely impacted," he added.

Turkish shipbreakers, which mainly concentrate in Aliağa, mainly import vessels below 10,000 dwt from European and domestic owners.

According to Clarksons data, a total of 88 vessels have been sold for demolition in Turkey so far in 2018, compared with 153 for the whole of 2017.

"In general, in an unsettling situation like this, the weaker yards will face higher challenges in the short and medium term hence ship owners looking to sell ships for recycling into Turkey should stick with the larger yards to ensure performance," Mr Ayvatoglu said.

"However, I have not yet heard of any lay-offs or stopping of operations."

"Also keeping in mind that the recycling business, similar to shipping, is denominated in US dollars as we sell the scrap in Turkish Liras pegged to an agreed USD level," Mr Ayvatoglu said. In addition, a weak lira would actually mean cheaper operations as operating expenses are denominated in liras in Turkey, he added.

With the Eid al-Adha holiday in Turkey next week, dust may only start to settle in the shipbreaking industry from the final week of August, Mr Ayvatoglu said.