

END OF LIFE

By Jamie Dalzell, Global Marketing Systems, Inc.

Once a vessel approaches 25 years and older - and as the market and broader economic conditions falter as they have in recent times - there is still one industry in the shipping world that is thriving under the weight of available and eligible tonnage.

As the ship nears the end of its life, a number of fundamentals fall into place, often in tandem, leaving the shipowner facing one final payday before the watery grave beckons. The vessel's viable resting place can really be only one of five locations; the major ship recycling hubs of the world are in the Indian sub continent (India, Pakistan, Bangladesh - where beaching onto local plots is the standard form of delivery), China and Turkey (where alongside 'docking' is the usual process for delivery).

Alang and Chittagong (with almost 300 plots of varying shapes and sizes) have taken the majority of units since the market downturn of late 2008 with Gadani and South/North China not too far behind. The spectrum of tonnage taken is as broad and varied as it gets - bulkers to containers to reefers to tankers and back (with everything in between including dead vessels, wrecks

and under tow sections). As long as it can make a buck, there will be buyers in one of the major recycling plots of the world preparing themselves to welcome yet another candidate to their shores. Of course, prices vary widely from vessel to vessel - type, age, size, country of build and spares on board often leave shipowners and brokers baffled as to the vast differences in price between apparently similar looking units.

Recyclers themselves often have preferred units and tend to pay best for those units they know well and have made money on in the past. Depending on size and type of unit, it can take as little as 45 days or as much as 6 months (on VLCCs) to cut.

The ship recycler finds a value in almost all aspects of a ship from stores and spares to any remaining fuel, non ferrous nuts and bolts, right down to decorative items and cutlery! The fact remains that it is a hugely resourceful industry and rarely do items of value go unnoticed or unsold - there is a huge local market verging on bazaar proportions that takes and resells anything and everything. There are, though, certain negatives on incoming vessels that all ship recyclers

dread - permanent ballast (often in the form of concrete), insulation (often found on reefers and LPGs) are both of negative value and present huge difficulties and sometimes hazards in the cutting procedure.

The steel from certain vessels (usually PCCs) has been known to go into the construction of new coastal ships in Bangladesh (a market that has remained closed for over 6 months of this year due to ongoing environmental issues) - evidence perhaps not of life lost but of reincarnation in many different forms!

The local steel plate market is the fundamental driver of the scrap price per long ton that most shipowners and brokers are used to. Said steel prices can fluctuate wildly by day to day, giving the market and thus available prices an extremely temperamental complexion. The price of competing products such as scrap, ingots and billets, along with local exchange rates and the usual supply and demand variables have seen prices as high as USD 800/LT LDT in the summer of 2008 and as low as USD 50/LT LDT in the late 1970s - early 1980s.

Owners have faced the loss of asset values by as much as one third since the heady days of the 800s/ldt (when really the market was starved of tonnage due to impressive charter rates leading to an elongated life for most units). A VLCC that was worth USD 30 million has fallen to nearer USD 10 million for the best part of this year. An Aframax tanker went from USD 12 million to region USD 4 million with a handymax/size seeing values fall from region USD 5.5 million to nearer 2 million. Furthermore, volatility in the market operates on a weekly - perhaps even daily - basis at some 10-20%, a risk that the cash buyers tend to absorb.

So, whilst it is clear that values have fallen, and the scrap market no longer represents the jackpot it once was several years ago for shipowners, it still brings a veritable payday for older vessels. From inception to graveyard, it is clear that a ship truly justifies its weight in gold.

Economic Multiplier

Contribution: \$3,840,000