

## Interview: More Boxships Set to Join Scrap Markets in 4Q



As the shipping industry saw an abundance of vessels leading to overcapacity in the shipping industry, accompanied with depressed freight rates which signified a tough market, a number of shipowners opted to dispose of their vessels selling them for scrap.

The second quarter of the year witnessed a total of 212 end-of-life ships sold for demolition during the period, while 182 of these vessels ended up on the South Asian beaches. The number represents 86 percent of end-of-life vessels which reached the shores of Bangladesh, India and Pakistan, according to data provided by the NGO Shipbreaking Platform.

In light of the increased shipbreaking activity, World Maritime News spoke to Dr. Nikos Mikelis, Non-Executive Director GMS, a cash buyer of ships for recycling in Bangladesh, India, Pakistan and China, to find out more about the current situation in the demolition market, as well as the environmental factor related to dismantling vessels at South Asia's beaching yards.

Mikelis said that the general sentiment is that scrapping activity is expected to increase on the back of declining freight rates resulting in an increasing number of idle vessels, especially container ships, which are expected to be introduced into the scrap markets during the fourth quarter of 2016.

Due to the current crisis in the global shipping industry, GMS has already concluded more than 75% of the total volume that the company negotiated during 2015. However, Mikelis said that the overall profitability in the industry has suffered a great deal given the “maddening volatility” in the industry that has led to a decline of over 50% in the value of scrap vessels over the last 18 months alone. Current prices for vessels in the sub-continent range from USD 250/LDT for dry bulker vessels to USD 275 – USD 280/LDT for containers / tanker vessels.

Although prices have moderately recovered, they are still far lower than the highs of USD 500/LDT seen over 18 months ago, according to Mikelis. Notwithstanding that, industry pundits seems to agree that current prices are the new norm and few expect any major shifts for the rest of the year, especially considering a volume of tonnage that is expected to be introduced during the fourth quarter of the year. This surplus is expected to keep prices in check as the economics of demand / supply come into play.

He added that the figures for 2015 show that the largest volume of ship recycling has taken place in Bangladesh, while the current numbers for 2016 show that Bangladesh and India are competing neck to neck.



When asked about the indications that the practice of reflagging vessels prior to selling them for scrap is becoming more popular, as the shipowners aim to avoid scrapping vessels at certified yards, Mikelis said that the reason why vessels that are sold for recycling need to be reflagged *“is not because the shipowners wish to avoid scrapping vessels at certified yards.”*

He continued that the true reason behind this is the fact that when a vessel is sold on an ‘as is, where is’ basis, the original owner has to deregister it from the flag registry where after the new owner (the buyer) has to re-register it under his ownership so that the vessel can perform its international voyage to the agreed recycling yard. Otherwise, an international voyage cannot take place – the new buyer is obliged to change the flag once the purchase has been concluded.

Moreover, numerous owners who execute agreements with buyers mandate that the vessel will only be recycled at certified yards, sometimes narrowing the choice down to just yards that are specified in the agreements. So the belief that the practice of reflagging ships happens in order to circumnavigate such requirements is simply not true, said Mikelis.

In light of recent reports on incidents at the South Asian breaking yards, Mikelis said that there is continued progress being made towards the training of workers, so that their working conditions are increasingly safer at the ship recycling facilities.

*“This has been achieved over the last few years at numerous yards located in Alang, India, as is Chittagong, Bangladesh making meaningful progress in this direction,”* Mikelis said, adding that *“it is our ethical obligation to assist ship recycling yards to eliminate risks in the workplace, including the mitigating risks arising from workplace accidents. For this purpose, GMS conducts workshops at a number of yards in Alang, where workers receive relevant training on: the handling of hazardous wastes / materials, working in confined spaces and at heights, correct use of protective equipment, emergency evacuations and rescue plans, fire prevention and maintaining environmental awareness year-round. Our eventual goal is that all ship recycling yards employ safe work methods during the ship recycling process and provide adequate training to the yard workers for the prevention of accidents.”*

Image Courtesy: GMS

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