

Lloyd's List

Freight bonanza and demand for secondhand tonnage stifle demolition market

Record high freight rates in container and dry bulk markets combined with secondhand tonnage demand in tankers have shrunk the number of ships being sold for demolition

29 Sep 2021 | **ANALYSIS**

by Inderpreet Walia | @w_inderpreet | Inderpreet.walia@informa.com

Around 7.9m dwt of crude and product tankers, 287,974 dwt of containerships and 6.2m dwt dry bulk carriers have been recycled so far this year, according to Lloyd's List Intelligence data



SCRAPPING WILL REMAIN LOW THIS YEAR COMPARED TO 2020, WITH DEMOLITION LEVELS WELL BELOW THE 10-YEAR AVERAGE FOR THE CONTAINER SEGMENT.

THE supply of dry bulk and container demolition tonnage has slowed to a trickle on the back of firm freight rates and healthy demand in the secondhand market.

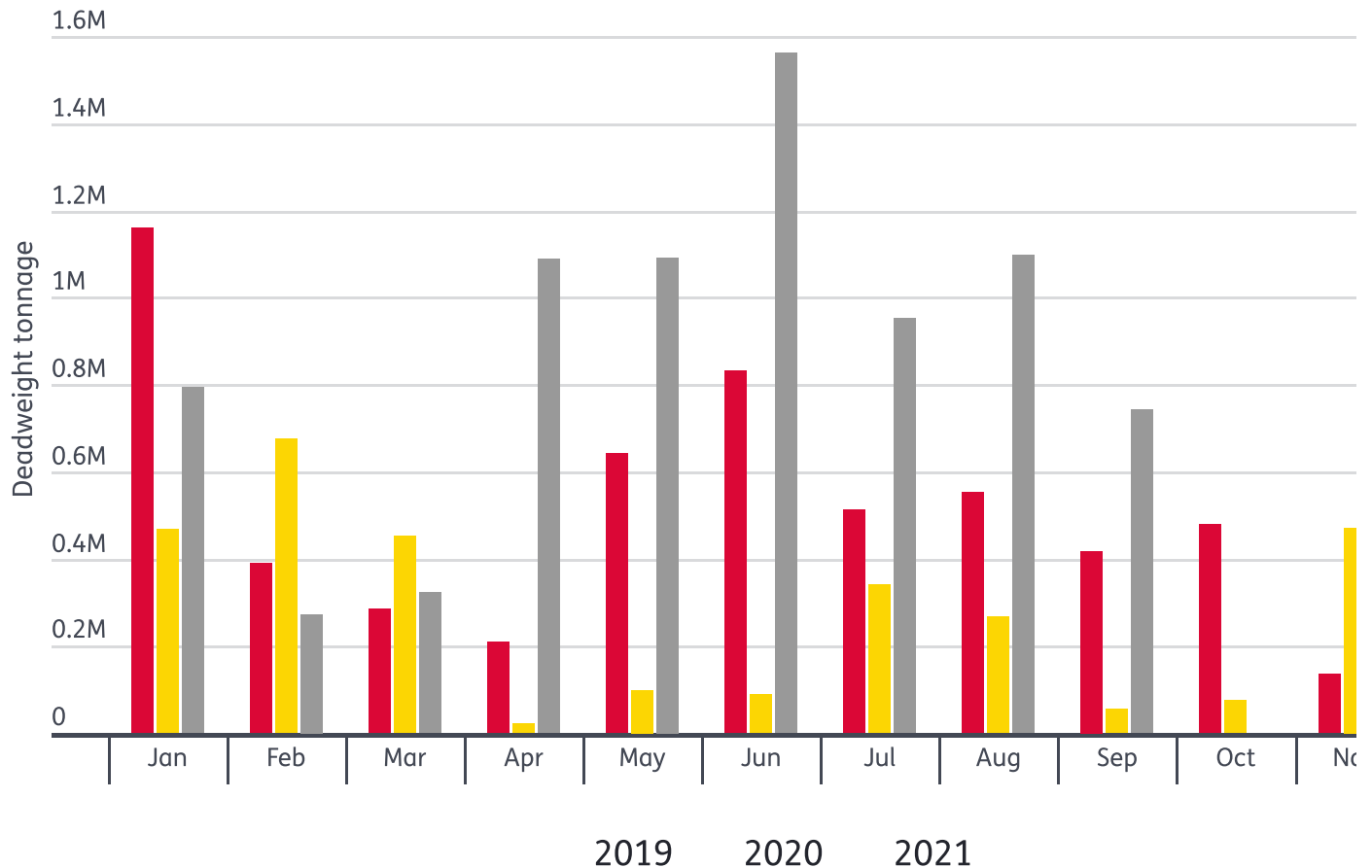
But the presence of buyers willing to buy vintage tanker ships to operate in sanctioned trades, despite the prolonged weakness in the freight markets, has further hampered the interest in scrapping.

Furthermore, falling demolition prices have led owners to hold back tonnage in the recent weeks with cash buyer GMS calling the current market situation “confused and shaky” as sentiment has weakened. That is despite scrap prices being at historically high levels.

Around 7.9m dwt of both crude and product tankers were recycled so far this year, according to Lloyd's List Intelligence data.

Tanker scrapping numbers (Sept 2019-Sep 2021)

Deadweight tonnage



Source: Lloyds List Intelligence



That is an increase of 221% compared with 2.4m dwt in the year-earlier period when record-breaking spot tanker rates in 2020 kept owners from considering recycling, as well as a healthy market for older tonnage to be used for storage.

As oil production was moderated to take account of the developing pandemic situation, storage requirements declined, resulting in reduced demand for floating storage. Yet, there has not been a corresponding rise in scrapping of older vessels.

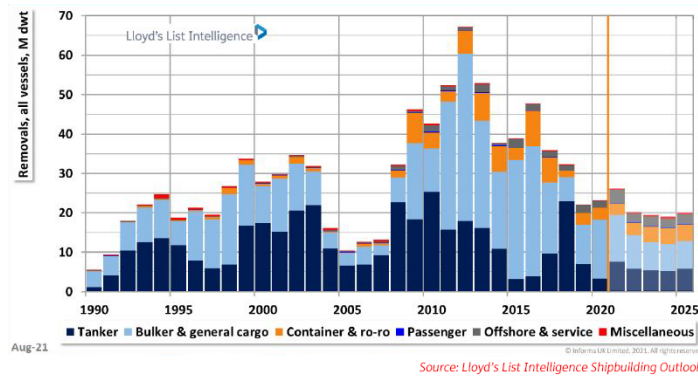
Stifel analyst Benjamin Nolan said that the number of vessels would have likely been higher, but particularly in the crude trades older vessels had been sold to operators who were using them to move sanction-

restricted oil from Venezuela and Iran rather than removing them from service permanently.

He added: “As owners run out of money and need to cash in on older ships to maintain liquidity, and with the increasingly remote chance of a seasonal rates rise this year, hopefully for the tanker market the pace of scrapping activity seen this month will continue and ideally accelerate.”

Mr Nolan estimates about 20m dwt of crude capacity and around 4m dwt of product tankers need to come off-line by mid-2022 to balance the market.

“In the absence of that, even a recovery in late 2022 might not be a forgone conclusion,” he said.



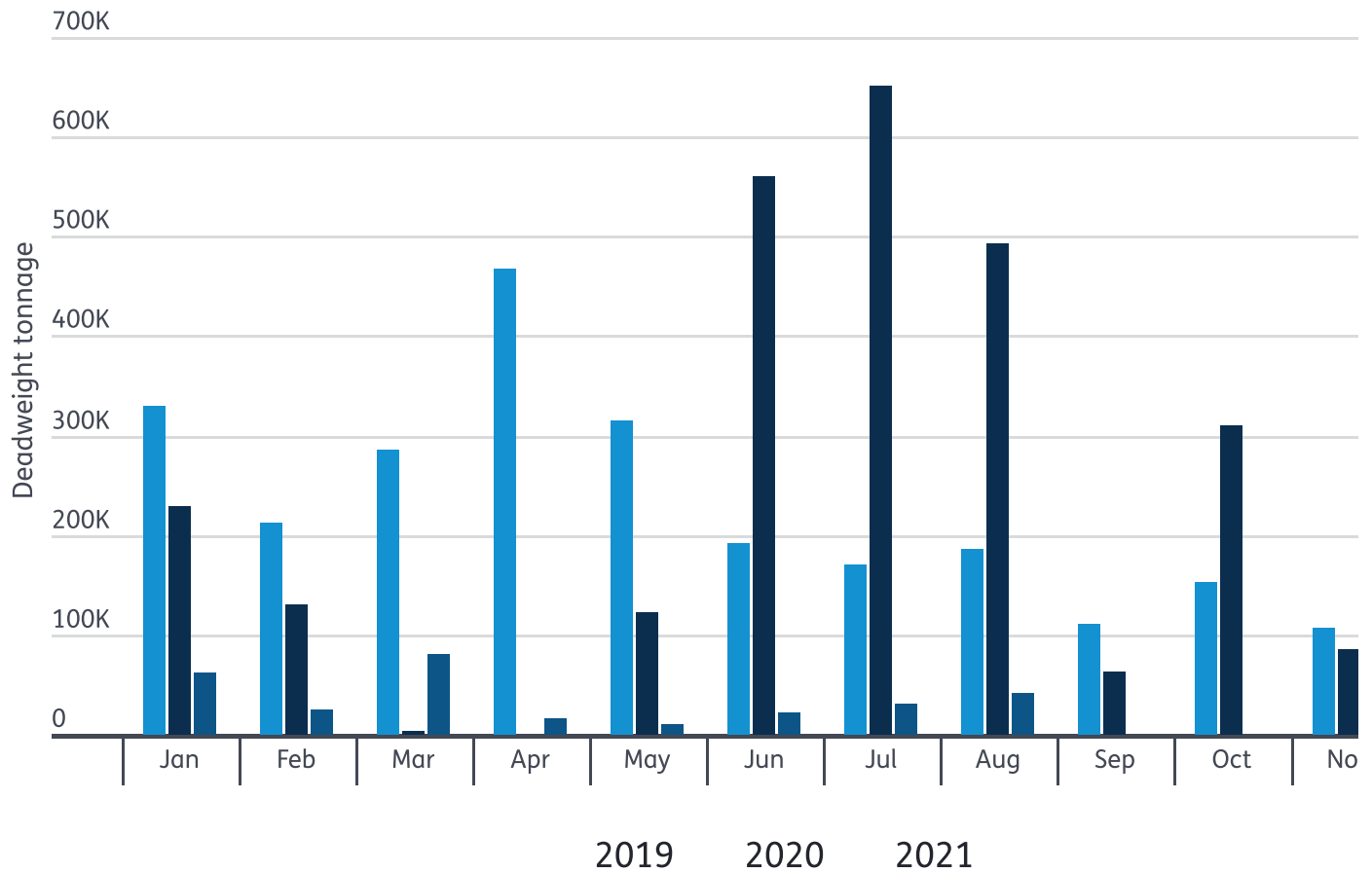
Lloyd's List Intelligence Shipbuilding Outlook forecasts tanker scrapping volumes at 105m dwt or 6,278 vessels in the 2021-2025 period with a number of smaller vessels to be removed from the current fleet.

Meanwhile, the upbeat freight market in the container and dry sector has reduced scrap candidates with the current vessel supply scenario being the best since the turn of the century.

Containerships are so in demand that not only are vessels that are around three decades old being bound over for further trading, rather than marked down for scrap, but bulk carriers are also being used to carry boxes.

Box scrapping numbers (Sept 2019-Sept 2021)

Deadweight tonnage



Source: Lloyds List Intelligence



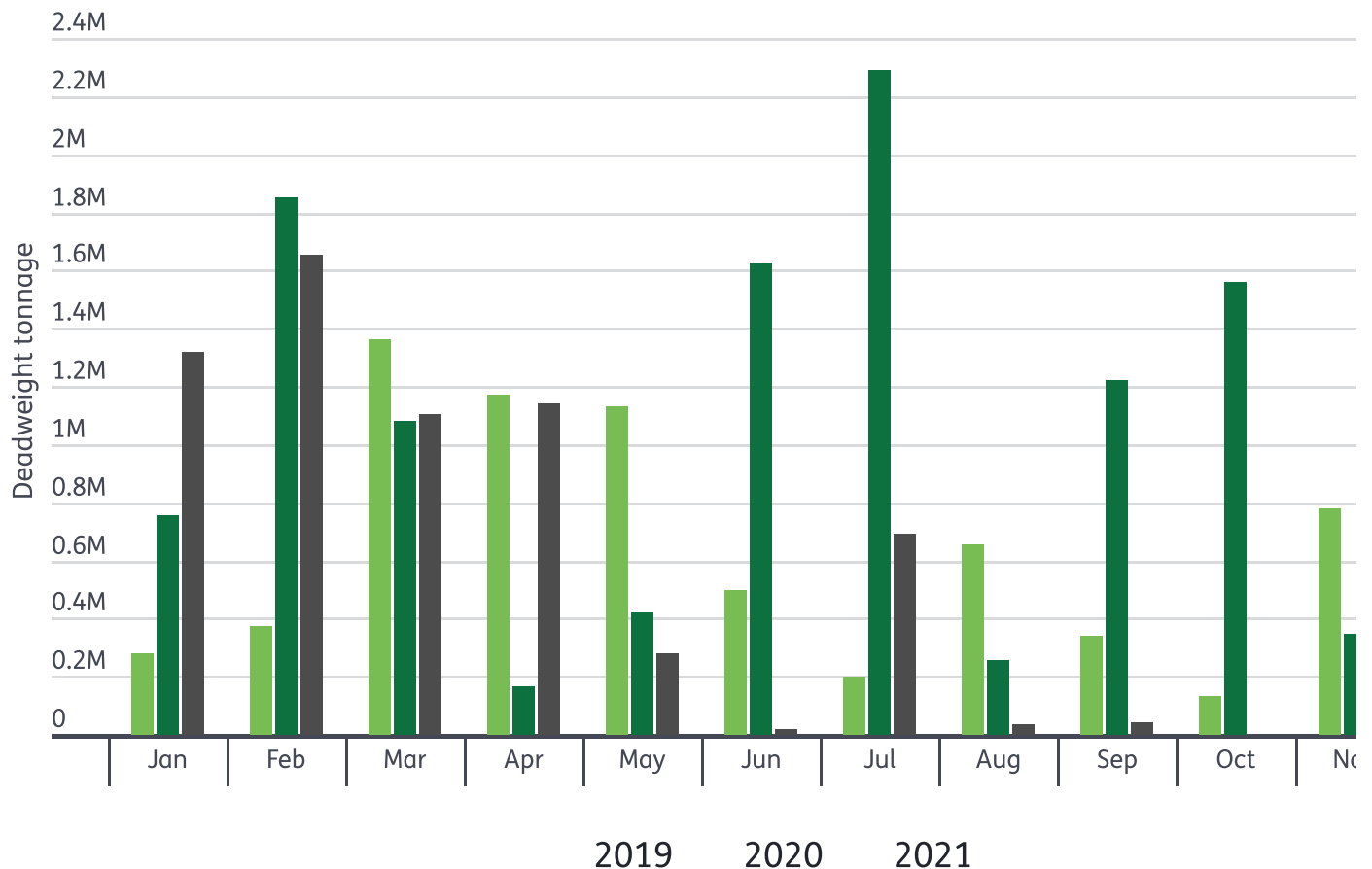
According to Lloyd's List Intelligence data, container scrapping volumes have reduced to less than one-fourth of the volumes a year ago with only 287,974 dwt of ships being sold for demolition in the first nine months of 2021 as compared to 2.6m dwt a year ago. Back in 2019, 2.7m dwt of containerships was scrapped.

Mr Nolan confirmed that scrapping would remain low this year as compared to 2020 due to the strong charter rate market — with demolition levels well below the 10-year average for the container segment.

Demolitions in the dry bulk market are also expected to decline dramatically this year due to the current freight rate bonanza.

Bulker scrapping numbers (Sept 2019-Sep 2021)

Deadweight tonnage



Source: Lloyds List Intelligence



So far in 2021, 59 bulkers with a carrying capacity of 6.2m dwt have been scrapped, Lloyds List Intelligence data shows, compared with 78 ships of 9.6m dwt in the first nine months of 2020.

Stifel estimates that 7.9% of the operating dry bulk shipping fleet consists of vessels over 20 years of age, plenty of which are candidates for scrapping.