

Ship Recycling: Residual Values



What happened?

**Only when the tide goes out do
you discover who's been
swimming naked**

(Warren Buffett)

What **was** being recycled?



What **is** being recycled?



What **is** being recycled?



What else has changed?

SELLERS

- Not much.
 - Still,
 - Last cent
 - Beat last done
 - However,
 - Some movement towards environmentally safe and responsible ship recycling from Norwegian and Japanese companies.
 - Greek companies are conspicuous by their absence

What else has changed?

BUYERS

- Not much.
 - Still,
 - Offers are ahead of market
 - Renegotiations if/when prices fall at time of delivery
 - However,
 - Maturity of players (Cash Buyers & recyclers)
 - Strong movement towards environmentally safe and responsible ship recycling from Chinese and Indian yards
 - Bangladesh and Pakistan trying to catch up slowly

What else has changed?

Macro environment

- Supply..... Record levels
 - From 300 to 900 ships
 - USD 1 to 2 billion annual turnover
- Demand....Expansion
- Capacity has expanded in all major markets
- Greater intervention
- Media exposure
- Environmentally safe and responsible recycling (ESRSR)

Issues:

Ship Values

■ Ship values

- Greek controlled companies still have significant inventory of “old” ships
- Loss of asset values by 75 to 50%
 - VLCC: USD 30mill - USD 10mill – USD 15mill
 - Aframax: USD 12mill – 4mill – 6 mill
- Volatility: 10% in a week!
- Fall in values anticipated
 - Supply
 - Regulations

Ship recycling Funds: Are they necessary?

■ NO

– ERSR..... USP

- Wheel is NOT broken
 - China, India and Turkey
- 5 vs. 80 pct
- Infrastructure in place

■ YES

– Carrots i/o Sticks

The best time to scrap?

**In the business world, the
rearview mirror is always
clearer than the windshield**

(Warren Buffett)

Road Ahead

- **Safe & Responsible Ship Recycling**
 - Worker Safety + Green Ship Recycling
 - Spotlight on major operators and owners of larger vessels: tankers, containers and PCCs
 - Adoption of IMO's Hong Kong Convention and implications

IMO Convention

- **What is the Hong Kong CONVENTION?**

- Most comprehensive & consequential

- Key items:

- Inventory of Hazardous Materials

- Ship Recycling Plan: Identification, Removal and Disposal of Hazardous Materials

- Worker Safety at Yards

Hong Kong Convention

■ Impact on sellers

- Awareness, Costs, Accountability and Responsibility
- Where to recycle
- Lower prices=Lack of interest?
- Will sellers accept?
- Effect on residual values

Hong Kong Convention

■ Opportunities

- Convergence of interests
 - IGOs, NGOs (not all), Owners, Buyers, Ship Recyclers, Class societies
- Raises the bar for the industry
- Inclusive NOT Exclusive
- Funds & Programs
 - World Bank, ILO, Basel, Owners' Assoc

Threats

- Grossly misrepresented
- Unsophisticated industry groups
- Lack of industry participation
- Progress by sticks... few carrots
- Unexpected events... GP list
- Loss of asset values

Is this an option?



Or this?



Or this?



Closing Thought

- A healthy, vibrant ship recycling industry,
 - Is good for the environment
 - Steel from ship vs Iron Ore
 - Old ships at sea... accidents
 - Abandonment
 - For the shipping industry
 - Outlet for safe disposal of old/unsafe environmentally unfriendly vessels
 - Improves Residual values
 - Creates employment for about 300,000 people
 - Essential for growth of local economies

THANK YOU