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## SAIL IT OR SCRAP IT? SHIPOWNERS CHASE VALUE

**Amongst the reduced freight rates, competitive environment and worldwide glut of vessels, shipowners are turning to demolition to dispose of aged vessels and cash in. It is reported that 2011 was the third-largest year ever for demolitions.**

According to shipbroker Braemar Seascope, in 2011 there were 41.9 million Dead Weight Tons (DWT) of vessels being sold for scrap. This represents approximately three percent of the 2011 global DWT and is not far off the record set in 1985 when 45 million DWT were dismantled.

What has driven the increase in demolitions?

- Vessels can be sold for demolition/recycling and provide much-needed cash to shipowners battling the current shipping market.
- The timing is good as current rates for scrap steel are favourable.
- Old vessels can be inefficient, costly to run (especially with current bunker fuel prices), lay idle or not attract favourable freight rates.
- With a predicted 2012 newbuild delivery book of 219 million DWT, the glut of worldwide DWT will only increase and therefore impact rates and values of aged vessels.

These factors mean the gap between second-hand ship values and scrap values is narrowing for certain vessel types. This can especially be the case for ageing petroleum-carrying tankers as major oil companies prefer to use vessels not more than 15 years old.

### How much cash can aged vessels sell for?

The Baltic Exchange released figures in March 2012 which quote an average of \$497.5 per LDT (light displacement tonnage – being, the weight of the ship including hull, machinery, equipment) for tankers and \$475.5 per LDT for bulk carriers.

The current prices have been steadily increasing from the low they experienced at the end of 2008 when tankers and bulk carriers received an average of \$240 and \$199 per LDT respectively.

Some examples of recent high-priced deals include the 1982 built, 20,178 LDT bulk carrier, *Angelo Della Gatta*, which was sold at a reported \$505 per LDT, or \$10.8 million. Also the 1981 built, 15,154 LDT roll-on/roll-off vessel, *Charlottenborg*, which was sold at \$513 per LDT, or \$7.8 million.

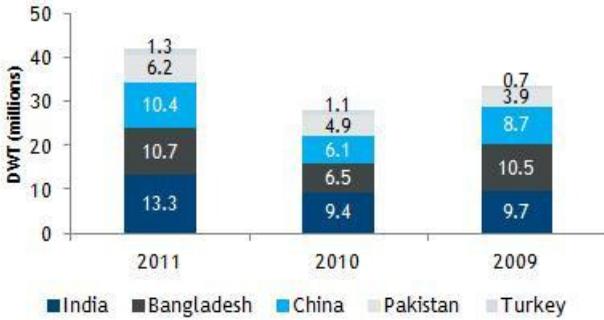
### Who is buying and will the trend continue?



Source: <http://www.guardian.co.uk/>

While demolitions may be a popular choice for shipowners this year, owners should consider maximising their benefit now while scrap value rates remain favourable.

## Top five vessel recycling nations by DWT



Source: Braemar Seascope

The top five worldwide buyers of vessels for recycling are charted above. The driver behind these nations purchasing aged vessels is simply to meet the demand for remelted steel used for plates or rods in construction and infrastructure projects.

2012 could again be a big year for vessel demolition as cash-strapped shipowners seek alternative options to maximise returns on ageing fleets. This may be a favourable avenue especially if the adverse global economic conditions continue, freight rates remain weak and scrap prices are maintained.

However, the view of some observers is to sell vessels for demolition sooner rather than later and before prices paid for vessels / steel decline. Factors which may place pressure on scrap value rates include:

- Potential for the global market to be flooded with vessels for demolition.
- Slowing growth in the five main purchasing nations may reduce demand for steel.
- An appreciation of the US dollar against these nations' currencies will have a negative impact on scrapping rates as the purchase price in local currencies will increase.

While demolitions may be a popular choice for shipowners this year and into the future; owners should consider maximising their benefit now while the scrap value rates remain favourable.

### Previous Ferrier Hodgson shipping updates of interest:

In our March 2012 *Ferriers Focus* entitled *Troubled Waters: Global Shipping Headwinds*, we discussed the global shipping fleet, the headwinds facing the shipping industry and how operators and their financiers are battering down the hatches for troubled waters ahead. [Click here](#) to view this article.



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