Lloyd's List, 69-77 Paul Street, London, EC2A 4LQ

Dwindling optimism

OPTIMISM seems to be an increasingly rare commodity in the market, particularly among tanker owners. Last week, Lloyd's List revealed that very large crude carrier rates on the benchmark Middle East to Asia route had fallen to their lowest level since records began in 2008, effectively meaning owners are now accepting bunkers-only voyages and subsidising oil company freight rates.

While the brokers we spoke to were inevitably worried about this unfortunate situation, it was the fact they saw a flat market stretching out ahead of them that was perhaps the most concerning aspect of the story.

As we have known for some time now, tankers have a serious supply problem. You only have to look at the bearish comments made to this paper by Sovcomflot's Sergei Frank and, before him, Frontline deputy chairman Tor Olav Troim, to know there are some fundamental problems with the economics that underpin most tanker sectors.

Increasing pooling by owners suggests the supply side is at least getting better organised in response, but ultimately there is little that can be done in response to record newbuilding deliveries flooding the market.

The only reason we haven't seen more casualties or merger and acquisition activity in tankers has been the broadly steady growth in demand and favourable interest rates. While few expected an easy ride through overcapacity, the general feeling was that if the demand kept up, the supply side would work itself out eventually.

That is why seasonal disruptions to demand from a programme of refinery maintenance is now having such a devastating effect on owners — and why more companies are likely to file for Chapter 11 over the coming months.

Existing weaknesses in balance sheets and dwindling cash reserves have left a number of operators vulnerable. The smallest of disruptions to the demand side mean existing supply problems are felt that much more keenly by those already on the edge.

While we hate to be the bearer of bad news, it looks like this could be a long, hot summer that many may not survive.

French exception

THE latest twist in the bizarre tale of SeaFrance is the joint-bid for "certain assets" of the ferry operator from fellow ferry lines DFDS and LD Lines.

For several months, SeaFrance has been under Chapter 11 bankruptcy protection, which means it has been allowed to continue trading. This has given it a position of substantial strength and represents an affront to the principle of moral hazard; if anything, it would appear SeaFrance has been rewarded for failure.

Under such protection, it has driven down freight rates to grotesquely unprofitable levels in a bid to win market share — which effectively amounts to state-support through the back door.

Even Eurotunnel, for so long the object of similar accusations of enjoying state subsidies and depressing freight rates, has risen to complain of the way SeaFrance, which has a market share of roughly 25%, has manipulated the market.

Clearly the cross-Channel market cannot continue in this way because eventually the other operators will go to the wall. However, if it is simply a case of too much capacity on the trade, it is difficult to see how the acquisition of SeaFrance's three ro-pax and one freight-only ro-ro vessels by Denmark's DFDS and France's LD Lines will have any effect on that, unless some form of freight rate discipline is returned to the market.

Nonetheless, the prospect of new operators with a network of shortsea services is certainly intriguing, although there is no getting away from the fact the two companies would be strange bedfellows. ■

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Industry Viewpoint

Take a closer look at Alang

SHASHANK AGRAWAL

The myth that ship recycling in India and Bangladesh is locked in methods of 25 years ago needs rethinking

UNTIL the Indian Supreme Court handed down a landmark judgment in the *Blue Lady* case of 2007, hardly any shipyards were investing funds in upgrading recycling facilities to the internationally-recognised International Standardisation Organisation levels.

The case was a wake-up call — and a watershed. *Blue Lady*, long tied up in litigation, was deemed too hazardous to break up in Alang's recycling yards. The case itself brought worldwide pressure from non-government organisations to improve standards and conditions in Alang.

Times have changed. Out of the 170 functional yards at Alang, at least 100 have the ISO 9,001, 14,001, 18,001, with at least 50 yards holding the fourth additional certification of ISO 30,000. Therefore the myth that Alang remains an unlicensed and uncertified industry still locked in the rudimentary methods of 25 years ago is replaced with hard and deserving facts.

Today Alang is considered to be the largest ship recycling market in the world. More than 8,000 ships — 200 alone from January 1, 2011 to July 8, 2011 — have been recycled at Alang since 1980, generating steel output of more than 75m tonnes. In an average year, Alang recycles about 500 ships, with annual sales turnover from this activity hitting a whopping $1.3bn. At full operating capacity, this industry both directly and indirectly employs more than 200,000 workers.

By arming themselves with ISO, the Indian yards are fully capable of green ship recycling. The Gujarat Maritime Board has invested millions of rupees to create facilities for the safe disposal of hazardous wastes generated from recycling activities. Separate landfills have been created for glass wool, asbestos, sludge, oil wastes and other hazardous materials.

An independent environmental agency has been contracted by GMB to oversee and regulate the handling and disposal of hazardous wastes. This agency strictly follows, both in spirit and form, the guidelines laid down by the Supreme Court.

In the event of any non-compliance, the agency makes a formal report to GMB, which initiates appropriate action against the erring recycler or contractor, as the case may be.

A ship for scrapping at Alang, considered to be the largest ship recycling market in the world. *IMO*

Western surveyors visiting Indian recycling yards are often amazed to find things are different from what they had presumed to be the case. Indian yards are fully capable of recycling ships as per the Hong Kong Convention of 2009, since the Supreme Court judgment mirrors the requirements of the convention and therefore Indian yards are completely geared to embrace and adopt it.

Vessels are sold today for scrap, often at twice the price at which the ship may have been bought 10 years ago. The average price of a suezmax tanker in the Indian sub continent is about $12m, based on current scrap prices of about $500 per long tonne.

Western surveyors visiting Indian recycling yards are often amazed to find things are different from what they had presumed to be the case

Ship recycling is effective in India because as a developing economy, India has the rapid requirement of a variety of grades of steel. The use of ship steel is much more cost-effective and environmentally-friendly than turning iron ore into steel, which has a greater impact on the carbon footprint.

Generators from ships are used in the industrial and agricultural sectors and virtually every nut, bolt and sink is resold into the markets to fixed buyers.

Companies that trade in the recycling of ships are known as cash buyers, simply because they buy on a cash basis. They are not brokers but traders, since they buy the ships on their account and then resell them to ship recyclers.

Like a wholesaler or distributor of goods in other industries, cash buyers are specialists of the ship recycling markets and help in the effective distribution of vessels among the various buying markets.

Additionally, cash buyers often buy ships' basis "as is, where is" on simple terms and later reflag and appoint their own crew on a vessel under their ownership and steam it to the recycling yards. Therefore we facilitate a prompt sale for the owners and we fully underwrite the risks for owners in delivering a vessel to a yard in the subcontinent.

Allegations that portray the sale of a vessel through a cash buyer as a means to circumvent legal responsibilities of the shipowner are simply wrong.

Turning to Bangladesh, it has approximately 45 functional yards, out of which 12 yards have the ISO 9,001, 14,001, 18,001 and 30,000 certification. From April 1, 2011 to July 8, 2011, approximately 96 ships have hit the beaches, with a few more awaiting permissions at outer anchorage.

Unfortunately for Pakistan, it does not have even a single yard out of the 50 running yards ISO certified and Pakistan remains the country sitting on the sidelines, watching the world go past. Since January 1, 2011, approximately 40 ships have been beached in Pakistan and perhaps the incentive to upgrade to ISO is lacking due to the fewer number of arriving ships as compared to India and Bangladesh.

Based on information from environmental lobby group Greenpeace and other similar agencies, several industry commentators believe ship recycling requires a European solution. However, real life examples involving the vessels *Sandrien*, *Otapan* and *Le Clemenceau* are cases that have cost their respective governments millions of dollars and yet the problems have remain unresolved.

The current business paradigm and dynamics demonstrate it is easier to practise effective ship recycling in countries that have already created a value for an asset, rather than create an entire industry in a country which prima facie treats the asset as a liability.

Unfortunately the gap between perception and reality is perhaps the widest in the ship recycling industry. We need to bridge this gap and undertake initiatives to work together and find practical solutions. ■

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Letter to the Editor

Italy would be in a worse situation outside eurozone

From Roberto Bassi

SIR, Living in Italy, one of the eurozone states supposed to be the "next one" destined to suffer the negative effects that Paul Slater attributes to the euro, I would like to express my total disagreement with Mr Slater's analysis and conclusions ('Is the euro the cause of crisis or cure?', Lloyd's List, July 28).

I can't image how much worse the Italian situation would be had Italy failed to adopt the common currency in 2002. I remember very well the highest interest rate the state had to pay on its huge public debt accumulating during the last two decades of the last century — and also remember the dramatic devaluation of the lira the Italian government had to urgently adopt in 1992, joined to a most severe fiscal policy, in order to avoid Italy's default under the pressure of aggressive speculation by the markets on the weak lira

I'm sure that since then, without the euro, Italy would have had to devalue more and more, with effects that should be easy to imagine for a country that is totally dependent on importation for its energy needs, to be paid for in US dollars.

The practice of devaluing the national currency to stimulate national exportation, commonly applied in Italy during the lira era — and suggested by Paul Slater as one of the supposed benefits of the pre-euro time — is commonly considered in Italy to be one of the primary causes of the lack of competitiveness of many important sectors of Italian industry.

It has, for decades, discouraged investment in research, being easier to make recourse to a sort of national dumping than committing to producing goods better than those of our foreign competitors.

In conclusion — at least as far as my country is concerned — I firmly believe that notwithstanding that the current situation is far from being brilliant, without the euro "shield" it would be certainly worse.

I am under the impression that Paul Slater's opposite view has much to do with the notorious anti-euro (and anti-European Union) prejudice of the majority of US and UK analysts, rather than with an objective analysis of the reality. ■

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