Lloyd's List, 119 Farringdon Road, London, EC1R 3DA

Slave to the market

CMA CGM has rarely been out of the news in recent years, with its large newbuilding programme landing the French line in trouble when cargo volumes collapsed in 2009, catapulting the whole industry into the red and forcing lines to reschedule deliveries of ships on order.

The speed of the recovery in 2010 was astonishing, and lines that appeared to be teetering on the verge of collapse found themselves enjoying record profits last year. Now the cycle has reversed, and losses are again on the cards.

In container shipping, there is little individual carriers can do to buck the trend. Some will be more efficient, but even the best run will not be able to escape the vagaries of the marketplace and freight rates that are determined by supply and demand.

Not until long-term contracts are the norm is container shipping likely to achieve more stable conditions.

That point is raised by Moody's, which followed Standard & Poor's in downgrading CMA CGM. The French line has captured the attention of the credit rating agencies after raising around $900m through two note issues earlier this year.

The bonds are now priced at a steep discount, sending alarm bells through the investor community. CMA CGM also still has a large pile of debt, thanks to its expansion programme. Some assets are being sold in on order to both reduce debt and take advantage of more strategic investment.

But container shipping remains a business where it is still difficult to distinguish one line from another. As Moody's observes, fierce competition among the main players in the industry, together with its cyclicality and over-reliance on short-term contracts, have negative implications for the ratings of container shipping companies.

Liner bosses have learned to live with extreme volatility and are adept at boosting cash flow through asset disposals when times are hard, 2009 being the exception. But for those unused to such volatility, container shipping is a hard one for analysts to judge.

Running out of time

THE financial noose appears to be tightening around more shipping companies as prospects of profitable earnings recede, cashflow dries up, suppliers get nervous and banks begin to lose patience.

Indications are growing that German and other shipping banks, which previously restructured many loans to shipping companies, granting interest and in some cases principal repayment reductions or deferrals, are becoming less willing or able to continue these concessions for much longer.

Now, as then, they are reluctant to force vessel sales because they are all too aware of the counterproductive impact this will have on ship values if fleets of ships are forced into fire-sale auctions. But their room for manoeuvre is diminishing as accounting rules and credit committees limit their options for taking further losses while waiting for a market upturn.

Aware of the deteriorating financial situation of owners, contractors such as bunker suppliers, ship repairers and other marine service providers are becoming more cautious about granting extended credit to shipowners, fearing they will be left high and dry if shipping firms go out of business. Such limited credit facilities add a further adverse twist to shipping companies' cashflows.

Forced vessel sales and arrests are now on the increase where banks and other creditors see no realistic prospect of owners being able to repay. Banks and others have been more indulgent of financially challenged shipowners than was expected when the crisis first hit. But time appears to be running out for a growing number of shipping companies. Despite the potentially severe impact on values, more forced sales of ships seem inevitable. ■

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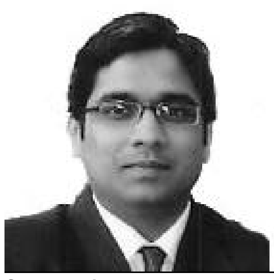
Industry Viewpoint



Shashank Agrawal

It is ship recycling now, not 'breaking'

A gap between perception and reality is obscuring the true scale of the reuse of ships at the ends of their lives

OFTEN we see leading shipping publications switching between the words ship recycling and shipbreaking. Perhaps the confusion stems from lack of knowledge about the eventual end use of a vessel by the ship recycling yards.

As someone closely connected with the recycling industry I hope to clarify the various reasons for which the term ship recycling is more appropriate to this industry and has now been universally accepted and in effect adopted under various legislations, rules and regulations.

During the process of ship recycling the following items are recovered for reuse and recirculation in various markets:

1. Ship steel — this is the primary material from the ship and is used by the steel re-rolling mills to convert in to rods and bars, which are used in the infrastructural projects and in the ever growing construction and other allied industries in the Indian subcontinent.

2. Ropes and chains — these are generally re-exported for reuse in the maritime industry or reused by the ship recyclers themselves at their yards.

3. Generators — these are used in most major industrial concerns such as garment manufacturing and washing units or in the agricultural sectors where there is a shortage of regular power supply or generation. Often major owners seek these for their sister vessels trading in other jurisdictions and therefore this may form an important item of export.

4. Boilers — these are used in rice and jute mills across the country. Again these sometimes form the bulk of the export orders due to their high reuse value.

5. Furniture, beds, cots, bunks, cabin materials — these are either purchased by mid-tier households and/or by public hospitals, emergency camps, hotels, motels, hostels, Red Cross and YMCA, and so on.

6. Utensils, crockeries — these are purchased by households, emergency camps, hospitals and hotels.

7. Electrical items, electronic appliances, irons, heaters, insulators — these are reused by Industrial concerns and agricultural houses.

8. Sanitary wares, bathroom mirrors — mid-tier households and hotels are the biggest purchasers.

9. Food items, bottled water, packed non perishable food stocks, biscuits, tinned food — households and small hotels are potential buyers.

10. Glassware — industries and showroom owners are the biggest buyers.

11. Fridges — these are purchased by households, small hotels and factories.

12. Pipes and fittings, wires, coils, rubber — agricultural and domestic use for most pipes and fittings and other items.

13. Paintings, sofas, desks , chairs — households, hotels and factories are the most frequent buyers.

In short, the recycling markets have developed a reuse market for every nut, bolt and the kitchen sink found on board the vessel. In our opinion, no other industry is so well placed as the ship recycling industry.

Alang in an average year recycles about 550 ships with annual sales turnover of $1.3bn. *Anil Sharma*

This industry is entirely self dependant and reliant and in fact it supplies all the essential items to the world at large and is the backbone for many indirect industries in the Indian subcontinent.

Alang in an average year recycles about 550 ships, with annual sales turnover of about $1.3bn. Certainly 'breaking' would not generate this revenue income.

The title of the International Convention on the Environmentally Safe and Sound Recycling of Ships, adopted in May 2009 in Hong Kong, is a major supporting example of a term being universally adopted and used internationally by all stakeholders, which clearly reflects the changing trends in the modern world.

The International Maritime Organization convention is indeed a most welcome step since it has provided, for the first time, an international convention that addresses and hopefully systematises all the operations in ship recycling, so that health and safety of workers and prevention of pollution of the environment, both at sea and ashore, can be ensured and verified.

If the shipping fraternity does not take the initiative to work together and find practical solutions, then the day will arrive soon when a ship sold for scrap is indeed a liability and not an asset

In the unlikely event that the beaching method of ship recycling is banned, a far greater socio-economic harm will be caused to more than 500,000 workers who are employed in the recycling yards on the Indian subcontinent than any adverse effect on environment.

The benefits of ship recycling by beaching methods as carried out in the Indian subcontinent is environmentally and economically a sound practice and safe for workers.

The industry is labour and capital intensive, economically viable for all stakeholders and a highly sustainable activity considering the socio-economic situation in the region.

Strange as it may sound, unlike any other industry in the western world, the ship recycling industry does not have an international trade association which represents its interests.

In light of the above, there are no media savvy individuals that can get the message of the industry across to policy makers, bureaucrats, media and the public at large. The gap between perception and reality is perhaps wider in the ship recycling industry than any other industry in the modern world.

If the shipping fraternity does not take the initiative to work together and find practical solutions, then the day will arrive soon when a ship sold for scrap is indeed a liability and not an asset. ■

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Maritime Blogspot

Killing the elderly to save the rich

Craig Eason

GET RID of your biggest oldest tankers, said a big tanker owner. Get rid of the biggest oldest bulk vessels, said a giant in that industry.

The same with the bigger boxships, as the jolly blue giant there tries to encourage the minnows to give up now.

In an era of ordering gluttony we see a swathe of new vessels coming into service. This has led to demands that the elderly are killed off, sent to the recycling yards; not because there is anything wrong with them, but because they are becoming unprofitable. I doubt the scrapping yards could handle the rush if the call to scrap were heeded.

Of all the shipowners that have complained over the last four years, only one has ever admitted that its own newbuilding orderbook was too high and that it had made a mistake. The rest pretended their own orderbooks were not part of the problem.

We are living in a supposed age of austerity, when governments and the populations they serve are curbing their spending and reducing their debt. Less commerce would clearly mean fewer ships. The shipowning community does not like this, nor do investors.

Of all the shipowners that have complained over the last four years, only one has ever admitted that its own newbuilding orderbook was too high and that it had made a mistake

Hence the newbuilding rush of recent years that has led to the well-documented overcapacity and low rates. Now some of the senior executives in the larger companies are calling for a cull, the removal of older tonnage to help keep the rates up on the newer tonnage on which they are still indebted.

Class societies have been keen to establish that older tonnage is just as likely to be seaworthy as modern vessels, just more expensive to operate because fuel consumption has not been 'optimised', or hull designs built for present operational speeds.

However, is this in itself a justifiable reason to scrap? We hear all the time that very little has been done to the design, or operational capabilities, of a vessel to improve performance, so just how different will two ships 10 years apart in age be? Some will be, but let's not kid ourselves here.

Scrapping a small fleet of ageing very large crude carriers is a radical move, but it is being called for by a company with modern tonnage and nothing to lose.

Increased scrapping will see a glut of steel in the secondhand market, and therefore the probability that prices will drop. It will see some balance resumed, but at what expense? ■

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