Competition hard on cash-buying front

"Price is what you pay, value is what you get." A quote from the Sage of Omaha, Warren Buffet, which cash buyer Global Marketing Systems (GMS) president Anil Sharma used to kick off a talk late last year in London.

The 1,400 to 1,500 vessels negotiated in the past 17 years by GMS had shown him that price means different things to different people.

To some, including players in Norway and Japan, talk may focus on "quality of the deal". Elsewhere, the priority is biggest bang for your buck. Sellers want to hold their heads up next time they go to the yacht club, says Sharma.

He says most owners' priority is to beat the last deal done with negotiations going down to the final 10 cents per ldt. "This is how competitive it is," he said.

Sharma, who fended off claims that cash buyers should shoulder some of the blame for deaths at recycling yards in the Indian subcontinent, says the cheapest ships to buy for recycling used to be bulkers but more recently probably reefer, which contain a lot of insulation waste and take a long time to recycle.

Country and year of build also matter. West European and US ships command a premium, whereas ex-Eastern Bloc or Chinese vessels get discounted. A 1990-built vessel is worth more than something from the 1960s with a lot of steel wastage.

Stainless-steel content and equipment spares push up prices but on the other side of the coin, ships fetch less because of permanent ballast. Concrete takes recyclers a long time to remove and dispose of. A vessel that has undergone multiple conversions will also raise concerns over its ldt.

The 87,600-cbm LNG carrier Margaret Hill (built 1974), which was sold for recycling before being caught in a storm of controversy and finally escaped the torch, commanded a high price because of its zinc content. Aluminium tanks in reefer, machinery and bunkers all push up prices.

Supply and demand is also key, says Sharma, reflecting on the slump that saw the 265,000-dwt VLCC A Elephant (built 1987) drop in value from almost $800 per ldt to less than half that figure when it was finally sold in August 2009 after a year of failed deals.

Supply has been enormous and at one point GMS did several ships in one day, the same as in a month a few years ago.

"Perceptions play a huge role as well," said Sharma, who is asked many times each day by brokers and recyclers which direction the market will move.

"We have never seen the kind of volatility that has crept into the market. Ship values can change by as much as 10% in a week, which is incredible," he said.

In the Indian subcontinent, recyclers want to buy prompt ships. Do the deal now and deliver in 15 to 20 days because nobody knows how to call the market, says Sharma.

What is the best time to scrap? According to US industrialist Paul Getty, "when other people are selling", comments Sharma.

Potential pitfalls for owners, he says, include overselling a vessel and trying to push for the last cent, inaccurate details such as describing a propeller as bronze when in fact it is steel and delivery dates. A lot of owners miss laycan.

Failed deals and renegotiations have become commonplace.

"If the market keeps increasing, everyone performs. The real challenge is when the market goes down," said Sharma.

Meanwhile, the cash buyer claims the ship-recycling industry is "highly misunderstood".

Sharma said: "When I read some of the reports in the papers I don't recognise this industry." Some 90% of stories on recycling are negative, agendas get hijacked, he says. But without recycling, ships would be abandoned, he adds in
reference to the Bay of Nouadhibou, which has over 300 abandoned vessels lining its beaches.

It is also a major source of employment, says Sharma. People can earn two to three times the average in their country. Many are migrant workers.

But this did not stop Ingvild Jenssen, co-ordinator at the Brussels-based non-governmental organisation NGO Platform on Shipbreaking, from launching a bitter attack on conditions in the Indian subcontinent and criticising Sharma.

Greenpeace visited villages where, she said, people were found suffering from asbestosis and toxic poisoning.

"The principle we want to see is the polluter pays," said Jenssen. "It costs to do shiprecycling in a proper way and we have identified the shipowner as the polluter. The International Maritime Organisation (IMO) has not accepted this."

She says countries have a responsibility to help developing nations upgrade their facilities, a principle embedded in the Basel Convention.

The IMO's Hong Kong Convention "needs an equivalent level of control or it will be a major step back in the principles we are trying to defend", says Jenssen.

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