Projections and data not a ‘perfect match’

Scraping players and shipping financiers are operating with shockingly different data in predicting this year’s ship demolitions, judging from the 2011 Cargo Conference in Miami Beach.

The question is a crucial one as market observers and participants alike struggle to balance the variables of deliveries, deletions and demand and come up with reliable estimate of the profitability of the bulker, tanker and containership fleets.

Captain Yogesh Rehani of cash buyer Global Marketing Systems (GMS) told conference delegates that his company expects about 1,100 vessels to be sold for scrap this year, counting ships already delivered and deliveries to come through year’s end.

The annual conference is sponsored by the US-based Association of Ship Brokers and Agents (Asba) (see story pages 36 and 37).

As operations director of the dominant player in demolition sale-and-purchase (S&P) worldwide, Rehani delivered the figure in the context of a vigorous defence of the practice of “dry method” scrapping or beaching, as the only feasible way to do the needed job of phasing out tonnage.

Over the past three years, only 8% of scrapping has been done by alternative methods, alongside or in a dry dock, he said, and suggested it is unrealistic to expect much of this year’s record volume to be scrapped without beaching.

He rejected claims of damage to the environment, citing the opinions of everybody from shipowners to India’s Supreme Court on the subject, and argued that it is today’s ship-scraping practices that prevent loss of life and pollution from neglected hulks.

"It is only the vessel media and specifically certain outfits based in Europe that are dead against the dry method," he said.

Environmentalists and the press have ignored the empirical evidence after 30 years of beaching in India, Rehani claims.

"There is no verifiable evidence that it led to any specific damage to the environment in locations where beachings have been done," he said.

Meanwhile, to the ears of a financial analyst, Rehani’s figure of 1,100 ships to hit the beaches this year was shockingly low.

Arlie Sterling, head of shipping consultancy Marsoft, was a fellow panelist with Rehani at the annual Asba meet.

“I was shocked by the scrapping numbers in your presentation," Sterling told Rehani. "We think scrapping should be at about twice that level.”

Following his panel remarks, Sterling qualified his shock somewhat. He tells TradeWinds that Marsoft’s calculations are for the next 18 months, whereas GMS was speaking of calendar year 2011. But the large discrepancy that remains indicates that financial projections and actual market information may not be a perfect match.

Marsoft’s is a top-down calculation, based on large variables such as aggregate demand, fleet age in the various sectors, scrapping prices and drydocking costs.

Rehani, on the other hand, tells TradeWinds his number is based on actual sales discussions with shipowners who intend to scrap ships this year or are considering doing so. GMS thinks about 1,100 ships under discussion seem likely to wind up on the beach.
Another conference speaker, Navios Maritime Holdings senior vice-president Fred Gordon, is trying to put the puzzle together from yet a third angle, that of Navios's historical market segment of dry bulk.

Gordon, who is in charge of market research at Navios among other things, believes this year will see the scrapping of 4.8% of the world dry-bulk fleet by tonnage. That is based on a record figure of 18.8 million dwt scrapped by 23 September this year, or some 3.5% of bulker deadweight tonnage.

Contributing to the record scrapping totals were cuts in steel production because of the March 2011 earthquake and tsunami.

But Gordon holds out hope for continued scrapping, along with orderbook slippage, to help balance the market.

"Scraping today gives you a 30% down payment on a five-year-old ship," he said, clearly in hopes that owners will draw the proper conclusion.

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