Scrap premium may be fleeting

The timing has never been better to sell a vessel for scrap as demolition prices are at record levels.

All three markets on the Indian subcontinent Bangladesh, India and Pakistan have broken respective price records in the past week. Cash buyers say it is a seller's market with demand far exceeding supply.

However, rumours allege that several more ships, including VLCCs, could be headed for the demolition market.

US-based cash buyer Global Marketing Systems (GMS) ponders whether now is the last chance for sellers to obtain record prices, as an influx of more tonnage for scrap could rapidly deflate prices.

At present, the Baltic Exchange Demolition Assessments (BDA) records all-time highs. On Monday, the BDA put the price per long light displacement ton (where a long ton is 2,240 pounds and ldt is the weight of a ship's hull, machinery, equipment and spares) at around $629 per ldt for dirty tankers, $619 per ldt for clean tankers and $553 per ldt for bulkers.

The new levels far outstrip the previous high of $590 per ldt reached last September and are way higher than the $400 per ldt being paid by the Chinese.

The main push has come from Bangladeshi buyers, who, traders say, have been swinging from one record sale to another.

The Bangladeshis set last year's record after IMS of Greece sold the 39,000-dwt products tanker Riza (built 1980) for a full $590 per ldt, or $4.4m.

However, the market never quite breached $600 per ldt and the collapse of the buyers' cartel earlier this month saw prices drop to below $500 per ldt.

This week, the Bangladeshis were again notching up new records with the 750-teu boxship Kota Berlian (built 1976) said to have been scrapped for $630 per ldt, or around $3.8m.

These higher levels have led some to question the logic of the current market, in which some buyers are offering more than $630 per ldt.

"Based on fundamentals, the price of a tanker above $600 per ldt does not make sense," wrote GMS. "Such prices, coming out of 'desperation' rather than rational decision making, are generating demolition prices that are even higher than some of the trading offers on the table from conversion/storage buyers."

The hot market has pushed up demolition prices in Pakistan, which for the first time ever has risen above $600 ldt, leading to expectations that a few more sales could emerge.

GMS says the lowest prices have been paid in India, which has nevertheless procured more demolition tonnage than both Bangladesh and Pakistan.

India has been able to acquire vessels at a lower price by exploiting gaps in the market "due to their keen eye to offer a competitive price for nearly all types of vessels", says GMS.

GMS does not believe the Indians will be able to outmanoeuvre the Pakistanis and Bangladeshis on tankers but only on ro-ro tonnage, cruiseships, reefers and trawlers.

Meanwhile, attractive scrap prices appear to be tempting owners of larger tankers. TradeWinds reported last week that Taiwan Maritime Transport (TMT) was close to finalising a deal to scrap the 239,000-dwt single-hull VLCC B Elephant (built 1986) for around $630 per ldt.

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Published: 13:02 GMT, 28 Feb 08 | updated: 13:02 GMT, 28 Feb 08