By Christiana Gkochari

Can the shipping industry support sustainable recycling?

At a time when the shipping industry needs - more than ever - fast paced demolition, ship recycling is becoming more complex with additional requirements imposed to demolition yards as well as ship owners. Last week IRClass announced the certification of Priya Blue Industries, Shree Ram Vessel Scrap, R.L. Kalathia Ship Breaking and Leela Ship Recycling according to EU standards. These are the first four Indian facilities certified by an EU-approved independent verifier to apply for inclusion in the EU List; a list that is expected to be compiled by the end of this year and will have a binding effect on EU flagged ships six months after it includes sufficient capacity. Although the most important aspect about ship recycling is currently the price, EU requirements could provide a competitive advantage to certified shipbreaking yards.

The main complication in the new EU policy is that it simply does not have global effect and either way, most EU nationals have already flagged out. During the first half of 2016, approximately 60 EU flagged ships were demolished, amounting about 3.2 m dwt; that is about 42% of EU nationals' scrapping activity in volume and just 11% of the aggregate capacity scrapped. Also, there are currently about 7 m dwt in ships aged above 25 years under EU flags; of which, about 367 tankers and bulkers accumulating less than 3 m dwt. Off course, the average demolition age has decreased recently, but the figures for the 20 years age limit do not alter our former conclusions; in fact there are currently approximately 450 EU flagged tankers and bulkers above 20 years amounting less than 5.5 m dwt, whereas the total number of "top" wet and dry candidates for demolition exceed 47 m dwt. Taking all into consideration, it seems that demolition yards will require additional financial incentives to grow interest on sustainable recycling, at least until the Hong Kong convention will enter into force and gain global impact.

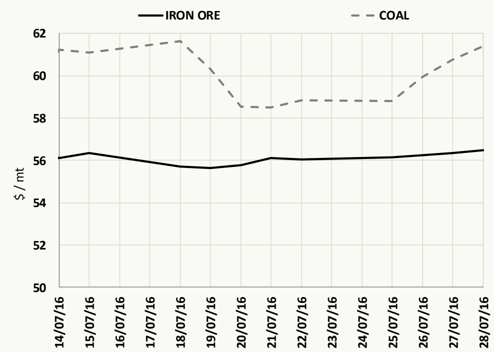
On the other hand, EU regulations will also impose stricter control provisions for all ships entering EU ports; whilst a proposal has emerged to establish EU ship recycling licenses to fund sustainable ship scrapping. Either or, owners that have spent less money on maintenance and safety the past years, due to the unprecedented dry and wet market conditions, may be challenged further by a stricter EU port environment. According to data from Paris MOU, during the first half of 2016, 17% of bulkers and tankers inspected by EU Port State Controls in risk areas related to the new regulations (namely pollution prevention and dangerous goods) were detained for serious deficiencies. That is a significant increase from last year, when the analogous detention percentage was about 10%; indicating that the new regulations might trouble owners.

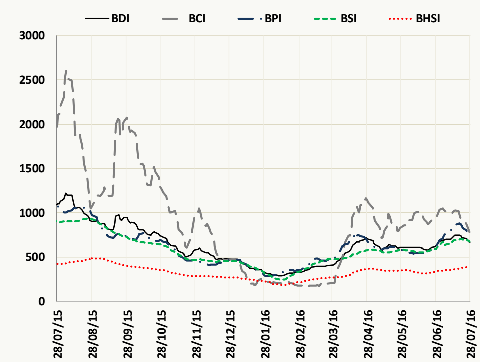
Dry Market

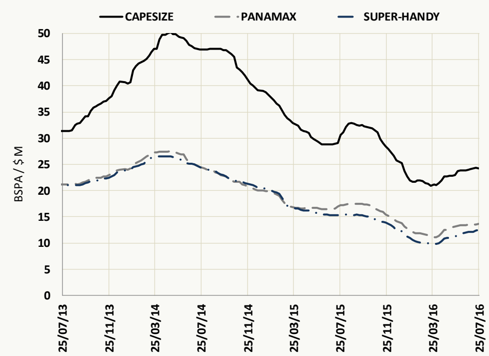
The iron ore price was supported this week by rising steel prices and the anti-dumping plan by Chinese miners. In the coal market, the main driver of prices was the supply cuts by miners from Indonesia to Colombia. However, wheat prices drop further during the week on predictions for lower harvest yields in North Dakota and the unusual large imports of Romanian wheat to France, scheduled for next month.

The BDI weakened further this week and closed yesterday at 665, 61 points down from last Thursday's closing. The Capesize and Panamax sectors are the hardest hit but Supramax freight margins are also squeezing. So, it remains to see how much longer the Handysize spike will last. Handysize earnings were supported by increased inquiries in SKAW, and the sentiment is positive elsewhere. Overall, Capes currently earn $5.530/day, Panamax vessels are trading at $5.757/day, whereas, Supramax and Handysize ships are earning $7.073/day and $5.758/day respectively.

The SnP market remained firm, the interest remains for modern Panamax/Kamsarmaxes, whereas in the smaller segments there is interest even for older vessels. Overall, 16 ships were set to change hands this week; of which 3 Handymax and 6 Handysize. In the demolition front, the increase in the steel price coupled with the lack of supply over the Ramadan - Eid holidays spurred a number of deals this week. In particular, 8 vessels were sold for breaking with an average age of 25 years, bringing the total dry capacity scrapped this year at about 22.5 m dwt.







Wet Market

Weaker dollar lifted Brent price on Tuesday; but after the Federal Reserve (FED) announced on Wednesday that the Board of Governors left the interest rate unchanged, both benchmarks edged down. Meanwhile, major Middle East oil producers such as Saudi Arabia continue to offer crude at discounts. Hence, the OPEC price settled at $39.79 a barrel yesterday; that is a 7.3% decrease from last Thursday's closing.

The BDTI weakened a bit more during the week and closed yesterday at 550, 39 points down from last Thursday's closing. The conditions are especially tough for VLCCs and Suezmaxes with the rates reaching record lows at least for the year. Increased demand supported freights in the crude oil products routes to USG but the cross Med as well as the SEAsia-Aus activity dropped further. VLCCs trade at about $19.458/day in the MEG-Japan route, and at $5.195/day in the MEG-USG route; whilst Suezmaxes trade at $9.205/day in the WAF-Cont. route and at $4.510 in the Black Sea–Med route. On the clean side, the BCTI remained flat and closed at 466, 4 points up from last week.

We had a quiet week in the Newbuilding market and nothing extraordinary to report in the SNP market - which remains firm - except for the enbloc resale of 2 VLCCs at a competitive price. In the demolition market, another old Suezmax was set to go to a breaking yard in Bangladesh this week, bringing the year to date total for the segment to just 2 vessels with an average age of 35.5, whilst, in 2015, 1 Suezmax tanker of 41 years was scrapped. On the other hand, 11 Suezmax tankers changed hands this year up to date, whereas 8 new orders were placed.