

RECYCLING OF SHIPS

Normal Recycling Procedures

Submitted by ICS

SUMMARY

<i>Executive summary:</i>	ICS provides a summary of standard commercial practice surrounding the sale of a ship for recycling.
<i>Action to be taken:</i>	Paragraph 11.
<i>Related documents:</i>	MEPC 55/3/2; MEPC 55/3/XX

Introduction

1. This paper provides information on the normal process of selling ships for recycling, as background to support the continued development of the Convention for the Safe and Environmentally Sound Recycling of Ships. It is hoped that this information will provide a reference point against which to test the feasibility of regulation in the context of commercial reality.

Normal Sale Procedure

2. Although the detail of sales of end of life ships vary from case to case, it is possible to discern a general pattern of events common to the majority of them:
- i. Initially a shipowner will decide to sell his vessel for recycling based on commercial or operational considerations. At this point in the process the ship may be already on its final voyage and only a short distance from the recycling region. Alternatively, in the cases of larger companies the decision may be made well in advance of the end of the ship's commercial life.
 - ii. This decision having been made, the vessel is placed on the market and offers are tendered from interested recycling facilities. Under these circumstances a ship will usually be underway to the recycling facility, though ships can occasionally be sold in an "as is" condition whilst in port. Due to market factors, it is the exception rather than the rule that a price will be agreed well in advance of delivery.

- iii. On the tendering of an acceptable offer, a contract is agreed between the shipowner and the recycling facility, and the ship is delivered to the yard. This part of the transaction will usually occur when the ship is in the vicinity of the recycling yard itself due to the financial pressures explained below.
 - iv. Ordinarily payment is made on delivery, i.e. when the ship is at the facility itself and all documentation has been agreed and exchanged.
3. It should be remembered that a ship will usually be delivered with a minimum of stores and bunkers in order to minimise costs, often at the request of the facilities themselves who would otherwise have to dispose of them.
4. There are three ways in which the sale process described above may be undertaken:
1. A shipowner can sell directly to the recycling facility and undertake all negotiation himself. This course of action is open to a limited number of shipowners with sufficient financial and logistic resources.
 2. A broker may be employed by the shipowner to negotiate with the recycling facility on his behalf.
 3. The shipowner may sell the ship to a cash intermediary who will provide a down-payment on the asset, providing the remainder of the agreed price when he delivers the vessel to the yard. Under these circumstances the cash intermediary becomes the final owner of the vessel. This latter method is by far the most common means of selling an end of life vessel.

Timeframe

5. The timeframe for the sale process is usually very limited; two weeks is not exceptional. There are several factors which drive the speed of the sale process, in particular the need to minimize the commercial risks detailed below. However, in addition to this, frequent fluctuations in steel prices also make it in both parties' interests to secure a price and delivery as quickly as possible, and it is for this reason that in many cases negotiations are undertaken while the ship is underway or in the vicinity of the recycling facility.

Commercial Risks in the Sale of Ships for Recycling

6. The sale of ships for recycling is fraught with commercial risk that is beyond the means of the majority of shipowners to handle. Most owners will have little experience of selling a ship for recycling and will perhaps only conduct such a transaction once in a decade. It follows that owners will almost always be at a disadvantage when negotiating with recyclers as they will have little or no experience in the business compared to facilities that undertake it on a daily basis.

7. There is also considerable financial risk involved in the sale of ships for recycling. Local regulations in recycling regions often rule that payment cannot be made for the

ship until it has been delivered and all documentation has been fully verified. As an assurance for payment a letter of credit is issued on behalf of the recycler to the owner's bank, though these documents are often highly conditional. In effect this can leave owners in a precarious situation where the buyer is in possession of the ship without having paid for it, unable to recover the vessel in the event of the sale falling through due to the reduced stores and bunkers with which end of life ships are normally delivered.

Role of Cash Intermediaries

8. It is a consequence of the risks highlighted above that cash intermediaries are so frequently used. These companies are better placed to negotiate with yards than shipowners, often being based in recycling states and therefore avoiding many of the complications that local regulation may present. Similarly cash intermediaries deal with the sale of end of life vessels on a daily basis and are therefore on more of a level footing with the recyclers themselves than the yards. Finally, cash intermediaries are in a better financial situation to withstand a sale falling through and renegotiation being required.

9. Ordinarily a cash intermediary will buy a ship, providing the previous owner with an up-front payment which represents a percentage of the final sale price, and paying the remainder on delivery. In this they provide a financial security for owners selling end of life ships that would not otherwise be available. It is important to recognise that a cash owner will normally be the final owner of the ship before it is recycled.

Conclusion

10. It is hoped that this document provides an insight into standard practice surrounding the sale of end of life ships and can be used to inform further development of the draft text and associated guidelines.

Action requested of the Committee

11. The Committee is invited to note the above information.