

SHIP RECYCLING IN THE INDIAN SUBCONTINENT AND BEYOND: PROGRESS IN LEAPS AND BOUNDS

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This article is the first in a two part series by Mr Shashank Agrawal of the Wirana Shipping Corporation. Wirana is the oldest cash buyer and was established in 1983. In 2009 and 2010, Wirana successfully negotiated over 320 vessels with LDT in excess of 3 million and DWT in excess of 12 million and has so far negotiated over 1,700 vessels and delivered a total DWT in excess of 48 million since 1983. They are the FIRST and ONLY cash buyer to feature in the Guinness Book of World Records for the two ULCCs purchased with a combined LDT of 148,691, a record which even today remains unmatched and unbroken.

Wirana has so far successfully negotiated over 300 tankers, 5 ULCCs, 28 VLCCs and in excess of 110 container vessels, with the list continuing to rise and grow every day. On a final note, Wirana will be the principal sponsor of a Ship Recycling Forum in Singapore, March 12/13, 2012, organized by TradeWinds.

The last three years have been extremely significant for the shipping industry as a whole, acting as a wake-up call to industry veterans.

The start of the market crash and collapse in 2008 with the slow but steady decrease since then has forced many industry players to re-think their strategy and positions across the globe and sectors. Throughout the world shipping companies have closed down or relocated to more friendly jurisdictions and pruned their top staff and management in order to conserve costs and running expenses. The “green dollars” industry slowly turned into the “red dollars” industry.

The current capesize tonnage on order for 2011 is approximately 103.2 million DWT and it is anticipated that in excess of 25 million DWT for scrapping would hit the beaches of India, Bangladesh and Pakistan this year. It has been an extremely challenging time for many, with the serious falls in freight rates and high bunker costs forcing scores of owners to cancel and terminate their charters early.

The veteran shipping banks do not want to finance shipping any further, thereby accelerating the rate of

foreclosure leading to forced sale of vessels across High Courts in Singapore, India, Bangladesh and even China. To put numbers in perspective, capesize rates were USD30,587 / day last year and they have significantly fallen to USD8,296 / day this year. It was joked that charterers could charter hire a super yacht at the same price as a VLCC from South Africa to India, something which has sent alarm bells ringing across the shipping industry.

THE ROLE OF A CASH BUYER

Companies such as Wirana within the ship recycling industry are known as cash buyers since they purchase, from the owners, the vessel, basis 100% cash. In turn, the cash buyer would sell the vessel to a ship recycler in any one of the ship recycling countries. For vessels purchased basis “as is” the cash buyer takes over the vessel at the delivery port and then boards his own crew to sail the vessel. In the meantime, the vessel is re-flagged, given a brand new name and provided with a fresh insurance cover for the voyage to the recycling yards. Therefore Wirana is rightly referred to as an underwriter of recycling market risks. Due to fluctuations in steel prices in an extremely volatile market, the owners/sellers could stand to lose millions of dollars by the time the vessel arrives at delivery port. Irrespective of market conditions principals of Wirana have steadfastly stood by owners and sellers.

Upon delivery of the vessel in the Indian subcontinent, Wirana accepts Letter of Credit (LC) as the mode of payment from the end ship recyclers, something which the original owners maybe unwilling to accept or perhaps may have little experience in negotiating; therefore, owners prefer to work with cash buyers and it is estimated that at least 98% of vessels for recycling are sold via cash buyers. At all times the owners remain completely secure as their final payment from Wirana for the vessel is NOT contingent upon receiving funds from the end ship recyclers, which clearly demonstrates that Wirana act as the cushion between the owners and the end buyers of the vessel.

We therefore provide an important economic and distribution function to the owners as they now deal

with one single entity which in turn deals with 300 ship recyclers between India, Pakistan, China (north and south), Turkey and Bangladesh.

Wirana has the in-house resources to continuously monitor the markets thereby placing it in a unique position to accurately and firmly guide owners. This knowledge is country specific and involves the spread across the five major ship recycling markets. Wirana remains fully abreast about of government regulations and is constantly being updated, thereby leading to an increase and maximization of the asset value for the owners.

THE INTERVENTION OF THE JURDICARY:

INDIA

Both India and Bangladesh have seen their fair share of litigations involving the ship recycling markets. In India, the arrival of the *BLUE LADY (ex-NORWAY)* caused a huge uproar due to the alleged onboard quantities of asbestos and other hazardous materials. The matter was dragged right up to the Supreme Court of India which is the apex court body deciding on major issues. The Supreme Court handled the matter for months and then laid down extremely stringent rules and regulations for governance of the ship recycling industry.

The rules and regulations came to be followed by all sectors and industries involved with ship recycling. Some of the salient features of the Supreme Court order were:

1. Submission of the Ship Recycling Plan (SRP).
2. Details of the vessel, including best possible quantities of onboard wastes.
3. Ship recycling schedules with sequences of work.
4. Operational work procedures.
5. Availability of work handling equipment and PPEs
6. Plan for removing of oil and cleaning of tanks.
7. Hazardous wastes handling and disposal plans.
8. Gas Free for Hot Works certificate issued by the competent authority.
9. Identification and marking of all no breathing spaces.
10. Identification and marking of all places likely to contain hazardous wastes.
11. Confirmation that ballast water has been exchanged on the high sea.
12. Dismantling stage.
13. Waste water downstream stage.

BANGLADESH

The Bangladesh ship recycling industry was hit by the landmark environmental litigation initiated by the Bangladesh Environmental Law Association (*BELA*)



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which sought inter alia directions from the Supreme Court of Bangladesh on the safe and environmentally sound recycling of vessels arriving for recycling at Chittagong.

Sensing an immediate concern to set the house in order, the Supreme Court of Bangladesh banned the working of the recycling industry for 10 months in 2011 and directed the Shipping Ministry and Ministry of Environment to frame “Ship Recycling Guidelines” within six months. Relentless efforts by BELA saw the industry running in all four directions to comply with the Order of the Apex Court which mirrored the Order passed by the Indian Supreme Court. For the very first time, vessels arriving in Bangladesh were required to be gas free for hot works (Naked Flame Rules) as well as opposed to the plain gas free for man entry requirements which are far less stringent and less onerous.

Ship recycling is an important social economic activity which provides direct and indirect employment for over 500,000 people. Looking at the growing economic burden and perhaps the lack of contribution due to closure of millions of dollars in terms of direct and indirect taxes, the Supreme Court allowed the temporary reopening of the industry in May 2011 for a period of three months, further extendable upon the terms and conditions determined by the Court. As we write the Order remained in force until 12 October 2011 and will be suitably reviewed by the courts in order for any future extensions to be granted. Until this time the Ministry of Environment has to present the framed guidelines for the approval stamp of the courts. Once the guidelines have been framed it is hoped that the Industry would rise from the ashes like the Phoenix.

PAKISTAN

Unfortunately, Pakistan has consistently lagged behind the global race on upgrading themselves to the next tier. The yards there continue to be rudimentary in nature, relying heavily upon human workforce and labor, with little care for industrial rights and consequent violations. The inherent lack to upgrade perhaps stems from the fewer number of vessels arriving each year for recycling, which is directly proportionate to the price being paid

by shiprecyclers. In fact, vessels from the Pakistan National Shipping Corporation (PNSC) have routinely been sold outside of Pakistan and have come down to India and Bangladesh. This speaks for itself.

RECYCLING CAPACITIES

INDIA

In India the ship recycling activities are principally carried out at Alang which is situated on the west coast of India in the state of Gujarat. At present, Alang has approximately 175 active and fully licensed and functional yards which are leased by the Government of Gujarat for a period of 10 years to ship recyclers, with the leases being renewed upon their expiry appropriately. To complement the yards at Alang we have some recycling yards at Jamnagar, a few nautical miles away from Alang but again in the same state of Gujarat. The unique strength of Alang is that they rely upon the beaching tides which vary month to month in order to derive the maximum advantage of the force of the water to push the vessel onto the beach. Of course, some vessels that are dead and under tow or those of extremely low LDT do not require meeting the beaching tide schedules and can beach at any time during the month. Both Alang and Jamnagar are under the aegis of the Gujarat Maritime Board (GMB) which operates under the directions of the Government of Gujarat.

More than 7,000 vessels have been scrapped at Alang since 1983, generating steel output in excess of 80 million tons. In an average, year Alang recycles about 600 vessels with an annual sales turnover of about of about USD 1.4 billion.

To complement the two destinations, a few vessels are also beached at Mumbai at the Darukhana which falls under jurisdiction of the Mumbai Port Trust (MBPT) which functions under the Government of Maharashtra. However, this port has size restrictions and not all vessels can be recycled here. For example, vessels in excess of 170 meters in length will have to go to Alang or Jamnagar as they will not be allowed at Mumbai.

BANGLADESH

In Bangladesh there are approximately 55 ship recycling yards which are fully functional and meeting the recycling needs of the nation. This industry now comes under the Ministry of Industries as opposed to the Ministry of Shipping and any ship coming inwards for recycling is required to obtain a “*No Objection Certificate*” in order for the Letter of Credit to be opened from the ship recycler’s bank. Unless this is provided, the bank will not start the various procedures required for the release of the LC, which may then considerably delay the beaching process of the vessel. In Bangladesh, as well, vessels are beached according to respective beaching tides and vessels need to strictly meet these tides in order to prevent considerable waiting at anchorage, some times up to 14 days, until the next tide.

PAKISTAN

In Pakistan there are approximately 25 ship recycling yards on the coast of Gadani in Baluchistan which are under the Ministry of Revenue but outside the territorial jurisdiction of Karachi. The inwards formalities are little and vessels are beached without any hassles considering that no tides are required to be met. Therefore, any owner looking for quick beaching and swift money in the pocket may perhaps find his solace and answers in Pakistan as opposed to India and Bangladesh.

ISO CERTIFICATIONS

INDIA

In India there approximately exist more than 20 licensing bodies and the industry is extremely and heavily regulated. With the stepping in of the Supreme Court the industry realized the urgent need to upgrade to the ISO Club. So in this very tough and competitive environment the ship recyclers spent their own funds and invested manpower to meet the stringent standards of ISO without any financial or other support from any third party. Currently, at least 100 yards are certified with ISO 14001/9001 and OHSAS 18001 and at least 50 yards have ISO 30000. This is remarkable as since 2007 the

industry has pushed all buttons to gear itself to the constantly changing challenges in this labor and economic intensive industry.

BANGLADESH

Of the 55 yards at least 25 have ISO 14001/9001 and OHSAS 18001, including ISO 30000, which is remarkable considering the levels of Bangladesh some years ago. We applaud the initiatives taken by the ship recycling community to raise the bar and improve the health and standard of living of their workers and their surrounding environment. This indeed shows that even in non- subsidized economies and coming from those industries that receive little or no support from the government, a small group of recyclers are making all efforts to make that “*big change*” that will benefit future generations of the ship recycling industry and those directly and indirectly connected with it.

PAKISTAN

Unfortunately for Pakistan, it has lagged behind even in this race and of the 25 ship recycling yards none of them is even basic ISO-certified. The lack of interest, as explained earlier, stems from a variety of reasons, including the smaller offering of vessels and the potential terrorism-ridden economy dealing with a highly unstable government and regime. For Pakistan the adoption to ISO standards seems difficult in the foreseeable future. Until adopted and strictly enforced the industry will continue to work using old practices and methods.

