SALE AND PURCHASE, NEWBUILDING AND DEMOLITION TRENDS FOR 3000-10000 DWT DRY-CARGO FLEETS

Aleksandr Lisitskiy
FICS, LLM Maritime Law
Director of Shipsale Services, Marine Services Group, Riga, Latvia

This short overview is based upon dry-cargo vessels market analysis, made by shipsale company from holding Marine Services Group. It reflects today's market situation: fleet getting old; fleet renewal extremely slow; old ships are still kept in operation despite their technical condition; prices for all types of ships continue to grow. Sector clearly requires renewal in general.

The dry-cargo vessels up to 10000 tons DWT, working in the region of the North and West Europe, Mediterranean and Black Sea, can be divided in 3 main groups:

- **European coasters** – these are multipurpose vessels built to work in coastal seas around the EU, incl. full Mediterranean Sea, North Africa and West Africa;
- **River-Sea and shallow draft vessels** working in Azov and Caspian Sea, Russian rivers as well as partly in Dnepr river;
- **Chinese (F. Eastern) design vessels**. Few of them, trading mainly in region of Black and Mediterranean seas.

It is difficult to find the data about exact number of vessels in each group, however there are approximately 12000 coastal dry-cargo and bulk vessels up to 10000 DWT trading worldwide. Most of them working in Europe (including Mediterranean Sea, North Europe and W. Africa) and in the Far East (Indonesia, China, Filipins, Russia, Korea, Japan, Malaysia, etc.). In other parts of the world (e.g. South America or US Gulf) the amount of such tonnage is significantly smaller.

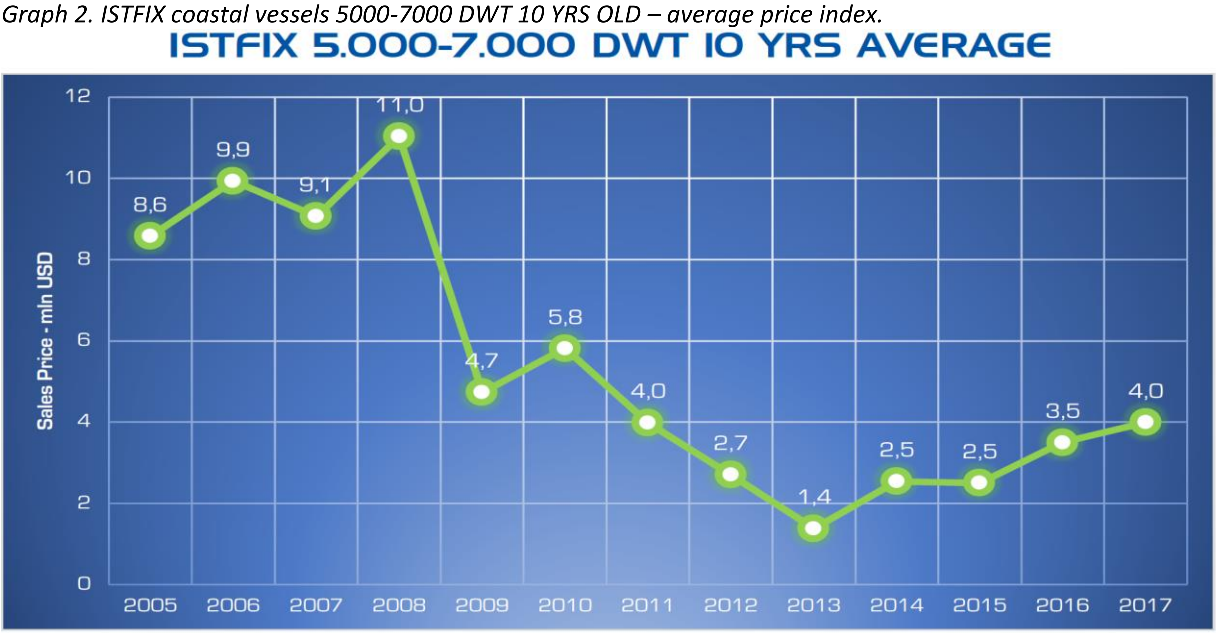
Table 1. Dry (General Cargo and Bulk) Cargo Coastal Fleet, on 31.12.2017. (Research made by Marine Shipsale Services Ltd., from data available in Equasis and IHS Fairplay databases)

Dry (General Cargo and Bulk) Cargo Coastal Fleet, as at 31.12.2017						
	500-2,999		*3,000-6,000*		*6,001-10,000*	
Exisisting	*Nr.*	*MDWT*	*Nr.*	*MDWT*	*Nr.*	*MDWT*
Pre - 1992	*3,689*	*n/a*	*1,541*	*6,093,116*	*501*	*3,653,631*
1993-1997	*914*	*1,289,771*	*460*	*1,961,488*	*218*	*1,688,845*
1998-2002	*307*	*481,983*	*420*	*1,868,427*	*244*	*1,947,145*
2003-2007	*625*	*1,003,333*	*582*	*2,501,761*	*312*	*2,371,892*
2008-2012	*687*	*1,229,103*	*756*	*3,197,229*	*565*	*4,436,058*
2013-2017	*526*	*904,031*	*204*	*866,119*	*117*	*917,415*
Total:	***6748***	***n/a***	***3,963***	***16,488,140***	***1,957***	***15,014,986***
Newbuilding	*90*	*160,741*	*118*	*504,883*	*71*	*547,519*

From *the Table 1* we can see, that among the vessels of 3000-6000 DWT, the fleet older than 25 years is 39% by number and 37% of DWT tonnage, but newbuildings on order are only 3%. Average DWT of the vessel on order in this size is about 4300 tons. In the group of vessels 6001-10000 DWT – tonnage older than 25 years are about 25.5% by number and 24% by DWT, newbuildings on order account for only 3.6%. Average DWT of the vessel on order in this size is about 7700 tons. Sector clearly requires renewal. Today, main problems that the shipowners and investors have from newbuilding of these fleets are significant losses they suffered during the previous market downturn cycle from 2008 to 2016, as well as freights received for this tonnage today do not promise the high ratio of earnings in the short term.

Graph 1. ISTFIX coastal vessels 4000-5000 DWT 10 YRS OLD – average price index.

Graph 2. ISTFIX coastal vessels 5000-7000 DWT 10 YRS OLD – average price index.



As we can see from ISTFIX Sale and Purchase index graphs there is healthy potential of growth in the vessel's prices. We as observers believe the low cycle 2008-2016 is over and we now expect next 6 years of UP cycle. This off-course will be corelated with development of the region economy. However, our optimism is based on opinion, that number of ships on order do not compensate the demand growth.

Table 2. River-Sea (General Cargo) Fleet, on 31.12.2017. (Research made by Marine Shipsale Services Ltd., from data available in Equasis and IHS Fairplay databases)

Sea-River (General Cargo) Cargo Fleet, as at 31.12.2017				
	2000-4000		4,001-8,000	
Exisisting	Nr.	MDWT	Nr.	MDWT
Pre - 1992	641	1,940,005	204	1,062,611
1993-1997	76	196,597	39	206,602
1998-2002	42	116,030	23	116,153
2003-2007	59	163,854	67	384,871
2008-2012	143	370,354	66	385,350
2013-2017	78	199,884	47	273,928
Total:	**1162**	**3,304,344**	**446**	**2,429,515**
Newbuilding	4	11,807	54	354,703

Among the River-Sea vessels in size between 2000-4000 tons DWT – tonnage those older than 25 years are about 55% in number and about 58% in DWT, however the newbuildings orders are only 0.4%! In reality the situation is much worse. Many modern vessels, which entered above statistics are trading in Far East and will never come in Europe or Black sea.

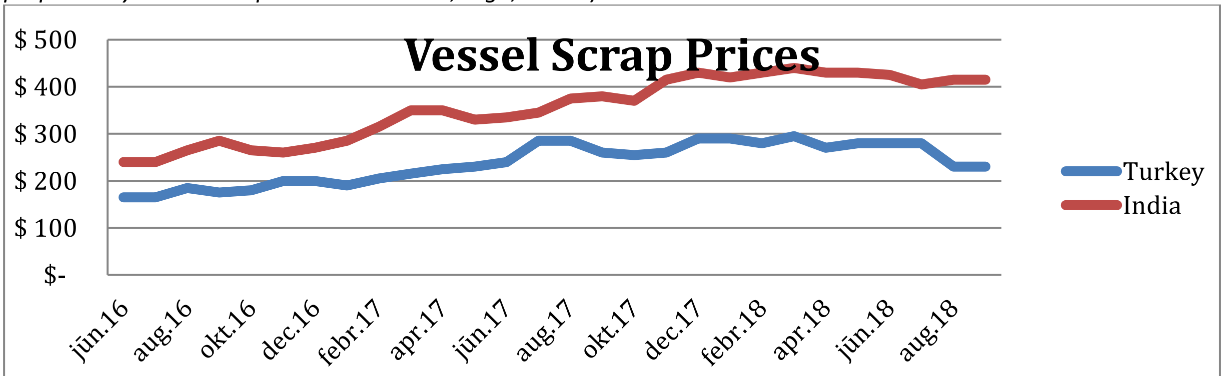
Ships that are in the size between 4001-8000 tons of DWT tonnage those that older than 25 years account for 45% in number and about 44% in DWT, however the newbuilding orders are 12% in number and 14.5% in DWT. Most of river-sea vessels built in late 90's and 00's for Azov-Black Sea market are from 5000 to 7150 tons DWT.

In general river-sea fleet requires the urgent renewal. Unfortunately, high political risks and uncertainty about the region's future are frightening the shipowners to make long-term investments into this segment. Within the nearest 10 years river-sea vessels will be under big pressure due to fleet age especially in the smaller sizes of up to 4000 DWT. In 2026 there will be no Volgo-Balt type ship younger than 40 years.

Above fact pushing up the significant increase in prices during past two years. Volgo-Balt type (River-Sea 3000 DWCC) built middle of 1980's under RMRS can achieve 1.6 million USD. For Omskiy type (River-Sea 3000 DWCC) built in 90's some Owners asking 3.0-3.5 million USD. Volgo-Don max or Chelsea (River-Sea up to 7000 DWCC) types Owners asking 7.5-8.0 million USD.

Since the freight market and demand in tonnage is growing, the number of vessels demolished during past years is going down. The prices for scrap are increasing as well as in comparison with year 2016. For general cargo vessels it is hard to get precise statistics about how many ships have been scraped, but we expect 2-5% of the tonnage annually is leaving the market for the scrapyards.

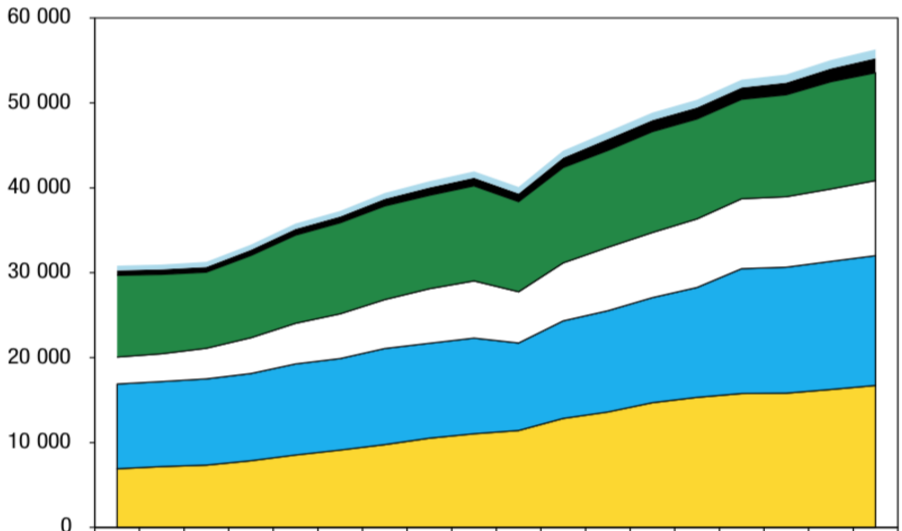
Table 3. Ships demolition prices in India and Turkey USD per LDT for General Cargo Vessels. (Research and statistics prepared by Marine Shipsale Services Ltd., Riga, Latvia)



The dry-cargo shipments in the world traditionally growing and in 2017 the minor bulk and major bulk seaborne trade ton-miles in the world increased for about 2.5%. Also, there is growth in consumption and population of the world. These facts allow us to make the conclusion that market would need a healthy increase of the tonnage to upkeep the supply-demand balance in the dry-cargo coastal shipping. Some observers and market players forecast that impact of the current trade wars between USA and other world may shift a focus more to the regional trades, where coastal fleet will play significant role. Taking into account age profile of the vessels and low orderbook in the segment, we expect growth in prices and increase in demand for the coastal dry cargo vessels from potential buyers in next 4-5 years.

Graph 3. World seaborne trade in cargo ton-miles by type of cargo, 2000-2017 (Billions of ton-miles) (UNCTAD).

Figure 1.3. World seaborne trade in cargo ton-miles by type of cargo, 2000–2017 (Billions of ton-miles)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016[a]	2017[b]
Chemicals	552	562	593	606	625	651	689	724	736	765	824	864	889	908	914	953	991	1 039
Gas	576	591	611	662	719	736	833	913	956	958	1 147	1 344	1 346	1 347	1 392	1 422	1 563	1 706
Oil	9 631	9 352	8 971	9 698	10 393	10 729	11 036	11 011	11 200	10 621	11 237	11 417	11 890	11 779	11 717	12 013	12 638	12 701
Container	3 170	3 271	3 601	4 216	4 785	5 269	5 757	6 422	6 734	6 030	6 833	7 469	7 673	8 076	8 237	8 302	8 529	8 845
Other (minor bulks and other dry cargo)	9 998	10 023	10 167	10 275	10 729	10 782	11 330	11 186	11 272	10 325	11 504	11 927	12 375	12 952	14 707	14 836	15 097	15 298
Five main dry bulks	6 896	7 158	7 331	7 852	8 527	9 107	9 745	10 503	11 028	11 400	12 824	13 596	14 691	15 312	15 768	15 813	16 239	16 710

Source: UNCTAD secretariat calculations, based on data from Clarksons Research, 2017a.
[a] Estimated.
[b] Projected figures.