



INTERNATIONAL CONFERENCE ON THE  
SAFE AND ENVIRONMENTALLY SOUND  
RECYCLING OF SHIPS  
Agenda item 6

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**CONSIDERATION OF THE DRAFT INTERNATIONAL CONVENTION FOR THE  
SAFE AND ENVIRONMENTALLY SOUND RECYCLING OF SHIPS**

**Ensuring sustainable green and safe ship dismantling –  
concerning beaching and the establishment of a mandatory fund**

**Submitted by Greenpeace International and FOEI**

**SUMMARY**

**Executive summary:** This document provides proposals with regard to two fundamental issues which will determine the success or failure of the Convention's ability to set an acceptable human and environmental standard for the breaking of the world fleet. It is imperative that this Convention at a minimum puts a halt to the crudest and most unacceptable shipbreaking method and the externalization of health and environmental costs onto some of the world's poorest communities in developing countries. To this end, the civil society environmental and human rights organizations submitting these proposals strongly recommend that the Convention explicitly recognizes beaching as a substandard practice to be prohibited and establish a mandatory fund that will *inter alia* enable this fatally flawed method to be phased out

**Action to be taken:** Paragraph 11

**Related documents:** MEPC 53/3/9; MEPC 54/3/5; MEPC 55/3/7; MEPC 57/3/7; MEPC 57/21, paragraph 3.61 and SR/CONF/2

**Introduction**

1 There is a strong risk that the IMO ship recycling Convention will fail to adequately address the global shipbreaking crisis and in fact may turn back the clock by establishing a regime with lower levels of control and standards of performance than those that exist already under the ILO and Basel Convention's legal regimes and guidelines.

2 With reference to earlier submissions (e.g., MEPC 55/3/7, MEPC 57/3/7) wherein civil society represented by Greenpeace and Friends of the Earth called repeatedly for reform and included elements such as mechanisms to prevent the disproportionate transfer of hazardous wastes to developing countries, the implementation of the substitution principle, the elimination of exceptions such as for military vessels, the establishment of accountability through third Party audits of on-the-ground conditions at the yards and by institution of a system of State-to-State

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Prior Informed Consent rights and obligations, the NGO Platform on Shipbreaking calls upon IMO delegations to finally give the strongest consideration for adopting the following crucial reform to the proposed Convention:

### **Dismantling method – Beaching method must be prohibited**

3 The expectations of the Convention are that it “...*generates real changes in the conditions under which “end-of-life” ships are dismantled, so as to protect workers and the environment from the adverse impacts of hazardous waste and dangerous working practices*”. The “beaching method” whereby ships are run aground on tidal flats can never be accomplished in a manner which is environmentally sound or protective of human health due to the following fatal characteristics:

- .1 the impossibility of containing pollutants on a tidal beach where hulls of ships are often breached accidentally or by cutting, sending persistent organic pollutants, heavy metals and oils onto the beach;
- .2 the impossibility of rapidly bringing emergency response equipment, including fire-fighting equipment and vehicles, ambulances and cranes to remove persons hurt inside the hull and alongside the vessel in a shifting and soft tidal surface;
- .3 the impossibility of allowing cranes to work alongside to lift heavy cut sections of a ship and thereby preventing heavy objects from falling on persons or directly into the marine environment; and
- .4 the incompatibility of conducting hazardous waste management (as ships contain and are often even painted with hazardous materials) in the ecologically delicate and vital coastal zone.

4 Beaching has hence been condemned globally as being incapable of delivering safety for workers, nor containment of shipborne pollutants. Already a clear recommendation to phase out this substandard breaking method has been agreed to by 170 Parties to the Basel Convention. It is critical that the IMO Convention explicitly supports and upholds this standard. Failure to do so would indicate to the international community and industry that the IMO is not serious about fulfilling its stated objective to end the environmental degradation and human suffering caused by the worst forms of ship dismantling.

5 The Platform therefore calls for an explicit disqualification of the breaking of ships through the method known as “beaching” by including the following text to the fore of regulation 19 of the Convention:

#### ***Regulation 19 – Prevention of adverse effects to human health and the environment***

*Ship Recycling Facilities authorized by a Party shall establish and utilize procedures to:*

- .1 ensure that ship recycling operations taking place on intertidal flats, or ocean beaches or other working platforms which prevent: rapid access to ships by emergency equipment; the ability to utilize cranes and lifting equipment at all times alongside vessels; and the possibility of full containment of pollutants during all cutting and stripping operations, are prohibited;
- .1bis prevent explosions by establishing procedures for ensuring “gas-free-for-hot-work” conditions throughout the ship recycling process;

- .2 *prevent other accidents, occupational diseases and injuries or other adverse effects on human health and the environment; and*
- .3 *prevent spills of cargo residues and other materials on the ships which may cause harm to human health and/or the environment,*

*taking into account guidelines developed by the Organization.*

6 Furthermore, it is recommended that a conference resolution on an implementation mechanism be agreed upon in Hong Kong, which shall include provisions for technical assistance to countries where the beaching method is used with an aim to directing funds toward phasing-out this breaking method and replacing it with dockside, slip, or dry dock platforms.

#### **A Fund – internalizing costs**

7 As discussed in previous submissions (MEPC 55/3/7 and MEPC 57/3/7) a fundamental weakness in the draft Convention lies in the fact that the Convention has sought to address an issue of global pollution without seeking to fully internalize costs and instil producer responsibility based on the Polluter Pays Principle.

8 An indirect financing mechanism, in which financing is raised at the new built stage or during the lifetime of ships, is necessary to avoid continued externalization of health and environmental costs and to prevent an increased use of substandard scrapping yards. It is also an important incentive for the creation of sustainable, safe and environmentally sound ship recycling capacity globally, including the ability of operations to flourish in developed countries, where externalities have been largely eliminated.

9 Producer responsibility is now well-established public policy with respect to waste management. By exacting financial responsibility on beneficial owners, through the creation of a ship recycling fund that could be utilized to provide a full array of technology, governance, legal and social resources and infrastructure to ensure pre-cleaning during the life of a ship, as well as environmentally sound management of hazardous wastes, costs would be internalized allowing for greater efficiencies and incentives for managing the problem at the front end of the life cycle.

10 Taking into account the limited time available, Conference delegations should agree to develop a Conference Resolution calling for the creation of such a fund for pre-cleaning and safe and environmentally sound ship recycling. The mechanism would be developed by a relevant body of the IMO in the interim period between the adoption of the Convention and its entry into force. As requested by MEPC (MEPC 57/21, paragraph 3.61) Annex 1 includes a comprehensive proposal on how such a fund could work.

#### **Action requested of the Conference**

11 Unless the issue of providing a clear standard for the ship recycling industry by which the beaching method is explicitly disqualified as being safe, nor environmentally sound, is addressed by the IMO Conference, the Convention will have failed in its primary objective and will only establish lower standards than already exist under the ILO and Basel Convention's legal regimes and guidelines. Furthermore, without providing for an economic incentive to ensure the development of a financially sustainable green and safe ship recycling industry the Convention will fail to end the current unacceptable externalization of health and environmental costs onto some of the world's poorest communities in developing countries. The Conference is therefore urged to strongly consider and support the proposals made in this document.

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## ANNEX

### EXTRACT OF TEXT ON THE SHIP RECYCLING FUND FINANCING ENVIRONMENTALLY SOUND SCRAPPING AND RECYCLING OF SEA-GOING SHIPS, ECORYS TRANSPORT, ROTTERDAM, 2005

The full report can be downloaded on [www.shipbreakingplatform.org](http://www.shipbreakingplatform.org)

#### Chapter 3 – Organisation of a ship recycling fund

##### 3.1 Selecting the appropriate financing mechanism

The issue of financing environmentally sound scrapping practices has been raised at various occasions, as being essential in its successful introduction. This should go hand in hand with the development of regulations and guidelines on clean and safe scrapping.

However, the introduction of regulation without the creation of a parallel financing mechanism could lead to circumvention of the rules and increased use of substandard scrapping yards. In this situation shipowners would have to pay directly for the pre-cleaning service when the ships are offered for scrapping. This would lead to a reduction of the price (15-30% at current scrapping prices), which in turn would create an incentive to avoid these extra costs. If shipowners would try to transfer the additional costs to the yards, abidance of the rules at the yards themselves might be strained as the scrapping yards have to compete with other sources of scrap metal and the yards' profitability would be put under pressure.

This provides an incentive for the introduction of more indirect financing mechanisms in which financing is raised at the new built stage or during the lifetime of ships. The revenues raised would be allocated to a Ship Recycling Fund, which would take care of the financing of environmentally sound scrapping practices.

Funds can be structured financially in three ways:

- Endowments which invest their capital and use only income from those investments to finance activities;
- Sinking funds which are designed to disburse their entire principal and investment income over a fixed period of time, or
- Revolving funds that receive resources on a regular basis – e.g. proceeds of special taxes, levies, charges – which replenish or augment the original capital of the fund and provide a continuing source of money for specific activities.

In light of the large initial capital investment related to the first two types of funds (sound and safe recycling should be financed from the interest and depreciation of the fund) a revolving fund would be the most appropriate financing structure. A fund can always be combined with other sources of financing. For example, the investments that should take place at the shipbreaking yards can also be (co-)financed through donor assistance both bilaterally or multilaterally (e.g. World Bank). Also the Fund could be pre-financed (through loans) by States to facilitate an early start.

Financing clean and safe recycling of ships should always be coupled to the introduction of a regulation, which requires that these practices are being followed and the certification of yards which are capable of clean scrapping and recycling. The creation of a fund has the main aim to lower the threshold for clean recycling to avoid circumvention of the regulation.

### Box 3.1 Examples of funds for recycling and scrapping

#### *Example 1 Car recycling fund*

The Dutch automobile sector has introduced a system to increase the re-use and recycling of cars. The system is based on revenue that in principle is levied on the importers and producers of cars in Holland, but which is passed on directly to the client. The system has been fully accepted by the consumer. A fee (disposal contribution) has to be paid on the purchase of the car (on average 0.5% of the car value) which goes directly to a foundation established to manage the fund, control and certify the car recycling industry, subsidise this industry for the removal on non-recyclable materials, and finance R&D on recycling methods. Cars are taken in at no charge. The fund has generated substantial reserves, as the current ratio new car/disposed car is 2:1. It appears that the system is successful, with about 85% of car deletions accounted for (the remainder concerns to a large extent exports to third countries). Similar systems have been introduced for batteries and electrical appliances. In addition, this system serves as the prime example for European regulation with respect to the disposal of car wrecks.

#### *Example 2 Inland navigation scrapping fund*

To restructure the inland navigation sector that was facing an overcapacity situation the European Commission introduced a special scrapping fund to finance a restructuring programme in Germany, Belgium, France, The Netherlands, Switzerland and Austria. The fund was active in the period 1989-2003. The fund applied the so-called “old for new” regulation: anyone commissioning a new vessel must either pay an “old for new” special contribution or scrap the old tonnage. In addition the fund could finance international measures to promote inland navigation (e.g. measures in the social and educational areas). The Fund was pre-financed through advance payments from the participating member States, in the form of loans, to enable an immediate start of scrapping operations.

## **3.2 Financing a Ship Recycling Fund**

Financing of a Ship Recycling Fund could be realised by raising disposal/recycling contributions at the construction phase of the vessel or contributions during the lifetime of ships.

### 3.2.1 Contributions at the new built phase

The levying of a contribution at the construction phase of the vessel is comparable to the system introduced in the Netherlands for the disposal and recycling of cars. Other than for cars differentiated disposal/recycling contributions should be charged according to shiptype and size. This could either be done by:

- A surcharge on the selling price of vessels; or
- A fee on registration of the vessel (registration of the IMO number).

The second option appears to be the most feasible option since a central (read IMO) organisation could introduce charges for the registration. However, the system of assigning IMO number is controlled by a private company Lloyds’ Register – Fairplay, which according to IMO is the sole authority for identifying and assigning an IMO number. Nevertheless it could be considered

whether a direct link could be established, as the IMO number also has to appear on flag State issued certification for the vessel. Control could be carried out by the classification societies or IMO itself. The first option has the main disadvantage that the number of shipbuilding yards involved is large and control over these yards is missing.

The main drawback of introducing such a system in an on-going market is that it will put the owners of new ships that paid the contribution in a competitive disadvantage compared to owners of existing ships. Another disadvantage is that contributions are only obtained from new built ships instead of the whole shipping fleet. Since the number of new built ships is much lower than the total number of ships in operation the (average) level of the charge will be much higher.

#### *Level of the contribution*

To estimate the required level of the contribution per new built ship one first has to assess the size of the new building market.

Shipbuilding output is normally measured in CGT, which is the result of multiplying the GT value of a ship with a specific factor that reflects the complexity of the ship, mostly in terms of share of labour input versus steel inputs. In theory, the price quoted by a specific yard of one CGT should be the same for all different shiptypes. In practice this still varies a lot, of course because of price differences in various shipbuilding countries, but all because of the flaws in the CGT system, which cannot always take into account specific design aspects of ships.

For the purpose of this study the use of CGT is actually less relevant, as it tends to give smaller ships a higher tonnage, and larger ships a smaller tonnage value. This bears however no relation to the content level of toxic/hazardous material that needs to be removed once the ship is destined for the scrapyards. From this viewpoint, it is a better option to use GT as a yardstick for applying a tonnage fee at the newbuilding stage. This will reflect the occurrence of hazardous/dangerous material in a much better way. It can further be discussed whether liquid cargo ships should have an additional fee to pay for the final cleaning of the cargo sections before scrapping. The same goes for reefers and gas tankers where the insulated material may still contain a sizable amount of hazardous materials.

The annual output varies considerably over time, depending on the demand from shipowning companies. It is obvious that calculating a factor based on the highest output might not cover all requirements while a factor based on the lowest output will generate much more than actually required.

To calculate an average fee per GT the level of output is an essential factor. Since output can vary strongly the contribution level under various scenarios has been calculated. The costs of an environmentally friendly scrapping system (220-440 mln US\$ per annum) have been set off against different levels of GT output. This results in a series of possible values per GT to be levied on future newbuilding activities and/or prices.

The effect of this contribution on newbuilding prices is shown for some specific shiptypes in Table 3.2 of the report. The table presents both the lowest (7.3 US\$/GT) and the highest (29.3 US\$/GT) impact. This results in a price increase of less than 1-7% depending on the ship size and type. At current new built levels (25 mln GT per year) the introduction of a disposal/recycling contribution would result in price increases from less than 1% to 4% per ship. The highest impact of this fee is noticed at shiptypes with a relatively low price per GT.

### 3.2.2 Contribution during the lifetime of vessels

Next to a recycling contribution at the commissioning of vessels, fees could be levied during the lifetime of vessels. This fee should be levied based on the tonnage of the ship. The main advantage of this regime is that it affects both new and existing ships and thus diminishes market distortions. Another advantage is that the fee is being levied on a larger number of vessels. This also introduces a disadvantage, viz. more complicated control mechanisms. Closely linked to current mechanisms and possible transaction moment two options exist:

Include charging in the insurance premiums of the ship;  
Levying by flag States.

One option is to include the recycling charges in the insurance premium of ships. This should be related to P&I (protection & indemnity) insurance, as insurance for Hull and Machinery is a highly international and rather diffuse market. Also the coverage of the Hull and Machinery insurance is lower than P&I. P&I insurance is arranged through a limited number of P&I clubs worldwide. This type of insurance is obligatory when sailing in certain waters. Outside these waters there is no obligation. According to a P&I insurer this means that in practice some 15% of the world fleet is not P&I insured.

The next option is to levy the recycling contribution through the flag States. This appears to be the most reasonable option since the flag State is the only body that has power to collect money on the basis of registration. If all flag States cooperate coverage would be complete. The flag State would then have to pass this contribution on to the Fund organisation. In the case of the involvement of flag States it appears logical that IMO would have a leading role in the Fund organisation. This clearly requires new requirements and regulations with respect of the flag States.

#### *Introduction of a scrapping life insurance*

An alternative and interesting option would be to create a new type of instrument through the introduction of an obligatory "life insurance" which would recover the costs of scrapping in an environmentally sound manner. Through annual life insurance premiums funds can be saved for the eventual dismantling. Per ship type an estimate would be made of the required funds (and annual premiums to be paid) on the basis of the estimated scrapping costs involved. The pre-cleaning and shipbreaking should be paid by the shipowner, but could be refunded on submission of proof (e.g. a certificate) of clean scrapping. One could even consider to insure a higher amount than actually required to create a mechanism to stimulate clean shipbreaking. In this case the owner would be refunded at a premium after submitting a clean scrapping certificate.

The insurance premiums would be collected and transferred to a centrally managed fund. Since this type of mechanism is closely related to the insurance market, the most logical option would be to involve insurance companies in this process. This might even lead to a decentralised fund system in which insurance companies directly compensate shipowners for clean scrapping costs (and not through a central fund).

This funding mechanism would require new regulation, making this type of insurance obligatory for all ships. The main disadvantage of this instrument is that it might be fraud sensitive (e.g. false certificates) and that the dismantling of the current ships has to be financed from the total of all premiums. Especially in case of decentralised funds at the insurance companies this would require an appropriate balance of old and new ships to keep the system feasible. If this is

not realised old ships might be refused to be insured or only at very high insurance premiums. This could lead to having a central fund as the preferred option, especially at the start.

#### *Level of the contribution*

To calculate the average annual level of the disposal/recycling fee per GT first the total GT of the merchant fleet has to be determined. At 1-7-2001 total GT (ships over 1000 GT) stood at 521 million GT. On the basis of a straightforward and undifferentiated calculation each GT should produce 42-84 US cents per annum to meet the requirements of the fund. Of course this could be broken down into various ship types, with different weights attached taking into account differing pollution contributions.

It is good to put these amounts in perspective of the income generated by the shipping sector. In the absence of more recent figures we have used an analysis that was made in 1995, where ECORYS calculated the total production value of the shipping, based on time charter equivalents, which is the best proxy for the shipowner's income. For 1994 this total figure was estimated to be more than 84 bln US\$, based on the rates available at that time. These charter rates can of course fluctuate, but it is obvious that even a total requirement funding of 440 mln US\$, although in itself a very significant amount, is just about 0.5% of total turnover.

### **3.3 Organisation of a Ship Recycling Fund**

Since the Ship Recycling Fund should function on a worldwide basis the most logical option is to set up the fund under the auspices of the IMO. The tasks of the Fund are basically:

- Collection of fees
- Certification of scrapping yards and control of scrapping practices;
- Disbursement of funds for environmentally sound scrapping;
- Financing R&D on clean and safe scrapping.

#### *Collection of fees*

Collection of the recycling fees depends on the eventual set up of the funding mechanism. Funding could be established in connection with the assignment of the unique IMO number, which however is the monopoly of Lloyd's Register-Fairplay. When fees are being levied by the flag States, the flag States should transfer the funds to the Fund organisation. Alternatively, "life insurance" premiums could be collected through ship insurance companies.

#### *Certification and control*

All scrapping yards that want to apply for funding from the Ship Recycling Fund should be certified that they are capable (both in technical and human infrastructure) of environmentally sound and safe shipbreaking practices. They should for example follow the developed guidelines on ship recycling under the Basel Convention and ILO. This corresponds to similar certification practices in for example quality assurance (ISO) systems. Audits and control should take place at regular intervals by certified, independent auditors (possible classification societies or separate auditors). This could require co-operation with the national authorities, since shipbreaking is a shore-based industry (thus requirements & supervision lie within the competence of national authorities).

#### *Disbursement of funds*

Funds will be disbursed by the Fund when ships are being taken in for environmentally sound scrapping. In general, it is expected that this will take the form of pre-cleaning the ship according to guidelines on clean and safe dismantling. These activities will be charged to the Fund either by the last shipowner who has to pre-finance the activities or directly to the yard itself.

*Research and development on clean scrapping practices*

In addition to financing the clean scrapping practice itself the Fund could finance R&D which results in further improvement in recycling or re-use methods. These new methods could than be applied and incorporated in new, updated guidelines.

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