

The Recycling of Ships

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Dr Nikos Mikelis

The Recycling of Ships. A major analysis by Nikos Mikelis

By James Brewer

Shipping industry chiefs will need to continue to support and to channel their business to demolition yards that are investing in improved standards, until governments finally bring into force the standards of the Hong Kong convention.

This call is contained in a treatise written by Nikos Mikelis, who has been called the “father” of the Hong Kong convention for his work at the International Maritime Organization, and who is now in the private sector.

Nine years after its formal adoption, the Hong Kong International Convention for the safe and environmentally sound recycling of ships has yet to enter into force, having attracted only 10 signatory or ratification nations, although these include the huge Panama-flag fleet which lent its backing in 2016.

In his 52-page booklet, **The Recycling of Ships**, Dr Mikelis urges the European Commission to play a larger role. Following the voluntary initiatives taken by the shipping and the ship recycling industries, Brussels is in a position to motivate further the virtuous cycle of improved standards for improved rewards, by approving the leading yards in India. In this way it would help increase the number of ships whose owners are seeking responsible recycling in the traditional recycling centres.

His advice comes as pressure is growing on shipbreaking capacity globally. In the first half of 2018, 29 very large crude carriers were among 100 tankers reported sold for scrap, and it is likely another 20 will be sold in this way by the end of the year. The leading receiving nations remain India, Bangladesh and Pakistan. China has banned the imports of international-flagged ships for scrapping as from the end of 2018, and is reported to be turning away such deals already. This means that fully green options are scarce.

Dr Mikelis says that profiting from compliance with Hong Kong Convention incentivised numerous recyclers in India's prime centre of Alang to start upgrading and to seek convention statements of compliance for their yards.

Whereas in 2015 most of the recycling industry in Alang was openly hostile towards the convention, attitudes changed and by the end of 2017 half of Alang's 120 yards had obtained compliance statements from members of the International Association of Classification Societies.

At the time of Dr Mikelis writing, limited progress had taken place in Bangladesh (and even more so in Pakistan), but one of the largest yards in Bangladesh had taken notice of the growing international expectations for improved standards and responded with "startling" improvements to its infrastructure and working procedures.

A few weeks ago, Bangladesh confirmed its first deal to recycle a ship – a Vale very large ore carrier named Ore Victoria – to Hong Kong Convention standards. Class society Rina had granted a statement of compliance to the yard concerned.

Dr Mikelis, a non-executive director of ship cash buyer GMS, makes the point that ship recycling is an informal industry wedged between two powerful players, the steel industry and the shipping industry. (GMS says that it is the only cash buyer to have recognised the need for a responsible recycling programme which includes contractual and procedural arrangements to ensure that end-of-life ships are recycled in a responsible manner.)

His material will form a part of a forthcoming book on the future of the ship recycling sector of which Dr Mikelis will be a senior author.

He was employed by the IMO from early 2006 until his retirement at the end of 2012 as the officer responsible for developing a new international convention on safe and environmentally sound recycling of ships. He oversaw the development of the Hong Kong Convention and of its six guidelines, after which he was closely involved, mostly in an informal capacity, in developing the new European Union Regulation on Ship Recycling.

Dr Mikelis writes: "Throughout my involvement with ship recycling I have been aware of a gap in the public understanding of the functionalities and the economic aspects behind this very niche industry, and on the eve of the full application of the new European Regulation I felt compelled to write this booklet so as to share my knowledge, shed some light, and hopefully correct certain misapprehensions about the industry."

He says that ships retain significant economic value at the end of their life, as their steel, non-ferrous metals and their machinery and equipment are sold for recycling, reconditioning and re-use. This value can often represent 10% or more of the newbuilding value.

For the last 20 years, yards in the five leading ship recycling countries (Bangladesh, China, India, Pakistan and Turkey) have between them been dealing with 97% to 98% of the global total. For long periods, China has recycled 25% to 30% of the world total and for other periods almost withdrew from the market.

The dominant position is noted of Bangladesh, India and Pakistan, which for the last 20 years have recycled more than two thirds of the world total.

It is often claimed that the market dominance – two-thirds of the global total – of the south Asian recycling countries is a result of their lower labour costs and lower compliance costs. This however is only one part of the competitive advantage. Dr Mikelis points to the additional income recyclers in south Asia derive from selling equipment, machinery, furniture, stores, parts, and so on, in the impressive second-hand markets in Alang, Chittagong and Gadani.

In south Asia there are many rerolling mills making steel products, such as reinforcing bars for the construction industry, by heating and reshaping semi-finished steel products, such as billets, or plates from recycled ships.

India in the last two years has overtaken the steel-making industry of the US and is heading to become in a few years' time the world's second largest steel maker, says Dr Mikelis.

He is scornful of the attempts by environmental activists and some European politicians to promote recycling facilities in Europe. Such groups claim that this would provide best practice recycling services to international shipping, and in so doing, create much needed jobs and prosperity. "But it makes no sense to recycle large ships in Europe to produce scrap that will have to compete with the large quantities of other European ferrous scrap in order to be sold and transported to countries most of which already recycle ships."

In a historical overview, Dr Mikelis recalls that ship recycling first entered the agendas of the Conference of the Parties (COPs) of the Basel Convention. In December 1999 COP 5 instructed its technical working group to develop guidelines in collaboration with IMO for environmentally sound management of dismantling ships.

IMO responded positively to an invitation from the Basel Convention COP7, in 2004, by developing a convention specific to ship recycling, namely the Hong Kong Convention.

While the Basel Convention might have been most successful in fighting against illegal exports of hazardous wastes, it was unsuitable for defining minimum standards for ship recycling. The author's view is that the attempt by the international community in the early 2000s to establish and enforce the Basel Convention as the regulatory regime for recycling of ships was an avoidable mistake.

IMO's marine environment protection committee completed the draft text of the new international convention, which was submitted to a diplomatic conference in Hong Kong in May 2009. The conference was attended by representatives of 63 member states, two associate members, and other interests.

The equitability between the recycler and the shipowner in the convention lay in the fact that a ship flying the flag of a party to the convention would have to be recycled in a party yard and therefore the costs of compliance would pass back to the shipowner. Avoidance of obligations through reflagging would cease to be possible after all five main recycling countries become parties.

The convention has been opposed and is frequently criticised by activists for not banning the beaching method of recycling. This persistent lobbying has led to beaching being associated with poor recycling standards. The developers of the convention had realised that banning beaching would not be viable as presently more than three quarters of the world's capacity uses this method. Had the convention tried a ban, this would have led to two distinct regimes, one in accordance with the standards of the convention, and one unregulated by international standards.

The convention will enter into force 24 months after the date on which 15 states, representing 40% of world merchant shipping, have acceded to it or ratified it. The combined maximum annual ship recycling volume of those states must constitute not less than 3% of their combined merchant shipping tonnage. The key to entry into force is therefore accession by two of the four large recycling nations (ideally India and China as the hazardous waste management infrastructure and many of the yards of both are already well developed).

The convention has a truly realistic chance of being ratified by all recycling countries, including the three south Asian countries, writes Dr Mikelis. It is a reasonable expectation that within the next four to seven years it will enter into force. In the meantime progress has been taking place as the main ship recycling countries are working towards implementing tighter safety and pollution prevention requirements.

Recyclers from south Asia have expressed concern that once their countries are parties to the agreement any powerful group of opponents to beaching may introduce an amendment to ban the method, but specific provisions afford protection to all parties by ensuring that the introduction of amendments will have to be done in a spirit of compromise and cooperation.

Early in 2012, the European Commission having recognised that the enforcement of its own Waste Shipment Regulation for recycling ships was not working embarked on the development of new legislation for the recycling of European flagged ships.

Whereas the new European regulation is similar to the convention, it appears that certain requirements might be used to justify a ban on beaching.

Non-European flagged ships departing from European Union ports will continue to be subject to the Waste Shipment Regulation, which forbids their export to developing countries. All ships visiting European Union ports, regardless of their flag, will be required from December 2020 to be provided with inventories of hazardous materials.

By the beginning of 2018 none of the non-EU applicant yards had been inspected or approved by the Commission.

In 2005 the Brussels based NGO Shipbreaking Platform was set up to coordinate the activities of 19 environmental, human rights and labour rights organisations. Without their relentless demands it is conceivable that the convention might not have been developed. On the other hand, the activists, and more specifically the Platform, "have shown a total lack of knowledge and interest to learn how the shipping and the ship recycling industries work." The result is that their campaigns are, more often than not, impractical or unworkable,

claims Dr Mikelis.

The Commission so far has given mixed messages as to what it intends to do about the beaching method. In summer 2013, an adviser of the Green Party in the European Parliament managed, unnoticed, to make small changes to the agreed text in some of the EU languages, including English. The changed text in essence requires that: "the handling of hazardous materials, and of waste" must be done on impermeable floors, as opposed to the agreed text, which referred to "the handling of hazardous materials and waste" (i.e. the word hazardous applying to both materials and wastes).

As in European regulatory language an "end-of-life ship" is considered "waste", but not necessarily "hazardous waste", it follows that the changed text can be interpreted as requiring that nothing from the ship must touch the beach. This point obviously had been invented as an impassable obstacle to beaching. The issue remains unresolved. By preventing the progressive-minded European market from using compliant yards in south Asia, the EU regulation would torpedo the progress that has taken place so far, argues Dr Mikelis.

At least at present, no legal responsibility can be attributed to shipowners for the way they recycle their ships. "The activists ignore whether legal responsibility applies or not, and instead imply a moral responsibility for the shipowner. But as we know the world of commerce does not work like that."

Corporate Social Responsibility, which is a business approach that relies on voluntarily taking responsibility for a company's effects on the environment and on social wellbeing, is the one kind of responsibility that can motivate a shipowner to consider and select the most appropriate recycling yard for his end-of-life ship.

Dr Mikelis warns that "the conclusion and the plain truth is that unlike most conventions that regulate the shipping industry, the dual nature of the Hong Kong Convention will allow shipowners to avoid their obligations for as long as there are ship recycling countries that are not parties to [it]. Conversely, when all five main ship recycling countries are parties to the convention then its requirements will become the universal standard for all ships and all recycling yards."

Dr Mikelis's book is supported by GMS and is also available in pdf format at www.gmsinc.net

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