

Ship Recycling: No Sleepless Nights for the E.U.



PHP Family yard in Bangladesh

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Since 2014 I have provided The Maritime Executive with an end-of-year review of developments in the ship recycling industry and with some thoughts on what we may expect to see in the new year. In preparing this year's review I felt that, before setting out my expectations for 2019, it would be appropriate first to recall the expectations I had for 2018 in my article of January 7 and to compare these with what actually took place in the year.

A year ago, I expected that in 2018 we would see a number of countries ratify Hong Kong Convention and I was bold enough to suggest that Germany, the Netherlands, Italy, Estonia, Japan and India would most probably ratify the Convention and bring much closer its entry into force. With regard to the European Union and its Ship Recycling Regulation I had suggested that, if the European Commission continued to be ambivalent about approving yards in South Asia, they would have a lot of sleepless nights because of the lack of ship recycling capacity for the practical needs of European shipowners. At that time, I had also wondered about the prospects of China's ship recycling industry which had been experiencing a dramatic decline.

Looking back now, the quality of my predictions was as disappointing as were some of the developments:

(1) Not a single ratification of Hong Kong Convention was deposited to the Secretary General of the IMO during 2018. The Convention still has only six contracting States (Belgium, Congo, Denmark, France, Norway and Panama) whose combined fleet constitutes 21 percent of the world's tonnage and 0.04 percent of the world's recycling capacity (compared to the entry into force requirement of a minimum of 15 States with no less than 40 percent of the world's tonnage and a proportionate recycling capacity).

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(2) The European Commission does not appear to have had any sleepless nights, as they seem to be at peace knowing that from December 31, 2018 European flagged ships will have to be recycled in one of only three yards that the Commission has managed to approve following the receipt of numerous applications more than three years ago, or in a yard located in the E.U. Two of the approved yards are in Turkey and one in the U.S., which as anyone who knows anything will confirm that the U.S. is not a realistic destination for the recycling of non-U.S. ships. A further 22 facilities in the latest version of the European List are E.U.-based and luckily for them do not require the Commission's approval. According to common knowledge, these facilities are not known for the recycling of ocean-going ships, and in their busiest year since 2013 they recycled all together only 65,000 LDT, presumably of coastal and inland waterways tonnage.

(3) The Chinese government, having subsidized heavily its ship recycling industry for the last three to four years, suddenly decided in April to ban the import of ships for recycling from the end of the year, this way removing at a stroke of a pen from the international market around one quarter of the world's ship recycling capacity and an even larger share of the so called green ship recycling capacity.

(4) In March, a Dutch court, in the first successful prosecution of a shipping company under the European Regulation on Shipments of Waste, found guilty the Seatrade Group and issued heavy fines and a 12-month professional ban against two directors for having sent four ships for recycling to Bangladesh, India and Turkey in 2012 without permission. The case, which is being appealed, sent shockwaves to the shipping industry.

Against these adverse regulatory and legal developments, the ship recycling industry managed to maintain some progressive developments. In India, 72 out of 120 yards in Alang are now certificated by IACS classification societies as compliant with the technical requirements of Hong Kong Convention. At the end of last year there were 57 compliant yards in India, while at the end of 2016 there were 20.

Also, the only ship recycling yard in Bangladesh with a Hong Kong Convention Statement of Compliance so far, the PHP Family, received its first green vessel for recycling from Vale (VLOC Ore Vitoria), and soon after its second from Greenpeace (the Rongdhonu, ex Rainbow Warrior II)! Thereafter the usual NGO politics ensued with the result that Greenpeace issued a public apology to the Shipbreaking Platform and also the promise "to urgently adopt an end-of-life ship policy, drafted with the help of the Shipbreaking Platform, to help ensure such errors do not occur in future." I believe this was a wasted opportunity to take an ethical stance and show leadership.

On a more positive note, half of the ships sold by GMS to Indian yards in 2018 were recycled in accordance with the requirements of Hong Kong Convention, with Ship Recycling Plans and with Inventories of Hazardous Materials developed by GMS's qualified experts.

Having been confronted with the Dutch court's decision on the Seatrade case and with the imminent implementation of the European Regulation on Ship Recycling, more shipowners started paying attention to the challenges of ship recycling. During the year, GMS facilitated at least seven visits to India for shipowners who wanted to see for themselves the yards and the improvements that have taken place in Alang. Also, through the year shipowners and shipowners' associations have campaigned for the Hong Kong Convention's entry into force (this being the rather unusual situation of the regulated campaigning for regulation).

What will 2019 bring to our industry? There are 12 Indian and six Turkish yards whose applications are at various stages of review by the European Commission and its consultants. A first major juncture in 2019 will be around spring time when the European Commission is expected to announce whether the first two Indian yards that were audited last autumn are approved and included in the European List, or not. If they are approved, more yards in India will work hard to also gain approval, and in doing so will make available more real recycling capacity for shipowners of E.U. flagged ships.

If on the other hand the Indian applications are turned down, or the Commission's decision is postponed over convenient technicalities, then owners of end-of-life E.U. flagged ships will have little option but to flag-out. This is because the one thing I can predict with certainty is that the idea promoted by Brussels, that the ocean-going fleet of Europe can be recycled in European Union yards, will not materialize. Therefore, looking ahead, there are two European scenarios for 2019: a successful and effective implementation of the European Regulation or a failed implementation that leads to evasion.

If the European Regulation is implemented successfully in 2019 it will disseminate its underlying technical standards (which are those of Hong Kong Convention) to the wider world and in this way will support the global acceptance of the Convention's standards. On the other hand, a failure of the European Regulation could very well result in accelerated ratifications of the Hong Kong Convention by European countries who will be justifiably pressured by their own shipping industries.

Already it has been announced that Germany has secured ratification through its Parliament, as also has Turkey. It is also understood that the Netherlands, Estonia and possibly Italy are making progress towards ratification. Japan's ratification is expected very soon, and no doubt other countries may well be getting close to ratifying the Hong Kong Convention. Furthermore, open registers, such as Liberia and Marshall Islands, can easily ratify the Hong Kong Convention, and I believe that they will do so as soon as the shipping industry confirms that the large tonnage of these registers is not going to hinder the recycling capacity condition of the Hong Kong Convention's entry into force from being satisfied.

At the end of the day, the entry into force of the Hong Kong Convention is ultimately dependent on its ratification by India plus one other major ship recycling country (Bangladesh, Pakistan and China - who for the next few years will continue having legacy capacity).

Let us then hope that 2019 will deliver continuing improvements in the industry and some of the necessary ratifications of the Hong Kong Convention.

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The opinions expressed herein are the author's and not necessarily those of The Maritime Executive.