



# Demandeur pays: The EU and funding improvements in South Asian ship recycling practices



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## ABSTRACT

Questionable practices for dismantling end-of-life ships or ‘ship recycling’ on South Asian countries’ shores have elicited unease given their dominance of this unevenly regulated global industry. International efforts to establish enforceable regulations have met with limited success so far, and yet this limited success may be further eroded as different interests promote their own preferred arrangements—or ignore them altogether. This paper focuses on narrowing differences between the European Union and South Asian ship recycling nations over regulating this trade by sequentially detailing its economic rationales, environmental regimes and relevant sustainability principles. These tasks performed, I deductively build a case for an aid-based, ‘demandeur pays’ approach to meaningfully address this impasse after considering other options to fund improved ship recycling practices in South Asia.

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## 1. Introduction

South Asian shores bear witness to an industry whose environmental and health toll only attracts sporadic mass attention. Insofar as over eighty percent of the world’s trade volume is carried aboard ships (UNCTAD, 2012, p. 44), the fate of discarded vessels that are being dismantled for scrap using processes that threaten environmental and human safety in Bangladesh, India and Pakistan is a shared global responsibility. Yet, that a majority of the international merchant marine fleet reaching the end of their useful lives is now being dismantled through such processes in South Asia—attendant anthropogenic hazards notwithstanding—has to date inspired limited action.

Inadequate or sporadically enforced observation of environmental, health and safety (EHS) standards in South Asian nations has generated concern when these standards are flouted: Workers labour without suitable personal protective equipment (PPE), raising chances of injury; ships are not pre-cleaned prior to being dismantled, resulting in workers being exposed to toxic substances or in these substances seeping into the surrounding environment; and reliance on manpower as opposed to mechanisation increasing chances of physical harm.

This article focuses on North–South differences in developing a regime that addresses a meaningful concern of literally global import. In particular, the European Union’s attempts to craft legislation concerning dismantling ships for scrap—over one-third of the world’s merchant fleet tonnage can be traced to EU owners—is set against the reluctance of South Asian nations which collectively account for nearly three-quarters of global ship dismantling (see Fig. 1). In what follows, this article unpacks the interlinked issues that make ship recycling a complicated problem. Section two introduces the economics of

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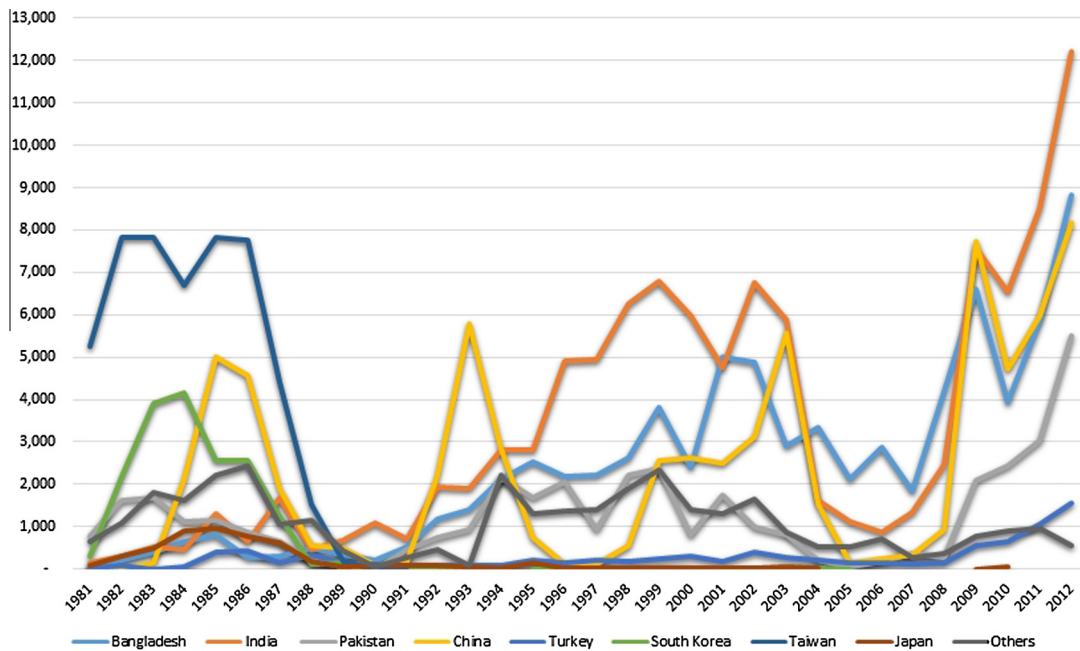


Fig. 1. World ship recycling volume (in '000 of gross tons).

ship recycling. Section three proceeds by briefly discussing the industry's environmental, health and safety hazards before turning to the politics surrounding efforts to address these hazards. Section four considers sustainability principles—especially 'polluter pays' on one hand and 'common but differentiated responsibilities and capabilities' on the other—before sifting through points of contention regarding fairness and practicality. It builds on previous sections to argue for a 'demandeur pays' approach to addressing this issue. Lastly, section five concludes by assessing this proposed solution's fit with developmental considerations.

## 2. Ship recycling economics

### 2.1. Ships becoming scrap

A merchant vessel is typically built to the specifications set by a customer, or is optimized while in a shipyard for a particular trade. Over time, a ship becomes less ideal for commerce due to wear and tear and changes in industry characteristics, which may include regulatory shifts alike the phase-out of most single-hulled tankers susceptible to oil spills in favour of double-hulled tankers by 2010. It is not unusual for a ship to change owners and hence trade, flag registry, classification society and liability insurer several times during its useful life. However, it eventually reaches a point when upkeep or upgrading costs, unsuitability for trade, and prohibitive insurance expenses render continued operation of an ageing vessel uneconomic.

At this point the ship operator has a number of options. Questionable ones include abandonment and scuttling (sinking). Legitimate options include laying up the ship in wait for a better price for its scrapping or more favourable market conditions for resumed operation. Otherwise, the ship is scrapped. Frequently, there is no contact made between the final ship operator and the ship recycling concern. Rather, a 'cash buyer' intermediates about 85% of the time by purchasing vessels from ship-owners on a cash basis and selling them to shipbreakers using letters of credit. Flags of convenience [FOCs]—defined here as ships flying a flag different from country of ownership—account for about sixty percent of scrapped vessels (MIDN, 2007, p. 6) alongside non-FOC developing countries (27%) and OECD countries (13%).

Fig. 2's top half lists considerations as to *when* a vessel is scrapped. Relevant prices on global shipping markets include freight rates (for container and dry-bulk cargo as well as tankers); costs of operation (bunker fuel, registration/licensing/insurance, replacement costs for new ships); and regulation (concerning maritime EHS standards). Scrapped vessels represent the supply-side of the ship recycling market. Meanwhile, Fig. 2's bottom half illustrates demand-side considerations for materials recycled from scrapped ships that determine *where* a vessel is scrapped. Steel provides shipbreakers with the bulk of their revenues: re-rollable scrap especially useful for bars and rods in construction constitute at least 70% of a typical ship's unladen weight or light displacement tonnage (LDT), while another 10–20% is of melting scrap (World Bank, 2010, pp. 12–13). Being less energy-intensive, steel finished from re-rolled scrap is less expensive to produce than that from melting scrap. Furniture, appliances, electronics and motors are also recovered if saleable. Other country-specific demand factors

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