

## **ANNEX IX**

### **CONCEIVABLE MECHANISMS TO PROVIDE DISMANTLING ASSISTANCE**

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## Annex IX

### Conceivable mechanisms to provide dismantling assistance

The targeted objective of the international community should be gradually and ultimately to achieve the dismantlement of all ships, in particular merchant ships which account for 90% of the world's fleets, at sites paying due heed to workers' health and the environment. The observance of these conditions assumes that the dismantling facilities which, in particular in the Indian sub-continent, ensure most ship demolition operations will apply quality standards of work and organisation, the application of these standards possibly proving to entail substantially higher costs than those of facilities which do not observe these conditions.

It can be hoped to trigger a "virtuous" spiral by setting up systems able to enhance shipping companies desirous of a good image.

However, it can be feared that, to reach the targeted objective of the international community, it will be necessary to introduce procedures ensuring that the dismantling of a ship at a recycling facility meeting laid down standards does not lead to additional costs for the ship operator or shipowner at the time it is decided to withdraw a ship from service.

If these conditions are not met, nothing will prevent operators little sensitive to criteria other than economic criteria, from choosing a dismantling site which has the best commercial offer.

To reach the targeted objective, an international certification system must first be set up to ensure that approved dismantling sites are engaged in a process to meet the required standards of the international community.

Under these conditions, three categories of procedure can be contemplated to attain this objective:

- The first, **via direct aids of different types to dismantling sites**, consists of encouraging them to improve their practices to achieve the desired standards of quality, organisation and work conditions. These aids must be sized to allow these sites to remain competitive on their market.
- The second, **via direct aids to ship dismantling contracts**, consists of enabling dismantling sites which meet required standards to offer commercial conditions that are acceptable by the seller of the ship to be dismantled.
- The third, more restrictive, consists of giving direct incentives to operators so that they choose dismantling sites which meet required standards to dismantle their time-expired ships.

#### I. Types of assistance

##### I.1. Direct aids to dismantling sites:

The conditions must therefore be examined under which the upgrading of these sites could be helped by the international community with a view to achieving better acceptance of these new constraints by those countries in which these sites are located, in particular the environmental constraints arising from the IMO Convention under discussion. This should concern firstly Bangladesh and Pakistan (the latter to a lesser degree) since the main other emerging countries which have ship dismantling activities (China, India, Turkey) have on their initiative started to upgrade their sites.

It is also possible to introduce direct aids to dismantling sites to facilitate their adaptation to required standards:

- prior audit and assistance in preparing an adaptation plan
- assistance in training
- aid for the financing of investments
- technical assistance

This type of support relates to multilateral funding set up by the international community in accordance with procedures for which a model already exists in other sectors.

Once said upgrading assistance has been decided, the scale of finance must first be assessed, then the means for collecting and allocating the amounts concerned, and finally the distribution of these amounts must be controlled by reliable means to ensure that targeted objectives are reached.

The scale of financial needs is difficult to estimate without exact knowledge of the techniques used locally to dismantle ships, and without determining in advance the intermediate and final level to be reached.

The objective to be reached could, for example, consist of replacing the technique of cutting into sections by cutting horizontally deck by deck, which would avoid discharging into the sea the polluted streams remaining in the hull. This would entail the installation of insulated mud berths on the beaches of Chittagong to receive the ships to be demolished, and would require pumping equipment and handling equipment to allow deck by deck cutting.

To this must be added assistance in setting up procedures to prevent occupational injuries and diseases in this sector, with associated training, and the extensive distribution of individual protective gear both for cleaning operations prior to cutting and for cutting operations.

Provision must be made for the structuring of studies and for project selection when applying for funding by the international community, which would have the advantage of involving the dismantling facility, thereby allowing it to gauge the choices to be made. This development will be costly however and management costs will have to be taken into consideration.

Additionally, the choice of facilities to be rehabilitated is a difficult one since a reasoned decision must be given in favour of one to the detriment of another; not to mention the risks of counter demands by demolition sectors which are much more important than ship dismantling i.e. the vehicle and household appliance demolition sector which represents scrap tonnages that are one hundred times greater and is not as well controlled.

It is not certain that the States which dismantle ships are very interested in improving an activity which today shows a non-negligible volume of budgetary income, but which would no doubt be less profitable once the demolition facilities have been brought up to standard, since they would become less competitive subsequent to the social and environmental constraints laid down by international agreements.

This first category of aid, at first sight, appears very difficult to manage by the international community. It would certainly be more realistic to consider that this type of aid comes under the responsibility of the States concerned by the dismantling market, provided that other procedures set up by the international community will give operators the incentive to have their ships dismantled preferably on sites which have reached the required standards; this would lead to eliminating from the market all those sites which do not pay heed to these same standards.

This latter remark leads to examining the second category of conceivable assistance.

## I.2. Direct aid to dismantling contracts:

This aid, via a direct aid attached to dismantling contracts, consists of compensating the difference in cost that is involved in order to meet the standards required by the international community. This aid could be directly linked to the signing of a dismantling sale contract, and would be paid to the dismantling site on completion of the contract.

The amount of this aid could be determined on the basis of objective criteria such as the ship's lightweight, the type of ship, the extent of prior pollutant removal, the age of the ship, etc.

The amounts could also be modulated depending on the stage of development of the country concerned, and readjusted annually on the basis of the general market situation and desired developments.

This aid, linked to each contract, would enable dismantling sites to make competitive offers and hence attractive offers on the demolition market, while leaving industrialists and the States concerned to carry the risk of the investment in site upgrading, which would be more coherent with market laws.

This aid, like the previous aid, assumes the existence of an international procedure for the certification of dismantling sites.

## **II. Estimation of the financial means to be raised**

Irrespective of the assistance procedure that is set up, if it is wished to attain the full objective, the maximum volume of the market to be considered comprises almost all the current fleet of large merchant ships that is currently being dismantled in the Indian sub-continent under conditions that are considered hardly acceptable. It is highly improbable that the salary costs of developed countries would allow these countries to make a sustainable entry onto this market.

The finance to be found depends firstly on the estimation of this volume. It should be in the region of 8 to 10 million lightweight tonnes per year over the coming years.

The financial means to be raised then depend upon the estimation of the surcharge generated by application of the required standards at dismantling sites in the Indian sub-continent.

At a first approximation, this surcharge can be estimated at \$50 to \$150 per dismantled lightweight tonne under the conditions set forth in Annex XVI.

The annual amount to be raised is therefore in the order of \$500 million to \$1 billion.

In practice, it would evidently be impossible to introduce the possible mechanisms other than stepwise fashion. The ground gained by the mechanisms will relate firstly to the involvement of the players, and most importantly the States and industrialists present on this market.

During an initial phase, an annual commitment in the order of \$600 million could be set as a working assumption.

## **III. Conceivable financial mechanisms**

### III.1. Direct aid to dismantling sites:

This aid comes under the systems financed by the States or international community under aid programmes to restore the balance of economic areas. It could be based on prior audits, assistance in training, engineering consultancy for installations, funding assistance to finance investments... This funding assistance lies within the sphere of multilateral financing bodies such as the World Bank, the

Asian Development Bank, with a possible European contribution which would relate more to prior research, accompanying measures and technical support.

### III.2. Direct aid to dismantling contracts:

This aid could be implemented via redistribution systems of funds drawn from actors involved in maritime industries.

Fund raising models for redistribution to dismantling contracts:

A tax levied on each new ship similar to the system in place for motor vehicles in Scandinavian countries or in The Netherlands, could be suggested. Around one thousand ships are built each year and this would mean a tax totalling an average of \$600 000. It could be considered, without going into details on the type of organization set up to collect this tax that this solution would probably be easy to apply. This solution has the disadvantage however of making new ships pay for the cleaning and demolition of older ships deemed to contain more waste, and it would be difficult to gain its acceptance.

An annual tax based on the IMO registration number, this number being withdrawn in the event of failure to pay. 60 000 ships are registered under the registration system over which IMO has true control. This would mean levying an average of \$10 000 per year per ship to obtain the above-mentioned \$600 million. The 60 000 ships under consideration having a global tonnage of 600MGT, it would be possible to arrive at the symbolic rate of \$1/GT/year. It is not a symbolic amount however and it is probable that this contribution would be strongly contended by shipowners who would not accept such amounts without any discussion, especially in the higher taxation brackets.

This system would have the advantage that it can be modulated in relation to the efforts consented by maritime operators to conform to the requirements of the new IMO Convention: introduction of the Green Passport, use of approved standard contracts, notification of sale procedure and choice of dismantling site heedful of the environment. Under these conditions, full or total exemptions could reduce the amount of this taxation. Also this type of levying system by the IMO has the benefit of being universal and easily controllable by port authorities. However, in this case the IMO will have to organize receipt of payment orders and continually issue the list of ships that have fallen behind on payment.

These two first tax models should be calculated on objective criteria similar to those mentioned under § I.2: ship lightweight, ship age, type of ship, tonnage...

**Tax on goods that are the subject of a foreign trade transaction via maritime route. The system could initially only concern Europe in the Community meaning of the term.** This would in fact be a levy on any goods entering Europe after transport via maritime route whether the goods are unloaded in an EU port or in a port of a non-member State, to avoid traffic being diverted via Russia or Norway. At the present time 6 billion tonnes of goods are transported annually over the world. One third concerns the European Union. A levy of 10 cents per tonne would produce the required \$600m. This system would have the advantage of being:

- a small burden for operators, non-discriminatory in its application;
- the subject of prior testing in Europe before being generalised.

On the other hand, it has the drawback of relying on the customs authorities for its implementation which, in some countries, may give rise to various abuses (convenience certificates, and vanishing of collected amounts).

### III.3. Security deposit mechanisms:

This system would require ships authorised to trade in the ports of Party States to the system, to pay a security deposit whose amount would be equivalent to the surcharge for dismantling the ship at a site meeting laid down standards, and therefore chiefly based on the ship's lightweight.

This security deposit would only be called up on signature of a dismantling contract, when the ship has reached the end of its operating life, with a dismantling site meeting the required standards. It would therefore, in the event of sale of the ship during its active service, either be taken over by the purchaser or exercised by the seller if the purchaser refuses to have it transferred. This security deposit therefore represents a potential added value for the ship corresponding to the surcharge for final dismantling.

Should the purchaser of the ship refuse to take over the security deposit, the sale value of the ship will be lower by this amount. At the end of the operating lives of ships, two situations would then be possible:

- ships, authorised to trade with Party States to the system and carrying a security deposit which can be called up if the dismantling contract is entered into with a site meeting the required standards;
- ships not carrying this security deposit.

If the amount of the security deposit is sufficient, the system should favour the choice of a dismantling site meeting the required standards by the final operator whoever it may be since it will recover the security deposit, whereas it will not be recovered if the operator has the ship dismantled at a site which does not satisfy international standards; for the dismantling site the operation remains neutral.

This type of system should, over the longer term, benefit the approved dismantling sites to the detriment of others by gradually creating a market accessible to these approved sites only, which would provide them with the certainty of users and hence they will be able to invest accordingly.

As for the other measures, this system does not take into account the case of ships which do not trade in ports of Member Countries to this system, and which will therefore not be subject to paying a security deposit; it can simply be hoped that this exception will soon cease to exist.

**To conclude, it would appear that the most efficient system should entail direct aid to dismantling contracts; this aid could be financed either by a tax on goods, or by an annual tax based on IMO registration, or by a security deposit on merchant ships. Only a system of this type will leave the responsibility for business risks with the States and industrialists concerned by this activity.**

The following remain to be specified:

- the cost of managing these systems, probably 3 to 4%; while the follow-up of the security deposit is cost free except for the issuer of the security, the management of collected funds represents the work of a team such as FIPOL, i.e. \$20 million per \$500 million collected, which is fully manageable by a body such as the IMO.
- the rules for adjusting the security deposit;
- the authorities in charge of applying and controlling the aid systems;
- the method to be followed for the gradual introduction of the system for existing ships.