Past issues
IUMI Political Forum

Ship recycling – EU study on a financial instrument

Brief description

The European Ship Recycling Regulation (SRR) entered into force on 30 December 2013. Its main objective is to ensure that ships sailing under the flag of an EU Member State are recycled in a sustainable manner at the end of their operating life.
The SRR brings into force requirements of the Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships that was adopted by the IMO in May 2009, but not expected to enter into force before 2020 at the earliest. In addition, the SRR requires that ships flying an EU flag may only be recycled in facilities approved by a Member State (for facilities within the EU) or the Commission (for facilities in third countries).

A financial mechanism to incentivize shipowners to recycle ships in a safe and environmentally manner was considered in the SRR, which requires the Commission to *"submit to the European Parliament and to the Council a report on the feasibility of a financial instrument that would facilitate safe and sound ship recycling."* Following up on this, the European Commission (EC) initiated a study by Ecorys, DNV GL and Erasmus University of Rotterdam.

Several options have been examined, ranging across guarantees, escrow, insurance, port levies, licensing, or a hybrid of these. For insurance, the original idea was to create a fund that would be attached to the ship for its life and respond when the vessel was recycled at an EU approved yard. A revised version would have responded only where the vessel was a CTL.

Members of the IUMI Political Forum have attended three meetings where the various proposals were reviewed and the stakeholders asked to comment. IUMI argued against the insurance options, explaining that insurance is a strictly regulated and highly competitive business, with clear limits on what it can and cannot take on. It does not have limitless appetite and is there to cope with unexpected fortuities rather than inevitable events. During the second stakeholder validation seminar in November 2015, it became clear that due to the many conceptual and legal problems insurance is not feasible as a separate instrument.

The recommendation from the research group is for a Ship Recycling License, which will oblige all ships that call at EU ports to obtain prior license. The license will be set aside in a fund and serve as the basis for accumulation of capital over the operating life of a ship. The aim is to cover the revenue gap between using substandard vs sustainable ship recycling facilities. Shipowners remain committed to the implementation of the IMO Hong Kong Convention, and warn that such a unilateral measure is likely to be seen by EU trading partners as anti-competitive interference into the conduct of international shipping. The final study report was published in July 2016. If the Commission decides to follow the recommendation, new regulation is required.

Relevant authority / organisations and documents / links

EU: The European Ship Recycling Regulation (COM(203)1257, 20 November 2013.

- Financial instrument to facilitate safe and sound ship recycling, 2nd interim report, Ecorys / DNV GL / Erasmus School of Law, 30 October 2015.
- Financial instrument to facilitate safe and sound ship recycling, final report, June 2016.

IMO: The Hong Kong Convention for the Safe and Environmentally Sound Recycling of Ships, adopted May 2009.

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About IUMI The International Union of Marine Insurance e.V. (IUMI) is a non-profit association established for the purpose of protecting, safeguarding and advancing insurers‘ interests in marine and all types of transport insurance. It also provides an essential forum to discuss and exchange ideas, information and statistics of common interest for marine underwriters and in exchange with other marine professionals. IUMI currently represents 46 national and marine market insurance and reinsurance associations.

The roles of IUMI are to
– act as a focal point and representative voice on behalf of the marine and transport insurance industries in dialogue with all interested parties,
– share information and research that are non-commercially sensitive with regard to marine and transport insurance,
– bring together marine insurance practitioners to facilitate the exchange of technical information and best practice, and
– provide information on positions taken by IUMI.

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