



EUROPEAN COMMISSION  
IMPACT ASSESSMENT BOARD

Brussels,  
D(2011)

## Opinion

**Title**                    **Impact assessment on a legislative proposal on ship recycling**  
**(draft version of 27 July 2011)**

### **(A) Context**

The Waste Shipment Regulation (WSR), requiring EU flagged ships to be dismantled within the OECD, is systematically circumvented by ship-owners. Most EU controlled ships are dismantled in Asia (India, Pakistan and Bangladesh), usually through the "beaching" method and with significant environmental and health impacts.

In 2008, the Commission adopted a Communication proposing an EU strategy on ship dismantling, to cover the interim period before the entry into force of the Hong Kong Convention (creating binding international rules within the International Maritime Organisation framework). Its aims include: preparing the establishment of measures on key elements of the Convention, encouraging voluntary industry action, providing technical assistance and support to developing countries and better enforcing the current legislation. The Commission also announced it would look at the feasibility of developing a certification and audit scheme for ship recycling facilities worldwide, addressing issues relating to navy ships and other government vessels not covered by the Hong Kong Convention (HKC) and establishing a mandatory international funding system for clean ship dismantling. The Convention, adopted in 2009, needs to be ratified by a sufficient number of large flag and recycling states in order to enter into force and start producing effects.

### **(B) Overall assessment**

**While the report includes a significant amount of evidence showing the negative consequences of unsustainable ship dismantling practices in third countries, it should much better demonstrate the value added and effectiveness of EU regulatory requirements going beyond the HKC standards. The report should therefore be improved on a number of important points. It should present more clearly the precise problems and focus on the underlying drivers which the initiative aims to directly address (regulatory failures in particular). On that basis, the report should develop a full baseline reflecting actions already being taken by Pakistan, Bangladesh, India and China, the international community (e.g. Norway) as well as projections of market conditions in the maritime shipping/dismantling industry (e.g. cost differentials between China and Bangladesh). It should then strengthen the intervention logic and design a credible set of options. Finally, the report should assess the effectiveness and proportionality of the envisaged measures in more depth.**

### **(C) Main recommendations for improvements**

**(1) Present the concrete problems and their drivers clearly, and better justify the need for and value added of EU action going beyond the HKC standards.** The report should provide greater clarity on the concrete problems and focus on the problem drivers the initiative aims to address, in particular regulatory failures (regulatory inconsistencies, non-compliance/non-enforcement). Given the fact that relocation of the ship dismantling industry from Pakistan and Bangladesh to industrialised countries is highly unlikely, the report should reconsider presenting the lack of ship recycling capacity in OECD countries as one of the main problems. The report should provide more information on the current supply and demand side conditions on the relevant ship dismantling markets and explain how these are linked to those on the global maritime shipping markets (including the capacity of market players to unilaterally adjust to cost increases).

The report should clearly explain the need to adapt the Waste Shipment Regulation in order to make it compatible with the Hong Kong Convention, and also the need to introduce additional regulatory requirements for EU ship owners going beyond the HKC standards. Finally, the IA report should provide information about the follow up to the actions announced in the ship dismantling strategy, and if the progress is considered insufficient, should propose and assess measures that would remedy the situation. Such analysis is in particular needed on voluntary actions by industry.

**(2) Develop a full baseline scenario taking into account international developments.**

The baseline scenario should include information about ongoing and planned investments aimed at upgrading ship dismantling facilities in the relevant countries (e.g. Pakistan, Bangladesh, India, China), and the potential impacts this will have on the standards in which the ships are being dismantled. The report should describe in greater detail (i) motivations of these countries for upgrading their facilities, (ii) available international and EU aid, and (iii) the role the Hong Kong Convention plays in this process. In addition, the report should assess the risk of any new country emerging that could compete with these countries using environmentally unfriendly dismantling methods. A projection of the market conditions (e.g. cost differentials between China and Bangladesh) in the freight shipping as well as dismantling industry should be provided. The IA report should also provide a more detailed analysis of the key considerations (including financial and reputation factors) that a ship-owner would take into account when deciding where to send a vessel at the end of its life.

**(3) Strengthen the intervention logic and design a credible set of options.** On the basis of a revised problem definition and full baseline scenario the report should improve the intervention logic by reformulating the specific and operational objectives so that they clearly correspond to the identified problems and their drivers and do not pre-empt discussion on policy options. Additional options should be designed, although policy options, which from the outset, do not correspond to the policy objectives should not be fully assessed. A clear explanation should be provided about the rationale of policy options and whether elements of options (or entire options) that go beyond the requirements of the Hong Kong Convention would be lifted once the convention comes into force. The intervention logic should be also strengthened by providing a clear hierarchy of the problems and linking the policy objectives to the monitoring indicators. Given the positive developments in Pakistan, Bangladesh, China and India, the report should also consider additional options on how to support these, independently of the ratification process of the Hong Kong Convention and include stakeholders' views in its reasoning.

**(4) Assess the effectiveness and proportionality of proposed measures.** Given current and potential future enforcement and compliance difficulties (e.g. re-flagging, re-selling), the IA report should assess these aspects in much more depth, for each of the proposed measures and in a manner which takes into account the realities of the global market place in the maritime sector. The report should be clearer about who would bear the costs (MS authorities, ship owners, third countries) of a better monitoring and enforcement system, if it is introduced. Differences in stakeholders' views on this issue should be clearly presented. The report should describe in detail how the proposed measures would be implemented, consistently estimate the expected dates of their entry into force (e.g. EU audit certification scheme and sanction regime) and analyse the potential gap left as compared to provisions of the Hong Kong Convention. Finally, the report should provide greater clarity about the costs of the proposed regulatory intervention and the benefits it is expected to bring, as compared to the baseline.

*Some more technical comments have been transmitted directly to the author DG and are expected to be incorporated in the final version of the impact assessment report*

**(D) Procedure and presentation**

The readability of the report should be further improved by following the above recommendations on strengthening the intervention logic. A section on subsidiarity should be added to the executive summary. The report should also reflect the different stakeholders' views throughout the report.

**(E) IAB scrutiny process**

Reference number	2009/ENV/012
External expertise used	No
Date of Board Meeting	Written procedure