



Mini Cases

End-Of-Life Management of Shipping Vessels

On January 2022 a Strategy Consultant was looking at how Eimskip managed its surplus vessels. One of Eimskip's ships had been recycled in India and this fact was covered unfavourably by Kveikur, an Icelandic broadcaster. While Eimskip had not broken any rules the negative publicity was concerning to Eimskip's board of directors. The Consultant wondered what changes, if any, Eimskip should make to its internal procedures.

Eimskip (Eimskipafelag Islands hf.) was one of Iceland's largest shipping companies with roots dating back to 1914. Eimskip's main services were liner and forwarding services for transporting container cargo; additional services included warehousing, trucking and bulk cargo. The company had 17 vessels and the company was focused on transport within the North Atlantic.

In 2017, Eimskip ordered two new vessels and in December 2019 it disposed of two old ships: Laxfoss and Godafoss. Both ships were sold to (and leased back from) GMS Leadership, a firm registered in Liberia. GMS Leadership was established in 1992 and described itself as "the world's largest buyer of Ships, Rigs, and Offshore assets for recycling".¹ The company also claimed to be "the only cash buyer in the world" that could assist ship owners with recycling under the Hong Kong Convention.² The Hong Kong Convention was intended to improve both environmental factors and workers' safety for the ship breaking industry. However, the convention had not been put in effect as it did not receive the minimum amount of ratification from member countries. While the Hong Kong Convention was similar to the EU Ship Recycling Regulation, the EU standards were seen by the industry to be stricter. Iceland had not ratified the Hong Kong Convention whereas the EU Ship Recycling Regulation was legally valid in Iceland.³

This case was written to provide a scenario for group discussions. Identifying information has been disguised and the case is not meant to provide an example of correct or incorrect decision-making. This case may not be stored, reproduced or shared without permission from the copyright holder.



As a result of a cost management project in 2019, Eimskip cancelled a number of ferry services and reduced the number of vessels in service. The leases for both Laxfoss and Godafoss were terminated in early 2020. GMS sent both old ships to India for recycling.

In September 2020, the Icelandic news program Kveikur broadcast the “*Where Eimskip's ships go to die*” documentary, suggesting that Eimskip had circumvented regulations and sold two ships to an unsafe recycling facility in India, where working conditions had led to the loss of 137 lives over the past decade.⁴ On the day the documentary aired the company released this statement: “Eimskip approached the Environment Agency of Iceland earlier today which informed the Company that it had reported the Company to the District Prosecutors for alleged violation of the Icelandic Waste Management Act. Eimskip had no information about that report prior to the Company’s inquiry and the Agency never asked the Company for any documentation regarding the matter. Eimskip rejects these allegations as the company complied with all laws and regulations in the sale process.”⁵ Information on ship disposal laws can be found in Exhibit 1.

By November 2020 Eimskip had appointed a full-time Sustainability Manager reporting directly to the CEO. Policies for vessels ownership, supplier code of conduct, procurement, risk and whistleblowing were to be reviewed and updated. The company committed to reviewing its ESG policies and aligning them to the UN’s Sustainable Development Goals. As part of the renewed focus, Eimskip hired an external advisor, Circular Solutions, to review the company’s ESG practices. While Eimskip did not provide a report for investors at the virtual meeting, Circular Solutions had concluded that Eimskip was at the forefront of ESG.⁶

On December 20th, 2021, Icelandic prosecutors searched the offices of Eimskip as part of their investigation into whether the company had broken the country’s laws on the treatment of



obsolete ships.¹ More information is provided in Exhibit 2. It was interesting to note that, despite the negative publicity, Eimskip's share price had risen to 565 ISK by April 2022 from a low of about 132 ISK in September 2020.

The Consultant, after reviewing the information in front of her, wondered what recommendations – if any – she would make to Eimskip's management team.

¹ <https://splash247.com/icelandic-prosecutors-raid-eimskip-offices-in-ship-scrapping-probe/>

Exhibit 1 – Laws pertaining to ship disposal

Since the disposal of vessels had the potential to produce dangerous and polluting waste, such as asbestos, radioactive materials, hydraulic oil and heavy metals, there were a number of national and international laws. The Basel Convention, developed in 1989 and coming into force in 1992², focused on controlling disposal and movement of hazardous waste.³ Iceland signed the treaty in 1995.⁴

In 2006, the EU launched the European Union Waste Shipment Regulation No. 1013/2006. The regulation included the Basel Convention with amendments. While the Basel Convention sought to prevent movement of hazardous waste, the new EU regulation went further and banned all exports of hazardous waste to non-OECD countries. It also banned export of waste for disposal outside the EU/EFTA. In 2018, The European Union Ship Recycling Regulation No. 1257/2013 was launched. The new regulation goes further into the details of how vessels can be recycled, including regulations for workers health and safety, environmental regulations and requiring that all EU registered vessels must be recycled at a facility approved by the EU.⁵ As such, there were a number of laws that highlighted the difference between ship recycling according to proper environmental regulations versus non-regulated ship scrapping.^{6 7}

As part of the Kveikur documentary, a representative for the NGO Shipbreaking Platform, Ingvild Jenssen, claimed that Eimskip broke the law as the vessels were registered at an Icelandic company when they were sold for disposal. Asked if the law applied to companies using an intermediary, Jenssen replied that Eimskip's sale was to a company that promoted

² "Overview," *The Basel Convention*, accessed December 10, 2020, <http://www.basel.int/TheConvention/Overview/tabid/1271/Default.aspx>

³ "Overview," *The Basel Convention*, accessed December 10, 2020, <http://www.basel.int/TheConvention/Overview/tabid/1271/Default.aspx>

⁴ "Parties to the Basel Convention," *Internet Archive*, accessed December 10, 2020, <https://web.archive.org/web/20130614191851/http://www.basel.int/Countries/StatusofRatifications/PartiesSignatories/tabid/1290/Default.aspx>

⁵ "The Law," *NGO Shipbreaking Platform*, accessed December 10, 2020, <https://shipbreakingplatform.org/issues-of-interest/the-law/>

⁶ "Svona losar Eim-skipa-fé-lagið sig við skip," *Kveikur RUV*, September 24, 2020, <https://www.ruv.is/kveikur/eimskip/>

⁷ "Why Ships are Toxic," *NGO Shipbreaking Platform*, accessed December 10, 2020, <https://shipbreakingplatform.org/issues-of-interest/why-ships-are-toxic/>



itself as the largest cash buyer of ships for recycling; as such, Eimskip could not claim the purpose of the sale was for anything else other than disposal.⁸

In addition to EU laws, there was a possibility that Eimskip's actions contravened Icelandic and Dutch laws. The Environmental Agency of Iceland had informed the company of their investigation into alleged violation of the Icelandic Waste Management Act.⁹ Some observers pointed out that the potential fine would be a maximum of ISK 25 million (US\$185,000). In contrast, any violation of anti-competitive law was as much as 10% of the company's last year's revenues.¹⁰

Dutch authorities were also investigating the case on the grounds that Godafoss' last docking in Europe was in Rotterdam, which meant the vessels travelled directly from the Netherlands to an illegal disposal site.¹¹ Dutch prosecutors had previously indicted shipping companies in two similar cases: Seatrade, a Dutch company, had to pay fines after it was convicted in 2018 for intending to scrap four vessels in India, and a subsidiary of WEC Lines BV, another Dutch company, was fined €780,000 in 2019 in addition to paying a settlement of €2.2 million for scrapping a vessel in India. WEC's vessel had been sold to GMS before it was sent to India.¹²

⁸ "Eimskip og endurvinnslan á Indlandi," *Kveikur RUV*, September 24, 2020, <https://www.ruv.is/kveikur/eimskip-og-endurvinnslan-a-indlandi/>

⁹ "Announcement from Eimskip," *Nasdaq OMX Nordic News*, September 25, 2020, <https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=956316&lang=en>

¹⁰ "Efnalög," *Althingi*, accessed January 2, 2021, <https://www.althingi.is/lagas/nuna/2013061.html>

¹¹ "Svona losar Eim-skipa-fé-lagið sig við skip," *Kveikur RUV*, September 24, 2020, <https://www.ruv.is/kveikur/eimskip/>

¹² "Another Dutch Shipowner Fined for Beaching a Vessel," *The Maritime Executive*, January 21, 2019, <https://www.maritime-executive.com/article/another-dutch-shipowner-fined-for-beaching-a-vessel>



Exhibit 2 – “Icelandic prosecutors raid Eimskip offices in ship scrapping probe”

By Adis Ajdin – December 20, 2021

[The full article is provided below]⁷

The Icelandic district prosecutor has been granted permission to raid the offices of shipping company Eimskip in order to conduct an inquiry into possible legal irregularities involving the sale of two scrapped ships to India in a case that will likely cause concern for many other shipowners across Europe. The prosecutor has requested specific documents relating to the sale of the 1,465 teu pair Goðafoss and Laxfoss in 2019, which the Environment Agency of Iceland reported to the district prosecutor in 2020. Eimskip said through Nasdaq Iceland that no individuals have legal status in the matter.

The case revolves around the scrapping of the 1995-built ships, which were sold to cash buyer GMS and then offloaded to the Malwi Ship Breaking and Gohilwad Ship Breaking yards on India’s west coast. The investigation relates to whether the country’s Act. No. 55/2003 on the treatment of waste and subsequent regulations have been infringed. Since 2018, European legislation has outright banned the demolition of ships over 500 gross tons anywhere except for licensed recycling sites, and similar restrictions have been in effect in Iceland since a mere year ago. “It is impossible for the company to estimate possible financial effects as the Act contains sanctions provisions without stating any specific amounts. The only amount referenced in the Act relates to the Icelandic Environmental Agency’s authority to apply administrative fines towards legal entities amounting up to ISK 25m (\$192,435).”

Eimskip said earlier that it believes that it complied with laws and regulations in the sales process. “Eimskip takes the matter seriously as the company, its management, and employees place great emphasis on social responsibility in their work and have long paid attention to environmental issues in their operations.”



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- ¹ "About," *GMS*, accessed January 3, 2021, https://www.gmsinc.net/gms_new/index.php/about
- ² "About," *GMS*, accessed January 3, 2021, https://www.gmsinc.net/gms_new/index.php/about
- ³ "The Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships," *International Marine Organization (IMO)*, accessed January 3, 2021, <https://www.imo.org/en/About/Conventions/Pages/The-Hong-Kong-International-Convention-for-the-Safe-and-Environmentally-Sound-Recycling-of-Ships.aspx>
- ⁴ "Where Eimskip's ships go to die," Documentary, *Kveikur RUV*, accessed December 30, 2020, <https://www.ruv.is/kveikur/where-ships-go-to-die/>
- ⁵ "Announcement from Eimskip," *Eimskip*, September 25, 2020, <https://www.eimskip.com/about-eimskip/news/general-news/announcement-from-eimskip/>
- ⁶ "Eimskip og endurvinnslan á Indlandi," *Kveikur RUV*, September 24, 2020, <https://www.ruv.is/kveikur/eimskip-og-endurvinnslan-a-indlandi/>
- ⁷ <https://splash247.com/icelandic-prosecutors-raid-eimskip-offices-in-ship-scraping-probe/>