Ship Recycling Transparency Initiative Progress Report

2021

SHIP
RECYCLING
TRANSPARENCY
INITIATIVE

The Ship Recycling Transparency Initiative

The Ship Recycling Transparency Initiative (SRTI) is an online platform that allows shipowners to publicly disclose their ship recycling policies, practice and progress, thereby holding themselves to account before key stakeholders – including customers, financial stakeholders, governments, NGOs and the wider public.

Through transparency, the SRTI aims to accelerate a market-driven approach to responsible ship recycling, enabling lenders, investors, cargo owners, and others to make informed decisions and reward good practice.

The SRTI publishes an annual progress report presenting a compilation of the data disclosed on the platform by twelve major shipowners, which operate a total of 3439 vessels.

The SRTI is not a performance standard nor a rating exercise, and data on the SRTI online platform is neither audited nor verified by any third party for the SRTI. However, this data is open to verification directly with the disclosing party by any interested stakeholder.

This report compiles and presents some of the key data points against which shipowners have disclosed their ship recycling policies and practices, aimed to provide an overview of the initiative and the data available. Each shipowner's disclosure can be viewed on the SRTI website.

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Signatories

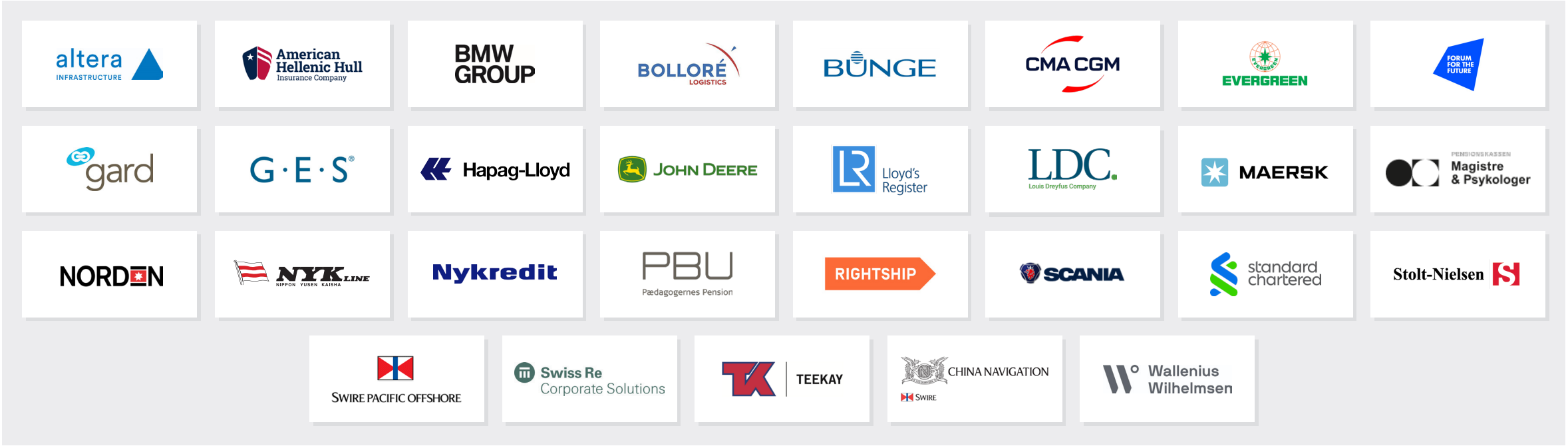
The SRTI community now consists of 29 signatories, broken down into:

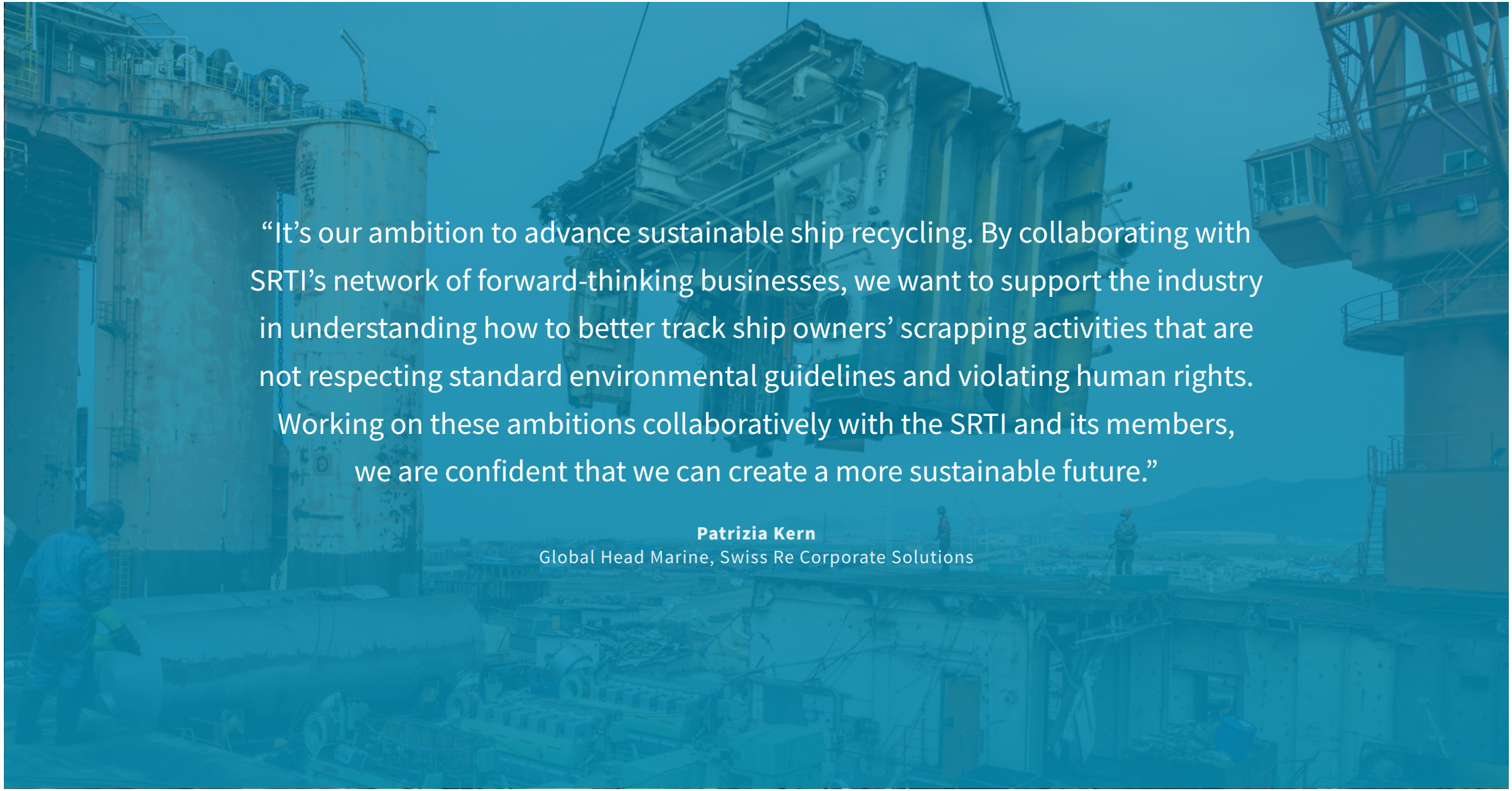
12 disclosing shipowners

5 cargo owners
(shippers and charterers)

8 financial stakeholders
(lenders, investors, and insurance providers)

4 Others
(Bolloré Logistics, Forum for the Future, Lloyd's Register, RightShip)





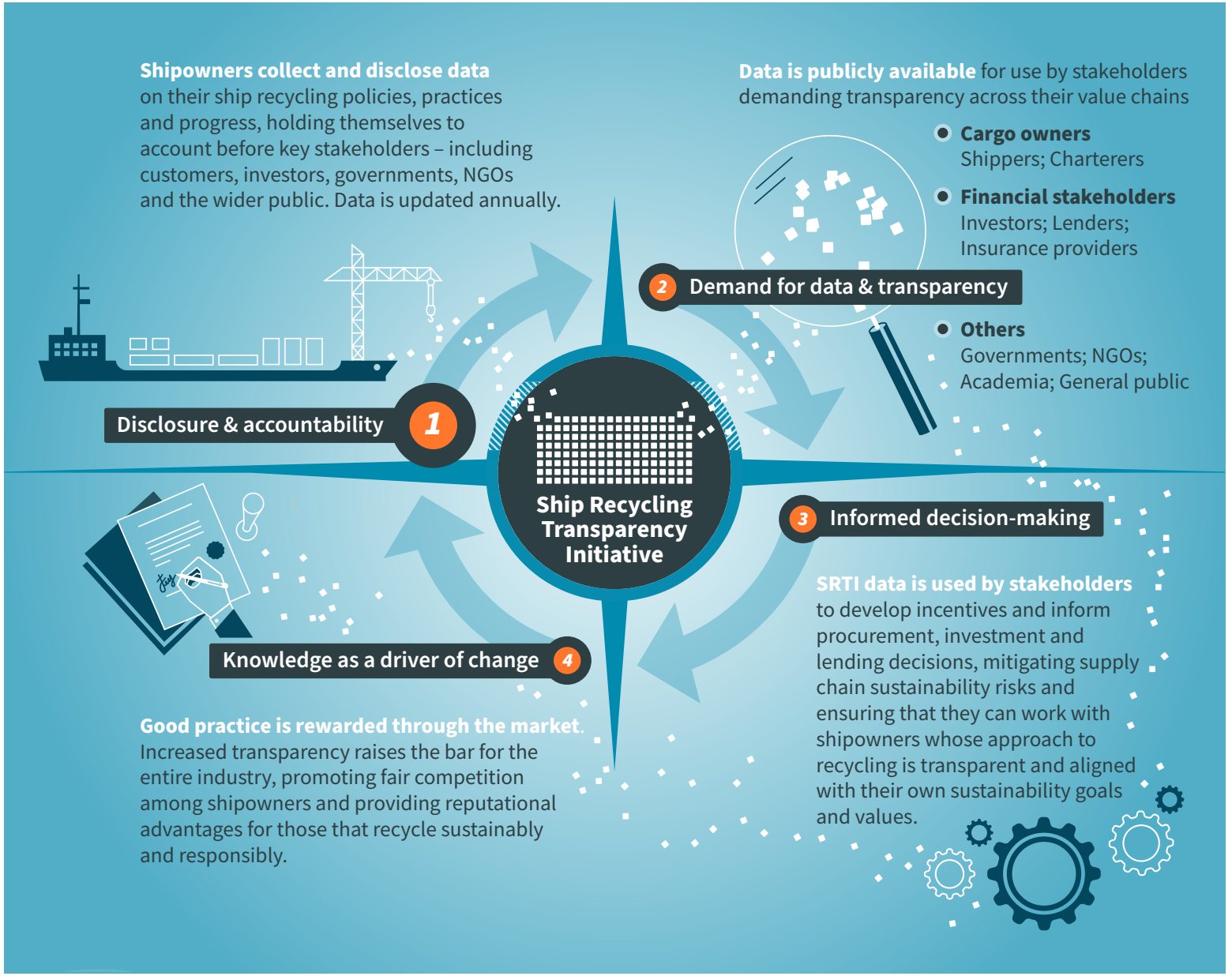
“It’s our ambition to advance sustainable ship recycling. By collaborating with SRTI’s network of forward-thinking businesses, we want to support the industry in understanding how to better track ship owners’ scrapping activities that are not respecting standard environmental guidelines and violating human rights. Working on these ambitions collaboratively with the SRTI and its members, we are confident that we can create a more sustainable future.”

Patrizia Kern
Global Head Marine, Swiss Re Corporate Solutions

Our theory of change

SRTI's theory of change shows the ways in which openly disclosed and easily accessible data can lead to improvements in the industry, thus creating a virtuous cycle of transparency that rewards good practices, demanding and encouraging more transparency in ship recycling.

The SRTI provides a platform through which shipowners can publicly disclose their ship recycling policies, practices and progress, thereby holding themselves to account before all stakeholders – including customers, investors, governments, NGOs, and the wider public. This data, in turn, enables cargo owners, financial stakeholders and others to make informed decisions and reward good practice through the market, raising the bar for the industry.



Using SRTI data

SRTI data can be used by any interested stakeholder to learn more about and understand shipowners' approaches, policies and practices toward ship recycling.

SRTI data can be used by:

	**Lenders, investors, and insurance providers** to incorporate ship recycling into their due diligence processes
	**Shipping customers, such as cargo owners and charterers** to understand the policies and practices of the carriers they work with in order to mitigate supply chain sustainability risk as well as consider and demand transparency across their value chains
	**Shipowners** who want to understand best practice, see what their peers are doing, or who have not recycled or had a need for a ship recycling policy in the past
	**Researchers** looking for further information on the ship recycling industry
	**Civil society** looking to understand different stakeholder approaches to the issues encountered in ship recycling

Our progress

Entering its third year, the SRTI has continually worked to drive change in ship recycling through increased transparency and accountability, building a community that shares learnings, celebrates progress, and shines a light on what is possible. This past year, SRTI's funding base grew, with signatory fees being supplemented by funding from the Engineering X Safer End of Engineered Life project and the Danish Orient's Fond, supporting the initiative's continued advancement and future development, contributing to a stable, resilient and independent initiative.

The SRTI has welcomed six new signatories in the past year

altera INFRASTRUCTURE

American Hellenic Hull Insurance Company

EVERGREEN

JOHN DEERE

NYK LINE NIPPON YUSEN KAISHA

Swiss Re Corporate Solutions

Click to watch the recording of the SRTI Roundtable in September 2020

The SRTI community met virtually throughout 2020 for a series of webinars and an online Roundtable, bringing together stakeholders across the ship recycling industry to consider and drive the conversation around three themes key to the SRTI's further development and responsible ship recycling.

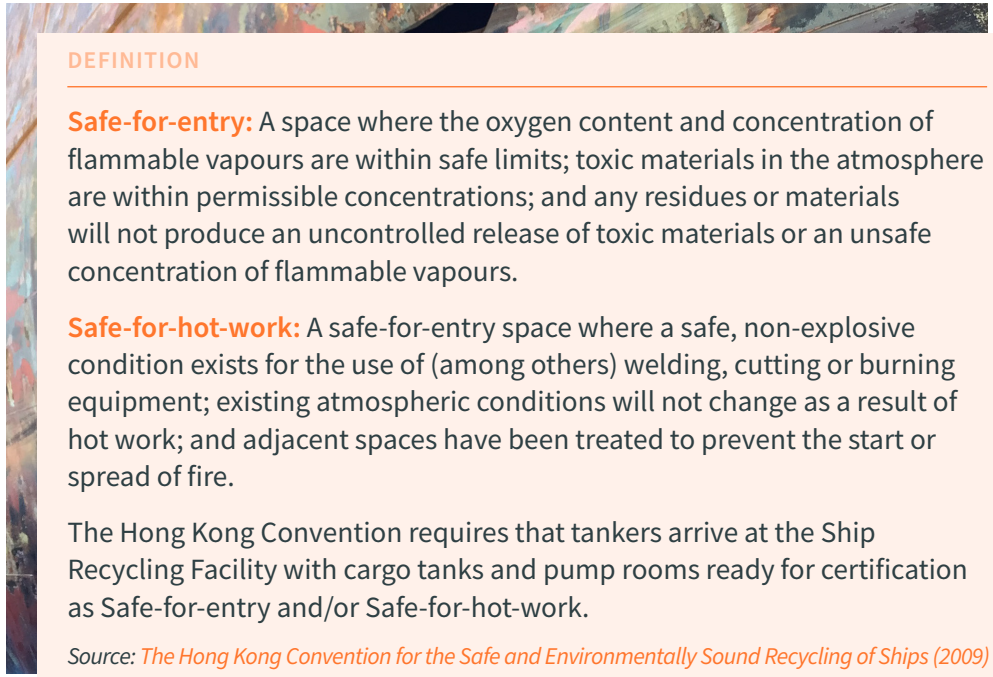
The themes discussed were:

- **data and transparency**, which fed into the expansion of the SRTI disclosure questionnaire;
- **circular economy**, which focused on the potential role of circularity in the ship lifecycle and end of life; and
- **the role of financial stakeholders in driving change**, focused around stakeholder access to and use of the data disclosed via the SRTI platform.

Expanded SRTI disclosure questionnaire

Through inputs from webinar participants and SRTI stakeholders, the shipowner disclosure questionnaire was expanded to reflect industry developments, including additional national and regional regulation such as the 2019 Recycling of Ships Act, as well as a tanker-specific question regarding safe-for-entry and safe-for-hot-work certificates. The criteria further expanded to include links between ship recycling and sustainability reporting, connecting the dots across the vessel lifecycle and acknowledging stakeholder demand for transparent, sustainable supply chains.

The disclosure questionnaire expansion ensures that shipowners are disclosing data against a set of robust, relevant questions that reflect industry developments, raising awareness of the current state of responsible ship recycling.



DEFINITION

Safe-for-entry: A space where the oxygen content and concentration of flammable vapours are within safe limits; toxic materials in the atmosphere are within permissible concentrations; and any residues or materials will not produce an uncontrolled release of toxic materials or an unsafe concentration of flammable vapours.

Safe-for-hot-work: A safe-for-entry space where a safe, non-explosive condition exists for the use of (among others) welding, cutting or burning equipment; existing atmospheric conditions will not change as a result of hot work; and adjacent spaces have been treated to prevent the start or spread of fire.

The Hong Kong Convention requires that tankers arrive at the Ship Recycling Facility with cargo tanks and pump rooms ready for certification as Safe-for-entry and/or Safe-for-hot-work.

Source: The Hong Kong Convention for the Safe and Environmentally Sound Recycling of Ships (2009)

"The NYK Group places environmental, social, and governance (ESG) factors at the centre of its business management. Through the SRTI, NYK can provide transparency in ship recycling, which we believe we can bring about improvements and influence needed. We are committed to promoting and contributing to raising standards of safety and sustainability. Reflecting our basic philosophy of 'Bringing value to life', the NYK Group will continue to fulfil the expectations of society."

Hitoshi Nagasawa
President and Chief Executive Officer, NYK Line

Circular economy – closing the loop

How does ship recycling fit into a circular approach to shipping? Too often industry discussions around recycling stop at end-of-life, failing to consider the waste generated and the potential for increased reuse, repurposing and recycling of materials and components. There is an opportunity for the shipping industry to rethink its approach to resource use, designing out waste, and leveraging increased reuse of materials, such as steel, to lower carbon emissions and close the material loop. Interest in a circular shipping industry is increasing, particularly as vessels and operators consider their vessel transition plans in light of the industry's decarbonisation goals.

For ship recycling, this means adopting a lifecycle approach that considers eventual dismantling at all stages of a ship's life – design, construction, and operation - and ensuring accurate data on components and materials (both hazardous, through an Inventory of Hazardous Materials, and non-hazardous) that not only enable safe and responsible recycling, but ensure high rates of reuse and recycling.

DEFINITION

An **Inventory of Hazardous Materials** (IHM) tracks a number of materials throughout the vessel's operational life and in preparation for recycling.

It consists of three parts:

- Part I: Hazardous materials contained in the ship's structure and equipment
- Part II: Operationally generated waste
- Part III: Stores

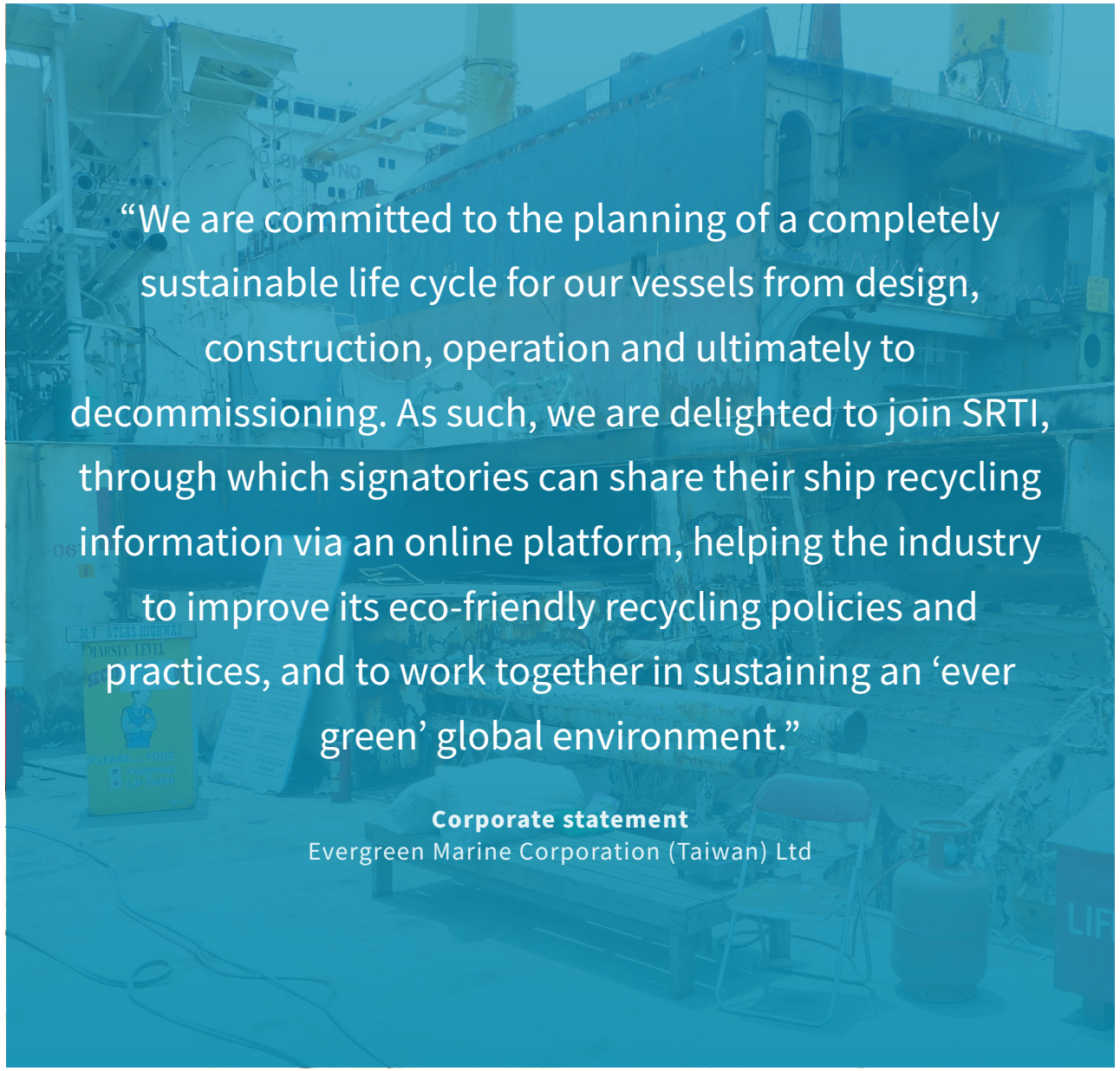
A certified IHM is required by both the EU Ship Recycling Regulation (currently in force and applicable to all EU/EEA flagged vessels and non-EU flagged vessels calling at EU ports), and the IMO Hong Kong Convention (not currently in force).

Source: The Standard Club

Focus on financial stakeholders

Insights from lenders, investors, and insurers over the past year have highlighted the growing importance of transparency and disclosure for ESG issues in shipping – from carbon emissions (addressed by the Poseidon Principles), to ship recycling (also addressed by the RSRS), to seafarers' labour and human rights.

Financial institutions are continually exploring how they can contribute to creating the right incentives, through financial instruments (company, project or trade financing), to drive improvements through the value chain and across a ship's lifecycle. This can already be seen through an increase in sustainable finance instruments for shipping, such as sustainability-linked bonds and loans which open the door to greater incentives for transparent and responsible ship recycling.



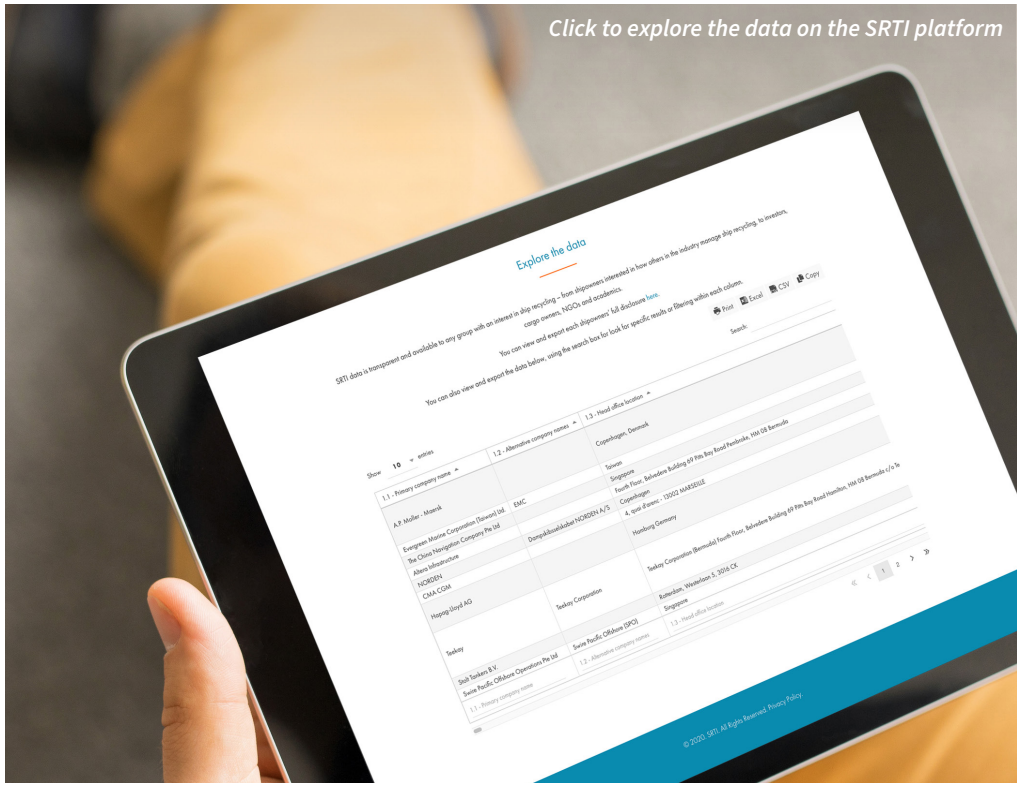
“We are committed to the planning of a completely sustainable life cycle for our vessels from design, construction, operation and ultimately to decommissioning. As such, we are delighted to join SRTI, through which signatories can share their ship recycling information via an online platform, helping the industry to improve its eco-friendly recycling policies and practices, and to work together in sustaining an ‘ever green’ global environment.”

Corporate statement
Evergreen Marine Corporation (Taiwan) Ltd

Improved functionality to view and extract data

All data disclosed by shipowners via the SRTI platform is publicly available to any interested stakeholder. There are three ways to access the data:

1. Individual shipowner **disclosures** can be downloaded in PDF format
2. The full **data set** can be downloaded as an Excel or CSV file, allowing the user to filter, search, and otherwise explore the data
3. The **annual SRTI Progress Report** publishes the data in an aggregated format, discussing common themes in the disclosures and providing additional context



A look at the data

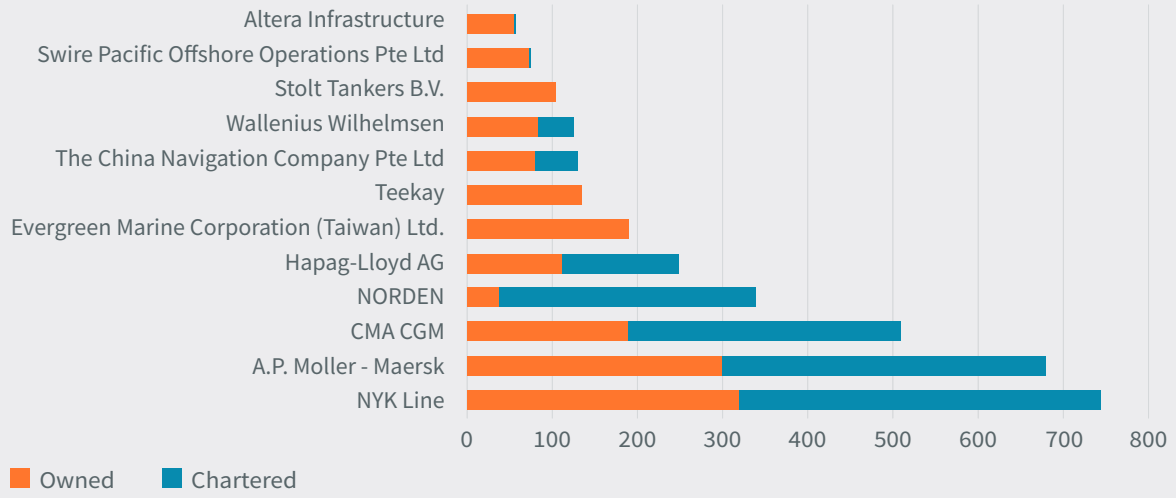
3439 vessels

are owned and operated by shipowners currently disclosing their approach to ship recycling via the SRTI

Shipowners by vessel type

NOTE: Shipowners may cover more than one vessel type

Number of vessels owned and chartered



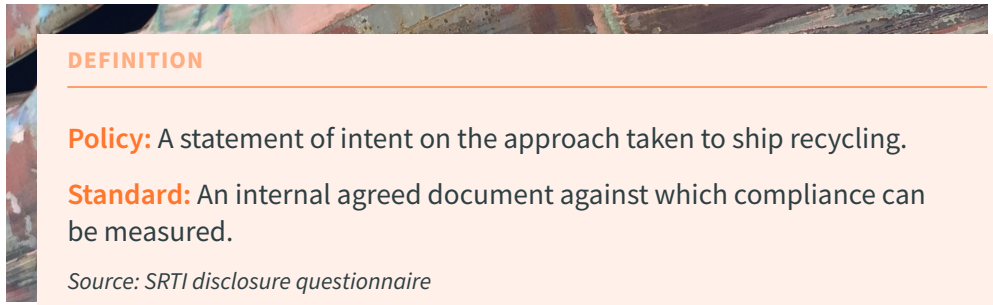
Shipowners disclose data against a pre-determined set of questions across five topics:

- policy and standards;
- selling owned vessels;
- ship recycling contracts;
- inventory of hazardous materials (IHM) and ship recycling documentation; and
- policy and standard implementation.

Shipowners are prompted to review and update their data once per year.

Ship recycling policy and standards

The first section of the SRTI disclosure aims to get an overview of the policies and standards the shipowner adheres to, including international legislation and conventions, restrictions based on recycling method and/or geography, and policies for selecting a yard or buyer for recycling.



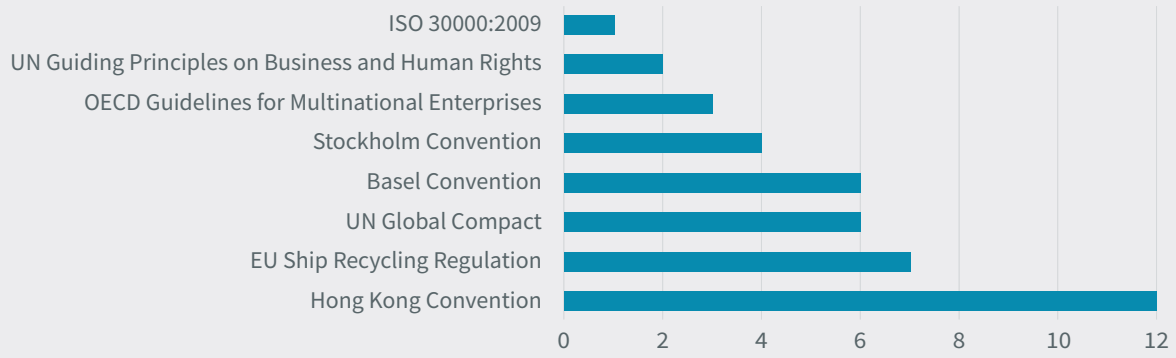
DEFINITION

Policy: A statement of intent on the approach taken to ship recycling.

Standard: An internal agreed document against which compliance can be measured.

Source: SRTI disclosure questionnaire

International conventions and principles to which ship recycling policies adhere



Disclosing shipowners' policies adhere to a range of global and regional international conventions, guidelines and principles of relevance to ship recycling. These include:

- Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal
- EU Ship Recycling Regulation
- Hong Kong Convention for the safe and environmentally sound recycling of ships
- ISO 30000:2009 Ships and marine technology – Ship recycling management systems
- OECD Guidelines for Multinational Enterprises
- Safety and health in shipbreaking: Guidelines for Asian countries and Turkey
- Stockholm Convention on Persistent Organic Pollutants
- The Recycling of Ships Act
- United Nations Global Compact
- UN Guiding Principles on Business and Human Rights

All 12 shipowners

disclosing their data via the SRTI have a written policy on ship recycling for their own vessels, and nine shipowners make the policy document public. To varying degrees, 8 of those disclosing place restrictions for yard selection based on recycling method or geography, for example only recycling in yards where blocks are prevented from falling in the intertidal zone.

10 shipowners

also have written policies for selecting a buyer or ship recycling facility, which may require, for example, a class-approved Hong Kong Convention Statement of Compliance, or auditing and onsite visits as part of the vetting process.

"We are delighted to become a signatory to the Ship Recycling Transparency Initiative. This is an important part of our policy on sustainability and we hope to use our position in the marine insurance market to encourage discussions on the most sustainable way to end a ship's life. Ship recycling is both necessary and desirable but there are many considerations to be made to ensure that the dismantling of the ship does not endanger either people or the environment."

Rolf Thore Roppestad
CEO, Gard

Policy for selling owned vessels for further trading

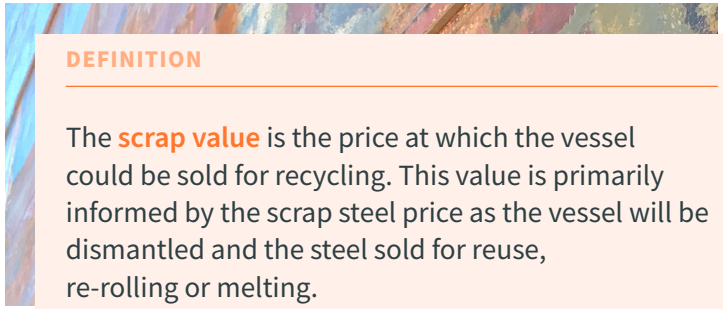
Depending on the vessel type, ships may be sold for further trading at least once during their operational life. This may be due to demand for newer, more energy efficient vessels in line with companies' decarbonisation goals and fleet transition plans. In such cases, the shipowner may promote responsible recycling of the vessel or vessels through, for example, imposing legally binding covenants or offering commercial incentives for responsible recycling of the vessel at end of life.

Although vessels chartered in are not typically subject to the charterers' own vessel recycling policy, some may take steps to promote responsible recycling of vessels chartered in or owned through a joint venture (JV). This often depends on the duration of the charter, which can vary between a single voyage and a 5+ year period, and the age of the vessel upon returning to the owner.

9 out of 12 shipowners

disclosing data via the SRTI have a policy to promote responsible recycling of owned vessels sold for further trading, and 10 out of 12 impose legally binding covenants or offer commercial incentives to the buyer to encourage responsible recycling.

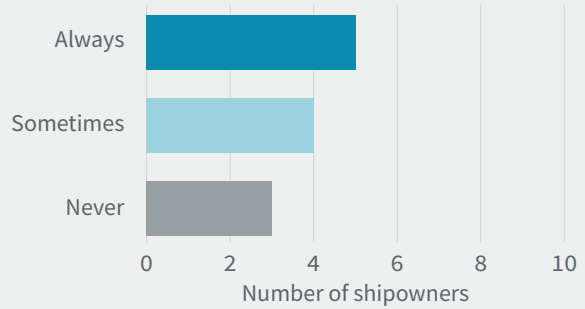
Provisions outlined in some current SRTI disclosures include a requirement that the vessel operates for a minimum of 24 months after purchase, and, in cases where the vessel's selling price is less than 25% higher than the current scrap value, a clause may be included stipulating adherence to specific ship recycling requirements or policies.



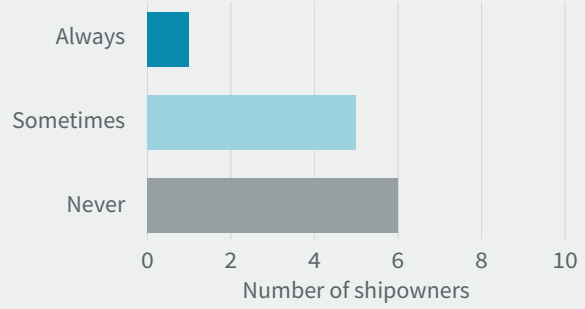
DEFINITION

The **scrap value** is the price at which the vessel could be sold for recycling. This value is primarily informed by the scrap steel price as the vessel will be dismantled and the steel sold for reuse, re-rolling or melting.

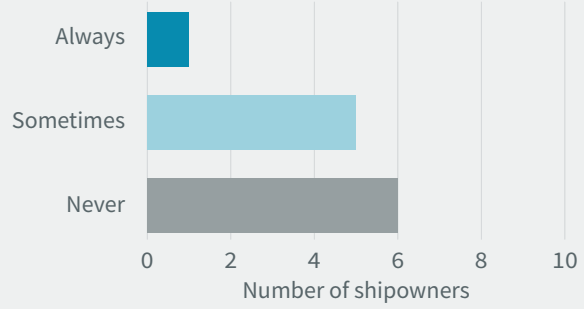
Joint Ventures



2+ year chartered vessel



5+ year chartered vessel



8 shipowners
always or sometimes use a standard contract for the sale of a vessel for recycling.

Ship recycling contract

The following three sections focus on the process of preparing to recycle a vessel and the recycling process.

A ship recycling contract is a contract for the sale of a ship for the purpose of recycling. Companies may use industry contract templates, such as BIMCO's RECYCLECON, or develop their own. In either case, the contract may include, for example, a requirement to recycle the vessel in a specific facility, or requirements for access to the yard during the recycling process for monitoring and auditing purposes.

All shipowners
provide the buyer or recycler with a class approved IHM, as well as all relevant certificates, plans, procedures and documents in line with the shipowners' policies and standards.

Inventory of hazardous materials (IHM) and ship recycling documentation

The IMO's Hong Kong Convention requires the presence of an IHM which identifies the hazardous materials within the vessel's structure in order to facilitate dismantling. While not yet in force, the majority of shipowners and ship recycling facilities adhere to the Convention's requirements.

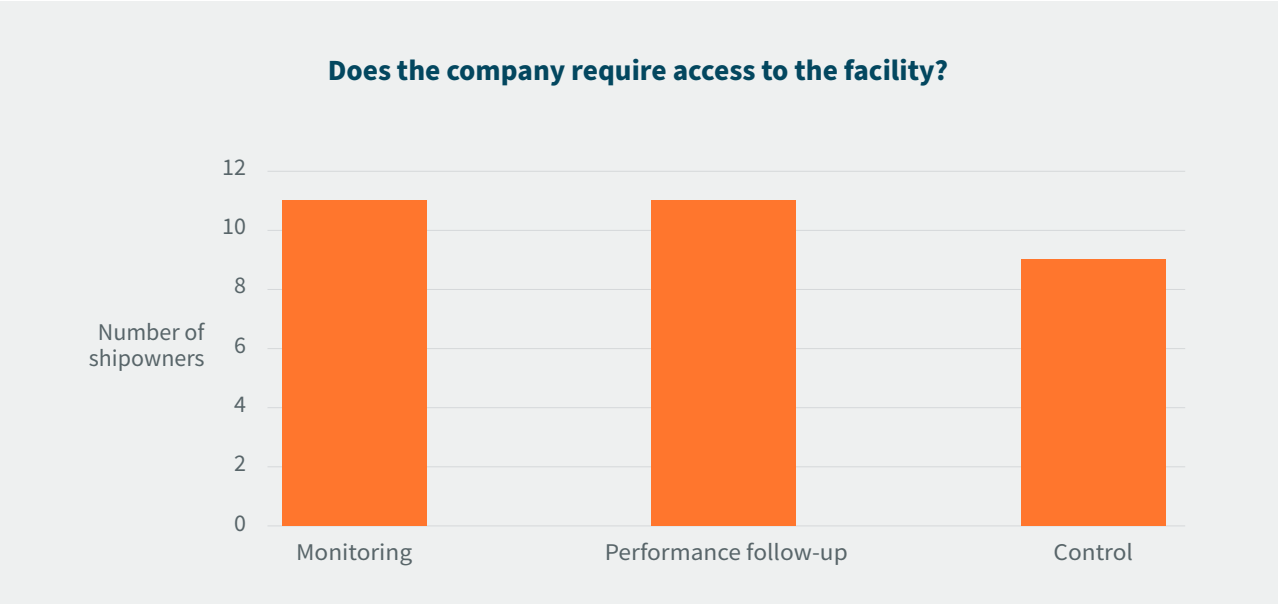
Ship recycling documentation, in turn, includes the documentation provided by the shipowner to the buyer or ship recycling facility, including relevant certificates, plans, procedures and documents.

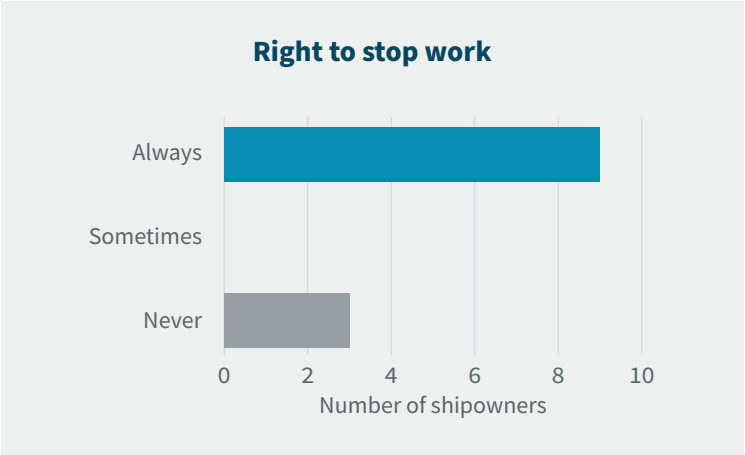
Implementation of the ship recycling policy and standard

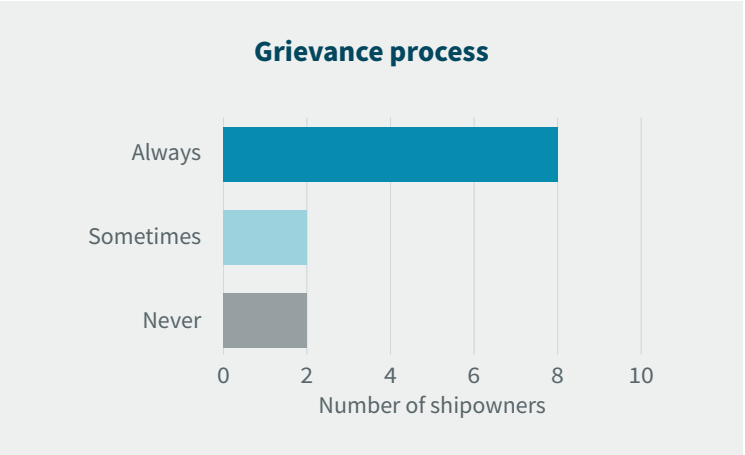
The final section of the disclosure questionnaire focuses on the implementation of the ship recycling policies and standards during the recycling process.

Shipowners may require access to the ship recycling facility prior to, during, and after the recycling process for audits and monitoring. This may include the presence of a company representative through the recycling process and the right to stop work at the facility in the event of an incident.

Shipowners may also have additional requirements for the yard in line with, for example, labour and human rights policies and standards, such as requiring grievance mechanisms for workers or the right to collective bargaining.







Update on the regulatory landscape

MAERSK

Author: A.P. Moller Maersk

Two international/regional legislative instruments have been adopted to directly regulate the environmental sound recycling of ships. The **IMO's Hong Kong Convention for the safe and environmentally sound recycling of ships (HKC)** was adopted in 2009 but has not yet to entered into force due to a lack of ratification. The **European Union's Ship Recycling Regulation (EU SRR)** was adopted in 2013 and entered into force on the 31st of December 2018.

The **Basel Convention on the Control of Transboundary Movement of Hazardous Wastes and their Disposal (BC)** is a UN international treaty which came into force in 1992. Amendments to the Basel Convention (BCA) entered into force in December 2019. The BC is ratified by all EU and OECD Member States. It restricts the transboundary movement of waste. Initially, assumptions were made by different EU Member States, that the amendments to the BC would effectively bar the EU from allowing ship recycling outside the EU in accordance with its own Regulation.

This would mean that the EU could not allow yards from non-EU countries to be adopted on to the approved EU list.

According to article 11(2) of the BC, other treaties – such as HKC and the EU SRR– may take precedence: "provided that such agreements are compatible with the environmentally sound management of hazardous wastes and other wastes as required by this Convention."

This possibility for entering into an agreement under article 11 is thus conditioned by it (the agreement) providing a level of environmental protection at least equivalent to that of BC. It is generally accepted that the EU Regulation meets that same level of protection. This enables EU flagged vessels to be recycled at yards outside the EU.

A legal issue was raised regarding whether a Memorandum of Understanding (MoU) on ship recycling between the EU and India – that would allow for the possibility of Indian yards being included on the EU approved list – could be covered by the scope of art. 11 of the BC as this refers to "agreements".

An interpretation of the word "agreements" in accordance with article 31 of the Vienna Convention on the Law of Treaties (VCLT) establishes that the term "agreements" can encompass non-binding MoUs. This is in line with the already accepted "Article 11-agreements" listed on the Basel Secretariat's webpage which include MoUs.

Regarding the HKC, it is believed that this instrument (also) provides the same level of protection as the BC, wherefore the HKC – once it enters into force – will take precedence over the BC according to art. 11(2) of the Convention. Several stakeholders, including the EU and its Member States, have previously stated this, e.g. in a 2011 report to the Basel Secretariat[1].

Different legal experts, such as the law firm Gorrissen Federspiel, have also stipulated that different legal principles of international law would favour that the HKC will take precedence over the BC[2].

[1] *The report, OEWG VII/12: Environmentally sound dismantling of ships, is available via the Basel Convention website*

[2] *See also p. 79 of the article "Ship recycling regulation under international and EU law" by Alla Pozdnakova, University of Oslo, Law Faculty, Scandinavian Institute of Maritime Law,. Marlus 535 (2019)*

GUEST PIECE

Engineering X – Safer End of Engineered Life

Authors: Professor Susan Gourvenec, SEEL Offshore Structures & Ships Theme Lead; Hazel Ingham, SEEL Programme Manager

The decommissioning of ships and large offshore structures is a difficult task. Deconstructing these structures at the end of their engineered life is a complex and, in many cases, hazardous, business – these immense engineered assets are not only designed and constructed to withstand the harshest environments but are often contaminated with hydrocarbons and other hazardous materials.

While it is possible for decommissioning to be carried out safely and responsibly – and there are places around the globe where it is – the reality is that in too many places it is not. The International Labour Organization classifies shipbreaking – which can include all types of ship from luxury cruise liners to bulk carriers, and also floating oil and gas rigs – among the world's most dangerous occupations, with unacceptably high levels of fatalities, injuries, and work-related disease. Lack of hazardous waste management has severe consequences for the surrounding communities and the environment.

Despite some progress in recent years, there is still a huge amount of work to be done to ensure that all ships are decommissioned in a responsible way that prevents harm to humans and the environment. It is a complex challenge that requires collaboration across disciplines, sectors, communities, and geographies to holistically understand the issues – we must all work together to change the state of play. This extends to ensuring that the end of life of ships and offshore structures is planned for from their inception in order that it is handled safely and sustainably. This consideration requires partnership along the entire value chain.

The Engineering X Safer End of Engineered Life programme sets out to improve safety of decommissioning offshore structures and ships in those places where unsafe practices are most prevalent and present the greatest threat to safety of the workforce and the environment. Through on-the-ground projects, research, and community building activities, we aim to greatly improve safety in these areas. We place partnerships at the heart of our work and fund projects that work collaboratively to tackle these complex safety challenges. Following a multidisciplinary, international workshop to map critical issues and build partnerships, we are currently funding six projects that are working to drive positive impact and we are pleased to include the Ship Recycling Transparency Initiative in this portfolio.

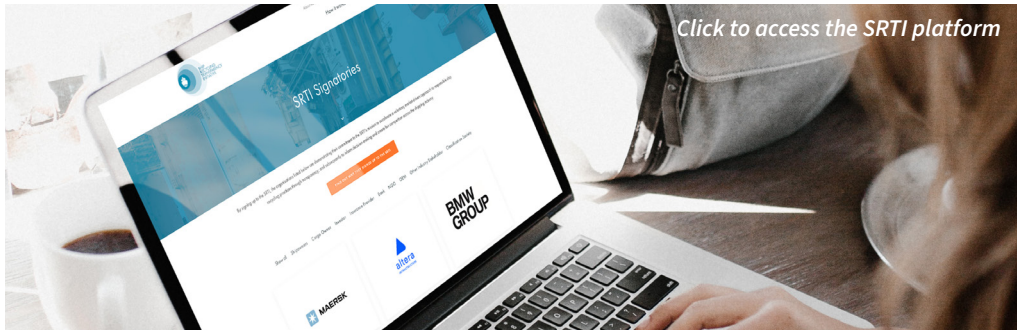
As we look ahead, new and complex challenges are inevitably on the horizon for the safer decommissioning ships and offshore structures as the sector changes in response to the need to decarbonise our transport and energy requirements. Partnerships need to be built now in order that the sector can respond in a coordinated fashion – and with safety at its centre – to protect humans and the environment. Join us.

Image source: Engineering X Safer End of Engineered Life programme

Moving the needle

The coming decades will see ship recycling play a pivotal role as the shipping industry sets out to achieve its decarbonisation goals and shipowners execute their fleet transition plans, recycling older vessels. At the same time, growing momentum toward a sustainable shipping industry will bring increased pressure for shipowners, from customers, investors, and others, to report and take action on environmental, social, and governance issues.

Increased transparency drives awareness, and increased awareness drives action. Stakeholders who consider ship recycling to be a material sustainability issue can act – by demanding more transparency, asking or requiring stakeholders to join the initiative, and by incorporating the data into their decision-making processes.



Next steps

As the Ship Recycling Transparency Initiative enters its third year since launch, we celebrate the successes – 29 signatories calling for greater transparency to drive responsible recycling; 12 shipowners accounting for approximately 7% of the ocean-going fleet (by number of vessels) publicly disclosing their ship recycling policies and practices; a growing community of financial stakeholders using their leverage to lead in bringing about the changes needed in the industry.

Looking ahead, the initiative continues to work on increasing awareness and driving engagement across and beyond the ship recycling community, encouraging the use of data disclosed and freely available via the SRTI platform by lenders, investors, insurers, shippers and charterers. By working to improve ship recycling practices through transparency, the SRTI continues to promote multi-stakeholder dialogue and collaboration, building a community of like-minded, committed industry players interested in learning and contributing to a responsible ship recycling industry.

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About the Ship Recycling Transparency Initiative (SRTI)

The SRTI aims to accelerate a voluntary market-driven approach to responsible ship recycling practices through transparency. Shipowners can publicly disclose their ship recycling policies, practices and progress through the platform, holding themselves to account before key stakeholders and enabling cargo owners, financial stakeholders and others to inform their decision making and reward good practice through the market.

The SRTI is an independent initiative hosted by the Sustainable Shipping Initiative.

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