

RESPONSIBLE SHIP RECYCLING STANDARDS for banks – RSRS

Ship recycling may entail risks to people and environment, and is a key ESG issue in the shipping and offshore industries. The banks in RSRS support the efforts to improve the recycling practices.

Recycling practices of ships and mobile offshore units can have negative environmental and social (“E&S”) consequences, especially in jurisdictions with limited E&S regulations and/or regulatory enforcement. Potential negative impacts of ship recycling include environmental damage, occupational health and safety risks, human rights and labour risks as well as community health and safety exposure.

The RSRS banks (the “Banks”) recognize that recycling of ships and mobile offshore units is an integrated part of the shipping and offshore industries’ value chains. As part of the Banks’ desire to minimize the impact on the environment and society that results from poor recycling practices, the Banks agree to apply the Responsible Ship Recycling Standards (“RSRS”) with clear expectations upon themselves and to their clients as set out below.

The RSRS are applicable to debt financing of movable maritime assets (including Vessels and Mobile Offshore Units, hereinafter referred to as “Ship” or “Ships”) which are pledged as security for a loan and/or Ships which the client controls.

The Banks aim to support the shipping and offshore industries in improving recycling practices, and encourage our clients to take a value chain view of their assets; to make informed and responsible decisions on recycling based on appropriate environmental and social due diligence of the yards used for recycling; and to develop appropriate policies thereto and to be transparent on own practices. The Banks will review the RSRS periodically based on implementation experience and in order to reflect on-going learning and good practices.

The Responsible Ship Recycling Standards are based on and support existing international regulations, conventions and generally accepted standards and principles.

The application of RSRS specifically support the objectives of the EU Ship Recycling Regulation (“EU SRR”) and the Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships (“HKC”). RSRS can contribute to several of the objectives of the United Nations Sustainable Development Goals (SDGs) and the Banks further recognize the importance of the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises with their due diligence tools and other relevant international regulations, conventions and generally accepted standards and principles as listed in Appendix 2.

The Banks commit to integrate RSRS in their ESG policies and lending practices and engage with their clients in the efforts to improve recycling practices via firm undertakings in their loan documentations¹.

The Banks commit to:

- (i) integrate RSRS into their ESG policies and lending practices, and publicly state their commitment to RSRS;
- (ii) recognize in their ESG due diligence process, the applicable international standards, industry guidelines and their underlying principles to manage the negative impacts of recycling;
- (iii) not be directly involved in financing of unsustainable recycling facilities;

¹ Clauses to be included in the appendix

- (iv) not be involved in the financing of purchasers of Ships intended for unsustainable Ship recycling (such purchasers or intermediaries are sometimes referred to as 'cash buyers' in this context);
- (v) promote RSRS and the importance of responsible recycling in the shipping and offshore industries and the financial community, and encourage other banks to adopt the RSRS; and
- (vi) engage with clients in discussions around policies and practices relating to Ship recycling; based on good governance and including client's approach to managing potential negative impacts so that Ships are recycled at recycling facilities with no release of harmful substances into the environment, with safe working conditions and good labour practices ensured for all workers.

The Banks will, on a best effort basis:

- (vii) in financing transactions for new Ships only finance Ships that carry an Inventory of Hazardous Material ("IHM") that should be maintained throughout the life of the loan. The IHM should meet the standards as defined in the EU SRR or the HKC;
- (viii) in relation to (re)financing transactions for existing Ship, require that the Ships shall carry and maintain an IHM;
- (ix) encourage clients to ensure that an IHM is prepared and maintained for each Ship in their existing fleet;
- (x) in relation to financing transactions for any Ships require that the Ship only shall be recycled in accordance with the regulations of the Hong Kong Convention and/or the EU Ship Recycling Regulation;
- (xi) encourage clients to be transparent and publicly state their commitment toward improved environmental and human rights performance, responsible recycling of Ships and the RSRS; and
- (xii) report annually on their webpage or via other relevant disclosures on the results of their implementation, as described in appendix 5 "Recommended minimum standard wording to be included in RSRS members annual reporting".

The Banks expect their clients to develop policies and practices for responsible Ship recycling, undertake appropriate due diligence of yards as basis for recycling decisions, and be transparent on own practices.

The Banks expect their shipping and offshore clients to:

- (i) develop a policy with respect to responsible Ship recycling and publicly state their commitment toward improved environmental and human rights performance in Ship recycling operations;
- (ii) ensure that an IHM is prepared and maintained for each Ship in their existing fleet;
- (iii) If the opportunity exists to use less Hazardous Materials in the construction, without compromising safety or operational efficiency, it should be considered by the design and build team or recommended to the Ship owner as appropriate. Substances known to be hazardous which are prohibited or restricted by national regulations and international conventions or agreements are not to be used in the construction.
- (iv) undertake appropriate ESG due diligence of yards used for Ship recycling;
- (v) follow up the recycling process through inspections and reporting;
- (vi) be transparent on practices, disclose their Ships sent for recycling and their election of recycling facilities;
- (vii) include clauses with respect to responsible Ship recycling in sales contracts for Ships sold approaching end of life; and
- (viii) demonstrate reasonable efforts to act in line with both the letter and the spirit of the RSRS and applicable standards, industry guidelines and their underlying principles.

Appendix:

1. Glossary / definitions
2. Relevant regulations, standards, guidelines
3. Guidance for loan agreements
4. Recommendations for responsible ship recycling
5. Recommended minimum standard wording to be included in RSRS members annual reporting

1. Glossary/definitions

EU Ship Recycling Regulation ("EU SRR") - means Regulation (EU) No 1257/2013 of the European Parliament and of the Council of 20 November 2013 on Ship recycling and amending Regulation (EC) No 1013/2006 and Directive 2009/16/EC.

ESG – Environmental, Social and Governance criteria to evaluate a client's strategy to manage those risks and stakeholders' interests.

Hong Kong Convention ("HKC") – means the Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships, 2009.

Inventory of Hazardous Materials ("IHM") - describes the materials present in a Ship's structure and equipment that may be hazardous to human health or the environment along with their respective location and approximate quantities. The IHM is ship-specific and covers the whole life of the Ship, from construction, throughout the Ship's operating life to preparation for scrapping at the end of the Ship's useful life. Further details can be found in Article 5 (Inventory of hazardous materials) and Article 12 (Requirements for ships flying the flag of a third country) in the EU Ship Recycling Regulation. Such an IHM is to be maintained through the life of the Ship.

Mobile Offshore Units – are movable offshore vessels or structures used in the offshore industries, including oil and gas production, and can include offshore service vessels, FSO's, FPSO's, drill ships, floating and mobile drilling rigs, mobile production unit, accommodation units etc.

Ship Recycling - means the activity of complete or partial dismantling of a Ship at a Ship recycling facility in order to recover components and materials for reprocessing and re-use, whilst taking care of hazardous and other materials. This includes associated operations such as storage and treatment of components and materials on site, but not their further processing or disposal in separate facilities.

Ship Recycling Facility – the facility utilised for complete or partial dismantling of a Ship or Ships, often referred to as Shipbreaking facility / yard.

Vessel – means a mainstream ocean-going motor vessel that operates or has operated in the international marine environment, including tankers, general cargo ships, bulkers, container ships and passenger ships.

2. Relevant regulations standards and guidelines regarding responsible recycling of Ships

- 1) **EU Ship Recycling Regulation** No 1257/2013, see glossary
 - a) EU Ship Recycling Regulation supporting documents:
 - i) *Implementing Decision (EU) 2016/2323 establishing the European List of ship recycling facilities pursuant to Regulation (EU) No 1257/2013 (as amended and supplemented)*
- 2) **Hong Kong Convention** for the Safe and Environmentally Sound recycling of Ships, IMO 2009, see glossary
 - a) *HKC Supporting documents and guidelines:*
 - i) <http://www.imo.org/en/OurWork/Environment/ShipRecycling/Pages/Default.aspx>
 - ii) 2011 Guidelines for the Development of the Ship Recycling Plan, adopted by resolution [MEPC.196\(62\)](#);
 - iii) 2012 Guidelines for Safe and Environmentally Sound Ship Recycling, adopted by resolution [MEPC.210\(63\)](#);
 - iv) 2012 Guidelines for the Authorization of Ship Recycling Facilities, adopted by resolution [MEPC.211\(63\)](#);
 - v) 2015 Guidelines for the development of the Inventory of the Hazardous Materials, adopted by resolution [MEPC.269\(68\)](#).
 - vi) 2012 Guidelines for the survey and certification of ships under the Hong Kong Convention, adopted by resolution [MEPC.222\(64\)](#); and
 - vii) 2012 Guidelines for the inspection of ships under the Hong Kong Convention, adopted by resolution [MEPC.223\(64\)](#).
- 3) **International Chamber of Shipping**: Shipping Industry Guidelines on Transitional Measures for Shipowners Selling Ships for Recycling.
 - a) <https://www.ics-shipping.org/docs/default-source/resources/environmental-protection/shipping-industry-guidelines-on-transitional-measures-for-shipowners-selling-ships-for-recycling.pdf?sfvrsn=8>
- 4) **IHRB/Rafto Foundation/Danish Institute of Human Rights**: The Ship Lifecycle: Embedding Human Rights from Shipyard to Scrapyard.
 - a) https://s3-eu-west-1.amazonaws.com/rafto-documents/Business-Human-Rights/Ship_Lifecycle_June_19.pdf
- 5) **Norwegian Shipowners' Association**: Advice to members on ship recycling (in Norwegian).
 - a) <https://rederi.no/om-oss/fagomrader/samfunnsansvar/resirkulering-av-skip/>

3. Guidance for loan agreements

Loan agreements are key legal documents between the Banks and their respective clients. The loan agreement provides an opportunity to require a client to meet the relevant Ship recycling standards.

This section outlines language that can be included in loan agreements (whether as definitions, covenants, conditions precedent and so forth) and serves as guidance for the Banks. It should not be viewed as a required legal framework but as suggested wording to assist banks in incorporating the ship recycling standards in their loan agreements. These items should supplement the existing environmental and social undertakings in the Loan Agreement.

(i) *Inventory of Hazardous Materials – to be requested as a condition precedent:*

An Inventory of Hazardous Materials for the Ship[s] prepared and issued in accordance with the requirements of the Hong Kong Convention or the EU Ship Recycling Regulation.

(ii) *Inventory of Hazardous Materials – on-going covenant:*

The Borrower shall procure that [the/each] Ship owned or controlled by it carries an Inventory of Hazardous Materials prepared for [the/each] Ship in accordance with the requirements of the Hong Kong Convention and/or the EU Ship Recycling Regulation, which shall be maintained for each Ship throughout the Security Period.

(iii) *Sustainable and socially responsible dismantling of Ships – undertaking from the Borrower:*

The [Ship owner/Borrower/Guarantor/Group] shall procure that as long as it is in a lending relationship with [...], any Ship owned or controlled by it taken out of service for dismantling, scrapping, or recycling, or sold to an intermediary with the intention of being dismantled, scrapped or recycled, is recycled at a recycling yard which conducts its recycling business in a socially and environmentally responsible manner, in accordance with the provisions of the Hong Kong Convention and/or the EU Ship Recycling Regulation. No Ship shall be dismantled, scrapped or recycled unless an Inventory of Hazardous Materials has been established for such Ship.

Sustainable Ship dismantling – Borrower[s] to undertake that they will [establish/maintain] a safe sustainable and socially responsible policy with respect to dismantling of the Ship[s] / [Ships that are taken out of service].

(iv) *Useful definitions:*

“EU Ship Recycling Regulation” means Regulation (EU) No 1257/2013 of the European Parliament and of the Council of 20 November 2013 on ship recycling and amending Regulation (EC) No 1013/2006 and Directive 2009/16/EC (Text with EEA relevance).

“Hong Kong Convention” – means Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships, 2009.

“Inventory of Hazardous Materials” or ***“IHM”*** – means a statement of compliance issued by the relevant Approved [Classification Society/Shipyard] which includes a list of any and all materials known to be potentially hazardous utilized in the construction of that Ship also referred to as List of Hazardous Materials.

4. Recommendations to shipowners regarding responsible recycling

Choice of recycling method and yard is the responsibility of the owners, not the banks. The banks on the other hand, have expectations to owners conducting their business according to international regulations and generally accepted standards, and doing sufficient due diligence and follow up in connection with disposal of Ships at end of life and sale of Ships expected to be recycled shortly. (Relevant standards are referred in Appendix 2.)

Ship owners can ensure that Ships sold for recycling are recycled according to the international regulations and standards by:

- Using a recycling yard on the European List or with a statement of compliance from a reputable specialist organization with respect to the Hong Kong Convention (HKC). Such statement is in itself no guarantee for responsible recycling being executed and should be supplemented by other measures.
- Preparing the Ship for responsible recycling through mapping all hazardous material, arrange necessary inspections, obtain the required certificates, and empty, clean and vent the Ship as per the requirements of the EU Ship Recycling Regulation and/or the HKC as a minimum.
- Using yards that can document responsible recycling through a Ship Recycling Facility Plan and a vessel specific Ship Recycling Plan.
- Using yards with fixed arrangements for collection and processing of hazardous or contaminated waste, and that can document proper downstream waste treatment procedures, including handling of hazardous waste only on impermeable floors with effective drainage systems, control of any leakage, especially in intertidal zones.
- Using yards with proper emergency response capabilities.
- Using yards that can document good HSE and labour policies. Ensure that child labour or modern slavery is not practiced at yard or in yard's value chain.
- Following up the recycling process through inspections and reporting.
- Securing their rights to follow up, stopping work when necessary etc through the contractual agreements entered into at the sale of a vessel at end of life.

Ship owners should also recognize the importance of the regulatory requirements for Inventory of Hazardous Material (IHM) and pay special attention to the consequences for their own fleet and operations with respect to obtaining and maintaining IHMs for vessels in their fleet, through their lifetime, including the impact on ship management and maintenance systems in order to maintain IMHs as per regulations.

5. Recommended minimum standard wording to be included in RSRS members annual reporting

We are a member of the Responsible Shipbuilding & Recycling Standards for banks (RSRS). The RSRS are adopted by [insert # of RSRS banks as per 31.12 of the reporting year] global shipping banks and aim to promote responsible ship recycling and minimize the dangers associated with hazardous materials on board of ships. For that purpose, RSRS members seek to engage in an active dialogue with ship owners. Members actively:

- 1. Require ship owners to prepare and maintain an Inventory of Hazardous Material ('IHM') on board their ships and*
- 2. Covenant that ship owners will maintain a sustainable and socially responsible policy with respect to dismantling of vessels in accordance with the regulations of the Hong Kong Conventions and/or the EU Ship Recycling Regulation.*
- 3. From the shipping related transaction we closed in year [XXXX] we have been able to include in [XX]% of the finance document the relevant RSRS wording.*
- 4. Optional: [Where we have not been able to adopt RSRS wording this is in particular driven by [X Y Z]].*