

## **RESPONSIBLE SHIP RECYCLING STANDARDS**

### **1. Preamble**

Ship recycling practices can have negative environmental and social (“E&S”) consequences in jurisdictions with limited E&S regulations. Negative impacts of ship recycling include environmental damage, occupational health & safety risks, as well as community health and safety exposure.

The undersigned banks (the “Banks”) recognise that ship recycling is part of the shipping industry value chain. As part of the Banks’ desire to minimise the impact on the environment and society that results from poor ship recycling practices, the Banks agree to apply the Responsible Ship Recycling Standards (“RSRS”) set out in this statement.

The Banks believe that the adoption of and adherence to the RSRS offers benefits and opportunities to the environment, society and the shipping sector (including ship-financing banks).

The Banks commit to:

- (i) implementing the RSRS into each of their internal E&S policies, procedures and standards for the financing of shipping assets; and
- (ii) promoting the RSRS within the financial sector.

The Banks will review the RSRS periodically based on implementation experience and in order to reflect on-going learning and good practices.

### **2. Scope**

The RSRS are applicable to debt financing where a ship or ships are pledged as security for a loan.

The Banks agree to use their best efforts to apply the RSRS to new ship finance transactions and to implement the RSRS in their E&S due diligence frameworks.

### **3. Approach**

With the RSRS the Banks underline the importance of the EU Ship Recycling Regulation and their desire to contribute to a responsible ship recycling environment. The Banks acknowledge that an Inventory of Hazardous Materials (“Inventory”) can serve to minimise the dangers associated with (recycling) any Hazardous Materials on board ships. The presence of an Inventory will contribute to the safety of crew members during the ship's working life, minimise the adverse effects on the environment and contribute to the safety of workers during the recycling process.

The Banks recognise the following international standards, industry guidelines and their underlying principles to manage the E&S impacts of ship recycling:

- (i) the Basel Convention on the Control of the Transboundary Movements of Hazardous Wastes and their Disposal;
- (ii) the EU Ship Recycling Regulation; and
- (iii) the Hong Kong Convention.

#### **4. Responsible Ship Recycling Standards**

The Banks using their best efforts

- (i) are not directly involved in the financing of unsustainable ship recycling facilities or the purchasers of shipping assets intended for unsustainable ship recycling (such purchasers or intermediaries are sometimes referred to as 'cash buyers' in this context);
- (ii) in relation to financing transactions for new ships, agree to only finance ships that carry an Inventory. The Inventory should meet the standards as defined in the EU Ship Recycling Regulation;
- (iii) in relation to (re)financing transactions for existing ships, require that an Inventory shall be established by the Ship Owners of such ships. The Inventory shall be established at the next dry-docking at the latest;
- (iv) will encourage clients to ensure that an Inventory is prepared and maintained for each ship in their existing fleet;
- (v) recognise in their due diligence process, the applicable international standards, industry guidelines and their underlying principles to manage the E&S impacts of ship recycling. These standards, guidelines and underlying principles will form the basis for dialogue and engagement with clients on this topic;
- (vi) will create awareness on sustainable ship recycling, and address the client's approach to manage the potential negative impacts of ship recycling;
- (vii) expect clients to 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; and
- (viii) will promote the RSRS within the financial sector and encourage other banks to adopt the RSRS;

## GLOSSARY AND GUIDANCE

### Glossary

For the purposes of this statement, the following definitions shall apply:

**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).

**Existing Ship** – means a ship which is not a new ship.

**Hazardous Materials** - means any material or substance which is liable to create hazards to human health and/or the environment.

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

**Inventory of Hazardous Materials / Inventory** 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 Inventory 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) in the EU Ship Recycling Regulation.

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.

**New Ship** – means a ship that is newly built at the time of the financing transaction.

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

**Ship Finance** – means all types of debt financing where a ship or ships are pledged as security for a loan.

**Ship Owner** – means the person or persons or company registered as the Owner of a ship or, in the absence of registration, the person or persons or company owning that ship. However, in the case of a ship owned by a state and operated by a company which in the State is registered as the ship's operator, "Owner" shall mean such company.

**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, and includes associated operations such as storage and treatment of components and materials on site, but not their further processing or disposal in separate facilities.

## 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 undertakings in the Loan Agreement.

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

A copy of the “Green Passport”, being the document listing all the potentially hazardous materials on board [the/each] Vessel.

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

The Borrower[s] to undertake to maintain a “Green Passport” or an equivalent document acceptable to the Facility Agent in relation to the Vessel throughout the [Security Period].

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

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

“The Borrower shall[, and shall procure that each of the Security Parties will], ensure that [the Vessel] / [any vessel controlled by it] will, when it is to be scrapped by the [Borrower] / [relevant owner], be recycled at a recycling yard which conducts its recycling business in a socially and environmentally responsible manner in accordance with the EU Ship Recycling Regulation.”

(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).

“IHM” means the Inventory of Hazardous Materials describing 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 as required by Article 5 (*Inventory of hazardous materials*) of the EU Ship Recycling Regulation.