

# DfT Regulatory Triage Assessment

<b>Title of regulatory proposal</b>	The Ship Recycling (Requirements in relation to Hazardous Materials on Ships) Regulations 2017
<b>DfT RTA number</b>	DfTRTA00109
<b>Lead DfT directorate/Agency</b>	Maritime and Coastguard Agency
<b>Expected date of implementation</b>	25/09/2018
<b>Origin</b>	EU
<b>Date</b>	01/06/2016
<b>Lead Policy</b>	Bjorn Emtage
<b>Lead Economist</b>	Osman Ajmal / Shafiq Pandor
<b>Departmental Triage Assessment</b>	Low cost (fast track)

## Rationale for intervention and intended effects

The dismantling of ships is at present, sustainable from a narrow economic point of view but the costs to human health and the environment are high. Obsolete ships are often sold to facilities, often in South Asia, on tidal beaches and under unacceptable conditions from the point of view of safety and environmental protection. Existing EU legislation prohibits ships from being recycled in facilities in non-OECD countries – preventing UK flagged vessels from using suitable yards (mainly in China), and securing a reasonable financial return. However, there is widespread non-compliance of the existing regulations, with many shipowners electing to reflag their ship to a non-EU company just before the ship's end of life. Additionally, the limitation of 'approved' recycling facilities to just OECD countries means there is insufficient recycling capacity to meet demand. Government intervention is required to ensure that sufficient numbers of 'approved' recycling facilities are available for UK flagged ships, and to discourage evasion by ships using sub-standard dismantling facilities.

EU Regulation No. 1257/2013 (the "EU Ship Recycling Regulation") provides ship owners more flexibility in terms of locations to recycle ships, allowing them to be processed in any approved facility that meets certain minimum standards (regardless of whether they are in the OECD or not). They also include other measures to improve compliance by attempting to reduce the cost differential between compliance and non-compliance. In the longer term, the aim is to reduce significantly and in a sustainable way, the negative impacts of ship dismantling – on human health and the environment – without creating unnecessary economic burdens.

The policy objective is to implement into UK law, elements of the EU Ship Recycling Regulation, which relate to the development of a compliance regime (i.e. verification of compliance via flag state control). The remainder of the articles of the regulations are directly applicable. The following articles require transposition into UK law:

- Article 5 (3)(d)&(7) requires that the Maritime & Coastguard Agency (MCA) or a recognised organisation authorised by it verify a ship's inventory of hazardous materials.
- Article 6(2)(c) requires ship owners to ensure that ships destined to be recycled hold a Ready for Recycling Certificate issued by the MCA (or a recognised organisation authorised by it)

prior to any recycling of the ship and after receipt of a Ship Recycling Plan approved in accordance with Article 7.

### **Viabie policy options** (including alternatives to regulation)

'Do nothing' is not considered to be a viable option as refusing to make legislation would hinder the Government's policy to ensure ships are recycled in a safe and environmentally sound manner.

The preferred option is to implement all the necessary provisions in the EU Ship Recycling Regulation (SRR) without gold-plating. Choosing this option will ensure the UK industry can take full advantage of the SRR and shipowners can legally avoid the requirements in the Waste Shipment Regulations whilst securing a reasonable return for recycling their ships. It also means the UK meets its obligations under the SRR. There is a risk that some shipowners may continue to reflag their vessels to avoid complying with the new regulation, but the financial incentive to do so would be less and would carry a higher risk of reputational damage if they were caught.

### **Initial assessment of business impact**

Elements of EU Regulation No.1257/2013 which need to be transposed into UK legislation (in accordance with the better regulation framework manual) and have been identified as having an impact to business or government are listed below:

**Article 5(7)** – Inventory of Hazardous Materials to be verified by the Maritime and Coastguard Agency (MCA).

**Article 6(2)(c)** – Ship owners to ensure that ships destined to be recycled hold a Ready for Recycling Certificate issued by the MCA prior to any recycling of the ship and after the receipt of the Ship Recycling Plan.

#### Monetisation of Impacts

##### **Assumptions:**

- The time taken for the MCA to verify the Inventory of Hazardous Materials is 30 mins (Source: MCA).
- The time taken for the MCA to issue a Ready for Recycling Certificate is 30 mins (Source: MCA).
- MCA inspector hourly cost (wages and non-wages) are £35.78 (Source: KPMG<sup>1</sup>).

##### **Article 5(7):**

There are 656 vessels over 500gt in the UK ship register, which is the threshold at which the Regulations apply. Assuming all of them needed to have their inventory of hazardous materials verified by the MCA in the same year, there would be a cost imposed on the MCA of approximately:

$$£11,736 = 30 \text{ mins} \times £35.78/\text{hour} \times 656 \text{ vessels}$$

In reality, this will be spread across a five year period and therefore the annual cost will be closer to ~£2,400.

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<sup>1</sup> Taken from an unpublished KPMG report into costs of complying with the MRV regulations. This is based on evidence from the National Careers Service that records the annual salary of a senior ship officer at £55,000. Including a 30% uplift to reflect non-wage costs borne by the employer this is equivalent to around £35.78 per hour. We have assumed the hourly wage cost of an MCA inspector is similar.

**Article 6(2)(c):**

Assuming all vessels over 500gt registered to the UK flag needed to be issued with a Ready for Recycling Certificate from the MCA in the same year there would be a cost imposed on the MCA of approximately:

$$£11,736 = 30 \text{ mins} \times £35.78/\text{hour} \times 656 \text{ vessels}$$

In reality, as a Ready for Recycling certificate only has to be issued once over the lifetime of a vessel, these costs will be spread over roughly 25 years (the average life of a vessel) and therefore the annual cost will be closer to ~£500.

Summary

The total impact of the UK Ship Recycling Regulations 2017 is expected to be approximately £4,800 per annum. Even in an extreme scenario where all ships are inspected over a single year, the gross annual cost for that year will be approximately £23,500. For the impacts of these regulations to exceed a gross cost of business of £1m these impacts would have to be over 40 times greater than the estimated cost.

The MCA aims to operate on a full cost recovery basis for flag state inspections, so we have assumed that these costs will be recovered from industry.

**One-in, Three-out / Business Impact Target**

This measure is EU derived and therefore is a non-qualifying regulatory provision – it will not score against the Business Impact Target (BIT) and is out of scope of OI3O.

**Rationale for Triage rating**

This is considered a low cost regulatory measure and the gross cost to business is significantly below £1 million in the most expensive year.

**Confirmation that the proposed measure is suitable for Fast Track**

<b>Policy sign-off:</b>	Signature	Jonathan Simpson
	Date	26/07/2016
<b>Economist sign-off:</b>	Signature	Jonathan Saks
	Date	26/07/2016
<b>Better Regulation Unit sign-off:</b>	Signature	Richlove Mensah
	Date	29/07/2016

# Supporting evidence

## The policy issue and rationale for Government intervention

The EU Regulation was published in the Official Journal on 10 December 2013.

The EU Regulation is based on the Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships. The purpose of the Hong Kong Convention is to address the concerns about safety, health, and environmental damage and welfare matters in the ship recycling industry, by regulating the whole lifecycle of the vessel. Although the Convention was adopted in May 2009, it is unlikely to come into force before 2020. The EU Regulation is intended to put Member States in a position to comply with the HKC before this date. Consideration was given to ratifying the HKC at the same time as implementing these UK Regulations, however due to the primary legislation required for this to happen it was deemed unrealistic.

Ships normally have a life span of between 25 and 40 years before they are sent for recycling. In 2009, some 200 ships flagged to EU member States, with a total volume of about two million gross tonnes, were dismantled to recycle the steel, equipment and other materials. However, most ships (especially older vessels) contain hazardous materials which need to be properly managed, stored and disposed of during the recycling process. Therefore vessels in European waters going for dismantling and recycling are classified as 'hazardous waste' under the Waste Shipment Regulations 1013/2006/EC. This bans the export of hazardous waste (including ships) to any country which is not a member of the Organisation for Economic Co-operation and Development (OECD).

The requirements in the Waste Shipment Regulations have proved to be ill-suited to addressing the issues raised by ship recycling, difficult for member States to enforce and have failed - with the exception of a handful of yards - to improve the safety and environmental standards of ship recycling facilities in Asia. Moreover, as 95 per cent of ship recycling takes place in Asia, there is insufficient capacity within the OECD to recycle all ships flagged to an EU member State. As a consequence, many vessels circumvent the current legislation and end up on beaches where they are dismantled in conditions which offer little protection to human health or to the environment.

The new EU Regulation is a recognition that some ship recycling facilities in non-OECD countries (notably China) can recycle ships safely and sustainably. It removes European flagged ships from the scope of the Waste Shipment Regulations and permits their recycling in approved facilities worldwide. It also introduces requirements which will apply throughout the ship's lifetime and are intended to facilitate safe and sustainable recycling, such as carrying an inventory of hazardous materials on board. The new regime offers shipowners more choice of sustainable ship recycling facilities, as well as improving the likelihood of getting a higher financial return for the vessel by using a facility outside the OECD.