

# Membership case study: China Navigation Company



## Use of Responsible, “Green and Safe” Ship Recycling Yards

The China Navigation Company (“CNCo”) voluntarily adopted a policy in 2012 as it started its fleet rejuvenation programme that “It would only send vessels for recycling to yards that have valid and verified accreditation issued by a reputable independent third party against all standards: ISO 9001:2008, ISO 14001:2004, OHSAS 18001:1999 and particularly ISO 30000:2009, and preferably be an “A” member of International Ship Recycling Association”.

### CONTEXT & OBJECTIVES:

It is widely reported that a large number of ship recycling yards globally using the beaching method have poor (or very poor) health, safety and environmental standards and are often found using child labour along with violating labour and human rights. This evasion of the costs of responsible recycling by some shipowners is causing avoidable harm to both the beaching yards’ workers and the nearby communities. Our corporate conscience will not permit us to support this and so we have taken the decision, at an acknowledged cost premium, to go beyond legislation and positively promote the use of, and in so doing encourage the expansion of, more responsible “Green and Safe” ship recycling yards.

This has not gone un-noticed by the yards we have used and they have seized on this as a differentiating business opportunity that can deliver a higher margin in a keenly cost-driven global commodity market. It is also simultaneously a way for the yards to both maintain and enhance their ‘local licence to operate’ by the provision of a safer workspace for their employees, a less polluted environment and more harmonious society for the key stakeholder communities in the vicinity of their yards.





## SOLUTION

**24 years ago, the Chairman of the Swire group exhorted all companies to “always seek to be ahead of legislation rather than reacting to it: that even if the environmentally “clean” way of doing something is more expensive and therefore on the face of it uneconomic, we should always, regardless of mandatory legislation, have a close look at the overall feasibility of adopting such a practice”. All group companies still follow this today.**

Even if only a small percentage of the publicity is correct, and the ship recycling yards that practice beaching cause harm to workers and the environment in the surrounding communities, this can be avoided by the willpower and commitment from the shipowners to not support those yards commercially.

In 2012, as we commenced our fleet rejuvenation programme, and recognising that many of the old ships would be sent for recycling, we discussed and adopted the policy detailed in the summary above. We did this in the knowledge that in the early years this may cost us a material premium / reduce our net return on the final sales, but senior management decided that this was the only morally acceptable and sustainable way for a

company to run its business operations. The key decision is to adopt a completely new view of the way the company defines the boundaries of its operations. Historically, responsibility for an asset has ceased on completing the sale transaction. In the new paradigm, the prior owner now continues to take some responsibility for its asset, (in this case – its responsible recycling) after all usual liabilities and responsibilities would have passed to a third party: the willing and aligned buyer.

There are a number of yards that have been externally and independently audited by the EU and awarded “Green and Safe” AA status\*. Already around 19% ships to be recycled are reported to be routed to yards rated / operating this way. For our ships being recycled in 2012 and 2013 our S&P broker charged a small premium to intimately manage the recycling process and Recycling Plans were produced before work started. The Green and Safe yards chosen were subject to on-site Superintendency and number of detailed audits from both our Fleet Managers and Lloyds Register (LR) which was engaged as our independent process monitor. Close out payments were dependent on the production of a satisfactory recycling completion report by LR.

The yards were clean, and importantly injury-free, whilst we were there, and any hazardous waste was all disposed of appropriately. The yards we used were of course not perfect; LR audited and issued non-conformances during the recycling, but the yard took these in the spirit of continuous improvement and closed them all out prior to the completion of the recycling. This shows that the yards are willing to improve their practices in the market where they receive financial incentive and are not squeezed out financially. It also shows that a joint commitment will lead to better outcomes for both parties

\*See [http://ec.europa.eu/environment/waste/ships/pdf/bio\\_ship%20dismantling.pdf](http://ec.europa.eu/environment/waste/ships/pdf/bio_ship%20dismantling.pdf)



## What are the first steps people can take to replicate this idea/initiative?

- 1. The owner of the ship to be recycled must decide to exercise leadership in the industry, even in the absence of legislation. This involves the paradigm shift of taking responsibility for an asset even after it has been transferred to a new owner.**
- 2. The owner of the ship to be recycled must establish an internal policy to accept the need to pay a reasonable premium to support safer working practices and better protection of the environment in key stakeholder communities that the shipping industry has historically relied on, but have been**

## OUTCOMES

1. The cost to CNCo of exercising leadership by voluntarily but proactively using more responsible, “Green and Safe” ship recycling yards over the yards with poorer standards has been a (not-insignificant) loss of between 8.0% and 14.9% of the potential net profit from the disposal of the ships.
2. The driver behind the decision was simply that CNCo decided that it was morally unacceptable to support parts of the industry with such poor practices where workers were being killed or injured unnecessarily (as evidenced by the better safety records in “clean and green” yards). However we believe that this voluntary taking of additional responsibility will be recognised by not only our employees, who will see us as an Employer of Choice (and so increase retention/ decrease turnover costs within the company), but also our clients, customers and analysts (especially those servicing Socially Responsible Investors – an increasing band these days) that we are striving to be an industry leader on Sustainability as further evidenced by our membership of SSI.
3. Further detailed research in this area would permit the Social Return On Investment (SROI) to be quantitatively calculated, based on the inputs (leakage of recycling work, and better commercial returns, from yards with poorer, to those with better standards), outputs (reduced fatalities, injuries and environmental harm) and impacts on the communities and the businesses.
4. As taking more extended responsibility for ‘Life Of Asset’ and for those workers associated with it when it is up-cycled, becomes more widely accepted in our industry, evidence of the increased use of “Green and Safe” yards will be demonstrated commercially to the laggard yards with poorer standards.
5. However boycotting “bad” yards must only be the first step; it is clearly recognised that a close second intent is that the pan-industry organisations and industry leaders must forge a partnership with those laggard yards that have the commitment (borne of natural market forces) to help them raise their standards. The effect must be that market pressures will help them see that running clean and green yards is the sustainable future for their workforce, the local environment, and their own bottom lines and they will come on board.

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