

**To Norges Bank**

17 December 2021

**Recommendation to place Hyundai Glovis Co Ltd under observation**

## Summary

The Council on Ethics recommends that Hyundai Glovis Co Ltd be placed under observation. Hyundai Glovis is a South Korean company providing logistics and transport services, primarily in the area of motor vehicle transport. The company owns and operates a fleet of bulk carriers and car transport vessels. At the close of 2020, the GPFG owned 0.75 per cent of the company's shares, worth approx. NOK 410 million.

The basis for the Council's assessment is that Hyundai Glovis has disposed of decommissioned vessels by sending them to be broken up for scrap on beaches in Pakistan and Bangladesh, a practice known as 'beaching', where working conditions are extremely poor. The process also causes severe environmental damage. The Council considers that by disposing of ships for scrapping in this way, the company can be said to contribute to serious human rights violations and severe environmental damage.

When assessing the risk that the company will contribute to such norm violations in the future, the Council has attached importance to the company's statement that it will consider better ways to break up decommissioned vessels from now on. The company has further stated that it has no plans to dispose of any more ships for breakup until 2024. In the Council's view, this should give the company sufficient time to find better alternatives for the breakup of its decommissioned vessels. On this basis, the Council recommends that the company be placed under observation. The issue to be observed is whether the company introduces an acceptable practice for the disposal of decommissioned vessels. If, in future, the company disposes of decommissioned vessels for breakup in ways that result in serious environmental damage or gross human rights abuses, the Council may recommend that the company be excluded from investment by the GPFG.

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# 1 Introduction

The Council on Ethics for the Norwegian Government Pension Fund Global (GPF) has assessed the Fund's investments in Hyundai Glovis Co Ltd<sup>1</sup> (Hyundai Glovis) against the Guidelines for Observation and Exclusion from the GPF (ethical guidelines).<sup>2</sup>

The Council has considered whether there is an unacceptable risk that Hyundai Glovis is contributing to serious environmental damage and gross or systematic human rights abuses.

Hyundai Glovis is a South Korean company which provides logistics and transport services, primarily in the area of motor vehicle transport. The company owns and operates a fleet of bulk carriers and car transport vessels.<sup>3</sup>

At the close of 2020, the GPF owned 0.75 per cent of the company's shares, worth approx. NOK 410 million.

## 1.1 Matters considered by the Council

The Council on Ethics has assessed the Fund's investment in Hyundai Glovis against sections 4 (a) and (e) of the ethical guidelines, which state that companies *“may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for a) serious or systematic human rights violations, [...] e) severe environmental damage.”*

The starting point for the Council's assessment is that in 2017, 2018 and 2020 the company disposed of decommissioned vessels by sending them to be broken up for scrap on beaches in Pakistan and Bangladesh, where working conditions are extremely poor. The process also causes severe environmental damage.

In similar cases, the Council has concluded that companies which dispose of vessels for scrap in this way in Bangladesh and Pakistan contribute to the violation of norms as set out in the GPF's ethical guidelines.<sup>4</sup>

## 1.2 Sources

This recommendation rests on statements the company has provided to the Council. In addition, there are a number of sources covering the environmental and working conditions prevailing at shipbreaking facilities in Bangladesh and Pakistan. Some of these are mentioned in the text and referred to in footnotes.

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<sup>1</sup> Issuer ID: 9300090

<sup>2</sup> Guidelines for Observation and Exclusion from the Government Pension Fund Global (GPF): <https://files.nettsteder.regjeringen.no/wpuploads01/sites/275/2021/11/Guidelines-for-Observation-and-Exclusion-GPF-29-November-2021.pdf>

<sup>3</sup> The company's website: <https://www.glovis.net/Eng/business/contentsid/305/index.do>

<sup>4</sup> See, for example, the Council on Ethics' recommendation to exclude Korea Line Corp (2018): <https://etikkradet.no/korea-line-corp-2/>

## 2 Background

### 2.1 Shipbreaking by means of ‘beaching’

Large ships have a normal lifespan of around 25 years, after which their residual value lies in the scrap metal that can be recovered after they have been dismantled. For large ships, this amounts to thousands of tonnes of steel, whose recovery and reuse makes sense from both a financial and resource point of view, provided that it takes place in a safe and sustainable manner.<sup>5</sup>

Globally, 800 to 1,200 large ships are broken up for scrap each year. Almost 80 per cent of the tonnage is broken up on the beaches of Bangladesh, Pakistan and India.<sup>6</sup>

The dismantling of beached ships takes place only in Bangladesh, Pakistan and India. The process involves running the vessel aground at high tide on beaches with a significant difference between the high and low-water mark. Characteristic for beaching, as practised in Bangladesh and Pakistan, is that it does not make use of fixed installations. Because the beached ships rest in sand or mud, access by cranes or heavy machinery is not possible, so much of the work is performed manually. The ships are broken up by cutting large sections which fall to the ground in the tidal zone. These sections are then dragged or carried ashore, where they are cut into smaller pieces and sold for scrap.

All shipbreaking in Bangladesh and Pakistan is carried out by beaching on the coastal strip outside the cities of Chattogram (formerly Chittagong) and Gadani. Each year, several hundred ships are broken up at a large number of individual ‘plots’ along these beaches. The Council on Ethics considers that it is not possible to differentiate between the working and environmental conditions prevailing at the various plots in this area, since they are all fairly similar.

Usually, the company which owns the ship destined to be broken up sells it to a so-called ‘cash buyer’ for scrap. The price that the shipowner receives for the vessel depends on the value of the steel and the cost of dismantling it. The shipowner can choose beaching or alternative methods. However, beaching costs the least and therefore provides the highest price for the shipowner. The difference can amount to several million dollars more per ship, compared with the price achievable if the ship is broken up using safer and more sustainable methods.<sup>7</sup>

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<sup>5</sup> World Bank (2010): “*The Ship Breaking and Recycling Industry in Bangladesh and Pakistan*”, Report No 58275-SAS, <http://documents.worldbank.org/curated/en/872281468114238957/pdf/582750ESW0Whit1LIC1011098791web1opt.pdf>.

<sup>6</sup> The European Commission: *Science for Environment Policy – Ship recycling: reducing human and environmental impacts*, June 2016 [http://ec.europa.eu/environment/integration/research/newsalert/pdf/ship\\_recycling\\_reducing\\_human\\_and\\_environmental\\_impacts\\_55si\\_en.pdf](http://ec.europa.eu/environment/integration/research/newsalert/pdf/ship_recycling_reducing_human_and_environmental_impacts_55si_en.pdf).

<sup>7</sup> The ability of shipowners to choose the method/place of the vessel’s scrapping is evident from the Norwegian Shipowners’ Association’s statement from 2015: “... *We take the position that shipowners are responsible for their ships from ‘cradle to grave’, and must make arrangements in line with this principle. This also applies if the ships are sold to a third party prior to recycling. [...] By selling to yards that make use of ‘beaching’, it will often be possible to be paid USD 3-7 million more per ship than if they are sold to a full-standard shipbreaking yard.*” <https://www.rederi.no/aktuelt/2015/nei-til-beaching-av-skip/>

## 2.2 Working conditions

In Bangladesh and Pakistan, working conditions in the shipbreaking sector are generally very poor. Hazardous operations are performed without training or necessary safety equipment. Fires, explosions, falls from heights and crushing injuries are common. The workers are constantly exposed to substances that are harmful to their health:

*“Working in shipbreaking yards is a dirty and dangerous job. Every year, a great number of workers die or are seriously injured because of work-related accidents or occupational diseases related to long-term exposure to hazardous materials present on end-of-life ships. Workers do not usually receive any information or safety training. They live in makeshift facilities which often lack basic minimum requirements such as sanitation, electricity and even drinking water. There is a general lack of medical facilities and social protection, and injured workers or their relatives hardly receive any compensation for work-related accidents resulting in fatal injuries or permanent disabilities.”*<sup>8</sup>

At least 30,000 people work directly in the shipbreaking sector in Bangladesh. It has previously been estimated that around 15,000 people are directly engaged in shipbreaking in Pakistan.<sup>9</sup> No aggregate information on the number of fatalities is available. In Bangladesh, 1,000–2,000 accidental deaths have been reported since the 1990s. However, these figures are uncertain since accidents and fatalities are rarely reported. How many people’s lives are cut short as a result of injury or work that is harmful to their health is difficult to estimate, but it is clear that it must be a substantial number:

*“Accidents are not reported or recorded. If any worker is affected by occupational diseases, he is no more employed by any of the employers. The employers through adoption of various unfair practices usually conceal information when any worker dies due to occupational accidents. In most cases, families of the victims are not informed, as contractors do not use proper names and addresses of the workers and there is no monitoring or inspection by the proper authority in the area.”*<sup>10</sup>

In 2012, extensive use of child labour in the shipbreaking sector in Bangladesh was reported. It was at that time estimated that children could account for up to 25 per cent of the workforce, and that 10 per cent of the workforce were less than 12 years of age.<sup>11</sup> A study from 2019, estimated that children still made up 10–15 per cent of the shipbreaking workforce in Bangladesh.<sup>12</sup> Children work at tasks such as digging up ship parts that have sunk into the mud and pulling wires and chains.

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<sup>8</sup> UN Office of the High Commissioner for Human Rights (2015): Annual reports 1996-2014, p. 18: [http://www.ohchr.org/\\_layouts/15/WopiFrame.aspx?sourcedoc=/Documents/Issues/ToxicWastes/CompilationReports1996\\_2014.pdf&action=default&DefaultItemOpen=1](http://www.ohchr.org/_layouts/15/WopiFrame.aspx?sourcedoc=/Documents/Issues/ToxicWastes/CompilationReports1996_2014.pdf&action=default&DefaultItemOpen=1).

<sup>9</sup> SDPI/NGO Shipbreaking Platform: Pakistan Shipbreaking Outlook (2013): [http://www.shipbreakingplatform.org/shipbrea\\_wp2011/wp-content/uploads/2013/10/SDPI-NSP-Pakistan-Position-Paper-For-Printing.pdf](http://www.shipbreakingplatform.org/shipbrea_wp2011/wp-content/uploads/2013/10/SDPI-NSP-Pakistan-Position-Paper-For-Printing.pdf).

<sup>10</sup> Muhammad Muhibbullah: *Health hazards and risks vulnerability of ship breaking workers: A case study on Sitakunda ship breaking industrial area of Bangladesh.*, Global Advanced Research Journal of Geography and Regional Planning (ISSN: 2315-5018) Vol. 2(8) pp. 172-184, November 2013.

<sup>11</sup> FIDH: “*Childbreaking Yards*”, *Submission to the UN Committee on the Rights of the Child*, 30 April 2012: <http://www2.ohchr.org/english/bodies/crc/docs/CallSubmissionBusinessSector/InternationalFederationforHumanRights.pdf>.

<sup>12</sup> Dr Muhammod Shaheen Chowdhury: Study Report on Child Labour in the Shipbreaking Sector in Bangladesh (2019): <https://shipbreakingplatform.org/wp-content/uploads/2020/04/Child20Labor20Final.pdf>.

## 2.3 Environmental damage

The ships are normally sailed under their own power onto the beach. They will therefore carry everything an operational vessel has onboard: several thousand litres of fuel, lubricants and hydraulic oils, 20–80 tonnes of asbestos;<sup>13</sup> and PCB from electrical installations. The hull is protected by 10–100 tonnes of anti-corrosion paint and anti-fouling coatings that may contain heavy metals and organic tin compounds. In addition, there are often remnants of the products the ship has carried (chemicals, oil, etc.). Oil tankers, for example, can contain several hundred cubic metres of oil residues if the tanks have not been properly cleaned.<sup>14</sup> A report published by the World Bank in 2010 contains a projection for the total volume of hazardous waste that would be transported to Bangladesh and Pakistan in connection with shipbreaking in the next 20 years, given that conditions do not improve. For Bangladesh, this amounts to an estimated 79,000 tonnes of asbestos and 360 tonnes of PCB. For Pakistan, the estimate is for 5,000 tonnes of asbestos and 24 tonnes of PCB. It has further been estimated that 678 tonnes of heavy metals will be brought to Bangladesh and 45 tonnes to Pakistan due to shipbreaking during the same period.<sup>15</sup>

Without any form of infrastructure or facilities for the collection of harmful compounds, many of these substances will spill out into the natural environment since it is not possible to collect waste and pollution that falls into the mud and is later washed out by the tides. In addition, environmental toxins and hazardous substances are able to disperse in an uncontrolled manner because parts are removed from the ships and sold for reuse. For example, this applies to asbestos panels that are used for housebuilding and emissions of environmental toxins from steelworks that process corrosion-protected scrap metal.<sup>16</sup>

Environmental pollution is extensive. Concentrations of heavy metals such as lead, chromium and cadmium in sediments outside Chattogram have been found in quantities several hundred-thousand times higher than the national threshold values. PCB concentrations in arable fields near steelworks that process scrap metal have been found to be several thousand times higher than the level defined as polluted. Concentrations of oil in water are a thousand times higher than the national threshold level. Pollution is dispersed with the tides, and has resulted in the loss of marine species and the destruction of fisheries, which previously represented an important source of income in the area.<sup>17</sup> <sup>18</sup> Surveys show particular damage to marine ecosystems as a result of heavy metal pollution from shipbreaking activities in Chattogram.<sup>19</sup>

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<sup>13</sup> This is an estimate for commercial vessels. Naval vessels may contain far larger volumes. IBAS: *Why most ships contain asbestos*: <http://www.ibasecretariat.org/jc-why-most-ships-still-contain-asbestos.php> and PRI: *Where should old cargo ships go to die?*: <https://www.pri.org/stories/2013-10-21/where-should-old-cargo-ships-go-die-some-europeans-say-bring-them-home>.

<sup>14</sup> “*Why Ships are Toxic*”, NGO Shipbreaking Platform: <http://www.shipbreakingplatform.org/main-aspects/why-ships-are-toxic/>.

<sup>15</sup> The estimated volume of PCB is based on 240,000 tonnes and 16,000 tonnes of PCB-containing materials being sent to Bangladesh and Pakistan, respectively. World Bank Report No 58275-SAS: “*The Ship Breaking and Recycling Industry in Bangladesh and Pakistan*” (2010): <http://documents.worldbank.org/curated/en/872281468114238957/pdf/582750ESW0Whit1LIC1011098791web1opt.pdf>.

<sup>16</sup> Footnote 6.

<sup>17</sup> Dr Med M Marus Hossain et al. (2006): “*Ship Breaking Activities and its impact on the Coastal Zone of Chittagong, Bangladesh: Towards Sustainable Management*”, Institute of Services, University of Chittagong, ISBN 984-32-3448-0.

<sup>18</sup> Md. Shakhaoat Hossain et al: “*Impact of ship-breaking activities on the costal environment of Bangladesh and a management system for its sustainability*”, Environmental Science and Policy 60 (2016).

<sup>19</sup> P. Barua, S. Rahman et al: “*Heavy Metals Effluence in Sediments and Its Impact on Macroenthos at Shipbreaking Area of Bangladesh*”, Asian Profile 45(2), pp 167-180, April 2017.

Conditions at Gadani have not be examined as thoroughly, but it must be assumed that they are fairly similar to those at Chattogram in terms of pollution and the spread of environmental toxins.

## **2.4 Starting point for the Council's assessment**

When assessing the GPFG's investments in companies against the Fund's ethical guidelines, the Council relies on international conventions and established norms for corporate conduct.

When assessing companies that have been excluded from investment by the GPFG, the Council has previously considered the link between the company's operations and the norm violations, including whether the company has contributed actively to or known about the norm violations without seeking to prevent them; whether the norm violations are ongoing and whether there is an unacceptable risk of future norm violations. In some cases, importance has also been attached to the extent to which norms have been violated in furtherance of the company's interests or to facilitate the company's business operations.

### **2.4.1 Universal Declaration of Human Rights and the UN Global Compact**

In this case, the Council takes as its starting point the labour rights established in Articles 23 and 24 of the Universal Declaration of Human rights, set out in Article 7 of the International Covenant on Economic, Social and Cultural Rights, which establishes, inter alia, the right to safe and healthy working conditions. The Committee on Economic, Social and Cultural Rights (CESCR) has elaborated on how Article 7 should be interpreted and makes clear that health, safety and the environment are fundamental elements of the right to safe and healthy working conditions.

Companies that have endorsed the UN Global Compact have undertaken to operate their businesses in accordance with human and labour rights principles, which includes ensuring that they do not contribute to human rights abuses. Furthermore, signatory companies must support a precautionary approach to environmental challenges and take the initiative to promote greater environmental responsibility.<sup>20</sup>

### **2.4.2 ILO conventions**

The ILO has drawn up specific guidelines for shipbreaking in Asia and Turkey, which the working conditions can be compared with.<sup>21</sup> General ILO conventions are also relevant, including ILO convention no. 182, which defines the worst forms of child labour as, inter alia, work that is harmful to the child's health and safety. There are, moreover, a series of so-called technical conventions which the conditions may also be assessed against. These include ILO conventions no. 167 Safety and Health in Construction, no. 148 Working Environment (Air Pollution, Noise and Vibration), no. 162 Asbestos, and no. 130 Medical Care and Sickness Benefits.<sup>22</sup>

### **2.4.3 The Basel Convention**

When assessing environmental harm, it is natural to refer to the Basel Convention (Convention on the Transboundary Movement of Hazardous Wastes and their Disposal). The

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<sup>20</sup> UN Global Compact's 10 principles for responsible business:

<https://www.unglobalcompact.org/what-is-gc/mission/principles>

<sup>21</sup> ILO: Safety and health in shipbreaking: Guidelines for Asian countries and Turkey:

[https://www.ilo.org/safework/info/standards-and-instruments/codes/WCMS\\_107689/lang--en/index.htm](https://www.ilo.org/safework/info/standards-and-instruments/codes/WCMS_107689/lang--en/index.htm)

<sup>22</sup> <https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12000:0::NO::>



convention has been ratified by 186 states, including Bangladesh and Pakistan. Since the ships that are broken up by means of beaching are rarely registered in the country in which they are broken up, this practice will involve the transnational transport of hazardous waste and will therefore be covered by the convention. To assist states and other actors to comply with the Basel Convention, technical guidelines specifically applicable to shipbreaking have been drawn up under the convention.

#### **2.4.4 Hong Kong Convention**

In 2009, under the auspices of the International Maritime Organisation (IMO),<sup>23</sup> the Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships (the Hong Kong Convention) was negotiated.<sup>24</sup> The convention has not yet entered into force, but has so far been ratified by 15 states.

With regard to the breakup of obsolete ships and the technical standards required at shipbreaking facilities, the convention's Regulation 17 states:

*Ship Recycling Facilities authorized by a Party shall establish management systems, procedures and techniques which do not pose health risks to the workers concerned or to the population in the vicinity of the Ship Recycling Facility and which will prevent, reduce, minimize and to the extent practicable eliminate adverse effects on the environment caused by Ship Recycling, taking into account guidelines developed by the Organization.*

Under the convention's Regulation 18, the ship recycling facility shall establish plans and systems to ensure a safe working environment and prevent pollution. Under Regulation 19, the ship recycling facility must establish procedures for the same, while Regulation 20 requires the facility to establish systems and routines for the safe handling of waste. All these matters must be undertaken in compliance with the IMO's technical guidelines.

#### **2.4.5 IMO's technical guidelines**

In 2012, the IMO issued technical guidelines for safe and environmentally sound ship recycling.<sup>25</sup>

Section 3.3 of the guidelines contains a series of subsections with instructions for the safeguarding of the working environment. These include requirements for staff training, the identification of dangerous working conditions, procedures for entering tanks, safety in connection with hot work, fall prevention equipment, protection from exposure to hazardous substances, the safe handling of asbestos, the use of personal protective equipment, the provision of break rooms and sanitary facilities, etc.

Section 3.4 of the guidelines describes various measures to prevent environmental pollution, including the collection, storage and treatment of hazardous waste, such as asbestos, PCB, ozone-depleting compounds, corrosion-protection substances and heavy metals. Section 3.4.4.1 concerns *Spill prevention, control and countermeasures*:

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<sup>23</sup> The International Maritime Organization (IMO) is the UN's specialised agency with responsibility for regulating international shipping.

<sup>24</sup> The Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships. Available here: <http://www.basel.int/Portals/4/Basel%20Convention/docs/ships/HongKongConvention.pdf>

<sup>25</sup> IMO, 2012 Guidelines for Safe and Environmentally Sound Ship Recycling: [https://wwwcdn.imo.org/localresources/en/OurWork/Environment/Documents/210\(63\).pdf](https://wwwcdn.imo.org/localresources/en/OurWork/Environment/Documents/210(63).pdf)

*The purpose of developing and implementing a programme for spill prevention, control and countermeasures is to minimize the risk of spills and leaks that could adversely impact the environment. [...]*

*At a minimum, the programme should demonstrate that the Ship Recycling Facility has adequate containment and spill clean-up equipment and procedures, by identifying the following:*

- *containment and diversionary structures in place to prevent discharged Hazardous Materials from contaminating soil and water;*
- *Facility drainage areas;*

The IMO's technical guidelines therefore require the ship recycling facility to have equipment for the collection and drainage of runoff materials to prevent harmful substances from polluting the environment.

#### **2.4.6 Legal practice in the area**

Recent legal rulings have determined that shipowners are liable for conditions at the locations where their decommissioned vessels are broken up for scrap. In a court case in the Netherlands in 2018, a ship-owning company was convicted for having violated the EU Waste Shipment Regulation. The company had disposed of vessels to be broken up on beaches in India and Bangladesh.<sup>26</sup> In 2020, a Norwegian shipowner was sentenced to a term of imprisonment for contravening the Norwegian Pollution Control Act by attempting to dispose of a ship located in Norway for the purpose of having it broken up in Pakistan.<sup>27</sup>

### **3 The Council's investigations**

The Council on Ethics has not itself undertaken investigations into environmental or working conditions in Bangladesh and Pakistan. The conditions are considered to have been adequately described in the sources to which the Council refers in this recommendation.

The Council takes as its starting point the annual list compiled by the organisation *NGO Ship-breaking Platform* for details of how many ships Hyundai Glovis has sold for beaching in recent years. The list shows that this applies to one ship that was broken up in Pakistan in 2017. In 2018, one of the company's ships was broken up in Bangladesh, where a further two ships were broken up in 2020. The company has provided the Council with confirmation of this information.

### **4 Information from the company**

The Council contacted Hyundai Glovis in April 2021 with a request for information about how it disposes of decommissioned ships and its plans for future disposals.<sup>28</sup>

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<sup>26</sup> The Seatrade case, referred to here: <https://www.impel.eu/seatrade-convicted-for-beaching-ships/>.

<sup>27</sup> The Harrier case, referred to here: <https://wiersholm.no/en/newsletter/norwegian-judgment-regarding-illegal-scraping-of-vessels/>. The ruling has been appealed. The defendant's appeal is expected to be heard in 2022.

<sup>28</sup> Letter from the Council on Ethics to Hyundai Glovis Co Ltd, 14 April 2021.

In its reply to the Council, the company confirmed that it had disposed of four ships for breakup in Pakistan and Bangladesh since 2017, the last two in 2020.<sup>29</sup>

The company also stated that it had no plans to dispose of any further vessels for breakup until 2024. The company explained that it had previously chosen shipbreaking in Pakistan and Bangladesh because this was the most financially viable option, but that it would in future look into and consider “*Green Recycling (scrapping on deck)*” as an alternative to ship-breaking in Bangladesh and Pakistan. The company further informed that it had become a signatory to the UN Global Compact earlier this year and will take steps to promote principles of sustainability in its operations.

In October 2021, a draft version of this recommendation was sent to Hyundai Glovis, which was invited to submit its comments.<sup>30</sup> The company duly replied in November.<sup>31</sup> Once again, the company underlined that it will endeavour to ensure that, in future, its decommissioned vessels will be broken up in a safe and environmentally sound manner.

## 5 The Council’s assessment

The Council on Ethics has considered whether there is an unacceptable risk that Hyundai Glovis contributes to or is itself responsible for severe environmental damage and systematic violations of internationally recognised human rights norms in connection with the scrapping of the company’s vessels in Bangladesh and Pakistan.

There is no doubt that, viewed in isolation, the environmental and working conditions associated with beaching as it is carried out in Bangladesh and Pakistan exceed the threshold for the exclusion of companies from the GPF. However, these operations are not performed by companies in the GPF’s portfolio. The issue is firstly whether a company may, under these circumstances, be said to *contribute* to the violation of ethical norms by disposing of a ship for the purpose of beaching it.

### *The company’s contribution to norm violations*

When a company sells a ship to a ‘cash buyer’, it is at the outset clear that the ship is being sold for the sole purpose of scrapping. Furthermore, both parties are aware that the agreed price depends largely on two factors: the volume of steel in the ship and the cost of dismantling it. The cheapest method of dismantling a ship is by beaching, which is why this process gives the seller the highest price for the vessel concerned. Hyundai Glovis has confirmed as much in its reply to the Council.

The Council on Ethics presumes that companies that dispose of a ship for scrapping in this way are fully aware of what will happen to it next. It must be considered as general knowledge in the shipping industry that environmental and working conditions associated with beaching in Pakistan and Bangladesh are extremely poor. That a ship is nevertheless sent there to be broken up is a consequence of an active choice on the part of the company that owned the vessel to maximise its profit. There are better ways of dismantling ships that are readily available to the shipowner, but these are more expensive.

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<sup>29</sup> Letter from Hyundai Glovis Co Ltd to the Council on Ethics, dated 7 May 2021.

<sup>30</sup> Letter from the Council on Ethics to Hyundai Glovis Co Ltd, dated 22 October 2021.

<sup>31</sup> Letter from Hyundai Glovis Co Ltd to the Council on Ethics, dated 5 November 2021.

In similar cases, the Council has previously taken the position that there is a concrete link between the company's action in selling the decommissioned vessel for the purpose of its breakup and the underlying norm violations, *i.e.* the environmental and working conditions at the shipbreaking facility. Legal practice in recent years has even established that ship-owning companies which dispose of decommissioned ships for beaching may have an accessory liability under criminal law.

#### *Serious or systematic human rights violations*

The practice of beaching is characterised by the use of unqualified labourers to perform work that is extremely dangerous and harmful to their health, without training, the necessary protective equipment or basic safety precautions. The number of accidents is high, as is the risk of injury to the workers' health.

The UN's Guiding Principles for Business and Human Rights express an expectation that companies respect human rights, prevent the risk of their abuse and deal with *de facto* human rights violations. Companies have a duty to comply with national laws and norms, even though these are not enforced by the authorities. It is expected that a company assesses the actual and potential negative impacts that its operations have on those affected by them. Members of the UN Global Compact shall actively strive to safeguard human rights in their operations.

Although the extent of child labour may have diminished somewhat, the widespread employment of children in the Bangladesh shipbreaking sector is still being reported, with children as young as 12 performing work that is dangerous and hazardous to their health. Such work, if performed by a child under the age of 18, falls within the category of the worst forms of child labour in violation of ILO convention no. 182. This can alone be sufficient grounds to exclude a company from investment by the GPFG.

It is well documented that the shipbreaking sector in Bangladesh and Pakistan involves continuous, innumerable and serious violations of the ILO's guidelines for shipbreaking in Asia, as well as a number of ILO conventions whose purpose is to establish minimum standards to safeguard the lives and health of those working in it. In part, this business can operate at a low cost precisely because it devotes minimal resources to safeguarding the working environment in the form of protective equipment, training and safety procedures.

The Council on Ethics does not find it necessary to consider the violations of each individual convention separately. The reported conditions demonstrate an almost total failure to comply with the conventions and to implement minimum standards, and this results in the vast number of accidents and considerable harm to health deriving from these operations. Wide-ranging and serious violations of these conventions must be deemed to infringe fundamental rights to life and health, the sum of which must be said to constitute a serious breach of fundamental human rights.

#### *Serious environmental damage*

The Council has also assessed the company's actions regarding the risk of contributing to serious environmental damage. In connection with previous assessments of serious environmental damage, the Council has attached importance to the scale of the damage, whether it is irreversible, whether it has a significantly negative impact on people's lives and health, whether national laws or international conventions have been violated, whether the company has failed to take steps to prevent damage, and whether it is likely that the company's unacceptable practices will continue. Under the ethical guidelines' environmental

criterion, a company may be excluded from investment by the GPFG whether it is itself responsible for or contributes to the damage in question.

With beaching, the environmental damage occurs as a result of failure to comply with either the Basel Convention or national legislation, since several thousand tonnes of hazardous waste are sent annually to countries that have no infrastructure capable of dealing with it in a safe and sustainable manner. All companies that dispose of ships for beaching contribute to this. It is precisely this kind of transboundary transport of waste that the convention is intended to prevent. Given that it nevertheless does take place, the consequences are predictable: serious pollution and the dispersal of environmental toxins, which in turn have a negative impact on human health and ecosystems in the area. Studies have revealed levels of pollution deriving from heavy metals, among other things, that to an extreme degree exceed established norms.

Although the Hong Kong Convention has not formally entered into force, it can be said to establish norms for companies' expected behaviour. Regardless of the future status of the convention, the IMO's underlying technical guidelines provide directions for how shipbreaking should be carried out in an appropriate way. The Council here refers specifically to section 3.4.4.1 of the IMO's guidelines on ship recycling, which presumes that shipbreaking takes place on a impermeable flooring and with the drainage and collection of hazardous waste to prevent pollution of the environment. This is incompatible with the breakup of ships run aground on mud and sand. The use of a impermeable flooring with drainage and collection is not in itself sufficient to prevent pollution from shipbreaking, but it nevertheless constitutes a fundamental precondition for achieving this. The collected waste must also be treated in an appropriate way, also here in accordance with the IMO's technical guidelines.

In connection with its survey into other companies, the Council has examined the conditions at several shipbreaking yards in Alang, India. The results so far show a substantial variation between the yards with respect to environmental and working conditions. Furthermore, recognised ship classification societies have recently undertaken to issue certificates for shipbreakers in Alang confirming that they are operating in accordance with the Hong Kong Convention, a so-called 'Statement of Compliance with the Hong Kong Convention'. The Council's surveys show that the majority of the yards that can produce such certificates are not technically equipped in accordance with the IMO's guidelines, in part because the ships are not broken up on impermeable flooring with drainage and collection of hazardous waste. In the Council's experience, therefore, the fact that a shipbreaker can produce a *Statement of Compliance with the Hong Kong Convention* is by itself insufficient to secure that the dismantling is conducted in an acceptable manner. Companies that wish to dispose of ships for breakup in Alang should be aware of this discrepancy.

#### *Future risk*

In principle, the way the company has disposed of obsolete vessels since 2017, combined with the other factors described above, could constitute sufficient grounds for the Council to recommend the exclusion of Hyundai Glovis under both the environmental and human rights criteria in the GPFG's ethical guidelines.

However, the Council's assessments are intended to be forward-looking, and here the Council accords considerable weight to the company's statements. The key statement is the company's assertion that it will consider better alternatives to beaching, specifically those involving "scrapping on deck", i.e. the breakup of decommissioned ships on impermeable flooring. The company's information that it has no plans to dispose of further vessels for breakup until 2024 has also been accorded weight. This should give the company sufficient time to evaluate and

choose more sustainable alternatives for the disposal of obsolete ships. In the Council’s view, a good starting point will be the IMO’s Guidelines for Safe and Environmentally Sound Ship Recycling.

The Council also notes that the company has recently endorsed the UN Global Compact and that it will work to adopt more sustainable business practices under this framework.

*Recommendation of observation*

Based on the above, the Council on Ethics recommends that Hyundai Glovis be placed under observation. The matter to be observed is whether the company introduces an acceptable practice for the disposal of decommissioned vessels. If, in future, the company disposes of decommissioned vessels for breakup in ways that result in serious environmental damage or gross human rights abuses, the Council may recommend that the company be excluded from investment by the GPFG.

**6 Recommendation**

The Council on Ethics recommends that Hyundai Glovis Co Ltd be placed under observation.

\*

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Chair

(Sign.)

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