



OECD Project
Hazardous Substance
Handling Facilities with
Ownership Change

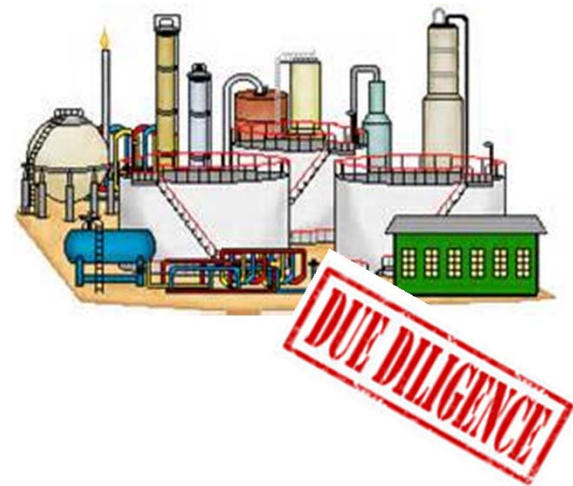
TWG2 2015

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Content

- Background
- Findings and conclusions
- Way forward



Background for project

- Many countries experience change of ownership in chemical industry
- Does this affect safety in the companies that change hands?
 - Sales to less safety-oriented companies might have a negative long-term effect on safety?
- OECD – WGCA wanted to look closer into these matters, and a steering group was established with Norwegian funding



Objectives

- Identify safety related issues that should be focused by industry, public authorities and other stakeholders.
- Greater awareness by industry, public authorities and other stakeholders of the safety implications of change of ownership of companies, particularly to less safety oriented companies,
- If concluded as necessary – initiate development of specific guidance
 - incorporated in the Guiding Principles or as an OECD publication?

Main project activities

- Collection of examples from OECD- countries
- Literature study
- Survey
- Interviews
- Special session

All with help from a consultant Analyse & Strategi and Graham Dalzell - independent consultant with experience from change of ownership processes

Literature study -topics addressed

- Current situation with regard to ownership changes of establishments handling hazardous substances?
- Are ownership changes common in all kinds of businesses that handle hazardous substances?
- Is it possible to:
 - identify examples where ownership change has caused safety issues or accidents?
 - identify examples of successful changes of ownership and success criteria?
 - find information on government response to chemical accidents induced by ownership change?



Search in EMARS database and CSB reports

Only four cases where the reported reasons are directly related to ownership change

- Explosion in batch reactor (Belgium, 2006)
- Refinery explosion and fire (U.S., 2005)
- Vinyl Chloride Monomer Explosion (U.S., 2004)
- Norway – explosion in fuel storage depot (2007)

emARS



Summary and Conclusions from Literature study

- Ownership changes are happening relatively frequent in the international chemical industry.
 - by comparison, major chemical accidents are rare
- Asia has emerged as the region with highest annual levels of ownership changes
 - China is the country with most ownership changes in Asia
- German chemical companies have maintained their position as the most active acquirers in Europe
- Few cases where ownership change is identified as reason for a chemical accident
- Most important reasons for chemical accidents related to ownership are
 - changes in management/staff
 - budget cuts
 - change of safety philosophy

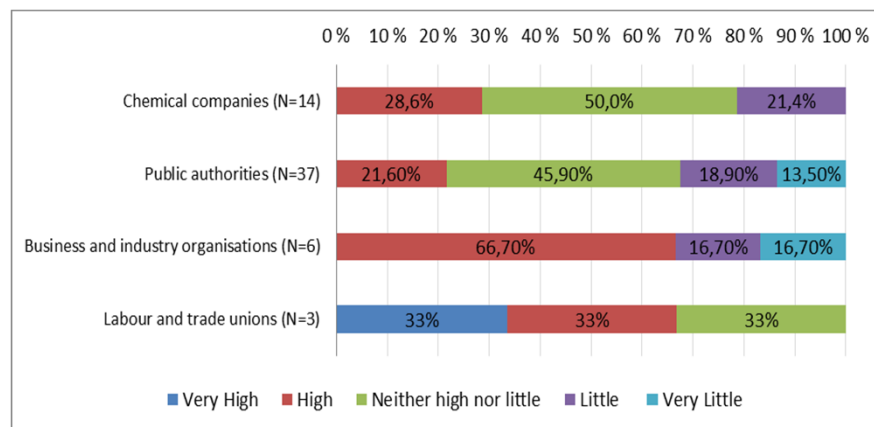
Survey

- Carried out between March 23 and April 25 2014
- Developed using web based tool
- Identify factors/reasons that may explain how ownership change influence safety at hazardous facilities
- 101 questions – not all to be answered by all – 5 different paths
- Sent to industry, authorities, work- and trade organisations

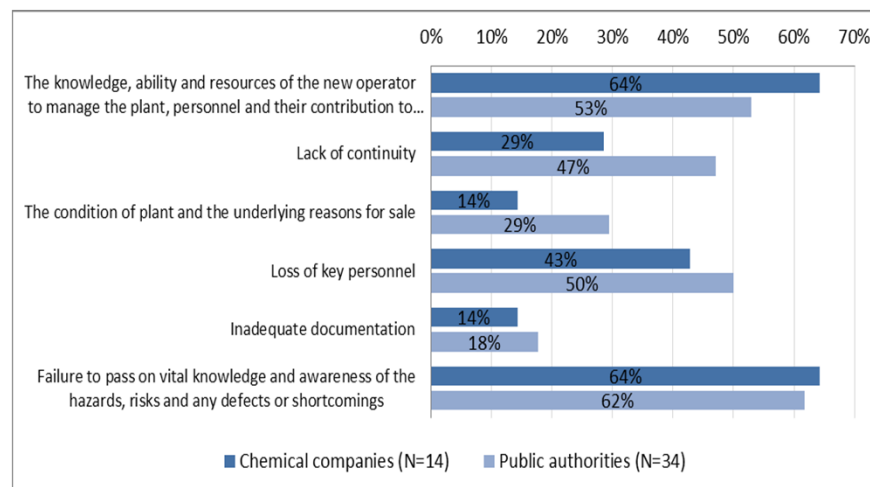


Ownership change and risk perception I

- Ownership change is generally not perceived as a very high risk factor by chemical companies and public authorities
- Transfer of information and loss of key personnel, management competence and skills deemed as most important risk factors by chemical companies and public authorities
- Respondents also emphasised differences in safety cultures, regulatory regimes and short-term profit maximisation as risk factors



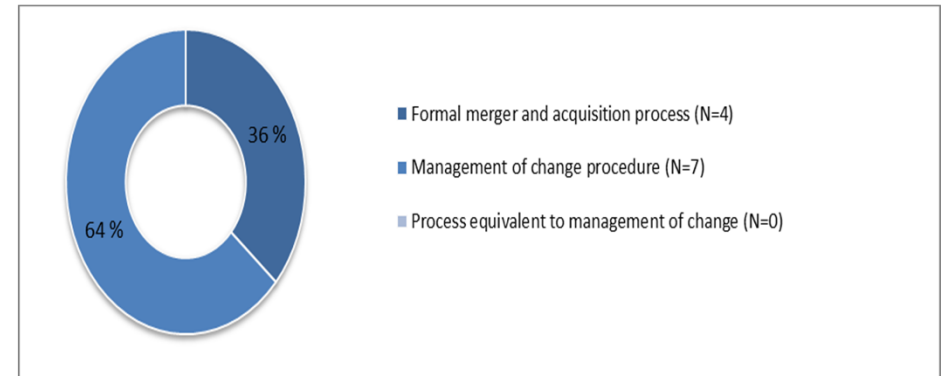
Risk perception



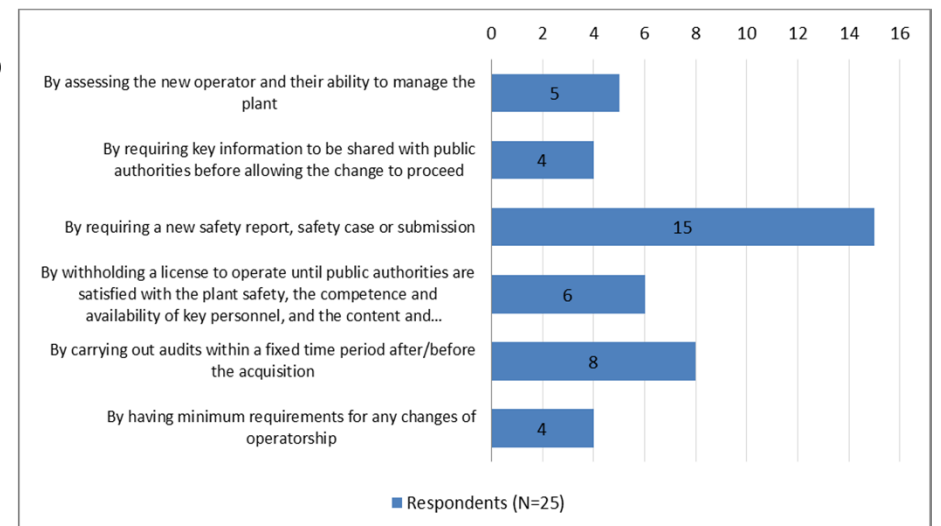
Perception of safety risk factors, chemical companies and public authorities

The ownership change process: Procedures and requirements I

- In most companies, ownership changes are included in management of change (MoC) procedures
- The most common follow-up by public authorities is requiring a new safety report, safety case or submission



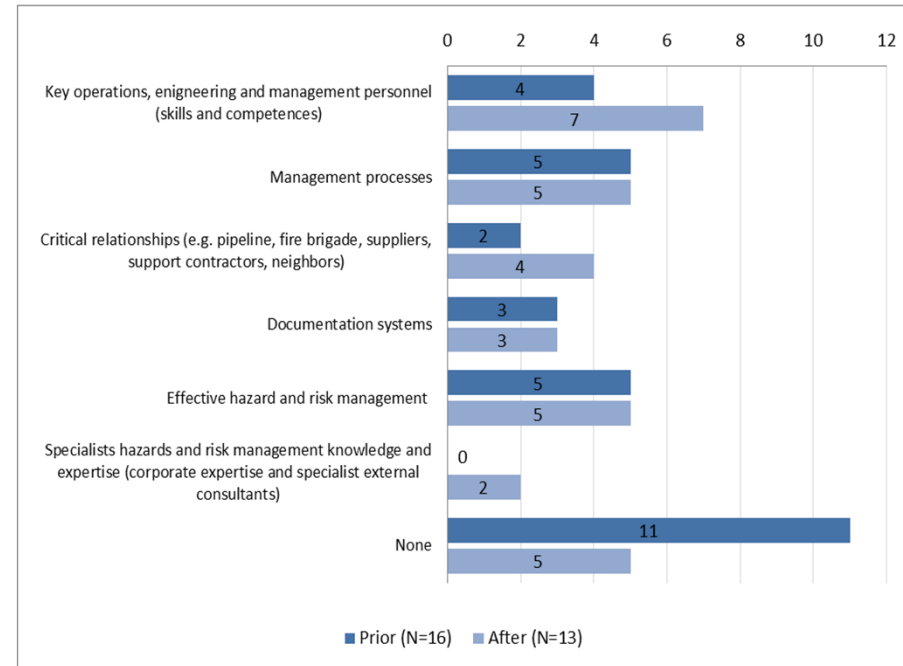
Companies with formal M&A process



Public authority procedures related to M&A

The ownership change process: Procedures and requirements II

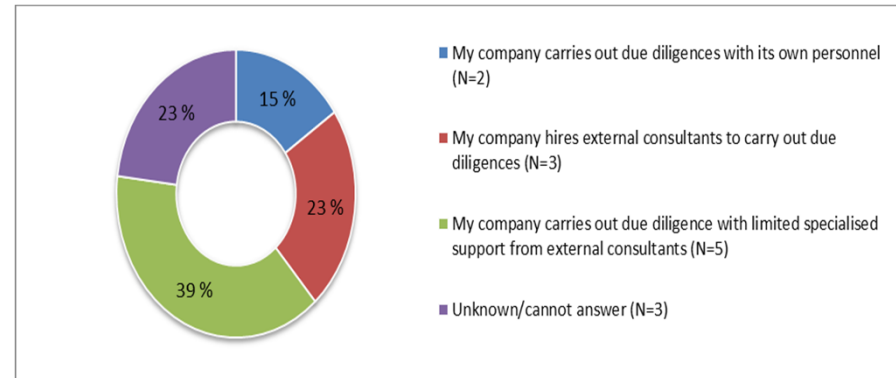
- Public authorities usually do not require any information **prior** to an ownership change
- In several countries the public authorities do not require any information after an ownership change



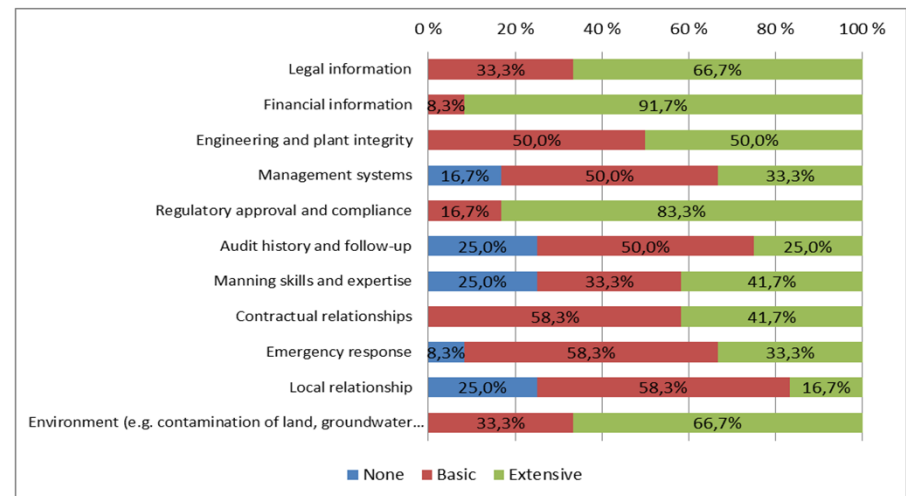
Information required by public authorities prior and after M&A

The due diligence process

- ✓ Companies appear to prefer to maintain control of the due diligence process.
- ✓ Financial information most extensively collected.
- ✓ 1/4 of the companies do not collect any information on audit history and manning skills and expertise.



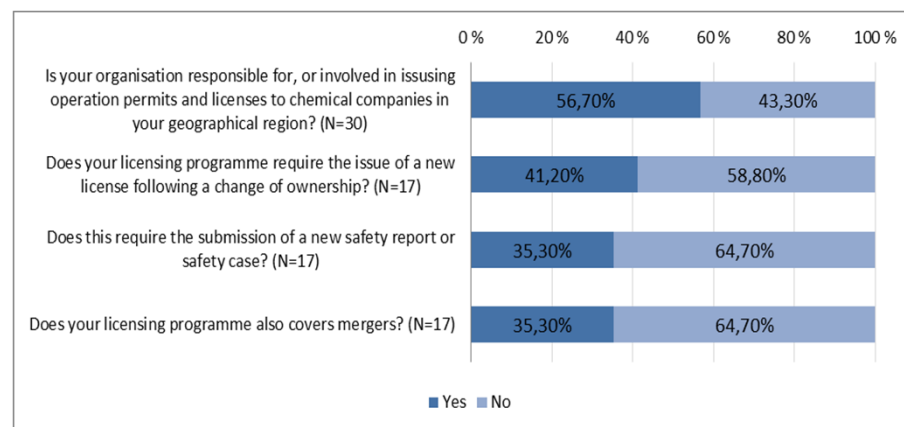
Use of external consultants in due diligence



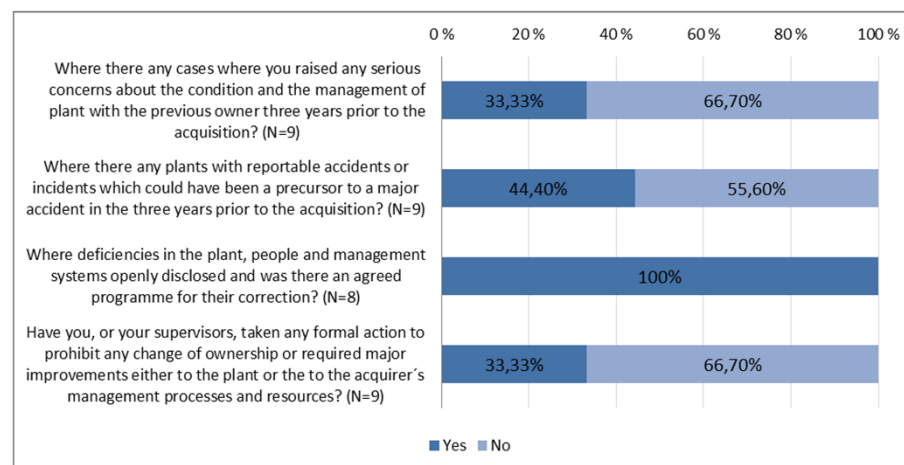
Type of information collected in due diligence

Role of public authorities II: Permits and licences

- In several countries, ownership change does not require a new permit or licence
- In many cases, permits and licences, following an ownership change, can be obtained without submission of a new safety report or safety case
- Public authorities responsible for issuing permits and licences do not usually take formal actions to prohibit an ownership change



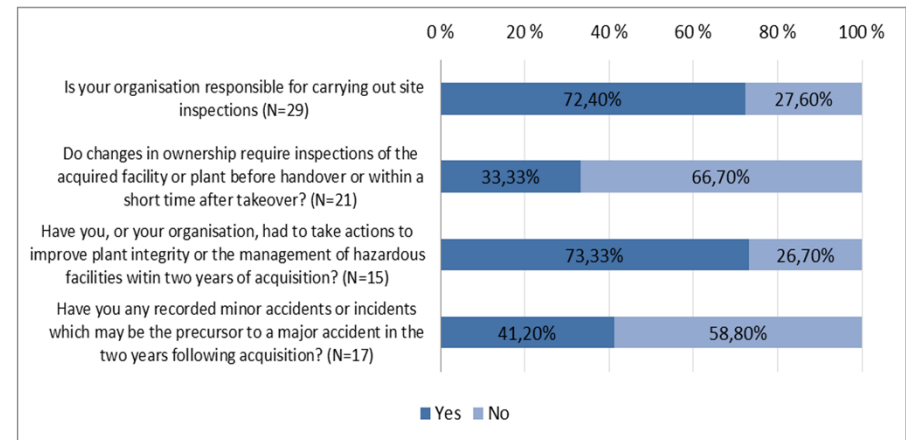
Ownership change and permits and licenses



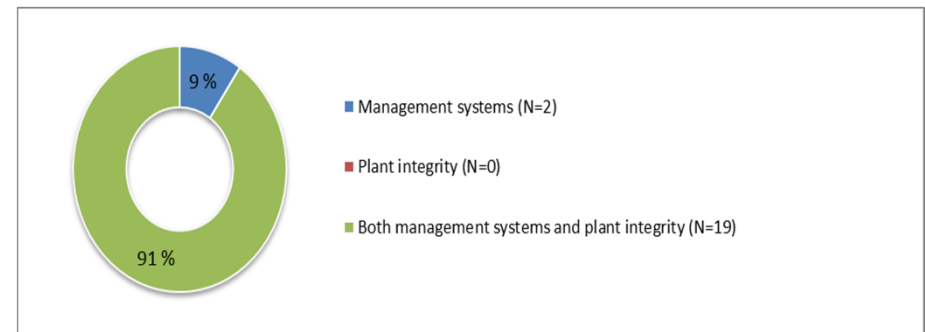
Experience from working with permits and licences

Role of public authorities III: Inspections

- In several countries, ownership change does not require inspection of the acquired facility
- Inspections usually focus on both management systems and plant integrity
- Authorities responsible for carrying out inspections frequently take actions to improve plant integrity or management of hazardous facilities



Inspection procedures



Focus areas in inspections

Survey - Summary and Conclusions

- Agreement between chemical companies, public authorities and other stakeholders on what constitutes the most important safety risk factors
 - **Transfer of information**
 - **Loss of key personnel**
- Financial information given pre-eminence during due diligences
- Generally, limited focus by public authorities on ownership change of hazardous facilities
- Public authorities seem to apply a reactive approach to regulating and monitoring ownership changes of hazardous facilities

Interview with legislator

- ✓ Purpose of interview to gather information and experiences from personell with experience from ownership change.
- ✓ 4 examples of ownership change discussed
- ✓ 3 of 4 cases mainly with a positive outcome from the change.
Important success factors:
 - Keeping competency
 - New owners with good intentions
- ✓ 4th case – “all went wrong”
 - New owner profit focused, no understanding of risks
 - Loss of competency – staff reductions from 220 – 55
 - Serious accidents followed –toxic releases, personell with serious injuries
 - Failed to comply with several of regulators many improvement notices
 - Eventually plant closed down by owner – without cleaning up the site

Interviews with industry representatives

- ✓ Purpose of interviews to gather information and experiences from people who have experienced ownership change.
- ✓ 3 representatives interviewed – background from different industries
- ✓ Many lessons learned from these interviews:
 - Important to have clarity of threats and underlying issues like loss of experience
 - Long term instability in organizations lead to disillusioned personnel
 - Change of employment conditions (workload, payment, training) may have negative impact on risk
 - M & A's – when deal done in boardroom, little focus on plant condition, risk assessments
 - Mergers of 2 organizations difficult – culture differences – new way of working, wage differences, prioritization of personnel from one of the two

Way forward

- Final report from Steering Group in september 2015
- Steps will be taken to produce a small document with good advice to companies, legislators and those performing due diligence processes
- OECD Guiding Principles may be updated