

## Regulatory Triage Assessment

<b>Title of regulatory proposal</b>	The Hovercraft Code
<b>Lead Department/Agency</b>	Maritime and Coastguard Agency
<b>Expected date of implementation</b>	ASAP SNR 9
<b>Origin</b>	Domestic
<b>Date</b>	
<b>Lead Departmental Contact</b>	Alison Leighton
<b>Departmental Triage Assessment</b>	Deregulation (fast track)

### Rationale for intervention and intended effects

All UK hovercrafts are built under the High Speed Craft Code which is an international standard for ships operating at speed irrespective of size. These existing international standards were designed for relatively large, expensive crafts operating internationally but extended to apply to all domestic high speed crafts, including hovercraft, as there were no equivalent standards in place. It is impractical to build a small hovercraft to these international standards and this has restricted the smaller hovercraft sector in the UK; as such there are no small hovercraft operating commercially.

The proposed Hovercraft Code has been developed with industry stakeholders and offers an equivalent standard for builders and potential operators of small hovercraft. This will enable the UK to develop and create a new UK market for small commercial hovercraft benefitting both operators and manufacturers of these craft.

### Viable policy options (including alternatives to regulation)

The introduction of the Hovercraft Code is the only option as it facilitates the growth of a new market in the UK for small commercial hovercraft. The Hovercraft Code is non-statutory, providing pragmatic equivalent safety standards appropriate for the construction and operation of small commercial hovercraft.

### Initial assessment of business impact

It is difficult to monetise the scale of impacts by the introduction of the Hovercraft Code as it has been developed to address a gap in the UK market for small commercial hovercraft. Industry representatives, who have been involved in the development of the Code, believe that there will be a period of rapid development of hovercraft design following this deregulation with an indeterminate number of separate developments. These include sectors such as companies involved in environmental survey work and hovercraft hire, as well as normal commercial operations. It is anticipated that the growth will mainly impact small businesses based on much of the maritime sector as a whole being made up of small to medium enterprises.

Over the last three months industry has begun building to the pragmatic standards of the Hovercraft Code and are already seeing benefits. As an indication, one company has already indicated that within 2015, it has already benefited from £105,000 additional sales secured, predicts a further £300,000 sales and has generated three further roles in the company.

Although this Code can only legally be applied in the UK, other countries have already expressed an interest in using these more practical standards in their own domestic regulations, hence giving the UK established manufacturers an advantage in export sales. A further indication of this shows a second company predicting an increase in export sales of between £1 – 2 million per annum.

The cost to build a small hovercraft varies dependent on specific design, construction and operational requirements. This means the costs can range from £9,700 for very small craft to

£1,050,000 for larger craft. It should be noted that the retail value is greater.

**One-in, One-out status**

This proposal is in scope of One-in, Two-out and is considered to be an OUT in accordance with section 1.9.11 of the Better Regulation Framework Manual as it provides a more proportionate and cost-effective means of producing hovercraft with comply with the required standards.

**Rationale for Triage rating**

It is considered that this proposal is deregulatory and comes under the Fast Track route. The Hovercraft Code removes the requirement for manufacturers and operators to build to the international standards previously implemented in a way that went beyond the minimum requirements. This is now being addressed by allowing exemptions and providing a pragmatic, cost-effect equivalent standard.

**Departmental signoff (SCS): Paul Coley**

Date: 11 February 2015

**Economist signoff (*senior analyst*): Michael Thomson**  
February 2015

Date: 11

**Better Regulation Unit signoff: Laura Marquis**  
February 2015

Date: 10

## **The policy issue and rationale for Government intervention**

The High Speed Craft (HSC) Code is an international standard for ships operating at speed irrespective of size and applies to all HSC operating internationally. This international standard was brought into force in the UK by the Merchant Shipping (High Speed Craft) Regulations 2003. At the time there were no national standards for domestically operating HSC therefore it was considered appropriate to extend these standards to all UK domestic HSC.

The design, construction and operational standards in the HSC Code are suited to the relatively large, expensive HSC crafts such as the fast cat ferries operating between the UK and France, Ireland and the Channel Islands. They are also considered appropriate for the large hovercraft and fast cats such as those operating between mainland UK and the Isle of Wight. These HSC are over 24 metres in length and carry over 12 passengers.

However UK manufacturers have found it impractical to build smaller hovercraft, which also operate at high speeds, to these international standards. This has restricted this aspect of the UK market and as such, there are no small hovercraft operating commercially in the UK. Industry has lobbied for new standards to be developed and brought in to force as soon as possible.

The proposed Hovercraft Code is a risk-based safety standard specifically designed for small commercially operated hovercraft appropriate for their operational risks. A small hovercraft is less than 24 metres in length and would carry no more than 12 passengers.

## **Policy objectives and intended effects**

The introduction of the Hovercraft Code will provide a risk-based equivalent standard and ensures safety standards consistent with those of conventional small fast commercial workboats. This will enable the small commercial hovercraft sector to develop, create new opportunities for this UK technology and also provide credibility to the recreational hovercraft sector.

The Hovercraft Code will provide all the information for the design, construction and operation of small hovercraft in one consolidated document, a 'one-stop shop' for ease of reference.

Although no small hovercraft can be legally used commercially in the UK because of the existing regulations, the UK currently exports world-wide. This Code will be the first standard in the world specifically for small hovercraft and will give the UK industry significant potential boost in international markets, as well as helping domestic sales, by giving these crafts the UK Government "seal of approval". It is understood that Sweden – which also has significant latent demand for small hovercraft – has reviewed the draft Code and will accept craft built to that standard.

## **Policy options considered, including alternatives to regulation**

The Maritime and Coastguard Agency (MCA) has developed the Hovercraft Code with key representatives of the hovercraft sector, including manufacturers, operators, representatives of key stakeholder groups and Certifying Authorities. This Code provides a non-statutory alternative standard by allowing for exemptions to the international standards.

The Hovercraft Code will be a recognised alternative equivalent standard to the statutory HSC Code and is in itself a voluntary Code. This means the manufacturer/operator has the choice to use the Hovercraft Code or HSC Code. However, as the HSC Code is considered impractical for these types of crafts it should be acknowledged that the use of the Hovercraft Code will become the norm.

## **Expected level of business impact**

The scale of impact of these new standards is difficult to monetise as there are currently no small hovercraft operating commercially in the UK and this will effectively develop a new market within the maritime industry. The introduction of the Hovercraft Code is considered as an OUT and within scope of OITO methodology.

Industry representatives have indicated that they expect rapid development in this new field with many separate developments being created. With the introduction of the Code, new manufacturers and operators are likely to enter the market – but being new to the industry they will need to comply with best practice standards developed by more experienced builders and operators – hence maintaining standards without restricting economic growth. It is anticipated that these will be small businesses, as the majority of small commercial vessel operators are small, often one man businesses.

There has been direct feedback from three stakeholders of the Industry Working Group involved in the development of the Hovercraft Code on the potential impacts. The following provides an indicative monetised impact for one manufacturer and a qualitative description of the benefits to an operator.

One manufacturer has indicated that in the past they concentrated on building hovercraft for recreational purposes but this new Code will provide them with the opportunity to sell small hovercraft for commercial operation. Whilst the Code has been finalised they have achieved two sales totalling £45,000. In addition, they have launched a new company providing small hovercraft for hire creating revenue of £60,000 in the last three months with confirmed bookings for the rest of 2015.

They foresee the opportunity to increase export of these small hovercraft as overseas operators are already adopting the new UK standards and are predicting sales of around £200,000 in 2015. And similarly hovercraft built to the new standards will provide further credibility to hovercraft used for

recreational purposes and it is expected that there will be an expansion of about £100,000 additional sales in 2015 within the UK and overseas markets.

And finally, the manufacturer has generated three new jobs to meet these new demands which they believe are at least in part directly and clearly attributed to the Hovercraft Code.

It should be recognised that there is the cost to build these small hovercrafts. And whilst cost is very much dependent on design, construction and operation of a particular hovercraft the manufacturer estimated that one of their typical designs for a three seat hovercraft would cost in the region of £9,700 (£2,900 for materials and £6,800 for labour). The anticipated life span of such a craft is estimated to be between 1000 and 2000 hours depending on use, maintenance and environmental aspects.

The second stakeholder noted that the majority of their sales are overseas with enquiries principally for Government bodies or large companies. In almost all cases they are asked about the standards their hovercraft are built to and without having clear standards to reference achieving sales has been challenging. The introduction of the Hovercraft Code means they will be able to both refer a potential customer to a relevant MCA approved code and achieving the requirement will now be more straight forward than previously. As a result, they predict that the new code will increase overseas sales by between £1 million - £2 million per annum.

Indicative costs for the design and construction of the models currently exported overseas range from as little as £150,000 to approximately a maximum of £1,050,000 dependent on size, design, construction and specific operational requirements.

The third stakeholder conducts environmental surveys, lab field sampling and scientific/engineering activities where access is only economically feasible using hovercraft. They operate in major and minor estuaries and tidal rivers. They have indicated that the main positive impact is that the Hovercraft Code will provide a more flexible approach to how they operate.

The new Code will allow them to bring in new additional craft without going through the complex and administratively burdensome certification process as required by the international standards. It will make it possible to operate new or prototype craft in the field without the need to be conservative in the choice of such a craft, a constraint that they considered the previous operating regime imposed. They see the less prescriptive approach to hovercraft safety will provide more freedom to use their own operating experience to determine what constitutes safe hovercraft and safe hovercraft operations. Having already established an excellent safety record they believe that this will be maintained under the new standards whilst being able to operate more competitively.

In addition to this, the new standards will allow them to purchase a second hovercraft to operate in addition to their existing one; providing more

operational freedom and flexibility. Under the previous regime this was not practical and meant that a single hovercraft had to carry the entire operational load. They will now be able to have operational redundancy which previously would have required them to sub-contract to another company when additional capacity was required.

They have already been operating under the draft code for about six months and have already noticed that the operational administrative burden has reduced. For example, previously planning of hovercraft surveys had meant frequent contact with their local MCA Marine Office (MO)/Maritime Rescue Coordination Centre (MRCC) because of the existing operating permit restrictions. Now they are able to operate much more like other commercial crafts, i.e. use Vessel Traffic Systems as the primary contact and deal with the MRCC only as operations require. They have found that they no longer have to deal with the MO which has streamlined their (and the MCA's) operations.

It is recognised that there may potentially be an impact on the market rates because their particular sector of the hovercraft market is very specialised but this is difficult to assess. They have considered that other operators may wish to enter this sector of the market and that rates may fall, however, they consider that as the market itself is likely to grow following this deregulation of standards this is not a serious concern. In fact they anticipate being in an excellent position to exploit their expansion in the hovercraft survey market.