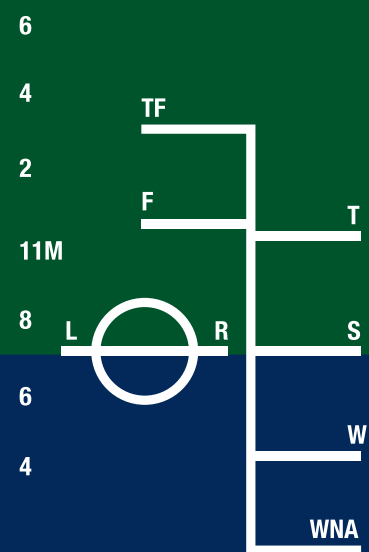


International Salvage Union
Annual Review 2013





International Salvage Union 2013 Annual Review

PRESIDENT'S FOREWORD



As President of the International Salvage Union, it is a privilege to present the 2013 Annual Review. ISU is committed to transparency and our annual review will inform our members, associates and affiliates, as well as the wider shipping industry, about our organisation and its work.

Marine salvage and the removal of wrecks have had a high profile during 2013. The world looked on as the Costa Concordia was righted off the coast of Italy and elsewhere our members carried out many other challenging projects. Our importance and success was reflected in comments by the UK shipping Minister, Stephen Hammond MP, who paid tribute to the salvage industry at our Associate Members' day conference. He said that he recognised that specialist contractors, not the authorities, provide the bulk of the marine casualty response capability and most of the technical expertise in emergency response. He said that the Costa Concordia showed that the salvage industry is "innovative and capable of meeting the most demanding challenges at sea."

Representing our members' interests in many different fora is at the heart of the role of the ISU. We provide a single, unified voice in our dealings with our customers - shipowners and insurers, both property and liability. Our membership - both full members and associates - has grown significantly and it is a tribute to the credibility and value of the ISU.

This year we have also strengthened our links with other important marine stakeholders such as the International Maritime Organisation. And we continue to work on the important details of

matters such as revisions to the SCOPIC regime. The production of aggregated industry-wide statistics is important for any trade association and the ISU is pleased to publish in this review our statistics for 2013. They show a vibrant industry but one in which the rewards remain variable over time.

Our industry remains competitive and in some places there is excess capacity. Nevertheless I believe that the market will determine the structure of the industry which remains attractive to those operators who get their business model correct. Despite great improvements in ship safety and a reduction in the number of casualties there will always be the potential for accidents and incidents at sea and ISU members often represent the only resource to make the necessary intervention.

The prevention of pollution is something of which our members can be very proud. It often goes unnoticed by the general public but the services provided by our members in many cases prevent the release of pollutants into the sea. Our annual survey of ISU members' pollution prevention efforts demonstrates this clearly and members are to be congratulated again that their work has salvaged hundreds of thousands of tonnes of potentially harmful cargo.

There are many current issues that ISU is concerned about. Places of Refuge for casualty vessels is at the top of the list as we seek, with shipowners and insurers, to get coastal states to accept their obligations under the rules and guidelines that already exist. Unfair criminalisation and responder immunity are also of concern as is the decline in the use of the Lloyd's Open Form salvage contract.

I am proud to be the President of the ISU and look forward to leading it through another year in which none of us can predict what will happen at sea but in which we can be sure that our members' services will be required all around the world.

Leendert Muller, President
International Salvage Union

EXECUTIVE COMMITTEE REPORT

The International Salvage Union (ISU) is a company limited by guarantee (not for profit) incorporated in England. It acts as the trade association for marine salvors globally and its principal activity has been the provision of services to its marine salvage company members.

The ISU is governed by a President, supported by a vice-President and an Executive Committee made up of senior managers from the member companies and which meets four times a year. There is an annual meeting to which all full members are invited. Day to day business is conducted by the secretariat consisting of a General Manager, supported by the Communications Adviser and Legal Adviser. The ISU operates from an office in the City of London.

OFFICERS	President (to October 2013) Andreas Tsavlis, <i>Tsavlis Salvage, Greece</i>	President (from October 2013) Captain Leendert Muller, <i>Multiship Salvage, The Netherlands</i>
	Vice President (from October 2013) John Witte Jr., <i>Donjon Marine, USA</i>	

EXECUTIVE COMMITTEE	Captain Cappy Bisso, <i>Bisso Marine, USA</i>
	Todd Busch, <i>Titan Salvage, USA</i>
	Charo Coll, <i>Boluda Salvage, Spain</i>
	John Halfweg, <i>SMIT Salvage, The Netherlands</i> (until September 2013)
	Alfred Hubner, <i>Ultratug, Chile</i>
	Yoshiaki Nishibe, <i>Nippon Salvage, Japan</i>
	Peter Pietka, <i>Svitzer Salvage</i>
	Fokko Ringersma, <i>Mammoet Salvage, The Netherlands</i>
SECRETARIAT	Joop Timmermans, <i>Tschudi Offshore & Towage, The Netherlands</i>
	General Manager Mark Hoddinott
	Communications Adviser James Herbert
	Legal Adviser Rob Wallis



ISU ABBREVIATED ACCOUNTS

International Salvage Union Limited, a company limited by guarantee:
Income and Expenditure Account, year ended 31 December 2013

	2013 £	2012 £
TURNOVER	415,458	417,291
Administrative expenses	362,953	368,645
OPERATING (DEFICIT) SURPLUS	52,505	48,646
Interest receivable	296	259
(DEFICIT)/SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION	52,801	48,905
Tax on (deficit) surplus on ordinary activities	59	52
(DEFICIT) SURPLUS FOR THE FINANCIAL YEAR	52,742	48,853
Balance brought forward	72,398	23,545
Balance carried forward	125,140	72,398

International Salvage Union Limited, a company limited by guarantee:
Balance Sheet at 31 December 2013

Note	2013 £	2012 £
FIXED ASSETS		
Tangible assets	2,861	3,590
CURRENT ASSETS		
Debtors	71,971	38,130
Cash at bank	221,702	212,946
	293,673	251,076
CREDITORS: Amounts falling due within one year	40,709	51,583
NET CURRENT ASSETS	252,964	199,493
TOTAL ASSETS LESS CURRENT LIABILITIES	255,825	203,083
RESERVES		
Other reserves	130,685	130,685
Income and expenditure account	125,140	72,398
MEMBERS' FUNDS	255,825	203,083

GENERAL MANAGER’S REPORT



Mark Hoddinott

2013 was my first full year as General Manager and it was a busy year. We published our first Strategic Plan for the years 2013-2017. The purpose of the plan is to identify the key issues facing our industry, prioritise them and form a strategy to tackle them.

We identified “Places of Refuge” as the prominent issue. It has been brought into focus with the casualties MSC Flaminia and Stolt Valor and has been further highlighted by the Maritime Maisie casualty which occurred off the Republic of Korea in late December 2013.

We have joined with the International Chamber of Shipping (ICS) and International Union of Marine Insurers (IUMI), with whom we hold very similar views on Places of Refuge, and we will be putting a strategy into effect during 2014 to raise awareness of the issue and to try to persuade coastal states to act responsibly when considering a request for a Place of Refuge. The International Group of P&I Clubs also share our concerns on Places of Refuge and we anticipate engaging with them more closely during 2014.

We produced the ISU Annual Statistics for the first time in three years and these were well received by the wider shipping and marine industries. They showed that global revenue for salvage and wreck removal is increasing, although costs are also

increasing which the statistics do not show. The main reason for the revenue increase is wreck removal which is no surprise given the ongoing operations on a small number of high profile cases.

“The Associate Members’ Day in March attracted a record number of delegates.”

Our membership has continued to grow, particularly the Associate Membership, which increased significantly during 2013, by around 25%, further strengthening the ISU’s position as the sole representative of the international marine salvage industry and demonstrating the growing interest from the shipping markets in the salvage industry. At the end of 2013 we had 60 full members, 63 associate members and 12 affiliate members.

The Associate Members’ Day in March attracted a record number of delegates with no fewer than 178 attendees. We ran with two themes, ‘Arctic Operations’ and ‘Container Ship and Cargo Hazards’ and welcomed the UK Minister of Shipping, the Right Honourable Stephen Hammond MP, who opened the day for us.

The AGM at Hong Kong in October was a successful event with 68 delegates representing 32 members from 21 different countries. A truly international gathering and we are grateful to Hong Kong Salvage & Towage for hosting the event and to China Salvage & Rescue for sponsoring the Gala Dinner.

This year we relocated to Holland House in Bury Street, London, immediately opposite ‘The Gherkin’, a well-known landmark in the heart of the City of London. It is an excellent location for ISU and we look forward to welcoming members and other visitors to the office when they are in the vicinity.



ISU Members attend their annual meeting.

LEGAL ADVISER’S REPORT



Rob Wallis

Lloyd’s Open Form (LOF) remains the most commonly used salvage contract and its administration continues to be of interest to ISU and other parties. The current panel of LOF arbitrators were appointed for a five year term which ends in November 2014 and a process is underway to select the new panel.

The publication to Lloyd’s subscribers of awards made in LOF cases has now been in place for a year. Parties can still make submissions to the arbitrator to delay publication where there may be other legal issues pending which are connected to the same matter.

SCOPIC came into existence in 1999 and may be incorporated into LOF. It is an important clause for ISU members and this year we have spent considerable time working on it. The original SCOPIC guidelines have been followed by five subsequent Digests dealing with the scope of the Special Casualty Representative’s (SCR) role. This has now been summarised in a new single document, while the original Guidelines remain unaltered.

There has been concern that Letters of Appointment for SCRs are not always provided and so a revised Letter of Appointment has been drafted, which can be signed at the time of appointment or when the SCR first boards the casualty. The intention of both the revised Digest and SCR letter are to clarify the role and duties of the SCR, which is to represent all salvaged interests. The SCR’s primary role is to use their best endeavours to assist in the salvage of the vessel and property in preventing and/or minimising damage to the environment.

Two further issues relating to SCOPIC have not yet been agreed and will continue to be discussed. First, a currency correction clause under which it is proposed that, as with LOF clause 9 of the LSSA

clauses, a currency correction should also apply to SCOPIC payments, which are always made in US Dollars irrespective of the currency of the LOF or contractor. Secondly, the cap on equipment expenses should be removed.

The ISU5 guarantee, with regard to the SCOPIC remuneration guarantee, initially provides up to US \$3 million, with the usual consideration of refraining from arresting the casualty vessel. However, where additional SCOPIC security may be required, there is no right of arrest. It has been agreed this anomaly should be rectified with a new ISU5 guarantee wording and a draft is currently being finalised with a small sub-committee and Lloyd’s.

There has been a suggestion to create the role of Property Salvage Consultant (PSC) to be the equivalent of an SCR, but in non-SCOPIC LOF salvage cases. ISU does not support this proposal which continues to be discussed.

“Places of Refuge continues to be an issue of great concern”

Separately, amendment has been agreed to the LSSA clauses to permit Lloyd’s to accept non-UK guarantors as providers of LOF salvage security.

On other matters, the Nairobi Wreck Removal Convention 2007 has recently had its 10th signatory and will now enter into force on 14 April 2015. It will impose obligations on shipowners to report, mark and remove ships and wrecks and for shipowners to have compulsory insurance to cover liability under the Convention to pay for the removal of ships and wrecks. Territorially, it will only apply within the exclusive economic zone of a state party from the 12 mile territorial limit to 200 nautical miles from the coast. A state may extend the application of the Convention to within its territorial waters under the “opt in” provision, if it so wishes.

Places of Refuge continues to be an issue of great concern, as our President and General Manager note. The ISU wishes to see much better application of the various Conventions and Guidelines, particularly IMO Resolution A.949. Responder immunity and criminalisation of seafarers also continues to be a problem for the salvage industry and will be a focus for ISU.

ISU STATISTICS

ISU collects statistics from its members to provide an overview of the state of the salvage industry. The statistics are returned anonymously to an independent consultant for aggregation and analysis. The 2013 figures relate to salvage and wreck removal cases when revenue was received, not when contracts were signed. They show a substantial industry with total revenues of more than US\$ 700 million, up from just over US\$ 600 million in the previous year. These numbers represent gross income not profit.

ISU members provided 196 salvage services in 2013 which was exactly the same as the previous year. There are fluctuations year on year but the general trend is a decline in the number of services. In the year, ISU members conducted 48 wreck removal operations which is higher than the average of 33 operations over the past five years.

In 2013 income from Lloyd's Open Form (LOF) cases and associated SCOPIC revenues along with income from other salvage activity has risen slightly to US\$264 million from the previous year's US\$237 million. Lloyd's Open Form continues to be a very important contract for salvors with 48 LOF services performed, up from 37 previously.

LOF revenues were US\$202 million in 2013 up from US\$186 million in 2012. In 2013, LOF revenue represented 76.6% of total salvage revenues, slightly down on the previous year's 78.2% but slightly up on the five year average of 75.5%.

However the total salved value in LOF cases is down from US\$1.65 billion to US\$1.23 billion with an average salved fund of US\$17.44 million. LOF revenues expressed as a percentage of the salved value are 16.3% up from 11.23%. The five year average is 12.22% which is historically consistent. These numbers derive from both settled cases and arbitrators' awards. The reason for the increase in the LOF revenue as a percentage of the salved value in 2013 is that there has been a small increase in LOF cases and a very marked decrease in total salved funds. It indicates an increase in smaller value cases where it has been appropriate to reach a higher settlement or make a higher award to give the contractor a meaningful reward for their work.

"ISU members provided 196 salvage services in 2013"

Wreck removal income has increased notably, from some US\$300 million last time to some US\$450 million in 2013. That is probably due to the impact of a small number of substantial, well-known cases. Wreck removal revenues have increased generally in the past decade and now account for a substantial portion of the industry's annual income.

The total revenue from all sources has grown significantly in the past decade but there are still fluctuations in both the totals and within the sources of revenue each year. The ISU statistics are consistent with the Lloyd's Salvage Arbitration Branch statistics.

POLLUTION PREVENTION

The ISU conducts an annual survey of its members' success in preventing marine pollution. The information is collected separately from the general statistics. The total of all pollutants salved in 2013 was 718,602 tonnes compared with 810,068 tonnes in 2012, a decrease of 11%. The average annual figure for the 19 years for which data is available is a little below one million tonnes of potential pollutants salved per year. It is in line with the trend of a decreasing number of casualties which chiefly reflects improvements to ship and operational safety over the past two decades.



In 2013 the major change was a significant increase in the quantity of oil cargoes (crude and refined products) salved, up 58% from 104,665 tonnes to 165,395 tonnes. However, this category is highly variable and can be dramatically affected by one or two large cargoes. Another notable increase was in chemicals salved – up 49% from 99,015 to 147,987 tonnes. Again, this category may be affected by a small number of large casualties.

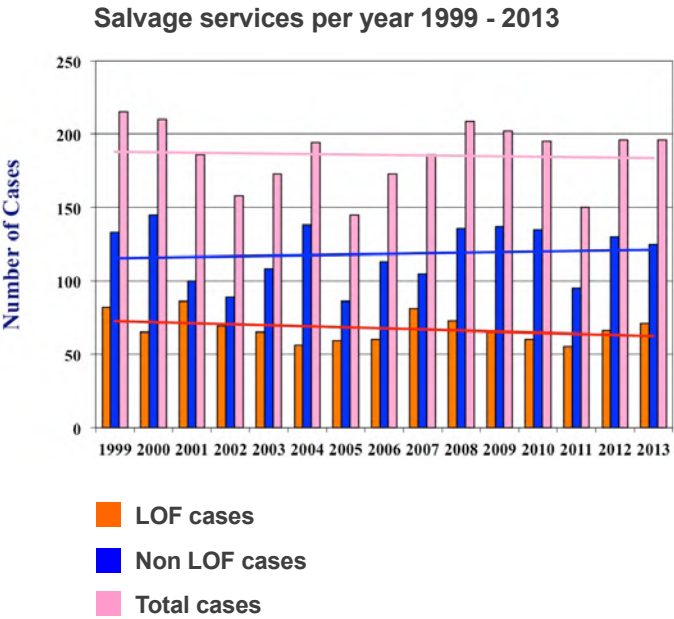
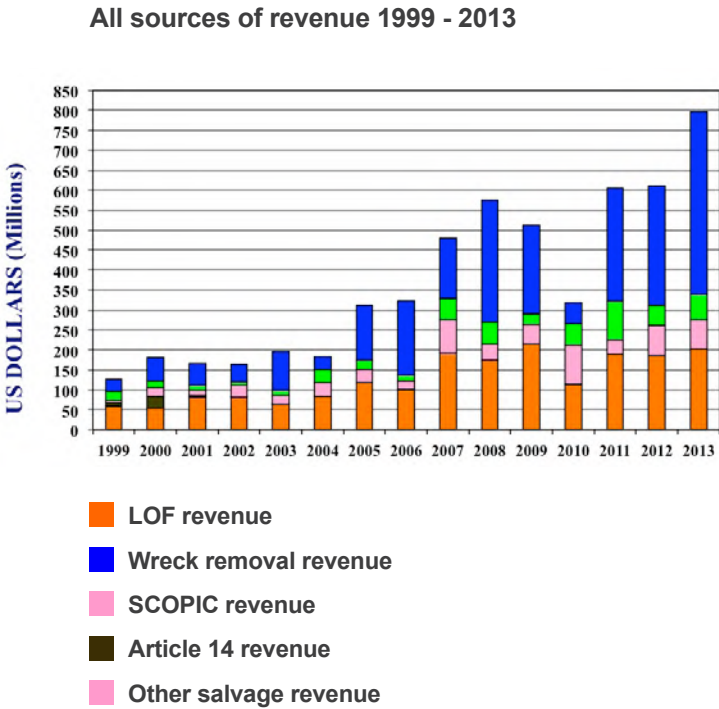
The quantity of "other" cargoes salved went down by 40% from 501,348 tonnes in 2012 to 299,074 in 2013. This category included coal in bulk in 2012 for the first time and there were two large coal cargoes included in that year's numbers. The 2013 "other" quantity represents a greater number of smaller and more varied "other" cargoes.

The survey represents data from 190 services carried out by ISU members. The Japanese contract was the most widely used with 54 services, many of which were relatively small cases involving fishing vessels. The Lloyd's Open Form salvage contract accounted for 44 services compared with 52 in the previous year. 31 services were carried out under towage contracts (32 in 2012); Wreck contracts accounted for 31 of the services (42 in 2012) and fixed price, day rate and other types of contract were used in 30 services.

The figure of nearly three quarters of a million tonnes of potential pollutants salved compares with the 700,000 tonnes of oil which was spilled into the Gulf of Mexico in 2010 from the Macondo Well in the United States' worst environmental disaster.

ISU notes that not all of the potential pollutants which were salved were at imminent risk of spilling into the sea but there is no doubt that the work of ISU members has continued to be of great benefit in protecting the marine environment from potential damage.

The ISU's Pollution Prevention Survey began in 1994. In the 19 years to end-2013, ISU members have salved 18,575,702 tonnes of potential pollutants, an average of just under one million tonnes per year. This consists of 13,142,007 tonnes of oil cargoes; 1,307,706 tonnes of chemicals; 1,616,101 tonnes of bunker fuel and 2,818,565 tonnes of "other pollutants".



2013 ISU POLLUTION PREVENTION RESULTS			
	2013	2012	% variation
Number of services	190	188	+1.1%
Crude oil salved	165,395	104,665	+58%
Bunker fuel salved	106,146	105,058	+1%
Chemicals salved	147,987	99,015	+49%
Other pollutants	299,074	501,348	-40%
Totals	718,602	810,068	-11%
All figures in tonnes			

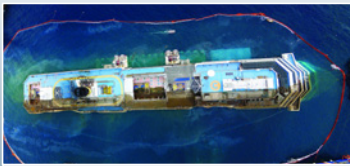
AN INTERNATIONAL MEMBERSHIP CONDUCTING OPERATIONS AROUND THE WORLD



The Arctic drilling rig Kulluk was refloated after she had gone aground off Alaska.



Two cargo vessels were refloated from a Spanish beach following a storm.



The Costa Concordia was successfully righted.



Salvors assisted the Baru Satu and Katherine after they collided in the Aegean.



The bulk carrier Fu Sheng Hai was refloated off Korea.



The jack-up work barge Sep Orion was removed from Marahao, Brazil.



The wreck of the bulk carrier Ocean Breeze and her cargo were safely removed from the coast of Chile.



The stern section of the bulk carrier Smart was removed from the entrance to Richard's Bay in South Africa.



Salvage services were provided to the badly burnt containership Hansa Brandenburg off Mauritius.



Emergency response services were provided to the laden bulk carrier Dong-A Leto off Indonesia.



The wreck removal of the container ship Rena continued offshore New Zealand.

COMMUNICATION AND ENGAGEMENT

ISU has continued to deliver a programme of corporate communications, keeping those with an interest in salvage informed and involved in its work.

Media relations is a key part of this communications activity and the ISU is proud of its strong relationships with journalists and editors and we have therefore continued to engage with marine media as well as mainstream media - particularly broadcasters - when there has been interest in salvage-related news stories. We issue press releases alerting the media and other readers to our news.

We have seen the publication of a number of salvage-related articles from the ISU in the maritime press, particularly focusing on wreck removal and the important issue of Places of Refuge.

ISU has spoken to a range of audiences about the salvage business and has provided speakers for a number of significant conferences and seminars, including a keynote speech from the ISU President at the annual Salvage and Wreck Conference in London. We have hosted our annual conference

Salvage World is the ISU's well-regarded quarterly newsletter.



for Associate members and at which there was a record number of delegates.

ISU's quarterly newsletter, Salvage World, is popular with ISU members and associates and also has a wide readership of marine journalists and others connected with the shipping industry. It is a good showcase for the work of salvors and in which the news of the salvage business and the ISU is reported.

During the year we concluded a substantial re-design and technical upgrade of our website to enable it to be easily amended and it is a key resource for anyone interested in marine salvage.

We have begun to produce a set of "Position Papers" setting out the ISU's views on important issues such as Places of Refuge; wreck removal and the cost of tendering for major projects as well as responder immunity and unfair criminalisation and we shall continue with that initiative.



MERITORIOUS SERVICE AWARD

The International Salvage Union's Award for Meritorious Service has been made to Paul Lange of SKULD, an Associate Member of the ISU. Mr Lange was a senior Vice President at SKULD and head of its risk management department before his death. It is the first time the Award has been made.

In making the Award, the ISU Executive Committee noted Mr Lange's long experience of dealing with marine casualties and, in particular, his efforts over the years to promote a proactive

and cooperative approach to casualty handling and his work to ensure meaningful dialogue between P&I Clubs, marine salvors and other parties responding to casualties.

Mr Lange demonstrably promoted a spirit of cooperation which has led to improvements in casualty handling to the benefit of all parties.

The ISU Executive Committee also took into consideration Mr Lange's commitment to attend ISU events, and other industry fora, where he worked to maintain good relationships and to improve understanding in what can be contentious matters.

ISU also noted Mr Lange's contribution, with others, of the chapter on insurance in its Casualty Management Guidelines, published jointly with the Nautical Institute.

Mr Lange was very knowledgeable about salvage and casualty response but he was always eager to learn more in order to improve processes and, again, to promote cooperation rather than confrontation.

ISU President, Leendert Muller said of the award: "Paul Lange was very well known in the salvage industry. He was well-respected, very personable and much liked. He was a breath of fresh air and a worthy recipient of this Award."



The late Paul Lange attending a casualty and his wife, Dorte, and eldest son, Asger, receiving the award.



This annual review is published by:
ISU, Holland House
1-4 Bury Street
London
EC3A 5AW

Tel: +44 20 7220 6597
Email: ISU@marine-salvage.com