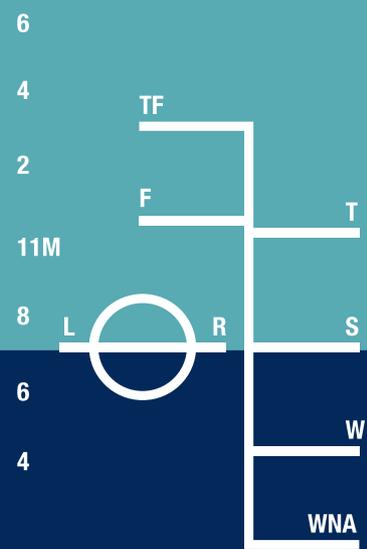


International Salvage Union Annual Review 2014



A shop door on the island of Giglio, Italy from where the wreck of the COSTA CONCORDIA was removed.



International Salvage Union Annual Review 2014

PRESIDENT'S FOREWORD



As President of the International Salvage Union, I am delighted to introduce the 2014 Annual Review. It is still a relatively new initiative - this is the third edition - and ISU remains eager to be open and transparent and to show its members, associates and affiliates and key stakeholders in the shipping industry what we have been doing during the year.

2014 saw a number of high profile cases and, sadly, tragedy at sea. It was the year in which the re-floated hull of the Costa Concordia was safely towed to port in Italy for re-cycling, bringing the final chapter of this extraordinary project to a close. The conduct of the contractors throughout the project was excellent and brought great credit to our industry: high skilled people successfully doing difficult things in awkward places; not being afraid of a challenge and not seeking the easy option – the essence of salvage.

I believe that the ISU continues to “punch above its weight”. We are a small organisation but a respected voice in our dealings with numerous audiences on behalf of our members. In particular we have continued to engage closely with shipowners and their insurers. Our strong links to the liability insurers – mainly through the International Group of P&I Clubs – has been augmented with strengthened ties to the property insurers – mainly through the International Union of Marine Insurance (IUMI).

This year we have been active at the International

Maritime Organisation and the European Union in particular tackling the issue of Places of Refuge. The need for improvement on this was dramatically demonstrated by the case of the fire-damaged Maritime Maisie off the coast of Korea. Some progress is being made and we will continue to be active on this issue.

This Review contains the aggregated industry-wide statistics gathered anonymously from the ISU's membership. It is a useful tool for analysing and tracking industry trends. One area of focus highlighted by the statistics is to ensure that all parties understand the benefits of the Lloyd's Open Form (LOF) salvage contract which was used less in 2014. ISU maintains that in many emergency response situations it is the best contract and we are pleased to see that Lloyd's is working up plans to help key people to understand the benefits of LOF. ISU will play its part as well with enhanced communication and engagement.

Preventing pollution is a key role for salvors and something that has become ever more important as we have moved to a world where there is, in short, “zero tolerance” of any spill. This review gives details of our members' efforts in the results of the annual pollution prevention survey – and they have continued a fine tradition by providing services to casualties which might, without intervention, have spilled hundreds of thousands of tonnes of pollutants.

I am honoured to be the President of the ISU and look forward to leading it through to the end of my term in October 2015 during which time I know that our members will be standing by to provide vital services to the shipping industry by saving life, protecting the environment and saving property all around the world.

A handwritten signature in black ink, which appears to be 'L. Muller'. The signature is stylized and fluid.

Leendert Muller
President
International Salvage Union

EXECUTIVE COMMITTEE REPORT

The International Salvage Union 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
Captain Leendert Muller,
Multraship, The Netherlands

Vice President
John Witte Jr.,
Donjon Marine, USA

EXECUTIVE COMMITTEE

Captain Cappy Bisso, *Bisso Marine, USA (resigned October 2014)*
Todd Busch, *Titan Salvage, USA*
Charo Coll, *Boluda Salvage, Spain*
Alfred Hubner, *Ultratug, Chile*
Li Jianping, *China Rescue and Salvage*
Yoshiaki Nishibe, *Nippon Salvage, Japan*
Peter Pietka, *Svitzer Salvage*
Fokko Ringersma, *Mammoet Salvage, The Netherlands*
Andreas Tsavlis, *Tsavlis Salvage, Greece*
Joop Timmermans, *Tschudi Offshore & Towage, The Netherlands*

SECRETARIAT

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 2014

| | 2014 | 2013 |
|---|-------------------|-------------------|
| | £ | £ |
| TURNOVER | 443,859 | 415,458 |
| Administrative expenses | 361,694 | 362,953 |
| | <u> </u> | <u> </u> |
| OPERATING (DEFICIT)/SURPLUS | 82,165 | 52,505 |
| Interest receivable | 297 | 296 |
| | <u> </u> | <u> </u> |
| (DEFICIT)/SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION | 82,462 | 52,801 |
| Tax on (deficit)/surplus on ordinary activities | 59 | 59 |
| | <u> </u> | <u> </u> |
| (DEFICIT)/SURPLUS FOR THE FINANCIAL YEAR | 82,403 | 52,742 |
| Balance brought forward | 125,140 | 72,398 |
| | <u> </u> | <u> </u> |
| Balance carried forward | <u>207,543</u> | <u>125,140</u> |

International Salvage Union Limited, a company limited by guarantee:
Balance Sheet at 31 December 2014

| | 2014 | | 2013 | |
|---|----------------|----------------|----------------|----------------|
| Note | £ | £ | £ | £ |
| FIXED ASSETS | | | | |
| Tangible assets | | 987 | | 2,861 |
| CURRENT ASSETS | | | | |
| Debtors | 61,385 | | 71,971 | |
| Cash at bank | 306,341 | | 221,702 | |
| | <u>367,726</u> | | <u>293,673</u> | |
| CREDITORS: Amounts falling due within one year | <u>30,485</u> | | <u>40,709</u> | |
| NET CURRENT ASSETS | | <u>337,241</u> | | <u>252,964</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>338,228</u> | | <u>255,825</u> |
| RESERVES | | | | |
| Other reserves | | 130,685 | | 130,685 |
| Income and expenditure account | | 207,543 | | 125,140 |
| MEMBERS' FUNDS | | <u>338,228</u> | | <u>255,825</u> |

GENERAL MANAGER'S REPORT

In 2014 ISU achieved real progress on the objectives of its Strategic Plan and the President and Executive Committee continue to provide excellent direction to move our industry forward.

Places of Refuge continued to be a dominant issue and we worked closely with the International Chamber of Shipping (ICS), the International Union of Marine Insurers (IUMI) and the International Group of P&I Clubs (IG) seeking a change of attitude by coastal states.

We submitted a joint paper into the International Maritime Organisation (IMO), led by ICS, which was debated during the Marine Environment Protection Committee meeting in April and I was given the opportunity to address IMO member states on ISU concerns.

There was verbal support from a significant number of member states but it remains to be seen whether this translates into positive action. The ISU's consultative status at IMO, which has been held since 1979, provides an excellent platform to engage with the world's maritime nations.

Towards the end of 2014 we were invited to meet with the European Commission as they are preparing their own 'Operational Guidelines on Places of Refuge' for EU member states. I believe this is a welcome development for ISU members as the guidelines will identify the key contacts in member states who will be obliged to respond to requests for a Place of Refuge.

The principle of 'no rejection without inspection' has been accepted by the European Commission and any state rejecting a request for a Place of Refuge will be obliged to give reasons for the rejection. The timetable should see the guidelines come into force by the end of 2015.

Our statistics show that fewer Lloyd's Open Forms are being used and there is growing concern about the use of alternative, commercial contracts for salvage. This concern comes not just from ISU but also from property underwriters.

Lloyd's has also registered its concern and we commenced the process to jointly develop a project plan with Lloyd's Salvage Arbitration Branch to educate the shipping and marine insurance markets on the benefits of Lloyd's Open Form.

The ISU LOF Sub Committee remains active and met four times during the year. It consists of practitioners drawn from ISU member companies, and they provide invaluable insight into the application of LOF, SCOPIC and related matters in

salvage cases. They give excellent support to the ISU Executive Committee and ISU Secretariat and I am grateful for the time they willingly and freely give to the ISU.

We continued with our objective of improving relationships with other industry bodies. In particular, we regularly met, on an informal basis, with representatives from the International Group of P&I Clubs Salvage Sub Committee. One of several positive outcomes during 2014 was that we agreed a redraft of the ISU5 Guarantee Form which will become effective in 2015.

"In 2014 ISU achieved real progress on the objectives of its Strategic Plan"

The ISU Award for Meritorious Service was awarded for the first time to Paul 'Bo' Lange of the Swedish Club. Awarded posthumously, we were very honoured to present the award to Paul's widow, Dorthe, at the Associate Members' Day.

Associate Members' Day continues to grow in popularity and we had yet another record attendance with 180 delegates. We believe this is mainly due to the increase in membership over the last three years, particularly Associate Membership. At the end of 2014 ISU had 61 Full Members, 72 Associate Members and 12 Affiliate Members.

The AGM at Hamburg in October was also a record breaker with over 100 delegates and partners representing 37 members from 23 different countries. It was superbly hosted by Bugsier who put on a great show of German hospitality.



Mark Hoddinott

LEGAL ADVISER'S REPORT

ISU is working to promote better understanding of Lloyd's Open Form (LOF) and is fully engaged with the Lloyds Salvage Group to ensure salvors are well-represented in its discussions.

The fair administration of LOF is one of its key strengths and the process of appointing the panel of Lloyd's Arbitrators under a new, five year cycle was concluded in November. The new Arbitrators are: Jeremy Russell QC; Lionel Persey QC; Simon Kverndal QC; Elizabeth Blackburn QC; Vasanti Selvaratnum QC. Sir David Steel continues as the appeal arbitrator and he is due to retire in 2016.

ISU has worked closely with the International Group of leading P&I Clubs to refresh aspects of SCOPIC. Consolidation of the original Guidelines and the five subsequent Digests dealing with the scope of the Special Casualty Representative (SCR) was concluded during the year. The revised SCR's Letter of Appointment has also been approved and it is hoped that this, and the consolidated Digest, will improve understanding of the SCR's role which is to represent all salvaged interests and to assist salvors in using their best endeavours in the salvage of the vessel and property and in preventing or minimising damage to the environment.

A revised ISU5 Guarantee for SCOPIC security has been agreed with the International Group to resolve certain anomalies. The two main changes are in Clause 1 - the initial security demand can now be more than the minimum of US\$3 million if agreed by both parties and in Clause 5 - to restore the right to arrest or re-arrest the vessel under an order from the Arbitrator obtained under Clause 3(iv) of the SCOPIC Clause for increased security. The opportunity was also taken to make some



Rob Wallis

neutral changes to the language of the original to make it more consistent with that commonly in use. The revised ISU5 is now in operation with effect from 23 March 2015.

Work continues to introduce a currency correction clause into the SCOPIC regime to bring it into line with LOF – where there is a currency correction provision under clause 9 of the

LSSA clauses. Likewise work to remove the cap on equipment expenses continues.

Elsewhere, for the better provision of information to cargo interests, ISU has agreed that a Daily Salvage Report (DSR) will be submitted by the salvor to Lloyd's for dissemination amongst insurers who have registered their insured interest with Lloyd's in individual LOF cases. This is reported to be working well in practice as a response to an earlier proposal for a Property Salvage Consultant to act as an SCR equivalent in non-SCOPIC LOF salvages.

ISU has discussed with the UK Marine Accident Investigation Branch (MAIB) revision of the existing indemnity wording/LOU agreed with salvors. It was concluded that amendments to the existing indemnity/LOU wordings were unnecessary and more onerous for salvors.

“The fair administration of LOF is one of its key strengths”

There has been a similar revision of the UK Ministry of Defence (MOD) standard terms of “Salvage and Towing Indemnity” and “War Risk Indemnity – DEFCON 661 Edition 10/06”. However, ISU cannot bind any of its members to agree these documents and contracts made with the MOD remain a matter for the individual contractor.

The Nairobi Wreck Removal Convention 2007 has recently had its 10th signatory – Denmark and entered into force in April 2015. The objective of the Convention is to encourage the removal of wrecks which may pose a hazard to the navigation of ships or to the marine environment and to secure payment for the costs of wreck removal from the shipowner or the P&I insurers responsible for such removal. This imposes strict liability on shipowners and requires them to have compulsory insurance for the costs of wreck removal. The Convention gives rights to the coastal state to remove a wreck from its exclusive economic zone and in certain situations to claim those costs directly from the shipowner's insurers.

However, the Convention will have a wider effect because of the compulsory insurance provisions which require that all ships of 300 GRT and above, whether registered in a Flag State party to the Convention or not, upon entering or leaving a port or offshore facility in the territory of a Signatory State, must have compulsory insurance under the Convention.

ISU STATISTICS

The ISU statistics for 2014 show a vibrant industry providing vital services to the shipping sector which help protect shipowners and insurers from huge financial losses. In Lloyd’s Open Form (LOF) cases alone, US\$1.2B of property was salvaged relating to cases where revenue was realised during 2014.

Overall, gross revenues have remained stable but the way in which ISU members receive their income has changed. There is a noticeable rise in all operations but fewer LOF cases. Correspondingly, income from LOF is lower while income from commercial contracts is up.

In 2014 gross revenues from all activity was US\$ 775M, almost exactly the same as the previous year’s figure of US\$ 772M.

At the same time a fall in revenue from wreck removal activity reflects the conclusion or winding down during this period of major cases such as the Costa Concordia and Rena.

There has been a significant increase in the number of non-LOF cases boosting the total number of cases recorded to 249, up from 196 in 2013. The overall trend is an increase in the number of non-LOF cases and fewer LOF cases. LOF revenue has correspondingly fallen. It is down from US\$ 202M in 2013 to US\$181M in 2014.

Non-LOF revenue for 2014 was US\$ 146M up from US\$ 62M last time, a significant increase. It reflects a preference by shipowners to use commercial terms other than LOF. Importantly, LOF revenues include the element of “encouragement” that has been an underlying principle of salvage for centuries. It ensures that it is worthwhile for salvors to maintain a response capability in an uncertain sector where income is

not predictable.

LOF revenue as a percentage of salvaged values fell from 16.34% in 2013 to 15.2% in 2014. This includes cases where the settlement was agreed and those that went to arbitration. Generally, settled cases are more simple and arbitrated cases more complex. The great majority of LOF cases, around 75%, are settled.

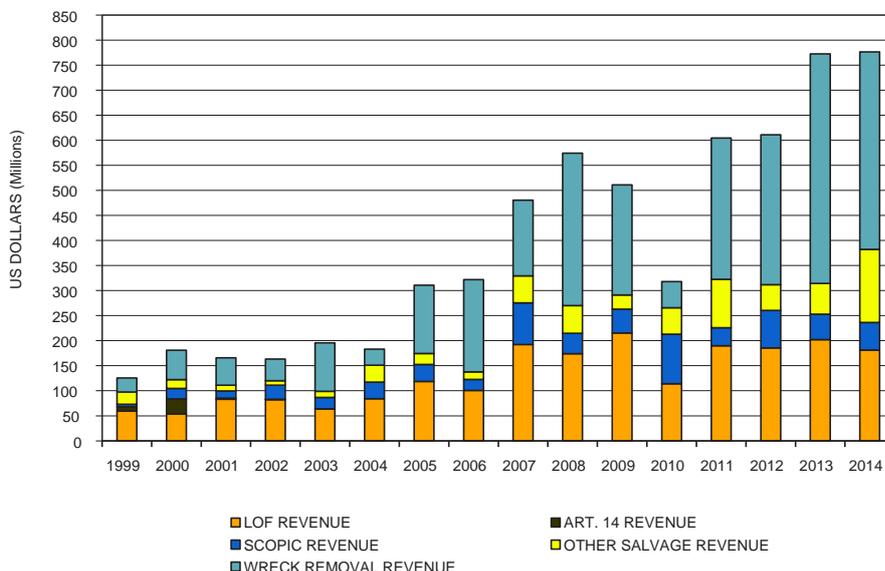
Wreck removal revenue has fallen from US\$ 458M in 2013 to US\$ 394M in 2014 as well-known cases were concluded or winding down. The number of wreck removal cases was up dramatically from 48 to 91. Wreck removal cases also includes other “marine services” such as bunker removal and cargo recovery as well as dealing with wrecked hulls. Despite the fall in wreck removal income in 2014, the trend shows the increasing importance of this work for ISU members.

LOF salvaged values are a good indicator of the benefit of the salvage industry. They show that ISU members salvaged US\$ 1.2B (the combined value of cargo and vessel) worth of property that was in peril at sea. ISU suggests that paying 15% of the total value to save the whole of a marine adventure from potential loss represents good value.

Along with the ISU’s pollution prevention statistics these numbers help to verify the importance of the commercial salvage industry and its value to shipowners and insurers.

For the full statistics visit:
<http://www.marine-salvage.com/pdfs/ISUSTATISTICS19992014FINAL.pdf>

All sources of revenue 1999 - 2014



POLLUTION PREVENTION

Members of the International Salvage Union provided 216 services to vessels carrying 1,655,399 tonnes of potentially polluting cargoes during operations in 2014 in a major demonstration of the value of their work towards protecting the marine environment.

It shows the great benefit ISU members have delivered in helping to protect the marine environment from potential damage. Salvors provide a vital service to both the shipping industry and wider society. Shipping has generally become safer but everyone in the industry should be aware that just one major casualty could cause an environmental disaster.

The numbers are published in the ISU's 2014 Pollution Prevention Survey which has been re-based and so direct comparisons with previous years' totals and some sub-categories are not appropriate. The 2013 version of the survey showed ISU members salvaged 718,000 tonnes of potential pollutants in 190 services.

For some while ISU has been concerned that its

| 2014 ISU POLLUTION PREVENTION SURVEY RESULTS (tonnes) | | |
|---|--|----------------|
| | 2014 | 2013 |
| Number of services | 216 | 190 |
| Bunker fuel | 83,698 | 106,146 |
| Oil cargo | 194,880 | 165,395 |
| Chemicals | 102,939 | 147,987 |
| Bulk (polluting/hazardous) TEU (tonnes equivalent) | 901,373 356,265 (23,751 TEU @15 tonnes/TEU) | N/A |
| Other pollutants | 16,244 | 299,074 |
| Totals | 1,655,399 | 718,602 |

annual pollution survey should be updated. The survey started in 1994 - an era when the threat, and fear, of pollution was driven by disasters associated with VLCCs.

That threat still exists but coastal states now consider most cargo to be potentially polluting. Since the survey began, containerised cargo has grown hugely in both total volumes and the capacity of boxships. Containers, with their mixed, and sometimes hazardous contents, are undoubtedly a potential pollutant and it is right that the ISU survey should start to record them as such.

ISU is careful to point out that not all of the salvaged cargo noted in the survey was at imminent risk



of going into the sea. But even with a relatively simple rescue tow it is worth considering what the consequences might be if there was no commercial provision of salvage services.

The new format of the survey records separately for the first time dirty or hazardous bulk cargo and containers (by tonnes equivalent), taking account of MARPOL, the International Maritime

Dangerous Goods Code (IMDG Code), Intercargo guidance, P&I Club guidance and the International Tanker Owners Pollution Federation publications.

The attitude of coastal state authorities has also been considered based on ISU members' operational experience.

The figures for 2014 therefore represent a modified survey and will create a new baseline against which future years may be compared. Direct comparisons with previous years are not, therefore, valid in all categories.

In 2014 ISU members provided 216 services. Variants of wreck removal contracts were used in 61 services; Lloyd's Open Form – 29 services (44 in 2013); towage contracts – 29 services; Japanese Form – 19 services; Fixed Price – 4 services; Day Rate – 12 services; other contracts – 32 services.

In the period 1994 to end-2014, ISU members salvaged 20,231,101 tonnes of potential pollutants, an average of just over one million tonnes per year.

THE WORLD OF SALVAGE

Marine salvors stand ready to offer services around the world in a range of situations. After the saving of life, minimising environmental impact is the key priority and then the focus will be on saving property – both the ship and its cargo.

REFLOATING



DIVE INSPECTION



EMERGENCY REPAIRS



EMERGENCY TOWING



BUNKER REMOVAL



CARGO TRANSFER AND DISCHARGE



FIRE FIGHTING



WRECK REMOVAL



POLLUTION PREVENTION



COMMUNICATION AND ENGAGEMENT

ISU has continued to deliver a strong programme of corporate communications and engagement with key stakeholders.

The ISU President gave keynote speeches at two major industry conferences – ITS in Hamburg and Salvage and Wreck in London.

The General Manager has given speeches and attended numerous industry seminars and functions. Our annual Associate Members' Day Conference has gone from strength to strength – indeed with record

numbers of delegates in 2014 it has outgrown its traditional home and in 2015 moved to a new venue in the City of London.

ISU produces a high-quality, quarterly newsletter, Salvage World. It reports operational and corporate news from the ISU's members and associates as well as that of the ISU secretariat.

It aims to keep readers informed about developments in salvage and wreck removal and, in addition to the membership, it is distributed to a range of organisations including shipping journalists who value it as a source of information about the industry. It is a good "shopwindow" for the work of salvors.

Media relations is central to the ISU communications activity and the we are proud of our strong relationships with journalists and editors and we have therefore continued to engage with marine media throughout the year.

We have invited media to our formal events and other briefings and hosted an annual lunch for

reporters. We have also handled questions and interest from mainstream media - including broadcasters - when there have been salvage-related news stories. We issue news releases alerting the media and other readers to our news.

ISU continues to draft salvage-related articles for publication in the specialist marine press, aiming to focus on the key issues of the moment in line with the Strategic Plan, such as Places of Refuge, and the importance of the Lloyds Open Form salvage contract.

ISU's suite of "Position Papers" has continued to grow and includes documents setting out ISU policy on Lloyds Open Form; Places of Refuge; wreck removal and the cost of tendering for major projects as well as responder immunity and unfair criminalisation.

ISU continues to develop and maintain a website which acts as a source of news, information, history and as a repository of important documents.



LLOYD'S OPEN FORM

International shipping is vital to world trade. And while there have been great improvements in ship and operational safety, casualties continue to occur and can never be completely eradicated. That is why there is a continuing and vital role for commercial marine salvors.

Salvage is governed by the 1989 Salvage Convention and is conducted under many kinds of contract. Traditionally the Lloyd's Open Form (LOF) salvage contract has been the most commonly used emergency response contract.

The original LOF contract - formulated in 1910 - was created by and for the benefit of marine Insurers and shipowners to encourage a salvage industry to preserve life and property and, more recently, to prevent or minimise damage to the environment.

It provided for a clear basis of remuneration specifically to be of an encouraging nature for salvors to develop their salvage capability based on high risk "no cure no pay" terms.

Going back to 1835, the words of Admiralty Judge, Sir John Nicholl, are as relevant today as they were then. In setting out the relevant criteria for salvage reward such as the weather and the dangers to the ship and cargo and to the salvors as well as the time employed and value of property he added: *"and when all these things are considered, there is still another principle – to encourage enterprise, reward exertion and to be liberal in all that is due to the general interests of commerce, and the general benefit of owners and underwriters, even though the reward may fall upon an individual owner with some severity."*

Fewer LOFs are used today than previously, despite its great benefits: it is clear and simple, enabling rapid intervention largely because there is no need to negotiate terms "upfront."

The integrity of LOF is assured by Lloyd's, a world scale insurance market with considerable resources. And there is a clear dispute resolution process using Lloyd's Arbitrators. ISU firmly believes it is a fair contract allowing a salvage award based on well-established criteria including the value of the property saved, taking account of the circumstances. The great majority of cases are settled amicably. And using other commercial

LOF 2011



LLOYD'S STANDARD FORM OF SALVAGE AGREEMENT
(Approved and Published by the Council of Lloyd's)

NO CURE - NO PAY

| | |
|---|---|
| 1. Name of the salvage Contractors: (referred to in this agreement as "the Contractors") | 2. Property to be salvaged: The vessel: her cargo freight bunkers stores and any other property thereon but excluding the personal effects or baggage of passengers master or crew (referred to in this agreement as "the property") |
| 3. Agreed place of safety: | 4. Agreed currency of any arbitral award and security (if other than United States dollars) |
| 5. Date of this agreement | 6. Place of agreement |
| 7. Is the Scopic Clause incorporated into this agreement? State alternative - Yes/No | |
| 8. Person signing for and on behalf of the Contractors Signature: | 9. Captain or other person signing for and on behalf of the property Signature: |

A Contractors' basic obligation: The Contractors identified in Box 1 hereby agree to use their best endeavours to save the property specified in Box 2 and to take the property to the place stated in Box 3 or to such other place as may hereafter be agreed. If no place is inserted in Box 3 and in the absence of any subsequent agreement as to the place where the property is to be taken the Contractors shall take the property to a place of safety.

B Environmental protection: While performing the salvage services the Contractors shall also use their best endeavours to prevent or minimise damage to the environment.

C Scopic Clause: Unless the word "No" in Box 7 has been deleted this agreement shall be deemed to have been made on the basis that the Scopic Clause is not incorporated and forms no part of this agreement. If the word "No" is deleted in Box 7 this shall not of itself be construed as a notice invoking the Scopic Clause within the meaning of sub-clause 2 thereof.

Page 1 of 2

terms can be more costly for owners and insurers than LOF.

There are various ideas in the shipping market as to why use of LOF has reduced. ISU thinks it is, in large part, due to a lack of knowledge about the contract and its benefits. It also suffers from a number of myths that have come to be accepted, such as it being a contract which favours the salvor - but the fact that the great majority of cases are settled without dispute suggests that is not the case.

ISU, and Lloyd's, want to communicate better the benefits of LOF to help shipowners and insurers - particularly property underwriters - understand LOF and recognise its key place in the conduct of marine salvage. ISU recognises there are other commercial ways of doing salvage where speed of response is not an important factor. But, for emergency response, LOF is still the best way to encourage commercial salvors to save life, protect the environment and save valuable property and ISU commends it and wants to see a resurgence in its use.



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