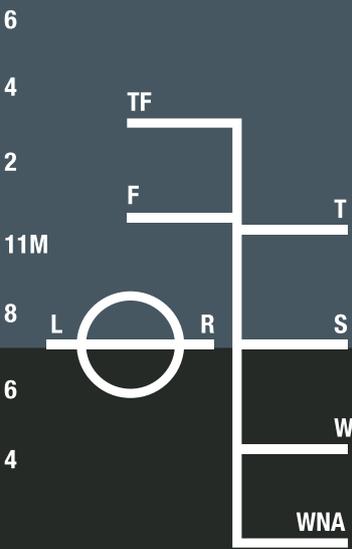


International Salvage Union Annual Review 2015



“ISU members provide services to clients which help shipowners, cargo owners and their insurers to limit potential losses from marine casualties.”



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PRESIDENT'S FOREWORD



Welcome to the International Salvage Union's Annual Review 2015. It is a privilege to introduce this review as President of ISU, an association which I have been involved with for more than 30 years throughout my career in marine salvage and contracting. It is also with pride that I follow in the footsteps of my father, J. Arnold Witte, as President of ISU.

The marine salvage industry today faces operational and commercial challenges but there are also opportunities for good operators and the ISU, the global trade association for salvors, represents a vibrant industry. Our statistics for 2015 are published in this Review and they show that our members provided 212 salvage services and conducted 64 wreck removals. Gross revenues from all activity for ISU members was US\$717 million. It is a substantial industry providing vital services: saving life; protecting the environment and saving property.

And we must keep sight of the key point that our members provide services to clients which help shipowners, cargo owners and their insurers to limit potential losses from marine casualties. We should be seen as loss-mitigation partners and, under the traditional contracting model, our members are prepared to take most of the financial risk in a salvage operation. I strongly believe that well-capitalized contractors with their own expert staff and equipment are best-placed to provide salvage and wreck removal services. I would always promote these operators ahead of a consultant with no critical mass who hires-in what might be needed for the job at hand.

In 2015 we saw good progress on the issue of Places of Refuge. It is a matter of great importance to anyone connected with marine casualties. For too long coastal states have not

met their obligations and we have seen shocking cases where salvors were denied access to a Place of Refuge. The European Union is to be congratulated on the work it has done to produce and implement its new Operational Guidelines on Places of Refuge. ISU was closely involved in the production of the Guidelines which have already been used in 2016 and we hope that the EU will provide leadership to encourage international progress.

There are many other issues of concern: better understanding of the value and place of the Lloyd's Open Form (LOF) continues to be important for us – most commentators agree that, in many emergency response situations, it is the best contract. ISU and Lloyd's are committed to continuing to promote better understanding of the contract.

The increasing size of several classes of vessel and the difficulties of handling them as casualties remains a concern as do wrongly-declared cargoes as well as ensuring that accurate weights of containers are recorded.

ISU is also vigilant about the reputation of the salvage industry. We must not tolerate bad or unfair practices between ISU members and their clients and other members. We must be honourable and trusted partners, not least because in some circumstances people's lives may be at risk. For all parties, it is important to use the right contract in the right circumstances. ISU will encourage its members in this regard and we hope that others will play their part as well, contracting in a fair and transparent way.

I look forward to continuing to lead ISU through the remainder of this year and next, in the knowledge that our members and their people are innovative, courageous and committed to intervening in casualty situations regardless of the difficulties the prevailing conditions may present.

A handwritten signature in black ink, appearing to read 'John Witte'. The signature is stylized and fluid, with a long horizontal stroke extending to the left.

John Witte
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 is 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 2015)
Captain Leendert Muller,
Multraship, The Netherlands

Vice President (to October 2015)
John Witte Jr.,
Donjon Marine, USA

President (from October 2015)
John Witte Jr.,
Donjon Marine, USA

Vice President (from October 2015)
Charo Coll,
Boluda, Spain

EXECUTIVE COMMITTEE

Alfred Hubner, *Ultratug, Chile*
Richard Janssen, *Smit Salvage, The Netherlands (from October 2015)*
Li Jianping, *China Rescue and Salvage, China*
Yoshiaki Nishibe, *Nippon Salvage, Japan*
Peter Pietka, *Ardent, USA*
Fokko Ringersma, *Mammoet Salvage, The Netherlands*
Joop Timmermans, *Tschudi Offshore & Towage, The Netherlands (resigned October 2015)*
Andreas Tsavlis, *Tsavlis Salvage, Greece (resigned November 2015)*

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 2015

	2015	2014
	£	£
TURNOVER	435,066	443,859
Administrative expenses	431,472	361,694
	<u> </u>	<u> </u>
OPERATING (DEFICIT)/SURPLUS	3,594	82,165
Interest receivable	302	297
	<u> </u>	<u> </u>
(DEFICIT)/SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION	3,896	82,462
Tax on (deficit)/surplus on ordinary activities	60	59
	<u> </u>	<u> </u>
(DEFICIT)/SURPLUS FOR THE FINANCIAL YEAR	3,836	82,403
Balance brought forward	207,543	125,140
	<u> </u>	<u> </u>
Balance carried forward	<u>211,379</u>	<u>207,543</u>

International Salvage Union Limited, a company limited by guarantee:
Balance Sheet at 31 December 2015

	2015		2014	
Note	£	£	£	£
FIXED ASSETS				
Tangible assets		1,422		987
CURRENT ASSETS				
Debtors	80,094		61,385	
Cash at bank	281,021		306,341	
	<u>361,115</u>		<u>367,726</u>	
CREDITORS: Amounts falling due within one year	<u>20,473</u>		<u>30,485</u>	
NET CURRENT ASSETS		340,642		337,241
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>342,064</u>		<u>255,825</u>
RESERVES				
Other reserves		130,685		130,685
Income and expenditure account		211,379		207,543
MEMBERS' FUNDS		<u>342,064</u>		<u>338,228</u>

GENERAL MANAGER'S REPORT

In 2015 ISU achieved several objectives including the finalisation of its work with the European Commission on their Operational Guidelines for Places of Refuge. The ISU worked closely with other industry bodies including the International Group of P&I Clubs, the International Chamber of Shipping and the International Union of Marine Insurance. The Guidelines are complimentary to the IMO Guidelines on Places of Refuge and the ISU has urged its members to recommend them to their own national authorities. The Guidelines can be downloaded at <http://ec.europa.eu/transport/modes/maritime/digital-services/doc/por-operational-guidelines.pdf>

We commenced a joint project with Lloyd's of London to try and improve the use of the Lloyd's Open Form contract through education and information. This is a long term project as, in many cases, attitudes and positions have been established for decades. It may be some time before we see an increase in the use of LOF but ISU remains resolute in its determination to see it used more than at present.

We have also been assisting Lloyd's with its new approach to the management of the Special Casualty Representatives Panel to make it a more robust system. We expect finalisation of the project during 2016.

“We commenced a joint project with Lloyd's of London to try and improve the use of Lloyd's Open Form through education and information.”

ISU membership has stayed steady during the year which is pleasing when many members were feeling the effects of a low oil price and a corresponding decline in offshore activities. At the end of 2015 we had 59 Full Members and 79 Associate/Affiliate Members.

The salvage of mega ships remained a key talking point throughout the year. Our message is that salvors are innovative and will always respond, however, it must be accepted that the sheer, physical size of the new generation of container ships, LNG carriers, passenger ships and ore carriers will always present a significant and difficult challenge to salvage.

The ISU Salvage Sub Committee, previously the LOF Sub Committee, met four times during the year. It consists of practitioners drawn from

seven ISU member companies, and they provide invaluable “front line” insight into LOF, SCOPIC and wreck removal related matters.

Associate Members' Day in March continues to grow in popularity and we had yet another record attendance with 212 delegates. The new venue at Merchant Taylors' Hall in the City of London provided an excellent setting for the day.

The ISU Award for Meritorious Service was given to the Titan/Micoperi consortium for the removal of the Costa Concordia off Italy. The project was the largest single wreck removal contract ever undertaken and significantly raised the profile of the international marine salvage industry. It set new, higher standards for technical competence in major wreck removal projects.

“Associate Members' Day in March continues to grow in popularity and we had yet another record attendance with 212 delegates.”

The AGM in New York in September was very well attended, matching the record for attendance set the previous year. The AGM provided a forum for lively debate on key issues including the reputation of the salvage industry. This issue has been taken up by the ISU management team with a determination to eradicate unethical behaviour amongst ISU members and other parties. The AGM week was hosted by Donjon Smit who also sponsored a fine closing gala dinner. At the conclusion of the meeting, John Witte of Donjon Marine assumed the Presidency of ISU and Charo Coll of Boluda Salvage became the ISU's first woman Vice President.



Mark Hoddinott

LEGAL ADVISER'S REPORT

Supporting the Lloyd's Open Form contract is a key part of the ISU legal adviser's role.

ISU continues to work with Lloyd's to ensure the contract is properly understood. The contract was created by Lloyd's more than a century ago for the benefit of the marine insurance market, not salvors. It has stood the test of time.

At its heart is the intent to encourage investment in salvage services to help prevent loss and it is an important point for all parties to understand.

2015 was the first full year for the new panel of Lloyd's Arbitrators who make awards when the parties cannot agree a settlement in a LOF case. In 2016, Jeremy Russell, QC, will step down as a LOF Arbitrator and become the Appeal Arbitrator on the retirement of Sir David Steel.

The SCOPIC regime associated with LOF has worked well since its introduction in 1999. The rates for different pieces of equipment and categories of personnel will be automatically amended in line with the US Consumer Prices Index every three years.

ISU works closely with Lloyd's and the International Group of leading P&I Clubs on SCOPIC issues. 2015 saw continued work on the Guidelines for the Special Casualty Representatives - appointed in LOF cases where SCOPIC is incorporated and invoked.

It is an ongoing process taking account of good practice and also of any concerns raised by those involved in SCOPIC cases. The requirements for SCRs - such as physical fitness to perform their duties - and a fixed term on the SCR panel are under review. The possibility of amendments to the termination of SCOPIC - Clause 9 - is also under consideration.

Elsewhere, as noted in the General Manager's report, there have been constructive developments in the EU with regard to the issue of Places of Refuge for casualty vessels. The EU has produced Guidelines on the subject that have been well received and which have been used in cases in the early part of 2016.



Rob Wallis

There is already much relevant international legislation and relevant IMO conventions on this subject. ISU is not pursuing further regulation: the issue is encouraging coastal states to comply. ISU would like the EU now to provide international leadership in the hope that other states will change their attitudes towards Places of Refuge.

Wreck removal continues to be an important part of the work of ISU members and 2015 was no exception, with the final elements of the removal of the Rena off New Zealand being undertaken and elsewhere the conclusion of the jobs to remove the bulker Smart off South Africa and the RoRo, Amadeo 1 in Chile.

“LOF was created by Lloyd's more than a century ago for the benefit of the marine insurance market, not salvors. It has stood the test of time.”

As with SCOPIC, ISU works closely with the International Group of P&I Clubs on wreck removal. There is discussion about risk analysis, the tendering process and style of contracts and proposed changes to the Code of Conduct on wreck removal tendering that exists between the ISU and IG.

Criminalisation of salvors and other seafarers continues to be of concern. ISU does not seek to excuse negligence but salvors should not be at risk of criminalisation for using their best endeavours to save life and property and in protecting the marine environment. There is a real risk that salvors, who are often the only professionals capable of safely intervening in a casualty situation, may choose not to do so in some jurisdictions.

The implications for ISU members of changes in the international sanctions regime - in particular with regard to Iran - has also been a focus in 2015. The issue can have an effect on ISU members' operations and has also been considered with regard to the possibility of membership of ISU by Iranian organisations.

ISU STATISTICS

ISU collects statistics from its members each year to provide an overview of the industry.

The statistics are gathered anonymously and aggregated and for 2015 they show a robust industry continuing to provide vital services in the face of a challenging economic climate for world shipping. The statistics are for income received in the given year but which may relate to, in some cases, operations from a preceding year.

Safer ships and better operating practice have generally reduced the amount of emergency response work for salvors but individual cases may be more complex and wreck removal activity continues to be an important source of income.

The total number of services recorded in 2015 was 212. It is the second highest since 1999 – there were 249 services in 2014. Gross revenues for ISU members in 2015 from all activities fell to US\$ 717 million compared with US\$ 775 million in 2014.

Wreck removal income has grown during the past decade and accounts for more than half of gross revenue with US\$ 397 million in 2015 (US\$ 394 million in 2014). This trend may indicate the increasingly stringent requirements of the coastal state authorities and the increasing complexity of some wreck removal jobs. The 2015 statistics record 64 wreck removal jobs compared with 91 in 2014.

Revenue from Lloyd's Open Form (LOF) cases at US\$ 83 million is the lowest in more than a decade. 2014 saw the lowest annual number of LOF cases on record (37) and this may be reflected in the 2015 ISU statistics. At the same time, revenue from operations conducted under

contracts other than LOF was the second highest at US\$ 98 million and shows a gently rising trend.

Revenue from LOF cases has fallen to below 50% of the total of all “dry” salvage revenue for the first time – 46% in 2015 (55% in 2014). Similarly, the number of LOF cases as a percentage of all “dry” salvage cases is the lowest at 16% in 2015 (23% in 2014). It reflects the increasing trend to use other commercial contracts and terms in place of LOF.

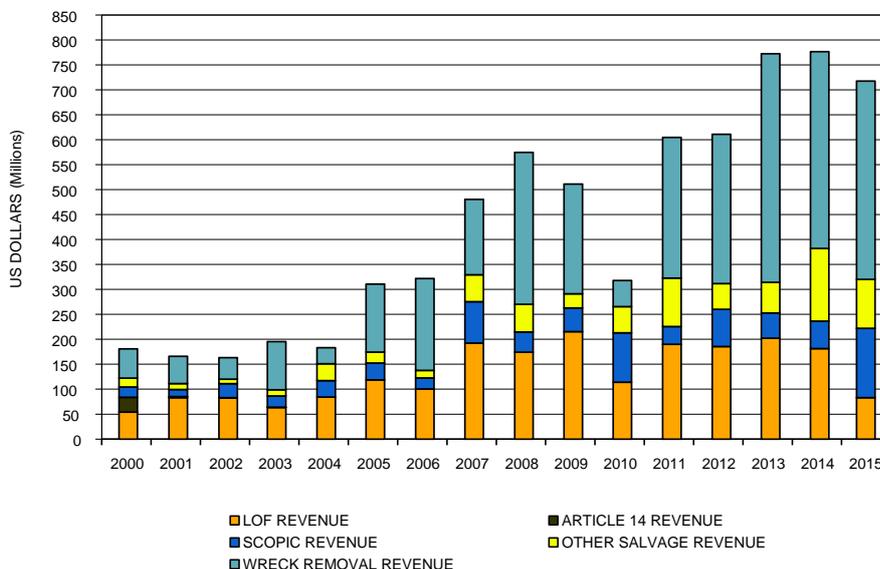
Revenue derived from the Special Compensation P&I Club Clause (SCOPIIC) in LOF cases increased significantly to US\$ 139 million in 2015.

Total salved values (ship and cargo) in LOF cases has fallen to US\$ 638 million in 2015 from US\$ 1.2 billion in 2014. But the average values salved in LOF cases has remained reasonably consistent at US\$ 19 million. The figure has stayed within the US\$ 15 – 25 million band since 2010. Average LOF revenue expressed as a percentage of average LOF salved value has fallen for the second consecutive year and was 13%.

The statistics show a significant drop in all “dry” salvage revenues (LOF and non-LOF) to US\$ 181 (US\$ 327 in 2014). It is the lowest figure since 2010.

The statistics for 2015 again show the variability of the industry and the fluctuations in the sources of revenue: there has been a decline in the contribution of income from traditional LOF cases, offset to some extent by increased SCOPIIC revenue and steady wreck removal income which has become increasingly important for ISU members.

All sources of revenue 2000 - 2015



“Wreck removal income has grown during the past decade and accounts for more than half of gross revenue.”

ENVIRONMENTAL PROTECTION

A key role of members of the ISU is to prevent damage to the environment. In the course of their operations they must often remove polluting cargoes; bunker fuel and wrecks containing hazardous material.

In many cases it is only commercial salvors who have the experience and capability to intervene in an emerging casualty situation and who stand between a damaged vessel and an environmental disaster.

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 dirty or hazardous bulk cargo and containers (by tonnes equivalent). It takes account of the International Convention on the Prevention of Pollution from Ships (MARPOL), the International

Maritime Dangerous Goods Code (IMDG Code), Intercargo guidance, P&I Club guidance; International Tanker Owners Pollution Federation publications and the International Solid Bulk Cargoes Code. The attitude of coastal state authorities has also been considered based on ISU members' operational experience.

In 2015, ISU members provided 185 services (216 in 2014). Variants of wreck removal contracts

2015 ISU POLLUTION PREVENTION SURVEY RESULTS (tonnes)		
	2015	2014
Number of services	185	216
Bunker fuel	66,247	83,698
Oil cargo	666,416	194,880
Chemicals	35,744	102,939
Bulk (polluting/hazardous)	722,160	901,373
TEU (tonnes equivalent)	330,015 (21,941 TEU)*	256,265 (21,941 TEU)*
Other pollutants	65,282	16,244
Totals	1,885,864	1,655,399

*Nominal 15 tonnes per TEU

The ISU survey of its members' pollution prevention work in 2015 shows that nearly 1.9 million tonnes of potential pollutants was involved in all operations reported in the survey. The survey was re-based in 2014 to include a wider range of potential pollutants including containers. The survey started in 1994 and it was a time when the threat, and fear, of pollution was considered to be largely from VLCCs and other tankers. That threat still exists but today most coastal states will judge most cargo to be potentially polluting. Containerised cargo has, for example, increased greatly in both total volumes and in the capacity of boxships. Containers, with their mixed and sometimes hazardous contents, are undoubtedly a potential pollutant and hazard and our survey now records them as such.

were used in 21 services; Lloyd's Open Form in 25 services; towage contracts were used in 40 services; Japanese Form in 10 services; Fixed Price, 19 services; Day Rate in 59 services and other contracts in 8 services. [The survey is conducted separately and with a different methodology to the general statistics and there are some differences in the numbers of cases recorded in the two surveys.]

In the period 1994 to end-2015, ISU members salvaged more than 22 million tonnes of potential pollutants, an average of more than one million tonnes per year.



“Yet again our members’ operations have delivered great benefit in helping to protect the marine environment.”

John Witte, President ISU

COMMUNICATIONS AND ENGAGEMENT

Good communication should be the heart of the activities of a respected trade association. The ISU is the sole voice of the global marine salvage community, recognised by, among others, the International Maritime Organisation, Lloyd's, the International Group of P&I Clubs; the International Union of Marine Insurance and BIMCO.

ISU prides itself on its openness and transparency, engaging with and negotiating with its stakeholders on important issues such as the revision of standard contract forms and the development of new ones; maintaining the relevance of the Lloyd's Open Form contract and ensuring that its associated SCOPIC regime is fair and functioning properly.

Members of the ISU leadership team regularly participate in high-profile industry conferences giving papers and joining expert panels.

The annual ISU Associate Members' Day Conference has become increasingly popular and attracts more than 200 delegates. It is an occasion to hear presentations about current issues and operations as well as being a networking event at which to meet old friends and to make new business contacts.

In 2015 the ISU held, jointly with the the International Group of P&I Clubs, the biennial meeting of the Special Casualty Representatives (SCRs). It gives an opportunity for salvors, SCRs and insurers to come together and discuss matters of mutual interest.

Other channels include ISU's well-regarded quarterly newsletter, *Salvage World*. It reports the news of the ISU and its full members as well as news from its associate and affiliate members and the wider shipping industry.

The ISU website is an excellent resource for



information about the both ISU and the salvage industry.

Relations with the media are important and ISU maintains contact with key journalists and editors from the marine press. Journalists are encouraged to attend ISU events and when salvage operations generate mainstream international media interest ISU will provide spokesmen, if appropriate, for international broadcasters covering these stories. Journalists are also invited to an annual lunch with members of the ISU Executive Committee.

ISU also provides articles on salvage-related topics to be published in the shipping press.

ISU members are updated with bulletins of relevant legal and commercial developments, for example, guidance about relevant international sanctions; tenders being run by national governments.



“ISU prides itself on its openness and transparency, engaging with and negotiating with its stakeholders.”

James Herbert,
ISU Communications Adviser

MERITORIOUS SERVICE AWARD

The ISU Meritorious Service Award is made only when there is outstanding service to the salvage industry that should be publicly recognized. It is not intended to be an annual Award.

The Award is not specifically a “bravery award” but is made for meritorious services during a salvage operation, or perhaps over a period of time. The Award can be made to a sub-contractor or to a person on the shore staff of an ISU member, or for long service. Acts of bravery are certainly included. The Award may be made to more than one individual for the same act or service but must be for acts or service that would be widely recognised as exceptional by the industry.

In 2015 an ISU Meritorious Service Award was made to a whole team who, together, conducted the largest single wreck removal undertaken. The parbuckling, refloating and removal of the Costa Concordia from the island of Giglio was a highly engineered and hugely technically challenging project successfully carried out in the full and critical view of the world’s media.

In making the award the ISU noted that the project was superbly executed and brought credit not only to the individuals and companies involved but also to the wider salvage industry. The presentation was made at the 2015 ISU Associate Members’ Day Conference.



Representatives from Titan and Micoperi receive the ISU Meritorious Service Award for the removal of the Costa Concordia

“The ISU Meritorious Service Award must be for acts or service that would be widely recognised as exceptional by the industry.”

“ISU is closely involved with its Affiliate Members, which are important shipping and insurance industry organisations.”





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