

International Salvage Union
Annual Review **2017**

“2017 again saw the value of professional, experienced salvors with their own assets and people.”



International Salvage Union Annual Review 2017

PRESIDENT'S FOREWORD



It is a privilege to write this foreword to the 2017 International Salvage Union Annual Review, having taken over the ISU Presidency from John Witte in September

2017 at our Annual Meeting in Singapore. I should like to thank John for his hard work, commitment and wise leadership of our association for the previous two years. I also want to extend my thanks to the other former presidents who have led the ISU to where it is now and for maintaining the strength and reputation of our industry.

ISU is the only voice representing marine salvors internationally and we are proud that we have official Consultancy status at the International Maritime Organisation. I am pleased to say that the number of ISU Full Members - who are all active salvage contractors - remains stable and our Associate and Affiliate membership has grown. It demonstrates that ISU continues to be a relevant and important organisation working effectively on behalf of its members on commercial, legal and operational issues and participating in many conferences and events around the world.

The salvage industry is under financial pressure as the ISU's annual salvage industry statistics on Page 10 of this Review indicate. Gross revenues from all sources recovered slightly in 2017 from the previous year but they are still weak compared with the industry's performance in the period 2013 - 2016. ISU members continue to experience fierce competition between themselves and from other sources; there are also fewer major jobs and average income for each service has reduced. Income from LOF and SCOPIC was at historically low levels. It is not an attractive picture for our members.

During the year we continued to try to make progress on changes to the SCOPIC regime. It has not been an easy process but it seems that we are now heading in a more positive direction and we hope to conclude during 2018. This year we jointly hosted, with the International Group of P&I Clubs, the biennial meeting of the SCOPIC regime's Special Casualty Representatives who are now appointed for a renewable, but fixed,

three year term.

Saving life at sea is the first priority in any marine emergency response and ISU was pleased to make its Meritorious Service Award to the Italian Coastguard this year. The award recognised the great bravery and humanitarian efforts of the men and women of the Italian Coastguard in rescuing tens of thousands of migrants trying to cross the Mediterranean Sea.

2017 again saw the value of professional, experienced salvors with their own assets and people. For example, the refloating of the grounded mega containership, CSCL Jupiter, in the River Scheldt was rapidly effected and clearly shows the added value of professional salvors in loss mitigation – minimising delays to the vessel's valuable cargo and preventing lengthy disruption to the port of Antwerp.

As well as saving life and property, salvors continued to prevent major incidents of marine pollution. In 2017 ISU members provided services to vessels carrying more than 2 million tonnes of potential pollutants. The full results can be seen on Page 11 of this review and show the great environmental benefit of the salvage industry. Operational matters have been dominated by concern about the prevalence of fires on containerships. ISU members are often the only agency available to deal with such incidents and have a proud track record in this specialised field. ISU has supported calls from the insurance industry to see changes to ship design to improve fire prevention and fire suppression on containerships.

I hope you find this review a useful document and share our view that it confirms the ISU's intention to be open and transparent about its business for the benefit of its members and other stakeholders in the wider shipping industry. I look forward to continuing to lead ISU through the remainder of this year and 2019 with the knowledge that all our members will be standing by to provide their services to the shipping industry by saving life, protecting the environment and saving property all around the world.



Charo Coll
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 (to September 2017)
John Witte Jr.,
Donjon Marine, USA

Vice President (to September 2017)
Charo Coll,
Boluda, Spain

President (from September 2017)
Charo Coll,
Boluda, Spain

Vice President (from September 2017)
Richard Janssen,
Smit Salvage, The Netherlands

EXECUTIVE COMMITTEE

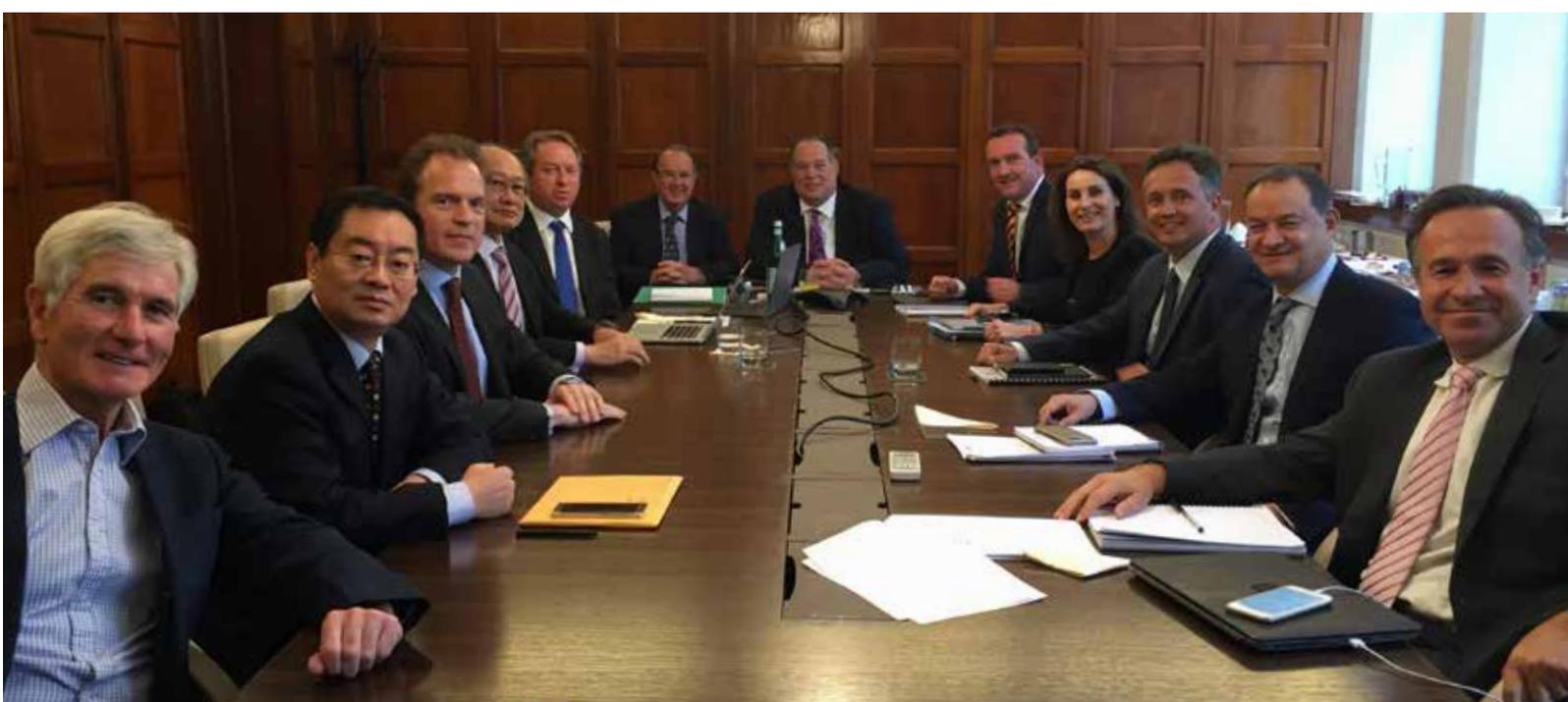
Alberto Comacho, *CPT Remolcadores SA, Chile*
Li Jianping, *China Rescue and Salvage, China*
Leendert Muller, *Multtraship, The Netherlands*
Corrado Neri, *Fratelli Neri, Italy*
Yoshiaki Nishibe, *Nippon Salvage, Japan*
Peter Pietka, *Ardent Global, USA*
Nick Sloane, *Resolve Marine Group, USA*

SECRETARIAT

General Manager
Mark Hoddinot

Communications Adviser
James Herbert

Legal Adviser
Rob Wallis



The full ISU Executive Committee meeting in London, June 2017

ISU ABBREVIATED ACCOUNTS

International Salvage Union Limited, a company limited by guarantee
Statement of Income and Retained Earnings Year ended 31 December 2017

	2017	2016
	£	£
Turnover	473,506	438,010
Gross profit	<u>473,506</u>	<u>438,010</u>
Administrative expenses	455,766	415,740
Operating profit	<u>17,740</u>	<u>22,270</u>
Other interest receivable and similar income	<u>51</u>	<u>212</u>
Profit before taxation	17,791	22,482
Tax on profit	<u>(42)</u>	<u>(77)</u>
Profit for the financial year and total comprehensive income	<u><u>17,833</u></u>	<u><u>22,559</u></u>
Retained earnings at the start of the year	<u>233,938</u>	<u>211,379</u>
Retained earnings at the end of the year	<u><u>251,771</u></u>	<u><u>233,938</u></u>

All activities of the company are from continuing operations

International Salvage Union Limited, a company limited by guarantee
Statement of Financial Position at 31 December 2017

	2017	2016
	£	£
Fixed assets		
Tangible assets	1,244	1,879
Current assets		
Debtors	117,973	126,921
Cash at bank and in hand	<u>303,963</u>	<u>258,041</u>
	421,936	384,962
Creditors: amounts falling due within one year	<u>40,724</u>	<u>22,218</u>
Net current assets	381,212	362,744
Total assets less current liabilities	<u>382,456</u>	<u>364,623</u>
Net assets	<u><u>382,456</u></u>	<u><u>364,623</u></u>
Capital and reserves		
Other reserves	130,685	130,685
Profit and loss account	<u>251,771</u>	<u>233,938</u>
Members' funds	<u><u>382,456</u></u>	<u><u>364,623</u></u>

GENERAL MANAGER'S REPORT

2017 has been another challenging year for ISU members and the salvage industry. Despite continuing depressed revenues there were nevertheless some highlights in 2017.

Our membership levels are holding up well. In terms of numbers our Full Membership dropped to 57, a reduction of just 2 from 2016. The 57 members are drawn from 32 different countries, a true global spread. Those members that left the ISU stated that they had moved out of the salvage business to concentrate on other activities.

“Financially, the ISU maintained its strong position as a well-funded organisation”.

Associate Membership increased by 3 to 81, and we anticipate that this trend will continue. Affiliate Membership also increased by 1 to 13, as we welcomed the China Diving and Salvage Contractors' Association (CDSCA), a not-for-profit representative organisation. Founded in 2008 it boasts more than 220 members throughout China.

The Associate Members' Day in March attracted some 200 delegates and was held in the impressive Merchant Taylors' Hall in London. The opening address was delivered by Admiral Nicola Carlone of the Italian Coast Guard on the migrant crisis in the Mediterranean Sea. Accompanied by a video, it was an extremely moving presentation and brought home the reality of the danger and suffering that migrants are prepared to endure to escape conflict and hardship. On conclusion of his presentation, Admiral Carlone was presented with the ISU Award for Meritorious Service. This was only the third time the award had been made since its inception in 2013.

At the Associate Members' Day we also heard from Jeremy Russell QC, the Lloyd's Appeal Arbitrator on the future of LOF; from Sylvia Tervoort, Salvage Master with Smit Salvage, on the complexities of salvage involving LNG; and from Nic Pappas, MD of Five Oceans Salvage, on the salvage of the BENITA in Mauritius. We introduced a new slot in which five Associate Members gave seven minute presentations on the value they brought to the salvage industry. The day concluded with a panel discussion on “The Changing Process for Wreck Removal” when we welcomed panellists Sam Kendall-Marsden from Standard P&I Club, Colin Barker from TMC Marine Consultants and Captain Nick Sloane from Resolve Marine Group.

The Annual General Meeting in September was generously hosted in Singapore by Swire Salvage and attracted a good attendance. Our guest speaker was Ms Tan Beng Tee, Assistant Chief Executive of the Maritime Port Authority of Singapore, who gave us an insight into the ambitions for the future of the Port of Singapore.

We also heard from Full Members, African Marine Solutions (AMSOL) of South Africa, Pacific Ocean Marine Industries of Korea, and Subtech, also of South Africa. The Annual General Meeting also saw the ISU President, John Witte of Donjon Marine, handover to his successor, Ms Charo Coll of Boluda Salvage, the ISU's first woman President.

The ISU Salvage Sub Committee met four times during the year. It continued its valuable work on industry issues, providing excellent support and recommendations to the ISU Executive Committee. The Salvage Sub Committee is chaired by Eline Muller of Multraship with the balance of the committee being made up of representatives from Smit Salvage, Ardent Global, Resolve Marine, Nippon Salvage, Five Oceans Salvage and Mubarak Marine.

Financially, the ISU maintained its strong position as a well-funded organisation as demonstrated by the accounts which are published in this Annual Review.

We attended several meetings at IMO, due to our consultative status which we have held since 1979, however our involvement was limited during 2017 as the subject matter had little relevance to salvage. I expect that will change as autonomous and unmanned vessels comes onto the IMO agenda. We continued our role on the assessment panel for the IMO Annual Award for Exceptional Bravery at Sea, a role that I find particularly rewarding.



Mark Hoddinott

LEGAL ADVISER'S REPORT

The two most significant developments in 2017 were the revisions to Clause 9 of SCOPIC relating to termination by the salvor and the use and disclosure of so called "side agreements" to Lloyd's Open Form (LOF).

In the SCOPIC regime, concerns about the "unworkable" Clause 9.1 - the contractor's right to terminate – were addressed by independent recommendations from LOF Arbitrator Lionel Percy QC and discussions with the Lloyd's Salvage Group (LSG) SCOPIC sub-committee and the LSG. It was agreed to delete Clause 9.1 and introduce a new Clause 4(ii) which deals with the provision of additional SCOPIC security. The effect is that, if the contractor is not going to get paid for SCOPIC services after provision of initial security of US \$3 million, they may terminate the services if additional security is not provided.

LOF side agreements have become more common in recent years. There is a perception that these are drafted by, and for the benefit of, the salvor. However, it is the owners and their insurers who are in the dominant position in agreeing the use of LOF and they are increasingly requiring a side agreement as a condition of agreeing LOF. The agreements impose restrictions on the recovery a contractor would otherwise make under Article 13 of the Salvage Convention. The beneficiaries are the insured interests, not the salvor.

The LSG has agreed that Lloyd's should be notified of any side agreement attached to a LOF and be provided with a copy of the agreement. A side agreement is defined as "any agreement whatsoever that varies the provisions or terms of Lloyd's Open Form". Upon notification of a side agreement, Lloyd's will inform all parties to that LOF with an interest in the casualty of the existence of the side agreement although the terms will not be shared. The requirement for disclosure is a dramatic change.

Necessary minor changes will need to be made to the current LOF to recognise these changes. It has been questioned whether, with the addition of a side agreement, the main contract remains an LOF with its "no cure, no pay" and "best endeavours" requirement.

Side agreements change the terms and undermine the purpose of LOF. If they are becoming the norm, they must ensure that no contributing interests are prejudiced by their terms. It is widely accepted that LOF has great benefits that are not found in alternative commercial contracts: "no cure, no pay"; use of "best endeavours"; no "upfront" costs; a quick procedure for providing salvage security;

contribution to the eventual salvage reward by all salvaged interests and an arbitration procedure to settle disputes. These benefits are threatened by side agreements and pose a threat to the salvage industry.

The impact of side agreements on the P&I Club in SCOPIC cases is also under consideration. ISU supports the use of "clean," un-amended LOF but it seems that commercial pressure is causing salvors to accept restrictive side agreements in order to secure a LOF.

Other matters include consideration of the Fixed Cost Arbitration Process, FCAP, with the intention of making it more attractive. It is a low fixed-cost procedure allowing only limited written submissions, designed for straightforward "small" LOF cases where the salvage security is less than US\$1.5 million. But could it be used in larger cases - an open FCAP with no limits? The LSG will continue to review this option, including the current low level of recoverable costs.

Also of note is that charterers' liability insurance premiums for sub-contracted vessels are now accepted as a SCOPIC tariff item, where they are not part of a contractor's overhead costs. Appropriate amendments continue to be made to the SCR Guidance notes to reflect these developments.

In wreck removal, the fair treatment of risk and the increasing use of Quantitative Risk Assessment in the tender process continue to be of concern to ISU members and are under discussion between the ISU and the International Group of P&I Clubs.

Finally, the case of the RENOS is notable. The English High Court decision in 2016 that SCOPIC costs are to be included in the assessment of a constructive total loss under Institute Hull Clauses, has been upheld on appeal by the Court of Appeal and so remains the current law. However, an appeal to the Supreme Court is now likely and would be heard in 2019 or 2020.



Rob Wallis

COMMUNICATIONS ADVISER'S REPORT



James Herbert

Corporate communications and engagement is central to the work of the ISU Secretariat and we have continued to keep stakeholders with an interest in salvage informed about the salvage industry and the work of ISU.

Media relations is a key part of our communications activity and the ISU is proud of its relationships with journalists and editors and we have therefore continued to engage with marine media as well as mainstream media when there has been interest in salvage-related news stories. We issue news releases alerting the media and other readers to our news and we have published a number of salvage-related articles in the maritime press on topics such as the economics and current state of the industry and reviewing developments in salvage over the past decades.

ISU Executives have spoken to a range of audiences about the salvage business at conferences in Europe, the US, Singapore and China including including the President giving the keynote speech at the annual Salvage and Wreck Conference in London. ISU produced its annual conference for its Associate members in London in March and there was a record number of delegates. The conference was preceded by the ISU Annual Dinner where we were delighted to have the International Maritime Organisation's (IMO) Secretary General, Kitack Lim as guest of honour.

In the early part of the year, ISU was a sponsor of a major exhibition by the International Tanker Owners' Pollution Federation about improvements in tanker shipping in the 50 years since the Torrey Canyon oil spill. The exhibition was mounted prominently at the IMO building in London.

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 an excellent "window" into the work of ISU members and a trusted source of news and information about the salvage industry and the activities of the ISU.

During the past year we have updated our "Position Papers" which set out the ISU's views

on industry issues such as the Lloyd's Open Form, Places of Refuge; wreck removal and the cost of tendering for major projects as well as responder immunity and unfair criminalization.

The ISU website aims to be the authoritative source of information about the industry and we are beginning to use social media as part of our communications mix.



SALVAGE OPERATIONS 2017



Every year ISU members provide valuable services all around the world to many different classes of vessel.



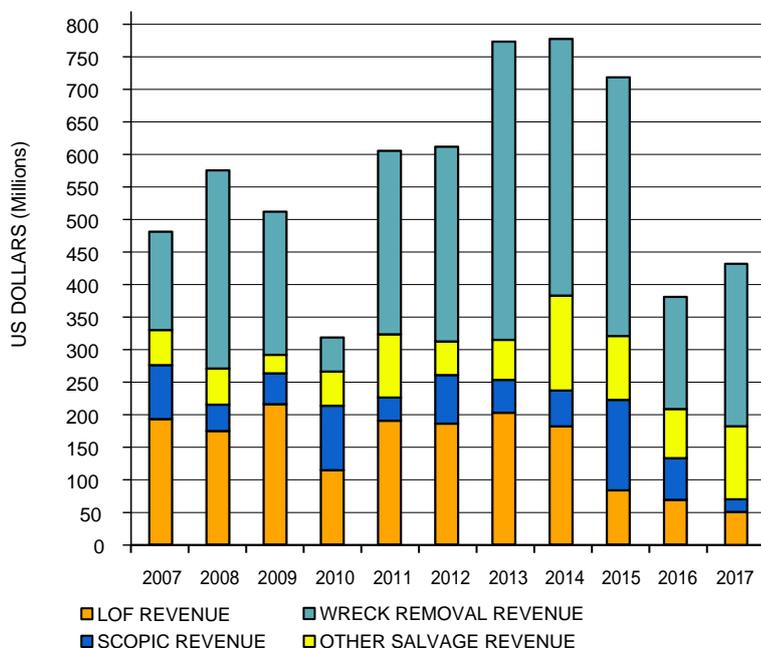
SALVAGE INDUSTRY STATISTICS

The ISU annual statistics for 2017 show that gross revenue for ISU members was US\$ 456 million. It compares with US\$ 380 million in 2016. It is a 20% increase on that low point but revenues are not approaching the levels of 2013, 2014 and 2015 when annual income was more than US\$ 700 million.

The total number of “dry” salvage services, that is emergency response as opposed to wreck removal, in 2017 was 251. In 2016 there were 306 operations which had been the highest number for nearly 20 years.

The statistics provide the only published measure of the state of the marine salvage industry. The statistics are collected confidentially from all ISU members, aggregated and analysed by a third

All sources of revenue 2007 - 2017



party. They do not include the revenues of non-ISU members. The statistics are for income received in the relevant year but that can include revenue from services provided in previous years. The statistics are for gross revenues from which all of the salvors' costs must be met.

Revenue from Lloyd's Open Form (LOF) cases in 2017 was US\$ 54 million which is the lowest since 1999 and continues the downward trend of LOF. Revenue from SCOPIC was US\$ 20 million – down from some US\$ 60 million the previous year and the lowest annual SCOPIC revenue since SCOPIC was introduced in 1999.

The number of LOF cases that realised revenue in 2017 for ISU members was 46 - an increase on

the 34 cases in 2016. However, with the increase in cases and decrease in LOF revenues it means the average revenue from each LOF case, including SCOPIC revenue, has fallen and was US\$ 1.6 million, down from US\$ 3.9 million the previous year.

The total of LOF salvaged values was nearly US\$ 1 billion and the average LOF salvaged value was US\$ 21 million. It means that the average income (excluding SCOPIC payments) for each LOF case - both settlements and arbitrators' awards - was 5.6% of the salvaged value, the lowest on record.

Revenue from LOF cases represented 31% of all “dry” salvage revenue and LOF cases accounted for 18% of all “dry” salvage cases in 2017. Ten years ago, LOF revenue represented more than 70% of “dry” salvage income and 34% of cases. Both numbers confirm the continuing decline in the financial significance of LOF over the past few years.

At the same time, revenue in 2017 from operations conducted under contracts other than LOF was US\$ 119 million – up from US\$ 75 million the previous year. Average revenue from non-LOF contracts was therefore US\$ 580,000 per case. It reflects the continuing trend for commercial contracts to be used in place of LOF.

Wreck removal income has grown during the past decade and remains an important source of income for members of the ISU. In 2017, 120 operations produced income of US\$ 264 million – 58% of total income. It is an increase from US\$ 172 million in 2016.

The 2017 ISU statistics show the variability of the salvage industry. The total revenue was a slight increase on the previous year but is still more than 30% down on the total of just two years ago.

Intense competition may be making salvors undertake cases for lower returns and there may be pressure from owners and insurers to drive down costs.

LOF revenue is much reduced and a contributing factor could be the increased use of “side agreements” as noted in the Legal Adviser's report on Page 7.

Despite the difficult commercial conditions, the industry continues to be active, continues to invest and continues to be effective in mitigating loss for ship owners and insurers.

ENVIRONMENTAL PROTECTION

Protecting the marine environment from the impact of spills of pollutants - both bunkers and cargoes - is a key role of marine salvors. Each year, ISU carries out a survey of the potential for pollution that there was in its members' operations. In 2017 that involved vessels carrying more than 3.4 million tonnes of potential pollutants in 252 services and it was a significant increase on the previous year.

The survey includes a wide range of potential pollutants including containers and hazardous and dirty bulk cargoes. The most significant factor in the increase in 2017 is a larger number of bulk cargoes. This category includes products such as ammonium nitrate, coal, scrap steel, grains, soya and cement. A number of bulk cargoes are not included as potential pollutants and ISU members also provided services to bulkers carrying 845,976 tonnes of non-hazardous dry bulk – mainly ores.

The 2017 numbers also show a significant increase in the number of containers involved in salvage cases, rising from 21,244 TEU in 2016 to 45,655 TEU in 2017. It reflects the size of modern containerships – a small increase in the number of boxship salvage cases can add significantly to the TEU total.

Bunker fuel, at 135,995 tonnes, showed a significant increase on the 2016 figure of 89,492 tonnes. That is largely explained by the increased number of services provided.

ISU does not suggest that all of these potential pollutants were at imminent risk of going into the sea. Some cases will have been benign but others will have carried a real environmental threat. But it only takes one major incident to cause an environmental disaster so it is worth

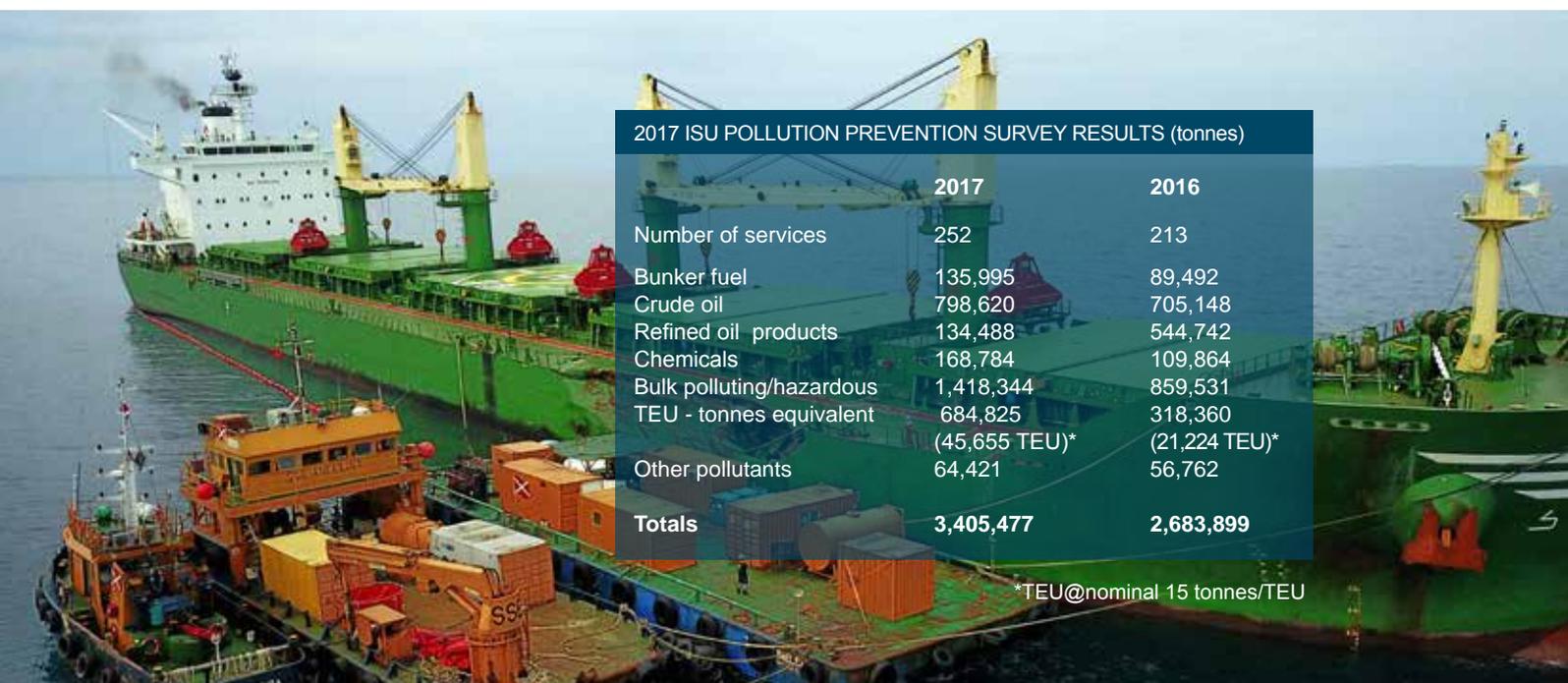
considering what might have occurred in some of these cases if there had not been a professional salvor available and willing to intervene. ISU members have undoubtedly helped to prevent the environmental and financial consequences of a significant pollution event.

The survey was first conducted by ISU in 1994 and the methodology was updated in 2014. It takes account of the fact that coastal state authorities consider most cargoes to be potentially polluting. Container trade has also increased dramatically and the capacity of boxships is now far greater than in 1994. Containers, with mixed and sometimes hazardous contents - and the danger they cause if left in the sea - are both a potential pollutant and hazard.

The survey 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.

In 2017 ISU members provided 252 services - up from 213 in 2016. Variants of wreck removal contracts were used in 25 services; Lloyd's Open Form – 49 services; towage contracts – 42 services; Japanese Form – 10 services; Fixed Price – 1 service; Day Rate – 78 services; lump sum - 17 services and other contracts were used in 30 services.

In the period 1994 to end-2017, ISU members have provided services to casualty vessels carrying 28,206,376 tonnes of potential pollutants, an average of more than one million tonnes per year.



2017 ISU POLLUTION PREVENTION SURVEY RESULTS (tonnes)		
	2017	2016
Number of services	252	213
Bunker fuel	135,995	89,492
Crude oil	798,620	705,148
Refined oil products	134,488	544,742
Chemicals	168,784	109,864
Bulk polluting/hazardous	1,418,344	859,531
TEU - tonnes equivalent	684,825	318,360
	(45,655 TEU)*	(21,224 TEU)*
Other pollutants	64,421	56,762
Totals	3,405,477	2,683,899

*TEU@nominal 15 tonnes/TEU

MERITORIOUS SERVICE AWARD



In 2017 The ISU presented its Meritorious Service Award to the Italian Coast Guard in recognition of the extraordinary efforts of its men and women in handling the Mediterranean migrant crisis.

The Award was presented to the Italian Coast Guard's Head of Plans and Operations Department, Rear Admiral Nicola Carlone, by the then President of the International Salvage Union, John Witte, and the Secretary General of the International Maritime Organisation, Ki Tack Lim. The ceremony took place at the ISU's annual Associate Members' Day Conference in London in the presence of some 200 conference delegates.

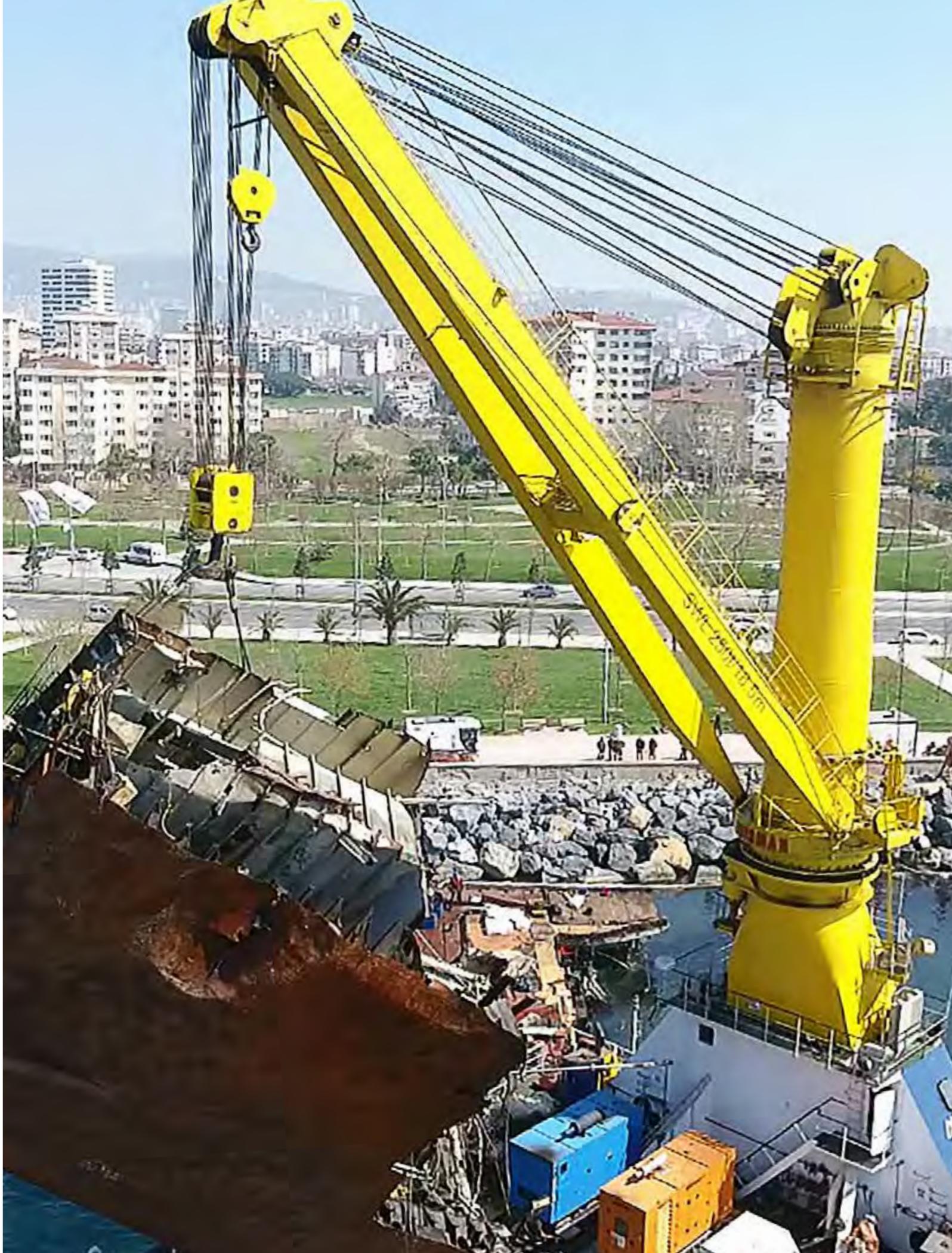
When he made the award, Mr Witte said: "I am honoured to mark the great work done by the Italian Coast Guard over the past years and again this year in taking the lead in handling the huge numbers of migrants attempting to reach Europe across the Mediterranean Sea. ISU does not regularly make its Meritorious Service Award and, as the award citation says, the people of the Italian Coast Guard have demonstrated their commitment to saving life at sea; their efforts have gone beyond boundaries and have been undertaken regardless of circumstances and often at great personal risk. They have saved thousands of lives."

In 2016 the Italian Coast Guard rescued more than 26,000 people at sea, including 6952 people on one single day in August. Italy has rescued more survivors in the last two years than in the previous 23 years combined.

"I am honoured to mark the great work done by the Italian Coast Guard"

On receiving the award Rear Admiral Carlone said: "The entire Italian Coast Guard is truly grateful and honoured to receive this special award that acknowledges the utmost importance to save human lives at sea. The tireless endeavour and the dedication demonstrated by our personnel are part of our mission and search and rescue operations have become part of a humanitarian response to an emergency we cannot ignore."

The ISU Meritorious Service Award is not made annually and is not specifically for acts of bravery – although these can be considered. It is for exceptional conduct which may be demonstrated in a single incident or over a long period. The Award may be given to an individual or a team.





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