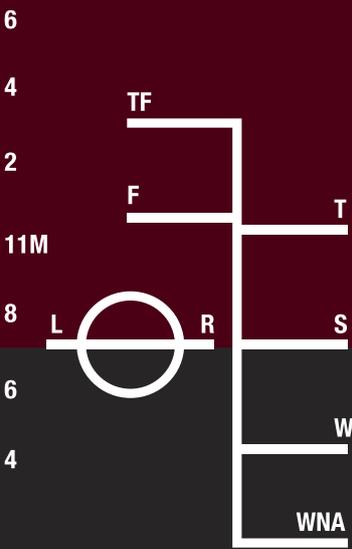


International Salvage Union
Annual Review 2016



“ISU members are ready, willing and able to intervene anywhere a casualty may occur to save life; to protect the environment and to save property”.



International Salvage Union Annual Review 2016

PRESIDENT'S FOREWORD



Welcome to the International Salvage Union's Annual Review, 2016. It is the aim of the ISU to be open and transparent in its business and in its relationships with its Full, Associate and Affiliate

Members as well as with its other stakeholders in the marine industries. I hope that publishing an Annual Review of the ISU's work is helpful in meeting that objective.

It is no secret that the shipping industry is experiencing hard economic times and it is therefore no surprise, that the salvage industry is also under similar economic pressure. A reduction in the number of large casualties; lower salvaged values when casualties do occur and increased competition in many locations means that ISU members' salvage and wreck removal incomes have been reduced substantially. The ISU industry statistics set out on page 10 of this report give the full picture but, while we wait to see longer term trends, a 40% reduction in revenues is a challenge for any business and I suggest that we are facing a "new reality" of substantially lower returns.

All this being said, there is much to be positive about. Salvage remains a vibrant industry and ISU continues to be an effective trade association representing the collective interests of those engaged in marine salvage and wreck removal all around the world. Our members are ready, willing and able to intervene anywhere a casualty may occur to save life; to protect the environment and to save property. It is easy to forget that life saving is at the heart of what we do. In many salvage services the first task is to safely handle, and often rescue, the crew of the casualty vessel.

Life saving was at the forefront of many ISU members' minds at the 2016 AGM held in Livorno, Italy. A moving film was shown about the work of the Italian Coast Guard to save the lives of thousands of migrants as they tried to cross the Mediterranean Sea from Africa to Europe. It is a human tragedy on an epic scale and the ISU was proud to recognise the efforts of the Italian Coast Guard by awarding it the prestigious ISU Meritorious Service Award.

Preventing pollution is also a critical role of the

salvor and again in 2016 our members have provided services in numerous cases where there were large amounts of potential pollutants at risk. These services involved cargoes of oil and oil products totalling more than 1 million tonnes, for example. The full details are on page 11 of this report and, as ever, it is worth reflecting what damage might have been done to the environment and local economies if there had been no commercial salvor available in many of those cases.

In 2016 significant progress was made in Europe on the issue of Places of Refuge for casualty vessels with the publication and implementation of new operational guidelines. These have proven to be useful in practice but the challenge remains in improving coastal states' understanding and acceptance on this matter in other parts of the world.

Another issue that continues to be of interest to the marine community is salvaging so called "mega-vessels". There is no doubt ISU members will be ready to provide services to the largest ships but the challenge is not to be underestimated.

In 2016, for example, we saw a giant containership aground in the River Elbe near Hamburg. After dredging around the casualty was commenced to increase water depth, she was refloated but only with the aid of 12 tugs with a combined bollard pull of 1000 tonnes. It was a graphic demonstration of the kind of resources needed to handle this new class of vessel. While this one was refloated without incident, one must understand that a small change in the circumstances could have meant access to one of Europe's busiest container ports being blocked for a long time - hence the value of a professional salvage response.

I should like to conclude by encouraging all those involved in marine salvage - principally the contractors, authorities, owners and insurers - to recognise the mutual benefit of a strong and properly funded salvage industry and to work together cooperatively to be ready to mitigate potential loss from marine casualties.



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 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
John Witte Jr.,
Donjon Marine, USA

Vice President
Charo Coll,
Boluda, Spain

EXECUTIVE COMMITTEE

Alfred Hubner, *Ultratug, Chile (resigned September 2016)*
Richard Janssen, *Smit Salvage, The Netherlands*
Li Jianping, *China Rescue and Salvage, China*
Leendert Muller, *Multraship, 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 Hoddinott

Communications Adviser
James Herbert

Legal Adviser
Rob Wallis



ISU ABBREVIATED ACCOUNTS

International Salvage Union Limited, a company limited by guarantee
Statement of Income and Retained Earnings Year ended 31 December 2016

	2016	2015
	£	£
Turnover	438,010	435,066
Gross profit	<u>438,010</u>	<u>435,066</u>
Administrative expenses	<u>415,740</u>	<u>431,472</u>
Operating profit	22,270	3,594
Other interest receivable and similar income	<u>212</u>	<u>302</u>
Profit before taxation	22,482	3,896
Tax on profit	<u>(77)</u>	<u>60</u>
Profit for the financial year and total comprehensive income	<u><u>22,559</u></u>	<u><u>3,836</u></u>
Retained earnings at the start of the year	<u>211,379</u>	<u>207,543</u>
Retained earnings at the end of the year	<u><u>233,938</u></u>	<u><u>211,379</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 2016

	2016	2015
	£	£
Fixed assets		
Tangible assets	1,879	1,422
Current assets		
Debtors	126,921	80,094
Cash at bank and in hand	<u>258,041</u>	<u>281,021</u>
	<u>384,962</u>	<u>361,115</u>
Creditors: amounts falling due within one year	<u>22,218</u>	<u>20,473</u>
Net current assets	362,744	340,642
Total assets less current liabilities	<u>364,623</u>	<u>342,064</u>
Net assets	<u><u>364,623</u></u>	<u><u>342,064</u></u>
Capital and reserves		
Other reserves	130,685	130,685
Profit and loss account	<u>233,938</u>	<u>211,379</u>
Members' funds	<u><u>364,623</u></u>	<u><u>342,064</u></u>

GENERAL MANAGER'S REPORT



Mark Hoddinott

2016 has been a challenging year for ISU members and the salvage industry. Our statistics for the year recorded a record number of salvage and wreck removal operations, 306 in total, but a decline in revenue of 47% from 2015.

Revenue declined in all areas. LOF revenue, which includes both awards and settlements declined 17% and is the lowest LOF revenue figure since 2003. SCOPIC revenue declined 54%, non-LOF salvage revenue declined 23% despite an increase in the number of operations, and wreck removal revenue declined 57%.

It is commonly accepted that one bad year does not make a trend, however the figures are still a cause for concern. The annual number of LOF cases remains in decline and we are aware that the majority are accompanied by side letters designed to reduce the salvor's reward.

This has fed through in the statistics where analysis has shown a decline in the average LOF/SCOPIC reward of 40%, down to US\$3.90 million per case. This trend continued across all areas with non-LOF average revenue down 50%, to US\$277 thousand per case, and wreck removal average revenue down 79% to US\$1.31 million per case.

I am often asked about the accuracy of our statistics. We are very careful to ensure that they are as accurate as possible and aim for at least 95%+ accuracy. With the processes that we have in place I am confident that this level of accuracy is achieved.

Despite the above figures, salvors have remained resilient. Our membership levels are holding up well with only a small decline as a result of the merger of Titan and Svitzer to form Ardent Global and the withdrawal of Mammoet from salvage. Attendances at our Associate Members' Day and General Meetings have not diminished.

The decline in the use of LOF remains a concern.

There have been attempts in the past to reverse the decline which have been unsuccessful. We continue to work with Lloyd's and other industry partners on the development of a long term strategy that will be effective. It will not be easy and reviving LOF is a big challenge.

The Associate Members' Day in March attracted 200 delegates and was held in the impressive Merchant Taylors' Hall in London. The opening address was delivered by Dr Lemonia Tsaroucha from the European Commission who presented on the Commission's initiative 'Operational Guidelines for Places of Refuge'.

The ISU was closely involved with the development of the Guidelines which came into effect in January and are already proving to be effective. The closing conference item was a panel discussion on the salvage of mega ships. I expect this topic to continue to be high on the list of our challenges for some years to come.

The AGM in September was generously hosted in Livorno, Italy, by Fratelli Neri and attracted a record-equalling number of members. The highlight of the day was a presentation and video from Admiral Nicola Carlone of the Italian Coast Guard on the migrant crisis in the Mediterranean Sea. It was an extremely moving presentation on a humanitarian crisis that has all but disappeared from our media.

“Revenue declined in all areas. It is commonly accepted that one bad year does not make a trend, however the figures are still a cause for concern”.

We revised the format of the AGM to include presentations from new, and relatively new, ISU members. They included Atlantic Towage & Salvage from Ireland, Mubarak Marine from the United Arab Emirates, and the Marine Rescue Service of Rosmorrechflot from Russia.

The ISU Salvage Sub Committee met three times during the year. They continued their productive work on industry issues, providing excellent support 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.

LEGAL ADVISER'S REPORT



Rob Wallis

The ISU legal adviser's role divides largely into two parts: First, supporting the organisation, operation and corporate objectives of the ISU and, second, providing advice on specific issues of importance to ISU and its members. This includes representing the ISU at committees and in discussions and negotiations relating to the form of salvage contracts, in particular Lloyd's Open Form and the Special Casualty P&I Club Clause – SCOPIC.

The legal adviser also provides ad hoc advice on matters such as the impact of relevant international conventions and issues such as sanctions and unfair criminalisation of salvors. During 2016, the ISU Articles of Association were updated and approved at the Annual Meeting. The changes were not of major substance but clarified wording where there was ambiguity of meaning. The ISU Salvage sub-committee has continued to meet regularly and it is presently engaged on reviewing wreck removal contracts and tendering processes. The Code of Practice for wreck removal tendering between ISU and the International Group of P&I Clubs is part of the review in the light of the emergence of new risk-based assessment of tenders.

The Lloyd's Salvage Group (LSG) continues to meet twice a year. It has set up two sub-committees. One committee is chaired by David Lawrence, Head of Lloyd's Agency and the Salvage Arbitration Branch to examine SCOPIC and in particular the issues of termination of SCOPIC and the ISU 5 SCOPIC security guarantee. Representatives from ISU; the International Group of P&I Clubs; the International Chamber of Shipping and the International Union of Marine Insurance are on the committee.

ISU is particularly concerned that the right to terminate SCOPIC Clause 9 (i) is not workable in practice. At the same time, the International Group wish to see Clause 9 (iii), which covers circumstances where the authorities restrain the contractor from terminating SCOPIC, removed. This matter remains under discussion and leading counsel has been engaged to propose a new wording or amendment of the relevant SCOPIC clauses.

The second sub-committee is chaired by Lloyd's Arbitrator, Simon Kverndal QC, and is considering the status of LOF and possible changes to the contract. This committee includes representatives from the above groups as well as additional committee members from the Lloyd's Salvage Arbitration Branch and Admiralty Solicitors' Group. The ISU does not see the need for substantial change to LOF but issues under consideration include options for written submissions only in large but simple arbitration cases; demobilisation provisions and ensuring that SCOPIC remuneration is not used as part of the calculation of a constructive total loss.

It comes as a landmark judgment was given in the English High Court in the case of the RENOS in which the Judge held that the substantial SCOPIC costs incurred during the salvage operation could be included in the calculations required under the hull policy to determine whether the vessel was a constructive total loss (CTL).

This is contrary to previous practice. It is not directly relevant to salvors but it raises the question whether hull underwriters may now be reluctant to agree an LOF where there may be substantial SCOPIC costs that might trigger payment of a CTL under the hull policy. Leave to appeal this decision has been granted.

Areas for amendment to LOF include combining the Lloyd's Standard Salvage and Arbitration Clauses and Lloyd's Procedural Rules into one document; improving the Fixed Cost Arbitration Procedure; SCOPIC termination arrangements (as noted above) and payment on account for provision of SCOPIC expenditure by the contractor. Elsewhere, ISU has noted the introduction of the new Lloyd's e-guarantee system. ISU is pleased with the initiative but users report that "teething issues" need to be resolved.

The new system for appointing Special Casualty Representatives (SCRs) was concluded during the year and requires SCRs to re-apply to join the panel every three years as well as to demonstrate they have suitable insurance and are medically fit for duty. The new system came into force at the outset of 2017.

There is also concern about the increasing use of "side agreements" and so-called "hybrid LOFs"; "capping" of Article 13 awards and the use of tariff rates based on SCOPIC rates for assessment of Article 13 settlements where SCOPIC was invoked. It is ISU policy to encourage only the use of un-amended LOF.

In all these matters, ISU seeks to maintain a fair, open and transparent stance and to work cooperatively with others to secure agreements that are in all parties' best interests.

COMMUNICATIONS AND ENGAGEMENT

The International Salvage Union strives to communicate effectively with its members and other stakeholders in the marine industries. It is proud of its status as the voice of the global marine salvage community in many fora particularly the International Maritime Organisation. It also works to build trusting relationships with organisations like Lloyd's; the International Group of leading P&I Clubs; the International Union of Marine Insurance and BIMCO.

ISU has a policy of being open and transparent, sharing information and positions with others and negotiating on important matters in a constructive way. It conducts an annual survey of its members' views on current topics and the running of the organisation and promotes an open forum discussion among members at its annual meeting. These help to inform the priorities and work of the secretariat during the year.

Members of the ISU leadership team regularly participate in high-profile industry conferences giving papers and joining expert panels. In 2016, for example, both the President and General Manager gave papers at the major industry event ITS in Boston. ISU was similarly represented at the Salvage and Wreck conferences in Singapore and London. Other ISU Executive Committee members gave papers at conferences in Athens and Beijing on behalf of ISU.

The ISU's General Manager notes in his report the success of the annual ISU Associate Members' Day Conference. It is a very popular event that attracts more than 200 delegates. The conference is free for its associate, affiliate and full members and provides an opportunity to hear presentations about current issues and operations. It is also a networking event allowing people to forge new relationships and strengthen existing ties.



ISU produces a popular quarterly newsletter, Salvage World, which reports the corporate and operational news of the ISU and its full members as well as news from its Associate and Affiliate Members and the wider shipping industry. It is a good shop window for the work of ISU members.

ISU also maintains a website that is an excellent source of information about the ISU and the marine salvage industry. It also has a Facebook page and expects to develop its social media presence further.

Good relations with shipping media are important and ISU maintains contact with key journalists and editors. Reporters are encouraged to attend ISU events and in 2016 ISU held a seminar on salvage for journalists followed by its annual media lunch. The event was well-attended and gave a good opportunity to learn more about our industry and to meet ISU Executive Committee members. ISU also provides articles on salvage-related topics to be published in the shipping press and holds a set of position papers on key issues facing the industry.



THE SPECIALIST SALVOR

ISU members come from all around the world. To join ISU as full members they must demonstrate a track record in salvage. All ISU full members have their own assets and people. A core group of the membership has substantial assets, experienced personnel and a large inventory of salvage equipment.

Salvage is a highly specialised activity which is done best by experts working alongside their own colleagues, using their own equipment. Here is a selection of the specialties offered by many ISU members.

Specialist firefighting



Using chain pullers and chain cutting



Operating in dangerous environments



Connecting to a casualty in bad weather



Heavy lift



Salvage diving



“It only takes a small change for an apparently simple job to suddenly become complex and dangerous. ISU members have a history of getting the job done safely and efficiently regardless of the conditions.”

ISU General Manager, Mark Hoddinott

ISU STATISTICS

The International Salvage Union statistics for 2016 show an industry providing an increased number of vital services to shipping but, at the same time, gross revenues have fallen significantly adding to the commercial pressure on members of the ISU.

Gross revenues for ISU members in 2016 from all activities fell to US\$ 380 million. It compares with US\$ 717 million in 2015, a drop of 47%. The statistics are for income received in the given year but which may relate to, in some cases, operations from a preceding year.

The total number of 'dry salvage' services recorded in 2016 was 306. It is the highest number since 1999 and compares to 212 services in 2015. Wreck removal income has grown during the past

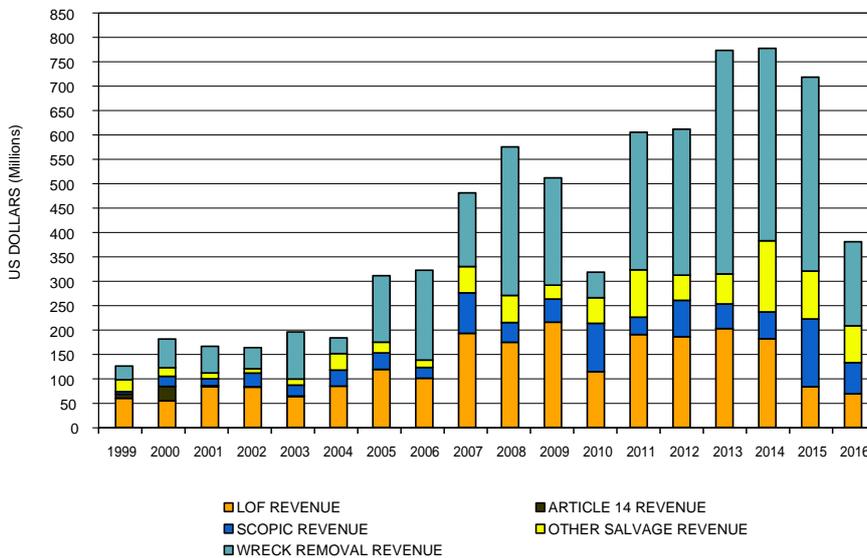
Average revenue from non-LOF contracts was US\$ 277,000 a fall of 50%.

Revenue from LOF cases as a percentage of the total of all "dry" salvage revenue was 33% and is a continuation of the decline. The figures were 46% in 2015 and 55% in 2014. Similarly, the number of LOF cases as a percentage of all "dry" salvage cases is the lowest at 11% in 2016 (16% in 2015). It reflects the continuing 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 decreased significantly to US\$ 64 million compared to US\$ 139 million in 2015, a fall of 54%.

Total salvaged values (ship and cargo) in LOF cases rose to US\$ 845 million in 2016 up from US\$ 638

All sources of revenue 1999 - 2016



“Gross revenues for ISU members in 2016 from all activities fell to US\$ 380 million. It compares with US\$ 717 million in 2015”.

decade, however revenue from this source in 2016 fell to US\$ 172 million, down from US\$ 397 million in 2015 - a fall of 57%. It represented 45% of all ISU members' revenue in 2016. It is the first time in four years that wreck removal revenue accounted for less than half of all revenue. The 2016 statistics record 131 wreck removal jobs compared with 64 in 2015.

Revenue from Lloyd's Open Form (LOF) cases at US\$ 69 million is the lowest since 2003 and continues the downward trend of LOF. The number of LOF cases that realised revenue in 2015 was just 34 compared to the all-time low figure of 33 for 2015. Average revenue from LOF cases, which includes SCOPIC revenue, was US\$ 3.90 million, down 40% from 2015.

At the same time, revenue from operations conducted under contracts other than LOF was also down at US\$ 75 million, a fall of 23% on 2015.

million in 2015. The average value salvaged in LOF cases also rose to US\$ 25 million. The figure has stayed within the US\$ 15 – 25 million band since 2010. Average LOF revenue expressed as a percentage of average LOF salvaged value has fallen for the third consecutive year and was 8.13%. LOF revenue data includes both LOF awards and settlements.

The 2016 statistics appear contradictory. It would be expected that a 47% drop in total revenue would have been brought about by a reduction in the number of cases. However, the total number of cases, both 'dry salvage' and wreck removal, increased from 276 in 2015 to 437 in 2016. Therefore the average revenue from all cases declined. It may be due to fierce competition forcing salvors to undertake cases for much lower returns. And general commercial pressures across shipping could be squeezing the margins.

ENVIRONMENTAL PROTECTION

Saving life is the first priority in all salvage operations. Second is the need to protect the marine environment. Third comes the saving of property.

The International Salvage Union conducts an annual survey that records the amount of potential pollutants involved in the services that its members provided to casualty vessels.

In 2016 Members of the ISU provided services to vessels carrying more than 2.5 million tonnes of potentially polluting cargoes during their operations. It is a major demonstration of the value of their work towards protecting the marine environment.

Members of the ISU are often the only agency available with the necessary resources and experience to intervene in a casualty situation. There is no doubt that ISU Members' services have helped to protect the marine environment from potential damage.

Improvements in shipping - vessel quality as well as crew training and improved aids to navigation - have reduced the number of casualties but it only needs one major incident to cause an environmental disaster.

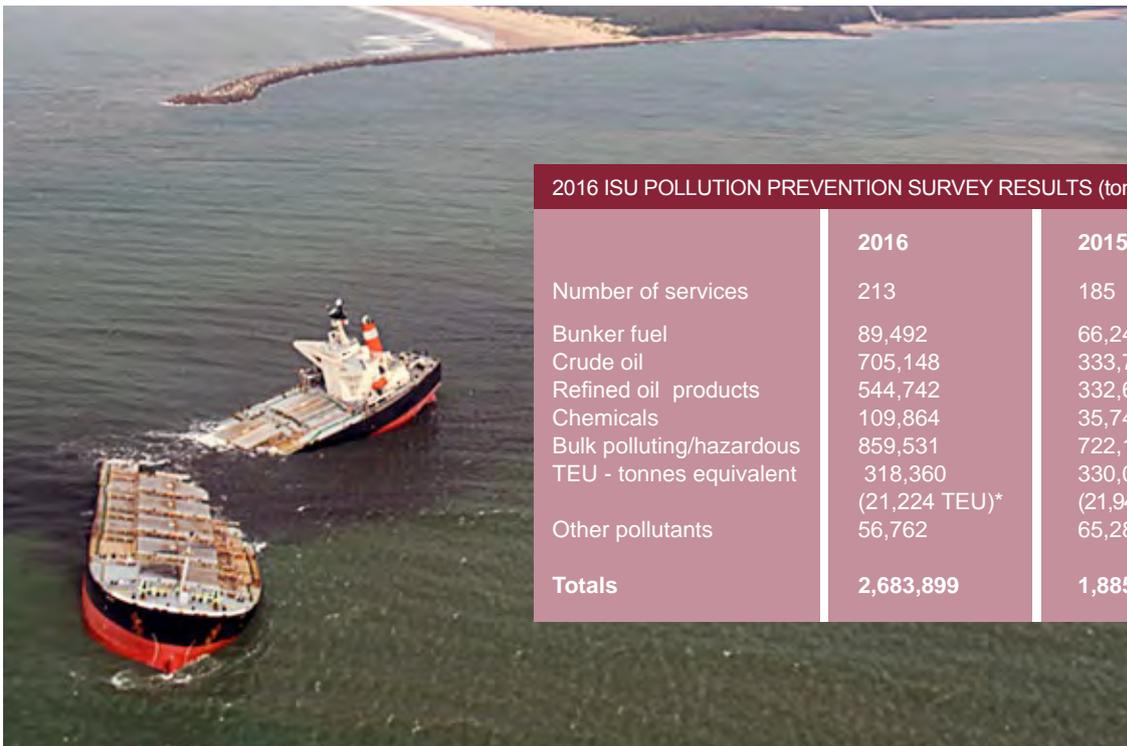
The survey was re-based in 2014 to include a wider range of potential pollutants including containers and hazardous and dirty bulk cargoes. This survey started in 1994 when the threat of pollution was considered to be largely from oil

and refined products carried by VLCCs and other tankers. That threat still exists but today coastal state authorities consider most cargo to be potentially polluting. Container trade has also increased dramatically. ISU believes it is right that its potential pollution survey should record containers, with their mixed and sometimes hazardous contents, as a potential pollutant and hazard.

The ISU is always careful to say that not all of the cargo shown in the survey was at imminent risk of being lost to the sea. But even with a relatively simple rescue tow it is worth considering what might have happened if there was no commercial provision of salvage services.

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

In the period 1994 to end-2016, ISU members salvaged 24,800,899 tonnes of potential pollutants, an average of more than one million tonnes per year.



2016 ISU POLLUTION PREVENTION SURVEY RESULTS (tonnes)

	2016	2015
Number of services	213	185
Bunker fuel	89,492	66,247
Crude oil	705,148	333,720
Refined oil products	544,742	332,696
Chemicals	109,864	35,744
Bulk polluting/hazardous	859,531	722,160
TEU - tonnes equivalent	318,360 (21,224 TEU)*	330,015 (21,941 TEU)*
Other pollutants	56,762	65,282
Totals	2,683,899	1,885,864



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