



International Salvage Union
Annual Review 2018

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International Salvage Union Annual Review 2018



Welcome to the International Salvage Union's Annual Review for 2018. It is a privilege to introduce this review as President of ISU and I am very proud to lead the trade

association which represents the interests of marine salvors around the world.

Our industry continues to face operational and commercial challenges but there are also opportunities for good operators and it continues to be a vibrant industry. The industry statistics for 2018 are published on page 10 of this Review and they show that our members provided 234 salvage services in 2018 which is a similar level of activity to other recent years and these are vital services which save life; protect the environment and save property. Gross revenues were US\$ 409 million compared to the US\$ 457 in 2017.

In 2018 ISU's leaders undertook strategy work to consider how best to position the industry in the business context in which it operates. We understand that owners and property insurers continue to experience difficult conditions and also that there is fierce competition and lower revenues among providers of salvage services. I strongly believe that contractors with their own expert staff and equipment - ISU members - are best-placed to provide salvage and wreck removal services and to provide solutions to the most difficult cases.

In this context, ISU is therefore re-positioning itself, and the industry, as modern and forward-looking, recognising the salvage world has changed and ISU remains as a respected voice. ISU wants to be transparent, to promote value for money and further develop trust amongst its stakeholders and work closely with all of them.

We want people to know that ISU members have diversified their offering and that their services support a world in which care for scarce resources and protection of the environment is foremost. This is demonstrated most clearly in our pollution prevention statistics which are published on page 11 of this Review.

As well as their environmental contribution, ISU members are also excellent project managers who

deliver, safe solutions to clients' problems (often of massive scale) and who facilitate trade and economic growth by keeping cargoes moving and ports open.

As part of our strategy work, we defined the ISU's core purpose:

To be the credible, trusted and unified global voice of its members who facilitate world trade by providing marine services which save life, protect the environment, mitigate risk and reduce loss.

And we committed the ISU to:

Encourage high standards of operation and conduct. Promote the value and benefit of its members' services including protection of the marine environment. Engage with shipowners, insurers and others to represent its members' interests. Work with inter-governmental, governmental and non-governmental organisations to improve delivery of marine services and safety at sea. And to be a source of information and expertise about marine salvage and promote best practice and cooperation through networking opportunities.

We must now translate those good words into action.

Operational matters continue to highlight concerns about containership fires. ISU members are often the only agency available to deal with such incidents – like the 2018 case of the Maersk Honam where gaining control and handling the aftermath was a huge undertaking. While there was much devastation, the intervention of the professional salvor nevertheless preserved considerable value and prevented further loss.

I'm honoured to be the President of the ISU and I look forward to continuing to lead it through to Q3 of 2019 in the knowledge that we represent brave, effective and professional operators who add value to the shipping and insurance industries and to wider society.



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 Secretary General, supported by a Finance and Administration Assistant, Communications Adviser and Legal Adviser. The ISU operates from an office in the City of London.

OFFICERS

President
Charo Coll,
Boluda, Spain

Vice President
Richard Janssen,
Smit Salvage, The Netherlands

EXECUTIVE COMMITTEE

Alberto Comacho, *CPT Remolcadores SA, Chile (resigned June 2018)*
Li Jianping, *China Rescue and Salvage, China*
Leendert Muller, *Multraship, The Netherlands*
Corrado Neri, *Fratelli Neri, Italy*
Yoshiaki Nishibe, *Nippon Salvage, Japan (resigned December 2018)*
Peter Pietka, *Ardent, USA*
Matthias Reinarz, *Ultratug, Chile (from 28 December 2018)*
Sukekazu Shimonishi, *Nippon Salvage, Japan (from 28 December 2018)*
Nick Sloane, *Resolve Marine Group, USA*

SECRETARIAT

General Manager Mark Hoddinott <i>(retired December 2018)</i>	Secretary General Roger Evans <i>(from July 2018)</i>
Legal Adviser Rob Wallis	Communications Adviser James Herbert

ISU Executive Committee and Secretariat (left to right) Peter Pietka, Corrado Neri, Charo Coll, Nick Sloane, Rob Wallis, Roger Evans, James Herbert, Li Jianping, Sukekazu Shimonishi, Richard Janssen, Leendert Muller. Not present, John Witte, Matthias Reinarz.



ISU ABBREVIATED ACCOUNTS

Statement of Income and Retained Earnings year ended 31 December 2018

	2018	2017
Turnover	430,582	£ 473,506
Gross profit	<u>430,582</u>	<u>473,506</u>
Administrative expenses	516,962	455,766
Operating profit	<u>(86,380)</u>	<u>17,740</u>
Other interest receivable and similar income	48	51
Profit before taxation	<u>(86,332)</u>	<u>17,791</u>
Tax on profit	-	(42)
Profit for the financial year and total comprehensive income	<u>(86,332)</u>	<u>17,833</u>
Retained earnings at the start of the year	<u>251,771</u>	<u>233,938</u>
Retained earnings at the end of the year	<u>165,439</u>	<u>251,771</u>
All activities of the company are from continuing operations		

Statement of Financial Position at 31 December 2018

	2018	2017
	£	£
Fixed assets		
Tangible assets	2,293	1,244
Current assets		
Debtors	92,387	117,973
Cash at bank and in hand	275,358	303,963
	<u>367,745</u>	<u>421,936</u>
Creditors: amounts falling due within one year	<u>73,914</u>	<u>40,724</u>
Net current assets	293,831	381,212
Total assets less current liabilities	<u>296,124</u>	<u>382,456</u>
Net assets	<u>296,124</u>	<u>382,456</u>
Capital and reserves		
Other reserves	130,685	130,685
Profit and loss account	165,439	251,771
Members' funds	<u>296,124</u>	<u>382,456</u>

SECRETARY GENERAL'S REPORT

2018 was a year of change for ISU. Our President notes in her foreword to this Review the important strategy work which we undertook and the new direction set for the ISU. It came at a time when there were significant personnel changes, too. The ISU's General Manager, Mark Hoddinott, announced in 2017 his intention to retire and ISU carried out a formal process to recruit his successor.

I was fortunate to be selected to take over from Mr Hoddinott and joined ISU in July. ISU decided to re-instate the title "Secretary General" to bring the role into line with the equivalent positions in similar trade associations. After a career at sea and more than 30 years in offshore and salvage roles I am delighted to have been chosen to lead the ISU secretariat. There was an extended "handover" and Mr Hoddinott retired with the thanks of the President and Executive Committee in December.

We also said farewell to Frank Morris, the ISU finance manager, after 40 years of service and to Lisa Williams after 12 years as our administrator. Ciara McGarry has now taken over both these positions in the combined role of finance and administration assistant.

"The EU 'Places of Refuge' Guidelines have been submitted to the IMO with a view to them being adopted as a world-wide standard."

2018 has been another challenging year for the salvage industry and ISU members with the low revenues shown in our annual statistics on page 10 of this Review. Sadly, five ISU members have left the association and indicated the reason was the difficult market conditions as well as focussing on non-salvage business activities.

At the close of the year, therefore, we had 52 full members drawn from 32 different countries. We have maintained our associate membership at 76 but, with several applications pending, this is expected to grow in 2019. Our affiliate membership did not change and was maintained at 13.

Financially, the ISU maintained its position as a well-funded organisation which is demonstrated by the summary accounts which are published on page 5 of this Review.

The Associate Members' Day in March attracted over 200 delegates and was held again in the impressive Merchant Taylors' Hall in London.

The opening address was delivered by Roger Adamson of Futureonautics who described his vision of shipping in the "Exponential Age", touching on the impact of Artificial Intelligence, Blockchain and Big Data.

The Annual General Meeting of the ISU was held in October at Cape Town, South Africa, hosted by Resolve Marine Group. There was a strong attendance and delegates conducted the formal business of the ISU as well as considering the new strategic direction and discussing current issues and concerns.

Members also enjoyed a gala dinner and a number of attendees were given a tour of the SAAMANDLA, the well-known, large, powerful ocean-going salvage tug in whom many people connected with ISU have served.

The ISU Salvage sub-Committee met four times during the year under the chairmanship of Eline Muller of Multraship. The other committee members are presently representatives from Smit Salvage, Ardent, Resolve Marine Group, Nippon Salvage, Five Oceans Salvage and Donjon Marine. The Salvage sub-Committee continued its valuable work on industry issues, providing excellent support and recommendations to the ISU Executive Committee.

ISU attended various meetings at the International maritime Organisation (IMO) in line with its consultative status, which it has held since 1979. There was specific involvement this year with regard to the European Union "Places of Refuge" Guidelines which have now been submitted to the IMO Maritime Safety Committee with a view to them being adopted as a world-wide standard.

We expect to be involved with IMO in the forthcoming sulphur emissions regulations and on the issue of autonomous and unmanned vessels as they come onto the IMO agenda. We continued our role on the assessment panel for the IMO's Annual Award for Exceptional Bravery at Sea and the award ceremony was attended by ISU President, Charo Coll, and Roger Evans.



Roger Evans

LEGAL ADVISER'S REPORT

2018 was dominated by issues relating to the Special Compensation P&I Clause (SCOPIC) of the well regarded Lloyd's Open Form (LOF) salvage contract. Following a review of SCOPIC Clause 9 Termination over the past 18 months by the Lloyds Salvage Group (LSG) and its SCOPIC Sub Committee, agreement on key changes was reached and approved by all parties.

The main concern had been the difficulty in assessing the contractor's right to terminate SCOPIC services under SCOPIC Clause 9(i). The amendments led to a new clause, 4(ii), with consequential amendments to clauses 3 & 9(ii) and the voiding provision of the ISU 5 Guarantee for SCOPIC remuneration. The changes were not retrospective and took effect for new LOF SCOPIC cases from 01 August 2018.

Clause 9 (i) - the contractor's entitlement to terminate - was confusing and considered not to be fit for purpose and did not provide the contractor with a meaningful right to terminate.

Taking a different approach, recommended by Lionel Persey QC, the change is to delete Clause 9(i) and make termination part of the Withdrawal Clause 4 under a new sub-clause 4(ii) allowing termination if reasonable increased security is not provided. The contractual consequences remain unchanged: failure to provide initial SCOPIC security within two working days allows the contractor to withdraw from all the provisions of the SCOPIC clause and revert to their rights under the main agreement, including Article 14.

This approach required a minor amendment to Clause 3(iii) to refer to the "increased security" now found in the new subclause 4(ii). Clause 9(ii), the owner's right at any time to terminate their obligation to pay for SCOPIC services, is unamended, but now becomes Clause 9(i). Termination by contractors or owners, Clause 9(iii), only applies if contractors are not "prevented" from demobilising equipment by the relevant authorities.

In view of the increasing concern over the use or imposition on salvors of so called "side letters", or "side agreements" to LOF, in November 2017 the Lloyd's Salvage Group unanimously agreed that Lloyd's should immediately be notified of any side letter or agreement that is attached to a LOF. A side letter or side agreement is defined as "any agreement whatsoever that varies the provisions or terms of LOF". Such letters or agreements are imposed on the salvors and have the effect of reducing awards.

If Lloyd's is notified of the existence of a side letter, it will inform all contracting parties with an

interest in the casualty but will not will not share the contents of the side agreement with any other party.

To reflect this, a new clause 6, a voiding provision, has been agreed for the ISU 5 Guarantee Form. The P&I Club's undertaking to provide security is on the basis that the underlying salvage contract is currently, and will remain, on the current edition of LOF with SCOPIC incorporated and invoked without any agreement that varies its standard provisions or terms. In the event that this is not the case, all obligations within the undertaking are void unless the Club confirms otherwise in writing. The ISU's policy remains that it recommend that LOF and SCOPIC only be used in their unamended form.

2018 also saw the introduction of the idea of "LOF Light" whereby Article 13 awards would be assessed on a tariff basis with an agreed uplift. The idea has been rejected by ISU and does not have significant support. There is concern among ISU members, generally, that the necessary "encouragement" to ensure the continued provision of a viable global salvage industry is being eroded. Further, there continues to be increased use of alternative commercial contracts which were not intended for emergency response.

During the year, the various editions of Digests for the Special Casualty Representatives were consolidated, in a joint project between ISU and the International Group of P&I Clubs, into a single set of clearly written Guidelines which was widely welcomed.

An important case has been the matter of the MV RENOS in which the English Court of Appeal upheld the first instance decision that SCOPIC costs incurred in the course of a LOF salvage operation can be included in the calculation required to assess a constructive total loss (CTL) under the Institute Time Clauses – Hulls (1/10/83) policy. Leave to appeal to the Supreme Court has been granted and will be heard in 2019.



Rob Wallis

COMMUNICATIONS ADVISER'S REPORT



James Herbert

Good communication is central to the work 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 leading P&I Clubs; the International Union of Marine Insurance and BIMCO.

In 2018 ISU spent time considering how best to "position" the industry in the current economic context. A number of initiatives were launched including a survey of stakeholders' opinions and which will help inform activities during 2019.



Roger Adamson presents at the 2018 Associate Members' Day conference.

ISU strives to be open and transparent, working 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 the SCOPIC regime is functioning properly.

Members of the ISU leadership team regularly participate in high-profile industry conferences giving papers and joining discussion panels. In 2018 ISU President, Charo Coll, gave a paper at the International Tug and Salvage Conference in Marseille and gave the keynote speech at the

Salvage and Wreck Conference in London.

Each year the ISU organises an Associate Members' Day Conference which is well-regarded and attracts more than 200 delegates. The 2018 programme included presentations about current issues and operations as well as being a useful networking event.

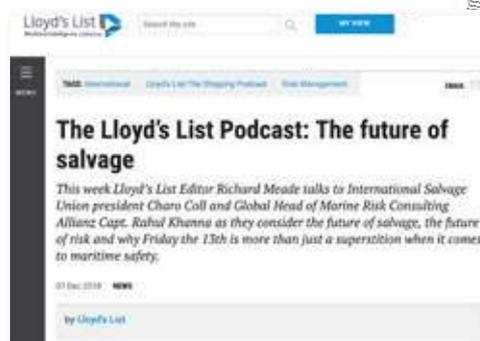
An important piece of communications collateral is the ISU quarterly newsletter, *Salvage World*, which



ISU President, Charo Coll, welcomes delegates to the AGM

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. And the ISU website is a good 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 occasionally salvage operations generate mainstream international media interest. 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.





INTERNATIONAL SALVAGE UNION CORE PURPOSE

To be the credible, trusted and unified global voice of its members who facilitate world trade by providing marine services which save life, protect the environment, mitigate risk and reduce loss.

To support this, the ISU will:

- **Engage with shipowners, insurers and other key stakeholders to represent its members' interests.**
- **Encourage high standards of operation and conduct by its members.**
- **Work with inter-governmental, governmental and non-governmental organisations to improve delivery of marine services and safety at sea.**
- **Be a source of information and expertise about marine salvage and major marine projects and promote best practice and cooperation through networking opportunities.**
- **Promote the value and benefit of its members' services including protection of the marine environment.**

2018 SALVAGE INDUSTRY STATISTICS

- Gross revenue for ISU members - US\$ 409 million (2017, US\$ 456 million)
- Activity levels – 234 services (2017, 243 services)
- LOF cases – 55 (2017, 46) and LOF revenue rises to US\$ 104 million (2017, US\$ 53 million)
- Wreck removal income – US\$ 208 million from 71 services (2017 - US\$ 264 million from 116 services)
- The industry continues to be active, continues to invest and continues to provide essential services for ship owners and insurers

The 2018 statistics again show the economic pressures on the industry. ISU has said that in its response it must continue to promote the value that the industry provides to ship owners, insurers and the wider shipping industry and society.

The total number of “dry” salvage services (emergency response as opposed to wreck removal) in 2018 was 234. Additionally there were 71 “wet” (wreck removal) cases.

The statistics show that the industry’s revenues have dipped from the performance in 2017 and are up on the low point of 2016 but the numbers are still well below the levels of several years ago when annual income was typically more than US\$ 700 million.

The statistics show that Lloyd’s Open Form (LOF) continues to be an important contract and in 2018 there were 55 cases for ISU members generating income of US\$ 104 million. It compares with 46 cases worth US\$ 53 million in 2017. Average income from each LOF case was US\$ 1.9 million representing 7.45% of the average LOF salvaged value.

Revenue from LOF cases represented 58% of all “dry” salvage revenue and LOF cases accounted for 24% of all “dry” salvage cases in 2018.

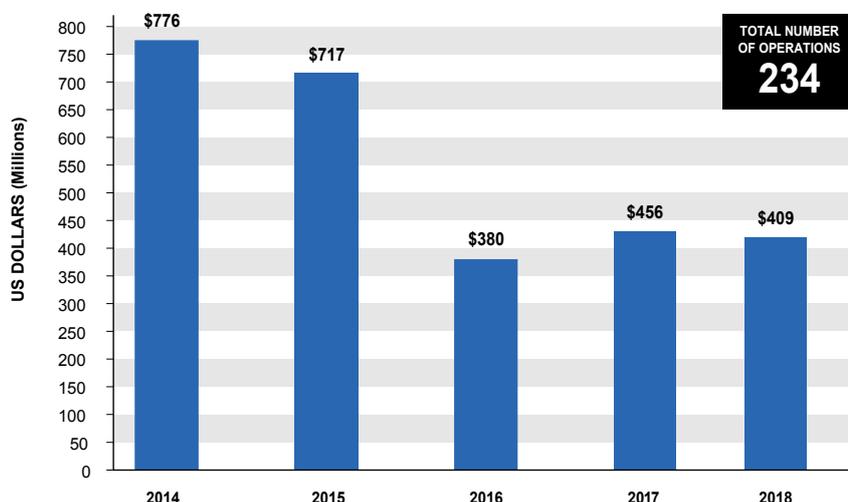
Total revenues from SCOPIC continue at very low levels at US\$ 21.3 million, marginally up on the all-time low of US\$ 20 million in 2017.

Revenue in 2018 from operations conducted under contracts other than LOF was US\$ 75 million – down from US\$ 115 million the previous year. Average revenue from non-LOF contracts was therefore US\$ 419,000 per case.

Wreck removal income has grown during the past decade and remains an important source of income for members of the ISU. In 2018, 71 operations produced income of US\$ 208 million – 51% of total income.

The ISU statistics are collected confidentially from all ISU members, aggregated and analysed by a third party. The statistics provide the only published measure of the state of the marine salvage industry. 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 which introduces an element of “lag”. The statistics are for gross revenues from which all of the salvors’ costs must be met.

Gross revenues from all sources.



ENVIRONMENTAL PROTECTION

Members of the International Salvage Union provided 224 services to vessels carrying 3,213,228 tonnes of potentially polluting cargo and fuel during operations in 2018 demonstrating the importance of ISU members' role in protecting the marine environment.

There was a significant increase in 2018 of vessels carrying crude oil and refined oil products 1,302,988 tonnes – up from 933,198 tonnes in 2017. The 2018 numbers also reveal a large increase in the number of containers involved in salvage cases, rising from 45,655 TEU in 2017 to 59,874 TEU in 2018.

Bulk cargoes declined to 743,100 tonnes in 2018. This category includes products such as 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 497,973 tonnes of non-hazardous dry bulk – mainly metal ores.

The data come from the results of the ISU's 2018 Pollution Prevention Survey. The survey was re-based in 2014 to include a wider range of potential pollutants including containers and hazardous and dirty bulk cargoes.

Bunker fuel, at 111,796 tonnes in 2018, was down from 135,995 tonnes the previous year. A number of services noted within the total did not record the quantity of bunkers on the vessel or the cargo type.

Not all of these potential pollutants were at risk of going into the sea. Some cases will have been simple with limited peril but many others will have carried a real danger of substantial environmental damage. However, just one

major incident can cause an environmental catastrophe with huge financial and reputational consequences.

In the period 1994 to end-2018, ISU members have provided services to casualty vessels carrying 31,419,604 tonnes of potential pollutants, an average of more than one million tonnes per year.

Of the 224 services provided by ISU members in 2018, variants of wreck removal contracts were used in 26 services; Lloyd's Open Form – 33 services (in total, Lloyd's recorded 53 LOFs in 2018. That number includes LOFs performed by non-ISU members and there may be some under reporting in the ISU survey). Towage contracts accounted for 61 services; Japanese Form – 38 services; Fixed Price – 4 services; Day Rate – 33 services and other contracts were used in 29 services.

The survey was first conducted by ISU in 1994 and the methodology was updated in 2014. It now recognises that coastal state authorities consider most cargoes to be potentially polluting. Container trade has also increased dramatically and the capacity of containerships 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.

2018 ISU POLLUTION PREVENTION SURVEY RESULTS (tonnes)		
	2018	2017
Number of services	224	252
Bunker fuel	111,796	135,995
Crude oil	978,000	798,620
Refined oil products	324,988	134,488
Chemicals	127,885	168,784
Bulk polluting/hazardous	743,100	1,418,344
TEU - tonnes equivalent	898,110 (59,874 TEU)	684,825 (45,655 TEU)
Other pollutants	29,349	64,421
Totals	3,213,228	3,405,477

MERITORIOUS SERVICE AWARD AND HONORARY MEMBERSHIP



In 2018 the International Salvage Union awarded Honorary Membership to Hugh Shaw OBE, the former UK Secretary of State's Representative for Marine Salvage and Intervention. At the same time, Mr Shaw was also awarded the ISU's Meritorious Service Award.

The award was made in the presence of some 200 delegates at the ISU's Annual Associate Members' Day Conference in London. The awards were made by the ISU President, Ms Charo Coll, who said:

"Today we are making the rare award of Honorary Membership of the International Salvage Union to Hugh Shaw. Hugh has been a great supporter of the worldwide salvage industry and a friend of ISU for many years. His record as UK SOSREP - carefully and wisely managing

hundreds of incidents - speaks for itself. His work has been recognised by the Queen with the award of the OBE. The fact that the general public do not know Mr Shaw shows how effective he has been: one mis-managed case and he would be very well known for the wrong reasons.

"Hugh Shaw has also been an international champion of issues like the importance of Places of Refuge and other maritime safety matters; working hard with the EU, IMO and other states to try to make progress."

"Hugh Shaw has been a great supporter of the worldwide salvage industry and a friend of ISU for many years."





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