

LLOYD'S OPEN FORM REPORT 2014

This report provides detailed analysis of LOF Data for the period 1 January, 2004 to 31 December, 2013.

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1 INTRODUCTION

1.1 Lloyd's Standard Form of Salvage Agreement

Lloyd's Standard Form of Salvage Agreement or Lloyd's Open Form (LOF as it is more commonly referred to), is today a world standard. It consistently aims to reflect best practise in light of changing circumstances. The LOF is therefore one of the finest examples of the use of the Lloyd's name, featuring importantly in the maritime world, but without necessarily having any insurance connotation directly relating to the Lloyd's market. Indeed, it exists to serve the whole maritime community.

Lloyd's, through the Salvage Arbitration Branch (SAB) of Lloyd's Agency Department, provides a reputable and secure framework in which the security and arbitration process, referred to in the LOF, can operate. Importantly however, it assumes no direct involvement in the arbitration process itself.

1.2 This Report

The data contained in this report takes as its source the LOF cases reported to the Salvage Arbitration Branch over the period of 1 January 2004 to 31 December 2013 and the status of those cases at 22 July, 2014.

It should be noted that 83.7% of cases were settled amicably between the parties without need for recourse to arbitration. Therefore, the "Award" data shown within this report reflects only those cases that did proceed to arbitration and in which an Award was issued. The total salvage award since 2004 stands at USD 1,992,600,000 (till 31 December, 2013).

The monetary details of the cases that settled are private and confidential to the parties, and therefore are not included in the statistics shown within this report.

1.3 International convention on Salvage, 1989

Article 13.1

Criteria for fixing the reward;

The reward shall be fixed with a view to encouraging salvage operations, taking into account the following criteria without regard to the order in which they are presented below;

- a) The salvaged value of the vessel and other property;
- b) The skill and efforts of the salvors in preventing or minimizing damage to the environment;
- c) The measure of success obtained by the salvor;
- d) The nature and degree of the danger;
- e) The skill and efforts of the salvors in salvaging the vessel, other property and life;
- f) The time used and expenses and losses incurred by the salvors;
- g) The risk of liability and other risks run by the salvors or their equipment;
- h) The promptness of the services rendered;
- i) The availability and use of vessels or their equipment intended for salvage operations;

- j) The state of readiness and efficiency of the salvor's equipment and the value thereof.

This echoes the guidance given by former Admiralty Judge, Sir John Nichol, in the *Industry* (1835), who wrote that the salvors' remuneration should;

"Encourage enterprise, reward exertion and be liberal in all that is due to the general interest of commerce, and to the general benefit of underwriters, even though the reward may fall upon an individual owner with some severity."

At the same time, when taking the above into account, it is important that the Award must not be altogether out of proportion to the services actually rendered.

1.4 In Summary

It is hoped that the following statistics will allay many of the misconceived impressions that LOF Awards are often high and out of proportion, to the benefit the salvage services serve on the property owners and underwriters.

I hope you find this publication both enlightening and helpful.

Kevin Clarke

Salvage Arbitration Branch, Lloyd's Agency Department

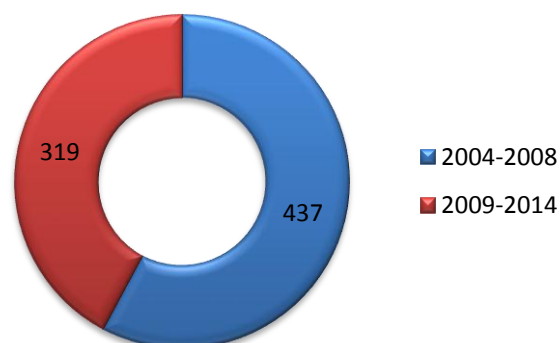
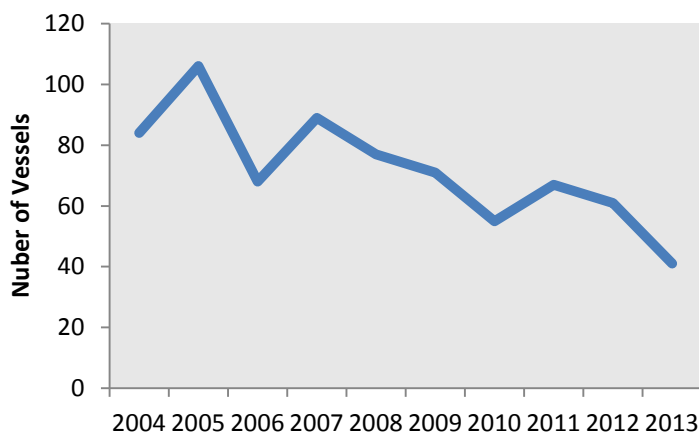
2 THE LOF PROCESS



3 VESSEL TYPE

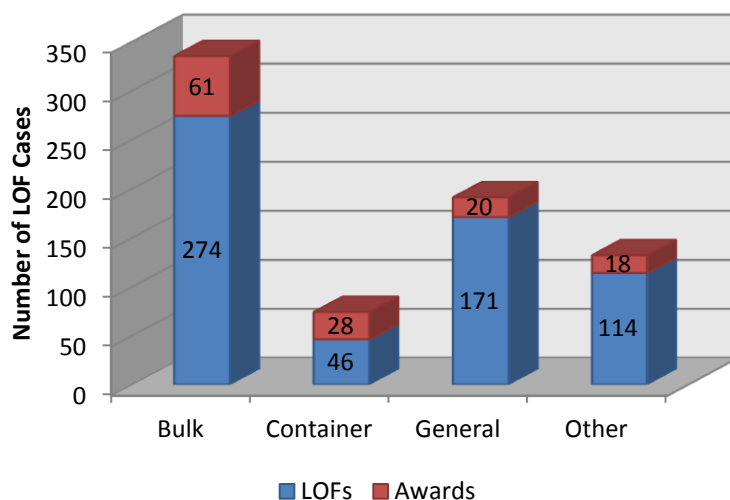
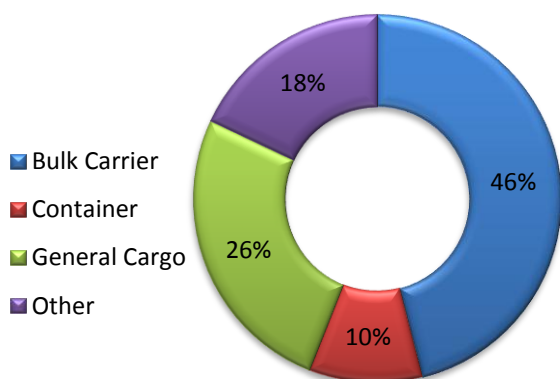
3.1 Number of LOF cases

The total number of LOF cases reported to Lloyd's over the 2004-2013 period was 754. However, the pie chart below highlights the decrease of 16% in LOF cases in the last 5 years, compared to the first 5 years over this period. The line graph highlights the overall trend for salvage operations. This is perhaps a reflection of the present global trend of decreasing salvage operations.



3.2 What types of vessels are salvaged under LOF?

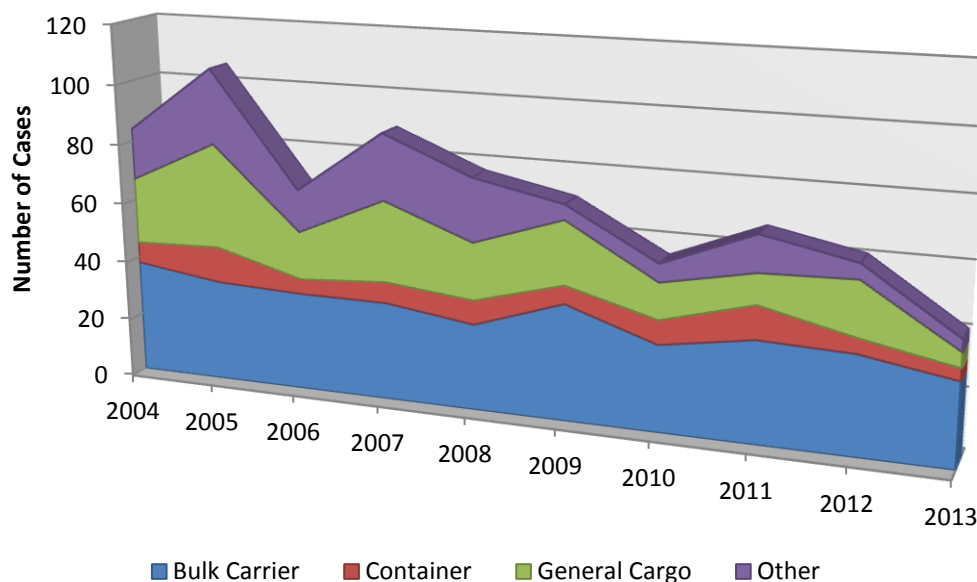
Bulk vessels continue to make up the majority of LOF cases at 46%, a rise of 3% from the period 2001-2011, with a total salvaged value possibly in excess of USD5bn. Container vessels have continued the trend of being the smallest percentage of vessels salvaged under LOF, at 10%.



3.3 Year by Year trend of vessels involved in LOF services

Bulk vessels have consistently made up the largest share of LOF cases over the 10 year period.

With the exception of 2011, an overall decline in total cases can be observed across all vessel types.

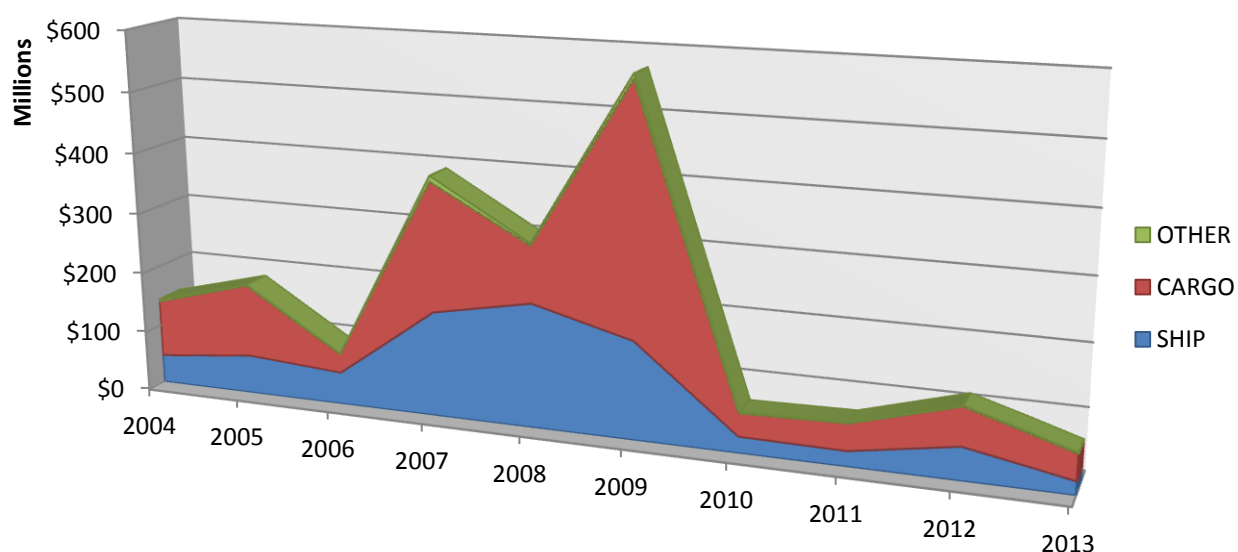


3.4 Value of Salvage operations under LOF

The graph below highlights the length of time arbitration takes via the lag time of peaks in the graphs above and below. This is because, as seen above, the highest amount of LOF cases (106 cases) was in 2005; however the total value came in at USD 181.6 million. In contrast, in 2007 with only 71 cases, the total value came in at USD392.7 million. This is because the average length from agreeing an LOF to award is 510 days. Therefore, the graph below shows a lag time of 1 ½ years with the graph above. However, the fact that 2009 has the highest value of USD 571 million, and 2007 has 20 less cases than 2005 highlights how individual cases are significantly different. Volume of cases therefore is not significantly correlated to amount of salvage value.

The overall total value for the 10 year period was USD 1,992.6 Million.

Ship category is the value of the ship salvaged. Cargo is the value of the cargo on board that is salvaged, while other is the value of such items as petrol etc.

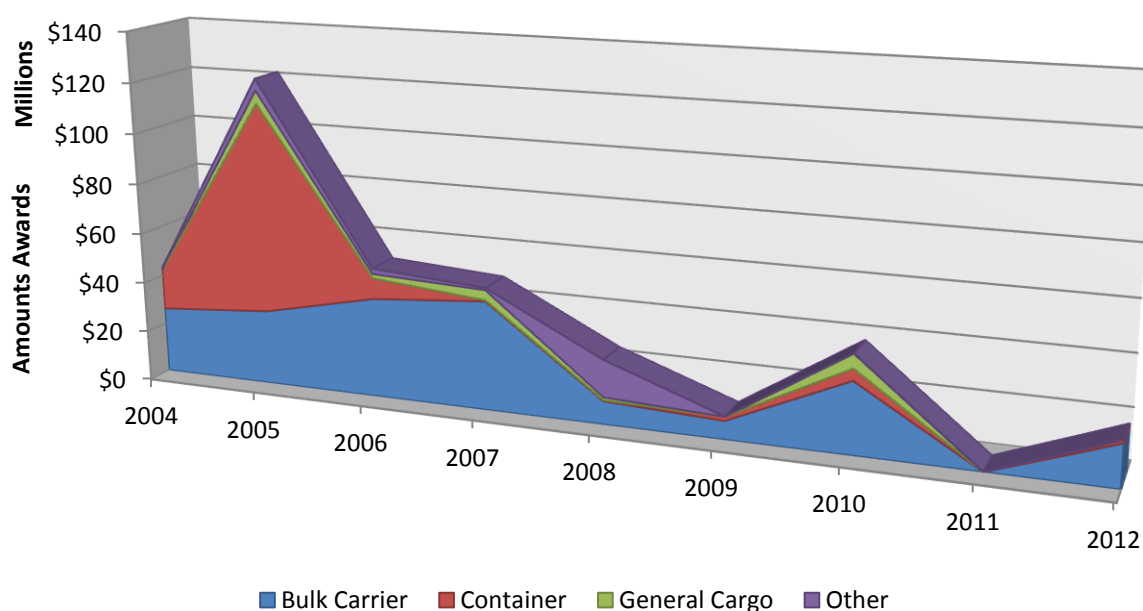


3.5 Total amounts awarded

The total amount awarded under LOF by vessel year-on-year does, of course, vary. When assessing the level of the salvors' award, the Arbitrator must take into account not only the salvaged value of the vessel and her cargo (if any), but apply the "criteria for fixing the reward" that is set out in Article 13.1 of the International Convention on Salvage 1989 (see page 3 of this report). The weight given to each of these criteria will differ from case to case so it would not be correct to expect that the total amount awarded in LOF cases would correspond to the total number of LOF services, in any given year. It should be noted that those awards not in US dollars were exchanged into dollars by the exchange rate on 30/07/14 (£1 = USD 1.6909, €1 = USD 1.3396).

It can be seen from the graph below that firstly, there was a spike in 2005 of USD 82.9 million above the average. This will be due to the consistently higher amount of LOF cases prior to 2005. Secondly, the decline towards 2012 mirrors the global trend in salvage cases seen in graphs 3.1. However, it must be stated that those recent cases which have gone to arbitration may have not been resolved yet, leading to distorted lower figures.

In terms of the types of vessels, once again bulk is consistently larger than most. However, the 2005 spike in Container vessels can be placed mainly at the door of one or two vessels. Again, this highlights the individual nature of each case.

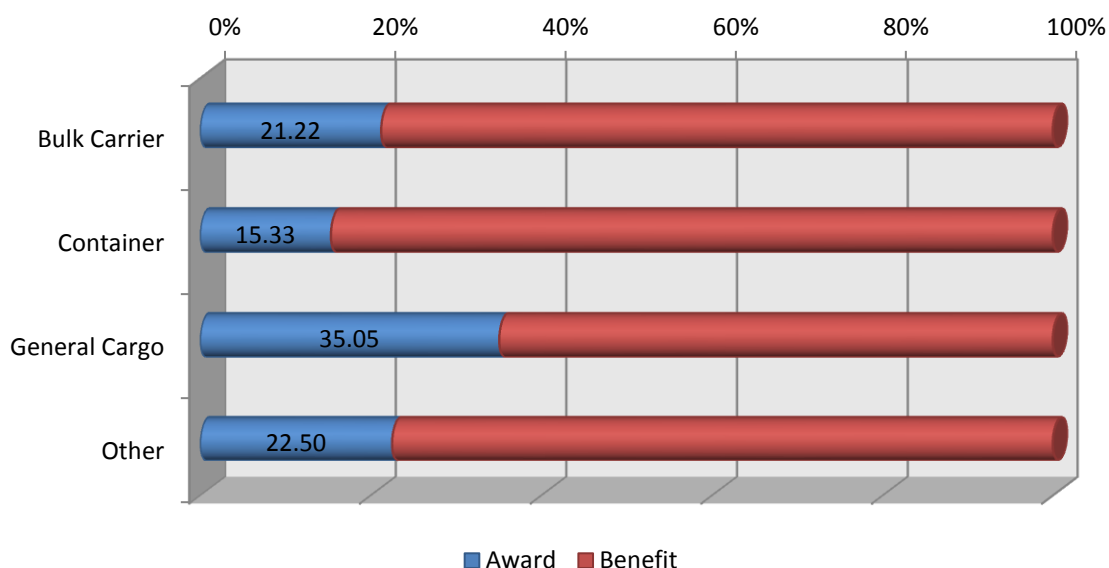


3.6 The Award as a percentage of the salvaged value

Awards as a percentage of the total salvaged value over the 9 year period* were fairly consistent across vessel type apart from 'General Cargo'. Over this 9 year period, General Cargo is 13% larger than its nearest vessel type. This is an increase of 10% since the 2013 LOF Report in terms of increase.

	BULK CARRIER	CONTAINER	GENERAL CARGO	OTHER
MINIMUM VALUE	0.72%	0.02%	3.68%	1.51%
1ST QUARTILE	6.06%	5.87%	20.42%	5.36%
MEDIUM QUARTILE	13.54%	10.89%	30.99%	11.32%
3RD QUARTILE	25.36%	15.37%	42.67%	32.62%
HIGHEST VALUE	97.43%	56.16%	96.88%	85.60%

The table above is a more detailed statistical analysis than the graph below. This is needed to stress the point that each individual case is significantly different. Though the averages are shown below, this cannot be used as a guide to the monetary amount of the Arbitrator's Award. This is highlighted by the quartile range shown in the table above.

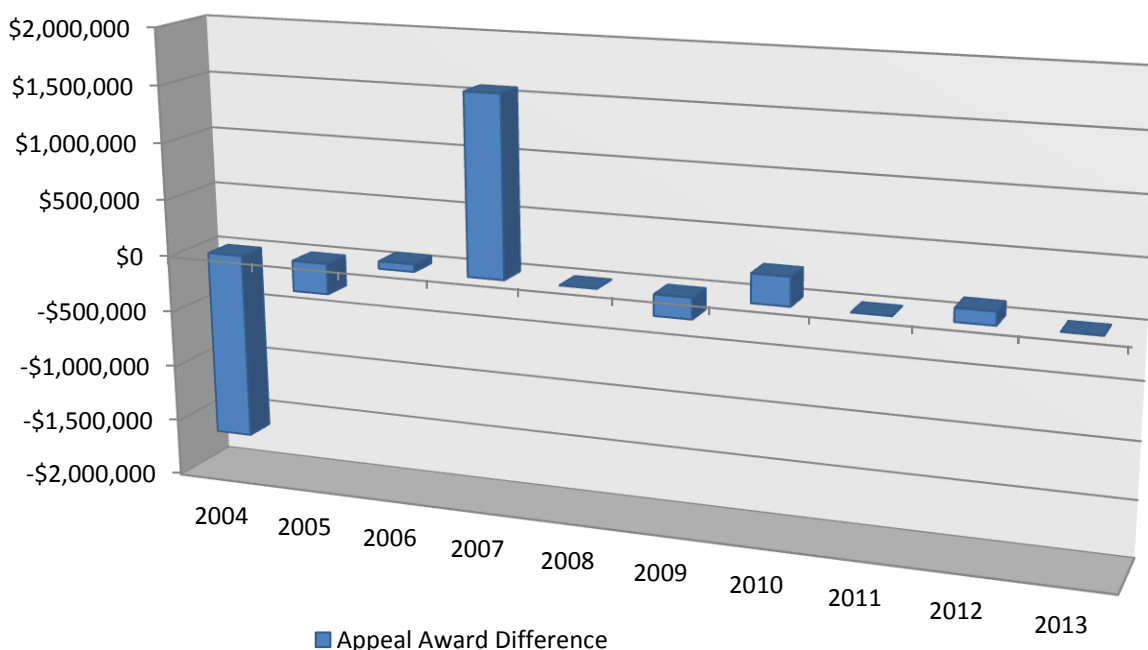


*no significant data for 2013 (1 August 2014)

3.7 Average Difference per year between Appeal Award and Award

When the Arbitrator's Award is appealed, the final award can be both higher and lower than the original award. This graph highlights this with the average difference between the awards, for each year that an LOF was issued. There are no published appeal awards, as of 1 August 2014, for LOF cases starting in 2008, 2011 and 2013.

There were 34 Appeal Awards in total, with 10 original awards being upheld by the Appeal Arbitrator.

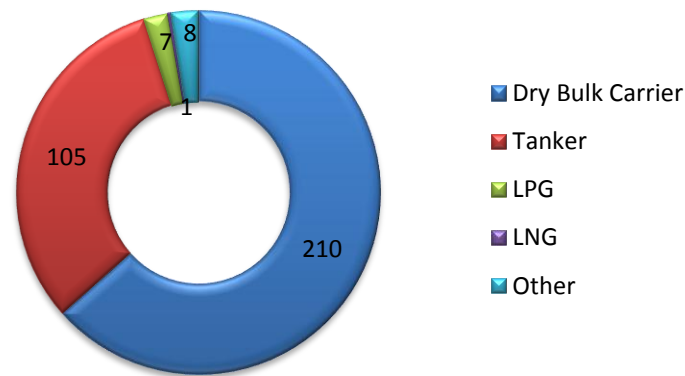


4 BULK CARRIER VESSELS

An analysis of Bulk Carrier Vessels salvaged under LOF.

4.1 Types of Bulk Carrier Vessels

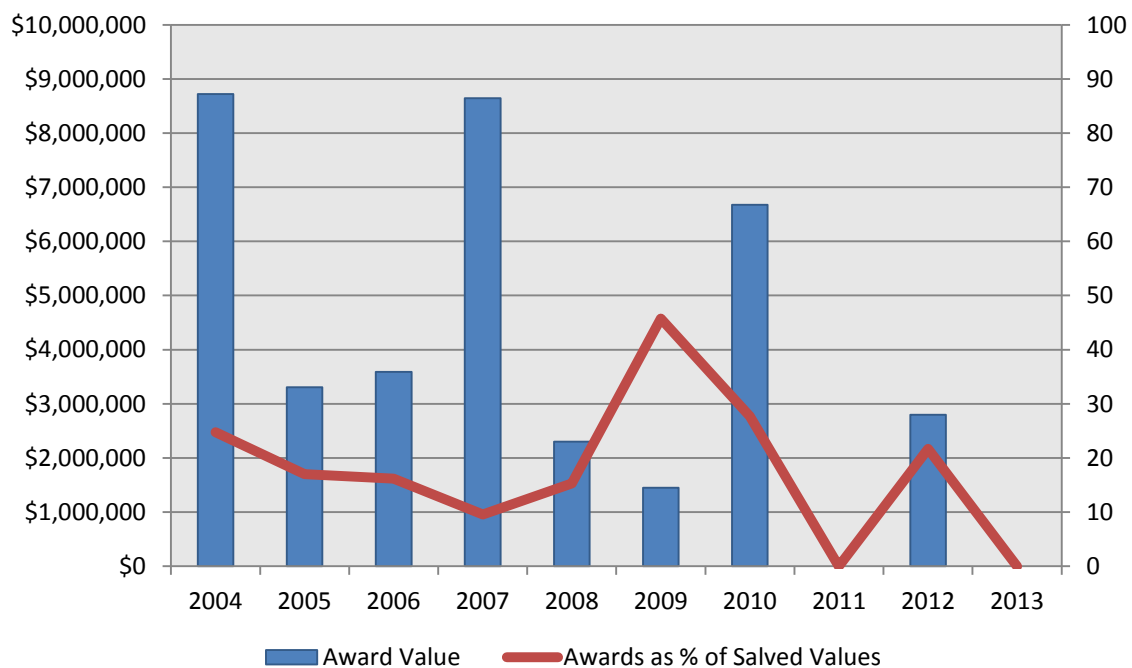
The large majority of bulk vessels were Dry Bulk Carriers, as seen below, making up 63% of all Bulk LOF cases.



4.2 Mean Award value by year

The amounts awarded in those cases that proceeded to arbitration are set out in the graph below, which also shows the amounts awarded as a percentage of the value of the property salvaged (see red line).

To date there have been no Awards published for bulk vessel cases originating in 2011 and 2013.

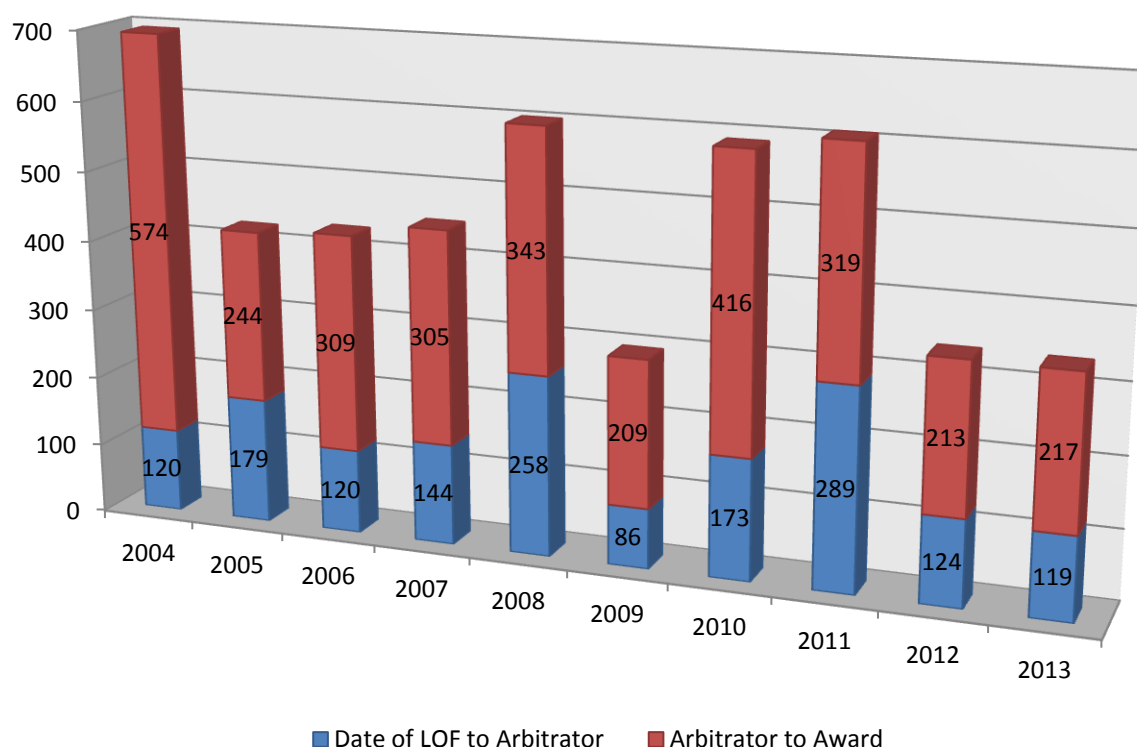


4.3 Time of Process

Each case that proceeds to arbitration has its own unique characteristics, therefore the length any one case going through what is a quasi-judicial process will vary hugely. The graph below shows the average time a case took from the date of the LOF (date of casualty) to the publication of the final Award.

The time is broken down into two segments;

1. The number of days from the date of the signing of LOF, to the appointment of an Arbitrator (shown in blue).
2. From the appointment of an Arbitrator, to the publication of the Arbitrator's Award.



4.4 Data Table

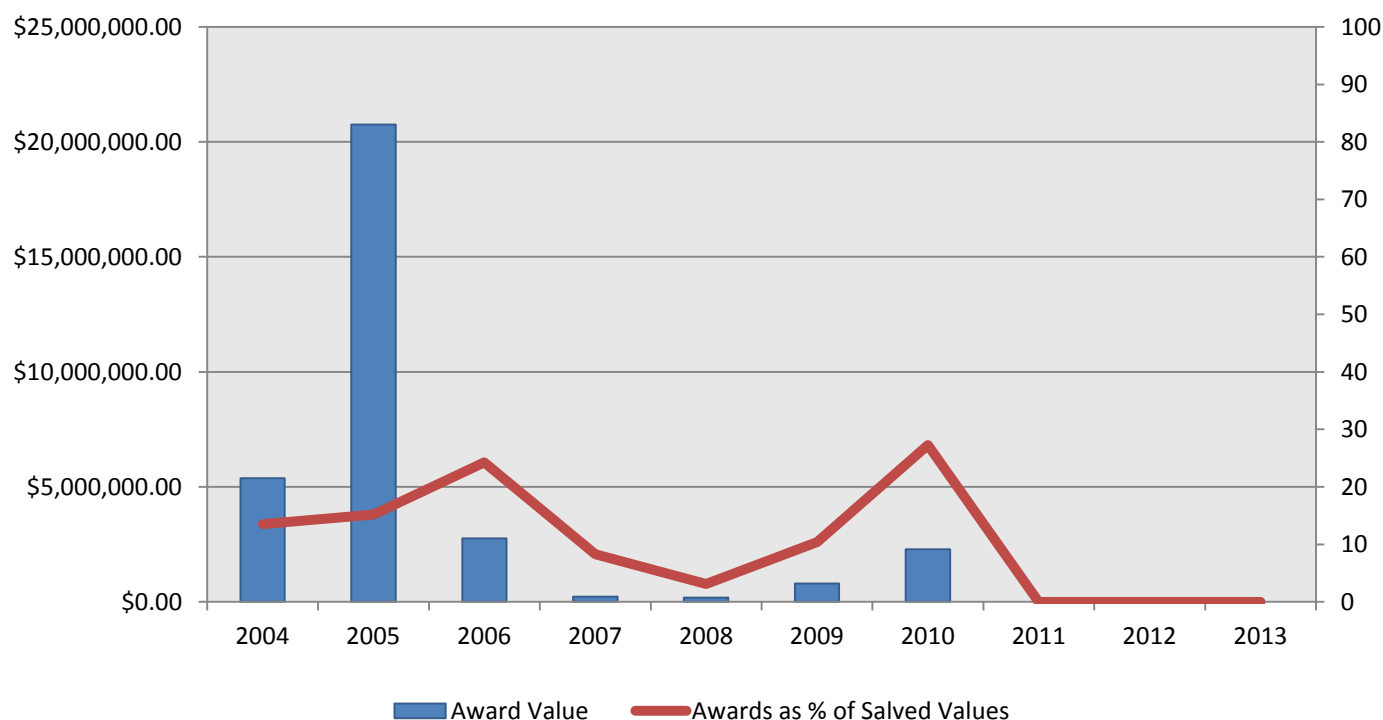
Fact table highlighting the range of values within the Bulk Carrier Data set for 2004 to 2013.

	SALVAGE VALUE	AWARD VALUE	AWARD % OF SALVAGED VALUE	APPEAL AWARD VALUE
MINIMUM	\$ 800,000.00	\$ 58,426.00	0.72%	\$ 490,744.12
1ST QUARTILE	\$ 5,451,813.15	\$ 827,577.50	6.06%	\$ 1,313,447.46
MEDIUM	\$ 14,886,068.00	\$ 1,475,443.50	13.54%	\$ 2,373,381.00
3RD QUARTILE	\$ 32,271,230.90	\$ 3,090,386.50	25.36%	\$ 5,759,936.50
MAXIMUM	\$ 166,185,830.00	\$ 36,627,846.58	97.43%	\$ 43,250,000.00

5 CONTAINER VESSELS

5.1 Mean Award value per Year

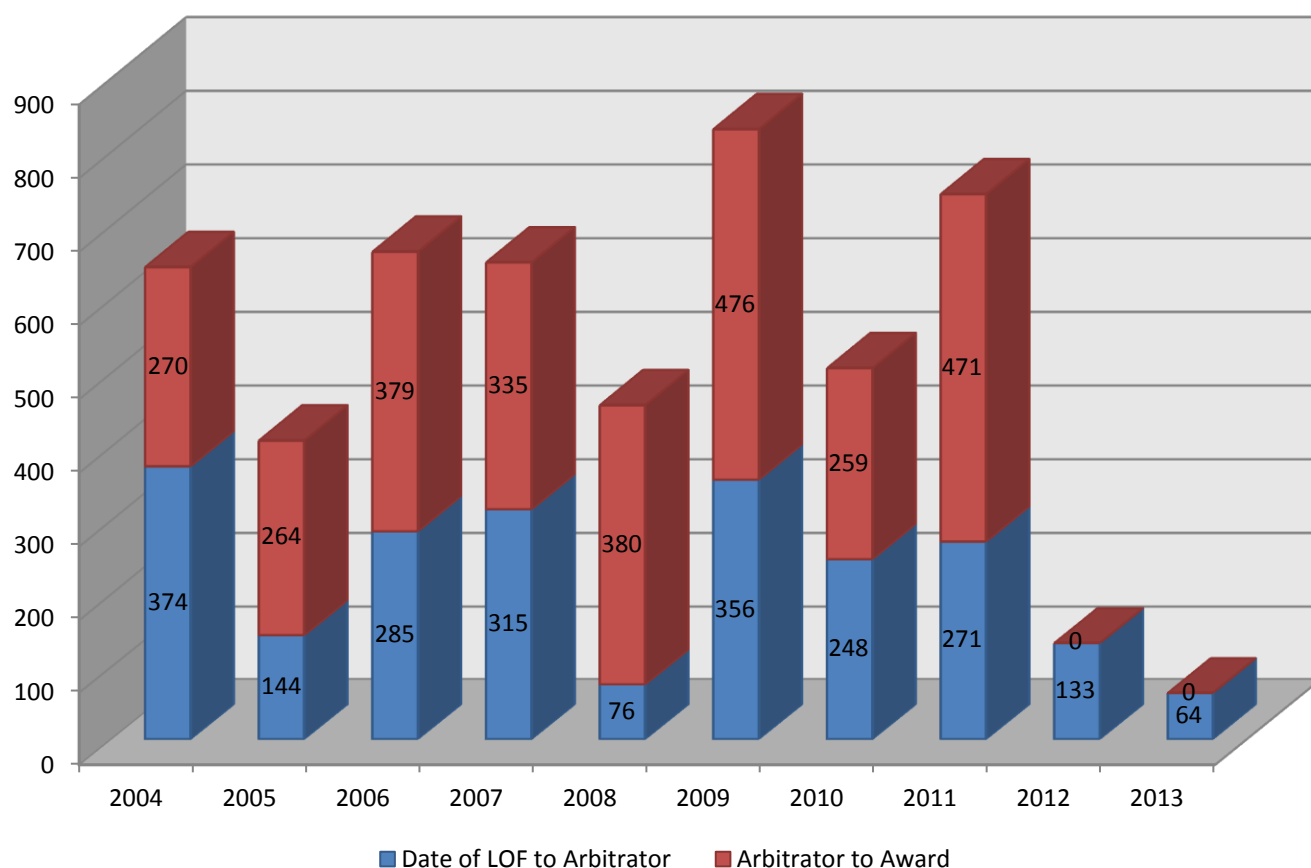
The amounts awarded in those cases that proceeded to arbitration are set out in the graph below, which also shows the amounts awarded as a percentage of the value of the property salvaged (see red line). To date there have been no Awards published for Container cases originating from 2011.



5.2 Time of Process

The design of the modern container ship, with its high sea-board and no on-board discharge equipment, can lead to long and protracted salvage services. In addition to this, the after services administration, which invariably involves many parties, means that container vessel cases tend to be protracted.

This is reflected within the graph below, which shows an average case lasting 560 days, or 18 months.



5.3 Data Table

A table highlighting the range of values, via the quartile range, in the Container Data set.

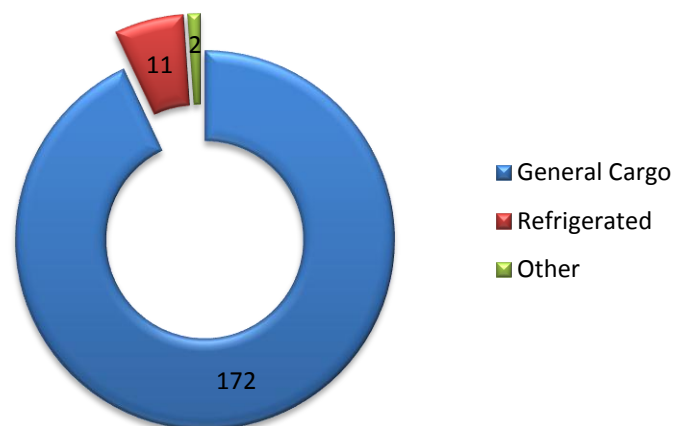
	SALVAGE VALUE	AWARD VALUE	AWARD % OF SALVAGED VALUE	APPEAL AWARD VALUE	DIFFERENCE BETWEEN AWARD AND APPEAL AWARD
MINIMUM	\$ 73,409.57	\$ 15,617.80	0.019576303	\$ 3,244,113.00	\$ -1,469,378.58
1ST QUARTILE	\$ 4,147,584.50	\$ 346,060.25	5.868035182	\$ 5,096,838.86	\$ -901,050.94
MEDIUM	\$ 15,222,138.99	\$ 793,311.50	10.88864359	\$ 6,949,564.71	\$ -332,723.29
3RD QUARTILE	\$ 65,340,059.75	\$ 5,398,601.75	15.37419604	\$ 8,802,290.57	\$ 235,604.36
MAXIMUM	\$ 171,437,166.49	\$ 51,567,957.63	56.16399878	\$ 10,655,016.42	\$ 803,932.00

6 GENERAL CARGO VESSELS

General Cargo vessels account for 26% (191 vessels) of all reported LOF cases between 2004 and 2013, making it the second largest category of vessels to use LOF.

6.1 Types of General Cargo

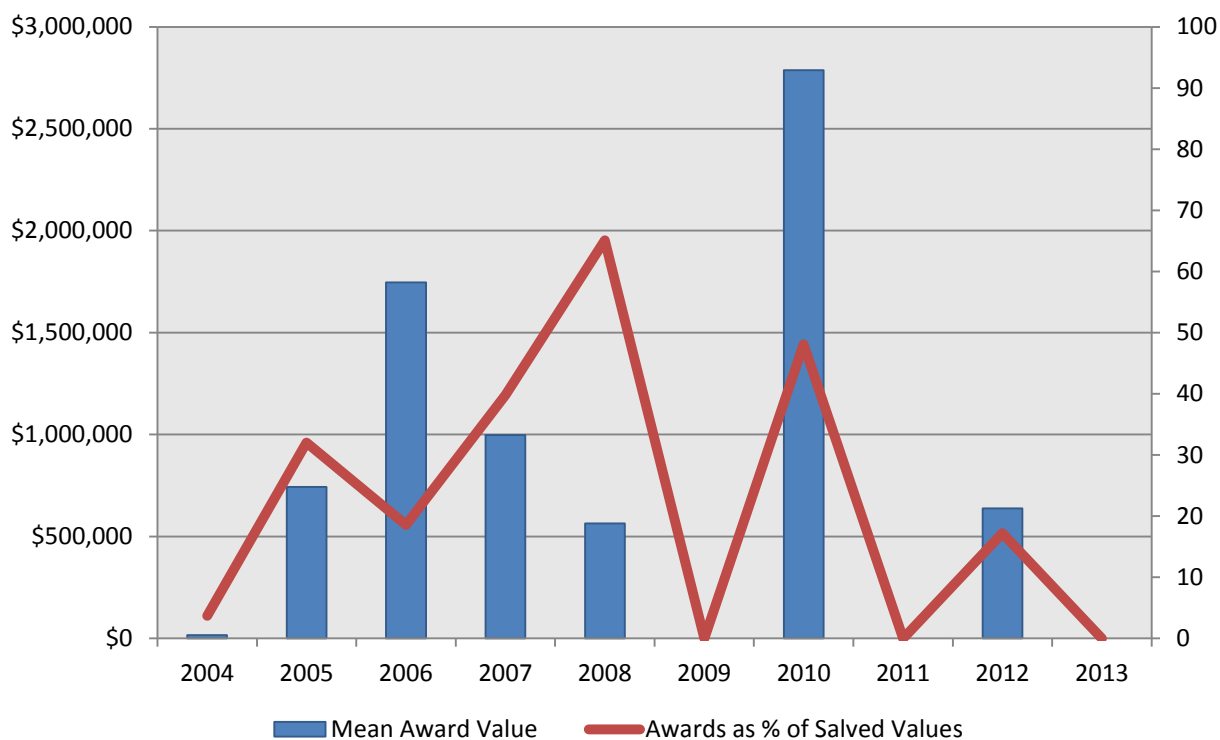
The vast majority of General Cargo casualties (92%) are defined as 'General Cargo' vessels. 6% are made up of Refrigerated vessels.



6.2 Mean Award value per year

The amounts awarded in those cases that proceeded to arbitration are set out in the graph below, which also shows the amounts awarded as a percentage of the value of the property salvaged (see red line).

To date there have been no Awards published in general cargo vessel cases originating from 2009, 2011 and 2013.



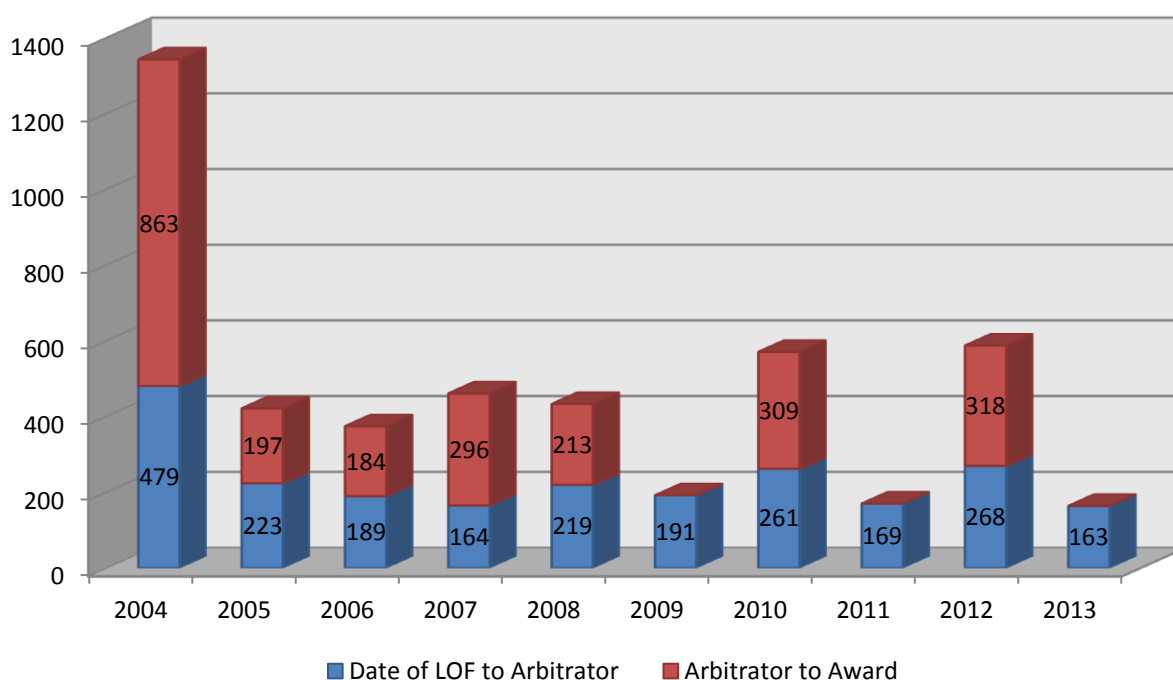
6.3 Time of Process

Each case that proceeds to arbitration has its own unique characteristics, therefore the length any one case going through, what is a quasi-judicial process, will vary hugely. The graph below shows the average time a case took from the date of the LOF (date of casualty) to the publication of the final Award.

The time is broken down into two segments;

1. The number of days from the date of the signing of LOF, to the appointment of an Arbitrator (shown in blue).
2. From appointment of an Arbitrator to the publication of the Arbitrator's Award.

The data is vastly skewed due to one case originating in 2004 which took 64 months for the Award to be published.



6.4 Data Table

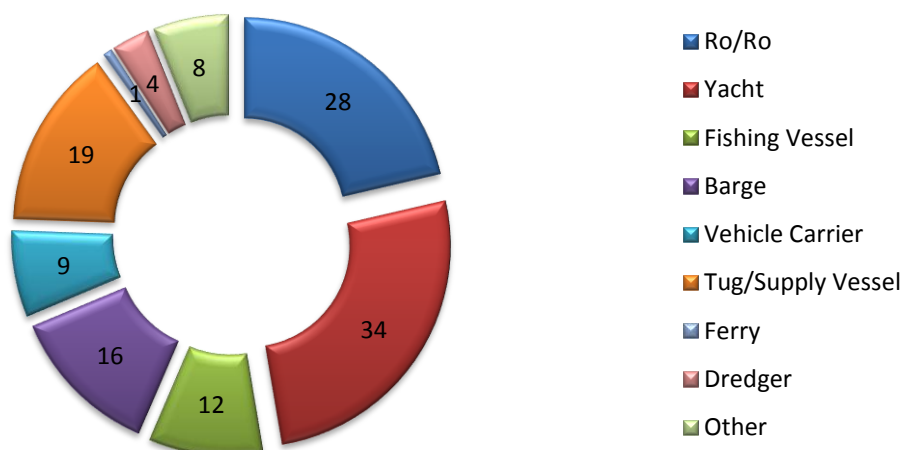
A table highlighting the range of values, via the quartile range, in the General Cargo Data set.

	SALVAGE VALUE	AWARD VALUE	AWARD % OF SALVAGED VALUE	APPEAL AWARD VALUE	DIFFERENCE BETWEEN AWARD AND APPEAL'S AWARD
MINIMUM	\$ 165,378.37	\$ 15,520.00	3.68	\$ 593,637.00	\$ -796,000.00
1ST QUARTILE	\$ 673,836.07	\$ 433,549.84	20.42	\$ 927,237.50	\$ -550,932.29
MEDIUM	\$ 2,730,882.00	\$ 739,302.00	30.99	\$1,260,838.00	\$ -240,191.73
3RD QUARTILE	\$ 5,328,173.50	\$ 1,476,254.99	42.67	\$1,346,695.71	\$ -64,602.75
MAXIMUM	\$ 11,238,605.00	\$ 3,894,768.00	96.88	\$1,432,553.42	\$ 274,602.11

7 'OTHER' VESSELS

7.1 Types of Vessels

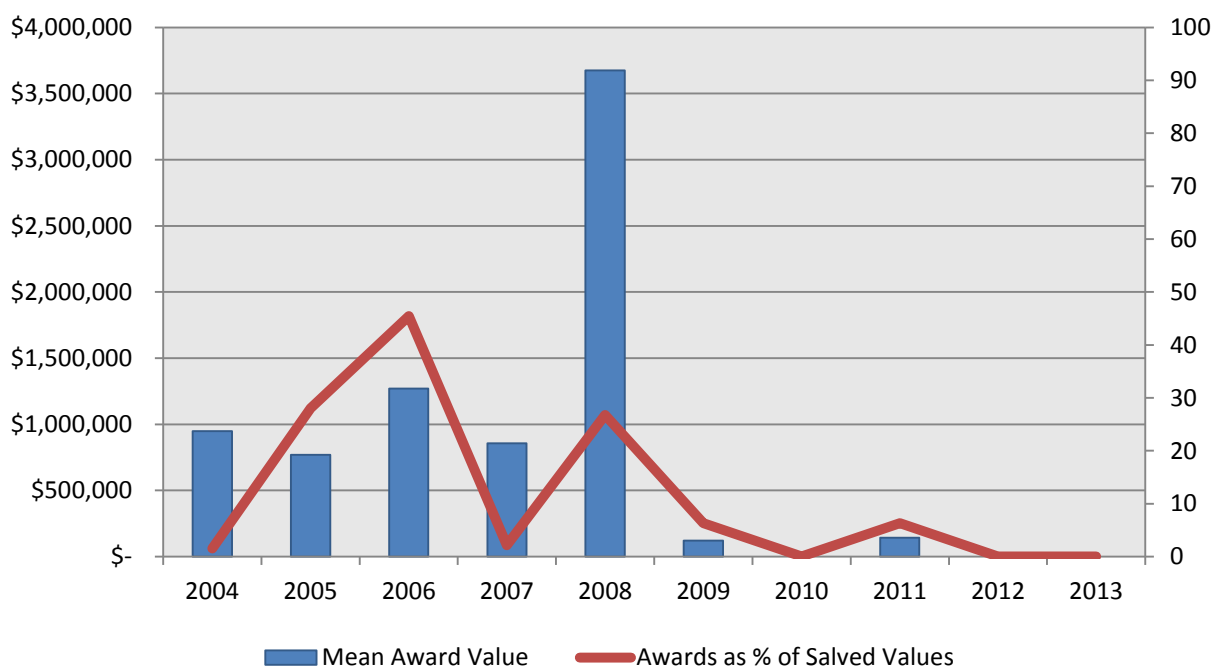
The many diverse types of vessels that make up this category are clearly shown below. Since the 2013 LOF Report, Yachts has become the new highest casualty type (26%), taking over from Ro/Ros (21.5%). The overall amount of LOF cases have declined with Ro/Ro cases' almost halving from 47 to 28 since the last report.



7.2 Mean Award value per year

The amounts awarded in those cases that proceeded to arbitration are set out in the graph below, which also shows the amounts awarded as a percentage of the value of the property salvaged (see red line).

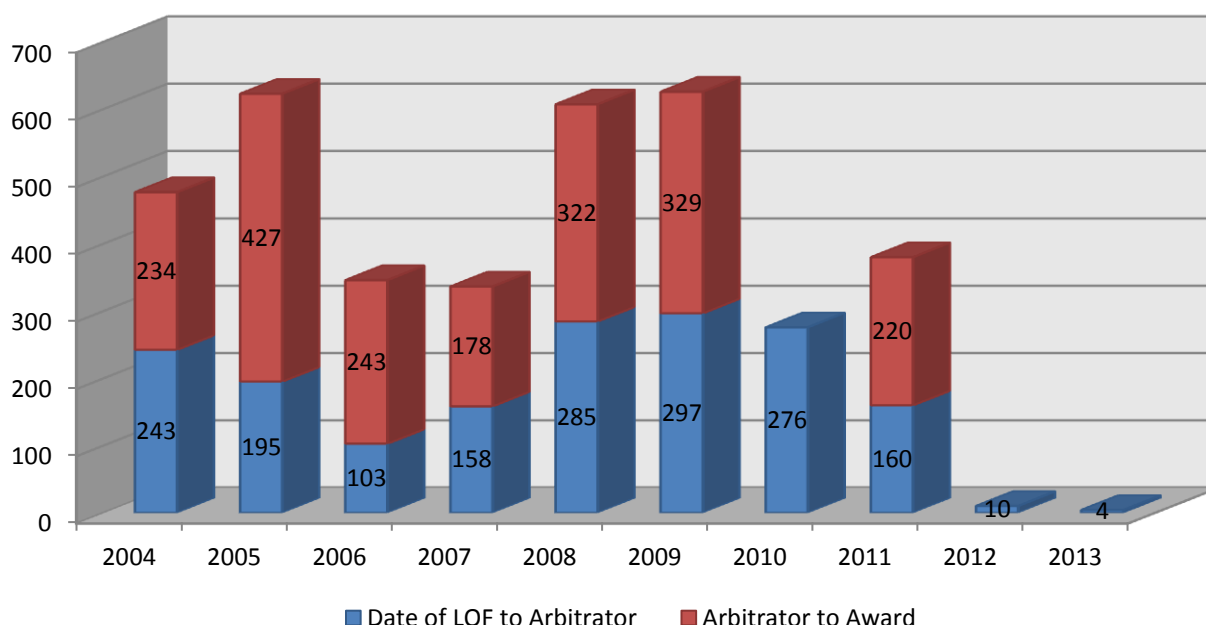
There are no publications of awards from LOF cases originating in 2010, 2012 and 2013.



7.3 Time of Process

It is characteristic of this category that the vast majority of the cases are settled amicably between the parties without the need to refer the matter to arbitration. As can be seen from the graph below, no cases in this category in 2010, 2012* or 2013* proceeded to arbitration; all were settled.

*some cases maybe be still going through arbitration.



7.4 Data Table

A table highlighting the range of values, via the quartile range, in the 'Other' data set.

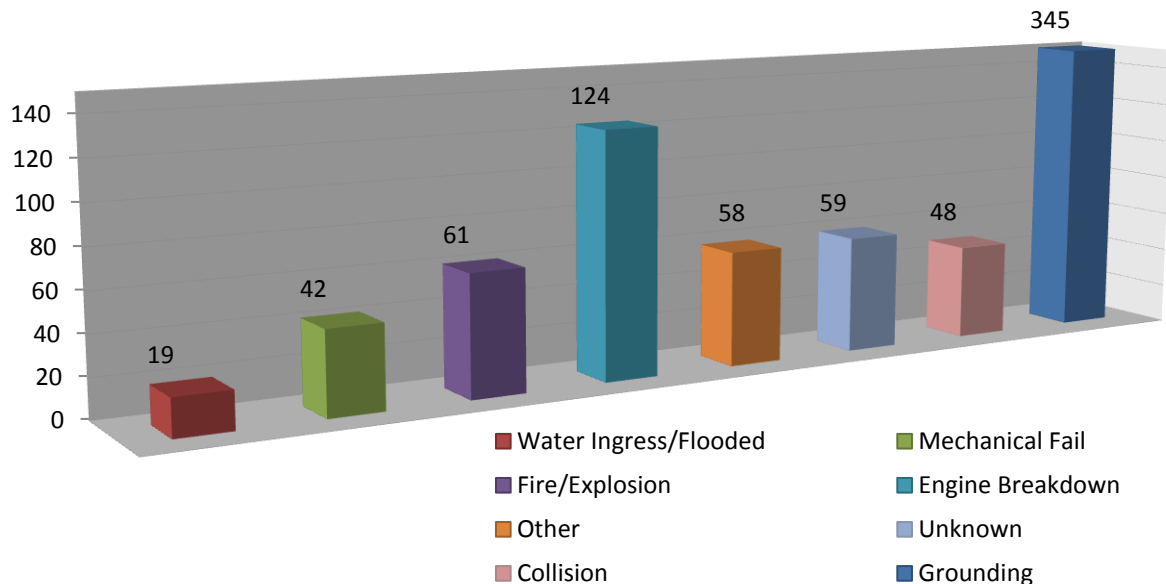
	SALVAGE VALUE	AWARD VALUE	AWARD % OF SALVAGED VALUE	APPEAL AWARD VALUE	DIFFERENCE BETWEEN AWARD AND APPEAL'S AWARD
MINIMUM	\$ 201,468.00	\$ 57,257.21	\$ 1.51	\$ 362,276.71	\$ -159,182.19
1ST QUARTILE	\$ 1,474,142.70	\$ 250,211.93	\$ 5.13	\$ 2,529,539.38	\$ 1,901,472.10
MEDIUM	\$ 3,780,801.97	\$ 521,458.90	\$ 10.60	\$ 4,696,802.06	\$ 3,962,126.38
3RD QUARTILE	\$ 13,110,302.37	\$ 1,435,075.00	\$ 33.58	\$ 6,864,064.73	\$ 6,022,780.67
MAXIMUM	\$ 62,905,781.25	\$ 7,501,271.91	\$ 85.60	\$ 9,031,327.40	\$ 8,083,434.95

It must be noted that unlike the previous three categories, the 'Other' database does not have a large data range causing some of the stats in the graph to not be significant. This is due to the nature of the cases to settle amicably.

8 CASUALTY TYPE

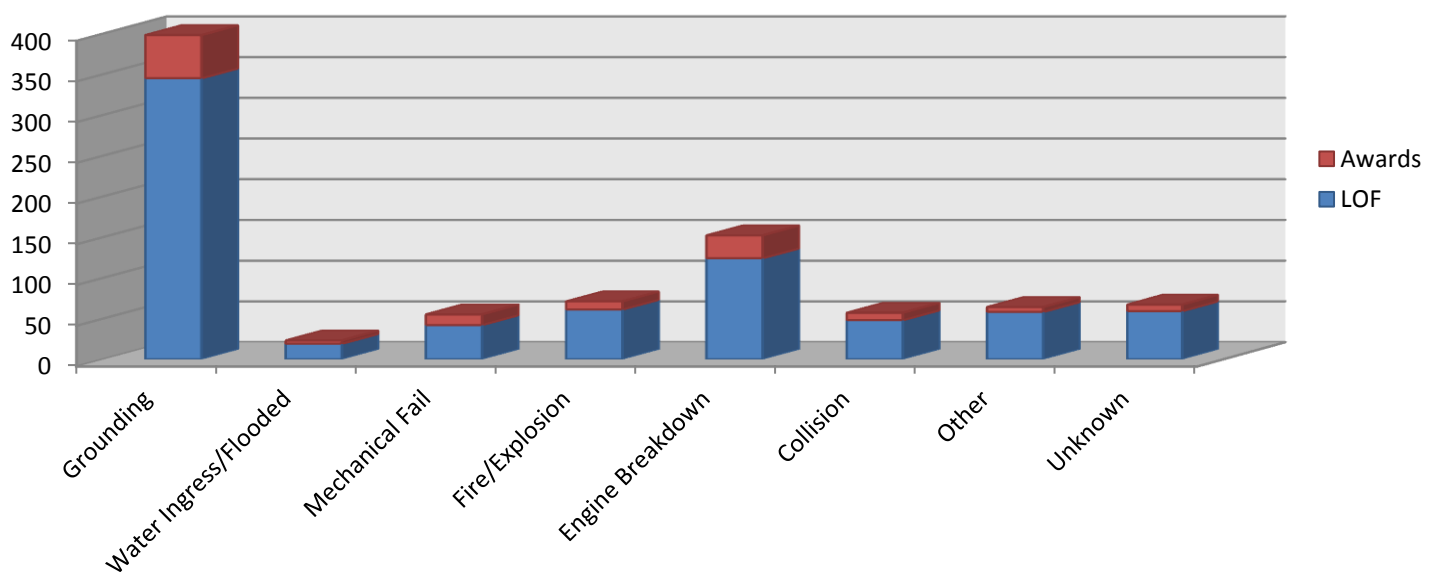
8.1 Cause of casualty

Over the 2004-2013 period, by far the largest cause of casualty, to vessels receiving services under LOF was grounding at 45.6% of all cases. This is only a -0.4% difference to the period 2000-2011. Again, engine breakdown was the second largest cause of casualty. However, this has dropped by 8% since the last LOF Report.



8.2 Number of LOFs and Awards according to casualty

As we can see below, the Award to LOF ratio stays constant according to cause of casualty.

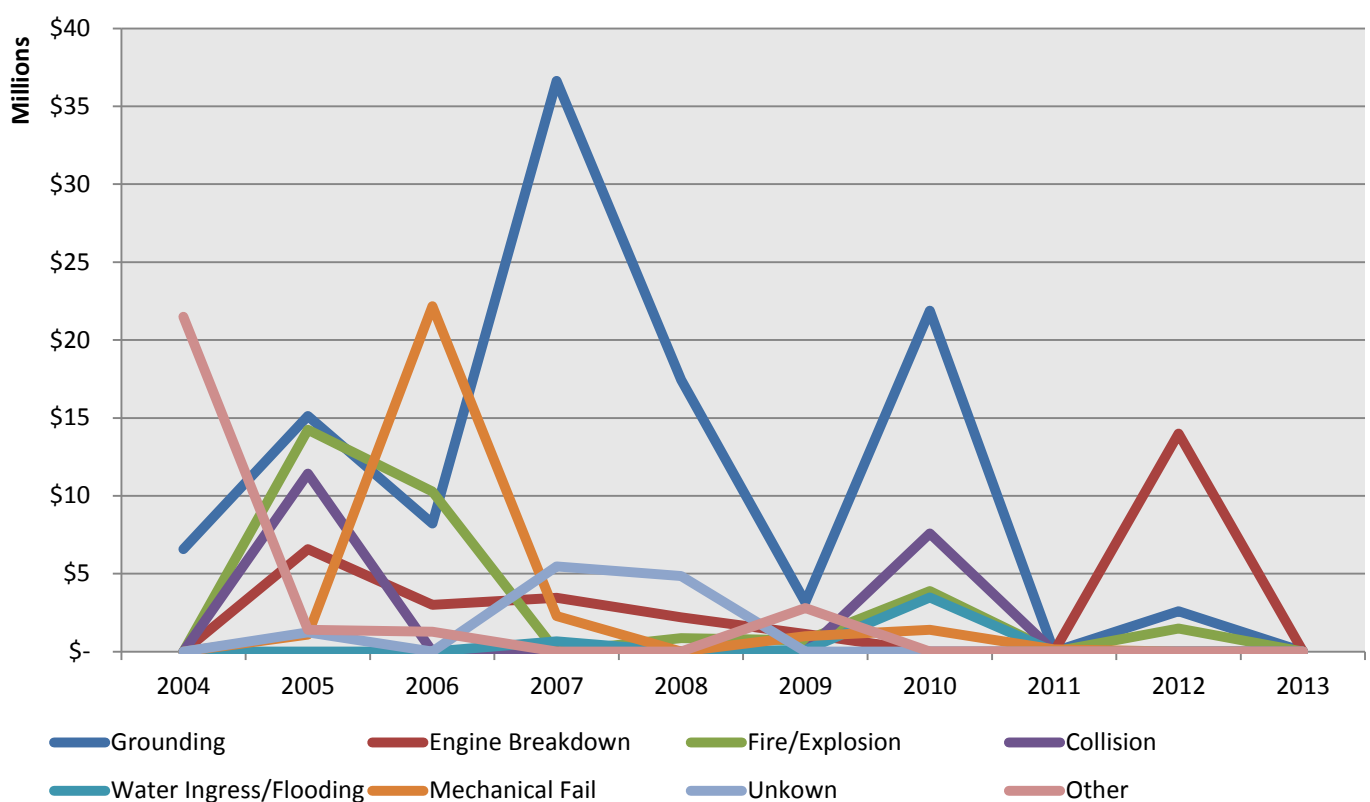


8.3 Total Amounts awarded

It has already been explained that the amount awarded to a salvor for services rendered under a LOF contract will depend on a number of factors. The arbitrator must have in mind, when assessing the level of the Award, the "criteria for fixing the reward" set out in Article 13.1 of the International Convention on Salvage 1989.

The weight applied to each of these factors will, of course, differ from case to case so it is therefore not correct to expect that the total amount awarded in LOF cases will correspond to the total number of LOF services in any given year, or indeed the type of vessel or casualties.

If we could confidently correlate the number vessels and type of casualty with the amount awarded, then we would expect to see groundings accounting for a far greater proportion of the amounts awarded. We can see from the graph below that this is indeed the case for 2007, 2008 and 2010. However, the other years covered by this study do not support this.



9 LOF 2011; NOTICE 4

9.1 Days' Notice

The graph below shows the mean days it takes from agreeing a LOF to notifying the Council of Lloyds. In 2011, the new LOF 2011 was introduced. It contained a new clause, Important Notice 4, which states;

"The contractors shall, within 14 days of their engagement to render services under LOF, notify the Council of Lloyds of their engagement"

This therefore explains the sudden drop in 2012, and the continuation of the trend in 2013.

