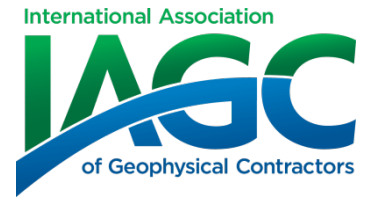


Statement of Principles

Cabotage



Revision Date:

Date first issued: April 2014

This document includes the Statement of Principles, a description of the issues (with examples) and contractual language.

Statement of Principles

Key Words:

- Contractor
- Client
- Standby Rate
- Force Majeure
- Subcontractor

Terms that are in bold type are defined in the Glossary of Terms which forms part of this family of Statements of Principles.

- A. "Cabotage Obstruction" is defined as the delay or refusal of the necessary permits for a **Contractor's** vessels, previously tendered and accepted by **Client**, to enter the waters of the country for which the services are to be performed on the ground of the vessel(s) being registered under a foreign flag.
- B. At the time of tender submission, **Contractor** reserves the right to submit a **Standby Rate** appropriate to the **Contractor's** exposure to such delays or refusals, to be activated after a time mutually agreed between **Client** and **Contractor** during the contract finalization process.
- C. Such **Standby Rate** will follow the usual provisions of escalation to the contractual conditions of **Force Majeure** or Termination (without cause), and be within the rights of either party to execute.
- D. It is incumbent not only on the **Contractor**, but also the **Client**, to provide all necessary and reasonable effort for the release or reinstatement of such permits as necessary for the **Contractor's** vessel to enter the country's waters.

IAGC Contacts:
1225 North Loop West
Ste 220
Houston, TX, 77008 USA
P. +1 713 957 8080
iagc@iagc.org
www.iagc.org

Commercial Context

Cabotage as defined for the purposes of this Statement of Principle relates to the laws pertaining to concessions provided to domestically flagged vessels of a certain country by restricting port and waterway usage by vessels with foreign registrations. In theory, its purpose is to promote the development of indigenous tonnage. In practice, this results in potential financial impact to a **Contractor** who is providing a specialist vessel - registered under a foreign flag - to a **Client** for the performance of required services.

The laws in some countries adopting cabotage restrictions are still evolving over and the resulting ambiguity creates circumstances where a seismic **Contractor's** vessels have been accepted for a project, but are then delayed or refused entry to the country and thereby the project location. The **Contractor** is then faced with contractual obligations to its **Subcontractors**, including the vessel owners, and also to its **Client**, occasionally with added penalties for late start or finish (liquidated damages).

Therefore, contractual terms and definitions must clearly address the potential impact of this effect and the procedures and respective rights and obligations of both **Client** and **Contractor**.

Contractors receive tender documents from **Client** specifying the scope of work, the timing requirements and the standards to which it must be maintained. The specialist nature of geophysical services requires vessels to be constructed or modified to a considerable extent to enable the **Contractor's** services to be provided, while remaining compliant with client, **Contractor** and international maritime requirements. On this basis, in addition to commercial considerations, the most suitable vessel is offered by **Contractor** and accepted by client for the work to be performed.

During the initial process, the necessary permits are applied for in conjunction with other planned mobilization activities. The **Contractor** is then dependent on the outcome of these permits before entry to the country's waters can be considered.

Any delay to the project mobilization while waiting for the relevant permits to be granted, or revocation or expiry of a previously provided permit, can result in severe financial burden to the **Contractor**. This uncertainty requires the adoption of risk mitigation for responsible **Contractors**, to their detriment as they are priced out of the tender process. The **Client**, and by extension the country, then loses the technological benefit and high safety standards these **Contractors** would otherwise provide.

Contractual Language

1. Company is primarily responsible for and should at its own cost obtain the necessary permits as may be necessary for the performance of the seismic acquisition in the country \ countries where the Work is being conducted to ensure and procure that Contractor's performance of the Services will be free from interference or objection (direct or indirect) from any authorities (whether government, military or otherwise) subject to the article 2 hereunder. If any delay or Work stoppage should occur due to government permits or authorization after the Effective Date of this Agreement, Company shall act with all diligence to receive necessary clearance to allow the Work to proceed. If the Work delay or stoppage continues beyond ___XX days of the Contractor vessel being ready to start Seismic Operations, Contractor shall be entitled to suspend the Work and be remunerated at the Standby Rate and/or to

This Statement of Principles is offered by IAGC as a discussion and educational tool for the industry. Any industry participant is free to use this statement in any way it wishes.

leave the survey area and terminate the Contract without any liability or indemnity towards the Company.

2. Contractor shall obtain such official permits and conduct reports as required to any government authority having jurisdiction, other than those permits to be supplied by Company as provided in Article 1, Company shall reimburse Contractor for all costs and expenses incurred.

This Statement of Principles is offered by IAGC as a discussion and educational tool for the industry. Any industry participant is free to use this statement in any way it wishes.