

CHALOS, O'CONNOR & DUFFY

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January 15, 2010

Via Electronic Mail

Special Master
c/o Dorsey & Whitney LLP
1031 W. Fourth Ave., Suite 600
Anchorage, Alaska 99501-5901
Attn: Robert C. Bundy, Esq.
Email: bundy.robert@dorseylaw.com

U.S. Coast Guard
2100 Second St., S.W.
Washington, D.C. 20593-0001
Attn: LT Channing D. Burgess
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U.S. Attorney's Office
District of Connecticut
915 Lafayette Blvd, Room 309
Bridgeport, CT 06604
Attn: William M. Brown, Esq.
Email: William.m.brown@usdoj.gov

U.S. Probation Department
District of Connecticut
157 Church Street, 22nd Floor
New Haven, CT 06510
Attn: Mr. Patrick Norton
Email: patrick_norton@ctp.uscourts.gov

U.S. Department of Justice
Environmental Crimes Section
P.O. Box 23985
L'Enfant Plaza Station
Washington, D.C. 20026-3985
Attn: Lana Pettus, Esq.
Email: lane.pettus@usdoj.gov

Re: *United States v. Ionia Management S.A.*
Index No. 07-cr-134 (JBA)
CO&D Ref: 500172.0002

Dear All:

Further to the Special Master's letter, dated December 29, 2009, we write on behalf of our client, Ionia Management S.A. (hereinafter "Ionia"), to submit Ionia's Follow-up Report, with Appendixes, which Ionia will utilize during the Third Special Master Hearing, which is scheduled for January 20, 2010.

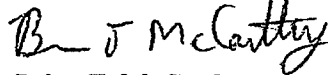
CHALOS, O'CONNOR & DUFFY LLP

CHALOS, O'CONNOR & DUFFY LLP

Should you have any questions regarding the enclosed Follow-up Report, please do not hesitate to contact us.

Sincerely yours,

CHALOS, O'CONNOR & DUFFY, LLP



Brian T. McCarthy

Enc.

Cc: Independent Environmental Consultant
Captain Richard C. Wigger
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Hamilton House
26 East Bryan Street
P.O. Box 9981
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3rd Special Master's Hearing – Further Topics

1) Operation of the SWOMS:

a) review of SWOMS capability to automatically transmit hourly recorded data;

Discussion has arisen regarding whether the SWOMS system installed onboard the Ionia's covered vessels complies with the requirements of the Special Master's Scope of Work.

The Special Master's Scope of Work requires the installed SWOMS to achieve the following:

"The SWOMS must have the capability to record, and the data be electronically sent, to Ionia's shore – side offices.¹ The data shall be electronically recorded by the SWOMS at least hourly. The CCM will be responsible for ensuring that each covered vessel submit copies of this electronic record in a format which can be compared with shipboard records kept by Ionia crewmembers. The CCM will be responsible for transmitting this data at the same time and manner as monthly shipboard records discussed above in paragraph a.

¹ One desired feature of the SWOMS concept is that the system have the capability to transmit the data automatically to the corporate headquarters, without the need for human intervention."

The capabilities of the SWOMS that has been designed by Vigilant Marine Systems for Ionia's vessels have been presented in both the 1st and 2nd Special Master's Hearings held in New Haven, Connecticut in December, 2008 and July, 2009 respectively.

During the 1st Special Master's Hearing, the capabilities and function of the SWOMS was presented by Ionia's representative to all parties present as follows:

- The Envirologger has been designed to monitor and record the operations of the vessel's OWS, incinerator, bilge pump, as well as the levels of the bilge holding tank, oily bilge holding tank, sludge tank, waste oil tank, and bilge wells ("logged data").
- It has been designed to also provide a printed record of events and automatically transmit logged data to shore-side personnel on a daily basis.
- The system automatically prints out the logged data every 24 hours.
- It further prints out data at the commencement of operation of the OWS and the incinerator at the completion of their operation.



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- However, the system is not yet able to transmit the data electronically to shoreside personnel as the Vigilant software is not able to communicate with the vessel's communications system. In order for this to be achieved, a Vigilant engineer has to board the vessel. According to Vigilant, they are able to do this at a U.S. port only.
- The SWOMS has been fully commissioned on both the M/T THEO T and the M/T FIDIAS.

During the 2nd Special Master's Hearing, the installed SWOMS was further presented as follows:

- Both vessels are transmitting data produced by the SWOMS on a daily basis to the company's offices without human intervention.
- Electronic transmission of data takes place on a daily basis without the need for human intervention
- The SWOMS software has been upgraded to maintain electronic data stored in its memory for a period of at least 14 days.

Furthermore, an example of the electronic data was provided as evidence and as an indication of the content of the information that is being transmitted to the company on a daily basis.

It is Ionia's opinion that the installed SWOMS meets the requirements as set out in the Special Master's Scope of Work in that the vessel's incinerator, oily water separator, oil content meter and tank levels are being monitored by the system continuously throughout the 24 hour period. Any change of status of the oily water separator, oil content meter and incinerator is recorded including any alarms that may occur. The tank levels are monitored throughout the 24 hour period and the maximum and minimum level of each tank is included in the data transmitted.

Every 24 hour period a report is produced that consists of the following information:

- Minimum tank level soundings
- Maximum tank level soundings
- Current tank level soundings
- Operation of oily water separator and oil content meter
- Operation of incinerator

The generated report is transmitted to the company's offices without the need for human intervention.

The above data is considered sufficient in order to effectively monitor the management of waste by engine room personnel in the engine room on a daily basis.



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However, due to the discussion that has arisen regarding the system's ability to transmit records on an hourly basis to the company's shoreside offices, the Technical department has contacted Vigilant Marine System in order to establish whether the system's software can be modified in order to transmit data to the shoreside offices on an hourly basis.

Vigilant Marine Systems have advised that they believe that the modifications can be made at a reasonable cost. We are awaiting their confirmation and relevant quotation. Please see Appendix A.

It is worth pointing out that the decision to modify the system to transmit data on an hourly basis should be carefully considered as the company's shoreside's offices will be provided with a wealth of data that may border on inundation. It is important that the superintendent responsible for reviewing the data is provided with a manageable amount of information that can be effectively reviewed and analyzed.

b) SWOMS operational problems including difficulties in obtaining readings in bilge holding tanks and incinerator waste oil tanks;

The operational problems that have been encountered regarding the bilge holding tank on the M/T FIDIAS and the incinerator waste oil tank on both the M/T FIDIAS and M/T THEO T are as follows:

M/T FIDIAS - Bilge Holding Tank: Following the failed attempt to resolve the problem while the vessel was calling at Piraeus, Greece, the vessel was off West Africa where she was not accessible to qualified technicians. Currently the vessel is calling at Tuapse, Russia. Ashland technicians are not able to board the vessel at Tuapse due to local formalities. The company's Technical department is monitoring the vessel's schedule in order to arrange for an Ashland attendance at the first convenient port.

Incinerator Waste Oil Tank - Due to the small dimensions (approximately 1,5m³) of the tank and the frequent operations that are carried out such as transfers, draining and evaporation, the SWOMS is not able to accurately record the level of waste in this particular tank. The small dimensions affect the accurate readings in that due to the tanks size, frequent operations are imperative.



c) Chief Engineer's review of SWOMS data in comparison to the Oil Record Book;

Upon review of the Special Master's Scope of Work, we have not identified any requirement that necessitates the SWOMS data to be compared to that of the Oil Record Book. However, the company's Environmental Management Plan that came into effect on the 1st of July, 2009 requires that the Form "ENV-024 SWOMS Maintenance Checklist" is completed. The checklist requires that manual tank sounding levels are compared to the SWOMS recorded tank level soundings on a daily basis (see Appendix B). As the records entered into the Oil Record Book are based on the daily tank soundings, we consider that the mentioned item has been accounted for.

Furthermore, the Chief Engineer is required to ensure each time the incinerator or the OWS is operated that the operation is recorded in the SWOMS data.

However, the Special Master's Scope of Work does include the following requirement:

"The ship's engine room alarm printout shall be reviewed by the Chief Engineer at least once per week and compared with the Engine Room Oil Record Book and initialed by the Chief Engineer upon review."

In order to ensure that the above requirement is implemented, the company's Environmental Management Plan has included the requirement in the relevant procedures (see Appendix C). However, the Chief Engineers on both of the covered vessels have not implemented the requirement and unfortunately the absence of the Chief Engineers' initials on the engine room alarm print outs slipped the attention of the Superintendents responsible for reviewing the submitted documentation. A reminder has been sent to both of the vessels and the responsible Superintendents to ensure all engine room alarm print outs are reviewed and initialed by the Chief Engineer on a weekly basis as required by Ionia's Environmental Management Plan, Section 13.3 (see Appendix D).

2) The existence or lack of useful information from the fleet wide engineering survey.

1327.
An analysis of the information provided from the fleet wide engineering survey throughout 2009 was carried out. It was established that approximately 30% of responses to Question 1, 37% to Question 2 and 46% of responses to Question 3 were inappropriate to the issue being dealt with. Although this may seem to be high, we consider that with continued training and explanation, our shipboard personnel will become accustomed to what is expected of them when responding to the questions of the Fleet Engineering Survey.



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The feedback that has been received to the Fleet Engineering Survey was provided to the IEC, Capt. Wigger, and he was requested to suggest improvements based on his review of the material. The IEC responded that he does not consider there is a necessity to make any changes to the questions of the Fleet Engineering Survey. Please see Attachment E.

Upon review of the responses provided to Question 1, a misinterpretation of the word “tamper” has been identified in those responses that were found to be inappropriate. It is our intention to establish an expression that will be more easily understood by our shipboard personnel.

The inappropriate responses to Question 2 are considered to be at an acceptable level therefore we shall not make any changes.

37%? should be 13%?

A review of the inappropriate responses to Question 3 indicates that the question is completely misconstrued. As with Question 3, we shall liaise with the IEC in order to establish an expression that will assist our shipboard personnel in providing more constructive suggestions.

An analysis of the responses to the questions posed in the Fleet Engineering Survey may be reviewed below:

1) Ways the OWS, OCM associated systems and waste management processes can be made tamper proof

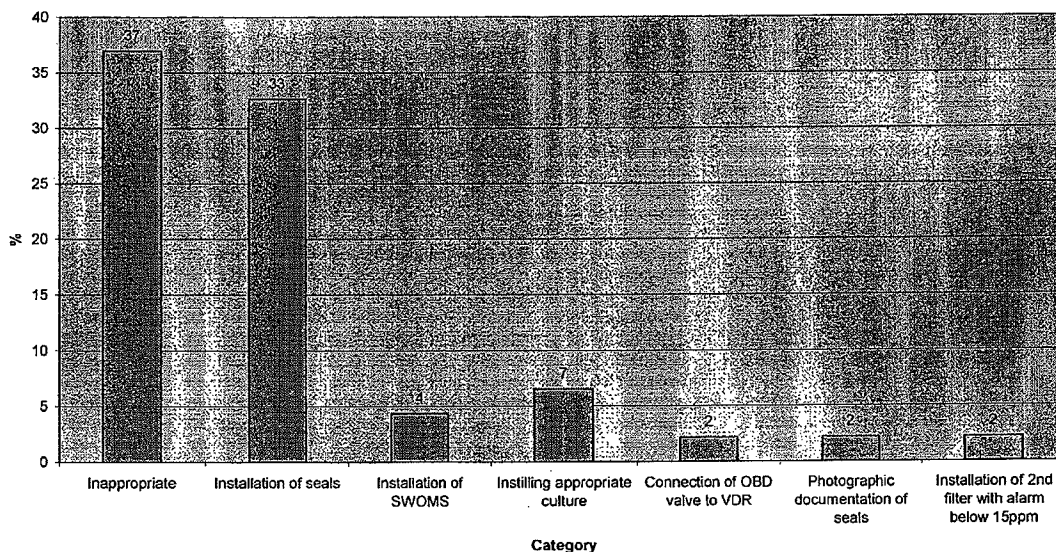


Figure 1 Feedback to Question 1 of the Fleet Engineering Survey Provided from Shipboard Personnel 2009



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2) Methods of Handling and Reducing Waste Accumulations within the E/R and Machinery Spaces

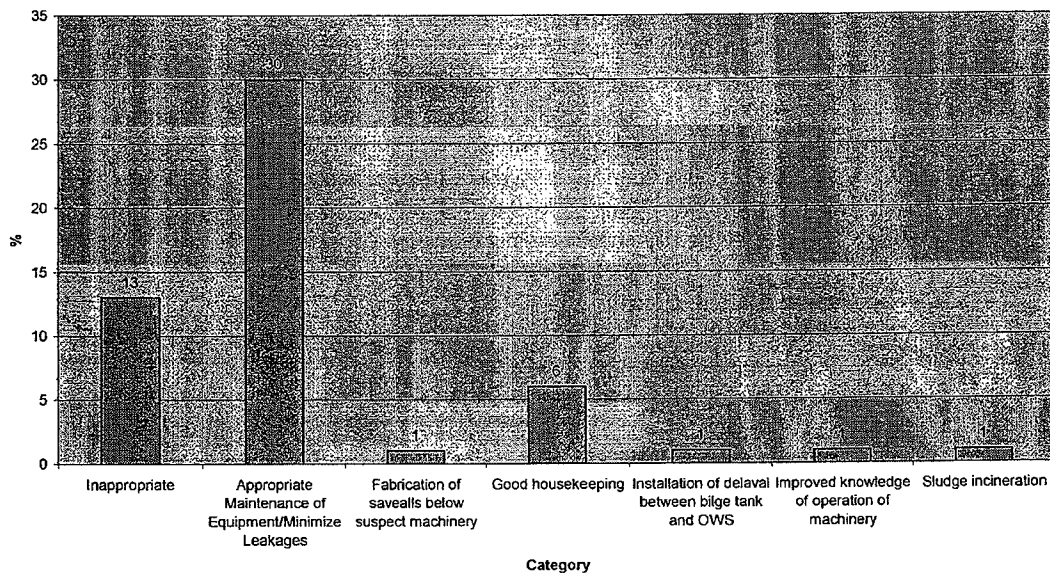


Figure 2 Feedback Provided to Question 2 of the Fleet Engineering Survey from Shipboard Personnel within 2009

3) Ability to Adequately Maintain the Vessel Systems, Equipment and Components Related to Pollution Prevention

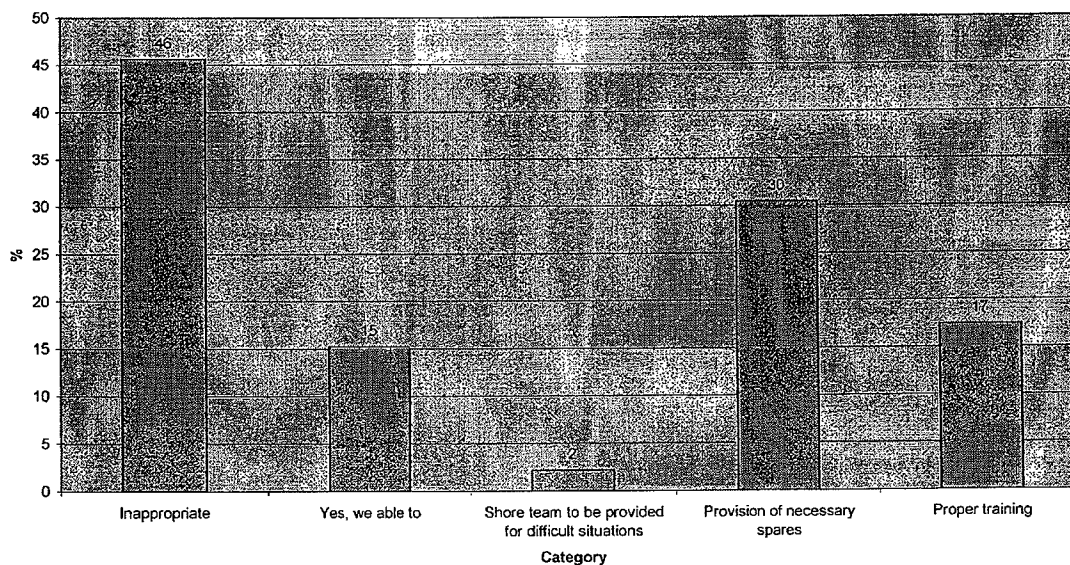


Figure 3 Feedback Provided to Question 3 of the Fleet Engineering Survey from Shipboard Personnel within 2009



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3) Update on the implementation of the EMS, particularly on the M/T THEO T and M/T KRITON.

Vessel	Training Carried Out Onboard	Implemented Onboard	Internal Audit to be carried out after
Estia	Pending	1-Jan-10	July, 2010
Fidias	14-Jul-09	14-Jul-09	January, 2010
Gea	3-Jul-09	1-Aug-09	February, 2010
Kriton	Pending	1-Jan-10	July, 2010
Ploutos	12-Sep-09	13-Sep-09	March, 2010
Theo T	Pending	1-Dec-09	June, 2010

Figure 4 Table Indicating Status of Implementation of the Ionia's Environmental Management Plan

4) Update on training issues, specifically:

- a) **a review of the pre – training assessment and training program focusing on any deficits revealed in candidates' knowledge and plans to address those deficits;**

The Competency Evaluation Software purchased from Seagull AS was installed at the manning agent in Manila in November, 2009 and full implementation was achieved from the 1st of January, 2010.

The competency evaluation focuses on areas of knowledge as per STCW requirements which include areas pertaining to Marpol regulations. We are currently developing company specific questionnaires that shall focus specifically on environmental issues and the company's Environmental Management Plan (for re-joining candidates).

So far, twenty – seven candidates for Ionia's vessels have been assessed for competency in the period since the software's implementation. An analysis of the results may be reviewed below, however, as it is still early in the implementation of the procedure, adequate data has not yet been gathered in order to carry out an effective analysis.

In the event that a seafarer has achieved less than 50% in an area of knowledge, the trainers ensure that additional training is provided to the seafarer in that area in order to improve his performance.



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Engine Department				
<i>Operational-Management Level</i>				
Area	Score			Average %
Control Operation	50	70	25	48
Electrical/Electronics	44	44	78	55
Fire Fighting	33	86	67	62
Maintenance & Repair	80	69	80	76
Marine Engineering	50	50	53	51
Survival	57	57	14	43
Total %	53	59	51	54

Figure 5 Engine Officer Candidates' Competency Assessment Results

Engine Department							
<i>Support Level</i>							
Area	Score						Average %
Boiler Watch	30	70	70	30	50	20	45
Emergency Equipment and Procedures	53	67	67	53	67	53	60
English Language	73	60	80	53	50	47	61
Safe Watch	53	47	100	53	53	67	62
Total %	55	60	80	49	58	49	59

Figure 6 Engine Rating Candidates' Competency Assessment Results

Deck Department		
<i>Operation Level</i>		
Area	Score	Average %
Cargo Handling	60	60
Control Operation	60	60
Fire Fighting	67	67
Navigation	83	83
Survival	57	57
Total %	68	68

Figure 7 Deck Officer Candidate's Competency Assessment Results

Deck Department																			
<i>Support Level</i>																			
Area																			Total %
Cargo Handling	53	75	88	25	63	62	33	60	53	73	27	73	40	53	80	67	60		58
Emergency Equipment and Procedures	50	85	85	75	65	65	45	60	65	35	50	50	80	55	70	80	65		64
English Language	60	70	100	80	75	75	60	70	50	80	60	70	75	50	80	95	90		73
Lookout/ Safe Watch/ Steering	93	80	100	73	67	93	80	93	87	73	60	80	80	87	73	87	100		83
Total %	63	78	94	70	68	75	54	70	63	64	50	67	70	60	76	83	79		70

Figure 8 Deck Rating Candidates' Competency Assessment Results



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- b) review of the manning agents' training program, including discussion of the number of monthly courses carried out by the manning agents; and the status of the implementation of the computer – based training program;**
- c) adequacy of training materials.**

The "EMP Presentation" has been reviewed for in order to correct any identified errors and those errors have been corrected. The presentation has also been updated. (See Appendix F)

Prepared by
Krystyna Tsochlas

Safety & Quality Manager
For and On Behalf Of
Ionia Management S.A.

Appendix A

Krystyna Tsochlas

From: Technical Ionia Management
Sent: Πέμπτη, 7 Ιανουαρίου 2010 7:07 μμ
To: 'craig@vigilantmarine.com'
Subject: RE: (PN:210870)Envirologger Upgrade TOP URGENT

Graig, Happy & Prosperous New Year

Good News

Pls go ahead and let me know results & cost
Have a nice day.

Best Regards
George N. Karagiorgis
Technical Manager
Office +30 210 42 83 860
Mbl +30 6943 07 12 61
tech@ioniaman.gr

From: Craig@vigilant [mailto:craig@vigilantmarine.com]
Sent: Sunday, January 03, 2010 7:02 PM
To: Technical Ionia Management
Subject: RE: (PN:210870)Envirologger Upgrade TOP URGENT

George,

It should be possible. I don't know the cost to make the change but it should be much less the \$1,000. Once I get into making the software changes I'd have a better idea of the cost.

Happy New Year,

Craig A. Mason
Vigilant Marine Systems, LLC
7000 Merrill Ave
Suite F, Bldg B-210

Chino, CA 91710 USA
Ph. +1 909-597-9508 ext. 114
Fx. +1 909-597-9514

From: Technical Ionia Management [mailto:tech@ioniaman.gr]
Sent: Thursday, January 07, 2010 9:01 AM
To: 'craig@vigilantmarine.com'
Subject: RE: (PN:210870)Envirologger Upgrade TOP URGENT

Craig

I should give an answer to Special Mater for this upgrade, can you please inform me urgently whether is possible or not?

Best Regards
George. N. Karagiorgis
Technical Manager
Office +30 210 42 83 860
Mbl +30 6943 07 12 61
tech@ioniaman.gr

From: Technical Ionia Management
Sent: Monday, January 04, 2010 12:22 PM
To: craig@vigilantmarine.com
Subject: (PN:210870)Envirologger Upgrade

Dear Craig

First of all I want to wish you A Happy new year and all the best.

I have a question for you. Can you please tell me if there is the possibility of EL Software Upgrade in order to send a report at our office hourly and on demand as it sends every 24 hours.

The reason I'm asking you that, is the US Coastguard under motioning requirement:

"The SWOMS must have the capability to record, and the data be electronically sent, to IONIA's shore-side offices. The data shall be electronically record by the SWOMS at least hourly."

Best Regards

Ionia/tech/Diamantis Marinis

Please consider the environment before printing this e-mail

Appendix B

IONIA MANAGEMENT S.A	Prepared by: DPA	Effective Date: 01/07/2009
Environmental Management Manual	Approved by: MD	Revision: 0
	Section: Operational Controls	Form: ENV 024

M/T :

At :

Date :

ENVIROLOGGER CHECK LIST				
	YES	NO		
Main Logger Unit				
Daily				
Verify that the system is on.				
Verify that there are no system alarms.				
Verify that the GPS is corresponding to actual position				
Verify that level data of measured tanks correspondign to manual soundings*				
Verify that the daily e-mails are being produced and sent ashore				
Verify that there are no problems with the printout.				
Each Printer Paper Change				
While the systems door is open verify that there are no obvious problems like loose or missing hardware,				
When there is no paper in the printer look to make sure that there are no small torn pieces of printer paper left in the print head assembly.				
Each OWS Operation				
Verify that the PPM readings indicated on the LCD are within 1 PPM of the Oil Content Monitor.				
Review the printout on occasion to confirm that functions that are known to have occurred during operation like PPM alarms, OCM flushing, and OWS purge cycles have indeed been logged and printed.				
OWS LockBox				
Daily				
Verify that there are no water or air leaks in the system.				
Verify that no tampering has been done to the system.				
Verify that none of the security tags are missing.				
Each OWS Operation				
Look at the outside of the unit and through the door window to verify that there is no obvious damage that requires attention before using.				
Verify that the air pressure supply to the system is at least 6 bar.				
Verify that the filter/regulator is free of water or oil.				
Push the Flushing pushbutton on the door front and confirm that the sample/flushing 3-way valve inside rotates and that there are no water leaks seen inside the box.				
Verify that the OCM PPM readings come to zero (0) when flushing.				
Incinerator Interface				
Each Operation				
Verify that the operation is logged on the printout.				
ENVIROLOGGER DATA MONTHLY COMPARISON				
Tank	Manual Sounding		Envirologger Readings*	
	Level	Volume	Level	Volume
Sludge Tank				
Bilge Oil Tank				
Waste Oil Tank				
Bilge Holding Tank				
FWD (S) Bilge Well				
FWD (P) Bilge Well				
AFT Bilge Well				
* Level readings are not corrected for trim or list so may not correspond to manual soundings. Comparisons are best made when the vessel is at evenkeel.				

C/E

Eng. Officer

Appendix C

IONIA MANAGEMENT S.A	Prepared by: DPA	Effective Date: 01/07/2009
Environmental Management System	Approved by: MD	Revision: 0
Issue: 01	U.S. Compliance Annex	Page: 3 of 5

- 2) The tank soundings shall be recorded on a daily basis by the appropriate engine room watchstander and initialed accordingly.
- 3) Soundings shall be witnessed by the designated Deck Officer who shall also initial the readings.
- 4) The tank sounding log must be completed by hand and written in ink.

Bilge Sampling and OWS Performance Analysis Procedure

- 1) The Corporate Compliance Manager shall appoint a laboratory capable of carrying out the required analysis of the bilge samples.
- 2) Bilge samples shall be taken from the engine room bilges, the OWS and the bilge holding tank on an annual basis.
The samples shall be taken using the appropriate containers supplied by the appointed laboratory and preferably in the presence of the IEC Auditor where practicable.
Samples shall be taken in accordance with instructions provided by the laboratory along with the containers.
No attempt should be made to take a clean sample only.
- 3) The samples shall be forwarded directly to the laboratory appointed to carry out the analysis by the Corporate Compliance Manager.
- 4) A content analysis shall be provided to the Corporate Compliance Manager. The Corporate Compliance Manager shall arrange for the analysis to be forwarded to the makers of the specific OWS and OCM for review.
- 5) The makers shall verify the equipment's ability to process such effluents.
- 6) In the event that the maker establishes that the content of the effluents is not compatible with the OWS and OCM, the maker shall provide suggestions in order to resolve the issue.
- 7) The Corporate Compliance Manager shall assess the proposed solutions and establish a plan of action accordingly.

Operating the SWOMS (envirologger)

- 1) Each vessel covered by the terms of probation shall be fitted with a SWOMS unit.
- 2) The purpose of the SWOMS unit is to provide a verification of the OWS and incinerator operations onboard the vessel in support of the entries in the Oil Record Book Part I.
The unit records the levels of the tanks as defined by the company's Technical department and the change of state of the OWS and the incinerator.
- 3) The SWOMS system must be maintained in the "power on" position at all times.
- 4) The SWOMS system shall be maintained and inspected in accordance with the maker's instructions and the Technical department's guidelines. The relevant checklist shall be completed accordingly.
- 5) It shall be verified on a daily basis that daily e-mails are being produced and sent ashore.

IONIA MANAGEMENT S.A	Prepared by: DPA	Effective Date: 01/07/2009
Environmental Management System	Approved by: MD	Revision: 0
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- 6) The Chief Engineer shall review the SWOMS data on a weekly basis and compare it to the engine room alarms print outs, the daily tank sounding log and the Oil Record Book Part I entries. The Chief Engineer shall initial all documentation that he has reviewed.
- 7) In the event that any inconsistencies are identified, the Chief Engineer shall report the identified inconsistencies to the Corporate Compliance Manager in writing.
- 8) The Corporate Compliance Manager shall liaise with the Chief Engineer in order to investigate the cause or the source of the inconsistency.
- 9) The SWOMS data shall be reviewed on a monthly basis by the Corporate Compliance Manager and shall be compared to the engine room alarm print outs, tanking sounding logs and Oil Record Book Part I entries.
- 10) In the event that any inconsistencies are identified, the Corporate Compliance Manager shall investigate the source or the cause of the inconsistency.
- 11) Once the inconsistency has been analyzed, a plan of action shall be established in order to eliminate the root cause of the issue.
- 12) Upon completion of review of the documentation, a CD shall be prepared with the documentation as per the terms of probation and submitted to all relevant parties by the Corporate Compliance Manager. The documentation shall include any reports of identified inconsistencies and their analysis.

Comparison of Records

- 1) The Chief Engineer shall review the engine room print out on a weekly basis and shall compare the engine room alarm print out with the Oil Record Book Part I entries.
- 2) In the event that an inconsistency is identified, the Chief Engineer shall report the inconsistency to the Corporate Compliance Manager in writing.
- 3) The Corporate Compliance Manager shall liaise with the Chief Engineer in order to investigate the cause or the source of the inconsistency.
- 4) The Corporate Compliance Manager shall establish a plan of action in order to eliminate the root cause of the issue.
- 5) Upon review of the documentation, the Chief Engineer shall initial the reviewed engine room alarms print outs.
- 6) The Chief Engineer shall submit the Oil Record Book Part I entries, the daily tank sounding log, the engine room alarm print outs and the SWOMS data to the Corporate Compliance Manager on a monthly basis.
- 7) The Corporate Compliance Manager shall review the submitted documentation and ensure that there are no inconsistencies.
- 8) In the event that an inconsistency is identified, the Corporate Compliance Manager shall carry out an investigation in order to eliminate the root cause of the issue.
- 9) Upon completion of the review, the Corporate Compliance Manager shall submit the reviewed documentation and any reports of identified inconsistencies in electronic format to all parties as per the terms of probation.

Appendix D

0

Krystyna Tsochlas

From: Technical Ionia Management
Sent: Παρασκευή, 8 Ιανουαρίου 2010 3:18 μμ
To: 'M/T FIDIAS (master.fidias@telaurus.net)'; 'MASTER THEO T'
Subject: RE: (PN:214155)ENGINE ROOM ALARM PRINT OUTS

Dear All

As per our Environmental Management Manual section 13. U.S. Compliance Annex (applicable to covered vessels FIDIAS & THEO T)

13.3. Procedures for Operating the SWOMS (envirologger) paragraph 6 the C/E shall review the SWOMS data on a weekly basis and compare it to the engine room alarms print outs, the daily tank sounding log and the Oil Record Book Part I entries. The Chief Engineer shall initial all documentation that he has reviewed. That means that C/E should sign all reviewed pages, including E/R ALARMS PRINT OUTS before send them to head office.

Please confirm safe receipt, understanding and compliance.

Best Regards
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