

AMERICAN SUPERYACHT FORUM 2008
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The Industry Forum – Working in Harmony

Kirstin Huettner-Tong	Yacht Record
Mike Kelsey	Palmer Johnson
Peter Southgate	Cayman Islands Shipping Registry
Cary Wiener	Pantaenius

Chairman—Martin Redmayne

Good afternoon everyone. Tork has something to say.

Tork

I've always got something to say. Just a quick 'housekeeping', if you like. We neglected to mention what you need to log on with your laptops. For those of you who haven't actually found it, it's the VAE business centre, that's the network, and the password that you'll need is yachtreport—that was from the department of shameless self promotion!

Martin

OK. Can someone close the back doors, please. Tess, can you do that for me? Thank you.

This second session is where we get lively, because the panel will be enlightening and stimulating. Won't you, Kirstin? Right—the Industry Forum. A pet subject of mine is working in harmony—I think there's a lot of issues here that need discussing whereby the world of yacht construction, yacht operation, management etc—it's harmonisation that's key to this industry's future, where supply chains, partners, shipyards have the whole process much clearer in their focus, much more intuitive as to how they work together to make a better, more profitable business. My key word—profit. It's a fundamental of any business and the number of times we hear about companies hugely busy, hugely active, with full order books but making no money. It's an alien concept and seems to be very common in the yacht business. It's time we changed that.

OK. We'll start with our first panellist, Mike Kelsey who will do a little introduction for 5 or 10 minutes, run through the panel with Kirstin, Peter Southgate, ending with Cary and then we'll end up with an open forum discussion. Mike, please? How are you?

Mike Kelsey Palmer Johnson

I'm fine, how are you? You speak of yards being full and not making any money and I keep saying I've been to that movie, I think. But it's true.

It was interesting being here for the opening and hearing Mr Farkas talk—he said two words that could really sum up a lot of what I could talk about here today—Martin they said 5 minutes, not 10, so I'm going to watch myself. The words were *new thinking*. And there's times I feel that at just under 50 years old to be a dinosaur because really all I've ever done is be somehow married to the yacht business and in particular Palmer Johnson in my case. And I think because I was around for so many years when things were done very very differently and I think of my grandfather and father and I feel fortunate to have been around to meet Walter Huisman when I was a little boy, and the great designers. One of them I saw out there somewhere today—that weren't great, or infamous as it were, when I met them. And I feel fortunate for having been around to see so many changes happen in our industry. And yet I cannot help, as I go along with my fellow employees and friends in the industry, to also feel a little bit cursed—the good thing about being able to look back is learning to see how people did things, successful people, and what they did to become successful. The bad thing is you can't always marry yesterday's ideas to today's business. So I can't be my father, I can't do it the way he did it, or the way my grandfather did it, neither can the welders on my team, or the purchasing department or anybody else. Things have really progressed in our industry and I would say without a doubt in my lifetime I have not ever seen the industry and the size of yachts that we build which are all over 100 feet—I've never seen it like it is right now. Certainly it isn't to say that there haven't been times in the past when our company in particular was selling almost exclusively to Europe and not to America, which is the case right now, and yes, it does have to do with currency. Nobody can say that that isn't the case. But I would also argue that if it were only currency then every yard in America, every yard, and there are quite a few, would be so sold out that it would be ridiculous. So there's more to it. To my point—one of the things that I think has brought us back together have been some standardised processes and thought patterns. I remember back in 1997 we were in the process of selling a 60metre vessel and the letters MSA showed up on all our desks. Not MCA but MSA, the beginning of it all. And there were the talks of how this new safety society was going to be born across the ocean from here and there were a lot of nay sayers and people saying it's just a bunch of out of work surveyors and this thing is never going to fly. Boy were they wrong. And I remember in 2000 delivering the first medal Lloyds and MCA certified vessel in America and looking at that time and talking to the insurance industry, the finance industry, it became clear that this was going to be the way of the future. And while it was a choppy path to begin with, and it does present challenges today, it's been one of the things I think that's raised the bar for American shipyards and made it easier for us to compete with the Europeans. Again, there's more than a weak dollar at play here if you want to sell and compete. You can't give something away to someone who doesn't want it and that's something we always need to remember. It doesn't matter what the currency is, if somebody doesn't want it, or it doesn't meet their standards, you can't give it to them. Because they don't need it, frankly. There're a few things—I'm going to be talking tomorrow—that I want to save for the shipyard debate—but we do face challenges [*what was that—an interesting noise*]—the supply chain is affecting all of us and you know I was talking to a friend of mine from Trinity earlier today when I first got here and we face a lot of the same issues. Ordering gears right now—who could imagine that you need years ahead of time for some gears, just to get in line to get them for your engine? Unbelievable, the lead times that are out there. Which actually—out of every bad circumstance like this or every severe challenge becomes an opportunity, and what I think we're going to see, and I can speak for us, what we're looking at, at PJ, is we're looking of new suppliers, we're looking for the little guy out there who's looking to be the next big producer of whatever it is. And it's quite interesting but there's a lot of things going on around the world with the new world economy we see that are making available all

sorts of new avenues for companies like ours to purchase. I never would have thought 3 years ago that a Palmer Johnson would have Chinese anchor chain on it. And I might add Lloyds approved Chinese anchor chain. And it isn't just yards in America. Some well known German yards and others have looked at other avenues for supply, to try to remain competitive, and not just remain competitive in price. Today we don't—I don't think the biggest problem is what you sell the vessel for, it's when can they have it? And certainly I know for a few of us in the industry that's the biggest problem. And it doesn't matter how profitable we can be, if we can't get the parts to deliver on time they're just going to go someplace else. So this whole supply chain issue is something quite interesting. I read an article recently about tractors, of all things. And you might say what's that got to do with the marine industry? But it kept coming back to hit me. It was a story about John Deere—a real storied company in America with deep roots in Illinois, not far from where I grew up and will probably die—it's why we talk funny up north—John Deere and its loss of a certain market share and I thought my god, John Deere is the largest manufacturer of tractors in the world, but where did they lose it to? They lost it to India. Now you might say but well that's got to be just a price issue, and sorry, that's not the case. The Indians built a better small tractor for the farm industry. It worked better, it fit more, it was totally tailored to the American market. Can you believe? They're selling Indian tractors to American farmers and they're flying off the shelf, as it were. I think that in other businesses people look outside the box. The two words that Mr Farkas said earlier—new ways of thinking—definitely apply to this, and looking outside the box it's certainly been a huge wave of success for our company and I know other companies in America that were willing to look at a different way to do it and to get out there and be profitable. So that's my 5 minutes.

Martin

OK Mike, thank you. Kirstin?

Kirstin Huettner-Tong Yacht Record

My name is Kirstin Tong, I also do have an accent. I'm from Germany but I've been living in the States for 15 years so most of my work career has been in the US. I'm living in Alabama and a short time in Detroit. My education is in operations management and supply chain management and I've worked mainly for service companies providing consulting and technology services to manufacturing companies and I was mainly in the automotive industry. I've worked in the US and South America and Europe with companies like Mercedes, Honda, Cadillac and Peugeot, and about 3 years ago I got involved in the marine yachting industry. So I'm fairly new to this industry and my contributions are probably the ones of an outsider. My exposure so far has been mainly in the US. But first of all I want to say that I'm very excited to be in this industry—it's much more fun than automotive, it's a growing and challenging industry and beside the fact that it's a beautiful product it's a fun group of people to work with. I've been very impressed by the complexity of the building and managing of superyachts and how these challenges have been handled. None the less, coming into this industry I have run into two groups of people—the ones that are very open to a new set of eyes and the ones that are a little bit more hesitant. I believe the ones that are more hesitant are probably not the ones that are sitting here today. I've learned over the years that this is a case in a lot of industries—everybody seems to think they're different and their problems are unique—but in the manufacturing world probably about 80% of the problems are the same whatever you're building. Another interesting observation I have made is that there is hardly any industry information available. There is no market information, no

best practices, no standards or bench marks you get easily access to, which is the total opposite to the industry where I am coming from. But then on a positive note it seems like more and more people are trying to consolidate this. Currently what I am reading is about 12.5% of the manufacturing is in the US while 40% of the ultra high net worth are Americans, so obviously there is a huge potential for the US. There's a high demand and a low dollar here. It's a business friendly environment, it's the US after all, and plenty of opportunity for people that are going to manage the growth in the industry. I believe that the US can still learn a lot from other industries. Like Mr Farkas mentioned, there are more mature industries and market leaders such as the aviation industry, automotive industry, or real estate development. These industries are more mature and work with a lot of standards. They have standard processes, benchmarks and quality standards. There's an opportunity to work together in the US to develop a strong manufacturing base but to do that I believe information needs to be shared. It needs to be shared within the channel partners, including builders, designers, suppliers, regulators and insurance companies. But then also there's information that can be shared between competitors, and you can have builders work together with their suppliers to develop the manufacturing base. Learning from other industries, working together, can help to increase productivity, quality and the supply chain. I want to give a short example of the automotive industry. Who would have known that Alabama is one of the major manufacturing hubs in the US now? It all started about 15 years ago when Mercedes decided to open an automotive and assembly plant in Tuscaloosa, Alabama. Believe me no German had ever heard of Tuscaloosa, Alabama. Now there are 285 automotive companies in Alabama. They generated 5.2 billion in payroll last year and we have 3 manufacturing assembly plants which are Mercedes, Honda and Hyundai, the rest of them are mainly suppliers. But what happened is the car companies got together and started an association which is called The Alabama Automotive Manufacturers Association. These 3 builders got together and created a network to get companies that are working in the automotive industry to develop standards and techniques to support their build processes, develop a workforce that supports their growth in Alabama. As you can read on their website they have 3 objectives. One is to improve their automotive manufacturing processes, provide strategic direction of workforce development and conduct programmes to share knowledge on the issues impacting the automotive industry in Alabama. Besides that they started a new initiative which is called Amina, which is mainly for suppliers, and they're helping the suppliers to become leaner on prices, meet industry requirements for quality, cost, delivery, management and continuous improvement. The point I'm trying to make is, I think the US superyacht industry has a huge opportunity to work together and develop a stronger manufacturing base in the US. As Mike has mentioned, and at other conferences, and Mr Farkas before said, there's a huge opportunity to do that in the US especially with a low dollar value. It's a big country, there are a lot of companies here. And if everybody gets together and establishes standards I believe there's a huge potential to improve the US market.

Martin

Kirstin, thank you. Peter Southgate please?

Peter Southgate

Cayman Islands Shipping Registry

Hi, thank you Martin. So when Martin asked me to participate in this panel—I don't know if you all spotted, I'm from the Cayman Islands, well I'm from the UK so I have an accent as well. You know, I'm not from the USA. But having said that, when I thought about the context of this session, it made me think about how important regulators in general and the regulatory framework is, in developing the industry in

the US but also globally. Which is obviously—I managed to pull a couple of lines from the synopsis there. The way I look at this is, the way that we've come, where we've come from. Mike mentioned the MSA in the early days and of course we had the MCA and Cayman Islands have adopted the MCA Large Yacht Code and the code has rapidly become the de facto standard for construction of large commercial yachts. But in the early days there was a lack of regulation, a lack of consistency, in the standards of construction and I think what the code has done is brought to an extent a level of consistency so that all players can compete on a level playing field. It's probably not there yet, but it's certainly heading in that direction. The revision in the code that we see now, LY2, and we're probably going to have LY2 Revision 3 in the future, we're trying to ensure that when a vessel is built in Europe, or a vessel is built in the US, that they're only competing—the technical standards they've been built to, as we were saying, they're competing on dollar value at the end of the day and it becomes a level playing field. So in essence what I'm trying to get at is that regulators obviously are key players in developing the market. And one of the key areas that we see particularly at the Cayman Islands Shipping Registry as key to that is ensuring consistency in interpretations—and hitting on an issue that Kirstin mentioned is sharing information, making sure that the same interpretations are available across the board. Now this is a constant issue and many many projects that I've attended, one of the big repetitive issues was consistency of interpretations. And we're often confronted with the age old question—how come that yard is allowed to do this, how come that yard is allowed to get away with that and what we've got to try and do as an industry is eliminate that. Because it doesn't help anybody.

Martin

Peter, is that realistic?

Peter

I think to an extent. I don't think you'll ever—I mean at the end of the day I won't use Mike's phrase of *out of work surveyors*—but we are human beings and human beings are fallible. So I think we have to take that into account. But the industry does work together—we work well with our counterparts in the UK, we work well with class societies, and we do share information, we do get together and we do try and develop consistent—

Tork

Just to let you off the hook for a second—curiously enough Martin and I were writing the same point, which was the eternal question of when are we going to share class interpretations. And I think at almost every conference we've raised that topic and it's never happened. I mean how hard can it be? Since you're not class—

Peter

Perhaps I'll come onto that later. Perhaps I can finish what I was going to say while I'm on the throw. But you're right. And I think one of the things that we're striving to do particularly—I'm not plugging the Cayman Islands, but we are trying to develop consistent interpretations and make sure that—we have an internal policy group, for example, between our European office and our Cayman Islands office. And we discuss detailed technical issues that a particular shipyard has raised so one of the targets if you like is sharing information between not only ourselves but also to make sure that the shipyards all know what they can and what they can't do. What is

allowable, how the code can be stretched. But a key factor in that is a step change in the way that regulators work. Now I've said this on many occasions and in the old days the regulatory stance was—*The answer is no. What's the question?*—We're now very much the opposite. We can now deal with most issues and if a shipyard is prepared, or it doesn't have to be a shipyard, a designer, it's incumbent on us to ensure that we share this information with designers, owners, builders, industry wide. And we have to be able to listen to the owners' aspirations, we have to listen to the designers' requirements and we have to try and make it work as an industry. And I think I would hope to say that the ship builders in the audience would agree that we've come a long way from the early days in pushing that forward. Ultimately what we're trying to do is develop—again, this is in an ideal world—a uniform, consistent approach to yacht regulations. And I'm not just talking about the hardware. I'm talking about the crewing, because I was at the GSF last year and I listened to Steven Rattner's comments and it did strike a chord with me in perhaps the regard that the regulatory framework was held in by say the owners. And I would like to spend some time in dispelling that myth, because I think if we eliminate these concerns, if owners don't come into the business then the business isn't going to grow. And if we put barriers in the way of owners coming into the business—and I don't want to see as a regulator and personally as an industry professional for many years, I don't want to see barriers to new owners coming into the business. And I think regulators—I keep using that word—can go a long way to help that process. And ultimately with a high degree of cooperation between the various players I think we can stimulate the growth and level the playing field worldwide and I think that will promote the industry in the best way. Thank you.

Martin

Peter, thank you. Cary?

Cary Wiener Pantaenius

I also have an accent—I'm from New York! I started out my career as an insurance broker, brokering Blue Water Marine, then spent 27 years as a litigator solely focussed on the marine industry representing owners and underwriters and their ins and outs of court. And recently I've become the President of Pantaenius America. When I was asked to speak I was excited, I thought I'd be paid by the word, then I was told I would not be, so my remarks are rather concise. The majority of the insurance industry has not kept pace with the truly international aspects of the yachting industry. This is especially true in the American market. We need to view the insurance industry in the US against the legal backdrop that regulates the industry here. Unlike the insurance industry in Europe, where the EU has started to create European based insurance regulations, to create uniformity, the US has not united as far as insurance goes. Each state has the power to regulate the insurance industry within its borders and will often try to regulate insurance affecting residents in their states, even when the property or the yacht being insured is outside the state. By way of example, if an individual is a resident in Florida and his or her yacht is registered off shore and will be used off shore, Florida insurance regulators would argue that the insurance should be placed with an insurance company licensed to do business in Florida. This limits the access to more competitive markets that may provide broader coverage and so in America when it comes to insurance instead of having a united country we have 50 different insurance fiefdoms. Hindering the yacht insurance industry in the US is the way underwriters have traditionally viewed this type of insurance. Instead of seeing yacht insurance as an adjunct to traditional commercial marine lines, yacht insurance has been relegated to the personal lines

departments, which handle home owners and automobile insurance. This attitude reinforces the provincial state by state attitude, rather than fostering an international way of thinking. Some underwriters require that the yacht owner must also give the underwriter their home owners and automobile insurance. This hinders the growth of the yacht insurance as a stand alone product, strengthening the local viewpoint rather than the global view. Unlike commercial lines of insurance where global thinking is now commonplace, the US underwriters who handle yacht insurance have a local concept of the world as it is today. Most underwriters are unwilling to write a risk for yachts circumnavigating the globe. Most underwriters are easily put off by the fact that a beneficial owner is domiciled in one country, resides in another, has a vessel registered in a third and is navigating in the waters of a fourth country. This resistance is based on a lack of familiarity with the industry rather than actual risk analysis. Many underwriters do not have the knowledge or capacity to assist yachters worldwide and to provide the assistance that yachters should be able to expect from their insurers. The industry is so local thinking that underwriters fail to understand why hull values need to be increased merely because of the US dollar devaluation. The dollar has been devalued by 60% since 2001. This means that if a foreign built yacht was purchased 4 years ago for \$3million and insured for \$3million, the owner would have a difficult time replacing the yacht if there was a total loss. Because of the devaluation, the owner would only be able to replace 2/3 of the yacht. Many underwriters in the current American market are not familiar with European produced yachts and therefore are not familiar with current market prices. Owners must find yachts on the market similar to the ones they already own in order to prove current values to the underwriters. Even if an owner does this, some underwriters will still not understand or acknowledge the issue of the dollar devaluation. That's because the underwriters are often afraid that the owner is over-inflating the value in an attempt to commit fraud. The problem of dollar devaluation and total loss is obvious, but dollar devaluation also affects the price of foreign replacement parts, even on US built yachts. Owners must make sure that their insured hull values have kept abreast with the dollar devaluation. If insuring a yacht for the first time, owners should be aware that some more progressive underwriters allow owners to insure their vessels in dollars, pounds or euros. This gives an owner a fighting chance to make sure that devaluation is not eating away at their insurance policy. Today yachting is truly international and the insurance industry must grow to reflect the global nature of the yachting industry. Yachting shrinks the world, yet many in the industry still think the world is flat.

Martin

Cary, thank you very much indeed. Right can I have a little light so I can see the audience please. Tork has an email first of all, and then Eric is going to jump in. Where's Tess? Can you come down and see Eric again please?

Tork

Talking of regulation, in fact the email goes to regulation and setting standards for the industry. It perhaps rather cruelly says—Yes, it can be consistent, at the lowest common denominator of standard. To put it slightly less cruelly though, I mean, MCA and class are creating a minimum standard, that has always been said. We should be aspiring to go beyond that. So while regulators give us a framework from which to start, it's not the end because it's just the basis.

Peter

I think it's important to remember that regulation—we had this discussion earlier—that a large percentage of yachts that are built to the code standard are not engaging in trade, they're not there for chartering. A very small proportion of yachts actually charter. And I think what that means is, these vessels are being built to a voluntary compliance standard. Now the question is, do we want to go further, do we want to go beyond that? We as regulators have set on a standard that we're satisfied that a commercial charter yacht can achieve and would be able to safely operate. Now if the industry is looking for regulation for its own purposes, i.e. for peace of mind, for resale, for insurance, whatever, if the industry wants to drive the standards up then yes we can look at that. But it's a difficult position. The regulators are caught between a rock and a hard place—if we want to start bringing the standards up ourselves we get criticised. So I think it's a difficult issue.

Tork

But at the same time there are aspects of the large yacht code which make recommendations which are clearly recommendations, not requirements. So there is some kind of possibility to use that, where you can make your recommendations, even if you don't necessarily make it a requirement.

Peter

Absolutely. But I think the problem with recommendations is they are just that and they're unenforceable and I think if you're trying to make an industry consistent, if some builders or some designers or owners are abiding by the recommendations and some others are not then you are creating inconsistencies again.

Martin

Cary please?

Cary

I think the problem historically with the maritime industry is that the industry has not self regulated itself and so regulations have come into play when there seems to be a failure or a void created, and it's incumbent upon the members of the industry to try to self regulate themselves and avoid regulations and that's been the downfall of the maritime industry. And so it's always been some type of noted failure and then some type of regulations are imposed. There are other industries in this world where the regulations are less obvious because the industry itself is policing itself.

Mike

If I could just say as a builder too, the lowest common denominator—I don't know where that comes from. I can say that any of us that build boats to class which is just about all of us now are not in a position where we're doing it to the lowest common denominator. Indeed the owners are starting to say how much more room do I have to give you so you can have this box built around my stateroom? I mean it isn't just what the builders want, it isn't just what Peter's society wants, and I will say you know as a builder at first hand I watched windows explode because we have to do tests to prove that they're going to be able to take a wave that's going to actually barrel roll a yacht. And to those of you that have never seen those kind of tests which we have to do right in our shipyard this isn't a joke. This isn't some slap on the butt and a signed piece of paper and off you go, here's \$100grand. I mean just the test equipment

alone that we've got to put up to test these things—my god, people used to do trans pack races and I think back to being on boats and being on the ocean far far away from home at the bottom of the world or anywhere and what we had for safety and what we have today—my god in heaven are these things safer. There is no question. And let's not forget—some of this is also driven by litigators because of the price if something happens. I'm not talking about a fatality, I'm talking about somebody losing the tip of their pinkie—maybe even because they did something wrong—and all of the requirements come on top of that. I mean it doesn't put anybody in a good position. So I would argue that whoever sent the anonymous email, lowest common denominator —no no.

Tork

I think that on the other hand class and regulators give you a minimum standard? And most yards that I know are trying to go beyond that basis and that may be the sense in which they mean the lowest common denominator. It's where you start from, but you'll probably build it—and not just in safety, but in other aspects of manufacturing—that you're trying to do better than the baseline, not just safety, but in quality terms and quality assurance and so forth.

Mike

But what is the baseline?

Tork

Good question.

Kirstin

If I can say something about this— I think there is a difference between safety requirements that are standards that need to be regulated but then there are certain quality standards that probably evolve out of an industry. Like in automotive, nobody tells Toyota to build a better car than a GM, they just do it and they're establishing a benchmark or best practices by doing this. And it's up to the competitors to either meet it or not, and if they don't meet it they might not buy that car anymore. They'll buy rather a Toyota. So not all these things need to be regulated.

Clive

I want to hook up to something Peter said and ask a rather dangerous question and I'll ask it as a non sequitur and then wait for the tons of bricks to come down on me in the bar later. Is an owner or a crew member or the owner's family any less dead if they are a private operation rather than a charter operation?

Peter

Thank you Clive. I guess this one's for me. If you think about the origins of the code and it actually leads on quite nicely to a point I was going to make on the back of that last issue. The code was originally introduced to protect the man in the street who pays his money and goes on board a vessel and expects a level of safety, as you would do on a passenger ship, as you would step into a taxi on the side of the road. You expect that taxi driver to be licensed, you expect that car to be certificated. The same goes for yachts and the code was introduced for that purpose. There's always

been an adage that a man can set out to sea in whatever vessel he likes—I mean a man can go to sea in his bathtub if he wants—if he wants to take that risk on his head. He wouldn't get insurance but he could do it. And I think the way that the regulation has developed within the yachting industry has been industry led. So I mean in answer to your question, no, they're equally as dead but you are free as a person as long as you don't put others' lives at risk, you are free to put yourself at risk unfortunately whether you agree with that or not and certainly my experience of regulation in the UK when they tried to introduce regulations for purely pleasure yachts it was resisted all the way because people were saying well this is beyond what the regulation is for. The regulation is to protect the conventional charterer in the usual sense and so if you want us to start looking at pleasure yachts then it'll be an industry driven standard I'm afraid.

Tork

Before you start Eric, you might add a point to that which is that on a private vessel if you do get into a liability issue you're going to find it very difficult to argue why you weren't complying with industry best practice, if LY2 is best practice.

Eric Goldring Goldring and Goldring

Well actually I'll make a comment on this issue and then the other one, which I think actually ties in. What you have are competing interests. As a yacht owner you've got, for example, on the insurance side, it's a pleasure craft, don't regulate me, don't charge me premiums as a commercial vessel. So now I'm in with the home owner's insurance. Then you want to charter your boat. Or take somebody else out on it, and now—well, I still don't want to be commercial, but I can get an exception to being a commercial but be a pleasure yacht for charter. Then you've got the commercially registered yachts. And what happens is it becomes disjointed and segmented and then what regulation goes to what? I personally think that in some instances there are far too many regulations or regulations that don't deal with practicalities, but that's a different issue than the one here. But the points I just made fall into what I think is the overall scope of this session, which is working in harmony. There was discussion about the auto industry, for example and someone else mentioned trying to get gears. Well I just brought down some thoughts and I'd like to get your perspectives on it. In the yacht—we call it industry, but I don't know that it really is an industry yet—the reality of it is that we can't get the supply because our demand is insufficient to pressure the increase in supplies, and is that caused by a disjointed design concept, in other words everybody wants to be unique, everybody wants to have something better so how can you pressure a supply when you want a one off, or a ten off, but not 200,000 off of something. Then that falls into why we become secondary on engines and gears and whatever because you've got oil, mining, farming, heavy trucks, all want the same thing that we want except that they want more of them so we wind up with more delays. That then trickles down to the shipyards who are trying to make a profit. Now they've got to pay a premium to these chief suppliers, and it's starting to happen already and I would like to know if everybody else is seeing this—the sub contractors in this economy, especially in the US, are starting to fail because they're working on razor thin margins. They can't make it, that's starting to put pressure on the contractors who—I don't know if they're failing yet but are getting real tight—and that then is going to create another problem for the shipyards themselves and eventually the owners. Mike, you look as if you want to jump in on that?

Mike

I'm following what you're saying closely because it depends. If you're building a bespoke product, and it does change every single time you build it, that confuses the hell out of your distributor. Your distributor comes to you and says what's your forecast for the next 3 years? Of course he's asking that because he wants to know what his business is going to be like but he also wants to know for reasons just such as this. I mean I'm a suspicious person in the position I'm in because of course I think somebody is always trying to tell me they're going to run out of this they're going to run out of that. I've become a real believer with this supply issue that's out there right now. I think that you do need to standardise as much as you can—we use a couple of different engines and we use a couple of different kinds of gears doing what we do at Palmer Johnson and our suppliers come to us whether it's twin disk for gears who, believe me, they've got the same problem that ZF has in delivering them—they come to us—the distributor does and says look, tell me how many you need and I'll buy them. I'll keep them in stock. These are expensive items by the way. And I'll keep them in stock, the supplier says. So that when you need them or god forbid you throw a curve ball at us in your production line, which happens a lot in the boat business—they've got a set there and you can't not build the boat for the next 12 months because there isn't a set of gears available. The engines—you're right, the off road is always going to be a much bigger industry for Caterpillar, for MTU, but there are some very notable things happening. I've just met with the key figures in both those companies and Caterpillar, the company that advertises—I mean it's great for their stockholders but they amortise every last penny they can out of their engines before they deliver a new one—they're actually coming up with some real competing product in the high performance line specifically for the marine industry. And that's exciting to hear, because that means that there is a demand that's big enough that they need to start answering to it.

Eric

I'm just curious. Have they given you a delivery time?

Mike

Yes they have. We could even be a test guinea pig.

Eric

From experience, don't do it.

Kirstin

I have a couple of comments to that. I mean obviously what you were describing is a current situation in this industry—if it's an industry or not—but two things I want to mention which kind of go exactly in line with what Mike was saying. One is the word pressure and the other one is information. Like—it's not necessarily the best approach to pressure somebody into working with you. You know the automotive industry used to do that as well, there was the purchasing approach of GM where they went around and beat everybody up for the last penny and to get everything as cheap as possible, which destroyed the whole GM supply chain. So now the companies that are successful, like Toyota and BMW for example, they have very tight relationships with their suppliers. They work with their suppliers. The last thing they need is that their suppliers are going down, because they couldn't put the car together if a piece doesn't show up. So I believe if this industry moves to the next

stage and starts sharing information with their suppliers, what they're planning to build, when they're building it and how much they're going to buy, then they will get more respect from the suppliers accordingly. As long as they make money with it, they will be willing to sell you gears.

Tork

But there still is a tendency, especially at the custom end of the yacht market, to be able to use a supplier up and throw them away. It does happen still, and I can think of at least one company that went out of business as a sub contractor recently, and this is not in the 60-100 foot end of the market where OK, you can understand it. This is in the large custom yacht market and they were just eaten up and spat out.

Kirstin

I mean there's no doubt that happens in the automotive as well—the guys are so big and they have deep pockets and you as a supplier you don't. I've been in the consulting business with automotive before and I was a little tiny fish and if they decided they were not going to pay me for a year they could have killed my company. So money is definitely one of the shortages out there but I guess the shipyards will learn that once they treat their suppliers accordingly they're not going to have a strong supply chain down the road.

Martin

Sam please.

Sam

Yes, I just wanted to follow up on the comments that Kirstin made regarding benchmarking and standards. I think that until the industry decides that that's something we want to do it's going to be very difficult for the industry to grow. There is the financing community, everybody that helps the industry needs to understand it. And there is a complete lack of any benchmarking information, best management practices or anything else that you can go by when you're in the industry itself. I don't know if that's because all of us don't share information, or if it's a culture. I'm not sure why it is, I can just tell you that it is. And it is unusual. It's unusual not to be able to find a best management practice. It's unusual not to be able to find a benchmark so that you can compare yourself and you could have continuous improvement. It's difficult to have continuous improvement if you don't know what you're benchmarking or measuring against. And that's been something that's been difficult for us—we've had to develop our own set of standards, best management practices, in order for us to have continuous improvement within ourselves but we've had a difficulty in being able to have those best management practices measured against the industry itself. I'm wondering whether anybody wants to comment on that.

Mike

You'd never know I was a broker in another life. You know, there are two builders in the room that I know of right now. My friends down the street at Burger are here and Trinity is here. I have been in the Burger yard, invited by the owner of Burger, taken through by the president of Burger, Trinity many times offered to take me through their yard. I'm friends with the owners, I'm friends with a lot of the employees there. I think that the US boat building industry is really getting unfair coverage. And I thought about the labelling that we don't communicate is highly unfair. I've got a picture on

my cellphone in my pocket right now of a stack of lumber at Burger Boat and where they bought it from because I was so impressed with it. He let me take the picture. I mean I can tell you of the days when the Burger truck used to pull into Palmer Johnson to pick up plate if we had extra plate and they needed it. I think it's unfair that American shipyards are constantly told that we do not cooperate, because we talk to each other all the time. Whether it's Felix calling me, Howard Meyers, Jim Ruffolo, it doesn't matter. We talk. I just met with a new upstart North West yard and talked about some of the issues. And I think it's kind of quietly gone on. We just never had a big segment inside the Fort Lauderdale Boat Show that said Dutch yacht building consortium with the Heineken taps going. I think we do talk to each other more than people think we do and I think it's just maybe how we communicate at large that makes it look like we don't.

Tork

Actually to be honest Mike I think the impression of lack of communication is probably more so in Europe than it is in America.

Mike

It may be. All I can say is I've never found a time where the other yards in America have not been willing to share information.

Martin

But perhaps it's not yard talking to yard, it's yard talking to supply chain. And harmonising that process.

Mike

But the suppliers are telling you what the builders are all ordering anyway. They all talk to you.

Martin

A question from Steve, Lisa, and some hands coming up.

Steve Jackson Electrowave USA

I'm relatively new to this industry but I'm somewhat like Kirstin, I have 35 years of background in the car business and a few years background as a yacht broker, and on the regulatory questions, and I'm not proposing you all should know about but I think it's quite important. It's no advantage to any of us to have accidents or people get hurt or anything of that sort. It affects the charter industry and everything else. And minimum regulations of some sort I'm sure are necessary. As we look back on what could happen, I mean I appreciate Mike saying that everyone is really talking to each other, I think there is a real *esprit de corps* amongst the yacht builders around the United States for the most part. But unlike some of what has been brought up—if you're in a lower quality automobile going down the road and you have a complete failure of some component or a hole gets hooked in the bottom, or whatever it might be, you simply pull over to the side and call for help and you can walk home if you have to. We all know that's not the case in a yacht so the regulatory piece of it has to be there I'm sure, and whether you standardise it or not that's the huge question, as you've already said. Anyone want to comment on that?

Mike

You cannot get food if you're of the Jewish persuasion and you're going to eat kosher food or you're going to eat glatt kosher food. If we're buying engines as a boat builder are we buying type accepted engines and gears or are we full Maltese Cross, where they need to be there for the whole process as they're built, much like glatt kosher food. I believe as a boat builder there are certain basic principles that need to be there in the yacht, the vehicle, as it were. Because as you say, it can't just pull over to the side of the road and god forbid maybe you can't even launch your tender. But you know obviously it starts at the simplest of things. How does it float, where is the ingress and egress of water. Are the engines a known engine—if they're type accepted that's a good thing because that means—most engines are type accepted now just because of the amount of business. But there's some basic fundamentals, that was a short list—that is why I say we have come such a long way in the industry as far as safety goes and you I'm sure would agree that you could govern it and govern it and govern it like a lot of things are happening in this country and it starts—it's like reading your telephone bill. Back when the phone was invented can you imagine even 30 years ago when I was getting my own phone bills, how simple they looked. Now govern it, govern it. You don't use that phone anymore. You get a cellphone because you can't read your own home phone bill. We could govern this thing to death I believe but the bottom line is the boats have gotten safer safer safer, there's no doubt about it, and I think that's a good thing. But those fundamentals have to be followed, whether or not somebody wants to put their boat in charter or not. There are certain things that need to be followed for the good of everybody involved.

Peter

Can I just come in? I think it's an illustration that so many yachts now—we talk about the code, and so many yachts where the owners have no intention of chartering for which the code is required and are still being built to the code standard. So I think that's an indication of how important safety is regarded in this industry. It's not left to the regulators to mandate as we would do in the commercial world. It's being driven by the industry and one thing I did want to add is that the modern regulatory stance is—Mike mentioned windows testing—a lot of the standards reflected in the large yacht code have been developed with the assistance of the industry, so I think that's an important thing to remember—we are trying to reflect best industry practice in the development of the standards, rather than trying to write the standards and then make the industry fit to our standards. We're trying to get the industry to develop what they consider to be good industry practice and then we verify it and satisfy ourselves that that is actually what is the safest.

Martin

Tom please—a gear manufacturer.

Tom Katica ZF Marine

Just a comment on the supply and long lead times at least from the gear side. We are required as account managers to know what our customers are going to do and we have to provide forecasts simply for the purchasing of raw materials. We touched on this in New Orleans, and I think Trinity actually changed the way the time line they use to build their vessels simply because it was becoming so much more difficult to get shafting material—are you seeing the same thing, Mike?

Mike

We put the gears in the boat way before—we order the gears ahead of the engines and the gears are in the boat way before the engines even get to the yard, yes.

Tom

How about shafting?

Mike

Yes. Same thing.

Tom

What happens is, if we have the raw materials available we can build a gearbox and deliver it in a reasonable amount of time, say 4 or 5 months. But if we don't have that raw materials then we're behind the 8 ball and it could be up to a year.

Mike

The problem is, and you know because we bought them from you, if a shaft shows up at our yard damaged for a boat that's got to go on the water imminently, what do you do?

Tom

You're toast.

Mike

That's right.

Tom

But it's raw materials. And the competition for raw materials is driving this delivery lead time.

Mike

I don't think it's because the suppliers are slow to put it out, it's quite evident that everybody is running at capacity. That's one of the things I was going to say for the shipyard debate. But I mean it's off the rails right now. You can't get refrigerators as fast as you want them. It's crazy.

Jim Berulis Trinity Yachts

Actually the things I heard were related to that. Number one, and this is really for tomorrow's talk, but in fact there is almost nothing that I get or want from a sub contractor or supplier that I can get fast enough. I can't find enough qualified sub contractors to do the work that I have under contract. I spend half my time flying around the world looking for, or nurturing sub contractors that we do have. I have exactly the same problems that other shipyards in the US do. I think the perception that shipyards aren't cooperating is false. I think that maybe a lot of the people don't

appreciate the difficulties the shipyards are having these days. It's a wonderful thing to say my order book is full. But to try and make sure that I deliver that order book on time is becoming increasingly difficult.

Tork

If the supply of sub contractors is so critical, does that suggest that bringing more work in house long term may be the answer if the growth is as likely to sustain as everyone thinks it is?

Mike

It's a combination. You have to bring the work inhouse because you can't get it elsewhere. I mean on all sub contractor bases you're looking for what's your solution. We're doing things inhouse now that we didn't think we'd do inhouse last year.

Tork

That's what I'm driving at. Because I mean if you're both looking for one particular skilled person and you can both keep him occupied perhaps it's a question of missing out the middle man and hiring the skilled person to do it for you as a salaried employee.

Mike

And to some extent we do that. But in fact if we did that to the end result then we'd drive all the sub contractors out of business. There's a balance. And in fact a single skilled craftsman is easy to find. What's not easy to find is the guy to manage that craftsman. And that's really the bigger problem.

Martin

Yes, thank you in the middle ?

Ian Bowles FarSounder

I guess my question is for Peter. Just trying to understand the difference between say a yacht that's built to code—and I'm a kind of supporter of that— versus a commercial vessel. Where does port state control come into it if at all and if a commercial vessel was out of its code if you like, it would be susceptible to port state control and perhaps put on hold. Do these vessels that are on voluntary code kind of put themselves on voluntary hold or if it's a Cayman Islands registered vessel do you have any influence or authority to put these voluntary vessels on hold yourselves?

Peter

I think the issue is, I mean a vessel that is built voluntarily to the code generally is fully compliant. We're not talking about a letter of compliance. We're talking about a vessel that is actually certificated in accordance with the code. Now the issue of port state control is related to the implementation of international regulations. And consequently a pleasure yacht, or under Cayman law, a pleasure vessel, is not subject to conventions therefore a pleasure yacht going into—whether it's voluntarily compliant or not—a foreign port, i.e. foreign to its flag, is not subject to port state control other than MARPOL is probably more likely to be the case. But I'm not sure I

fully understand the question. But in essence, a vessel that is voluntary compliant—as far as we're concerned if you want to maintain that certificate it's treated as if it was a commercial vessel except obviously we accept that the vessel is not actually going to be operated in the commercial sense. But to a port state inspector it would appear no different. And that sometimes does cause an issue. So I don't know if I've answered your question there or whether I've missed it.

Ian

I think so. I mean it seems to me that the MCA code follows very closely international regulations, so any yacht built to say the MCA code is built to an almost IMO standard. So it's voluntarily maintaining that standard. But who's keeping an eye on it? It's built to that code and then I mean—I guess these vessels are all very well maintained and we have a lot of trust that they will maintain them—so they're built to that code initially, is it just an annual survey and then every year they fix it, or are there any spot checks, things like that?

Peter

Well in order to maintain the validity of the certificate—I mean if you're having a vessel built to code for resale value, for example, or for your own peace of mind, if you're taking your friends and family out, to maintain the validity of that certificate you have to have annual surveys, so it's not just a one off—you leave the shipyard with your shiny certificate and then it stays that forever. It doesn't work that way. And if you don't have your annual surveys then the certificate becomes invalid, it just lapses. So I think you know it's important that if you're going to go to the trouble of building to the code standard to maintain that and get the full benefit out of it. But in answer to your question—the large yacht code has been submitted to IMO as an equivalent standard so it is recognised. The simple fact of the matter is there's a lot of commercial ships out there that are worthy of port state control and yachting is generally a safe industry. Although port state control does happen on yachts and we have had full port state control inspections on yachts it's fairly infrequent because it's generally a safe industry and there are a lot of other let's say more deserving commercial ships that need port state control.

Tork

Peter, is it true to say that generally certainly with newbuilds of large yachts, code compliance is a pretty easy sell? I mean selling the owner on the idea of doing something that makes his yacht safe for himself and his family is not generally harshly opposed is it? In comparison let's say to a bulk ship or a box ship.

Peter

I mean in the commercial sense you don't have a choice. If you operate commercially, and the same goes for yachts, a yacht operating commercially has to comply with the regulations. One of the differences between yachting and the commercial world is we're seeing—I guess if a commercial vessel didn't have to comply with standards it probably wouldn't, whereas in the yachting sense—

Tork

But their function is to make profit and it's not unheard of that a shipowner may try to shave corners a bit and need to be port state controlled. That's a less common phenomenon in yachting, I think.

Peter

Absolutely, I would agree with that.

Martin

Yes, thank you, Eugene Sweeney.

Eugene Sweeney Marshall Islands

Thank you. I'm with the Marshall Islands Yacht Registry. I just wanted to I guess supplement some of the comments that were made particularly from Peter's side. Do not lose sight of the fact that any commercial yacht over 500 tons is a cargo ship in the eyes of SOLAS. Every yacht over 500 tons and every yacht over 400 tons must comply with MARPOL on the 400 ton and SOLAS on a 500 ton and they are required to have certificates to comply with probably 8-10 different conventions today, and there's more on the horizon. The sewerage is going into effect in September of this year, you must now have a sewerage certificate if you're over 400 tons under MARPOL. So what we are doing in the Marshall Islands and what Peter is doing in the Cayman Islands with the code, is doing an interpretation of SOLAS requirements for this peculiar animal called a yacht, that cannot comply fully with all the IMO regulations or the SOLAS regulations that come down on cargo ships, but a commercial yacht over 500 tons is a cargo ship and class and everyone else are doing everything they can to make these as safe as possible. So don't think the code is just something that is voluntary or nice to have. These are cargo ships and to answer the question that was raised earlier on port state control, flag does have the right, and we exercise it quite frequently, to detain a vessel that falls under sub scrutiny by port state control. We can have a flag state detention on it, sometimes we slap a flag state detention on a vessel before the port state can do it. That way you play some little games with the Tokyo and the Paris MOU. But flag does have the right to detain their flag vessel in a port state control jurisdiction. Thank you.

Martin

Gene thank you. I'm going to ask Kirstin to do the wrap up comment. OK Kirstin, I'm sorry to do this. But based on your experience in automotive, what do you see as the key issue that needs to change in the yacht business from a harmonisation point of view?

Kirstin

How many minutes do I have? That's a difficult question. I think there are opportunities. I don't want to come across as that everything has been going wrong here, obviously it's not. I do believe information is very important, information in a lot of different aspects. Information about to share with your supply chain in terms of what you have in the pipeline, what you want to build, and if you have information to share with your suppliers then they can plan ahead what will be built. They do in automotive, they get annual programmes, forecasts are being sent out to suppliers, they get monthly updates, weekly updates, daily updates and hourly updates. That's maybe a little excessive but you know to do certain things of that. I do believe that there's an opportunity to work together to build out the supply chain, obviously the

supply chain is a big issue. And get into training. And I believe also there, I cannot believe that there is such a demand for a lot of these parts and nobody really wants to take this business. So maybe people don't really know about that there's a business opportunity that can be bigger than just one on sea and one is there. So if there is the information available for the market or a potential supplier that he could make a profitable business out of this then he would provide that service. So to leave some for tomorrow for the shipyard debate, at this point I would probably want to say that information sharing standardisation benchmarks along those lines is very important.

Martin

Thank you. Yes, you have a question John?

[From the floor]

I just wanted to make a comment —I didn't quite want to let Peter get away completely with the idea that it's such an entirely easy sell to sell MCA and class requirements. Certainly on vessels between 95-140 feet it takes a lot of education to the buyers and to the captains to convince them it's a worthwhile investment to put these regulations in place and carry them on. Because they're not just paying for them with the first initial bill, but the service every year for maybe 10 years until they sell the boat, or 5 years depending on when the boat's being turned over. I think it's an extremely necessary sell but I won't say it's an easy sell.

Martin

But you're a brilliant salesman John, surely?

Tork

But John is it any harder than selling them on the fact that they have to comply in their private jet?

[From the floor]

No it's very difficult. They understand aviation because it's so highly regulated. And it is one of the cross plays that you use. But when you have a client on a smaller boat especially where the class costs are a higher percentage of the overall value of the vessel than on a 50-60 metre boat, it is a much harder sell. I must say it's become easier with time but it is something that has to be well presented and I encourage all the brokers who are involved with new construction to push it for sure. But it isn't a simple sell, it doesn't just roll right in. It has to be presented properly and logically. I'd just make one comment about that email about the lowest common denominator. I received something like that a few years ago regarding class and why bother to build to it. What people always forget is these regulations have been developed over time with great care, with great safety and a lot of testing. So the requirements for steel plating, safety, whatever it might be, aren't a minimum standard. They're a standard that was developed scientifically, checked in practice, and proven over years. Yes, all the shipyards try to build above those standards but when you do build to standard you know you're getting something that's proven, and that's part of what that sell is.

Mike

I just want to comment on the hard sell part. Seriously I can't sell a boat if it's not built to class—there isn't a broker in the industry that isn't going to say it's got to be. I mean we just made a decision that if we're going to build any boat it's got to be built to class.

[From the floor]

Well the company I'm working with made that decision 5 years ago but I still get clients who say do I need it? Do I need to keep it in class? Do I need to pay for this. Is it necessary? And on the bigger boats I agree with you. But on a lot of the other boats they look at that and say is this a necessary expense?

Mike

Well for 8 years that's it. I mean if we're going to build it then that's what we're going to do, because it's too hard to make the excuse not to for us.

[From the floor]

Well I would expect with Palmer Johnson's record and abilities that you wouldn't build anything other than wasn't class. I mean you're a standard setter, and you should be.

Martin

Aahhh

Mike

I'm not disagreeing with you. I was just wondering — in a roomful of—

Tork

How much did you pay him for that?

Martin

Peter, one last comment.

Peter

Yes I just want to make a last comment because I don't want to finish this session—I think there's been too much emphasis on the code and class being a minimum standard. It certainly isn't, I think it's a very achievable standard, it has been submitted to IMO and is recognised as an equivalent to the international regulations in a yacht specific way so I don't want to leave this session thinking that the standard is just a minimum.

Martin

OK Mike. One last comment from me then—have the standards made you more profitable?

Mike

No. But, and that's just being honest, would I build a boat now that wasn't a class—absolutely not. But it costs money to do it, and why it costs money is the materials. We all know for a fact that when this world is rediscovered like ancient Egypt was, they're going to find cockroaches, some beer cans and CPVC pipe. But a class boat can't have so much of the CPVC pipe and I guess my point is, there are things you could do that would make it easier and probably just a wonderfully safe boat if it weren't to class—depending on the yard, mind you. We find that it's much easier to just do this and we pass the cost along.

Martin

Has it made you more efficient?

Mike

Well, oh yes. Absolutely, because we know that every boat is right and it makes them more efficient so we beat them down on the price how much they charge us for the classification because we say we're going to keep giving you the same boat so why should we pay you like it's a different animal.

Martin

Cary, one quick question.

Cary

I just want to point out that minimum standard concept came out of the courts where owners or builders have said well we met the standards but it was a court doctrine, the judges saying no no this is only a minimum standard. So the whole concept of minimum standard, that's a court judicially driven concept.

Martin

Thanks Cary. Final final comment please. Thank you Andy, that's perfect!

Andy Stewart

Is that long enough? We're a supplier and sub contractor, which is one thing I want to say! But the other thing is SYBAss which I believe somewhere along the line is going to set some sort of best industry practice for sub contractors and suppliers, I don't know where that is or whether Martin can—but a lot of American yards are members of that association but as a sub contractor we would relish the opportunity to be qualified for that sort of thing so that we could stand above the rest, but until the industry decides that there is a certification we can get it's very difficult for us to join you on that. I don't know if anybody has anything to say about that?

Martin

We've got a shipyard here who doesn't know what it is, so—

Any other comments? No—Mike you just don't know what it is so I'll tell you what SYBAss is another time and explain what standard practice is.

Thank you very much everyone. We have a quick change now, sorry we slightly overran there because we got so bogged into the Cayman Islands shipping standards. We're going to move over to our captains and managers session. The girls are going to run up here, change nameplates, the AV guys are going to change signage, maybe even play a movie for 2 minutes.
