

GLOBAL SUPERYACHT FORUM 2006

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Industry Keynote Debate

Paolo Vitelli	Azimut Yachts
Michael Breman	Lurssen Yachts
Roger Liang	Kingship Marine
George Nicholson	Camper & Nicholsons International
Carlo Agliardi	Fraser Yachts
Philip Cod	Burness Corlett — Three Quays Group

Martin Redmayne

OK everyone, let's settle down—this is my favourite session—essentially I'm proud to say we have 3 ex keynote presenters on the panel; Peter Lurssen couldn't make it due to his incredible schedule so Michael has agreed to step into the breach. In between is Philip Cod, who is standing in for Barry Gilmour. Barry was called away to Malaysia to see a client but he is flying in tonight on a client's jet to be here tomorrow for his session. So there are perks in this business. Another honoured guest is Roger Liang all the way from Hong Kong, arrived this morning—thank you very much for joining us, Roger. Owner of Kingship Marine in China. Gentleman I'm honoured by your presence.

The simple comment I wanted to make is the SMS text questions that keep coming in—keep firing them, they are very entertaining and actually add flavour to the debate; the email also, please use it. It really does keep the flow of conversation going. I have all 3 of the beautiful girls joining us in this session because there are so many of you—please make sure you raise your hand and Ulissa, Elizabeth and Isabella will come and find you. It is worth it.

The programme is very simple. All the 6 esteemed panellists are industry figureheads, here to give a 5 minute perspective on this industry and the market today, and where it's heading. I want to keep this a very fluid, open discussion rather than let the 6 people speak for too long, keep it short, simple and a personal account of the market. The rest is then to be discussed.

I'll start with Paulo running through but Roger has agreed to be the last speaker so he understands that he doesn't really have to say anything, just ditto. Paulo please.

Paulo Vitelli Azimut Yachts

Thank you Martin, and for the honour to speak first. As I am to speak first I would like to throw a ball on the lake, the sea. One other point is the essential point. Current boom. We are enjoying an incredible situation; I think historically it's the best economic situation we've had for the yachting industry and, our logic, our necessity is to retain it. So I think however goes the conversation—my ball is, let's work around this message, we have a boom, we must not lose it, we are to do whatever we must professionally to retain it. Why do we have a boom? Because the economic situation in the last years is the average of the various countries has never been historically so good. We have growth of 5½% of the world economy which is a mixture of a growth around the 8—9% of the emerging countries and 2½% of the western world. On top

of that, the western world, which is growing at only 2½% is concentrating wealth at a scale which has never been like that before. I have some information about England, well—1 per 1,000 of the population controls 4% of the wealth, and a diagram of improvement is vertical. Every year we go on, this 1 per 1,000 is expected to control 4½—5% more and more. So this is the typical having a good growth of the economy and having, unfortunately for the logic of socialist matters but fortunately for the logic of the business, a lot of money concentrated in few hands, so it makes sense that this yachting situation is booming. Now. Will it continue? From the point of view of the buyers, it will continue, because the yachts today—why are they buying so many yachts specially the new entries into the world of richness. Because the yacht is a symbol of wealth and in the past castles, pyramids, roman villas were the symbol of wealth. Today it's a yacht. And we are very happy and very proud that the trend has changed and is indicating the yacht as the symbol of wealth and therefore whoever is reaching this level of wealth has to show it to everybody and buy a yacht. So let's hope that will continue. But for making that continue, I think we have to pray that the economic situation will go on like that, and we have to accept that this concentration of money will remain so concentrated. But we have to work ourselves, to guarantee to those users a positive situation. Now, my real concern is that a new yacht owner could be tired of owning a yacht, considering the difficulties he might encounter in enjoying and the utilisation of the yacht. So I think we in the industry should be totally committed to the points which are right, absolutely good. We have to create a yacht infrastructure, we have to develop and support new destinations, we have to find a body capable of lobbying properly so that the regulation is done in a way that protects the business. And finally we have to give professionalism to the people who are working on board. I don't want to call here all the items but let me just add something which is typical of my experience; marinas and location infrastructure for yachting. At the moment there is a lack of infrastructure for yachting and everyone wants to go in the same location, St Tropez, Cannes etc, as least with regard to Europe. So we have to work into that action. One is to open new locations, nothing easier than going to the south of Italy, south of Croatia, Balearica, we will work so that those destinations are expected and considered positive. But also, and I think very important, create the base for all these yachts and to create the base for all these yachts in place not so much appealing to the owner but appealing to the crew, because the owner, when he goes to St Tropez, he's content to take a boat and go ashore by tender and the same when he goes to Costa Smeralda. So he will accept to have the yacht moored outside and is undreamable to start making big marinas in the areas which are totally out of environment control. What we have to do is to create good technical bases for the yachts which are out of service and maybe next to the location we want to develop. If we create a nice strong base in Naples area say, where the crew is used to stay happily, easy to fly to go to central Europe, if we create a base in south Croatia, if we create more bases in the Balearic we give the opportunity to these boats to have an easy location to have winter support in town. We have not to dream, I would say we have to come back to the idea of creating bases out of the world. There is a proposal to create one in La Madalena—a beautiful place but can you dream a crew having to navigate from La Madalena to Albi and then to fly from Albi to Rome and then fly again Rome etc in order to go back home. Impossible. Or create his home in Madalena—every wife will escape. So let's fight against those dreams because they are not useful for the industry. Let's on the contrary work for creating the logic of permanent bases for megayachts in the areas which could be also areas of expansion of yachting. I would like to say also my own ideas about the professional preparation but I don't want to take the ground too much; let's work towards maintaining the current boom and let's feel responsible to maintain the current boom. Thank you.

Well Paulo has covered all the points in our brief. And for the most part I endorse them all. What he says is just about everything that we have to address in the next few years. I was here yesterday for the owners' briefing—the owners' panel, and I was struck by the fact that their conversation really was limited to just two things; which was the shortage of crew and the profusion of regulations. Certainly to keep our boom going training in almost every aspect of our industry, whether it be on the production side or the manning side is a major problem. We've experienced it in our business; getting enough top class crew to man all the commercially registered large yachts today is becoming a more and more difficult task and the industry has to address recruiting and training. Unfortunately yachting is not perceived by many parents and headmasters and even university principals as a serious career, but it is, and tremendous salaries are being paid these days in our industry. But that is just not widely understood by parents and the educational community, and that is something we have to sell to overcome the manning problems and get well educated youngsters to come into the business. As to the confusion spread by the regulations I agree entirely. We need to create a stronger professional body to lobby governments and Brussels to try and get some form of harmony around the EU countries, especially those which have a Mediterranean coastline. I did a swat analysis on Saturday, knowing I was coming here, to try and identify the strengths, weaknesses, opportunities and threats which face our industry and there are in fact quite a lot of them but they're all relatively small and with cooperation most of them can be overcome. But of course it's the economy which will actually dictate where this industry is going. Paulo has touched on that; wealth creation has been amazing in the last 15 years; it is concentrated, there's probably a lot more to come out of the system which will go into yachting. People who know Russia say we're going to get a lot more clients coming out of Russia and Eastern Europe and of course India and China have hardly been scratched. Those I hope will sustain our industry in times to come. But at the moment we are victims, as the MCA representative told us earlier, of our own success and our industry has to grow as fast as the number of clients are growing, and that all comes down to training. I think that's probably enough from me.

Martin

Thank you. Can I bring you in, Carlo?

Carlo Agliardi Fraser Yachts

Good morning everybody. I think that again, my topics have been touched on. If we want to sustain the boom I think we have to take care of a few bottlenecks. The crew, we know it, I suggested the idea of having a cadet ship programme as it has been agreed upon many years ago in the shipping industry where we can get young kids into a formatted training plan where they have a short training and they have onboard training, so yachts that have 10 crew or more could devote one bunk to a trainee cadet. I think that will possible open the door to a bigger crowd of crew, that we desperately need, and we need well trained. Training has for the moment been handled by small private operations, doing miracles, I have to say. But I think the industry as whole should now look into the training business problem and I think it has to be the responsibility of both the builders and the service providers like we are. The second bottleneck—the places to go. As a charter company we realise more and more that our business expansion is now blocked by the lack of places to go and by the short season. We have to deliver to the yacht owners and yacht charterers more options. We could this year, and you know it's public knowledge, probably we could have chartered twice as many yachts of 50metres and above if we had them

available between July 15 and August 15 but we can't expect to sustain a boom on these expensive toys if we cannot extend the season where these yachts can be chartered. But again, we can't charter them if we don't have places to go. And if we all want to go to St Tropez in these four weeks, well you know what's happening. We all know the problem. So how do we develop places to go? I kind of scratched my head on that, because it's not a clear answer, there's not an immediate answer. But I think that with the financial power that today our industry retains, we can probably put our marketing people to work with ideas to co sponsor with new destinations and create events that will eventually attract the interest of yacht owners and yacht charterers. We need to have more places to go. And definitely we need to push them to use their yachts for a longer season. Both Paulo and George have touched upon the need for a body that will have representation power to go and talk to the national authorities. When I was at the head of MYBA we had an incredible experience in negotiating with the French authorities but we have been extremely lucky because we didn't really have representation power, as a brokers' association we were a few hundred, really, under our hat. The industry is representing—I really don't know the numbers but I guess many many tens of thousands of people altogether—so I recommend the idea of having a body that will be able to negotiate with the local, with the national authorities, with much more power. And that's pretty much it. My last comment is a consideration more than anything else, and I hope Michael will not hit me right in the head. But somehow I sense that this industry has too much focus on the super mega super super large mega yachts. I mean, yes, 70metres and up—is great. Super mega whatever. 70metres and up is what everybody talks about. It's great, fantastic, it's exciting. Technically, financially, it's exciting. But if we want to maintain our future I think we have to look at a much broader picture and I think that the industry has to improve the efficiency and the quality of product and services even in the lower range of the industry. We're talking about the 26 to 50metres. I think that this is where we will build the volume that will be able to sustain in the long term our business. Thank you very much.

Martin

Carlo thank you. Philip, can I bring you in as an owner's representative project management side. Can we sustain the growth, from a technical perspective?

Philip Cod Burness Corlett

Thank you. Well, as my colleagues here on the top table have alluded to, there is a growth in the market and this has been as a result of strong economic conditions over the past 6—7 years. I was walking around certain parts of Amsterdam last night and I noticed on some of the paintings outside one of the art buildings it said 80% of the world's resources are controlled by 20% of the population. I think if we scale that up into the yachting industry those figures become even less controlled. Why are we experiencing an economic boom? Well, because there are countries like China and Russia that are developing and as a result have taken on commodities and have seen rapid growth. It is said that there are over several million people that have been lifted off the poverty line and this has caused a butterfly effect and this is why we are seeing today more millionaires and more billionaires than ever before. This is all good news for the yachting industry because clearly these wealthy individuals are discerning clients who need to spend and enjoy their money, and one of the ways in which they can do so is in the yachting industry. So that's good news. I guess one of the problems is that, from an owner's representative, is that when we discuss with clients their new projects or potential projects where do we go for a build. Currently within Europe we are seeing build times increasing, we are seeing lead times on major equipment manufacturers and suppliers increasing, with build times of over 40

months becoming the norm for large yachts 50—60metres and above. There's a shortage of skilled and specialist labour, and there are also individuals in terms of owners entering the market not only for their own pleasure but we are seeing an increase in the number of players that are coming into the market as asset players. What has the industry response been to date? Well certainly, I'm not a broker but I understand the secondhand market has seen a firming up of prices, with increase in activity, although in certain sectors the number of vessels is still in short supply. Current yards have seen an increase in orders, with the advance of yards giving longer lead times for construction and build. Yards have brought in, in response to this, other facilities—they've brought in expansion where possible and/or they've entered into other contracts outside of Europe to build the hull and superstructure and perhaps the machinery package, then bring that back into Europe for outfitting. Some yards have segmented the yacht market in respect of the size and type of yacht and supply for example semi custom yachts, totally custom yachts or totally bespoke yachts, and we have seen segmentation in the market and I think that will increase. Competition is emerging and I think this is a concern for the European and USA market which was presumably the established centres. Markets are emerging in Russia. China and dare I say India will follow suit. Clearly the quality may not be there now but give it 5—10 years and we will have competition on our hands. We've also seen the emergence of what I would term the virtual ship builder, where people use facilitators to design and build a yacht, they have no assets themselves, but they will facilitate a yard, they will facilitate equipment suppliers and they will place a contract to build the yacht in one place, bring it back for outfitting, and bring in the trades as necessary. I think the demand for yachts is certain to increase and we've seen growth over the last 6—7 years of figures of about 6—7%. What does the industry do to respond? Again, I would agree with my colleagues that we do need to promote and develop professionalism within the industry; I'm not suggesting the industry isn't professional but there is a skills shortage of good labour and skills and therefore training is one of the ways in which this can be addressed. Professional bodies—yes, I guess that does a lot to promote the infrastructure and promote credibility within the industry but I think training is key; there is a skills shortage within the industry and this is something that needs to be addressed quite seriously. I think that's probably enough from me at this stage.

Martin

Thank you Philip. Michael?

Michael Breman Lurssen Yachts

Oh dear. I was going to be last but I sold my slot to Roger so now it's my turn. I'm going to be really short because basically everybody has said absolutely with great precision those which are the issues we need to address. I can briefly also touch on the fact that as far as regulation discussions are concerned we are getting organised as shipbuilders, we will be talking about that this afternoon a little bit. It's in creation, the superyacht builders' association and it's whole purpose is indeed to represent the interests of the manufacturers a little bit better with regulatory bodies etc etc, so that is something that is positive response to what is going on in the market. It's just a natural progression of a growing business. I agree with Mr Vitelli that we are proud to be a part of this, it's a very privileged position, but I would like to point out that even though the markets are strong it's not getting any easier, it's still very very difficult to get clients to come to the contract and make suitable agreements for both parties, especially when the delivery times are getting so far out it is virtually impossible for us to price these things and putting us in commercially very risky situations, where you have a very comical situation—you have a very strong instant boat market and a

not strong distant boat market and you run a very strong commercial risk of losing quite a lot of money if you do not assess correctly what the costs will be in 2009, 2010, 2011 or 2012 or thereafter, and this is something we need to take into serious consideration amongst builders more than anything else but it does affect everyone that's involved in one form or another in building because if you are considering building a yacht this is the most important thing to think about, is that the price can probably no longer be fixed. And with that little sting I'd like to leave it.

Martin

Thank you Michael. Roger—what is happening in Asia?

Roger Liang Kingship Marine

As we all agree, the economic growth for the past few years has been spectacular, but wealth in Asia has always been there, for the past 10 years. In Japan, Taiwan, Hong Kong. Of course things are much better in the last 2 years but wealth has always been there. But they never buy a yacht— it's because of their certain way of life. But I see that changing now, because the younger generations who are taking over the family businesses, they are younger, they are more energetic, and they are more open to new ideas. Recently for the past year I see a changing trend. In the past 10 years there are no private planes in Hong Kong but in the last year there's an order of 20 private jets, all within one year. And I think that is also happening to other regions in Asia; in Singapore, Thailand, Hong Kong. So it is growing. And I think the mood is also changing—as for cruising around—I suggest Asia; there's a lot of areas that have not been touched upon which is rather interesting. For example Malaysia, Burma and most recently you must put Macao on the list too you know. Macao is becoming the next Las Vegas of Asia and is growing very quickly. I would compare Macao very much to Dubai—they are two of the greatest construction sites in the world. So with casinos— I think that should be a major attraction for yachts coming our way. And also Macronesia, Australia, New Zealand—that's really a great cruising ground too. Thank you.

Martin

Roger, thank you. Can we have some light on the floor please. Questions from the floor to the panel please. I'm sure Tork can throw some things into the mix but do you want to ask anything of our esteemed guests here? You're so in awe of the panel.

Andy Stewart Techtonic Design

I have a question for Michael actually. If you can't price, or you can't give a fixed price for a yacht, how do you propose to approach the owners on this issue then?

Michael

Very carefully. It's a dynamic process and I think all of our colleagues will probably be going through the same things; you start a negotiation, you check with a few of the contractors because you don't do a complete exercise immediately. Then you have price A B C and D and 3 months down the road that price A is no longer A but it's doubled or a third has been added, and so it puts us all in a very embarrassing situation that you have to go back to the client and say oh, I'm very sorry but what I told you 3 months ago is actually no longer applicable, and since no-one wants to do that we for one are becoming more and more cautious about where the prices lie,

and we try to define the project as late as possible. It works sometimes, not always. But it's dynamics, I think. You can ask some of our colleagues if they are going through the same but I'm sure it's equally embarrassing for everybody.

Tork

Michael, would that suggest that you might move towards a cost plus solution?

Michael

Well, I don't think anybody really accepts that today; I think you have to find a mechanism in the contracts which either is partially indexed or maybe linked to some major components, price increases. But again, it's something that affects us probably a little more than others because of the larger products which are further out in time. I think Carlo is very wise in his—we tend to stick out a bit, because size matters so people notice big boats faster, or like to look at them but there's a whole business that is really the core of this whole yachting business that makes all these boats between 20—50metres and they will be suffering as well, because the sub contractors are going to increase the prices because they see there is a boom going on. And so it's not necessarily something for us only. Paulo what do you think?

Paulo

Price increases from subcontractors? You are talking about the contracts that we are having with clients?

Michael

No, the prices that we are quoted by our subcontractors, suppliers.

Paulo

Well, it's a very personal thing. I think we can do good contracts if we have good specification, if we have good standards, if we have good quality control, if we have a process in the company. So as long as there is a method of working the contract is the materialisation of this method of working but you must have the capacity of controlling this method of working. So first you have to design what you have in mind to do. Then you need the contract to put that on paper, then you must have a system to keep all that under control. I think this is the correct process in order to guarantee a quality system, and what I'm learning getting old, is that the quality coming out of this process is not something you enforce with rules. It's something you educate people to. It has to be something that comes from the beginning so it's a process where quality is a way of thinking, it's a way of designing, it's a way of communicating, a way of behaving. So it has to come out from an internal growth of education more than by imposing standards to the subcontractors. Of course the contract helps that, but only by changing the mentality inside the company you can obtain a real goal and the contract with the subcontractors is just an element of it.

Martin

Thank you. And in the front there?

Tim Fleming Zodiac Custom Yacht Tenders

Zodiac is a fairly large industrial company and the focus on manufacturing is an important one and of course we, like everybody else, are faced with a rise of cost in materials and the rise of labour. So I can see that some boats would be more prone to cost increases of materials, maybe the larger yachts made of steel, and we all know that steel I guess is going sky high in price. But what about other materials such as GRP and engines and all the other components. What's the trend there, in terms of these large yachts? I mean I'm talking about 25—50metre yachts. What do you think the forecast will be, and what about labour rates? We all have trained workforces, some are very mature—where do we see the labour rates going in the manufacture of large yachts?

Martin

Thank you. Who wants to go there?

Michael

I think simply spoken, the trend for the cost of elements that go into a ship or boat is up, costs are going up everywhere. For the assembly themselves of those sub parts, so that is a reason as well, labour costs are going up there as well. And also I think as I said before, they are trying to get a piece of the boom. They feel there is something going on, there is not enough good subcontractors, it takes some time for new ones to emerge and create and carve out their own position in the market; so I'd say the trend is up. As far as labour rates are concerned, they're also up. We have inflation in Europe, I guess there's inflation in other parts of the world as well, maybe not as strong as in Europe but the trend is up.

Martin

Is that having an effect on the business though?

Michael

It would appear not. Yet.

Martin

But do you foresee that? What is your long term objective? Talking to Peter in Fort Lauderdale he was suggesting 5—6 years time it could be different, and we have to prepare for that.

Michael

Yes, well Mr Greenspan probably best described it. I think we live in a time of what is called *irrational exuberance* and who knows how long it will last. As long as there's a continuously replenished pool of new customers that come into this business and buy a boat for whatever size things will be looking good, but I don't have a crystal ball, I can't judge it. But funnily enough shipbuilding across the board is doing well; it's not unusual that things go well, it's also not unusual that things go a little bit less well thereafter. So I am a shipbuilder by adoption and I've learned one thing—it's not always good times. When I started they were certainly not good times and it may well be that in a few years it's different. But we work hard, all of us, to make sure it doesn't; we hope it continues but we cannot grow indefinitely. There's a maximum of what we can produce. Does that answer your question on the prices?

Gerry Butler The Royal Bank of Scotland

Just a quick question to the panel. Where do you stand on clients coming in and doing numerous spec orders. That is as opposed to you producing a yacht for one individual, an ultra high net worth individual—someone comes in, decides I want to take up all the slots between now and 2012 and go and market them and try and make a profit. Are you happy that you're going to be paid anyway and he goes off and makes more money on basically your product, or are you going to try and curtail that and wouldn't welcome those people into your yards?

Martin

Paulo, what do you think? You're building 4 boats for 4 men. Essentially if you have a client that comes into the market that wants to speculate and buy let's say four 50metre Benettis and market them in the industry. Are you happy with that scenario, if he makes a profit on those boats?

Paulo

We are happy to grow our company and we are happy to grow our company by keeping our clients happy. So what we try to do when we receive a client of a certain size is to try to offer him a product which is as standard as possible because we realise and recently we have a great experience about that—a bad experience about that. That when you change your product because of the owner's request you jeopardise your business account of the production. So it is essential to offer the client, to keep the client happy, and yourself happy, a product which is in line for what you have designed. In other words we have to try to impose what you think is easy to build, practical to build, high quality. For achieving that we are tending to make segments in our class of construction where GRP boats go as big as possible because if we arrive at a certain size in GRP we are imposing to the client and ourselves to be standardised. Because in GRP you cannot change much. But above a certain size which is around 46—48metres we try to offer a product which is semi standard; in other words we try to plan in advance what are the changes that the client might ask, because we would not like to offer anything else than what we want to offer as a change—we do not want to be dominated by the client but to be able to dominate the situation. I think by doing that we are not doing any damage to the client, we are doing the pleasure of the client because we can offer a product which is in the end better designed and better reliable and better quality. If the client wants full customisation no problem, but we have to realise that we have to give the necessary time for designing and the necessary time to build them, and to live with the changes he's asking. If he's asking changes in a limited time period then there is the problem, especially we don't agree with him that doing changes needs to redesign the boat to accomplish it to his new request. If he continues to dream to build the boat according to original logic and he doesn't want to realise that changing a boat means to adapt the old design to a new logic then we have a problem. So in short our strategy is bring GRP construction as big as possible up to 46—48metres because then automatically we have a standard product, where customisation is limited. If the clients want bigger, between 48—60metres we have products which we try to repeat and if we have to personalise, repeat with a certain personalisation which is controlled by us. If the client wants totally different and wants a very peculiar boat which is the expression of his ego and his creativity then make sure that we don't fall into the trap of mixing with the other products, give the necessary time for the design engineering, build and access the further changes that the client wants.

Martin

The other part of Gerry's comment was if the client walks away with his boat and sells it at 25% profit, on the brokerage market, how does that affect you? Are you comfortable with that?

Paulo

If the client sells the boat to the brokerage market? Well, we are very happy, because it seems that we have sold a product which is accepted by the market; we don't have the headache as a builder of the sale of the second hand boat; we can have sister company in the group enjoying the brokerage activity and if he makes profit OK, we might say we have not taken some of this profit in the first instance but we are very excited to see that the investment of the client goes up, so in reality it is one of the professional ways to see the boom to continue. If the clients are making money they spread the word among their friends and there will be a fantastic boost to continue the growth. In reality it is an expression of professionalism because the man makes money so it seems and appears that the product has been properly designed, it is appealing to the market, it's desirable to other people etc. So I only hope it does not sell because of the hull weakness which is one of the big problems. But in principle it is a great joy to see that the client is making money and not at all a disappointment to see that that money has not been done by us. We are happy as builder to a certain profit. We want to see the clients doing profit so that they will continue the boom.

Martin

Gerry, does that cover your question?

Gerry

Just a quick question for Michael, might be more appropriate. Thank you Paulo for the larger yacht builders. If someone is committing to buy a spec for 5 yachts or whatever it is with you, you run the risk from them from a credit perspective being able to produce and the finances for you over a 4—6 year period. Does that not put your company somewhat at risk, because you're putting all your eggs in one basket with one person, and do you welcome that sort of person and to do that sort of spec building and how do you foresee that going forward?

Michael

I presume the question is more related to the fact that we just underwent such an experience? You know the deal was structured; it all started very innocently that we suggested that if he was going to buy one yacht maybe he should buy two. And then sell the first one and make some money and then he thought about that and said oh I'll do three. OK he did. He gambled correctly; he could also be sitting on one yacht and two more in build. But his gamble or his assessment of the risk was accurate, he did well in the process I am told to believe, and good for him. We also did well in the process because we built three boats and I agree with what Paulo said, it only strengthens the brand because obviously people are willing to pay a premium on a boat that's ready. So we don't have any problems with it. The probability of it occurring again I think is a little bit more difficult because of the changes that have taken place in the last few years pricing is no longer as attractive for some of the purchasers as it used to be. But that's from our perspective. You know, I think a lot of our colleagues are doing it themselves; they're a bit smarter than we are; they build spec boats or I don't know if that's the right word for it. Feadship is doing a standard boat, which is saying well this is the boat, these are the options. Take it. Amels is

doing the same. Benetti is doing the same. It makes perfect commercial sense. So rather than having a speculator doing it, you can do it yourself.

Martin

Norma—you've been quiet.

Norma Trease The Yacht Report

I've got a question for basically everybody on the panel; everyone understands that there is more and more wealth being created and we're only basically accessing a relatively small percentage of those potential clients. So my first question for everyone is, if we start to access another few dozen clients per year out of the burgeoning wealth pool, can you as builders, and can we as an industry, really sustain that kind of growth and where are those boats going to be built. And my other question comes from of course, a lot of us have been talking about and are interested in operational issues. There's already whether you call it a severe shortage or some type of shortage of properly licensed and regulated crews. Given that if we're going to build a lot more boats for all these new clients do you think that the builders have a place to be involved in more training for the operators of these yachts. I know that certainly Paulo at Benetti you've become much more involved in training issues and Carlo as part of the entire Fraser group—do you guys have any thoughts about that—the number of boats and the people required to run them and your responsibilities?

Carlo

Part of the question is directed to the builders and I'll leave them to answer that one. About the crew—I think it's a long term programme that we have to build up. Training is not a profitable business, or it's a very limitedly profitable business. So I think the industry has to come up with the resources, pull together builders and service providers to create programmes for training that will allow a much bigger number of people to come into the industry. I said in my initial comment that we have to prepare a programme that takes the kids in, early, and make this as a career for life, and not a temporary hop onto a glitzy luxury environment. I think that the answer is in the hands of the people that specialise in service providing like us—if we look at what happens in the cruise industry as you know we have ship owners as part of our shareholders and they have invested dramatically into training resources and facilities, because that's how they could actually expand their business. I think we have to look at that as an example and if we need financial resources to develop these programmes we will knock at the door of the builders. I mean that's how I look at it.

Paulo

Well I think that the lack of professionalism is the major problem of our business. We listed four or five new areas but the lack of professionalism of crew is the only reason which in this economic boom could slow up the growth of the industry. I don't think it's affecting so much the purchase of the yacht because when somebody buys he's so excited generally he has a captain and crew supporting, that is the magic moment so I don't think we ever lost a purchase in contract. What we lose eventually is the continuation of the experience of owning a yacht after the excitement of construction and owning is jeopardised by disappointment of having to deal with an unprofessional crew. And therefore we, and other builders, are trying to organise training courses for the crew but I think it's not enough. I think this problem should be

resolved at a higher level. At the moment there is just forming the new association called SYBAss which needs to address this point. I think this point could be eventually addressed individually by the builder but it would not be a message to the owner send your people to a training course for running properly my yacht—would be more a marketing tool than a message to the market to the owners. So what I really think is that if we are able to set up a formal organisation among the boat builders; this organisation the first activity it should have is to organise or get in contact with the commercial formation organisation because there are plenty of commercial schools and say open a branch for yachting. I've have a dream to convince the Italian Academia Navale, now an Academy, which is doing nothing now for the Navy, fortunately, because we are not producing warships any more, but where is a fantastic tradition of education of professionals, well I would like to convince them to open a branch for preparation of professional crew, and that would be a fantastic place, because the tradition is there. So I think that we need to be together in a sort of association because the association is the best thing—I think an association which is part of ICOMIA because if we are part of ICOMIA we get more authority and with that we can do the right lobbying but also with that we can start some professional formation of our crew which I think has to be linked with the commercial preparation as Carlo was saying, as an example they've 20,000 people if only 10% are willing to go to yachting. And they have a school preparing them for yachting. They have the base plus a few months of schooling especially for yachting to convert them into perfect crew. So in conclusion and to respond to the question, yes, the professionalism of the crew is the problem potentially and I think can be addressed not individually by each yard otherwise than as a marketing tool but altogether by organising professional schools having a link with the professional shipping because professional shipping is a perfect base where to attract people and perfect them, form them towards yachting.

Martin

I think there are two problems with that in terms of who actually finances it. So would the industry be willing to invest profit back into this training programme?

Paulo

We are ready to invest heavily. In our group we are ready to do anything to solve the problem.

Martin

OK. So I now launch The Yacht Report Crew Training School. The other point is what is the process of recruitment for the new breed of crew? How do you get involved in that.

Carlo

Well can I take this question because we do crew placements as part of our business. The answer is totally linked to the previous question in the sense that placing crew is relatively easy if we have the crew to place. And because the demand is so much stronger than the offer we have to address the problem at the beginning. Which means to grow the bases of trainees—that's really the answer I think.

Martin

Thank you. I have a few SMSs —are there any questions?

Michael

I just want to answer Norma's question. If there's 12 new owners a year in the big boat business, the current system can handle it easily, because there's enough factories or shipbuilders that can build enough boats for these people. So the replenishment to break the bank needs to be a little bit higher. As far as the crew is concerned, it's completely correct—I'd just like to point out one thing—I just came back from Florida where I attended together with boys and girls club of a county charity event and it was rather interesting, because what have they done with their money—they've opened an academy for— they call them underprivileged children is maybe the best description—in Fort Lauderdale as they call it the Yachting Capital of the World to teach them skills so that they can work on yachts. And I think that is a very good example of the owners starting to regulate our business. They can see the thing happening, they apply their funds and they're doing it. So I just wanted to point that out, that there will be a solution, people will be found.

Martin

Thank you. At the front here please.

Preben Kristensen The Dragon Project

I would like to ask the panel their view on the racing fuel costs and the racing green awareness; how is that eventually going to influence this booming industry. And secondly will that also increase the market share of the big sailing boats, which seem to be coming out much more frequently now. Thank you.

Michael

I think we all have to get used to higher fuel costs, in one form or another, but yes it gets asked a lot—how much do we consume, how much does it burn, can we find ways to be more economical, I hear of several large yachts where the crew has been told to switch off the lights when they leave a room, to cut down the consumption of electricity and therefore the burned energy for the generator. So I guess it's a concern for all of us. More awareness of the environment is very strong, I think we'll see more and more the application of systems on all size of boats to make sure that the emissions are as low as possible, as clean as possible, as clean as possible and as environmentally friendly a boat as you can.

Carlo

And I may add —sorry Michael—about the sailing yachts—I think that the difference is minimal because their consumption of electricity is absolutely identical and yes, they do move under sails but a small percentage of the time and most of the passages are done under power, so if we look at the real difference in fuel consumption it is small; I don't think it's the solution to the problem.

Tork

One thing I've noted, looking at various yachts and talking to owners, project managers and captains is that I think amongst owners there's an increasing awareness of perhaps the inappropriateness of the profligacy of use of a finite resource, and I think that too is going to drive an interest in a more economical

approach or different fuel, such a bio diesel, and so on. I don't think it's a tomorrow thing, but I think

Martin

Ten years.

Tork

Less.

Carlo

If I may be a little controversial here I think that we as an industry have pushed for speed knowing at what cost of power we get this speed. I think that this is probably an unnecessary marketing tool because at the end of the day most of these owners don't really cruise on the boat a lot, they don't have many miles under their belly. The crew do, and speed is not necessarily the answer to that, and if we can start to cut down the horsepower I'm sure that the engine manufacturers here are going to kill me soon.

[from the floor] It'll be cheaper!

Carlo

I think it's part of the answer. Thank you.

Martin

Thank you Carlo. I've got—one question out of the whole 8 SMSs and emails. Let's go over there to Lloyds Register.

Lloyds Register

Coming back to the training. Every presentation here, training is a problem. Is the industry aware that there is a training academy, called the Akademia Rotterdam. As in the merchant marine programme, a specialisation programme for yachting. They started it this year—I think it can be handy information.

Martin

They're aware now.

[from the floor]

Environmental—class societies have environmental protection class notations, so yet another idea perhaps.

Tork

And in fact already maybe two or three yachts have complied with class societies green notations already.

Martin

This session is going to run and run because I have now 9 SMSs— one anonymous question has come in that I want to throw at the panel, which is quite a sensitive subject. Can you ask the panel how the builders can continue to demand higher prices for their yachts whilst delivering yachts late and with unacceptably long defect lists.

Michael

So, unhappy client, high prices, long defect list. Late. I don't know. The best definition is Murphy—he's an employee. Murphy has many brothers, work in every shipyard! I guess it can happen, things go wrong, it's certainly not the intent of whichever the concrete example is. I'm sure people do try to get rid of a boat on time because behind it there's another boat and behind that there's another one. Every shipyard is trying to run a business. Unfortunately things happen and you try to solve them, is the best answer I can give.

Paulo

About this point, I totally agree with Michael. But if we do some more precise statistics we will find out I don't think it's Europeans as well, Michael, that when we are late it's because we had many change orders, probably not planned or dealt with the same precision I was trying to describe as necessary before. If an owner which has got a fantastic ego want a change, it's difficult for the ship builders to resist, and if we do statistics about good shipyards being late one they are forced to accept those changes, I'm pretty sure if you do a statistic would also show to the market that we are not so bad and it's sometimes the fault of the owner to demand too much within a time frame; we do suffer, as Michael said, we suffer a lot for a late yacht because it's not only the penalty of that yacht, it's all the chain behind is suffering and the element of profitability of the yacht is the margin but the time. We are suffering on the margin but even more we are suffering on the time.

Carlo

Martin can I add a comment here? From the prospective of a broker who has built yachts with many different shipyards throughout 20 years I have to say that the average performance of shipyards today are far far better than it was just 10 years ago. Both in delivery and quality. So I think that the problem has diminished very much. What we see is the problem arising with newcomers with new shipyards that have no experience and no tradition in building yachts and they far underestimate the manhours and the time to engineer and build these yachts. So I overall think that the industry has responded well from this point of view.

Martin

Does the anonymous questioner agree? Another question someone's asked about expansion on the super yacht brokers' association—that's the session straight after lunch, so we won't cover that. I have a question here for Roger Liang—it's amusing to hear that builds are booked in the EU yards through to 2012 and later, and have them answer the questions of capacity. What does Roger feel that Asia will realistically be able to compete and produce large yachts of comparable quality.

Roger

China at this moment is the shipbuilding nation. It's ranked no. 2 at this moment and it will rank no. 1 within another say 5—7 years so the potential is there, but building a

yacht is always different. So I think unless the yards will take the trouble to learn the basics of yacht building it will take a long time, although it's a ship building nation. But the potential is there; it really depends on the individual yards—if they are willing to learn and to practise the way you do things over here.

Tork

Roger, your yard has taken the approach of importing technology and in some cases even importing steel from Holland. Do you see that as the appropriate model for the Asian shipyard, to use what is the best facility that you have combined with importing technology knowledge or whatever from the countries with the established yacht yards are.

Roger

I think that's the only approach. Building a yacht is so different from building a ship. But in China we have a slightly better chance than most other nations, because we have a strong shipbuilding industry and we also have a strong export industry in furniture and in accessories, and within our area, say within Hong Kong, Macao and the surrounding areas we have something like 50—60 five star hotels. So that would create a lot of craftsmanship around the area and also the area is also a major exporter of furniture. As of last year, I think China had about 38% of the furniture market in USA so that's because they concentrated on the furniture making sector. As for the other countries, maybe the infrastructure is not there but China has a better chance, let's put it that way.

Martin

Another question from an SMS here. Do the panel see the chance to start a superyacht index that could list companies involved in the industry that could then — oh sorry my screen has just gone blank—be used as the index for costing future builds for yards and subcontractors. So an industry wide index from a pricing perspective.

Paulo

An index for what purpose?

Martin

For future pricing of new builds. So that you're sharing information. I'm assuming that's what we're talking about?

Tork

Michael you referred to the possibility of indexing contract prices to something—perhaps this is what they mean—an index that you could use for that?

Michael

Yes, but I meant indexing as fixing it to something, having a rate, but not a list of who's who of *who does what and why and for how much*.

Tork

I suspect the suggestion was not so much quality but the how much.

Michael

Well, you know there's a gentleman in the audience that's trying to do the same within a similar thing within our group, the Lurssen group. And he's getting more and more grey hair, it's a really tough job he's got. Not every yard will do things in the same way and they will tend to use different people, so I think it's rather Utopic as a concept.

Martin

Another comment from the floor. Smaller yachts needing a permanent berth —there is a lack of them in France, no new marinas, French port leases coming up for renewal. Where will the new boats go.

Carlo

Well, I don't have an answer. But the truth is, well in France for the moment the development of marinas is stagnating, to say the least. It's a problem, and I think there is room for development but it depends so much on politics. So if we can't build marinas in France, Italy or Spain we will go further down. But I really don't have an answer here.

Tork

Isn't it perhaps the role of the associations to try and gain some political power and some political clout to try and influence that stagnation, because if I can envisage anything that's actually going to restrict future growth it is the lack of places to park the damn things. And I mean it must be seriously in the interest of the yacht building industry to apply some lobbying or pressure to the regions concerned. Because as someone pointed out earlier they want to go to Cannes, St Tropez the milk run, I mean that's the perceived place.

Paulo

I would reinforce what I said in the beginning. It's a dream today to hope to build a marina say in the French coast or in Sardinia or in Portofino but we have sites which are being converted into location for keeping the bigger yachts all year long. What I try to say in the beginning is that those sites should be chosen properly otherwise we do an out goal. We do a mistake. If those sites are chosen in a location where the crew are happy to stay, that is a perfect place, Livorno is a perfect place, Genova is a perfect place, Naples Marina is perfect. If we can send the boats to a new location probably all the obsolete shipyards which are willing to convert themselves into basins for yachts —but we have to choose them in locations where the crew are happy to stay and possible near a new location for tourism so that when orders come for a short charter or a short weekend it's already in that area. And I was trying to advise that new areas south of Italy, south of Croatia, eventually Greece and Turkey certainly Balearia. We must stop dream to have a new marina on the French coast or in Sardinia because it would be an out goal. And the fact that when they do cruise during the summer the owners are very happy to disembark with beautiful technological tender I think it's enough.

Martin

One more SMS here is from an equipment company. Can a yacht finish standard be published for marine equipment?

Michael

I think every shipyard sets its own standards, what they find acceptable or not. This partly comes from themselves and what the market perceives the standard ought to be. I think everyone has to set it for himself. An objective standard for equipment is hard to set, would be my view.

Tork

Could I throw a question out to the panel? What's the ideal mix for a shipyard of custom and semi production. Because the owners that are purchasing merely a semi production yacht today are evolving. Maybe in 5 years they're much more interested to build their own special custom yacht. So you can't afford to abandon either semi production or custom. Do you choose one, or the other, or do both as dynamically with the desires of the owners. That's initially a question for Roger, because I know that one of your aims is to have a successful production series, but you're also interested in custom builds.

Michael

I don't think there is a natural boundary line; I think what's happened is the market is pushing it up, and as there are more and more bigger boats being stock boats that that board is gradually moving up and it'll become harder and harder for someone to compete on a bespoke yacht against a production yacht.

Martin

Will Lurssen ever do a semi custom version?

Michael

Never say never.

Paulo

This is you're asking me a secret of my company. But I am happy to tell you all my strategy. My strategy is that at least our company can be wealthy and happy and survive and grow only if we can do 60—70% in between standard or semi custom product. And then we would like to have only 30—35% of fully customised product. Because every time you start a fully customised product you have a much longer period, you are exposed to the desire when an owner wants to do a monument himself, so therefore he will change his idea, his desire and I'm a little personally afraid to base completely the future of my company on a situation in which an owner wants a bigger model you are at more risk. If he wants a smaller model you have less risk. So my personal strategy is to have a strong company where 60% of the production is controllable by us and 40% of the production is controllable by the owner. But Michael, don't copy, go ahead with your system.

Tork

But I was also perhaps suggesting that you can't afford to abandon the custom model because then you'll be—if an owner reaches that stage of wishing to build then you lose him to another shipyard.

Paulo

We can not afford to abandon the fully custom because it's a pleasure when you do it properly; you learn a lot because you get the information from the market; by building this personal monument you do something extreme that you might learn into your semi production product, so it's a joy, it's a pleasure, it's innovation—a lot of those clients enjoy building, enjoy making what they call a monument so I push for innovation and they watch forward. So we will never abandon this 40% of the market. I just gave you the idea where I see the good balance in between the two worlds.

Michael

That's fine. We'll stick to monument building.

Martin

One last SMS then I'll ask for more hands to be raised. What does the panel think about an industry wide set of business practices or business ethics?

Carlo

Well I speak for the brokers because we have been confronted to that issue for a long time. And I think that we have tried to motivate our industry to protect certain standards. I think that again, if we look behind 20 years the brokerage industry had very much lower standards than today. Are we anywhere near what we should be? I don't think so. But I think we have made a lot of progress and the concentration of the business in the hands of bigger companies is helping this trend, and is actually accelerating this trend. I speak for the brokers.

George

Can I add a word on behalf of the brokers? It's probably the level of repeat business that a brokerage gets from its clients which is an indication of the level of service they give and the satisfaction they give. Talking for Camper and Nicholson's International we are currently involved in, well we have had a hand in 23 yachts currently under construction amongst our colleagues around me; I'm not sure we have any at Lurssen but we certainly have plenty of boats at Benetti. The average length of those 23 yachts is actually 55metres and some of those clients are building their third or fourth yacht with one of our brokers. Now once a client has had a yacht for the first time he's off on his own, he's flying. He's gone through his first learning curve, he's got a captain he trusts, usually, and he doesn't really need to come back to a broker to approach another shipyard. But a huge number of our clients do, because they like the comfort level, the broker becomes a confidante, a friend, he's reasonably objective on what is going on, and the fact that some of our brokers build numerous boats for the same client just has to indicate the level of trust that goes with it. On the charter side we have about every year 50% repeat clients and I think that speaks pretty well for the industry. A wealthy client today has the most amazing choice of holidays, all very high quality, and for these people to come back over and over again to charter yachts, not always the same one, is again an indication that our industry really should be quite proud of what it does. People have been knocking—Paulo here has been not too complimentary about crew today but I think the role of the average

captain is very much underestimated by a huge number of people. A captain has to be all things to all people; not only is he responsible for the safety and the sailing of the ship he's also a hotel manager, he's in charge of an asset that can cost anything from \$10million to \$100million and if you were a business man and you're investing \$10million or \$20million in a company you'd be looking for the best possible person you could find to run that and you'd pay him accordingly. I think that owners are becoming more pragmatic and taking a much more realistic attitude to the value of their asset and the quality of the people who should be employed to run it for them. Wearing my Camper and Nicholsons International hat I have I think a great admiration for the seagoing element of our industry and it is of concern to me that as I mentioned in my 5 minutes earlier that the world at large does not perceive our industry as a serious career. So youngsters when they're 16 or 17 and about to leave school, the last thing anyone ever suggests they do is go into the yachting business. It is interesting to see that the Nice Matin in September published some employment figures. And just in the Provence Haut Cote d'Azur they reckon there are 9,000 people shore based working in the industry. If you then add in the rest of France that would probably bring it up to something like 15,000 or so. Paulo has told me there are 12,000 employed in the yacht building industry in Italy so that makes close to 30,000 just in France and Italy alone. If you add in Holland and Germany and all the other European yacht making areas our industry must be employing close to 100,000 people ashore. If you add in all the people who are working afloat we are a very substantial industry— if we could get our act together and create an industry wide body instead of being fragmented with MYBA, ECPY and SYBAss people now. If we just all get together we could probably do a lot to guide the legislation and head off anything that might be thrown at us in the way of consumption tax and all the things that highly visible yachts might draw with all these left wing politicians on holiday in the south of France.

Martin

Are you volunteering to chair the organisation?

George

I think I'm too old.
