

PROJECT USA 2007

Conference Day 1 — 9TH May 2007

Chairman's Opening Address Martin Redmayne

The Owners' Summit

Tom Lewis	Broward Marine
Matthew Sawyer	Art Weiss Properties
Hugh Westbrook	Merrill-Stevens

Martin Redmayne

Good afternoon everyone. For those that don't know me, my name is Martin Redmayne. I'll be your Chair for the next 3 days and my day job is Editor in Chief of The Yacht Report and my night job I won't tell you about. Welcome to San Diego. All I can say is it's a slightly different venue and city from our last venue in New Orleans. We had a lot of fun in New Orleans but I think we're going to have equally as much fun here in San Diego. Our friends here in San Diego have been amazing in helping us arrange this event—it has come together beautifully; we've got some wonderful things planned for you in terms of the Yacht Club dinner, a tour of the shipyards, etc, but I'll go into more detail on that in a minute. I'm going to introduce you essentially to what I want to achieve in the next 3 days. What the objective is of Project USA. We've done the Project events around the world now for over 12 years and every year I think with my team's help we tend to get more out of them; we tend to get an audience of a bigger group of people, there's more dialogue, more interaction, and essentially more ideas being thrown around as to how we can improve the business. One of the things we did I think about 5 or 6 years ago was we brought a yacht owner to the table to address the audience. That has now progressed. With every event we do, we have owners—one, two, three, maybe more, addressing the marketplace. Which is a unique situation. Even more unique—in Amsterdam this year in November we're going to have a panel of captains talking to the market because again, they need to have their say with what's happening in the marketplace.

A few rules of the game for the next 2½ to 3 days. Mobile phones—please have them on silent or on vibrate, whichever is your preference, but essentially to make sure that we don't get interruptions. There's nothing worse than being in full flow in a discussion and mobile phones bleeping and ringing and whatever other noise you can make with them. It just means that we keep things flowing without interruption. If any mobile phone does go off there will be a penalty, which I have to decide on in the next few hours. But you'll be made aware and it will be unpleasant. There will be 2 young ladies carrying microphones around for the Q & A of this programme; when you have a microphone in your hand please clearly state your name and company so we know who is addressing the question. The whole programme is being recorded for posterity, the idea being that elements of the discussion will be reported in The Yacht Report, you'll be able to listen to these recordings on the websites etc so essentially there's a lot of information that you can go back to and other people will hear about that was discussed over the programme. During the 2½ days we have a WiFi network being provided by Yacht Networks over there in the corner; this is

obviously a fully operational WiFi you can use while you're in the room, or next door in the lounge area. It just gives you access to your office with silent email and you can make notes on your PCs if you wish to. The username I believe is projusa when you log in. Obviously with any of these events I have to thank our sponsors, our partners, our helpers who have made this event possible and obviously yourselves for being here. This is our biggest Project USA ever and I believe with the market as it is today Project USA should be as big as Amsterdam, I think in Amsterdam we had over 570 people and that is growing. This industry's getting bigger and bigger. We all know that. I think meetings like this help the business more so than a boat show in some ways in terms of you guys getting to hear what's going on and talking about where we need to change things.

I think before I go into the other bits and pieces on the operational side, Caroline to my left has a few words to say.

[Caroline takes photos of the audience]

OK. A few things on the whole social aspect of the programme. Tonight we're having drinks obviously out on the terrace; that's just a free for all, a few bars, a few canapés and lot of enjoyable chat. The sun is shining so it should be a nice evening.

Tomorrow night we have the Merrill-Stevens dinner at the San Diego Yacht Club. This is just like points of order for you to make a mental note of. The buses will leave the hotel foyer at 19.30. There are two buses that will just literally go in a rotational shuttle service to the Yacht Club until you're all there. So if you miss the first one don't panic. The girls will be ushering you to the buses to make sure you get on board. They will be leaving the Yacht Club at let's say about 11pm so you'll get back here in time for some decent shut eye. With the dinner it should be a very nice evening; we have a very good band, it's a beautiful location and we hope you'll all have a great night. Marguerites, etc, a few things that I'm sure most of you are used to. Friday we have the two consecutive shipyard talks. The Marine Group over in the far end of the port, Knight + Carver as well. Both shipyards are arranging boat transportation from the Marina here; the boat will take about 45 mins to get to the first shipyard. Lunch will be served on board. We're leaving the dock here at around 12.30 so basically we have a quick grab your stuff, muster at registration desk, down to the boats. If you need to get any other things from your rooms please do so, but let's try and keep on track, because it's a long boat ride through the port—it's quite an interesting tour as well but I want to make sure we get everyone on board. Those who are not going just make sure the registration desk know you're not on the list so we don't wait for too long for you if you're not coming. It should be nice; the weather is fantastic here, obviously, we all know that. The Marine Group are doing a fantastic demonstration of their new travel lift which is big. 665 tons, the lifting capacity is; they're going to do a proper live demonstration of lifting a boat while you're there, which should be fun. Knight + Carver have a whole raft of things they're going to give you a demonstration tour of, you'll see the new facilities and their development plans so again, it should be a nice afternoon. The boat will be back here between 6.30 and 7 so if you have plans that evening that's your time frame for getting back.

OK. Saturday—just a little personal social thing—if anyone wants to play golf or you haven't already registered to play golf talk to Karine on the registration desk; we have a fantastic local golf course that we've arranged special tea times and special rates for, if anyone has got their clubs with them or wants to hire clubs while you're there, talk to Karine about that. Drum Cussac, one of our sponsors, has also arranged a unique opportunity for the delegates to get their feet wet. This is a cage dive with sharks. Anyone who fancies getting their feet wet in a cage and looking at great

whites or whatever sharks are local, talk to Karine again. She has all the details on that. There are a few people we might be able to send down there and not bring back up. Alright, let's get back to serious stuff.

Project USA. What we'll talk about here is a business that has expanded dramatically. When I first recorded the growth of this market about 12 years ago we were delivering boats over 80feet in the region of about 80 to 90 units a year. This last 12 months there have been over 260 boats delivered. That's over 100feet. So we're looking at over 400 boats a year minimum being delivered. This market is going crazy. We currently have 772 yachts physically on order in the global order book over 80feet. However, the US is only building over 100 of those—which is an interesting fact. But I think this market in the US with the dollar as it is, is a very attractive proposition. You have the capabilities, you have the people, and I think you have the client base, without question. The other fact that is very interesting from my point of view is that we get calls from private equity firms or investment funds all the time about how exciting this market is, how can they get involved. At the same time you have massive hotel groups looking to buy 2 or 3 yachts for their resorts around the world. I was with a client recently who was looking to build 6 yachts for 6 resorts dotted around the world. These are 150 to 200 foot yachts which will be part of the resort programme. All this points in the direction that this market is going to take some interesting turns in the next 5-10 years. If you look at the high net worth individual numbers that keep coming out of this marketplace—the banking marketplace, I should say—we estimate from those numbers, talking to people like Credit Suisse and a few other big guys, 70,000 people in the world exist today, as of now, who can afford to buy a yacht over 100 feet, without even sneezing. That means we have about 7-8% of the market share potential occupied by yacht ownership. So again we think the potential is huge for this market to grow very dramatically within the next decade. The problem is, while the potential is huge, we have to wonder if the market is mature enough to deal with that potential, which is one of the things I want to discuss over the next 2-3 days. Hopefully the 3 people on my right will have some comments on this subject.

The first session of Project USA is the Owners' Summit. As I said, we've invited in the past some very high profile owners like Jim Clarke, Jo Vittoria, that lovely man Thomas Perkins who recently built a phenomenal project which I was fortunate enough to sail with him on. Essentially, every time an owner speaks we learn something. We hear something that is unique. We hear an opinion that is sometimes not ever in print and ultimately it wakes people up to what we should be doing as a marketplace.

The 3 individuals to my right (it should have been 4 but one individual is currently in litigation with a shipyard and is leaving the business as a yacht owner at the moment and is pretty angry and was advised not to attend and speak, because of the position he's in at the moment. But one day hopefully we'll get this in print as to what happened, because it's a pretty terrible story).

The idea is that I want the 3 individuals to my right to start the proceedings off with what I call candid opinion, perspectives and views on the marketplace. We have experienced individuals, Matt Sawyer in the middle is probably the youngest speaker I've ever had speaking at our conferences; I think Matt you're 24? Currently has a 115foot yacht and has already made up his mind about the yacht market. Immediately to my right is Tom Lewis. Tom is a yacht owner who has now bought a shipyard. Well that's a novelty. On my far right I have Hugh Westbrook. Guess what. He's bought a shipyard too. Matt—are you looking to buy a shipyard? Maybe to buy

it as real estate development. So the idea is that these 3 are going to give 10-15 minute snapshot perspectives on the marketplace today. That'll give us a 45 minute window to then discuss and debate the issues they raise. I'm going to start with Tom, because he is alphabetically the first one, which I think is a fair process. The way I try and run these sessions is in the same way throughout the whole programme. We give the panel a chance to give their views for 10-15 mins and then we open it to the floor to make sure we discuss and focus on core issues. That's my job, and the girls with the microphones will make sure that everyone has their say when necessary but essentially you get more out of these things rather than you being bored to death by powerpoint presentations or people who let's say tell you everything you already know. We want to try and make sure that we discuss things that need to be addressed. Tom, can you give us a snapshot?

Tom Lewis Broward Marine

Well, first of all it's a pleasure to be here. This is my second opportunity to speak within this organisation—the first was when Martin dubbed me The Apprentice—which was in June of 05 which was shortly after I bought Broward and while 2 years has passed I'm still the apprentice, so I'll drop the guard on that.

I think my experience as a yacht owner is somewhat biased by the fact that we also have a repair yard. So some of the things that I have experienced in operating our own yacht I have to think which side of my brain I'm talking out of because like all yachts ours breaks, and has broken several times and it's been in our yard for repair. So with that kind of as an overview the most pressing point that I see, and I see it from operating—we've got a 106foot Broward that we commissioned in 05 in the Fall—it was the last of the Dennison created designs, it was under build when I bought the shipyard and since owning it, we use it both for promotional activities for the shipyard, charities, we do some charter work with it and then I had this false illusion that when I was buying the shipyard I would also get to use it for my own personal enjoyment. We have not done that much with it. But the biggest problem I see from my perspective is crew. Since having the boat we've had 6 different captains; I seem to think that we probably have an advantage over many owners because the shipyard can probably attract a broader audience to choose from. We had one captain who was with us for 15 months, did an excellent job and the other ones were anywhere from poor to awful. I think what I see from the perspective of the owner of the boat operating it that all too often the captain may come with a strong resume but in reality has not had very much formal training and we're looking to that captain to train the crew that run the boat, so I don't see a uniformity in the performance of the boat from one captain to another that I would expect or had expected in an industry that has had such a long history as the yacht business had. This was the first major yacht that I had owned. Up to that point the largest boat that I had had was 60feet. And one of the things that I notice in the captains is, both from running our boat and the boats that come into the yard for repair is a desire, maybe it's from insecurity, to be a hero, and so when there is an area of repair maybe it gets magnified, maybe it's really not that big an issue. And so it's a sort of looking for attention and sometimes at the expense of other crew members as they point out things that are wrong to the owner, a lot of times it's at the expense of the personnel in the repair yard and I don't have a solution for it but it's a nagging problem that I see from boat perspectives.

We had done enough charter with the boat to see a side of the captain and some of the crew's performance that—I'm not quite sure how to manage around it and I'm sure people do a much better job at it than we do, which is the crew being incentified

by the tips as part of their compensation sometimes promotes improper use of the yacht and sometimes their desire to achieve that gratuity, and some of it has been unsafe conduct, some has resulted in damage to either the vessel or the tender and I think that also maybe comes back to the lack of formal training that the industry has evolved in. There are a lot of great captains so I'm perhaps bitching about some things here; I don't mean to say that this is uniform but these are some of the things I have seen. Of course my experience in the repair yard is even more limited than it is in the boat building but because when I was here last in 05 our expectations of our repair yard was pretty much limited to hull and bottom work and had been leased before we bought the company and we only really got into that business at the beginning of 06. it's turned out to be a great business for us so I really have not that much experience in seeing the repair yard operate. But from looking at it from the owners that come into the yard I think one of our biggest shortcomings that creates a frustration in the owners and certainly has created it in me is not timely being able to tell the owner where the cost of the repair actually is versus what the estimate was. And we've invested a great deal of money on the yard side in trying to get a better accounting system to do it, but I think that however good the system is it's the function of the people and maybe we're just too new at it at this point or my expectations of our yard personnel and here I'm being critical of the primary repair facility that takes care of my boat which I happen to own, but I think it's very difficult at this stage for them to still be able to tell an owner on a timely basis that hey, I gave you an estimate of X dollars then all of a sudden the bill comes out and it's significantly higher. It used to be one of my pet peeves with the airplanes that we've had and it still is a problem.

The other segment that Martin asked me to comment on was the role of the broker and my other primary business is a real estate development business and it's an interesting similarity between landside development and the marine industry when it comes to brokers. 20% of the landside brokers do 80% of the work and that seems to be my experience in watching the brokerage industry as it relates to new and resale boats and one of the things that I find common to both landside and marine industry is that when it comes to the brokers they feel like oftentimes they need to have knowledge when they don't, and they're unprepared to admit to the owner that they really don't have an answer so they will come up with some explanation. We've seen that in the boats that come in for service where the broker is in a role of an adviser to the owner and certainly we've seen it in the resale activity of boats where there is a tendency to have misinformation that you have to counteract as either the owner of the boat trying to resell it or in our case as a shipyard builder trying to sell a new boat, where information has gotten out, it's been repeated enough times to where it takes on a life of its own and then you've got to come around and change those facts. Now having explained those negatives I've run into, the results of being in this industry now for 2 years and operating a boat through that period of time I still find it a tremendously exciting industry where you meet some very fascinating people. You're dealing with a product that's extremely passionate; it's the same on the landside and one of our businesses is building high end resort properties and we're just starting several homes that are in the same price range as some of our yachts, \$14-\$20million dollars. Nobody needs one of those houses anymore than they really need a boat, so what you're dealing with is somebody's passion and dream. So it's very exciting, very fulfilling to help them realise that dream. It's just some of the bumps in the road along the line where you deliver a guy a new house and he moves in and the audiovisual doesn't work—you get the same unhappy reaction there as you do with the boat in the same circumstances. But on balance I'm still very enthusiastic about it and find it a great place to spend time. I still think it's a very profitable business to be in.

Martin

Tom, thank you very much. Matt, are you going to follow that?

Matthew Sawyer Art Weiss Properties

Can everyone hear me OK? I first want to thank Martin for inviting me to this. It's great to be here, a little nerve racking talking to people that are twice my age but I'll do my best to give you my input, my opinion on some things.

So just a little background on me and maybe some of the reasons I'm here. I've been around boats my entire life, and grew up on boats. I grew up with my grandfather and grandmother, down here mostly, down in San Diego, Catalina, primarily round the West Coast and I love it. I've always been a boater and I always will be. But I'm not so sure that I'm a yachtsman yet. Not so sure I really buy into the yachtsman aspect of this industry. Being a boater is a great thing. I love being on the water, I love enjoying the boat and enjoying the water, enjoying my friends. But yachts I'm not so sure. I've been doing it now for 2 years, the first boat I bought was in March 2005 so that's my background. My family—we build warehouse space, so the family's done very well doing that and I hope to continue doing that and this is a way, me buying this yacht was a way to bring the family together, so when I first bought the boat—this kind of relates to the brokerage side of things. When I first bought the boat, going through the due diligence process—well actually before that, I decided to go out to the Fort Lauderdale Boat Show—this is 2004—I had never seen anything like it before. I saw boats like I've never seen, and like I said, I'm a boater and I never planned on having anything bigger than 50feet. At the time I had a 44foot express cruiser. So I'm seeing these boats and the problem was I couldn't get on anything. Nobody, no broker, no-one would let me on any of these boats in the boat show so the last boat I went on was a Hargrave 94footer called the Marguerite. Black hull, gorgeous. I didn't know the first thing about yachts like this but it was the only boat I could get on. I ended up buying that boat. Yes I'm that guy. I end up buying the boat, two months later. And maybe I would have bought something else, maybe not. But there's definitely a problem. There are a few problems in the industry and one of them is in the brokerage market—not to say that everybody's bad, that's not the case at all. I just think that as it relates to a boat show—a boat show is a boat show. It's an open house. Just like we hold in residential real estate. I don't really deal in residential but when you go to an open house anyone walks into the house. And it really should be that way at a boat show. The current boat I have is 115feet, I plan on putting in to the Fort Lauderdale show this year and I tell you that anyone who wants to come on that boat as long as they don't have a chocolate icecream cone in their hand can walk on board the boat. I've got carpet runners and everything like that, so that's an issue. Who would have known that me, at 21 years old, would have walked aboard a £3million boat and bought this thing. No-one knew but the guy at Hargrave and he let me on the boat. So the brokerage is definitely an issue and a lot of things related to that and that's one aspect. But things need to change. Tom was mentioning crew. I've had a lot of problems with crew. Maybe people don't respect me because of my age, maybe that's just the way the industry is, I don't know. I haven't been around long enough. But it's definitely a problem and I don't have a solution to it but we've had a number of captains, we've had a number of mates, engineers, chefs, you name it and I don't claim to be a bad owner, I'm a real easygoing guy, I'm not going to get in anyone's face, but on the same token I don't want to spend thousands of dollars a month on service that I'm not happy with so the crew side of things needs to change. Maybe with education, maybe with experience, I really don't know but my experiences with crew has been very bad. I have had good

times, don't get me wrong, I'm still young and I've had friends on the boat and we've had some pretty wild times but the negative aspects of it really bother me and I'm home more than I'm on the boat, I'm here working and doing whatever I'm doing and I think about those things a lot and it really does bother me. I don't know how it's going to change, but hopefully if everyone's listening here we can move in that direction.

Contractors. That's another big issue. I've had the boat in a few yards recently. The last boat and the current boat, and although the yards have been real fair—I've actually had the boat in Tom's yard, so I've done very well. It's just the contractors, repairmen, you name it, that come down to work on the boat outside of the yard. We just don't seem to get very qualified people. They don't always know what they're doing, they try to solve problems when they don't know what they're doing. And it's a waste of money, it's a waste of time, and I don't like waste. So that needs to change. Whether it's people being more qualified, licensing, I don't know. I've had lots and lots of problems with contractors. Really all this relates to the East Coast and the Fort Lauderdale area. Because most all of the repairs I've had done on the last boat and the current boat have been in Fort Lauderdale with the exception of Knight + Carver, who did our most recent refit.

The last thing I'm going to touch on is marinas. Like I said I've had a great time on the East Coast, whether it be the Bahamas or the Caribbean, Fort Lauderdale, you name it. But it seems that everywhere I go everyone wants to take a dollar out of my pocket. Everywhere I turn. We've been in Atlantis where it's cost an arm and a leg but it's been fun. Just recently we were in the Bahamas, we couldn't get the boat into Atlantis after 2 years of being a pretty good customer of theirs, so ended up taking a little tender in, had a meal for 2 people, 92 dollars—it was just a salad and hamburger. These things amaze me. And for me that takes the fun out of it. Spending hundreds of thousands of dollars on everything every time you turn around. And you say well maybe that's just because you are in the yachting business. Well it shouldn't be that way. Like I said, we build warehouse space. We have every building leased, every building that's ever been built is leased. We haven't had a vacancy since 2003. And that's because my prices are fair. You know the yachting industry is maybe that way, maybe it's not. But other than crew that bothers me so much. So as I move around to the West Coast now, and what the West Coast has to offer, because that's really one of the reasons we're here, the new boat I've bought, this 115footer, we took delivery of this boat in Seattle and we cruised round Seattle. We went to a place called Kirkland. It's 25 dollars a night to leave the boat there. It was probably the best couple of nights I've ever had on any boat. I loved it. It was great. But maybe that's a little extreme but as far as the West Coast is concerned I love it. I grew up here, I've lived here my whole life. Primarily Orange County but I see San Diego as a yachting hub, there is deep water here, there is huge facilities for repairs, whether it's with Knight + Carver or the other yards here. And there are all these commercial yards, so I see San Diego not necessarily as a vacation destination for a long period of time but as a hub to other destinations on the West Coast. You start from the South, you've got Mexico, there's tons of things to do in Mexico. I personally don't like it, I don't go down there but I'm sure a lot of people do. You know then you move up, you've got San Diego, it's a great place to be, real estate is strong around here, like I said the yards, everything around the city—it's a real fun city to be in and you could spend time here. But I think it's a place where you bring your boat, you have repairs done, you have work done to the boat, you spend a little bit of time and you move on. You move up, you can spend some time in Catalina. These are all stops. But as you make your way North, you've got San Francisco, you can go on to the Golden Gate, you've got Alcatraz, and all these things. And you move further

North and you've got Washington, you've got Seattle, I loved it up there, it is a gorgeous place to be. And the further North there's Canada and I could give you a geography lesson. The West Coast is a great place and San Diego I see as a hub and as a very vital thing that this area gets started off properly if in fact it is going to be the next yachting destination. And the contractors need to be educated properly, the marinas need to be built properly, need to charge the current rates, if it's fair people will continually come back over and over. Brokerage, everything—this is really a chance. If San Diego's going to be the next yachting community this is a chance to start almost from scratch. I'm mean, sure there's a lot here now. But there's a not a lot of big boats that come in here. And there's a lot of money that can be brought in to this area and if it's done right it'll turn out to be a real success. I really see San Diego as the Fort Lauderdale of the West Coast and I think it can turn into that as long as it's done properly. So that's pretty much it.

Martin

Matt, thank you. Hugh?

Hugh Westbrook Merrill-Stevens

Martin, I want to thank you and I want to thank The Yacht Report for the work that you do and the editorial policy that you have that focuses on trying to professionalise our industry and raise its standards. In a way I guess I'm here as a bit of a contrarian. To explain that I will just give you a little bit of background about my problem with boats.

I have owned a yacht for about 18 years. During that period of time I've had 6 different boats. I still have 3 of those boats and have just sold one recently that I bought brand new so that I could build with the same builder a slightly larger version of the same boat. I have been through the refit process a couple of times; spent on a 55foot sport fishing boat about \$500,000 to repower and refit it and told my wife who would never let me sell that boat that after we put \$500,000 into it it's going to be worth £200,000 and she looked back at me and said what's your point? I have a 75foot little harbour sailboat which is in the midst of about a year long refit at the yard in South West Harbour. We'll have it back in the water early Summer. The 86foot boat we're building is with David Marlow; we owned a 78footer that we bought new from him that we sold and we are scheduled to take possession of the 86footer which is under construction now in February at the Miami show. I say that so it puts public pressure on David Marlow to make sure that we meet the timeline in the build schedule. But for whatever reason, I've had experience now in a couple of significant refits, have owned several boats over time and am involved in a new build. I'm not sure that that qualifies me to be up here as much more than a novice but it reveals what I don't think is quite a character flaw but which I think is one of the major ingredients for being involved in this business. I'm not a real estate developer but I understand that one of the basic tenets of real estate is to never fall in love with the deal. Because you're always looking for the ability to sell that piece of property for a slightly, or greatly, higher price than you paid for it. I believe just the opposite is true of yachting. I think if you don't love the boats you should not be in the business. When we had the opportunity to acquire the Merrill-Stevens yard the most important thing about it—well, there were a couple of people who were important about it—but the most important thing up front was Merrill-Stevens since 1885 has been profitable for most of those years. And for most of those years has experienced a lot of return and repeat customer business. It's been there, been an operation that people could count on and go back to when there was a problem and of course there have been problems, as there are with anyone that's in business anywhere. The key I think is to

recognise what the problem is, admit to it and propose the solution, and execute the solution, accept responsibility financially and otherwise to do what you need to do to take care of the customer, which is why we're there in the first place. The two person reason for being able to justify and rationalise in our mind the purchase of Merrill-Stevens was number one, Fred Kirtland, who has been there as the CEO of the business for over 40 years and Ryan Baker who's been the President running the yard for over 40 years. Neither one of them are quite twice your age, yet Matthew. It's kept them young. So I guess what I'm saying with that is that I believe dealing with well established organisations, dealing with folks that are going to be there when you need them, is the backbone of the survival and profitability long term of any industry but especially of an industry like this one. Not only have I been a yacht owner for those 18 years or so, I've actually and still have the same captain working for me that I hired 18 years ago. I have a new crew working on the sailboat and they've been there for about 2 years now and hope that I never have to part ways with them and amazingly in all of this, from what I've learned, particularly about the brokerage business I've had the same broker for 18 years. He's been with me and honestly represented me and helped me learn about the boats that we enjoy over all of those years. So in some way I'm a contrarian in that my experience of boats hasn't been negative. It's been positive. Our family has spent a great deal of its life around the boats that we have had and enjoyed them very very much. I'm a novice to this business. The business that I previously was in for over 30 years was purely a service business aimed at taking care of people, it was a help care business. So I come to this industry with that bias. When I listen to Martin talk about the numbers which are astounding, about the industry, that there are 70,000 people that qualify in some way or other to buy a boat of 100 feet or more, that there are over 770 boats under construction of over 80feet around the world right now, part of the reason for that explosion is the explosion of wealth in the world. When I look back at the customers that we have had over the years at Merrill-Stevens we have a number, and probably the majority, of our customers are people who are old line yachtsmen. They have come back over and over again but who started out with a small 80footer and now have a 200footer. And we see them coming back over and over. That's a different more sophisticated person dealing with the yachting industry, whether they're dealing with brokerage or whether they're dealing with the refit yard or a maintenance and repair problem or a disaster that has to be addressed. They understand, they have developed relationships and they rely on those and their loyalty is greatly appreciated by us and by all of you who have the opportunity to have such loyal customers and relationships with people that work with you. I believe that the industry is changing in part however, because there are a number of new people coming into yachting for whatever reason. Maybe it's purely ego, maybe it's something else, I'm not sure. I don't think it really matters. One of the things I was asked earlier what have you learned since you've been involved with Merrill-Stevens? And I think we've learned a whole lot of things, and have a whole lot more to learn about it. I feel I want to say it again, that I personally am a novice at all of this but what I've seen is that there is an attitude that we've run into in various places that says I don't really care if the first yacht this person has is their last yacht, as long as I get my cut out of whatever that transaction is. And I think we have to be careful as we build the ethic and the professionalism of the industry, whether it's on the brokerage side, the manufacturing side, the vendor side, the refit side, the management side, crew placement and everything else that we try to do in working with these customers. We have to make sure that we're operating against that premise. Every new yacht owner we should look at and hope will be a beginning long term yacht owner and their first yacht will be just that, their first and in no way be their last and that it's something that will be handed down in their family. If you sit back as a financial analyst and look at this industry—and this may be why Martin is able to say that a lot of vulture capital, I mean venture capital! people, are looking at the

industry is because there is so much wealth coming into it. And for us as we look at the investment that we're making in Merrill-Stevens on the service side and on the capital investment side of what we are about, we hope that that's not the case. We don't want this to just be a bubble. We want this to be continuously growing stable operating business environment in which ethical people who provide a value added service, who have the best interests of the customer at heart are able to survive and make a good living. I believe it is a profitable enterprise. I don't believe that it is a very profitable enterprise in the sense that maybe the venture capitalists or someone who's looking more at our land than at our business might look and be able to do. We were dumb enough to buy a business, and buy an asset in, a business that had probably conservatively five times the value had it been converted to a high rise condominium development rather than the continuation of a boatyard. That's the business that we wanted to be in, it's an ongoing family oriented operating business, three of our five children are already involved in the business and that's only part of the investment that we are making there. In the business I was in previously you sort of made a mission of being able to help people. It's not very easy to make a mission out of helping wealthy people, particularly the mega wealthy. So the attitude that we have about the owners of these yachts and the suppliers of these yachts and the people that are going to be yachtsmen, wherever they are, it takes a lot of discipline to stay focussed on recognising that we are in the business of helping people who can afford luxuries with the luxuries that they want to be able to afford. And if it becomes so costly, as Matthew is referring to in the sense of people taking your money but not adding value to what it is that you've given the money for, a lot of those 70,000 qualified people might come in one time but they'll be one shot wonders. So I think we have to think strategically and have to work for development of that kind of ethic and that kind of attitude in our business. We're in love with yachting. We're in love with the boats. I bought a sailboat that I had been tracking for 14 years. Finally was able to buy it and so I'm spending \$1½million dollars to refit a \$900,000 boat. Now there's a loose screw up here somewhere and I admit that, but it's worth being there. Because it is doing what adds joy, enjoyment and pleasure to our life and our living and it has to my family over the years. We have already started making what will be a little over a \$50million capital investment in the creation of a new Merrill-Stevens on the Miami River in Miami, Florida. We're going to be able to take five 250foot yachts at one time out of the water and have them in a climate controlled building to do what we need to do. Two additional boats, up to 190feet, taken out of the water on the south side of the river and we're developing 1200 lineal feet of alongside tie up space on the river which will enable us to have cranes and any other access that we want to have to do alongside work. And we have enough room already and we're developing sheds that will take two 240foot and two 190foot yachts in the water under cover. We believe in the industry. We believe that of these 772 boats our fair share are going to come to Merrill-Stevens to get what they need. We also are committed to doing it the right way and that isn't just about money and how crazy you are about your willingness to invest that kind of capital. It has more to do with your ethic, your approach and what you think the business is all about. I used to be in the pulpit, so every now and then I get wound up like this and I apologise for that because I certainly don't want to be thought of as a person trying to talk about virtue in an area that I am totally new to because sometimes that's like getting a lecture about virtue from the happy hooker. That's enough from me right now.

Martin

Hugh thank you very much. Thanks guys.

OK. Essentially there should be two young ladies in the room who have microphones? Esther and Robin I believe. Allan Gilbert, first in the front in the middle, please.

Alan Gilbert Gilbert Yacht Design

One clarification and a couple of little comments. There was a lot of discussion regarding crew and I really want to separate the operational aspects from the let us say hotel services, because a crew on a small yacht under 150feet is often like having house servants if you will. Are you concerned about both, or one of those two areas in particular? The other is, it was refreshing to hear Mr Westbrook speak; I've probably been in the business twice as long as he has and I agree that the yachtsman, as we call them, is disappearing rapidly. It's a whole new generation. I have to say I agree 100% with everything he said except for the \$50million investments because I'm in the business.

Eric Goldring Goldring & Goldring

Unfortunately the comments that I heard from both Tom and Matt are the same comments that were being made 25 years ago. It hasn't changed. When you're dealing with issues, and I'm going to talk about it towards the end of this conference, but when you're talking about issues about repair work, you've got an estimate and then it comes in at a higher price and you've got contractors that really don't know what they're doing and you wind up paying for their errors—these are things that I think our industry needs to rein in and police rather than saying thank god I got a warm body to work on this engine or some guy that oh, he's going to fix the fairing. Because we're creating, we've created and have never gotten out of, the industry of creating problems. And I think that the frustrations and Matt probably said it the best, you know boating's fun, yachting—I don't know if I like this. Because it's not what us old guys think of yachting to be what it was. Now its become survival and how much money are we going to spend for incompetent crew, incompetent work, and who we're paying off, which stock master, so that we can get our boat in there even though we dropped how many tens of thousands of dollars sometime in the past. So I don't know if anyone has any ideas, and I don't know that we have an answer now, especially on the crew and ship side. I'm going to jump back for a moment and say this. I was at another conference in Miami on cruise shipping, which I'm also involved in a couple of months ago and there's a tremendous demand for crew. They can't find crew. There's a tremendous demand for shipyards, they can't find shipyards. They think they're coming over to the superyacht side and they're going to get our excess crew and our excess shipyard capacity and then you walk into the next hall and you have the same conversation about how in the superyacht industry we're going to grab them from the cruise lines and the shipping industry. And there's just this mass fray and I think we need and we have a couple of industry groups, but I think we need to get ourselves and our house in order so that there's accountability and we don't accept what's being done both on repair side, contractors side and crew side. And I want to make this point, and I don't know how many people have thought about this. The industry has expanded as Martin said, tremendously. It's going to expand further. We don't have the talent pool now—what are we going to do to create a pool so that we can not shoot ourselves in the foot worse than we've already done? As Matt said.

Martin

Any comment from the panel?

Hugh

Well, two comments. I want to make sure I understood the one comment about the different kind of crew question—the hotel services versus onboard operating? Well our approach has been to develop a continuum of services that is aimed at problem solving for the yacht owner and the yacht operator. So crew placement, crew recruitment and so forth is part of what we are building and attempting to do. And I think there is a difference. But there's been a sea change in what it means to be a yachtsman. When the largest boat out there was a 100footer, or even you know, pick a number, 125feet, you go much beyond that and you look at what's being built today and the reasons that they're being built, and the people for whom they're being built, I think the requirements that are being laid out for crew are much different than they used to be. And I'm not sure that we understand it fully let alone are we keeping up with it fully. On a different part of that same question we have developed ourselves a training institute; but it's aimed more at the technical craftsmen and others that are needed in the yacht repair and refit business but we're looking also to have people come into that who have engineering experience and other experience on yachts so we benefit from the added value that that brings.

Tom

I've got a comment on the operation versus the hospitality side of it—and it picks up on something you just said, Hugh. I think the boats have become extremely complicated so that it's taxing the captains, especially when you get to the audio visual and some of the monitoring systems that are going into the boats. I think the hospitality side of it—Florida we're blessed because of the magnitude of the hospitality industry there. I don't see that so much lacking, at least in my experience in crewing this boat for the last two years. I know on our new build side as a manufacturer we're taxing the technical people who are helping us in the design of the new boats to try to figure out simpler ways to put systems in to be operated. And I'm by no means at this business long enough to tell you that we're making great headway, but I think from the new build standpoint I think that's a challenge for the overall industry and something that we're trying to bring into the repair side as well, so that when we're working on a boat, replacing the systems we're trying to figure out when you put it back in, is there a better way to do it where it's easier to service it.

Hugh

I think this whole question introduces the notion of the need for management services and support—when you have a crew of 20 it may only take 7 people to run the actual vessel—the other 13 or 14 maybe taking care of the people on board the boat. The systems are so complicated; the regulations surrounding the boat are so complicated and complex that that captain, who really is more of a CEO managing a \$30-\$40million asset who needs operating people working under him or her is going to have to rely upon outside management expertise or support that's ashore, if you will, and worldwide in nature. Andrew Cosgrave is developing these kinds of things for us and we're kind of blown away by the sort of requests and support that people are asking for, because of the complexity that comes of having so many people and the systems and the regulatory environment that we operate. So we've moved into a level of complexity that I think we were not in just 10 years ago.

Matt

Let me say something about that. I have a management company that does take care of my boat. It's not a captain, it's a management company that I've hired to take control of the project. I don't feel that the captain has the time in the day to handle everything that goes into running a yacht. I guess maybe you can say it depends on the programme but we have a very busy programme and I know a lot of boats have busy programmes. That's one of the things that I do in order to get to make this less of a headache to me. The first boat, I didn't have management and I was 6 hours a day on the phone. I couldn't operate my business. Now with management it's made things much easier; there's still issues, but it's made things much easier to enjoy the boat. As far as the comment the gentleman over there made about how to make it better and 25 years ago that service was the same, well, I wasn't around 25 years ago but I would say that at that time the yachting industry on the West Coast in San Diego was probably about the same as it is right now, or very close. I don't think it's grown much. I think if you give it a chance, I think a lot will happen. You've got yards out here, you've got a lot of companies involved in the marine industry that are very competent and capable organisations and I think if you give it a chance it ought to work out pretty well.

Holger Hamann Holger Hamann Consulting

I've 25 years' experience on 2000 yachts in the size of over 150feet and I would just give some notes to what we say, especially on the bigger boats, over 150feet. What I've seen is that on the crew side that very often the owner consultant or the owner is looking too late actually for the crew, because it is known what is already said, the commercial market and the yachting market they do not find crews, so they're looking too late for sufficient crew members, so they just had to get that to run the boat—one of the last boats, at Abeking Rasmussen, had to stay for several months because they couldn't find sufficient crew. So that's to the owner side to look far in front before the ship is really launched. The other point is when it comes to service. As you already said that the ships are getting more complicated and that the captain is not actually not a captain but a manager, and has no time to look for everything because a lot has to be done in the interior and then it comes to the machinery—there are companies available specially in the commercial market that before the vessel goes into the shipyard are already staying months before on the vessel and looking for what has to be done and doing the calculations. So there are companies, really qualified companies, available but you have to take them from the commercial market. So this is possible and I would really recommend to do so. I could talk about our support but this is only two small hints and for most I hope when you grow so fast that you will also have sufficient members for the technical part.

Lisa Knapp Island Scribe Communications

I have 2 questions for the panel. First of all I have some sense of what Tom and Matt were referring to when they said problems with crew. Big problems, but I'd like for each of you to be specific in saying what some of those problems are exactly and my second question is more directed toward Matt and kind of something for everyone in this room to think about. If San Diego may indeed become a destination and a hub for the West, such as Fort Lauderdale is, what can San Diego do being in the United States, to avoid some of the immigration problems that crew and captains abhor, coming in to Fort Lauderdale and dealing with. There are so many captains and crew that I've interviewed and there's a shortage of American crews so there are many foreign nationals in these waters. They can't wait to leave the Fort Lauderdale boat show in order to get to St Martin or to Atlantis where they may be scalped but at least they feel like they have some peace. And that their crew will not be hassled with all of the different problems with visas that we've been encountering. Certainly you're not

in charge of immigrations on the West Coast but this is an area that is a big problem for Fort Lauderdale especially as the Bahamas and other places have refit yards with Bradfords, a number of different resorts to go to, Fort Lauderdale isn't quite the draw that it used to be. What can San Diego do to learn from Fort Lauderdale's problems?

Matt

As for the first question, as it relates to crew—specifically I think really relates to the captains, because with a good captain the crew will follow his or her lead. And as I see it, when it comes to the captain, number 1, they could be under-qualified and a lot of cases I've had, they've been under-qualified. It doesn't matter what their resume may say, they are unqualified for the position. And another thing is a lot of times they're lazy. You might hear about well, the captain's working 16-18 hours a day—what's he really doing in 16-18 hours? Sometimes nothing. So that's how I would answer that. I think specifically this relates to the captains. Sure you've got problems with other crew but with a good captain the rest of the crew will fall into place.

Tom

My experience again relates to the smaller mega yacht—I mean our current boat is 106feet so I can't address the issues with the crew that is running with 10 or 12 people on board. But it seems that my direct experience is that we've either found captains who are operationally or engineeringly proficient but have no skill sets in hospitality, or we have the hospitality captain who has no operational experience. And also I perhaps got spoiled because the first captain we hired didn't work out, the second one was a real star. We had him for 14 months and then we went through I guess 3 more. So those were some of the specific experiences we found in that broad sector. The other thing I've noticed in our experience and I've seen it around the repair yard where you have a captain who someone dubbed The Admiral. He's not a hands on guy, he's just directing. And the next thing you know the owner finds that he has incurred a lot of day labour expense or perhaps expenses at the yard that shouldn't have been incurred had the captain perhaps been more hands on. And mixed in all of that, and this is an experience on our boat and I've seen it on boats that come in for repair, and this is the deferred maintenance, where just normal maintenance procedures that had been established, are not followed.

Martin

Hugh—how do you keep your captain for 18 years?

Hugh

A whip and cuffs around his ankles. A couple of things about this. I think obviously I mentioned we'd had the same captain for 18 years. The person is practically part of the family, everybody's very comfortable around him and he around us and so forth. I think when you talk about being in the crew placement business it's not just a recruitment agency to find someone and throw them into a job somewhere and hope that they work out. I think you have to pay attention to the personality of the owner, the owner's family, and know a whole lot about how the boat is going to be used and then you're really working more as a matchmaker, if you will. And not exactly a dating service, but you're trying to find the right connect between the personality and the skill set to make sure that it's going to work right. And that is not an easy thing to accomplish. And I'm not sure we've gotten sophisticated enough and I'm not sure

there is a sufficient supply of people who want to do these jobs so that we can be as selective and elective as we want to be or really need to be. I think the sea change—and you mentioned things about the commercial boats and their approach to some of the things that they do, part of what they do is contract out for a certain part of the crew and people that are going to come on board. If you have an individual who started out on an 80footer and has worked his way up to a 150footer it may have the same captain, it's someone that they are close to and have worked with all along. If you have someone who jumps into yachting and immediately has a 185footer and that's their first boat, you've got someone who's looking for an entirely different kind of experience and it may be that as we look at our management services and they mature, and we see what they need to become, and our crew placement services, we really are in the business of providing not only the basic safety and operating skills but an experience to the yacht owner and his family based on the purpose of what they want. And I'm not sure we think that way yet. I think we're still stuck in thinking about the old style yachtsmen who've been in this for a long time and are missing the point that there are people who've stepped into owning a yacht the same way I might take my family to Disney World, and look for a particular kind of experience there. And that's a difficult part of the equation. I don't think any of us have solved it yet but I think it is part of the challenge. A guy buys a yacht that he's spent \$100million for is not looking for a headache.

Martin

But is there a solution to the problem?

Hugh

Oh I think there is. You know, I think I wouldn't be here trying to do this and I don't think many of the people here in this room would be here trying to do this. It's one of those problems that we have to address in recognising the nature of yacht ownership and the people that we are attempting to be of service to. And I think we haven't had enough information, there haven't been enough focus groups, there haven't been enough interviews, there hasn't been enough compiling of information, about all of this. And we're in a situation where—someone used this phrase earlier—sometimes you do have to settle for just the warm body to fill in the space, and over the long haul that just won't work.

Tom

You know, I wonder if there are some lessons to be learned out of general aviation for this industry. I'd be curious if anyone has an opinion on that—that might apply to this aspect of the marine industry.

Eric

I can't speak as to general aviation but you're all real estate developers in various forms. And you don't take a project foreman and say *run my company*. He's got a specific job task which is to oversee various qualified tradesmen doing particular jobs, and that gets broken down. A comment was made earlier about the captain being a CEO. Personally I think that's the kiss of death. A captain—and you know, we've got different sized yachts, it's different on an 80footer than a 180footer. But what you do have is a captain comes in, he knows how to drive a boat. He may know how to do a little bit of engine work, he may know a little bit about hotel service, he may be very good in managing your crew, your staff. That he may be able to do. But

he's not been trained to negotiate contracts. He's not been trained to deal with interpersonal problems. He's not been trained to rebuild the bottom end of an engine. And owners I think universally believe that the captain somehow is Disney and he's going to make the magic happen. And I think that is a fundamental problem, a fundamental error. And you can also have—and it's starting to happen with management—that there are people who are the managers. Now, who are the managers? You have people that are managers where some were engineers on some yacht that said I don't want to be on a boat any more so I'm going to be a manager. OK well what gets him to be able to address contract issues. What gets him to be able to say this really sophisticated electronics system that I have no idea how it works should be installed and done in this particular way. There's nothing and it's up to, I believe, the owners and the shipyards to say you know we're not going to do it this way because it doesn't work. That's one of my solutions. Someone has to put the brakes on. The money's with the owners, the money's with the shipyards. And we need to start putting those things in place. There was a comment about we try to find a way to take a system and make it simpler and put it in and maybe we can work it that way. Well whose idea is it that it's simpler, and who's going to tell which owner—you know that real fancy thing that you really don't need that's really cool that you want to have on your yacht that nobody will ever use but it's cool, well you can't have that because it's complicated. It's not going to happen in the industry and I think when we hear other talks in the conference there's going to be some of those things. And that's part of what drives the economy of this industry and it's also part of what takes what used to be yachting, which really does not truly exist that much any more—and it's turned into this new industry, this new happening. We need to be able to have in place an industry that takes the guy whose first boat is the 185footer and he can have a good time otherwise we're shooting ourselves in the foot.

Martin

There's a comment right at the back?

Brian Jackson-Powell Victoria Investments

I just want to address this question that combines everything from both—the problems are interrelated—you mentioned the air industry. I just don't think we have enough women driving boats in this industry. I see them driving jumbo jets for Air France, I see them as presidents of companies; Fortune 500 companies; I see them as presidents of countries and prime ministers; a woman is in many ways vastly superior to a man when it comes to her personal relationships with guests and owners; they tend to take care of vessels much better than men do, they are in many ways as competent and sometimes more competent than men in certain fields. They are an under-utilised asset in this industry and I think people should look towards creating roles for women that other women can admire; and be attracted to, and men should stop thinking that this is a man's world, because they are not handling it very well. Thank you.

Hugh

I'd like to endorse your sexist comments! Couldn't agree with you more. And we're about to have a female President, too.

Lance Savaria Seagull America

I'm the president of Seagull America and a licensed master in merchant marine. Part of my background is I was the marine director of Mitsuyo UK and we operated 40 chemical tankers. I've been doing this for about 25 years now and one of the things that I've seen as I've been investigating this industry to see if we want to enter into it is the merchant business has been doing all these issues that you've been talking about, for the last 10 years. We've instituted safety management systems, and in particular they've had competence evaluation, competence management, but what I've found and this is just my personal opinion is the maturing of captains is a long process. And you can't have a limited experience on one small vessel and then expect operation of a ship, which is essentially what your megayachts are. They're ships. And this is something that has to come after a long process of experience and history in the business, and we're approaching it in a very hodge podge kind of manner and the schools I think have failed; because they have not matured to make it a profession that is a respected profession worldwide. When you deal with a captain on a ship it's a respected profession, the old man knows exactly how to manage his ship and he's not the type of person that takes well to perhaps—and I'm only guessing—the owner's opinions about how things are run. They are essentially safeguarding your lives on the vessels and your equipment, and the environment. That's the kind of three messages that we deal with. I wouldn't model the yacht business on the cruise ship business which is a very hybrid kind of industry and I feel is lacking in many of their training aspects. I would look towards the ones that are under most pressure right now for compliance and that would be your petroleum transporters, and how they're managing crews, and how they're managing training. In particular my experience over the last few years has been with computer based training and we've evolved quite a bit over those years and with the Port States approvals and implementation and essentially an efficiency type of project. A scenario which—for example, our company has about 6000 ships. So when we're looking at how to operate these things—we're talking about the mentality and the seriousness of captains, like you're saying, well they're trying to improve the relationships in a shipyard dealing with a contractor, well let's face it, I can't remember ever going into a shipyard and ever having it work right. You can never underestimate the incompetence of others, is a phrase that I like to live by. But you can get some seriousness in the business. And that's a big issue, in pride. And it's a profession like in the airline industry, you look at a pilot and say oh, he's a pilot, he's in charge of 200 lives, and say \$50million, and you give him a certain amount of respect. But I think we have in this industry a little bit of insecurity about what they are, and that's something that I think needs to be worked on. The other area that is a good possibility in the United States is the Academies really need to be set up, some mega yacht type superyacht type training programmes—I know a few of them are dabbling in it. But after talking with a couple of the schools recently in particular California Maritime and Maine Maritime, my school, they're not taking it that seriously. So there's an avenue that I think we need to deal with and two points would be the competence evaluation, competence management. That gives you a baseline from where you can work. Otherwise you're just kind of guessing on everything that you're doing.

Rob Creech CEO Global Ship Systems

Global Ship Systems in Savannah was formerly Palmer Johnson Shipyard. As yachts are growing, and we've done everything from 55feet to 300feet over the last 3 years, as we look at the lessons learned from each of those refits it seems as though the most value for the owner, typically, lies in that one which is well planned out. Typically we also see that client being a recurrent client, after the refit. Where we see an opportunity for a large portion of volume is working with the yacht management

groups and the number of boats that they have. Yet the gap that hasn't been bridged is being able to work together aside from competing interests to put together a planned maintenance programme, whether it be for a yacht management group or a number of vessels within that group to drive down the cost and create value for the owner, so that we keep him in versus driving him out by exorbitant prices going up, from a shipyard perspective. I'm just curious for the group—if anyone is having any luck getting planned maintenance off the ground in a cyclical period.

Martin

Robin, please give the microphone to Graeme Lord, in the middle there.

Graeme Lord International Yacht Collection

On the planned maintenance, I've looked at systems year after year and it kind of rolls into my comments on all of this. You see some of these systems come and you spend a huge amount of money on them and a lot of crew time and a couple of years later when there's a problem with the system itself you go to the company or the inventors of the company and they've sold out or moved on and the thing has disappeared so you're left with a system that's redundant. It rolls into my feeling that everything I'm hearing today is that there's really a huge shortage of taking responsibility and accountability for being involved in such a great business. The accountability side, time after time I'll see a crew member get released from a yacht, go to a crew agency and the next day be placed again, when there's a clear track that the person really was a bad egg in our industry and really needed to be moved out of the business. But there's no body, I don't see any effort of key players getting together and saying I'm prepared to donate 2-3hours of my time once a month to sit on this panel to have a look at these accountability issues and maybe we'll go in the direction that there's a worldwide membership that, to become a member of this body, you have to meet certain ethical standards and be accountable to retain your membership. There's been a couple of attempts but it hasn't really taken off. It takes time for people to sit on those boards and I think that the only people that are going to do it are people that are truly dedicated to the wellbeing of the industry as opposed to just making a buck and moving on out of the business.

Ole Morten Husoy Marine Technologies

My background is I'm a master mariner and I spent 9 years on cruise ships, the last years also as a master, and I do have management training, contrary to what that gentleman over there indicated. But when you look at the demand for officers, I mean I'm basically working towards the offshore industry today and they estimate that the next 5 years they're going to be lacking approximately 12,000 certified marine officers. So I don't think there's any idea to try to get any crew from that part of the world. I think you have to take this into your own hands and the gentleman was talking about getting the academies in, that was exactly my thought, because I think you have to train people purposely for the yacht industry. I mean the yachts are growing so fast that these big ones that are now getting over 70-80metres, you can't expect that someone that goes from a smaller yacht will be able to manage that yacht. And I think that there's so much availability of training programmes and this goes with simulators, this goes for management training, you can get CDs to take on board and do training that is managed and set into system, this will improve it a lot. This is what they're doing in the offshore industry and also you find in the cruise industry they're going and taking them shoreside for their fire fighter training, for their first aid, but also how to do crisis management, how to train in situations that you hope never arise, but that's where you need the people to have that confidence being

trained to do it so many times that they can do it in their sleep. That's the only way it'll work. I've had fires on cruise ships where people have been running around and starting to lower the lifeboats taking their stereos and personal equipment with them, and this was the crew. I can tell you numberless stories—I mean you'll be scared to go on a cruise if you knew what's on board those ships, because they have exactly the same problem as you're having. They're having to take whoever comes and applies for a job if they're going to get their cruise ship out. They're not talking so much about it publicly, but it is a huge problem for the cruise industry. And I think you really have to take this into your own hands. I have another comment about all these complex systems coming on board vessels—that's what I work with, integrated bridge automation dynamic positioning systems. They're getting so complex that there's very few technicians and engineers that are able to do much repairs on them. But there is one solution that they're going towards now, and that's what they call remote diagnostics. You will have the people who have actually written the programme and installed it, they will be sitting ashore, all of the yachts today will have some kind of communication, normally I see that the bigger ones have broadband that are online all the time but a lot of these remote diagnostic systems they can work on a mobile telephone on a 64kps line. And they can log in directly over the network and they can sit and see real time what's going on on board. I've had incidents where you take a cook and tell him which port to go to, what's he measuring, fault finding and because you're on the line on the telephone telling him what to do and you can see what's happening shoreside. But this is based on that when you planned the yacht you make a system that is based on a network system so you can actually get thro the nodes, through the remote diagnostics, because it seems to me that when I'm starting to look at what's going on the yachts, and I've been on a lot of bridges, and it seems like they've just taken a little bit here and a little bit there, they don't work together, then you have to go to different places to get things, instead of systemising this and doing the pre-engineering, with the thought of what's going to happen a few years down the road, when I need to repair this system. I don't think the yachting industry takes much consideration into this.

Martin

Ole, thank you. Steve, did you want to say something?

Steve Carlec Great Circle Systems

I want to second what Ole just said, remote IT support is definitely becoming much more common; our company does it quite a lot and we find that any boat with a decent internet connection can now get the IT support they need, which also comes into what other people were saying regarding the qualifications of the engineers and crew on board. They may not know how to manage an IT system, AV or computer networks or satellite, but now with IT support which is also being used in the commercial systems, that's quite possible. Which we didn't really have 10 years ago. It was too cost prohibitive. But my question that I really wanted to ask was to our 3 panellists, all three of you are from different industries, leased commercial space, resort development and health services but you mentioned earlier, both Tom and Matthew, your difficulties with contractors and their accountability. Obviously you've been successful in your respective industries all three of you, so what did you do in those industries to avoid getting bad contractors, and how can you apply it to the yachting industry?

Tom

Well, I think this is a good segue into one of the great differences between real estate development and the marine industry and that is that it's a much bigger industry. And so you have a broader selection to choose from. So just from the beginning point there are more to choose from. But when I look at our development site it's not like we don't make some of the same mistakes, where we get bad subs, and to a certain extent the subcontractors are—you're looking for someone who's been in business over a long period of time and we try to do the same thing in the marine industry. But the marine industry and real estate development, these are not my only businesses. We also operate franchised foods, hospitality food service business and those same issues relate there in trying to find people to work for us directly and to service the restaurants that we have. So I think that we have tried that in the marine industry, and I don't want to say that the marine industry fails in comparison to the other ones, my comments earlier were just the frustrations that we've experienced. And a good case in point is when we were building a lot of shopping centres we ultimately got it down to where we used only trained air conditioners and we had a great run over a long period of time with their distributor in Florida. And then overnight it started going sideways and it was a key guy in that company that had left. So we're all subject to that unpredictability, I don't care what you do. I don't say there's a key to it that works there that would work in marine. I think it's trying to do the same thing, we just haven't had that long an experience and I've been at this now for 25 months.

Matt

My comment on that is the contractors that we employ to do various work have been with us for a long time; their prices are fair, their contracts are fair, they always come in, they always get the work done. Always. And they've been around a long time. This industry I don't think people stay around long enough to earn enough respect. They're in there for one job, they make their money; and they're looking for the next. The builder we use, a lot of people use him. And this is general. He's well respected and we know that when we hire him he's going to finish the job on time. That's all there is to it. But I would like to comment real quickly on the visa issue, so as soon as we've finished with this I'd like to say something about that.

Hugh

The short unrealistic answer is you try to eliminate subcontractors. So insofar as you're able to do it, you develop a business—I'm talking now repair and refit yards—model which enables you to bring everything inhouse and have a stable workforce. I know that there are a lot of times with the cyclical nature of the work that gets done in whatever, contractors have been used so that you don't have to have permanent employees that you lay off and bring back, lay off and bring back. So part of that strategy is to have very competent level groups within your organisation that can be subcontractors to others, so when we look at our core business in refit and repair we look at our carpentry shop, air conditioning, pipe fitting crew, our welders, and are or planning to, have them contract to others so we bring in other business from the outside when we don't have enough business for them on the inside. The second thing, by the way you can't get the 100% there.

Martin

Is that through acquisition or through internal development?

Hugh

Internal development and sometimes what you do instead of trying to hire the 7 more carpenters that you need, you might buy in an outside carpentry shop that has 7 carpenters and add them into your own. But the other thing which is true is the complexity of systems. There are unique problems that only an outside specialist can be brought in for. In that regard you have to really know who you're dealing with. And price cannot be the only issue, and it can't usually be the most important issue. Quality and reliability has to be the most important issue when you're talking about contractors. I think also finally that you have to be willing to step up to guaranteeing, warranting, and standing behind the work done in the yard, whether it's done by your employee or done by the contractor from the outside. It's your work. And it has to do with our reputation and we would have to stand behind that.

Martin

Matt—do you want to talk about the visa thing. We have two more questions.

Matt

The visa issue. You were mentioning that crews hide away in the Bahamas or get out of Fort Lauderdale to go to the Bahamas—Mexico, you can spit to Mexico—it's right there. You can see it from here. Now I don't know much about visa issues and things of that nature but I know that if you need to get out of the country Encinata is 60miles from here. That's an option.

Martin

That'll be discussed tomorrow by the local people here. Doug please?

Douglas Sharp Sharp Design

First I want to thank Matthew for his kind comments about San Diego. All of us that have been labouring in this industry in near obscurity hope that we're going to become that overnight success.

My main comment is that all of these meetings that we've been to over the years that Martin has put on and many of the faces I recognise here, we've discussed this crew problem over and over again, and the industry always looks at it as something that this industry needs to address and solve, as an industry. But I would put out to you that this industry and my time has been fuelled by the owner's investment, the owner's investment in design. The owner's investment in materials. His investment in advances in construction. And I maybe the industry needs to go back to the owners and say we need a comparable investment in crew training, in crew problems. Owners that we see coming in to our office that are getting into bigger and bigger boats for the first time tend to think that (a) they don't want to deal with crew problems and (b) crew is automatic with the boat. That's my point to the owners here and to others, maybe we need to look at owner's investment in our industry to help solve this problem.

Martin

Doug, I'd make one comment on that. The issue that we had in Amsterdam in November, the owner's panel suggested that a percentage of profit from every brokerage and shipyard should be made into some sort of fund for training. OK, that's what the owners said! I think the owners put enough into this industry.

Doug

I'd be happy to do that if the designers actually made a profit!!

Hugh

That's like trying to find a non profit doctor.

Annette Dahl San Diego Unified Port District

A comment was made earlier about San Diego being poised, or potentially the next Fort Lauderdale or the hub for the yachting industry, and I think a question was asked earlier—if you could comment to what is it that San Diego can do to further that? If you have anything you'd like to share with us today or later on, and what can we do to avoid the problems that you mentioned Fort Lauderdale is having. So if you have any comments I'd like to hear this.

Martin

I think I'm going to save that for Friday when we discuss the West Coast strategy in more details. But thank you for that.

Lisa Knapp

This regards someone who made a comment about what can yachting learn from general aviation. I've been sitting here thinking about it.

I'm not sure what we can learn but we can notice some differences. 21 years ago I worked for People Express and Continental Airlines. Point 1—the airline industry is a regulated industry with unionised personnel. That's a big difference from captains and crew that we have on yachts, whether they're private or charter yachts. 2—a crew on an airplane will be called illegal crew and grounded if they have worked X number of hours; they will not be allowed to get back on that plane. If a substitute crew cannot be found that flight will be cancelled. Most yacht charters are not cancelled and while there may be some issues as to how hard various captains and crew may be working, many of them are burning both ends of the candle. Another issue is that many captains who fly on commercial airlines come from an armed services background; they've flown for the air force. Tony Sparks of Phantom Services who spoke for security issues at the St Martin conference recently told me that on the "new" United States Coastguard, that years from now we may be seeing more captains coming from the coastguard with a more "military" background and that that may change the industry somewhat. To wrap it up, the commercial airline industry is transportation to get you from point a to point b. They only gave me 6 packs of peanuts for a flight from Fort Lauderdale to San Diego. They're not concerned about pampering a guest, as we are on a yacht.

Eugene [From the floor]

My background is on the merchant navy side. I've only been a yachtie for 5 years but I had about 35 years on the commercial side and there are a lot of similarities in the 2 industries and a lot of issues that we tackled on the commercial side that I see staring at us today on the yacht side. I want to make some comments, I'll make them as quickly as I can. Graeme Lord's comment about people moving from yacht to

yacht and being fired and then hired the next day, we went through this many years ago on what we call the Jones Act, where a seaman would have a claim under the Jones Act, collect a lot of money, and he would be on another ship next week. There was an organisation called the Marine Index Bureau that was formed that became a clearing house for the American Merchant Marine to track the malingerers, the injury prone, and basically created a blacklist of people that were not fit for the industry. I think the maritime industry in general and even the yachting industry is a big secret in this country; I don't think we do enough advertising, past a waterfront I don't think people in the heartlands understand the yachting industry. They don't understand the merchant marine, I know that. I don't think the yachting industry is very far behind it. My next comment is on the criminalisation of seafarers. This is an issue that has become very very acute on the deep sea side. And we're seeing more and more of it and if you read about there are people going to jail, there are people being incarcerated for things that they should not have, the oily water separator issue. The magic pipe, on and on. I get concerned that this may find its way into the yachting industry. I'm also concerned about the visa issue. There are a lot of merchant mariners that will refuse to come to the United States on merchant ships because of the criminalisation of the seafarer and if this happens with the visa issue you're going to see an even bigger crisis, or problem, than you have now. Lastly, on the maritime academies and training and so forth, remember the maritime academies—and I believe there's either 6 or 7 of them in this country alone—they are based on having their own training ship or a midshipman programme, where there is a way of getting young men and women, trained on the actual vessels that they will be working on. And that's something I think we have a real issue with here in the yacht industry. How do you have a "training ship" or a midshipman programme to bring people into the yachting industry. Thank you.

Martin

There is a training ship being discussed in the UK at the moment actually which I have some involvement in. Yes, John, please, at the front.

John Cary Freeman Marine

Martin, this question is directed more to you and to The Yacht Report Magazine. Compliments to you for the efforts the last couple of years for the crew magazine and under that format, have you considered doing a seminar like this that relates specifically to the hospitality, or the crew side of it?

Martin

Yes, we have a series of crew focus seminars being planned for the Monaco show this year and maybe the Fort Lauderdale show, because there's a big business there that needs to be developed. I'm also involved in something called the Superyacht Academy, which is being planned in the UK at the moment. Which is linked to the Royal Navy; they have a massive academy training programme which has about 2½ thousand excess cadets going through there whom they have nowhere to place. So yes, I'm fully aware of it and on the European side of it we're hands on. In the US we don't know yet, so the 6 maritime academies we'll have to find some information about and we'll have some involvement with those guys.

There's another question there, thank you.

Jeff Bowles Donald L Blount & Associates

Like Matthew, I'm a young guy, still wet behind the ears, but I have had a pretty diverse background. My father was a licence officer in the United States Coastguard for 23 years, so I've been around boats; he's now a 1600ton ocean going master and has been a captain of two yachts, on which I've sailed under him. I've also spent some time on merchant vessels as my internship programme at Webb Institute where I got my naval architectural marine engineering degree. Some general comments that I wanted to make; all this discussion that I've heard today I've heard it from Dad in discussions around dinner for the last 10 years really. Boats today are getting bigger and they are getting more complex and the owners do want every little widget that they can get on board, which is a good thing because it's a new product, something that you can put in a magazine and print pages and pages of pictures and text about, because it's new, it's different, and there isn't anything else like it in the world. But at that point you've gotten something that is complex; you have to manage it from offsite through telecommunications, but you also need to have a master that's there, skilled to that level. We mentioned a dividing line on certain boat sizes, you know, it's not the same on 80footers as it is on 100footers. Well a 50 or 100ton boat captain is a boat driver, and a 1600 ton master mariner is also just that. They have worked with contract issues, they've dealt with interpersonal skills with crew, and they've solved those problems before. And so sometimes the direct solution maybe now that I came to think of it, maybe the owners need to go out and buy a little bit more captain. An 80footer can probably be done with a 100ton captain. But a 100ton captain is not going to provide the management service and the contract management and the shipyard and so forth that you want. Where a 1600 master mariner would. The other thing is I've heard a lot about is we've mentioned today is dedication and pride. I've heard this a lot in my workings with Alan Gilbert over the years, that we're here for the boat, and if we're here for the boat and to make the boat work and to keep the owner happy, the captain has to be that way too. You can't have a captain who's there along for the ride so he can play around on a superyacht somewhere in the Mediterranean for 2 summers. You need a captain who's going to be there, who takes pride in the quality of the yacht, the preparation of it, and goes to the shipyard with the shipyard refits and work packages and installations and upgrades and he's the guy on the shopfloor who watches the shipyards and the contractors to make sure that things are done right and are done in a timely fashion and to a schedule. You've got to have someone there managing that. Just one last final note is I guess I'd like to know how many people here that have dealt with yachts and with contracts in this industry do actually see a fixed time and fixed cost price. In my experience over the last 7 years I haven't been able to get anybody to do anything with anything fixed. It's all time and materials and we'll let you know what happens at the end, and that's how prices run awry, and owners really get nipped in the pocket for it. So better estimating perhaps from the shipyard to get that stuff in a format that everybody can shoot at and talk around and discuss. But an open time and materials budget is never going to work out for everybody in the end.

Martin

Thank you. On that note I think we'll wrap up and have a coffee break now for 25 minutes. Gentlemen, thank you very much for your time. Delegates, thank you.
