

COMMERCIAL CENTS
Chartering your yacht can offset costs, but multiple points need plenty of forethought to balance expectations with reality.

Inside story

Need A Commercial Break?

Chartering is an attractive prospect for any yacht owner in Australia. But, as Richard Morris highlights, it's important to know the lay of the land before you jump into a yacht purchase with the intention of going commercial.

The Australian superyacht charter market is unique. When compared with the fleet of charter superyachts available in the Mediterranean and Caribbean, the selection in Australia is limited; especially within the 45-metre-plus sector catering to longer-term overnight charters with a maximum of 12 passengers.

However, Australia has developed its own niche charter industry that is different from the rest of the world, made possible by commercial vessel regulations being applied to superyachts, thus enabling them to operate with more than 12 passengers for short-term corporate cruises, some with a capacity up to 120 guests.

This has spurred the corporate charter market, principally centred in Sydney but prevalent in ports around the country. The main types

of clientele attracted to shorter charters are corporate groups looking to launch new products, impress clients, thank their staff and visiting VIPs, or those wanting to 'see and be seen' on Sydney Harbour.

Nowhere else in the world do superyachts operate in such a manner, ostensibly switching effortlessly between three different operational categories: private use, overnight charter for 12 passengers, and short-term day charters with larger groups.

Mediterranean-based superyacht brokers have often expressed to me their confusion about this form of commercial superyacht activity, some even denying that it constitutes bona fide superyacht chartering.

But consider that every New Year's Eve,

Sydney Harbour is packed full of visiting and locally-based superyachts enjoying the world's best fireworks display. Many of these are chartered for the evening at hourly rates exceeding what much larger yachts earn at other premium global yachting events such as the Monaco Grand Prix or Cannes Film Festival. New Year's Eve on Sydney Harbour generates millions of dollars in charter revenues for Australian commercial superyachts. It is big business, and business is booming.

A simple Google search for 'superyacht charters Sydney Harbour' quickly reveals the wide variety of high-quality superyachts that have chosen to make themselves available for this service. It is perhaps our little Aussie secret, the fact that Australian superyacht owners can elect

to make their yacht compliant with commercial charter survey regulations, thus allowing for greater revenue earning potential compared with those limiting guests to a maximum of 12.

BENEFITS OF CHARTERING

Superyacht owners are attracted to commercial chartering simply because it makes sound financial sense. Chartering offers a range of fiscal benefits that significantly reduces acquisition and running costs by providing a corporate asset ownership structure as an alternative to being funded by post-tax-paid personal funds. This fact alone potentially yields real savings of up to 50 percent.

Australian charter superyacht owners are typically very savvy, successful corporate businessmen who have understood these advantages for a long time, and they have created an industry around their product. Owners get more from their vessel as it works for them when they are not using it and thereby substantially reduces the cost of ownership.

HISTORICALLY CONVERTING FROM PRIVATE

Most of the superyachts available for charter in Australia today are older vessels that were originally built to private recreational specifications and later converted to commercial standards. Predominantly, these are superyachts that were built in Australia by respected shipyards such as Warren Yachts, Lloyds Ships, Oceanfast, Evolution Yachts and others. Being Australian built, the state regulators charged with ensuring compliance had a certain comfort that these vessels had a high quality of construction. They could easily obtain the documents and information needed, even if the yard had since closed its doors, by contacting the local naval architects or designers. In addition, by default these yachts were customarily built to very high, 'almost commercial' standards simply because it was good shipbuilding practice to do so in Australia.

The conversion of these vessels to comply with both the older, state-based Uniform Shipping Law (USL) Code and now the new National Standard for Commercial Vessels (NSCV) was an involved but ultimately straightforward process, utilising grandfathering provisions allowable for existing vessels. It worked very well and it is reasonable to assume that every good quality, Australian built and commercially viable superyacht that was available for sale has now been purchased and converted, leaving few available to potential owners still on the hunt.

REGULATORY CHANGES

Many superyachts were converted to commercial compliance in the last five years, a period coinciding with great regulatory change in this sector. Up until only a few years ago, each state was responsible for its own regulation and marine certification of commercial vessels. Even though the USL Code was designed to unify the standards between states, each state had its own interpretation of the rules. Combined with different surveying regimes – from government

surveyors only as in NSW to a mixture of government and private surveyors in Queensland – this allowed for varying standards to be applied.

The NSCV was implemented in 2013 to replace the USL Code, applying a true national standard for commercial vessels. This was a long process and, once achieved, the regulations became nationally unified and the domestic commercial vessel (DCV) label was created. Previously USL-certified vessels were automatically upgraded and newer existing vessels converted to DCV.

In 2015, the Australian Maritime Safety Authority (AMSA) assumed responsibility for commercial vessels from the state agencies and the NSCV became a part of national law, ending the multiple regulatory jurisdictions and varying standards that hindered vessel operators moving between states throughout the year. AMSA's

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takeover also coincided with its accredited surveyor program, the training and certification of qualified marine surveyors to act on its behalf for DCV surveys.

Now that the NSCV is in force, it has become increasingly difficult to achieve certification for older, existing vessels that have compliance issues which might have been accepted with a dispensation under former regulations, but now are considered unacceptable. With this new regulatory framework, AMSA has significantly raised the bar. It is responsible for the safety of luxury superyachts that are DCV-certified, ensuring they must be built and operated to very high standards; rules that apply equally to the Sydney Harbour Manly Ferry.

BUYING FROM OVERSEAS

In recent years, given the lack of previously-owned superyachts available in Australia for purchase, many Australian owners desiring a commercial superyacht to operate domestically have bought from the international market, where many hundreds of 'suitable' vessels have been available at great prices due to the strong dollar.

Unfortunately, there have been some cases of yacht brokers making false representations to clients, indicating that the yacht would 'easily and cheaply' achieve survey standards for chartering once imported into Australia. Often they were basing this opinion on the ability for that vessel to operate commercially in other cruising areas around the world, and they were unfamiliar with the complex Australian requirements. This has resulted in some expensive mistakes in recent times and some potential owners opting not to buy.

Prospective superyacht owners considering purchasing a superyacht overseas for importation to Australia and conversion to Australian survey would be well served by engaging an AMSA-accredited marine surveyor with suitable

superyacht experience to guide them from the very beginning. This small initial investment will ultimately protect the owner from accepting representations from unqualified yacht brokers that could result in an expensive mistake; the list of available surveyors is on the AMSA website.

BUILDING FOR THE AUSTRALIAN MARKET

Converting an existing superyacht to Australian survey standards is not necessarily a cheap option. Careful consideration and analysis must be carried out to fully budget for the conversion, check the likely charter capacity to be achieved and create a business plan of expected revenue and expenses to ultimately confirm if it is worthwhile.

Owning a commercial vessel has its obligations to the tax office, and it is clear that the activity must constitute the running of a business with the intention of making a profit. Many modern

superyachts could eventually achieve Australian survey; it is just a matter of money. But in certain cases, the costs to rewire, to add extra damage subdivision, to upgrade fire protection and stability, and to reverse engineer the required drawings could potentially render the project financially unviable.

There are additional costs to optimising the yacht for larger, corporate groups, including traffic flow requirements, toilets, seating, safety equipment, and entertainment systems to achieve a vessel that meets the needs of the market. Some very savvy superyacht owners have decided to design and build their superyachts from scratch for Australian commercial charter, however, and select shipyards both overseas and locally can offer this service.

Recently, Gulf Craft delivered the Majesty 122 M/Y *Ghost II* to Sydney, the first ever superyacht specifically designed and built for the Australian charter market. It achieved its Australian survey certification within seven days of arriving in the country in October 2016, conducting its first charter on the eighth day. *Ghost II* has since established itself as Australia's most successful and sought-after corporate charter yacht, offering an extremely high-standard superyacht experience for up to 120 guests at a time, making it the biggest charter yacht in Australia. Gulf Craft is currently building two further Australian commercial superyachts for delivery late 2017 and early 2018. ○

www.australiansuperyachts.com.au

Richard Morris is the Founder and Managing Director of Australian Superyachts Pty Ltd. A master mariner and superyacht captain, he still takes command of yachts that have pioneered in regulatory terms. The company has achieved DCV compliance for numerous existing superyachts in Australia and works with Gulf Craft as build managers for Australian clients; it is also the exclusive Australian distributor for Gulf Craft Majesty Yachts.