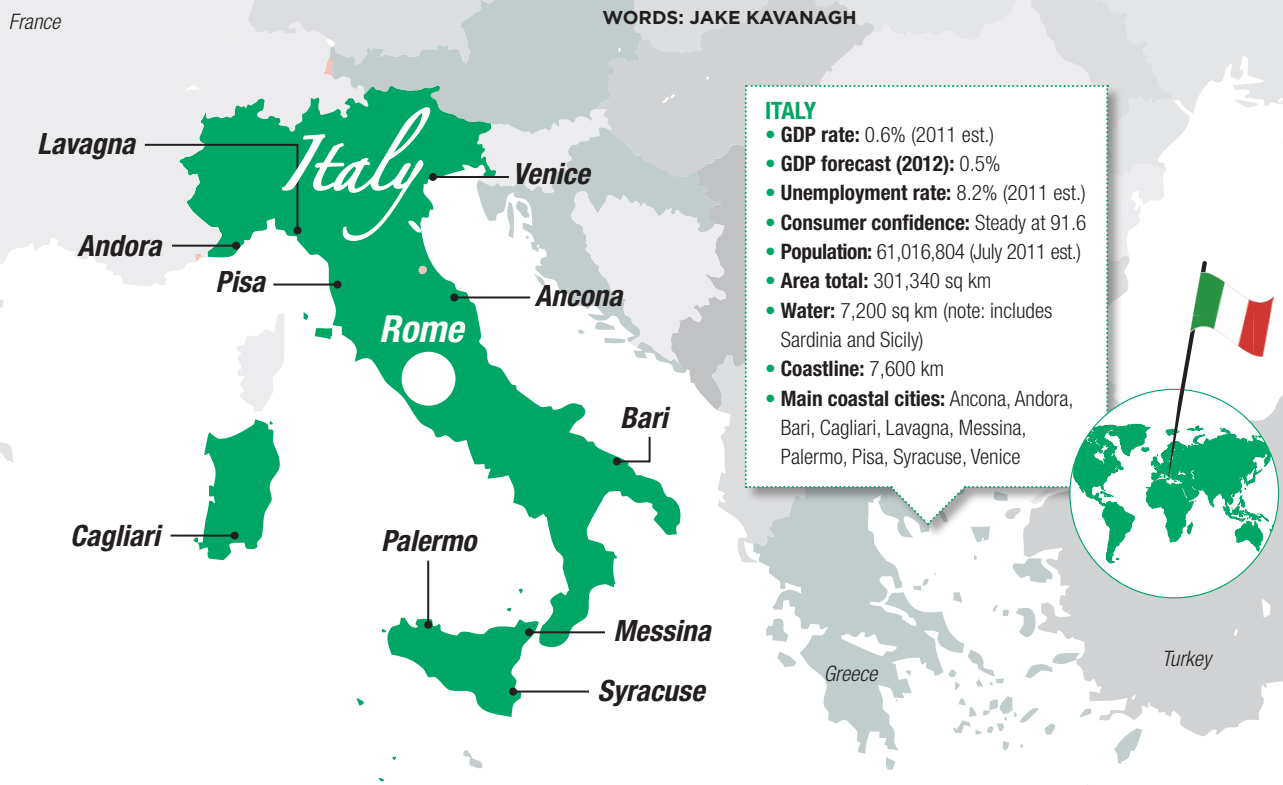
Taxing the goose that lays the golden eggs?

A PROPOSED ITALIAN 'CRUISING TAX' IS LOOMING LIKE A SHADOW OVER AN INDUSTRY ALREADY ADAPTING TO COPE WITH THE PROTRACTED EUROZONE CRISIS

WORDS: JAKE KAVANAGH



ITALY

- **GDP rate:** 0.6% (2011 est.)
- **GDP forecast (2012):** 0.5%
- **Unemployment rate:** 8.2% (2011 est.)
- **Consumer confidence:** Steady at 91.6
- **Population:** 61,016,804 (July 2011 est.)
- **Area total:** 301,340 sq km
- **Water:** 7,200 sq km (note: includes Sardinia and Sicily)
- **Coastline:** 7,600 km
- **Main coastal cities:** Ancona, Andora, Bari, Cagliari, Lavagna, Messina, Palermo, Pisa, Syracuse, Venice

The 51st Genoa International Boat Show last October offered a vivid picture of just how the leisure marine market has changed in recent years both in Italy and Europe. Visitor numbers to the show were down to just 226,000 people — a drop of 13 per cent compared to 2010, and some way off the 300,000-plus of the boom years.

Sales of boats on the Italian domestic market are estimated to be down by over 70 per cent since 2006, driven by the economic crisis in Europe, lack of mooring spaces and the increased activities by the Italian tax authorities towards boat owners.

Over the past 12 months matters have stabilised somewhat — the majority of boatbuilders and equipment makers alike took the tough decision to downsize back in 2009 and have since acclimatized to much lower sales.

The superyacht sector is proving the most resilient. Camper and Nicholson's Superyacht Index, regarded as one of the most accurate indicators available, showed Italy once again completely dominating the new build market. The figures (currently only available to the end of 2010) put Italy in top place by a big margin. Of the global total of 195 yachts delivered in 2010, Italian yards were responsible for 71 of them, representing a 30 per cent share of the market. Italian yards were also amongst the most productive, with Benetti leading the field with 12 deliveries, and San Lorenzo in third place behind the UK's Sunseeker with 7. In terms of value, Italian yards produced yachts to the value of €1.136 billion, as opposed to €1.278 billion in 2007.

Whilst data is still being compiled, 2011 looks to have been an encouraging time for several leading yards. Super sailboat builder Perini Navi Group, which also includes the Picchiotti brand of motoryachts, closed 2011 on a positive note with the signing of a sales contract on a new 69m sailing yacht. The deal follows further signings back in the summer of 2011 for two more 60m yachts. It was

a busy year for Perini who also launched the tenth yacht in its 56m series *Fidelis*; the 55m yacht *Galileo G*, the second launch to date of Picchiotti's Vitruvius series; and *Clan VIII,* the fourth yacht in Perini's 45m series. For 2012 Perini is looking to tap into Russian and Chinese markets.

With eight distinctive brands that include Ferretti Yachts, Mochi Craft, Pershing, Bertram, Itama, Custom Line, CRN, and the iconic Riva range, Ferretti Group is a major player in the Italian industry.

Companies featured

Boatbuilders mentioned in this report

- Perini-Navi p28
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Lamberto Tacoli, the Ferretti Group's sales and marketing chief told *IBI*: "The preliminary results for the nautical year, which closed on 31st August 2011, show a production value of around €521 million," he claimed.

"This figure represents a 12 per cent increase compared with the €465 million registered on 31st August 2010," Tacoli said. "The order portfolio last August was around €401 million Euro, an increase of 56 per cent compared with the €257 million Euro registered at the end of August 2009."

Back in January Ferretti creditors agreed to sell 75 per cent of the Italian conglomerate to Shandong Heavy for €178m of equity investment and debt financing of €196m. The Royal Bank of Scotland Group Plc and Strategic Value Partners LLC will also acquire 12.5 per cent stakes in Ferretti through a €25m equity injection and debt-to-equity swap. Ferretti's capital structure will be fully restructured with debt reduction to around €120m.

MIXED FORTUNES

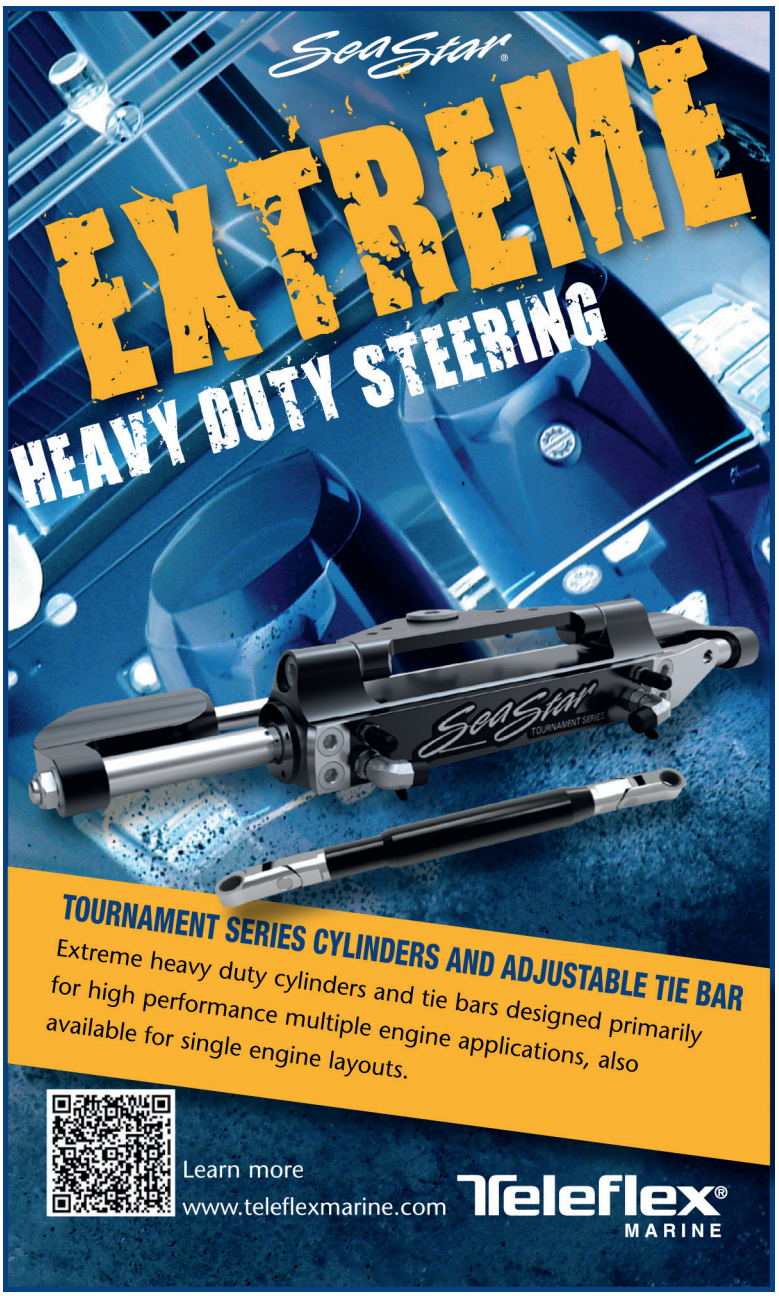
Azimut, Italy's largest wholly Italian owned manufacturer with a wide-ranging portfolio of models, remains cautiously optimistic. "For the Italian boating industry, 2011 was a year marked by selective growth, which is something our group – and only a handful of others – knew how to take advantage of," said CEO Paolo Casani.

Whilst the superyacht sector has performed steadily through the recession, the smaller production yards have had mixed fortunes. Generally speaking, strong brands with a wide overseas distribution network have faired comparatively well.

Typical of these is Sessa Marine, a company producing four distinct lines of powerboat from 6-20m (20-68ft). "2011 was satisfying year," said marketing manager Sophie Dupuy. "We increased our total income by 15 per cent, a strong performance in the context of the economic crisis. We now have dealers in 30 countries, so exports had a positive impact, providing 83 per cent of the total."

A similar success story has come from Ranieri, with 23 models of fast powerboat all under 10m (30ft). "We improved our turnover by 7 per cent on 2010," said CEO Salvatore Ranieri. "We sell about 60 per cent of our boats to Italy, and the rest to Europe."

For the family owned boatbuilder Rancraft Yachts, which employs 50 people at its Soverato-based facility, 2011 proved a "satisfactory" year in which it launched two new models (the RC45 and RC 28), according to Giuseppe Ranieri, especially during the first eight months, though revenues declined in the fourth quarter.



ITALY | OVERVIEW

"The Italian market is fairly static at the moment, though it's usually a little slow at this time of the year," Ranieri told *IBI* adding that he was optimistic about Rancraft's future given that of the 19 models it builds, 18 fall into the sub-10m category which means they are exempt from tax. The builder is now planning to unveil two new models this summer and is looking to expand into emerging markets. It has already sold boats into Croatia, Bulgaria and China, and is looking for sales in Russia too.

For Azimut, producing a number of mid-range cruisers and smaller sports boats alongside it's superyachts, the export market remains promising. "While in Europe smaller boat sales are the hardest hit, in the Middle and Far East the small boat segment shows signs of slow but steady growth" Bagetto said.

TAXED TO DESTRUCTION?

However, as Italy starts an uncertain 2012, the domestic situation has become far more challenging.

"Italy is going through a difficult period" Bogetto remarked. "This absolutely impacts on the yachting industry, especially since boats are seen as luxury goods which in this current climate of 'austerity' are best kept out of sight. The misplaced stereotype of boat owners as tax evaders is also discouraging a lot of people from buying a new boat. Instead, they are choosing to rent them in other countries."

> ***"A number of our clients have already asked us to look into alternative locations just a few weeks after the government's decision"***

Even in the more affordable small boat sector, it appears that Italians are now reluctant to part with their money. "We know that people have cash to spend, but they are worried about the future," said Salvatore Ranieri. "The political situation, our national debt and our technocrat government, are making people fearful for the future, so they are saving their money instead."

Clearly, the answer to this is for the government to actively encourage spending on Italian products and marine tourism, but in a move that has left the industry dumfounded, the opposite has happened. The new government, headed by Mario Monti, has decided to impose a punitive austerity tax on boats instead. A similar tax has hit light aircraft.



Sessa's recently launched C44. The boatbuilder has launched more than 24 new models over the past four years

As from May 1 2012, any vessel longer than 10m in Italian waters will have to pay a daily tax for berthing either afloat or ashore (including at anchor) on a sliding scale depending on size. The details of the tax, which appear to be as confusing to the government as to everyone else, have been reported at length in *IBI Plus*, but the possible implications are still being assessed, usually with dismay.

Even the superyacht industry, a major revenue earner, is not immune. For the average Italian-owned 37m superyacht, the tax would be €207 a day, or an eye watering €75,555 a year. There are some exemptions, such as yachts undergoing refit ashore, but with every day afloat still being penalised, the fear is that owners will simply vote with their hulls.

Simon Goldsworthy, an experienced broker with yachting experts Camper and Nicholson, has deep concerns about the collateral damage the new tax could cause.

"2012 is sure to be a very tough year for the Italian superyacht industry," he remarked "Shipyards that had full order books at the start of the crisis are now seeing the yachts that were ordered pre-crisis delivered, so are anxious to sign new orders to keep their sheds full. Many yards that were looking for refit work to get them through this difficult period have now also been hamstrung by the imposition of the new tax. This will likely mean that many of the small jobs that keep shipyards ticking over may now be contracted outside Italy."

Goldsworthy has begun to witness the start of the tax-escaping exodus.

"A number of our clients have already asked us to look into alternative locations, so the effects are already being felt just a few weeks after the government's decision. Most owners are happy to perhaps pay some kind of tax, just not at the punitive level demanded. Unless the mooted withdrawal or modification currently being campaigned for proves successful, the government will have literally killed Tuscany's golden goose."

But, Goldsworthy suggests, it isn't just the yards themselves that are facing a disappearing clientele.

"Worst hit by the decision are likely to be the subcontractors," he explained. "Shipyards in Italy typically have very few employees and their own wage bill is usually relatively small, so they will find it easier to contract to new levels of business. But artisan subcontractors whose primary overhead is labour will be very hard hit. I would expect the big brands are likely to weather the storm, but smaller names with limited finances are likely to find business very difficult indeed."

CRN chairman Lamberto Tacoli agrees with Goldsworthy's view, although he thinks the damage will be mitigated to some degree.

"When combined with the general economic

situation in our country, the new tax may become an important factor, meaning many yachts could eventually leave Italy," says Tacoli. Data from the Assomarina (the Italian Marina's Association) shows that there were an incredible 150,000 yachts in the 500 nautical bases of the Peninsula, but that around 30,000 are now moving towards Greece, Turkey, France and Malta, where they can save up to 40 per cent in charges. In the Italian Adriatic, on the other hand, yacht owners are 'escaping' to Slovenia, Capodistria, Rovigno and Cherso. But Sardinia and the Ligurian ports of the Ponente are doing no better: from those parts people are heading to Corsica, the Côte d'Azur and Africa. "The first few measures taken by the Italian government certainly do nothing to help our country's nautical sector, which should actually be considered one of the most important engines of Italian-made goods in the world. "Nevertheless, I believe that the effort towards greater efficiency and streamlining bureaucracy can also help our sector."

SOPHIE DUPUY | MARKETING DIRECTOR
SESSA MARINE

> ***To be successful in the market, a product has to be really original, different and unique***

It isn't just the superyacht owners that are planning to minimise their time in Italian waters. Overseas visitors may decide to skirt Italy altogether, especially as three months cruising in an average sailing yacht could cost nearly €1,000 in tax alone.

"The decision of the Italian Government to set this new cruising tax was a very bad news for the entire Italian nautical industry," said Sessa's Sophie Dupuy. "Not only for shipyards, but also for the marinas and other nautical activities and services."

CHANGING TIMES

However, when well-meaning (but often misguided) governments impose onerous taxes, companies tend to work around them. Italians seem very resourceful when it comes to bypassing bureaucratic obstacles. Take the Brazilian marine market, which has enjoyed an almost consistent 10 per cent growth for a decade or more, and is only hampered by the lack of berths and infrastructure. Import tax for anything outside the South American 'common market' is a staggering 60 per cent, with additional charges taking it to around 86 per cent. After years of exporting to Brazil via domestic partners, and realising the enormous potential there, Azimut-Benetti, Ferretti Group and Sessa have all set up factories in the country itself. Not only are these Italian-run facilities now feeding the local market directly, they have largely sidestepped the most punishing import taxes, and invested directly into a growth market.

At home, a similar logic is being applied, with new strategies being adopted to limit collateral damage from the cruising tax. One initiative has come from Fiart Mare, a yard established in the 1950s and now building powerboats from 5.1-15m (17-50ft). The company has deliberately created a stylish luxury model a fraction below the 10m limit to bypass the new tax completely. It has also produced a 17.4m (58ft) to appeal to the export markets. On February 18, the company launched a scheme that will supply brand new boats to the domestic charter market as charter boats will be exempt.

Fiart Mare is another yard that enjoyed a reassuring 2011, with stable sales overseas, and has predicted the growth of the sub-10m design. However, Anna Laura Di Luggo is hopeful that common sense will prevail, and the tax will be changed to a less harmful 'property-style' levy, which will be easier to police and collect.

STAFFING LEVELS

Since 2009 Italian yards have managed to retain most of their staff, so have kept the skills that would otherwise be lost to other industries. Some companies are even recruiting. This is partly due to government initiatives to keep people in jobs and paying taxes.

"The government is not specifically helping the nautical industry, but we do get the so-called Social Shock Absorber," or Cassa Integrazion, explained Sessa's Dupuy. "This means that during a decrease in activity, we can receive economic help from the state to retain our workforce."

Other companies have responded to the crisis by encouraging more flexibility amongst staff, and multi-skilling.

"The current international scenario has obliged us to align our organisational structure to market trends," explained Ferretti Group's Lamberto Tacoli. "The nautical sector has changed considerably in terms of both supply and demand, so we've undertaken a reorganisation process to become more versatile and quicker in decision-making. We believe strengthening the Group's internal synergies can guarantee us the very best results."

Restructuring in difficult times seems far preferable to downsizing. At Overmarine, builders of the popular Mangusta range, continued employment prospects remain steady.

"The organisational structure of Overmarine



▲ **Ferretti Group production value was up 12 per cent for 2011. Lamberto Tacoli says expansion in emerging markets will be key going forward**

is very flexible," said marketing manager Patrizia Rovaris. "This allows us to adapt to different market conditions without difficulty, so for the time being we are neither recruiting nor downsizing."

Others are taking on staff as exports pick up. Sessa, for example, has also restructured by recruiting additional key managers, two of them to the sales team, and one to the technical department. Ranieri increased its staffing levels by 10 per cent in 2011, and companies with manufacturing facilities overseas have also reported a slight increase in manning levels.

NEW MARKETS, NEW MINDSETS

The uncertainty of the impending cruising tax combined with political upheaval and a quiet time of the year has caused the domestic market to remain sluggish, but overseas sales remain encouraging. In addition, yards are witnessing a more informed customer, rather than the impulse buyers of more affluent times.

"Our dealers confirm the trend for customers to be more specialised," Dupuy said. "They are always more informed, and before they come to our stand at boat shows they have researched our products well, along with those of our competitors. They know how to compare the key points."

Aware of a more discerning buyer, many Italian yards are upping their game. "We have invested heavily in new models, and new innovations," said Salvatore Ranieri. "In the future, an increase in sales will probably have to come by taking them away from competitors."

INVEST OR DIE

"Developing new models is a fundamental part of staying a market leader," Azimut's Bagletto said. "We are expanding the Magellano Collection, designing the series for long cruises with the utmost respect for the environment, as indicated by their Rina Green Plus certification. The models have semi-displacement hulls to ensure maximum efficiency and reduce fuel consumption. We are also about ➡



to roll out the first Magellano 50 in the 'easy hybrid' version. The size of boats is becoming more contained again, made possible thanks to design advances that maximise space to a previously unimaginable degree. This means that even a 45ft model can have three private cabin. There is also greater attention paid to maintenance costs."

NEW MODEL DEVELOPMENT

"Innovation is continuous," said Overmarine's Rovaris. "Research and development is aimed at efficiency, so owners can obtain the same performances but at a lower cost. We're also looking at improvements in comfort on board. Constantly bringing new models to market is important, and we've recently launched the Mangusta 110 and Mangusta 130, with a restyling of successful Mangusta 72. Our Mangusta 148 Oceano project is the first displacement yacht built by Overmarine, and is addressed to a specific client typology that wants to enjoy the sea in maximum comfort, but without the exceptional performances that characterise our Maxi-Open Yachts."

Sessa Marine is also investing heavily to keep Italian-built boats exciting and desirable. "Development, innovation and creativity is part of the Sessa Marine DNA," Dupuy explained. "Despite the economic situation, for the last two years years we have still presented brand new models (and not just restyled versions) at each of the major boat shows. That allows Sessa Marine to offer a very large and totally renewed range of boats from outboards to flying-bridge. We plan to present 6 new models within the next 24 months." The boatbuilder has launched more than 24 new models over the past four years, renewing its entire rane and introducing a flybridge line with three models; its Fly54, Fly45 and Fly40.

> ***"The fact that the crisis is persisting and getting even worse is pushing companies to completely revise their strategies"***

Sessa isn't alone in pushing ahead with new models, despite the costs involved. At Ferretti Group, the plans are even more ambitious.

"Clients continue to be passionate about yachts," Tacoli said. "Our aim will be to continue working on increasingly more innovative products and comprehensive services that are tailor-made to our clients' demands. By the end of 2013, in fact, our Group plans to present an impressive 42 new yachts, which are currently being developed."

EMERGING MARKETS

Whilst Italian yards have not given up on the domestic market, it is clear that during 2012 there will be far more emphasis on developing customers overseas.

"Besides the traditional 'domestic' markets of extended Europe and North America, our Group is continuing to focus on Latin America and on Asia Pacific markets.," said Ferretti Group's Lamberto Tacoli. "Over the past few years, in fact, the Ferretti Group has registered a considerable increase in turnover from the non-European market. In 2008, for example, sales from Europe (including Italy) were 76 per cent of the total turnover, whilst those from the non-European market were 24 per cent. Today, the Group attains around 50 per cent of its sales in Europe (including Italy) and around 50 per cent outside Europe. For the future, we will continue to expand internationally, a strategy which is proving to be particularly important at a time when the European markets are feeling the effects of the economic crisis more strongly."

Overmarine, too, has its sights firmly set overseas.

"Our expansion process continues," Rovaris said. "We have just appointed an Indian dealer and we look with great interest at the new emerging markets in the Asia Pacific area."

EXPORT DRIVEN

Azimut is also enjoying an increase in exports. "Today, approximately 70 per cent of our sales are overseas, and our order book only further confirms that figure," said Bogetto. "One of our group's strengths is precisely this global coverage, both in terms of sales as well as assistance, with our over 60 dealers throughout 130 countries."

Sophie Dupuy of Sessa feels that providing a much better product is the only way brands will survive.

"The fact that the crisis is persisting and getting even worse is pushing companies to completely revise their strategies," she said. "To be successful in the market, a product has to be really original, different and unique. It also has to offer a perfect and indisputable quality-to-price ratio. In the future, as in the automotive market, the nautical industry will probably have fewer players, but they will be much stronger."

As for the Italian cruising tax, condemned by everyone *IBI* spoke, hope remains that the Monti government will have a reality check before May 1.

"This new tax mainly damages the Italian economy and those boatyards whose sales are limited to within Italy, as opposed to Azimut-Benetti Group with its exportation policy," Bogetto said. "We are hoping that the government amends it. At the very least, it should ensure that the tax won't apply to foreign boat owners."

Hopefully, in our next issue, we'll be able to report a positive outcome to this controversial tax. In it's current form, and even before becoming law, it is already doing some serious collateral damage to an otherwise strong and dynamic industry. IBI

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