



# **Jersey Register of British Ships: Business Case for Expansion**

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## **Final Report**

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# 1 Summary

The States of Jersey are considering the potential for expanding the Jersey Register of British Ships. The Economic Development Department has therefore appointed Fisher Associates in association with Regs4Ships to evaluate the market potential and benefit to the Island economy, the States Treasury, and Jersey Harbours of developing the Jersey Shipping Register.

The purpose of registering (or flagging) a ship is to grant it a national legal personality that stays with it upon the high seas. The Red Ensign Group<sup>1</sup> (REG) of Ship Registers offers a premium flag, and any vessel registered with one of these is a “British ship” entitled to fly the Red Ensign flag. There are two categories of administration:

- ♦ Category 1 administrations may register ships of unlimited tonnage, type and length.
- ♦ Category 2 administrations (which includes Jersey), may register ships of up to 150 gross tons (GT) and pleasure vessels up to 400 GT (vessels used for sport or pleasure that are not operated commercially).

The Maritime & Coastguard Agency (MCA) has delegated authority from the Secretary of State for Transport to ensure that the REG Registers maintain the highest international maritime standards. These standards are enforced via inspections by:

- ♦ Flag inspectors, or their representatives, who check that the vessel meets the flag state’s regulations,
- ♦ Charterers’ inspectors whose cargo representative makes sure that the vessel is up to standard.
- ♦ Port State Control inspectors who make sure that vessels trading in their port and waters are up to international and local requirements.

The most important considerations for merchant ships choosing a Register are commercial costs and politics. Shipowners need to be able to carry out their business unhindered, and some Registers have better reputations than others. A quality flag with a good reputation means fewer inspections.

Private yachts do not face such stringent controls as merchant ships because they are not carrying cargo or trading. The owners of private yachts will usually choose a flag that is convenient for their residence, or based on what is considered the fashion. It is presently fashionable to have a Red Ensign flag, and also to employ British crew on superyachts.

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<sup>1</sup> United Kingdom, UK Crown Dependencies (inc. Jersey), and UK Overseas Territories

For commercial yachts, location and fashion are also considerations, but tax and financial issues are very important too. Commercial yacht owners will use consultants to advise them on the suitable nationality of a company set up to own the yacht, the flag of registry, and value added tax (VAT) friendly schemes. The final issue of choice of flag may be dependent on issues like social contributions for crew. The most popular flags for registration of commercial superyachts are the Cayman Islands, UK, USA and Greece.

We have reviewed the potential market for Registry services in eight sectors: superyachts, cruise ships, ro-ros, container ships, conventional ships, bulk carriers, tankers and fishing vessels.

Based on an analysis of the risks inherent in each of these sectors, we considered the advisability of Jersey expanding its Register based on six options:

- ◆ Status quo (do nothing)
- ◆ Enhanced status quo
- ◆ Superyachts and other commercial vessels/workboats up to 500 GT
- ◆ Superyachts only up to 3,000 GT and other commercial vessels/workboats up to 500 GT
- ◆ Superyachts up to 3,000 GT and other selected vessels
- ◆ Full Category 1

In view of the risk / reward trade-offs and cost implications of serving the various sectors, we concluded that an expanded Jersey Register should cover:

- ◆ Private and commercial yachts up to 3000 GT.<sup>2</sup>
- ◆ Any type of vessel that has its company office in the Channel Islands.
- ◆ Any vessel that operates in or around the Channel Islands.

This would enable Jersey to focus its marketing effort on the growing superyacht market, and build on its strengths in the financial services sector, but still be able to market to local companies without large expense. This recommendation would limit the number of Registry staff required, and ensure that they did not need to have highly specialised expertise.

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<sup>2</sup> The superyacht market is large, it is expanding, and the size of vessels is increasing. It is a quality and style conscious market, which has a preference for British crew and the Red Ensign.

A review of several other Registries was made to identify lessons for the Jersey Register. These key lessons are summarised as:

- ◆ Set out a long-term budget that includes sufficient funds for the key staff and resources needed to plan, operate and market the Registry.
- ◆ The most successful Registries are not housed within a ports department, but are managed separately in their own right.
- ◆ Expanding Registries try to focus on an area of the market that is low risk, and does not require specialist expertise.

Jersey benefits from important strengths (notably its ability to leverage on its successful financial services sector), and has several opportunities that can provide impetus for growth. It suffers from several weaknesses that can be addressed, and is faced with threats in the form of competitors (notably the Isle of Man), and EU issues with respect to VAT and cabotage which are / may muddy the waters.

An outline business plan has been prepared that proposes a new mission for the Registry to: Support growth and diversification of the Jersey economy by developing as a leading Ship Registry for yachts and locally trading vessels up to 3,000 GT.

The objectives that will support the mission are proposed as:

- ◆ Implement Category 1 status within 3 years.
- ◆ Ensure that Jersey is considered as a leading potential administration for ships in its target market within 5 years.
- ◆ Obtain a 20% market share of the *growth* in the number of yachts available by 2020.
- ◆ Manage development of the Registry within budget, and aim to break even by 2020.
- ◆ Exploit and optimise links in its maritime and financial services supply chains to maximise economic gains in the economy.

A checklist of recommendations to support setting up the Register includes staffing, resources, regulations, and operating policies.

There are three key steps in obtaining approval for Category 1 status from the MCA:

- ◆ Liaison on the steps and checks needed to be agreed before implementation.
- ◆ MCA will audit Jersey's preparedness.
- ◆ MCA will need to change UK law to grant Jersey Category 1 status following "full cooperation and support of all interested parties."

We estimate the expanded Jersey Register will cost in the region of £467,000 pa to operate at today's prices. Based on assumptions on how much revenue could be obtained from vessel registration fees, crew endorsements, and fees for surveys, a scenario for the Registry's trading account was prepared (see Table 9-3).

Running a Category 1 Registry requires a sustained commitment to funding operating costs arising from the resources needed. Direct revenues from Registry activity take a long time to build up. The expanded Registry may be approaching break even by 2020, but is unlikely to make a large profit - no registry does.

Notwithstanding this, the impact on other sectors of the economy, which would benefit from an expansion of the Registry, needs to be considered so that a decision can be made on whether the project is worth funding on economic development grounds.

We have concentrated on answering two key questions:

- ◆ What does the expansion of the Registry imply for growth of Jersey's economy, measured in terms of additional Gross Value Added (GVA)?
- ◆ How do direct financial benefits to the States from additional income tax, corporation tax and GST arising from the expansion compare with the cost of funding the Registry?

In the Base Case, we have assumed that the Jersey Registry captures 20% (by 2020) of the growth in the superyacht market, ie the additional yachts that would be available as the market expands. This additional market comprises commercial yachts >150 GT (current estimate 1,000), and non-commercial yachts >400GT (current estimate 1,000). By 2020 we estimate that this would have grown to 4,600 vessels. This means that Jersey would have captured at least 920 of these.

Based on an assessment of the direct incomes that would accrue from ship surveying, trust and company formation, ship finance, marine insurance, chartering, and yacht management, we used economic data from the States and other benchmarks to assess the additional GVA that would be generated by expanding the Registry.

There is a direct link between the Registry and the growth in these activities. It is difficult to prove this quantitatively – but can everybody else be wrong? As seen in the experience of other countries, business grows around the flag.

The analysis indicates that based on the assumptions made, the potential additional GVA from expansion of the Register (£8.8 million in 2020), is likely to be some 25 times the level of additional revenue generated by the Registry itself (£347,000) in 2020.



The expansion of the Register is also estimated to have a significant effect on employment, generating 162 jobs by 2020 (based on the ratio of jobs created to GVA in comparable sectors). As the Jersey economy enjoys very high employment levels, a large proportion of the people filling these jobs will have either been attracted from other areas of the Jersey economy, or be inward migrants. We have taken account of the opportunity cost of labour through reducing the net increase in GVA resulting from those currently employed in Jersey.

We have acknowledged that there is potentially an opportunity cost of labour from inward migration as well, but have not included this impact because the Register is expected to provide alternative employment opportunities for residents outside pure finance. Furthermore, there are benefits in diversifying the economy and increasing the spread of services that the financial services sector could offer on the back of the expanded Register.

Undiscounted cumulative net cash investment by the States is £587,000 up to 2020, whereas economic benefits in terms of additional GVA exceed this every year after 2010 and reach 15 times this in 2020.

Sensitivity analysis assuming that the Registry catalyses relatively higher wages in associated companies, and market share of 10% of the growth in the market (Low Case) and 25% (High Case), suggests a range of outcomes between £4.5 and £11 million in GVA in 2020, and zero (or positive) to £2.4 million in cumulative net cash investment by the States by 2020.

Jersey has several core competences in this market that make Jersey attractive. The decisive factor on which outcome Jersey achieves is therefore likely to be the commitment of the States to achieving targets, and the quality of the people that it employs.

**We conclude that the project is highly worthy of consideration.** We are as certain as we can be that the Registry will at least approach breakeven in the long run, and that the economic impact will be very significant, and that this is true even in the Low Case.

## 2 Introduction

The States of Jersey are considering the potential for expanding the Jersey Register of British Ships. Whether an expansion is worthwhile or not depends on the scope of the market, the benefits of expansion and the risks attached to this. The Economic Development Department has therefore appointed Fisher Associates in association with Regs4Ships to assess the business case.

### 2.1 Project brief

The objective of the project is “to evaluate the market potential and benefit to the Island economy, the States Treasury and Jersey Harbours of developing the Jersey Shipping Registry, considering potentially sustainable increased market demand in one or more sectors of the Registry business.”

In summary, the brief proposed the following issues to be considered:

- ◆ Identifying Jersey’s competitive advantage
- ◆ Market analysis
- ◆ Assessment of the link between registry growth and concomitant new related business growth on the Island
- ◆ Comparison with other small jurisdictions
- ◆ Comment on flying the defaced Red Ensign
- ◆ Contribution to GVA
- ◆ Additional resources required, their costs and institutional arrangements
- ◆ Treasury benefits through Income Tax, Corporation Tax and Goods and Services Tax
- ◆ Assessment of the potential risks
- ◆ Consider the benefits of targeting the Middle East market
- ◆ Make recommendations on any appropriate limits to be sought in terms of tonnage or ship type.

## **2.2 Our approach**

This work was based on various research and field visits, and the approach centred on four key tasks:

- ◆ Develop a commercial proposition, considering market opportunities, the strategic position of Jersey, and options for Jersey to expand its Register.
- ◆ Develop an economic proposition by identifying cluster linkages (both maritime and general), and identify economic impacts.
- ◆ Assess trade-offs between financial and economic rewards, costs, & risks.
- ◆ Develop an outline business plan for the preferred option.

## **2.3 Structure of the report**

This document presents the Final Report and is set out as follows:

- ◆ Section 3 provides an analysis of demand in key markets.
- ◆ Section 4 describes best practice in other Registries.
- ◆ Section 5 presents a strategic assessment of the position of Jersey.
- ◆ Section 6 contains the financial analysis of the costs and revenues of expanding the Jersey Registry.
- ◆ Section 7 looks at the wider economic impact of the proposals.
- ◆ Section 8 outlines the outline business plan.
- ◆ Section 9 details the financial analysis.
- ◆ Section 10 presents the economic analysis.
- ◆ Section 11 summarises the conclusions and recommendation.

### 3 Market review

The owners of different types of vessels have different reasons for choosing a particular flag to register their vessel. In this section, we discuss these reasons and then analyse the current position in the categories of vessel that Jersey could consider taking onto its Register.

#### 3.1 Why are ships registered?

The purpose of registering (or flagging) a ship is to grant it a national legal personality that stays with it upon the high seas. Without this, a ship's owners, creditors, cargo owners, and indeed the crew would lead a precarious existence. There are several possible routes to proceed from a shipowner's or ship manager's point of view on the "flagging" of vessels.

"Traditional" maritime and trading nations typically require there to be a genuine link between the state and the ship. The 1958 Geneva Convention on the High Seas and the 1982 United Nations Convention on the Law of the Sea both recognise that there should be this genuine link between the state and ship and, in particular, that every state should effectively exercise its jurisdiction and control in administrative, technical and social matters over ships flying its flag.

Alternatively, there are open flags, or a kind of halfway house often known as parallel or secondary flags. Open flags, known in the early days as flags of convenience, may be defined as flags of countries which are available to ships that are beneficially owned and crewed by persons other than the nationals of those countries.

It has been argued that the early days of "flags of convenience" were characterised by poor standards in many aspects of ship operation. It has been alleged that they offered a cheap way for cost conscious ship owners to acquire the legal protection they needed at the expense of safety. Most would agree that there have been significant improvements, but the term "flag of convenience" still conjures up negative connotations.

"Secondary" and "parallel" flags are also available in circumstances where shipowners wish for many of the benefits of "flag of convenience" registration, whilst retaining some of the linkage between the management and operation of the ship, and the underlying nation state.

The primary characteristic that distinguishes parallel flags from "traditional" flags is that, in general, the shipping, corporate and tax laws for a parallel foreign flag jurisdiction will be framed specifically so as to be welcoming and accommodating to domestic and foreign shipowners, and to their financiers. This offers a business opportunity, both for the shipowner, and for the host country.

It is a growing market, and the share of foreign flag registration has increased for the last 10 years.

### 3.2 Red Ensign Group

The Red Ensign Group (REG) offers a quality traditional / parallel / secondary flag, and deserves special explanation. The REG comprises:

- ◆ United Kingdom.
- ◆ UK Crown Dependencies (Isle of Man, Guernsey and Jersey).
- ◆ UK Overseas Territories which operate shipping registers (Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Falkland Islands, Gibraltar, Montserrat, St Helena and the Turks & Caicos Islands).

Any vessel registered with one of these is a “British ship” and is entitled to fly the Red Ensign flag.

The 1995 Merchant Shipping Act provides for these Registers to be categorised according to the tonnage, size and type of vessel that can be registered. Under the Merchant Shipping (Categorisation of Registries of Relevant British Possessions) Order 2003, there are two Categories:

- ◆ Category 1 Registers: Bermuda, Cayman Islands, Gibraltar, Isle of Man, UK.
- ◆ Category 2 Registers: Anguilla, British Virgin Islands (BVI), Falkland Islands, Guernsey, Jersey, Montserrat, St Helena, Turks & Caicos Islands, UK.

Category 1 administrations may register ships of unlimited tonnage, type and length. Category 2 administrations may register ships of up to 150 gross tons (GT) and pleasure vessels up to 400 GT (vessels used for sport or pleasure that are not operated commercially).

The United Kingdom Secretary of State for Transport has general superintendence of REG on all matters relating to merchant shipping and seamen.

The Maritime & Coastguard Agency (MCA) has delegated authority from the Secretary of State to ensure that the REG Registers maintain the highest international maritime standards in accordance with their obligations under the Conventions and in accordance with UK policy. The MCA fulfils this role through routine monitoring visits to each REG Register. The MCA represents the interests of REG in international fora such as the International Maritime Organisation (IMO) and the International Labour Organisation (ILO).

### **3.3 Choice of Registry**

#### **3.3.1 Merchant ships**

The most important considerations for merchant ships are commercial costs and politics. No business wants to pay more for a service than it has to, so costs are naturally very important. However, they also need to be able to carry out their business unhindered, and some Registers have better reputations than others in certain areas. If a Register is on a blacklist as a 'bad flag', then the ships on that Register are likely to face more inspection than similar vessels on other non-blacklisted Registers.

Ships are inspected by three main groups of inspectors:

- ◆ Flag inspectors, or their representatives, who check that the vessel meets the flag state's regulations, and who issue certificates to show that the vessel has passed the inspection.
- ◆ Charterers' inspectors whose cargo representative makes sure that the vessel is up to standard.
- ◆ Port State Control (PSC) inspectors who make sure that vessels trading in their port and waters are up to international and local requirements.

The Paris Memorandum of Understanding (MoU) is foremost in producing lists of flags based on the inspections of, and incidents related to, a flag state's ships when in the waters of its members. Those flag states whose ships have a large number of problems will go onto a grey list, and then a black list. Charterers and PSC inspectors will then ensure that more thorough checks are made on ships on a grey or black listed register. Ships registered under a flag that is high up on the white list, such as the UK, will be able to carry on their business as freely as possible.

Vessels may change flag from time to time when they change ownership or are subject to specific charter requirements. Registers usually have vessels leaving the Register at the same time as new ones join. A successful Register will usually have a ratio of 5% losses from the flag of the number that are actually joining the flag. So for every 100 new registrations approximately 5 deletions will occur each year.

#### **3.3.2 Private yachts**

Private yachts do not face such stringent controls as merchant ships because they are not carrying cargo or trading. The owners of private yachts will usually choose a flag that is convenient for their residence, or based on what is considered the fashion. It is presently fashionable to have a Red Ensign flag (see Section 3.2).

### **3.3.3 Commercial yachts**

For commercial yachts, location and the fashion are also considerations, but tax and financial issues are very important too. Commercial yacht owners will use consultants to advise them on the suitable nationality of the company set up to own the yacht, the flag of registry and value added tax (VAT) friendly schemes.

The final issue of choice of flag may be dependent on something like social security contributions for crew. For example, the Isle of Man and UK registries require owners to make social security contributions for any crew that are resident in the European Union (EU). Many owners with large yacht crews will choose a Cayman registration in order to avoid these costs.

The most popular flags for registration of superyachts are the Cayman Islands, UK, USA and Greece.

## **3.4 Market sectors**

### **3.4.1 Superyachts**

The definition of a superyacht, whether privately or commercially operated, is not precise, but from a practical sense these yachts may be considered as vessels that are greater than or equal to 24m Load Line length and less than 3000 GT.

The market for superyachts is growing quickly in all its aspects: building, designing, registering, operating, sale and purchase, insurance, chartering and owning. American owners have driven the market, but recently Russian and Chinese clients have shown growing interest in owning a superyacht.

This market is dominated by Red Ensign Registers, and the MCA Large Yacht Code is the only internationally accepted safety standard for these vessels.

The Cayman Islands are the current market leader in commercial yacht registration and survey. They have approximately 200 superyachts under construction and survey. They also have 16 surveyors employed full time doing the approvals and surveys of these vessels. The UK flag is the next biggest register for superyachts, and the MCA has a specialist yacht unit called "Ensign" which employs 10 surveyors to do this work.

### **3.4.2 Cruise ships**

Carnival Cruises owns the largest number of cruise vessels with over 20 large cruise ships in operation and three on order. Its ships are registered in either the Bahamas or Panama. Royal Caribbean, the second largest cruise operator with 20 large cruise ships favours the Bahamas, whereas Princess Cruises, with 14 cruise ships and one on order, registers in Bermuda. The UK and Bermuda have some tonnage with Cunard.

Passenger ships are highly surveyed and regulated. A new cruise ship can have anything up to 5000 people on board, and has a high risk of accidents and complaints. Most flags that register passenger ships use Class Societies, such as Lloyd's Register of Shipping, to carry out the survey requirements, and use auditors to check that standards are maintained. The UK & Bermuda use MCA or Cayman surveyors to do auditing. Bermuda has only three surveyors of its own.

The cruise market is thriving and, according to the Passenger Shipping Association, it is the fastest growing sector in the travel industry: 1,070,000 people took an ocean cruise in 2005 compared to just 250,000 in 1994. The order books for cruise ships are healthy with 10-12 ships on order annually over the next three years, and seven ships already on the books for delivery in 2011/2012. The size of the ships on order ranges from six ships of 540 passengers or fewer, to two 5,400 passenger ships commissioned by Royal Caribbean. The average size of the larger ships is around 2,850 passengers.

### **3.4.3 Roll on – Roll off**

Ro-ro vehicle vessels are now highly regulated as they have had a bad safety record in the past due to their inherent stability problems. Most ro-ro vessels are registered in one of the ports that they trade from. This is because they expect to be heavily inspected by Port State Control, and feel that having a local registration will help to mitigate problems.

There are also high-speed ro-ros that carry cars and lorries. Condor Ferries have three fast ferries that carry cars, and they operate from the Channel Islands. They may be a potential customer for the Jersey Register, as Condor currently registers in the Bahamas, but may consider switching to Jersey for political reasons and for the port state control considerations mentioned above.

### **3.4.4 Container ships**

Container vessels are usually on strict routes and timetables so need to be unhindered in port. They tend to have a high-speed capability in order to maintain the timetable. Antigua and Barbuda is the flag of choice for the smaller coastal container vessels, and Panama for the larger vessels, although the UK has registered some Evergreen and Maersk vessels.

The container ship market is dynamic with growth averaging 9.8% per annum since 1980 and forecast to remain at this level for the foreseeable future<sup>3</sup>. Growth is being experienced not only in terms of aggregate capacity but also ship size. The container ship fleet now totals 118 million gross tonnes, comprising 4,089 ships.

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<sup>3</sup> Container Ship Focus, Lloyds Register October 2007



The current order book represents 55% of the existing cargo carrying capacity of the fleet. The main reason why this is so large is because 11,000+ TEU ultra-large container ships (ULCSs) are the current popular choice – there are 119 ULCSs on the order book.

Lloyd's Register is the classification society with the lion's share of the order book of ships over 10,000 TEU, with 48 ships amounting to 31%.

A possible customer for local registration would be Huelin-Renouf Shipping, which is a local company operating freight services between the Channel Islands and the UK. In initial discussions between Jersey Harbours and the MCA, the latter have looked kindly on such local ships being registered in Jersey in principle.

### **3.4.5 Conventional ships**

This heading covers many types of vessel from refrigerated vessels to small bulk carriers that do coastal work. There is not a large market for this type of vessel as container vessels, ro-ro vessels and bulk carriers have taken the trade from the standard old style of cargo ship. These vessels stay in port longer than more specialised vessels and are not as efficient, so they do not attract high freight rates. No flag specialises in these, as the market is small, but Jersey could address this.

### **3.4.6 Bulk carriers**

Bulk carriers tend to be targeted by PSC because the ships are often ageing (the average age of the fleet was 15.7 years in 2006), and they have been involved in some newsworthy accidents. Cayman have a large number of them, but they have been the source of PSC problems for Cayman precisely for this reason. Cayman now have an age limit for registering these vessels in order to keep its Register off the black and grey PSC lists.

Bulk carriers are facing increasing competition from container ships, but the bulk market is still growing, albeit more slowly than container ships, largely because of China's strong economic growth.

### **3.4.7 Tankers**

Tankers are a specialist sector for which a Register must have in-house expertise. Cayman, Bermuda, the Isle of Man and the Marshall Islands have targeted tankers and, in order to get business, have taken on many specialist surveyors. The advantage of tankers is that they are very large and attract a high tonnage payment to the register. The disadvantage is that accidents can be spectacular and get bad press. The required expert surveyors command large salaries, so it is a high cost / reward speculation to enter this market.

In addition, tankers registration requires extensive record keeping. There are statutory requirements for the state's flag to keep a copy of five yearly hull

inspection records for shell and frame thickness measurement and hull coatings breakdown. These records are labour intensive to keep.

### **3.4.8 Fishing vessels**

Most REG Registers only register fishing vessels that fish in their own regulated waters, and they are surveyed according to two fishing vessel codes (above and below 12m).

## 4 Options analysis

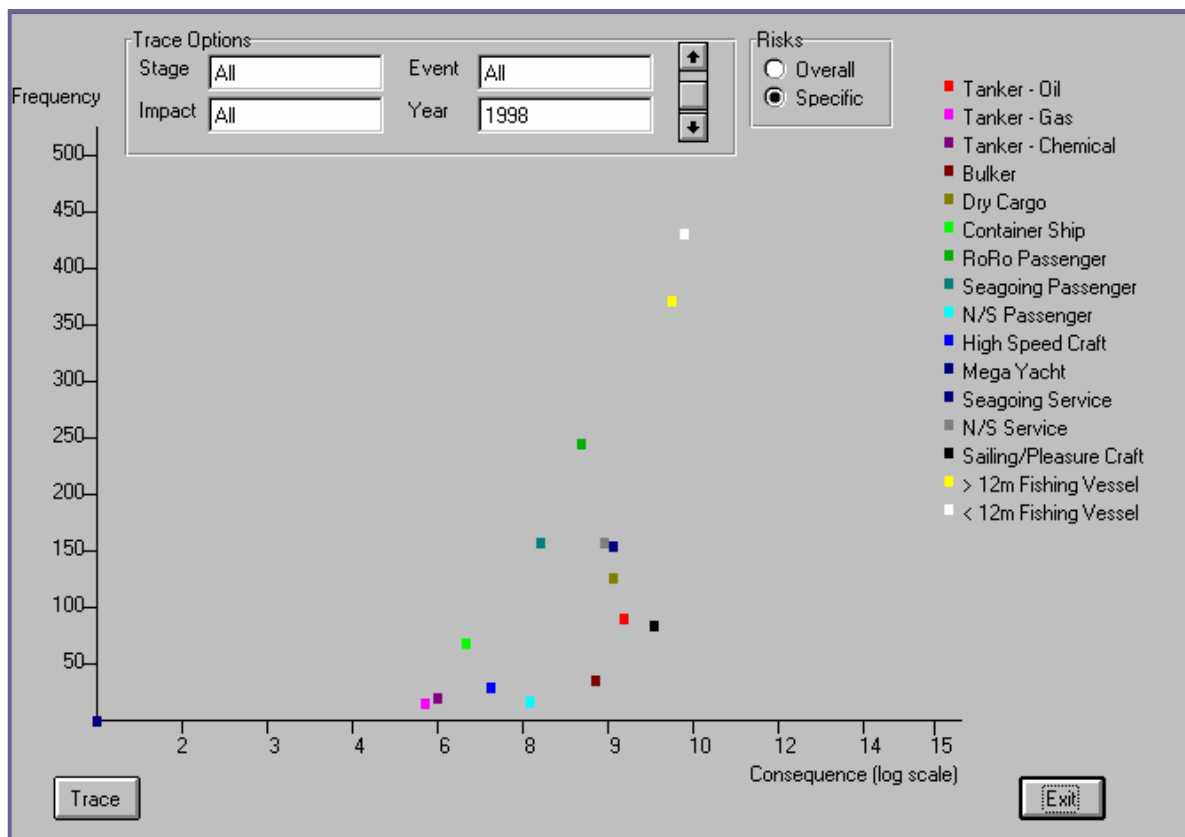
### 4.1 Risks

#### 4.1.1 Overview

The MCA carried out a risk assessment in 1999 of different vessel types as measured by the frequency with which incidents occur and the seriousness of their consequences. The objective of the assessment was to permit targeting those sectors that needed more regulation and surveying / inspecting. This led to a reassignment of MCA resources to tackle the high accident rates of fishing vessels and ro-ro vessels.

As can be seen in Figure 4-1, the most risky vessels are fishing vessels, which have a very high frequency and consequence, and passenger vessels.

Figure 4-1 MCA risk matrix of vessel types



Fishing boats incidents still account for the majority of Marine Accident Investigation Branch (MAIB) investigations, but the situation has seen a great improvement. Although there may therefore have been some changes in the position of different categories of vessel on the matrix, the findings are still relevant today.

Table 4-1 shows a risk analysis checklist used by REG flags when considering flagging in a new vessel. After evaluating the vessel, the score is compared to the bottom score and the vessel allowed to flag in, surveyed and inspected first before flagged in, or refused for registration. Risk is biased against passenger vessels, bulk carriers, older vessels and any vessel or company with a bad PSC record.

**Table 4-1 Risk analysis used by REG flags**

FACTOR	CRITERIA	POINTS	ALLOCATED SCORE
Vessel name			
Losing flag MOU Black – Grey – White - utilizing the Paris Lists (See note regarding transfers from the REG)	White Listed Grey Listed Black Listed	0 20 60	
<sup>1</sup> Company – An assessment based on professional judgment and knowledge	(a) known & good reputation (b) known with concerns (more short-term issues) (c) known to have a chequered history (more longer-term issues)	0 30 60	
<sup>2</sup> Class society	(a) MCA authorized society (b) other IACS member (c) non IACS member (d) vessel not classed	0 20 30 120	
Ship Type	Passenger ship Bulk carrier Gas/chemical carrier Oil tanker Other	60 <sup>3</sup> 20 15 20 5	
Age	0-10 10-15 15-20 over 20 years old	0 10 30 60	
EQUASIS; Sea-Web; Class Direct	Interrogate these databases for background information	See note	
Port State Control Record	10 or less deficiencies in last 12 months 11 deficiencies or more in last 12 months No PSC history though eligible for PSC Detained once in last 5 years Detained more than once in last 5 years (Refer to Head Office) Detained more than twice in last 5 years (Refer to Head Office)	10 15 20 30 60 60	
		TOTAL	

**SURVEY THRESHOLDS - FOR USE WITH ABOVE TABLE**

Actual Score	Class	Flag inspection first	Refuse to register
0 – 55	✓		
56 – 99		✓	
100 - 360			✓

<sup>1</sup> Assessment of the Company (owner/manager/operator) by Flag.

<sup>2</sup> Consideration of the Class Society relates to the Society BEFORE transfer to the Register.

<sup>3</sup> *Passenger Ships* operating under the USCG Passenger Ship Control Verification Examination (CVE) programme are eligible up to 20 points deduction, as appropriate.

### **4.1.2 Fishing vessels**

Fishing vessels are very high risk because they have a very large accident and casualty rate. Fishing vessels may also cause diplomatic incidents by fishing illegally.

The MCA has targeted this group with new training requirements for the crew, and codes of practice for the build and operation of fishing vessels. The statistics from the Marine Accident Investigations Bureau (MAIB) reflect that the accident rate is improving since the above analysis was carried out in 1998/9, but that fishing vessels are still the highest risk category.

### **4.1.3 Passenger ships**

Ro-ro passenger ships are a much higher risk than other seagoing passenger vessels, which in turn are a higher risk than non-seagoing ones. As mentioned above, ro-ro vessels have had problems with stability and safety controls in the past. They are now highly regulated and inspected (through PSC), and any incident quickly makes its way into the press bringing bad publicity on the companies involved, so they have an incentive to keep their vessel up to standard.

Passenger and high-speed vessels have a good record despite the occasional collision or breakdown. Nevertheless, it would only be cost effective to have locally operating vessels of this type on the register so that they can be easily monitored with minimal travel and time expense.

### **4.1.4 Bulk carriers**

The risk matrix shows bulk carriers to have a low frequency, but large consequence of incidents. This is because when they sink or run aground it tends to make the news. However, bulk carriers generally have a good record with occasional loss of old tonnage, plus their cargoes do not pollute and losses have usually been in bad weather in mid ocean.

Bulk carriers are now subject to enhanced rules and again this category requires a specialist surveyor and record keeping. REG registers like Cayman and IOM usually place age restrictions on these vessels in order to limit the risk. MCA have a flag-in matrix that penalises bulk carriers over 20 years old to an extent that they will not be registered unless there are extenuating circumstances.

### **4.1.5 Container vessels**

Container vessels are fairly low on the risk index in terms of frequency and consequence, but when they do have accidents they are usually newsworthy because they involve groundings and loss of containers in bad weather. They also run the risk of fire or pollution from the containers they carry, and this can be exacerbated due to difficulties in accessing one particular container out of thousands when they have been loaded.

Container vessels, like passenger cruise vessels, have been growing in size each year. The systems aboard container vessels are getting more complex, and enable closer monitoring of the boxes and their contents, and sufficient precautions with respect to the various dangerous or polluting goods inside them.

The recent container ship accident where the UK registered “MSC Napoli” broke up and was beached in order to minimise the consequences still made big headlines as some containers fell into the sea and polluted the beaches as they broke open. Being a UK ship, with the pollution being controlled within UK waters, minimised what could have been a big diplomatic incident.

#### **4.1.6 Tankers**

Gas and chemical tankers, according to the risk matrix, actually have a low frequency and low consequence of incidents. All tankers are subject to strict charter inspections, but oil tankers are much further up the risk matrix. The reason for the difference is that Liquefied Natural Gas (LNG) tankers tend to be newer than many oil tankers, and the chain of production / shipping / supply is controlled by the International and National Oil Companies (IOCs and NOCs) who impose their own rigorous controls and ensure their crews are well-trained.

Accidents with LNG tankers do not have the same disastrous consequences for coastal communities and the environment as oil spillages because the product itself is much safer. Chemical tankers also minimise the risks because chemicals tend to be packaged in parcels between 250 cu m and 3000 cu m. Spillages on chemical tankers are rare because of their subdivision and cofferdam design.

The International Convention for the Prevention of Pollution from Ships, 1973, as modified by the Protocol of 1978 (MARPOL 73/78) have made the tanker industry invest in new double-hulled tonnage, and scrap the older riskier single-hulled vessels. However, the consequences of an incident are still potentially very high.

#### **4.1.7 Private yachts and superyachts**

Sailing / pleasure craft are on the high side on the risk matrix because they include everything from canoes to ribs to yachts, and may report all sorts of incidents such as capsizing, fire on board or collisions. Incidents in this category do not, however, usually involve injury or loss of life.

On the other hand, superyachts showed no incidents at the time of the analysis. Superyachts have remained safe, even though their numbers have increased over the last 10 years, and there have been very few recorded accidents. Indeed the MAIB has not investigated any accidents on superyachts in the last seven years.

## 4.2 Options

### 4.2.1 Overview

This section draws on the preceding analysis to consider the advisability of Jersey expanding its Register. The options considered are:

- ◆ Status quo (do nothing)
- ◆ Enhanced status quo
- ◆ Superyachts and other commercial vessels and workboats up to 500 GT
- ◆ Superyachts up to 3,000 GT and other commercial vessels and workboats up to 500 GT
- ◆ Superyachts up to 3,000 GT and other selected vessels
- ◆ Full Category 1

### 4.2.2 Analysis

#### 4.2.2.1 *Status quo (do nothing)*

To do nothing would leave the Registry with the current organic growth in the small private yacht sector. This area of the business does not generate a profit for the Registry, nor do businesses on the Island profit to any large amount from it because the margins on the current size and type of vessel registered are small.

#### 4.2.2.2 *Enhanced status quo*

The Registry could implement a marketing campaign and be more pro-active at yacht events such as boat and yacht shows. This would grow the business faster but, as it would still be in the small private yacht sector; margins would continue to be small.

#### 4.2.2.3 *Superyachts and small commercial vessels/ workboats up to 500 GT*

Raising the limit to 500 GT would allow Jersey to register yachts in the range 400-499 GT, which would capture the 'production assembly yacht' market, and small commercial vessels. The advantages of this option are that it provides an intermediate stage and the MCA is less likely to raise objections on grounds of technical resources. MECAL (Jersey) could easily meet the competency for MARPOL certification (which is applied at 400 GT) and load line certification (at 24m). Moreover MECAL (Jersey) Ltd/MECAL has extensive international cover which could mean that Jersey could extend to registering vessels further away if it wished.

However, the average size of yachts has increased considerably over recent years and is currently around 500 GT. Yachts are still increasing in size, and a growing number of larger yachts are being built - particularly as commercial

yachts. It is highly likely that, if Jersey were to restrict its expansion of the Register to superyachts up to 500 GT, then by the time the MCA agree that Jersey can fulfil the requirements to register this size and type of vessel, the market average size will have gone up. To make the effort to increase the Registry to Category 1, and then impose such a low limit would not be justified given the expense and low return.

#### ***4.2.2.4 Superyachts up to 3,000 GT and small commercial vessels/workboats up to 500 GT***

The superyacht market up to 3,000 GT is the largest growth area and has the potential for maximum growth of the Registry and Jersey business profits. Most yacht owners change their yacht every four years and go bigger. The yacht charter market is growing rapidly like the cruise market, and there is a waiting list for yachts being built. Many existing owners with the Jersey Register will have to change to Cayman or Marshall Islands Registers as their new vessels go beyond the present maximum size, or private yacht category imposed on Jersey.

#### ***4.2.2.5 Superyachts up to 3,000 GT and other selected vessels***

Commercial ships are a hard market to get into without substantial advantages to offer the owner. The best Jersey could hope for would be to convince locally based shipping companies, and companies that have vessels that visit Jersey, to change registry for political and Port State Control reasons. It would be more of a public relations exercise rather than a means of increasing the profitability of the Register.

This option would not require a large increase in staff. BVI, who have followed the same route (see section 6.3 below), have employed (on loan) two MCA surveyors together with a Chief Surveyor to cover surveys, technical appraisals, drawing approvals and accident / casualty investigations. They have three people doing the registration work and some administration staff covering mail, telephones, email, filing, and so on.

#### ***4.2.2.6 Full Category 1***

If Jersey were to go to full Category 1 its Register would be available for all ship types and sizes. This would put Jersey in direct competition with the UK, IOM, Bermuda, Cayman and Gibraltar. These registries have had years of experience in this market, and the effort to carve out a market share in a limited growth area would not be justified financially or politically.

It would also require a large increase in staff required and a high level of specialist expertise:

- ♦ Cayman have 16 surveyors, 6 registration staff and 25 administration staff as well as 3 marketing people.



- ◆ The Isle of Man has 15 surveyors, 4 registration staff, 8 administration and 3 marketing staff.
- ◆ Bermuda and Gibraltar have smaller Category 1 Registers with 3 surveyors each and small administration / registration teams, but they use other Red Ensign surveyors and Class Society surveyors to cover the surveying tasks when they can. This is becoming more problematical as qualified surveyors become more difficult to find, and costly to employ.

### **4.3 Recommendation**

In view of the risk / reward trade-offs and cost implications of serving the various sectors, we recommend that Jersey should follow the path that BVI were advised to take by the MCA. The Register should cover:

- ◆ Private and commercial yachts up to 3000 GT.
- ◆ Any type of vessel that has its registered office in the Channel Islands.
- ◆ Any vessel that operates in or around the Channel Islands.

This would enable Jersey to focus its marketing effort on the sizeable and growing superyacht market, and build on its strengths in the financial services sector, but still be able to market to local companies without large expense. This recommendation would limit the number of Registry staff required, and ensure that they did not need to have highly specialised expertise.

Because it is central to this recommendation, the superyacht market is reviewed in more detail in Section 5.

## 5 Superyacht market review

### 5.1 Market characteristics

The superyacht market has experienced enormous growth over the last two decades. According to Pauline Doyle, the Director of Anglo Irish Superyacht Services, “In 1984 the number of vessels built was 36; by 1994 this had risen to 72. In 2004 the number had increased to 137. It is estimated that there are now over 10,000 superyachts in the world’s oceans”. Owning a superyacht has never been more popular amongst the very wealthy; it is the new ‘must-have’ status symbol.

It is difficult to obtain reliable and consistent data on the size of the market. We have based our analysis on the most recent database compiled by the Yacht Report, because it also enabled us to determine some relationships between length and gross tonnage.

The Yacht Report claim that they capture 90% of the yachts over 30m, and their list is well documented, but their database appears to underestimate the total number of smaller superyachts. They currently have a grand total of 3,600 superyachts, including future orders, which is a lot less than the 10,000 generally agreed by industry professionals to be the size of the market.

Table 5-1 shows the figures from some other sources of data.

**Table 5-1 Estimates of the size of the superyacht market**

Source	Size (LOA)	Motor	Sail	Total
The Yacht Report	> 30m (100ft)	2,653	740	3,393
YachtWorld (Yachts currently for sale)	> 80ft	2,632	783	3,415
YachtWorld (Yachts currently for sale)	> 100ft	1,132	316	1,448
ICOMIA	> 80ft			15,745

YachtWorld is a web portal that represents yachts for sale around the world that are listed by participating yacht brokers. They estimate that they represent 60% of yacht brokers worldwide, and that there are 12,000 superyachts of 24m length and above in existence today.

YachtWorld lists 1,448 yachts over 30m **for sale**. This represents 38% of the market based on the Yacht Report’s figures (adjusted for 90%). This would indicate a very high turnover, and we therefore suspect that the market for over 30m yachts could be larger than estimated by the Yacht Report.

ICOMIA (The International Standard of Marine Industry Associations) estimates that there are 15,745 yachts over 24m.

We have used data from the Yacht Report as the basis for the number of yachts over 30m factoring up the current figure to take account of the 10% they 'miss', and have worked on the assumption that the total market is about 10,000 superyachts to obtain the balance of yachts in the 24-30m range. We estimate that there are about 10,500 yachts >80ft and that perhaps 65% of these are owned in the USA. We estimate that there are about 4,000 yachts >100ft, of which about 80% are motor yachts.

For charging purposes, it was necessary to convert the number of yachts by length to the number by gross tonnage. The Yacht Report provided gross tonnage specification for 59% of their total listing. We were able to use this data to help us split the superyacht market by GT as well as by length. The results by size and type are shown in Table 5-2 below. The greatest uncertainty on the numbers lies in the smaller end of the superyacht market - the 24-30m band is believed to have an accuracy of +/- 2000 yachts.

**Table 5-2 Estimated superyacht market by size and type, 2007**

<b>Size (LOA)</b>	<b>Motor</b>	<b>Sail</b>	<b>Total</b>
> 30m	2,882	795	3,677
24-30m			6,323
Total			10,000
<b>GT</b>			
<400			8,459
400-1500			1,419
1500-3000			82
>3000			40
Total			10,000

With the expansion of the Registry, Jersey will be able to take on commercial yachts over 150GT. To assess the commercial market, we have used Lloyds Register Fairplay databases, which detail all commercial vessels (with an IMO number) over 100GT. This data is thought to be very reliable. The results are shown in Table 5-3.

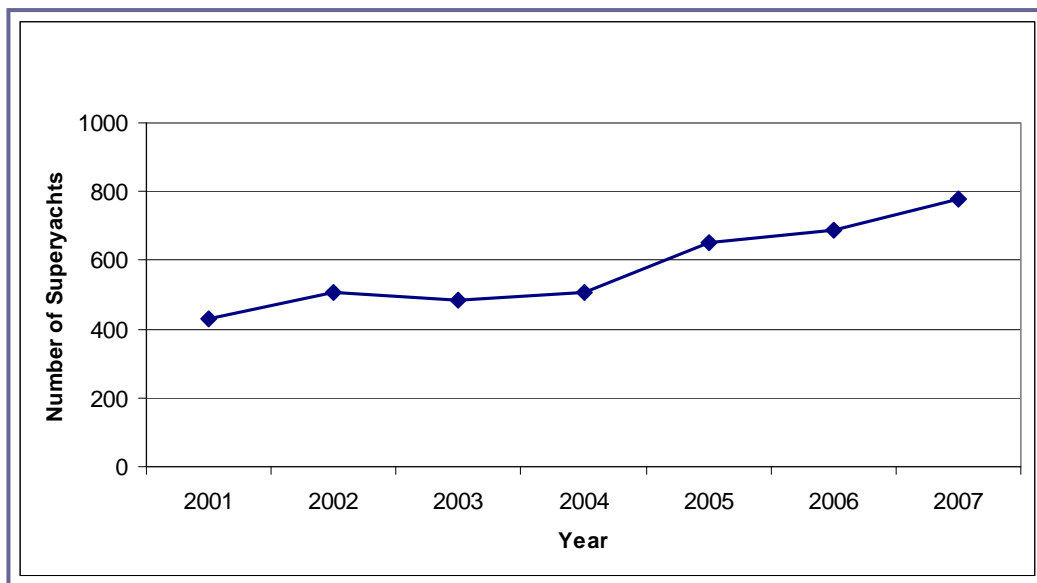
**Table 5-3 Commercial yachts (inc on order), 2007**

Gross tons	Commercial yachts
150-299	333
300-499	332
500-2,999	366
3,000 +	22
Total	1,053

## 5.2 Market growth

The market for superyachts has been growing quickly in all respects: building, designing, registering, operating, sale & purchase, insurance, chartering and owning. It has been driven by American owners, but the Russians and Chinese have been showing a growing interest in owning a superyacht. The market has grown steadily at an average of 10.3% per annum since 2000 (see Figure 5-1) and looks to remain healthy.

**Figure 5-1 Global order book for superyachts**



Source: Show Boats International

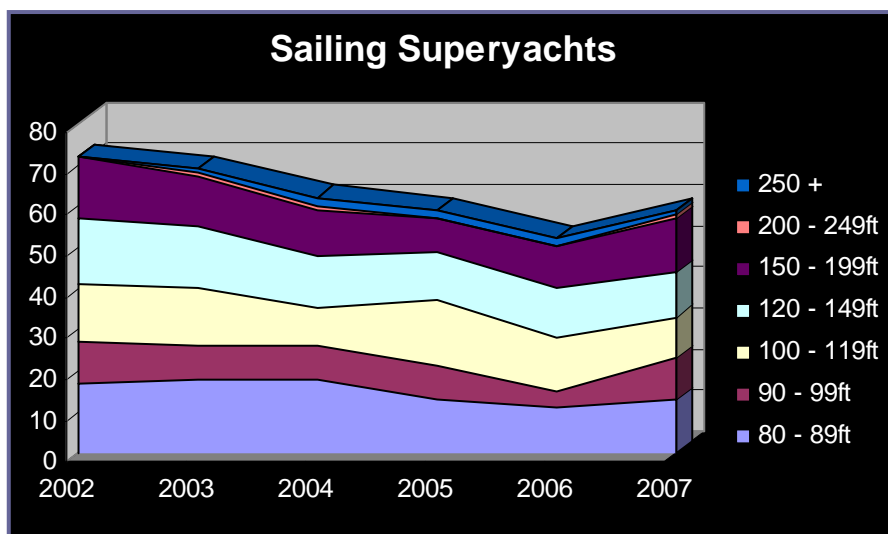
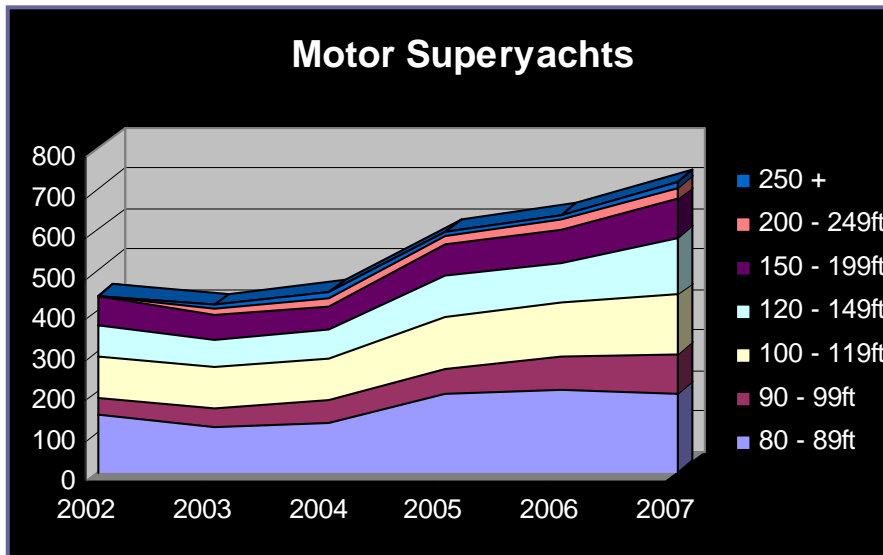
The breakdown of the global order book by yacht size is given in Table 5-4 and its attendant graphs. Motor superyachts dominate the order book and represent 92% of the total. Orders for sailing superyachts may be cyclical - they increased from 30 in 1997 to 72 in 2002, then experienced a decline, but now seem to be picking up again.

The most popular sizes for new superyachts are the 100-150ft ranges (40% of the total in 2007), and the smaller 80-89ft range (27%). There was an increase of 15.3% in the footage on order in 2007, continuing an upward trend in yacht size. However, this trend is unlikely to continue indefinitely because port access limitations will eventually restrict size.

**Table 5-4 Global order book by superyacht length and type**

	Sailing Superyachts						Motor Superyachts					
	2002	2003	2004	2005	2006	2007	2002	2003	2004	2005	2006	2007
80 - 89ft	17	18	18	13	11	13	141	114	122	194	205	194
90 - 99ft	10	8	8	8	4	10	44	46	59	63	82	99
100 - 119ft	14	14	9	16	13	10	103	100	103	129	133	145
120 - 149ft	16	15	13	12	12	11	74	69	70	103	98	141
150 - 199ft	15	12	11	8	10	13	73	60	57	76	80	95
200 - 249ft	n/a	1	1	0	0	1	n/a	15	21	21	28	27
250 +	n/a	1	2	2	2	1	n/a	9	13	7	10	17
<b>Total</b>	<b>72</b>	<b>69</b>	<b>62</b>	<b>59</b>	<b>52</b>	<b>59</b>	<b>435</b>	<b>413</b>	<b>445</b>	<b>593</b>	<b>636</b>	<b>718</b>

Source: Show Boats International



According to the Yacht Report, there are 223 superyachts so far on order up to 2011; of these 82% are motor yachts. 132 of these superyachts are due to be completed in 2008 and all are over 30m. There is currently a shortage of construction capacity: the earliest delivery date for a yacht is now 2012 and this is acting as a constraint on demand. If additional capacity becomes available in China, then the number of orders could increase substantially.

### **5.3 High net worth individuals**

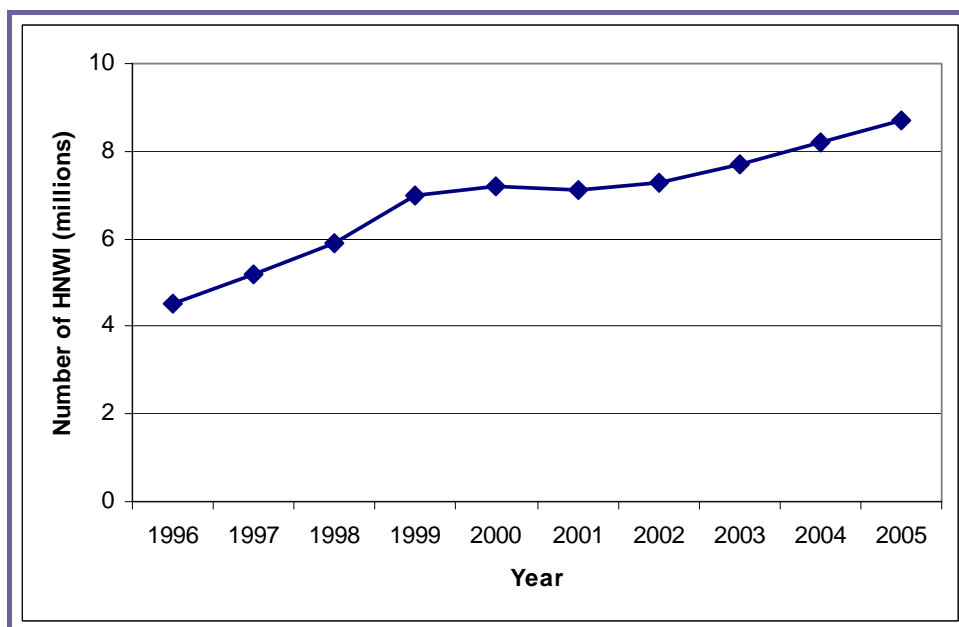
The people who are driving this market are the world's richest people, often referred to as high net worth individuals (HNWI). Four years ago, *Forbes* magazine listed 476 billionaires on its list of the world's richest people. The magazine's most recent list, released in March 2008, shows the number of billionaires around the globe has climbed to 1,125. In the USA, the list of the 400 richest Americans includes no multimillionaires; instead, the roster is full with those whose net worth is at least \$1 billion. Moreover, the billionaire list used to be dominated by US citizens, but this has gradually been declining as a percentage of the total, and now 58% are non-Americans.

These figures give credence to an observation made by Billy Smith, vice president of Trinity Yachts that "the wealthy population is increasing faster than the shipyards can build the boats they want." Yacht builders say that many of their new clients are from Eastern Europe, Russia and smaller Middle Eastern nations - places where yacht ownership is a new phenomenon.

Martin Redmayne, Editor-in-chief of The Yacht Report, states that "there are over 60,000 people out there who can afford to invest in large yachts (>100ft) as owners, with treble that number who can charter and enjoy the simple six star life afloat."

The number of HNWIs (defined as people with US\$1 million or more in liquid assets) has continued to grow over the last 10 years at an average of 7.6% a year (see Figure 5-2.).

**Figure 5-2 Growth in the number of high net worth individuals**



*Source: World Wealth Report June 2006, by Merrill Lynch and Capgemini.*

Nearly 80% (6.9 million) of HNWIs live in North America, but there are 2.8 million in Europe and 2.4 million in Asia. Africa, the Middle East and Latin America are showing the strongest growth in the number of HNWIs, albeit from a small base.

The World Wealth Report 2006 (Cap Gemini and Merrill Lynch) forecast global HNWI financial wealth to reach US\$44.6 trillion by 2010, growing at an annual rate of 6.0%.

#### **5.4 Middle East market**

Jersey's financial sector is strengthening its links with the Middle East (see Section 7.3 below). The Middle East experienced a 9.8% increase in the number of HNWIs in 2004-2005, and a superyacht is becoming one of the ultimate status symbols in the Arab world.

The Gulf Cooperation Council region is now recognised as one of the most robust emerging markets for the boating industry according to Toby Haws, the editor of Boat Owner ME magazine. Billions of dollars are being invested in berthing spaces on reclamation projects in the region. The UAE, Saudi Arabia and Kuwait are said to be the largest market for luxury boat ownership at present. It is estimated that 30% of the world's superyacht owners live in the Gulf, although they may keep their yachts in the Mediterranean or Caribbean.

#### **5.5 Conclusion**

Although the data can be frustratingly inconsistent, we are sure that the superyacht market is large, it is expanding, and the size of vessels is

increasing. It is a quality and style conscious market, which has a preference for British crew and the Red Ensign.

In quantitative terms, we can make several conclusions:

- ◆ We estimate that there are about 1,500 yachts > 400GT.
- ◆ Of these, about 500 are commercial yachts, meaning that the remainder are non-commercial.
- ◆ The expanded Registry would be able to register at least an additional 1,000 commercial yachts that are over 150GT.
- ◆ It would also be able to register non-commercial yachts over 400 GT, which is estimated at 1,000.
- ◆ Based on the existing and committed fleet, the total additional superyacht market is therefore estimated at 2,000.
- ◆ This market is growing quickly. Assuming that growth in 2008 is already factored into the additional market estimate of 2,000, we estimate that this will have grown to about 4,600 vessels by 2020.<sup>4</sup>

There are going to be growing numbers of increasingly wealthy people in the world, who will be purchasing superyachts. Jersey provides financial services for wealthy people worldwide, and has a potential source of customers for the Registry in its current client base. It can also offer supporting financial services to new clients attracted through the Jersey flag. This is a virtuous circle.

The Middle East would appear to be a market where superyacht ownership is growing rapidly, and Jersey may be able to attract Middle Eastern boat owners who are already aware of Jersey through the financial services sector.

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<sup>4</sup> This is based on 10% growth in 2009, with growth declining by 0.5% pa to 5% pa by 2019, and then remaining at this level.



## 6 Best practice review

In this section we look at case studies of the key Registers, describe what they are they doing, any problems they may have had to address, and the advantages and disadvantages of each one.

### 6.1 Isle of Man

IOM has always been a big Register in REG but for several years did not market to the commercial yacht sector. Local businesses engaged in finance, trusts, ship management and crewing complained to the IOM government about the drop off in business associated with commercial yachts. As a response the IOM Register, with government support, made a dramatic comeback through sending a marketing team to all yacht related trade shows and seminars, and getting local financial institutions and law firms to sponsor joint brochures.

The IOM has Category 1 status, but will not register the following ships:

- ◆ Those not listed with a Classification Society.
- ◆ Ships under 500GT unless they are operating locally.
- ◆ Ships greater than 15 years in age.
- ◆ Single hull oil tankers.
- ◆ Ro-ro and other passenger ships operating outside the Irish Sea.
- ◆ High-speed craft operating outside the Irish Sea.
- ◆ Other: floating dry docks, harbour and estuarial craft operating outside Manx waters, pilgrim ships and those carrying irradiated nuclear fuel.

The **advantages** of the IOM are as follows:

- ◆ European geographical position and time zone facilitate transactions.
- ◆ Its government has some autonomy from the UK, which has enabled it to set up trusts and VAT methods that are attractive to yacht owners that wish to be tax efficient with their yacht, but still have the advantages of a British flag.
- ◆ The IOM offers business and tax incentives such as 0% corporation tax, and a cap on personal income tax.
- ◆ The IOM has a well-developed financial services sector and regards itself as a centre of excellence in ship management, ship finance, marine insurance, maritime law, and trust and company formation in the maritime sector.
- ◆ They have no annual tonnage dues on vessels, but instead offer a survey and certification fee system (including surveyor expenses), where a 5 year fee buys you all the survey and certification with no further costs regardless of port of survey.

The main **disadvantage** of an IOM registration is that:

- ♦ If any crew are resident in the EU there is a social contribution requirement for the employer. But IOM have not enforced this and there are some ways of avoiding this cost.

The IOM invests heavily in marketing. A team of three from the Finance Department, the Registry and Survey often do tours. They have a “road show” but also a stand at major yacht and marine industry shows such as Dubai, Shanghai, Monaco, Fort Lauderdale, Piraeus, etc. They often sponsor marine industry seminars and attend colleges to audit them, and at the same time market to the shipping companies that have crew attending the courses.

## **6.2 Cayman Islands**

Cayman is a full Category 1 Register, and had some 300 commercial ships and 1,300 pleasure vessels (total 3.2 m GT) registered in 2005. It is the market leader for superyacht registration, and has specialised in these using expert surveyors on yacht build and certification. Cayman has developed a good reputation for its practical and helpful approach towards compliance with the Large Commercial Yacht Code.

The Registry has never made a profit on a profit / loss basis, but under the banner of the “Marine Authority of Cayman Islands” (MACI) it also carries the responsibility of the Cayman Government for:

- ♦ Producing Marine Legislation.
- ♦ Doing Port State Control (including technical representation at the Caribbean Memorandum on Port State Control).
- ♦ Registration & survey duties.
- ♦ Attending annual REG Meetings and answering technical issues.
- ♦ Investigation of accidents deaths and casualties.
- ♦ Undergoing MCA & IMO audits on a 5-year rolling program.

The Cayman Government use theoretical costs for the responsibilities undertaken by MACI. On this basis it makes a profit and, more importantly, it is considered to bring in large amounts of profitable business to the Company Registry, banks and the law firms in Cayman.

Cayman used to run its Shipping Registry as part of the Portfolio of Finance government department. This often led to budget conflicts when unbudgeted events in other departments led to cutbacks in the Registry because it was regarded as a junior department. A change of government and a political movement to establishing self-running agencies within Government departments (following the UK example) led to the formation of MACI, and a rapid expansion of the Registry including its budget and marketing effort.

Cayman attends commercial shipping events in Oslo, Shanghai and Piraeus, and for yachts in Fort Lauderdale, Monaco, Amsterdam and Antibes.

### **6.3 BVI**

The British Virgin Islands (BVI) was a Category 2 Registry, and in 2002 made the decision to apply for Category 1 status. The process has taken five years and has involved a substantial effort requiring assistance from consultants and hiring of additional staff. Activities have included the preparation of the Registry, drafting new legislation, surveyor training, marketing and MCA auditing. The estimated cost has been £500,000.

The MCA has in principle agreed to them having Category 1 status, with an initial stipulation that they only register commercial and private yachts up to 3000 GT. This will keep the BVI in the low risk sector while they go through the initial phase of being a Category 1 Register.

Unfortunately they have hit a problem in that their two employed surveyors have resigned, and it is proving difficult to replace them at the salaries being offered (Cayman are offering wages of GBP£60,000 to their surveyors and BVI are presently unable to match them). Without any staff surveyors, the MCA will not allow them to put commercial vessels on their Registry until this problem is solved. The existing surveyors are MCA "on loan surveyors" who have not been happy with their Caribbean terms and conditions, and MCA have not been able to find any more volunteers to replace them.

The BVI is targeting commercial and private yachts up to 3000GT, Caribbean Cargo Ship Code vessels (under 500GT), and also local trading vessels such as small cargo and passenger vessels. They have had a stand at the Monaco Yacht show for the last 3 years and are actively marketing the Registry to the yacht industry in anticipation of achieving Category 1 status.

The BVI costs are comparatively large compared to those expected to be incurred by Jersey because BVI had little legislation, and very few procedures or record keeping systems. MCA used the exercise to completely upgrade the BVI Registry to an acceptable standard. It is unlikely to take Jersey as long as five years to process the changes required, and it is expected that Jersey will be in a better position to attract the appropriate surveyors.

### **6.4 Marshal Islands**

The Marshall Islands (MI) is the 4<sup>th</sup> largest ship register in the world behind Panama, Liberia and Bahamas. It is based in Reston (Washington) USA, and has many satellite offices in all major shipping locations such as Fort Lauderdale, Athens, London, Singapore, Tokyo, etc.

International Registries, a contractor who previously ran the Liberian Register and made this the second largest Register in the world, runs the Marshall Islands Register. They answer to the Marshall Island Government but have a large budget to cover the survey, certification, flag state inspection, marine legislation formation and marketing of the Registry.

They have previously specialised in tankers and bulk carriers, but 3 years ago started marketing a Yacht Register. Their yacht marketing has used a high cost approach, with sponsorship of give-away gifts at the Monaco Yacht Show, the Amsterdam Project Seminar, Fort Lauderdale Yacht Show, etc. They also have stands at all these events and man them with experts on registration, survey and financial issues.

They use Class Societies and Non Exclusive Surveyors to do the required surveys around the world, and have a large workforce (approximately 60 people) of experienced staff in Reston, and a high-tech computer system to issue certification and share records between the offices. The Yacht Register managed 10 vessels in its first year and 100 in its second. It had registered 385 vessels to October 2007, and now the number of commercial yachts is also growing annually. Presently they have 30 registered commercial yachts and another 10 private yachts under survey to go commercial.

The MI has made its own version of the MCA Large Commercial Yacht Code (LY2). It is called the Marshall Islands Code of Practice for Large Yachts MI 103A, and is very similar to LY2 in both content and requirements. They recently sent a marketing team with technical expertise on a tour of the Dutch and German superyacht building shipyards. A direct result was that some yachts being built under Cayman survey changed to Marshall Islands flag on completion, and at least one changed flag whilst under construction.

## **6.5 Key lessons**

Jersey can learn a number of key lessons from the experiences of other Registries.

### **6.5.1 Budget**

Jersey needs to set out a long-term budget that includes sufficient funds for the key staff who will be needed to:

- ◆ Plan and prepare for the ability to run a Category 1 Registry
- ◆ Fulfil the requirements of the MCA under audit
- ◆ Operate the expanded Register efficiently
- ◆ Market the register at the target areas.

It could take two or more years to be granted Category 1 status, and in this time the Registry should be set up to have its own budget and milestones. Jersey needs to be good at what it does and maintain its Registry's excellent reputation. The market is tough and Jersey cannot afford to compromise on quality or marketing.

It may be worth Jersey considering appointing honorary officers in major ports or maritime centres to promote the Jersey Registry, particularly to commercial operators. This has been done successfully by Antigua which is

now popular with German ship owners because it established an office in North Germany, and this has proved convenient for ship owners based in Hamburg and Bremen.

As discussed in section 6.3 above, it has taken BVI five years to attain Category 1 status. We are confident that Jersey is capable of achieving it much more quickly for a number of reasons: it already has much of the legislation require in place, for example it has a commercial code; it has a more efficient and effective legislative process; the Registry is already operating at a high standard; and it has formal links with MECAL (Jersey) Ltd which means that it has access to qualified surveyors.

### **6.5.2 Institutional arrangements**

Both the Gibraltar and Bermuda Registries are combined with the Government Ports Department. These two REG Registries are the only Category 1 Registries not to have made significant growth in the past seven years, and not to market their Registries actively at ship or yacht events.

There are two main problems with having the Registry in the Ports Department:

- ♦ The Registry loses out in budget allocations because it is easier for the Ports Department to demonstrate good returns on investment in developing the port facilities. The returns to the Registry tend to be indirect, and hence less easy to quantify and justify.
- ♦ There is a potential conflict between the legal enforcement side of a Registry and the port's commercial business, such that a customer who may be courted as a port user might be prosecuted by the same Department on another matter.

The Jersey Registry is within Jersey Harbours, which could create such a conflict and also lead to it being under-resourced. We recommend that serious consideration be given to the Registry being transferred to the existing Maritime Compliance section of Jersey's Economic Development Department. It is essential that this would then develop, manage and operate the Registry with full resources based on an understanding of the wider benefits of the Register.

### **6.5.3 Gradual change**

Jersey should follow the example of BVI and focus on an area of the market that is low risk and, unlike chemical tankers for example, does not require specialist expertise. This will allow Jersey to build up its expertise, experience and workload gradually. Superyachts up to 3000 GT offer good growth potential for the Registry, and provide a sound starting point.

## 7 Strategic assessment

This is based on a SWOT analysis. The Strengths and Weaknesses are classically seen as internal factors that an organisation can change, whereas Opportunities and Threats are external factors that it can do little to influence, and can only position itself to try and take advantage / minimise disadvantage.

### 7.1 Strengths

#### Red Ensign Group flag

Jersey can offer the Red Ensign, which is attractive for a number of reasons:

- ◆ Fashion: the Red Ensign yacht “club” is a good place to be. All the REG vessels congregate in the same areas of the marina or port. Most of these vessels are owned by Americans but also by the British, Dutch, Germans, Arabs, Russians and recently Chinese.
- ◆ Quality: the Red Ensign is synonymous with quality. It is well known, well policed and respected, so vessels registered under it face fewer problems from port officials.
- ◆ The Red Ensign provides respected proof of title for raising mortgages and providing proof of ownership for liquidations and other matters such as inheritance.
- ◆ It also provides access to British consular services abroad.

#### Communications

Most of the important marine lawyers, bankers and other officials required to handle boat transactions are based in Europe. Compared to the Caribbean Registries, Jersey has a distinct advantage by being in the UK time zone and close to European time, as all the officials (and original documents) including the Registry have to be available at the same time. Jersey also has a reliable and modern communications network and good travel links.

#### Efficiency

Jersey has a reputation for efficiency and professionalism in business and government, whereas Cayman and BVI have a reputation for slow response and inefficiency with paperwork. The Jersey Registry has a good reputation for being efficient and approachable. One of the working party recently dealt with a registration in Cayman and found that in comparison with Jersey, their service is “disorganised, slow and apathetic”, and considers that Jersey and the Isle of Man are the best Red Ensign flag states in terms of efficiency and helpfulness. This apparently is a view shared by a number of service providers and law firms in the industry, and illustrates that Jersey has clear human resources and service culture advantages.

## **Financial issues**

Jersey can offer a particular advantage for British boat owners who want to have a British flag and who, for financial reasons, are attracted to Jersey for its expertise in financial services, trust and company management as well as its extensive banking and investment ability.

## **Capacity to make regulatory changes**

Jersey has already made many of the marine regulations required, and has completed this in an efficient manner compared to the other REG registries. Even Cayman and the UK, despite being Category 1 Registers, are behind in making marine regulations. The regulations are a cornerstone of getting Category 1 status, and this ability puts Jersey at a distinct advantage.

## **Financial services sector**

The support network is already in place because the financial services sector in Jersey is strong, well developed and professional. The important players in the marine industry such as banks, lawyers and trust fund managers are already based in Jersey, or the Channel Islands generally, and have shown enthusiasm to support the growth of the Jersey Registry.

## **VAT**

Jersey is outside VAT jurisdiction and registered vessels can operate, under certain circumstances, in and out of the EU for up to 18 months.

## **Base of wealthy clients**

Through the financial services sector, Jersey already has the portfolios of wealthy clients who can be offered Jersey as the flag for their next new yacht in their usual sequence of a 4-yearly vessel renewal program. There is also the opportunity to sell financial services to yacht owners choosing Jersey.

## **7.2 Weaknesses**

### **Constrained by Category 2 status**

Jersey is unable to take advantage of the superyacht market because it does not have Category 1 status. It is missing out on a key section of the market, and one that is gaining in significance. As a Category 2 Registry there is little growth potential for the Registry, and little value added back to Jersey's wider business community.

### **Institutional issues**

The Registry will continue to struggle with justifying the financial profit / loss account and always be the poor relation if kept within Jersey Harbours. As part of Jersey Harbours, it also hampers the Harbour managers from concentrating on their core activities.

## **Lack of financial support**

The Jersey Registry currently makes little or no profit, and despite organic growth, Jersey Harbours is having problems justifying financially the need for extra staff to support this growth. Some posts within the Registry business are secondary posts, as the individuals hold the title whilst doing other port-related work for the majority of their time.

There is a chicken and egg situation here. Without providing the Registry with the proper resources to expand, it will obviously be constrained and struggle. But if Jersey is waiting for its performance to improve before funding it, the Registry cannot do this.

## **7.3 Opportunities**

### **Emerging superyacht market**

As seen in section 5, commercial yachts are a fast growing market in vessel registration. Commercial yachts would potentially use a large number of services in Jersey such as trust funds, yacht management, financial loans, yacht manning agencies and so on. These businesses are already established in Jersey and the Channel Islands, and already have the experience through providing such services for yachts that are being registered elsewhere. By allowing superyachts onto the Jersey Registry, there is scope to grow this market.

### **Commercial vessels trading locally**

Local shipping companies that are unable to register with Jersey use flags such as Bahamas and, as a result, may suffer Port State Control difficulties on local routes. The number of inspections may be reduced if registered in Jersey. The shipping companies would also enhance their reputation locally by supporting Jersey.

### **Defaced Red Ensign**

REG registered vessels can fly the UK Red Ensign or the defaced Red Ensign of the country they are registered in. In general yachts prefer to fly a defaced Red Ensign to show they are part of a club (Cayman Club or Isle of Man Club).

Cargo vessels tend to prefer to fly the Red Ensign with no defacement. This may be because a normal Red Ensign flag is easier and cheaper to source than a defaced one, and also because Port State and other officials may be better influenced seeing a non-defaced flag on the stern.

### **Existing geographic links**

The financial services sector in Jersey has established links with the Middle East through:

- ◆ Jersey based companies establishing offices in the Gulf region.
- ◆ Middle Eastern financial organisations establishing operations in Jersey.



- ◆ Jersey's finance industry developing services and products aimed at Islamic clients.

Jersey has been active in establishing Shari'a compliant investment funds since the 1980s, but there has been a recent upsurge in demand for these products as well as other structured products aimed at sophisticated Islamic investors. Jersey is also popular as a jurisdiction through which to structure investments, both from and into the Gulf region.

Jersey's financial institutions are also starting to develop a presence in the Far East, in particular in China, and this is emerging as a growth area for superyacht ownership.

### **Dual flagging**

Jersey could consider offering a dual flag, although only a small number of vessels use this. The vessel would be registered in Jersey to protect its mortgage or ownership, but would also register with a second registry in a port where it is operating or staying and would fly the flag of that second port. Jersey would collect registration fees and annual renewals but would have minimal work because the responsibility for certification or survey falls on the second flag administration.

Cayman have about 40 vessels that are dual flagged and operating in the Caspian Sea on a BP contract drilling for oil and gas. A Cayman surveyor visits once every five years just to check that the vessels are up to standard to protect mortgage/ownership interests.

### **Goods and Services Tax**

Jersey can optimise its new GST arrangements to its advantage: for example, providing that an overseas yacht owner does not import a yacht permanently, he should not have to pay GST on its value.

A UK-based tax advisor who deals with the registration of superyachts felt that, in the adoption of GST, Jersey had a golden opportunity to 'go all the way' and become part of the VAT area, as the Isle of Man is, but adopt a low figure of 3% which would be the lowest in Europe and thus very attractive. This would be a wider political issue, and Jersey may remain outside the VAT area.

### **Centre of Excellence**

Jersey could become a centre of excellence in the training of surveyors, helping to address a worldwide shortage in this specialised area. There are opportunities for Jersey to build on its local Skills Strategy initiative and to link the training of surveyors with the local college and through the Island's links with UK universities.

## **7.4 Threats**

### **Hostilities**

In the current sensitive political climate following the Iraq War, it may be seen as a disadvantage to have a British flag on your vessel, and increase the risk of a terrorist attack or unfavourable reception. This tends to be more of an issue for cargo ships that go to some “hot spot” ports in the Middle East and Far East. For yachts and freight ships operating in the Mediterranean and the Caribbean this is not an issue.

### **Competitors**

As seen in the case studies in section 6, Jersey faces some serious competition from other REG Registries.

BVI are going to be the main emerging competitor as they are very close to having Category 1 status confirmed, and have been heavily marketing to the yacht industry for some time. However, BVI and other Caribbean Registries are not perceived by many clients to be efficient and reliable.

The Isle of Man is already well established, and can offer the same geographical advantages as Jersey over the Caribbean, and it also benefits from many of Jersey’s strengths, but none of Jersey’s weaknesses.

### **VAT / TI issues**

A key advantage for many boat owners of registering a vessel in Jersey is that it is exempt from VAT. Owners wishing to sail to EU countries can maintain this VAT free status through an 18 month Temporary Importation (TI) arrangement, which would allow them to sail in the Mediterranean for two seasons and then move on to somewhere else.

It has been reported that some vessels have had problems, notably in Spain and Greece, with acceptance of TI on the grounds that Jersey is inside the EU Customs Territory, and hence boats registered in Jersey are not eligible for TI and have to pay VAT. However the following statement from HM Revenue and Customs confirms that there is no basis for this:

“Further to your enquiry about the tax position of Jersey based / registered yachts that are sailed to EU Member States such as France, UK and Spain, I can confirm that by reference to the following provisions in the EC’s Principal VAT Directive (PVD) (2006/112/EC), these vessels are eligible to (duty and) VAT free admission under ‘temporary importation’ arrangements”.

It is necessary to communicate with the relevant European customs officials and port officials on this to avoid Jersey registered yachts experiencing problems that would act as a disincentive to register in Jersey. Notwithstanding this, some owners elect to pay VAT to avoid problems. The Isle of Man allows EU residents to phase their VAT payments over several years, and there are instances of yacht owners setting up a company in BVI, registering the vessel in Cayman, and opting to pay VAT in the Isle of Man.

We have listed the new Goods and Services Tax as an opportunity above, but counter to that, if Jersey does not get it 'right' then it could be a threat.

### **EU cabotage**

The EU has for some time been discussing the establishment of an EU flag for ships, to be flown alongside the flag of Registry. This is part of the development of a unified transport policy within the EU, and has been discussed in parallel with the issue of cabotage for intra-EU trade.

Greece and Spain have always had an unofficial form of cabotage with shipping, and this will no doubt continue. If cabotage regulation within the EU were to develop, requiring commercial vessels trading within the EU to have a "traditional based" EU flag, this could place Jersey at a significant disadvantage.

It may be that any move to implement this will have a significant impact on the superyacht or commercial yacht market. Cargo vessels, however, are different in that charterers can influence the market, and industry has seen a growth in the requirement to use EU flags for specialist intra-EU cargoes such as oil products, chemicals and containers.

### **Risks of running a Register**

The main risks of running a Register are related to problems caused by marine accidents and detentions of sub-standard ships. Jersey can protect its Registry from these risks by ensuring that the vessels are surveyed and audited by experienced qualified people.

MCA are well aware of these risks both to a Register and, by association, to the UK. The MCA will therefore audit the REG Category 1 and 2 Registries, and it has the authority to suspend or shut down the registration business of those Registers if they are not up to standard.

Having audited the REG Registries for many years, MCA have a set of standards regarding required regulations, staff qualifications and experience and staff numbers, for the size and type of registry. MCA will not approve Category 1 status for Jersey unless it can demonstrate that it has properly staffed and funded the running of a professional registry.

## **7.5 Conclusion**

Jersey is well suited to becoming a Category 1 REG Register with a target market of private and commercial yachts up to 3000 GT. Jersey's core competences are good communications, effective transport connections to Europe, a strong financial services sector, and efficient Jersey marine related businesses.

Jersey's main emerging rival will initially be the BVI, who have the advantage of a head start setting up as a Category 1 registry in this market. However, Jersey has advantages over BVI in terms of its geographic location, the

support of related Jersey businesses and its government, and its strong reputation for efficiency and being a place where “things happen”.

Cayman is the market leader and most likely to lose business to Jersey, but as they have a significant number of marine survey staff for new builds, Cayman may not see Jersey as a serious competitor.

The priorities to address weaknesses and counter threats are:

- ♦ To develop a good 5 year business plan with clear objectives and milestones. The plan must be adequately funded with a dedicated team of people who can concentrate on the requirements without distractions from outside influences.
- ♦ Once the Registry is properly funded and set up, then a good marketing campaign will be needed. A successful marketing campaign will lead to growth in market share and that will lead to a need to increase staff numbers, and this should be catered for in the business plan.

## 8 Outline business plan

### 8.1 Strategy

The proposed mission is:

To support growth and diversification of the Jersey economy by developing as a leading Ship Registry for yachts and locally trading vessels up to 3,000 GT.

The objectives that will support the mission are based on:

- ♦ Achieving the change
- ♦ Gaining market share
- ♦ A financial target
- ♦ An economic target

The SMART objectives are to:

- ♦ Implement Category 1 status within 3 years.
- ♦ Ensure that Jersey is considered as a leading potential administration for ships in its target market within 5 years.
- ♦ Obtain a 20% market share of the *growth* in the Superyacht market by 2020.
- ♦ Manage development of the Registry within budget, and aim to break even by 2020.
- ♦ Exploit and optimise links in its maritime and financial services supply chains to maximise economic gains in the economy.

### 8.2 Institutional issues

The present set up with the Registry under Jersey Harbours will be problematical, as it has been with both Gibraltar and Bermuda. As noted in Section 6.5.2, in order that the Registry can be allowed to grow and not interfere with the equally important development of Jersey Harbours, the two must be separated.

A more suitable home for the Registry would logically be with Maritime Compliance, and this should also include the Port State Control responsibilities and Marine Casualty and Death investigations. Search and Rescue services may also be another partner, but this might probably best be left as a stand-alone service.

This should be the first step in expanding the Registry, and will require discussion with staff and consideration by the Economic Development Department and Jersey Harbours.

### 8.3 People

There will be an MCA requirement to have at least 3 staff surveyors directly employed in the Jersey Registry:

- ◆ Chief Surveyor
- ◆ Principal Surveyor
- ◆ Main grade Surveyor

These surveyors would support the roles of Port State Control, accident investigation, maritime legal advice, in-house Flag State Control / Inspections, and the requirements for Standards of Training, Certification and Watchkeeping (STCW) Endorsement management.

Jersey can set up a Memoranda of Understanding with Ensign (MCA's specialist yacht unit), MCA approved Class Societies, MECAL (Jersey) Ltd and other specialist bodies to provide additional vessel surveying expertise.

The Registry will need a Director who is charged with its development and performance. This person would not be employed full time on Registry business.

There should be a minimum of two full-time registration staff (at present there is only one employed full-time, with another on a part-time basis). The Registry should also have a minimum of two administration support officers.

### 8.4 Resources

The Register will need administrative procedures and equipment for registration, survey and certification and recording of vessels on the flag. This needs to be set up so that it is transparent and auditable. The main budget requirements are summarised as:

- ◆ IT and other systems including a website<sup>5</sup>
- ◆ An office that meets the requirements for staff and record keeping
- ◆ Travel and subsistence
- ◆ Marketing

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<sup>5</sup> Refer to website for Isle of Man Marine Administration for best practice.

## **8.5 Regulatory issues**

The present Jersey regulatory framework is very good. In comparison with some of its peers, Jersey already has a relatively comprehensive set of regulations in force, and is to be congratulated for this.

However, the present set of regulations will need to be examined, and a priority list made for forming any additional marine regulations. Compliance with international conventions such as those listed below must be confirmed:

- ◆ International Safety Management Code (ISM)
- ◆ International Ship and Port Facility Security Code (ISPS Code)
- ◆ International Convention for the Safety of Life at Sea (SOLAS), 1974 (and Protocols 1978/1988)
- ◆ International Convention on Standards of Training, Certification and Watchkeeping for Seafarers, 1978 (amended 1995) (“STWC”)
- ◆ The International Convention for the Prevention of Pollution from Ships, 1973 (and the 1978 Protocol)
- ◆ The International Convention on Load Lines (1966) (and the 1988 Protocol)
- ◆ The International Convention on Tonnage Measurement of Ships (1969)
- ◆ The Convention on the International Regulations for Preventing Collisions at Sea (1972)

A review to check the impact of increased vessel size and commercial status will need to be undertaken. Regulations to cover Large Commercial Yacht Compliance, ISM & ISPS, etc will have to be implemented. The international marine regulatory framework is forever developing and changing, and this will be an ongoing task.

## **8.6 Operating policies**

The Jersey Register will need to exercise direct control over the fleet to discharge the States’ flag state responsibilities. Detailed issues that must be considered in the development of the Register’s operating policy will include:

- ◆ Registration (full and demise charter registration)
- ◆ Register of mortgages and enforcement thereof
- ◆ Survey requirements
- ◆ Manning levels and certification requirements
- ◆ Nationality requirements (if any)
- ◆ Taxation and other fees

## 8.7 Category 1 approval process

There are three key steps to this:

- ♦ Careful liaison with the MCA will be required, and the steps and checks agreed before implementation.
- ♦ The MCA must ensure that Jersey can cope with the new limits of vessel type and size, and will audit Jersey's preparedness.
- ♦ The MCA will need to change UK law to grant Jersey Category 1 status, and this will only be completed with the full cooperation and support of all interested parties. This would include other REG flags, which will discuss allowing Jersey to go to Category 1 status. They may resist the ability of Jersey to take their market share, but the extent to which they can stop Jersey from completing the process is unclear.

How long will it take to achieve Category 1 status? With careful planning and government support, it is not unreasonable to think that Jersey may accomplish this in less than the 5 years that BVI has experienced.

Once Jersey has made its decision, the MCA has noted "... it would be possible for an approach to be made to DfT and MOJ to establish whether this (moving to Category 1) would be acceptable from a policy consideration. MCA would provide technical advice and would ultimately be responsible for establishing the additional requirements for any changes and for providing any necessary assurances to UK Ministers, via DfT. *The timescale, to a large extent, is a matter for Jersey ...*"

Providing that the States determine to support and fund the Registry's development, the move to Category 1 status might be made in less than 3 years.



## 8.8 Implementation checklist

The key activities that would be required are:

1. Decision to proceed with Registry expansion and Category 1 approval process.
2. Initial liaison with MCA to agree steps and checks prior to implementation.
3. Set up the Register as a stand-alone unit with its own budget and objectives / milestones within EDD.
4. Prepare a 5 year plan, assuming approval for Category 1 status within 3 years,
5. Prepare procedures to carry out the core tasks of the business, and associated operating policies with reference to best practice.. Consider adopting ISO 9002 – 2000 quality management.
6. Prepare a suitably funded marketing plan, engaging business partners that can help with targeting and joint funding of the marketing material. Leverage benefits from existing government resources where possible.
7. Obtain a suitable office allowing for storage of a large number of records, and having a suitable sized conference room for meetings with customers and business partners.
8. Ensure that communications and computer equipment to support the work is suitable and modern.
9. Appoint personnel to the required minimum posts over Category 1 approval period.
10. Update and develop agreements for third party surveying support. The MECAL (Jersey) Ltd arrangement should be reappraised to include the new requirements for survey. Agreements with MCA approved Class Societies, Ensign and other specialist survey bodies should be made to cover statutory surveys within the parameters allowed by MCA.<sup>6</sup>
11. Prepare for the MCA Agreement requirements as a Category 1 Register, and an audit by the MCA.<sup>7</sup>

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<sup>6</sup> Pro forma agreements exist and MCA would assist with this.

<sup>7</sup> Procedures, training, records and staff competencies will be examined.

## **9 Financial analysis**

### **9.1 Costs**

Based upon the plan developed in Section 8, the budget required to operate a Category 1 Registry is summarised below.

#### **9.1.1 Staffing**

- ◆ A Director (part-time): £20,000 pa.
- ◆ Three staff surveyors: £150,000 pa.
- ◆ Two full-time registration staff: £85,000 pa.
- ◆ Two administration support officers: £40,000 pa.

We understand that there are likely to be suitably qualified and experienced staff on the Island, and the requirement for staff from offshore would be minimal.

The legislation is already being efficiently and effectively written, and it seems unlikely that this would result in the need for additional manpower.

#### **9.1.2 IT and other systems**

The present telephone, computer and filing system would need to be upgraded to take the extra capacity and increased number of staff using it. A good website is needed. Computers, communications, servers, software, website etc. is budgeted at £80,000 pa.

#### **9.1.3 Office**

Office and storage space would need to be increased with the required furniture to support the extra staff. We have budgeted an annual cost of £20,000 pa.

#### **9.1.4 Travel**

Travel and subsistence would be increased with the extra staff and the need to market the Register. A budget of £20,000 pa would be reasonable for a moderate marketing campaign in Europe at say 5 events with 3 people. It is assumed that the travel costs for surveyors to survey the vessels are charged to the client.

#### **9.1.5 Marketing budget**

Adequate provision must be made for marketing, including stands at shows and advertising brochures. An annual budget of £50,000 should allow attendance at European shows such as the Monaco Yacht Show, Global Super Yacht Forum in Amsterdam, the Antibes Boat Show, and the Southampton and London Boat Shows.

### 9.1.6 Incident investigation

As noted in 4.1.7, the superyacht sector is low risk, but allowance still needs to be made for incident investigation. Minor accidents could be dealt with from the office by reviewing reports, which would only take a few man-hours. Local yachts will be low risk and low expense - over the last few years the annual costs have ranged from £880 to £1956.

More serious accidents may require officers to travel and interview parties, and could cost between £5,000 and £20,000. We have estimated that over a 5-year start-up period, Jersey should allow for £10,000 (i.e. £2,000 pa), but this will need to increase as the Registry grows.

A summary of costs that it is estimated the Jersey Registry would face in total is given in Table 9-1. This is comparable to the estimated £500,000 in costs incurred by BVI.

**Table 9-1 Expanded Jersey Registry annual costs**

<b>Item</b>	<b>Annual cost</b>
Director	£20,000
Registrars	£85,000
Staff surveyors	£150,000
Administration Officers	£40,000
IT and other systems	£80,000
Office	£20,000
Travel and subsistence	£20,000
Marketing	£50,000
Accident investigation	£2,000
<b>Total costs</b>	<b>£467,000</b>

### 9.2 Revenues

The income earned by the Jersey Registry in recent years is shown in Table 9.2. These figures all include the Small Ships Registry which has been excluded since 2006 and which will be included in the future. It is estimated by Jersey Harbours that the Registry income in 2007 will be about £87,000.

**Table 9-2 Income from the Registry**

<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
£92,562	£92,483	£76,516	£46,015	£82,628

Jersey currently has 2,129 vessels on its British Ship Register of which 32 are over 24m, and 60 are commercial less than 150 GT.

In the past, the time period that a vessel could remain on the Register was unlimited, but a 10 year registration period was introduced in 2004. Since then, the dead entries are gradually being cleaned out of the Register.

There were 128 new registrations in 2006 and 132 in 2007, and the number leaving the Register is thought to be similar. It is expected that the Register will be cleaned up by 2014.

The current fees for registering a ship on the full Registry are £302 for the initial registration, transfer of port of registry to Jersey, or re-registry for ships not exceeding 400 GT. The charge for registering on the Small Ships Register is £22.

These fees are compared to other flags in Table 9.3. If we assume an exchange rate of £1=US\$2, then Jersey's registration fee is in line with other registries charges for craft up to 24m. The fee of £302 would appear on the low side for larger vessels, and the Cayman Islands currently charge about £600 for a vessel over 1500 GT. It is usual practice to require re-registration every 5 years.

We have assumed that the £302 registration fee continues up to 400GT, but that two new fee bands based on the Cayman Islands fees less 10% are introduced for larger vessels, with re-registration every 5 years:

- ♦ Band 1: £380 for vessels between 400GT and 1500GT
- ♦ Band 2: £540 for vessels between 1500GT and 3000GT

Jersey may also charge for the issuing of crew endorsement certificates to confirm that foreign qualifications meet with Jersey's requirements. We have assumed a charge of £76 based on the UK rate, and allowed for an average of 5 certificates on a band 1 vessel and 7 on a band 2 vessel.

**Table 9-3 - Comparison of Ship Registry fees 2008**

	<b>Registration</b>	<b>Transfer of ownership</b>	<b>Crew endorsement</b>	<b>Small ships</b>
<b>Jersey</b>	£302 (valid for 10 years)	£95	n/a	£22
<b>UK</b>	<i>pleasure craft &lt; 24m and small ships:</i> £124 (valid 5 years)	£80	£76	£25
<b>Cayman Islands</b>	up to 150 GT = US\$400 over 150-400 = US\$600 over 400- 1500 = US\$850 over 1500 GT = US\$1200	US\$300 – US\$600	US\$300	n/a
<b>Isle of Man</b>	<i>pleasure vessels:</i> £535 <i>commercial yacht:</i> £560	£225	£160	£35
<b>Marshall Islands</b>	<i>private yacht &lt;= 5,000 GT:</i> US\$800 (annual) US\$1000 (3-year) <i>commercial yacht:</i> US\$1250	US\$250	n/a	n/a
<b>Bahamas</b>	<= 5,000 net tons: US\$1.20 per net ton	n/a	n/a	n/a

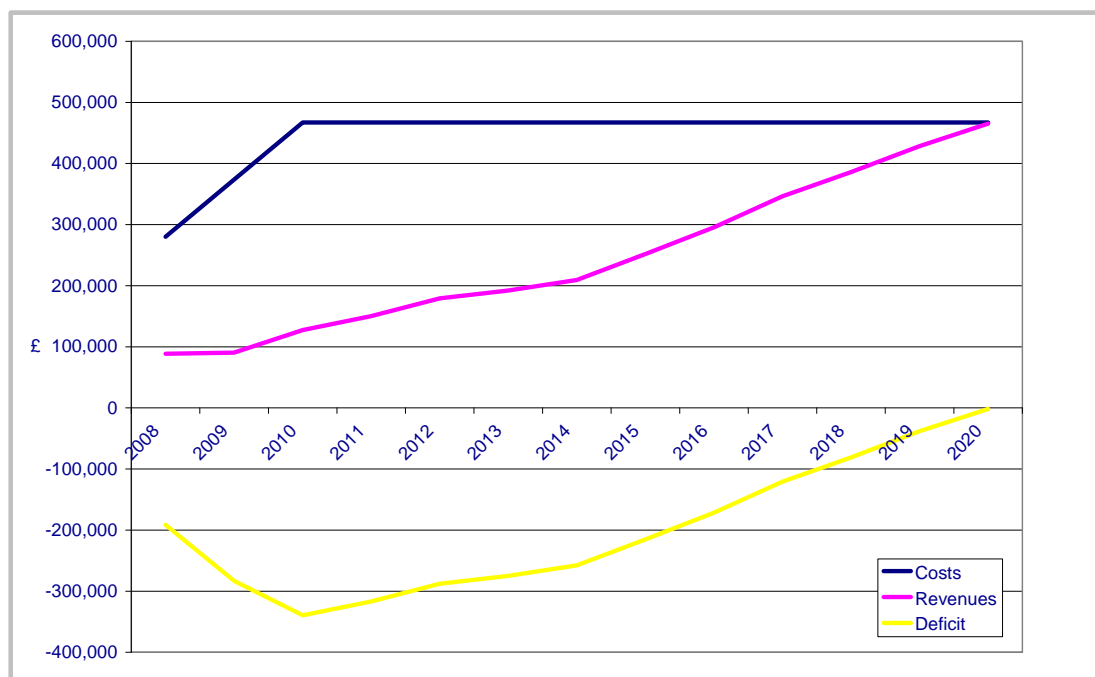
Surveyors will survey commercial vessels. The Chief Surveyor will not be available for surveys as he /she will be carrying out STCW endorsements, casualty / incident investigations (reading reports and chasing them up), answering customer and staff queries, attending seminars etc. The other two Surveyors could carry out up to 90 surveys a year, in addition to other duties.

Normal survey fees charged by private companies are in the region of £115/hour plus expenses and costs. This would give a labour cost of about £2,500 per ship survey.

We have assumed that in the early years less than 10% of superyachts will be commercial and hence require a survey. This proportion will increase (assumed up to 35%) as the Registry builds up a good reputation, and boat owners gain confidence in it.

We have prepared a scenario for a P&L account, and the results are shown in Figure 9-1 and Table 9-4. This assumes that the Registry will reach its target share of 20% of the growth in the market available to it after expansion. This is referred to as the Base Case.

**Figure 9-1 P&L Expanded Jersey Registry (Base Case)**



The Registry is likely to run at a deficit over the next ten years. This gradually reduces over the period as the Registry attracts more customers, and the proportion of commercial yachts increases. The actual financial performance of the Registry will depend on:

- ◆ Providing a good service and establishing a leading reputation.
- ◆ Attracting vessels through marketing.
- ◆ Making best use of synergy with the financial services sector.

### 9.3 Conclusions

Running a Category 1 Registry requires a sustained commitment to funding operating costs arising from the resources needed for this. Direct revenues from Registry activity take a long time to build up. It may be approaching break even by 2020, but is unlikely to make a large profit - no Registry does, although confidential sources indicate that Gibraltar has now be able to balance its books, having grown from a position ten years ago that was very similar to that of Jersey today.

In the event that activities such as Port State Control inspections and accident investigation were to be transferred from the current responsibility of

Jersey Harbours to the expanded Registry, “ghost earnings” against the States’ responsibilities should also be assigned to the Registry. This issue is likely to come under close examination in the forthcoming “Review of the Harbours Owned and Operated by The States of Jersey”.

**Table 9-4 - Costs and revenues scenario for expanded Jersey Register (Base Case)**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total costs</b>	<b>280,200</b>	<b>373,600</b>	<b>467,000</b>	<b>467,000</b>	<b>467,000</b>	<b>467,000</b>	<b>467,000</b>	<b>467,000</b>	<b>467,000</b>	<b>467,000</b>	<b>467,000</b>	<b>467,000</b>	<b>467,000</b>
<b>Revenues</b>													
Current business	88,740	90,515	92,325	94,172	96,055	97,976	99,936	101,934	103,973	106,053	108,174	110,337	112,544
Registration fees	0	0	11,940	20,080	28,220	32,020	35,820	49,660	59,700	67,840	71,640	75,440	77,340
Crew endorsement fees	0	0	11,932	20,064	28,196	31,996	35,796	49,628	59,660	67,792	71,592	75,392	77,292
Surveying fees	0	0	5,167	8,667	18,250	20,750	27,900	38,700	58,125	88,000	116,250	147,000	175,875
Miscellaneous	0	0	6,068	7,149	8,536	9,137	9,973	11,996	14,073	16,484	18,383	20,408	22,153
<b>Total revenue</b>	<b>88,740</b>	<b>90,515</b>	<b>127,432</b>	<b>150,131</b>	<b>179,257</b>	<b>191,879</b>	<b>209,424</b>	<b>251,918</b>	<b>295,531</b>	<b>346,169</b>	<b>386,038</b>	<b>428,577</b>	<b>465,203</b>
<b>Revenue minus costs</b>	<b>-191,460</b>	<b>-283,085</b>	<b>-339,568</b>	<b>-316,869</b>	<b>-287,743</b>	<b>-275,121</b>	<b>-257,576</b>	<b>-215,082</b>	<b>-171,469</b>	<b>-120,831</b>	<b>-80,962</b>	<b>-38,423</b>	<b>-1,797</b>
No. of superyachts on Jersey Register	0	0	31	83	156	239	332	430	533	636	739	842	945
Global market growth 500- 3000GT	2,000	2,200	2,409	2,626	2,849	3,077	3,308	3,539	3,769	3,995	4,215	4,426	4,647
Jersey market share	0%	0%	1%	3%	5%	8%	10%	12%	14%	16%	18%	19%	20%



## 10 Economic analysis

### 10.1 Introduction

This section examines the impact of the proposed expansion of the Jersey Ship Register on the States.

Even though the Registry itself is unlikely to generate profits, the impact on other sectors of the economy, which would benefit from an expansion of the Registry, needs to be considered so that a decision can be made on whether the project is worth funding on economic development grounds.

We have concentrated on answering two key questions:

- ◆ What does the expansion of the Registry imply for growth of Jersey's economy, measured in terms of additional Gross Value Added (GVA)?
- ◆ How do direct financial benefits to the States from additional taxation arising from the expansion compare with the cost of funding this?

The contribution from the expansion is based on the direct, indirect and induced economic impacts of this, and these are discussed in the following sections.

### 10.2 Direct impact

The direct impact is the initial impact of the Registry itself and companies that are involved first hand in activities related to the Registry. For such companies, if the Registry does not expand, then their businesses will be directly affected by loss of potential revenue (opportunity cost).

The companies that would be affected in this way largely fall into the area of professional services rather than core marine activities (such as ship building / repair / maintenance, engineering services, equipment suppliers, port operations etc.). This is because most superyachts that would register with Jersey will never actually visit the island. There is no requirement for a vessel to go to its flag country in order to be registered, as the surveyors will go to the vessel. They will therefore not be paying harbour dues, using the onshore services, or spending money in restaurants etc.

It is possible that a few of the superyachts registered will visit Jersey. If the yacht is built in Holland or Germany, then it will usually stop on the delivery voyage to store up on its way to the USA or Mediterranean. If it were registered in Jersey, then it could well stop there which would bring some benefit to the Island.<sup>8</sup>

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<sup>8</sup> We note however that there is currently a shortage of marina berths on the Island that can accommodate these large yachts, although there are proposals to expand marina capacity.

The activities that would be impacted by the expansion of the Registry are:

- ◆ Ship surveying
- ◆ Company formation
- ◆ Ship finance
- ◆ Marine insurance
- ◆ Ship charter
- ◆ Yacht management
- ◆ Legal services

There is a direct link between the Registry and these activities in Jersey. This is because the Flag State / Registry is the fulcrum of the international regulatory framework for shipping. A Flag State's responsibilities include:

- ◆ Defining and monitoring the standards set for vessels entering the Registry. These include maritime and national legislation, safety records, employment conditions and operational performance.
- ◆ Identifying ownership even if such information is not made publicly available.
- ◆ Ensuring that vessels are well maintained and properly crewed. If this is not the case, then the Flag State has to work with the vessel's owner/operator to bring it up to standard. If the owner/operator refuses to work with the administration, then an appointed panel of maritime and legal professionals have to decide whether to remove the vessel from the Register and then notify all interested parties such as the mortgagee and port authorities.
- ◆ Issuing certificates of competency for the crew.
- ◆ The Register itself should have its performance monitored, which may be by a ship owners association or a body formed from representatives of the banking, legal and insurance industries, classification societies and ship owners.
- ◆ Accident investigation.

These responsibilities require the services of bankers, insurers, those proficient in maritime law, surveyors, crew management companies and so on. Such services could be sourced off the Island, but it is easier if they are local and the Registry will provide an attraction to companies to offer such services in Jersey.

### **10.2.1 The impact of a Registry – some examples**

The Registry will act as a focus for the development of supporting services, and the experience of other countries demonstrates this.

## Hong Kong

In November 2005 in a speech to the Hong Kong Maritime Industry Council, the Secretary for Economic Development and Labour commented on the benefits of the Register to the economy of Hong Kong: *“The steady increase in our registered tonnage has underpinned the growth of other related maritime sectors and benefits the economy of Hong Kong. The total value of ship financing in Hong Kong has increased by over 200% since the launch of our ship Register, reaching an amount of HK\$26.4 billion in 2004.*

*The gross premiums generated by ship underwriting business by Hong Kong insurers amounted to over HK\$860 million, an increase of over 50% in the past five years.”*

## Isle of Man

In the Isle of Man, when the superyacht Register was introduced in 2003, Anglo Irish Trust Company Ltd launched two new services to take account of this: ‘YachtsMann’ is Anglo Irish’s superyacht service and is aimed at owners and operators of commercial yachts. This service comprises company incorporation, administrative services, liaising with maritime authorities, arranging insurance, paying invoices and crew salaries, and offering tax planning and legal advice. The second service, ‘Yacht Haven’, is a leasing scheme for individuals planning to acquire a pleasure vessel in the £200k-£2m price range and included VAT reclamation and insurance<sup>9</sup>.

Pauline Doyle, the director in charge of YachtsMann, explained that yacht owners appoint a qualified and professional management company because the owner wants to enjoy his leisure time and not worry about the management and day-to-day running of the vessel, and the captain is a highly qualified specialist who should not have his time taken up by administrative affairs. The initial services the company provides are “setting up a company on the Island to register and manage the yacht, arranging insurance and bank accounts, and setting up satellite systems and radio accounts. Our administration services include paying all invoices relating to the yacht, ensuring all manning requirements are met, obtaining MCA certificates, paying crew salaries, drafting documents, preparing annual returns, provision of tax and legal services, and last but not least, obtaining VAT paid certificates and recovering VAT”. They also provide banking, wealth management, investment and financial planning services through Anglo Irish Bank, and through their trust company they offer corporate services, taxation advice and pensions. In addition, the majority of yacht owners put their vessels out to charter to help recover costs, and YachtsMann work with the major charter and management agencies to set up charter or leasing arrangements.

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<sup>9</sup> Source: Tax-news.com, April 2003

At the time, the Marine Administration Director predicted that the superyacht Registry, when launched, would be worth 'several million pounds' to the Island's economy. On reflection in 2007 he has concluded that *'The result was not immediate but there is certainly a benefit to the wider economy as well as other non-tangible benefits. There is a constraint in having a restricted register'*.

According to the Treasury Minister's budget speech on 20<sup>th</sup> March 2007, the Isle of Man is now looking to repeat the *'striking success of the ship register'* in the civil aviation sector by targeting private aircraft such as executive jets operated by companies and high net worth individuals; *"This [aircraft register] is a logical extension of the Isle of Man's capabilities in financial and professional services. It is hoped that within 3 to 5 years of the aircraft register becoming operational, we will see economic benefits in terms of taxation receipts, management fees and new jobs"*.

### **British Virgin Islands**

In 2006, the BVI's Chief Minister welcomed the move to Category 1 status particularly aimed at attracting superyachts to their ship register. He acknowledged that it would increase BVI's obligations for ensuring vessel owners/operators comply with international maritime conventions, but believed that these obligations would be *"compensated for through spin-offs to both the public and private sector in the areas of legal, company registration, asset management and other corporate services in the jurisdiction. "This is something that the entire Territory will be proud of achieving" he observed*".<sup>10</sup>

The following sections consider the situation in Jersey, and the assumptions made to estimate the value of these activities to the economy.

#### **10.2.2 Ship surveying**

The Registry does not currently employ any surveyors directly. It uses MECAL (Jersey) Ltd, an appointee of Jersey Harbours, to carry out surveys on commercial vessels up to 150 GT and pleasure vessels up to 400 GT, and also other organisations such as Lloyd's Register and Bureau Veritas.

The Jersey Registry would need to employ surveyors directly as part of its staff to obtain MCA approval for expansion of the Registry. We have assumed that the Jersey Register surveyors would carry out surveys, bringing direct income to the Registry, until becoming capacity constrained.

It is anticipated that Jersey would continue to use contractors for the expanded Register in the longer term, and also to meet short-term peaks. Although local surveys on smaller vessels would continue to be carried out

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<sup>10</sup> Source: Tax-news.com, October 2006

by contractors, significant additional work for external surveyors will only be generated in the longer term.

It is possible that some of these external surveyors could live in Jersey, but if the vessels are being surveyed in the Mediterranean and Caribbean, then there is no need for them to be based locally. Indeed, private sector surveyors may work for a number of different Registries as well as Jersey.

### **10.2.3 Trust and company formation and administration**

Superyacht owners will often, principally for tax and inheritance reasons, set up a trust. Jersey amended its law relating to private trust companies last year to make it more flexible and competitive, and it has about 200 licensed trust and company administrators. Non-resident trusts are the most common type of trust in Jersey, and the Island has a good reputation as an offshore jurisdiction for trusts because it is well regulated, flexible, and has a sophisticated legislative framework.

If a non-resident wishes to place a vessel on the Jersey Register, they would usually set up a Jersey company that legally owns the vessel. Certain other foreign companies can own Jersey-registered vessels, in which case they have to nominate a locally based representative person. Jersey is well respected for company formation and administration, and has the law firms and companies to provide these services.

Jersey also offers progressive corporate structures such as cell companies, which are holding structures that are easy to set up, manage and, subject to certain requirements, transfer to other companies, and which would be excellent for yachts which change ownership regularly (every 3-5 years).

There are questions about Jersey's competitiveness on price for company formation. At present one of the local yacht management companies uses the British Virgin Islands because it is cheaper to set up a company there. However, the changes to Jersey Income Tax 2007 allowing Jersey companies to be exclusively tax resident in jurisdictions other than Jersey may permit Jersey companies to compete better in this area with places like the Cayman Islands.

If an owner uses a Jersey company to own the vessel, then they can appoint the local representative to represent them at the annual general meeting, if held, and this service will be charged for. Alternatively, the owner or his captain or manager, if appointed the owner's proxy, may make a trip to Jersey, and will attend in person whilst having a few days vacation.

We have assumed that half of the superyachts would require company / trust formation services when they initially register with Jersey, and that the initial set-up charge would be £1,000. The annual company management fees (including provision of registered office and company secretarial service) would be £1,200 - £2,000 per annum. Local representatives would separately charge an annual fee of £500 - £1,000.

#### **10.2.4 Ship finance**

The financing of a superyacht is generally engineered around a tax structure, so specialist advisors will be looking for a tax efficient place to register a vessel. In this category we have included:

- ◆ Shipbroker fees for selling a boat, which are assumed to be 4% of the purchase price of the vessel. We have assumed that 20% require a broker and Jersey companies attract 20% of this market.
- ◆ Bank commission on lending money for yacht purchase (1% of value of vessel). We have assumed that 20% will require finance from Jersey companies.

The values of superyachts vary greatly. We have assumed that a superyacht up to 1500GT has a value of £2m and a superyacht of 1500-3000GT is worth £6m. This is a conservative assumption, as a new German-built 3000 GT vessel in 2005 was sold for £35m, and in 2007 a much smaller Dutch-built 150 GT vessel was valued at £4.5m.

#### **10.2.5 Marine insurance**

There are insurance companies dealing with vessels in Jersey, but they mostly deal with smaller boats. Although there are at least two brokers who could handle insurance of superyachts, they tend not to deal directly with the superyacht underwriters, but use wholesale brokers in London and the south of France who specialise in superyachts. As a result, those organising the insurance on behalf of the boat owner will generally prefer to deal directly with the wholesalers themselves.

However, if the Registry were to expand, it is envisaged that trust companies would become more involved with the whole 'running' of the vessel. Local brokers would need to persuade these trust companies to use their services, but this could result in the development of marine insurance in Jersey.

It is assumed that it costs 0.6% of the vessel's value to insure it annually, but we have only allowed for a small proportion namely 5% of that income to be earned in Jersey. This is something that could change in the future. We have also allowed for 20% of yacht insurance to be handled through the local brokers and that they would earn commission at 0.1% of the vessel's value.

#### **10.2.6 Ship charter**

Yacht owners may seek to recoup some of their costs through chartering it, and would use specialists to set up the agreements and manage it. However, in the early days of the expanded Register potential income from this source is fairly limited because it needs to develop a track record in registering commercial yachts.

We have assumed that typical charter fees are £70,000 per week and the (commercial only) vessel would be chartered for four weeks of the year. The

charter management companies would charge 10% of the charter fees, and we have assumed that Jersey could tap in to 10% of this market.

### **10.2.7 Yacht management**

Yacht management is an area in which Jersey has current expertise, even though the vessels may not be on the Jersey Register. For example, Vistra currently has about 40 superyachts on their books.

Yacht management services cover a wide range including day-to-day administration, accounting services, ensuring compliance with legislation, and payroll and administration of social contributions. A 30m boat with a crew of 8 could be charged a monthly fee of about £2,000, in addition to annual charges and charges per employee contract. Not all yachts will require this service, but we have assumed that all those that do can be handled by companies based in Jersey.

Superyachts can employ sizeable crews ranging from 6 crew on a typical 300 GT vessel, to 25 or more on a 2,000 GT vessel. Yacht management companies may also earn income from managing the payroll for the crew and preparing employee contracts.

We have assumed that 20% of the superyachts on the Jersey Register would opt for yacht management services and that the annual charge would average £3,000.

In addition, we have assumed that 20% would require payroll services from Jersey companies at a fee of £18 per head. A band 1 vessel is assumed to have an average of 15 crew, and a band 2 vessel to have 30 crew.

Similarly, 20% of superyachts would employ Jersey yacht companies to set up crew contracts at £500 each, renewable every five years.

### **10.2.8 Conclusion**

The revenue that could potentially be earned directly from the expansion of the Registry is summarised in Table 10-1. Obviously this is not guaranteed income; the companies will have to work to attract the business, but Jersey already has the expertise to take advantage of this opportunity.

This has been evident in the support that the proposed expansion of the Registry has received from the local companies on the Steering Group: one commented “The Isle of Man is living proof that it can work, and although we will be playing catch-up, I think with the infrastructure we can offer vis-à-vis expertise in the law, trust and company formation, as well as insurance of course, then we have much to offer”.

Another expressed the view that although there is nothing stopping Red Ensign flag clients forming and administering companies in other jurisdictions whilst registering their yachts in Jersey, “once the flag becomes well-known

and popular, I think momentum will build up which will make it much easier to promote exclusive use of Jersey's infrastructure".

The director of an international yacht broker, charter and management company expressed the view that it would be of great benefit to Jersey to be able to register large commercial yachts. Most of these companies' owners are keen to have a Red Ensign, and as the Cayman Register appears to be in disarray at the moment, Jersey would provide an alternative. In his opinion, a Jersey Red Ensign would be highly regarded and possibly preferable to the Isle of Man. Moreover he could see the expanded Registry leading to growth in legal and financial support companies similar to Sarnia Yachts on Guernsey, providing corporate yacht services, although he felt it was unlikely that his company would open offices in Jersey.

We believe we have demonstrated that there is a direct link between the Registry and the growth in these activities. It is difficult to prove this quantitatively – but can everybody else be wrong? As seen in the experience of other countries, business grows around the flag.



**Table 10-1 Additional revenue earned through expansion of the Registry (Base Case)**

£'000	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>													
Jersey Registry - superyacht revenue	0	0	35	56	83	94	109	150	192	240	278	318	353
Surveys	0	0	0	0	0	0	0	0	0	0	0	0	0
Ship company/trust management	0	0	34	57	80	91	102	126	145	157	163	169	172
Ship, crew and payroll management	0	0	263	666	1,222	1,835	2,521	3,275	4,054	4,827	5,585	6,343	7,095
Marine insurance	0	0	32	85	161	246	342	442	547	653	758	864	969
Ship broker	0	0	106	179	253	285	317	438	528	602	634	666	682
Ship finance	0	0	132	224	316	356	396	548	660	752	792	832	852
Ship charter	0	0	6	10	20	23	31	43	65	99	130	165	197
<b>Total additional revenue</b>	<b>0</b>	<b>0</b>	<b>607</b>	<b>1,278</b>	<b>2,135</b>	<b>2,930</b>	<b>3,818</b>	<b>5,023</b>	<b>6,191</b>	<b>7,329</b>	<b>8,340</b>	<b>9,356</b>	<b>10,320</b>

### **10.3 Indirect impact**

Businesses affected directly inject money into the local economy through spending on goods and services, and this generates an indirect impact. We use multipliers to estimate the size of this indirect impact. The size of the multipliers, thus the impact on the economy of Jersey, depend on the extent to which these goods and services are sourced locally i.e. the strength of Jersey's supply chain linkages, and the definition of the local economy.

Strong supply chain linkages in Jersey would mean less leakage through companies sourcing their inputs elsewhere. The size of the local economy is also important as the larger the geographical area, the lower the leakages are likely to be. In the case of Jersey, the geographical area is precisely defined as the Island.

In 2004, the Statistics Unit of the States of Jersey undertook a Value Chain Survey designed to gain a better understanding of the steps a product or service undertakes between raw materials and final consumer. This survey produced valuable information on the sourcing of intermediate goods and services. It found that:

- ◆ Over all businesses, 45% of intermediate goods and services were imported.
- ◆ For the financial services sector this rose to 55% imported.
- ◆ Wholesale and retail businesses imported 65% of their inputs.

The finance sector was particularly difficult to measure because it is so complex, and there are a large number of intra-sector transactions. A subsequent Survey of Financial Institutions in 2005 found that total spending on goods and services by this sector was £474m in 2005, of which £272m was spent in Jersey, meaning that 42% was spent on imports. Of the total spending, 19% was spent within companies' own corporate structures, but also spent outside of Jersey.

### **10.4 Induced impact**

The induced impact relates to additional economic activity generated as a result of spending by additional employees taken on to deal with the increased workload in the companies affected by the Register. They too buy goods and services, but again there are leakages from the local economy, as not all their spending will be made with local companies, and they may not all live in Jersey.

## 10.5 Estimating GVA

The measure of GVA used by Jersey is essentially profits plus wages. We have used average values for GVA per full time equivalent (FTE) employee in different types of economic activity to drive our GVA calculations. The methodology for estimating GVA was:

- ◆ Estimate direct revenue (as described above).
- ◆ Determine the implied number of jobs created by dividing revenue by revenue per FTE employee and adding the jobs created directly in Jersey Registry.
- ◆ Split these jobs into those that will be filled from the unemployed / inward migration, and those that will take employees from elsewhere in the economy (see 'opportunity cost of labour' below).
- ◆ Multiply the number of jobs by GVA per FTE employee (taking account of the opportunity cost of labour and the costs of processing inward migration where required) to obtain direct GVA.
- ◆ Apply a multiplier to obtain indirect and direct employment and GVA (taking account of the opportunity cost of labour and costs of inward migration where required).

These steps are discussed in more detail below. Where we refer to Registry-based activities or increases in employment related to the Registry we are referring to the activities such as ship finance and crew management as well as the Jersey Registry itself. All the assumptions made concerning general economic parameters such as revenue per head, wages, opportunity costs, migration and so on have been discussed and agreed with the Economics Unit.

### **Employment and opportunity cost of labour**

We classed the direct activities described in section 10.2 above as 'finance'-based or 'other professional', and indirect / induced jobs as 'other' and, using average figures for revenue per employee for each category, derived implied employee numbers from the revenue projections.

The revenue per employee was based on analysis carried out for the financial services sector<sup>11</sup> and subsequent discussions with the Economics Unit. We originally assumed that the type of businesses we classed as 'finance' (i.e. ship company/trust management, ship finance and ship broker) would have similar profile as Trusts under the financial services sector. However, it was agreed to use the same figures as for 'other professional', which are based on accountancy sector averages. We therefore assumed:

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<sup>11</sup> *Survey of Financial Institutions, 2006, States of Jersey*

<b>Revenue per FTE employee</b>	
Finance-based	£80,000
Other professional	£80,000
Other	£50,000

Jersey has high employment rates and controls population expansion through inward migration policy. Any project that creates new jobs, to the extent to which they cannot be filled by increasing participation or reducing unemployment in the current population, is therefore going to require either inward migration or will attract labour from elsewhere in the economy. If an employee is attracted from another job in Jersey, the net gain to the economy will be lower (because of this opportunity cost) than if it is from new employment. We have assumed, as a working hypothesis, that 50% of all the new jobs related to the Registry expansion will be filled by those currently employed and 50% by those who are either not employed or are inward migrants.

In addition, there is an opportunity cost of inward migration to people already living in Jersey. Inward migration adds to demand for public services and infrastructure to some extent and we have allowed £5,500 per employee to reflect this, as this is approximately what the States spends per person per annum on public services.

We have taken account of the opportunity cost of labour by reducing the GVA by the amounts shown below for those posts that are not filled by displaced labour. These figures are based on a Registry-based job displacing one in an activity comparable to tourism.

<b>Opportunity cost per FTE employee</b>	
Finance-based	£20,000
Other professional	£20,000
Other	£15,000

There is another slightly different concept of opportunity cost of inward migration that is not included in our calculations, but is important to keep in mind. This is the net value that other inward migrants could have added to Jersey's economy in the absence of expanding the Registry. The States could, for example, allow inward migration while maintaining the economy's sectoral balance and this would on average deliver a real GVA per FTE employee of £75,000 per annum. The States could also choose to focus inward migration into a higher value added balance of activities and deliver a higher GVA per FTE employee.

Nevertheless, there are other benefits to expanding the Register, in particular diversification of the economy, which are not reflected in GVA figures.

Our assumption on GVA per FTE employee before the opportunity cost of labour is taken into account is:

**GVA per FTE employee**

Finance-based	£75,000
Other professional	£75,000
Other	£40,000

Direct GVA is estimated as £316m in 2010 rising to £8.0m in 2020, including the net revenue earned by the Registry itself (negative in early years).

**Indirect and induced GVA**

Calculation of indirect and induced impact references an English Partnerships guide to assessing the additional impact of projects (essentially regeneration projects)<sup>12</sup>. This includes estimates of economic multiplier effects based on evidence from studies and research in different sectors, and for different sized areas namely 'local area' and 'region'. From these they produced the guide to multipliers shown in Table 10-2 below. It should be noted that these are composite multipliers i.e. they include the indirect and induced effects.

The area defined as 'local area' can refer to a neighbourhood, which can be at ward or local authority level. Conversely a 'region' can refer to a group of counties. For Jersey, the benchmark is probably going to lie somewhere between the two.

**Table 10-2 Composite multiplier effects**

Level	Description	Local area	Regional level
Low	Limited local supply linkages and induced or income effects	1.05	1.3
Medium	Average linkages. The majority of projects will be in this category	1.10	1.5
High	Strong local supply linkages and income or induced effects	1.15	1.7

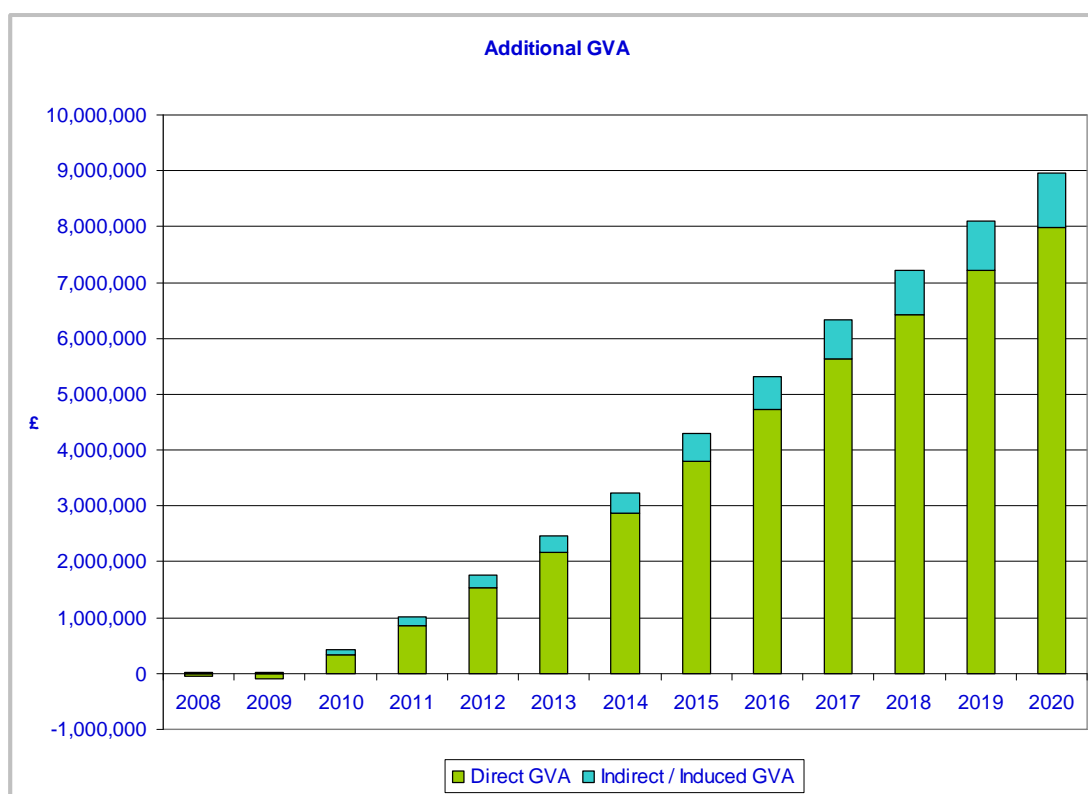
Using the guideline that 42% of the goods and services purchased by the financial services sector are imported, suggests a medium to high leakage from the local economy (25% is classed as medium, and 50% as high in the guidance). We have therefore used a multiplier of 1.25 for the indirect and induced impact to reflect the situation in Jersey. This multiplier is applied to the number of direct jobs to determine the indirect and induced jobs. Values of GVA per head are then applied to the number of indirect/induced jobs to determine GVA. Following the same methodology as for the direct impact,

<sup>12</sup> *Additionality Guide, September 2004*, English Partnerships

account is taken of the opportunity cost of labour and the costs of inward migration.

The indirect and induced GVA is £90,000 in 2010 rising to nearly £1m in 2020. Total GVA is therefore estimated at £427,000 in 2010 rising to £8.9m in 2020 (see Figure 10-1). This could be a conservative estimate as in comparison, research in the Isle of Man estimates that the total contribution of the registry and related industry to the Island's GDP is 5% and that they employ 500 staff.

**Figure 10-1 GVA Attributed to Registry Expansion (Base Case)**



## 10.6 Financial flows to the States

This indicator compares the cost of expanding the Registry (the net Present Value of the deficit over 10 years), with the additional revenue derived from income tax, corporation tax and GST.

### Income tax

We are advised that income tax averages out at 12% of earnings. Average earnings are assumed to be:

<b>Average wages per FTE employee</b>	
Finance-based	£35,000
Other professional	£30,000
Other	£16,640

Based on an increase in employment of 166 by 2020 the increase in income tax receipts in 2010 would be £26,000 rising to £279,000 in 2020.

### **Goods and services tax**

Jersey is about to introduce a Goods and Services Tax (GST) in 2008 which will be set at 3% and will be charged on the supply of goods and services and the importation of goods. Very little (if any) of the final expenditure by consumers on services related to the Registry expansion will raise GST for the States because the services will either be exempt, or zero-rated as exports. However, the expenditure by additional employees (i.e. those through increased participation, reduced unemployment or increased inward migration) will in general raise GST for the States. This is estimated to be at most 2% of their earnings, assuming this is similar to their expenditure and because GST will be payable on approximately two thirds of an average person's spending.

Therefore, revenue to the States from GST arising from the additional activity in the economy caused by the expansion of the Register, rises from £1,000 in 2010 to £11,000 in 2020.

### **Corporation tax**

Jersey is expected to have two rates of corporation tax from 2009: 0% standard rate and 10% for specified financial services companies. The 0% rate is applied to most companies whether they are owned by Jersey residents or by individuals resident abroad. The special rate of 10% is applied to a restricted set of companies in the financial services sector such as banks and trust companies, which are defined as any company licensed, registered or authorised under specified sections of Jersey's financial services regulations and laws. This includes non-resident financial services companies if they are regulated in Jersey.

It is difficult to estimate the proportion of companies that come into our analysis that would have to pay the 10% corporation tax. We have therefore worked on the basic assumption that one third of the companies that we have included under finance would be non-resident owned and entitled to the 0% rate and one third would be specified financial services companies who pay 10%. The remaining third would be companies owned by Jersey residents who, through 'look-through' arrangements, will pay Jersey tax on the profits usually at 20%. This gives an average for our finance category of 10% corporation tax. We have also assumed that the average profit per employee is £23,000 based on the average for Trusts.

On this basis, in 2010 there is estimated to be £8,000 corporation tax receipts rising to £50,000 in 2020.

### Tonnage tax

The UK Finance Act 2000 allows an alternative way of calculating corporation tax profits of companies operating qualifying ships that are 'strategically and commercially managed in the UK'.<sup>13</sup> Taxable profits are calculated on the net tonnage of a vessel on the following scale:

<b>Net tonnage of ship (rounded down to nearest 100)</b>	<b>Daily profit rate per 100 tons</b>
0 – 1,000	£0.60
1,000 – 10,000	£0.45
10,000 – 25,000	£0.30
Above 25,000	£0.15

To qualify to pay tonnage tax, a ship must be seagoing and over 100 gross tons used for:

- ♦ The carriage by sea of passengers.
- ♦ The carriage by sea of cargo.
- ♦ Towing, salvage or other marine assistance carried out by sea.
- ♦ Or, transport by sea in connection with other services of a kind necessarily provided at sea.

Vessels specifically excluded from tonnage tax are:

- ♦ Fishing vessels
- ♦ Factory ships
- ♦ Pleasure craft (this does not include cruise liners which do qualify)
- ♦ Harbour or river ferries
- ♦ Offshore installations
- ♦ Tankers dedicated to a particular oilfield
- ♦ Dredgers other than qualifying dredgers
- ♦ A vessel providing services usually supplied on land e.g. floating restaurant

There are other requirements for: the vessel to be flagged under an EU flag if it satisfies certain conditions; for training obligations; and limits on chartering.

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<sup>13</sup> 'Tonnage Tax' Moore Stephens factsheet, January 2007

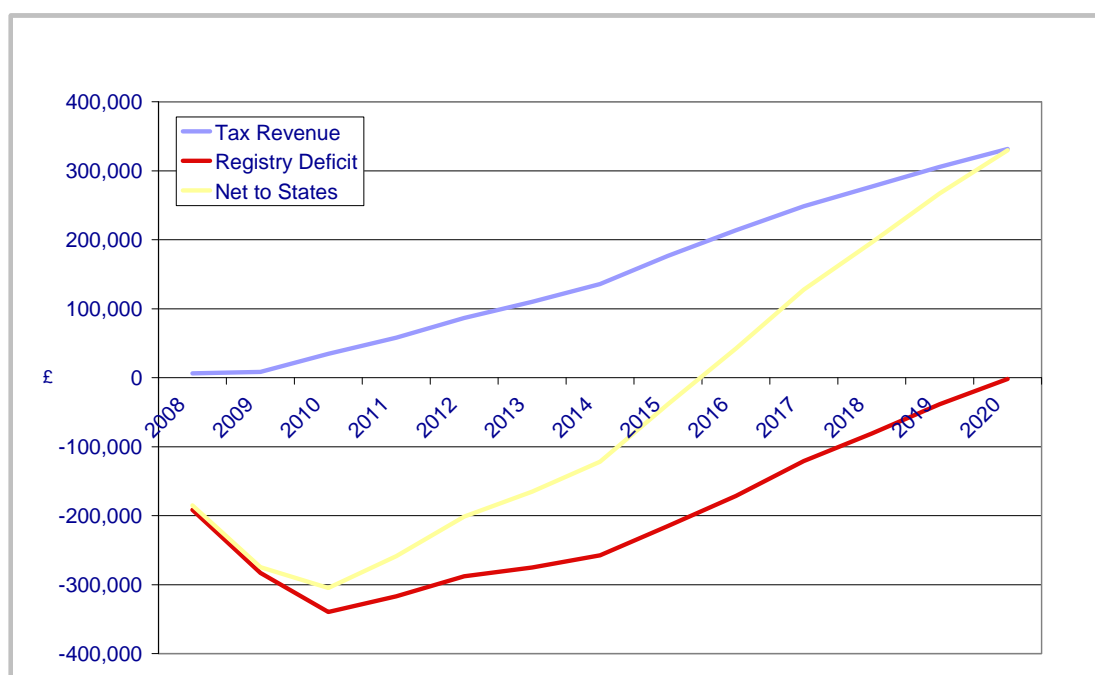


The corporate taxation arrangements in Jersey mean that most owners would have zero liability. This would be paid only by a commercially registered vessel that generated profits in a company falling under the special 10% bracket for the financial services sector. A special tonnage tax arrangement in Jersey might therefore be considered in such circumstances.

### Taxation summary

In total, tax revenue in 2020 amounts to £332,000. It is estimated that tax revenue will offset the Registry deficit by 2016 (Figure 10-2).

**Figure 10-2 Net Cash to States (Base Case)**



In financial terms, the States will probably need to make a cumulative net investment (amount of deficit to be funded net of additional tax receipts) of £587,000 up to 2020 (i.e. this is the NPV at a discount rate of 0%). This is illustrated in Figure 10-3.

**Figure 10-3 Cumulative Net Cash to States by 2020 (Base Case)**



## 10.7 Sensitivity tests

The **average wages per FTE employee** (reference 10.6) are based upon figures provided in detailed consultation with the States. The Jersey index of average earnings as of June 2007 puts the mean across all sections at £30,160, suggesting that the figures used are quite conservative.

Civil service and finance workers have means of £39,520 and £40,004 respectively. Manufacturing, construction or 'other business activities' earnings are around £520 to £550 per week (£27,820). Bar and restaurant workers earnings are £16,640.

We have therefore assessed the financial impact on cumulative funding by the States up to 2020 from using the following wages:

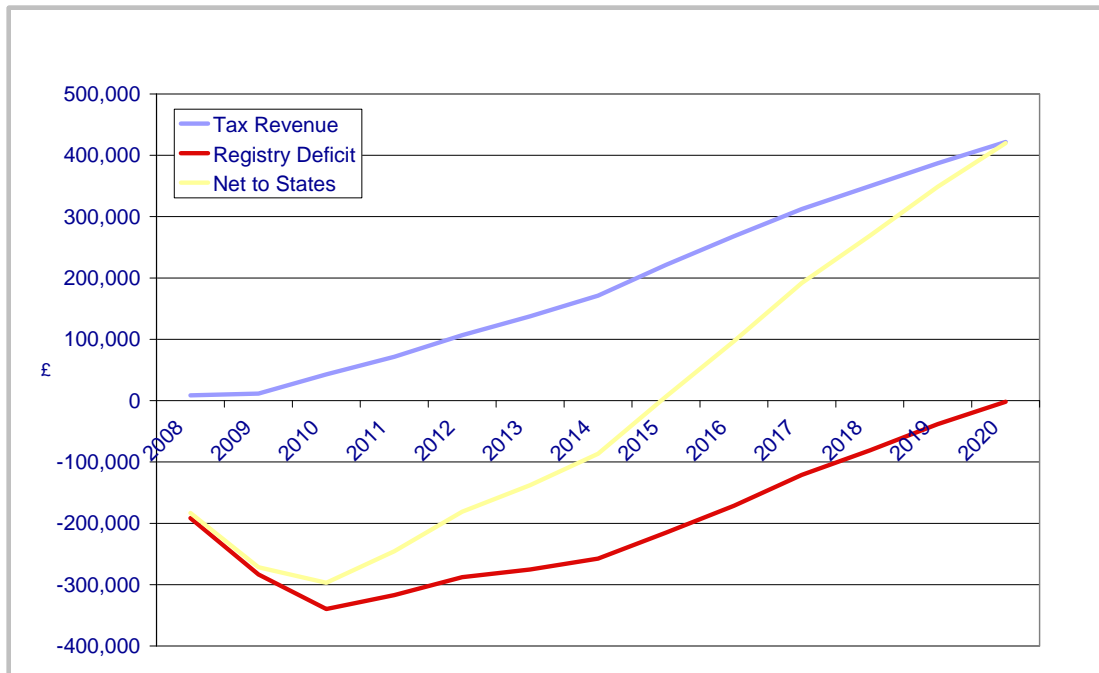
- Finance-based average = £40,004
- Other professional = £39,520
- Other = £27,820

The key risk is that the Registry might not obtain the **projected market share**. We looked at the impact on the financial position if the Registry only manages to attract 10% of the growth in the superyacht market by 2020 (the Low Case), or 25% of the growth in the market (the High Case).

### 10.7.1 Base Case (Higher Wages)

In this scenario, tax revenue in 2020 amounts to £422,000, and will offset the Registry deficit perhaps a year earlier (Figure 10-4).

**Figure 10-4 Net Cash to States (Base Case Higher Wages)**



In financial terms, the States will probably need to make a cumulative net investment of £70,000 up to 2020 (Figure 10-5).

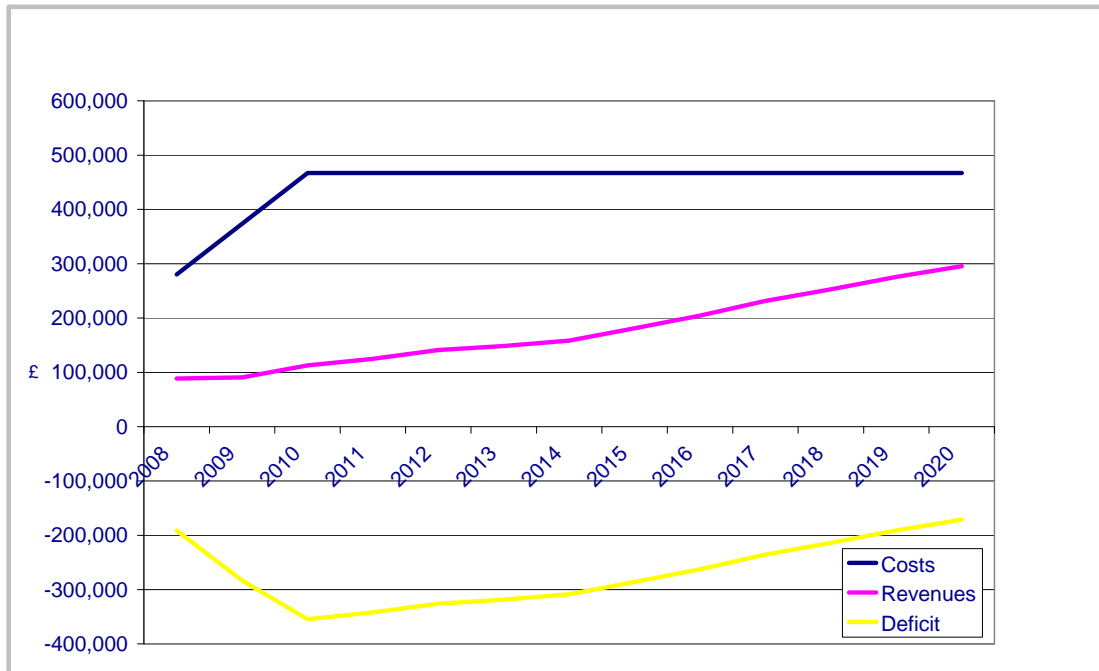
**Figure 10-5 Cumulative Net Cash to States by 2020  
(Base Case Higher Wages)**



### 10.7.2 Low Case (10% of growth in superyacht market)

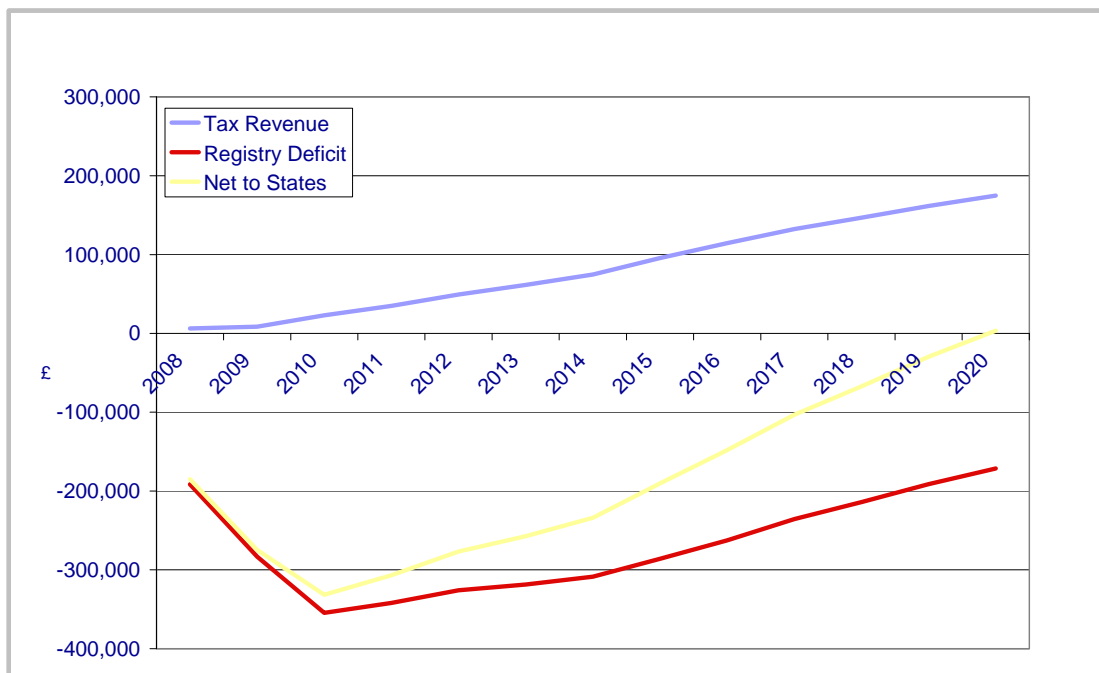
The Registry will not breakeven until 2020, and would be likely to be operating with a deficit of around £171,000 pa (Figure 10-6).

**Figure 10-6 Jersey Register P&L (Low Case)**



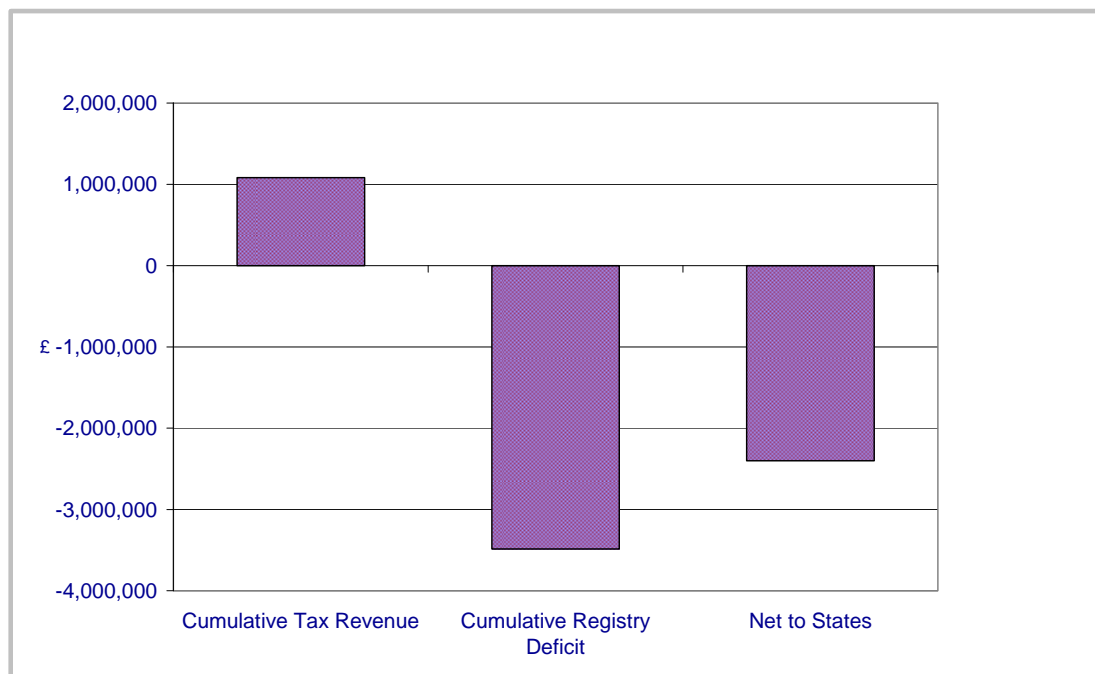
In financial terms, the States would break even around 2020 (when tax revenues would offset the Registry deficit) (Figure 10-7).

**Figure 10-7 Net Cash to States (Low Case)**



The States would probably need to make a net investment of about £2.4 million up to 2020 (Figure 10-8).

**Figure 10-8 Cumulative Net Cash to States by 2020 (Low Case)**

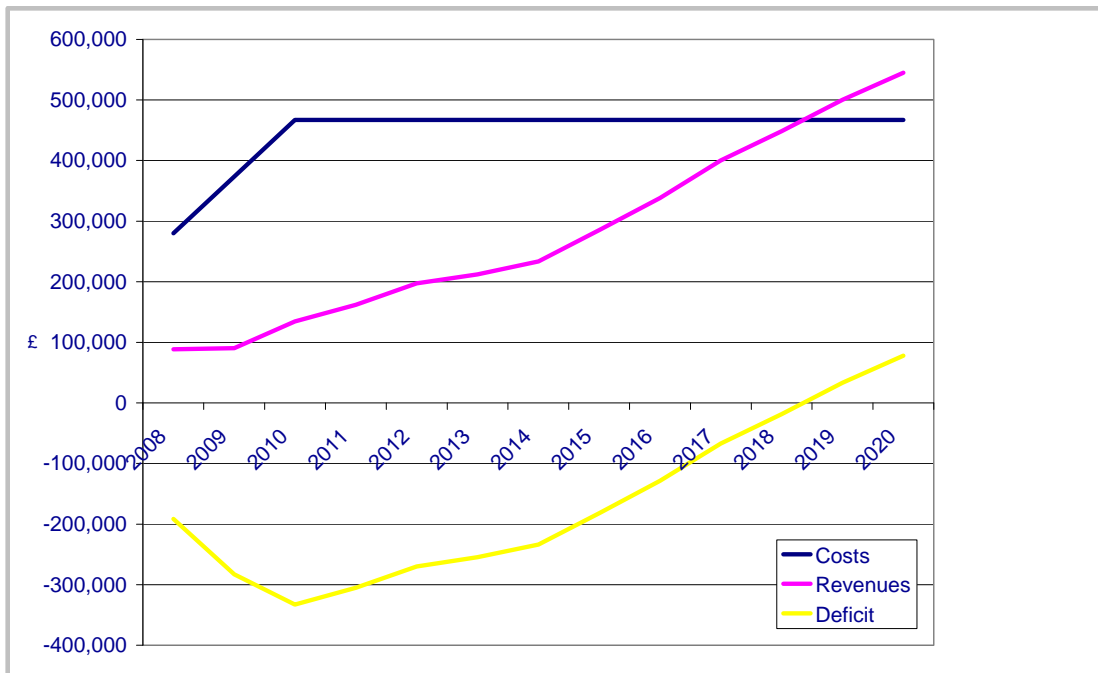


Under the Low Case scenario, total GVA is estimated at £4.5 million in 2020. Thus the GVA attributable to the project in this year alone exceeds 1.5 times the cumulative cost up to 2020.

### **10.7.3 High Case (25% of growth in superyacht market)**

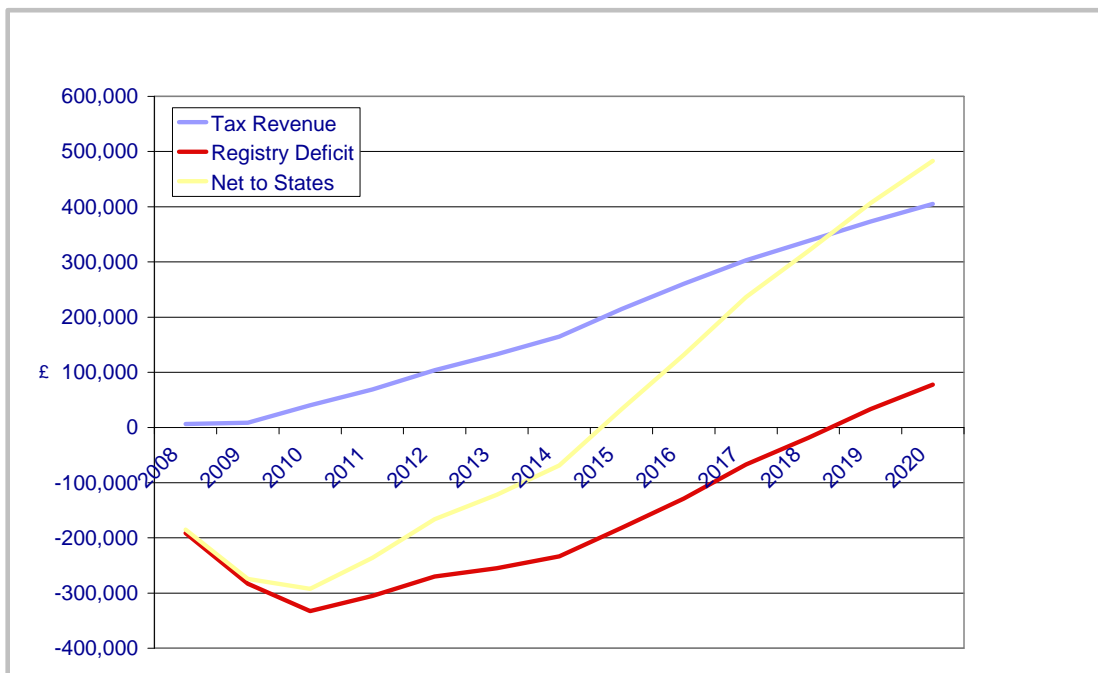
The Registry would breakeven by 2019 (Figure 10-9).

**Figure 10-9 Jersey Register P&L (High Case)**



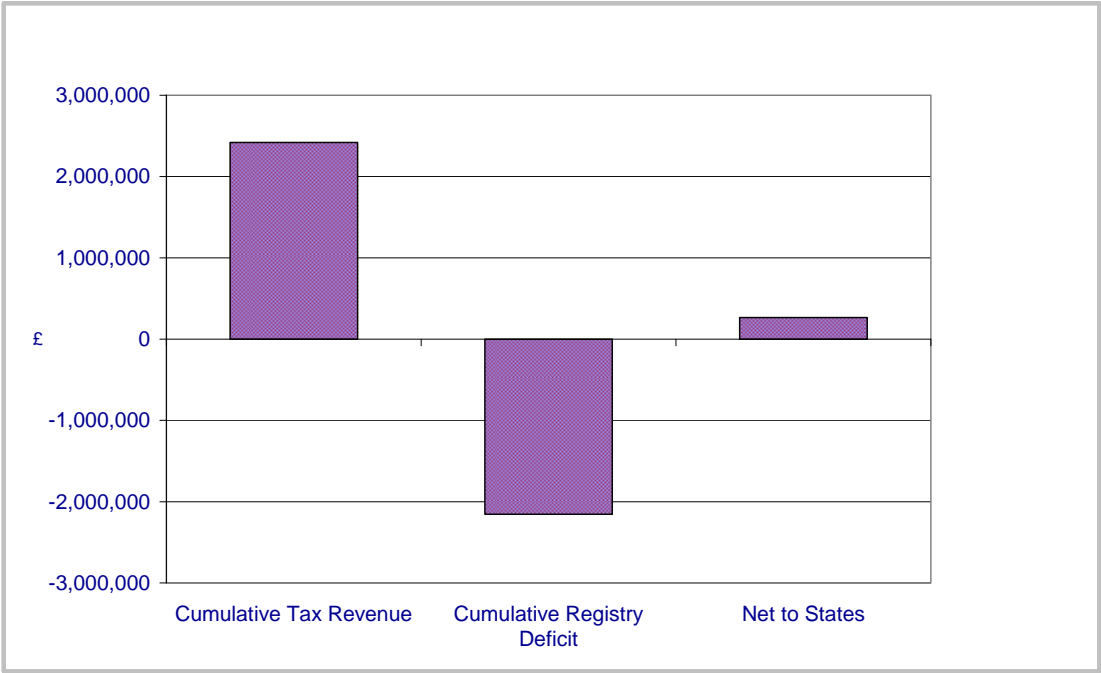
In financial terms, the States would break even around 2015 (when tax revenues would offset the Registry deficit) (Figure 10-10).

**Figure 10-10 Net Cash to States (High Case)**



The States would probably not need to make a net investment up to 2020. This is illustrated in Figure 10-11.

**Figure 10-11 Cumulative Net Cash to States by 2020 (High Case)**



Under the High Case scenario, total GVA is estimated at £11 million in 2020.

## 11 Conclusion and recommendation

The direct GVA that would ensue from the direct additional revenue earned from expanding the Jersey Register is estimated as £240,000 in 2010 rising to £7.9m in 2020. The indirect and induced GVA is £90,000 in 2010 rising to nearly £1m in 2020. **Total GVA in the Base Case (including the current business) is estimated at £427,000 rising to £8.9m in 2020.**

Based on an increase in employment of 162 by 2020, the increase in income tax receipts in 2010 would be £26,000 rising to £272,000 in 2020. Additional revenue from GST rises from £1,000 in 2010 to £11,000 in 2020 and corporation tax rises from £8,000 in 2010 to £49,000 in 2020. **Tax revenue from this project in the Base Case in 2020 therefore amounts to £332,000.**

The analysis indicates that based on the assumptions made, the potential additional **GVA from expansion of the Register (£8.8 million) is likely to be some 25 times the additional level of revenue** generated by the Registry itself (£347,000) by 2020.

In financial terms, **the States will probably need to make a cumulative net investment of £587,000 up to 2020** (cumulative amount of deficit to be funded net of additional tax receipts). This compares with additional GVA estimated at 10 times this *every year* by 2020.

Sensitivity analysis shows that if higher wages are used in the analysis, which are possibly more reflective of the quality of jobs that the expanded Registry will catalyse, then the cumulative net investment falls to £265,000 up to 2020.

Sensitivity analysis also shows that if the Registry obtained only 10% of the growth in the market by 2020 (the Low Case), the Registry would be operating then with a deficit of about £171,000, and the cumulative net cost to the States would rise to £2.4 million. Under this scenario, total GVA is estimated at £4.5 million in 2020. Thus the GVA attributable to the project in this year alone is almost twice the cumulative cost up to 2020.

In the High Case (25% of the growth in the market by 2020) the Registry would break even by 2019, and there could even be net cumulative revenue to the States. In this scenario, GVA would be about £11 million in 2020.

**We conclude that the project is highly worthy of consideration.** We are as certain as we can be that the Registry will at least approach breakeven in the long run, and that the economic impact will be very significant. This is true even in the Low Case, where we take the view that if the States do not believe they can obtain at least 10% of the growth in the market, they should not progress the project.



A risk is that the additional direct benefits might be less than we have estimated. Given the scale of benefits in comparison to the financial costs, it seems likely however that the expansion of the Jersey Registry is a robust investment.

The critical issue concerns how well the Registry will perform, and how quickly it will grow market share. This will determine the amount of cash the States must devote to funding the Registry. In the worst scenario, this could amount to £2.4 million up to 2020, with an ongoing deficit to fund until the Registry breaks even. Our best estimate shown by the Base Case is that the net cash required would be up to £0.6 million. It could however generate net revenue if the Registry performs very well.

Jersey has several core competences in this market that make Jersey attractive. **The decisive factor is therefore likely to be the commitment of the States to achieving targets, and the quality of the people that it employs.**

In the event that activities such as Port State Control inspections and accident investigation were to be transferred from the current responsibility of Jersey Harbours to the expanded Registry, “ghost earnings” against the States’ responsibilities should also be assigned to the Registry. At the very least, the spare capacity for undertaking these activities in the Registry should release benefits for Jersey Harbours.