



DENISON
WHITE PAPER

YACHT CHARTER PROCESS

TABLE OF CONTENTS

INTRODUCTION	4
CHARTER YACHT OWNER	5
YACHT CHARTER CLIENT	6
CHARTER CONTRACTS	7
CHARTER DELIVERY	8
TIPPING	8
AFTER THE CHARTER	9



A superyacht charter seems like a glamorous method of vacationing. Whether you choose to cruise to the Amalfi Coast, snorkel the blue waters of the Caribbean, or enjoy the best lobster rolls Maine has to offer, a charter will always provide a unique luxury experience catered to you...with a full crew to wait on you day and night as you enjoy fine foods and libations. Where do you start, what are the costs, and what should you expect?

This is the third in a series of papers produced by the Denison Superyacht Team about large yachts and their ownership and operation. The intention for this paper is to lay out the charter process in a big picture, or a “10,000-foot view.” The focus of this paper is the large yacht charter market, which includes yachts greater than 24 meters in length and with a full-time crew. We will look at the process from the perspectives of both the yacht owner and the yacht charterer.

CHARTER YACHT OWNER

When buying a yacht, the possibility to recover some of the operating costs by offering it for charter may be a consideration for many yacht owners. In addition to added revenue for the yacht owner, there may be tax advantages to listing a yacht for charter (maritime attorneys will advise on those aspects). Another added benefit to participating in the charter program is yacht and staff upkeep. Chartering a yacht when an owner is not occupying it for personal use ensures that boat is professionally maintained, operational, and continually ready for guests, avoiding technical problems that may arise from a non-operational boat, as well as ensuring that the captain and crew are honed to service perfection by working together more consistently. Depending on the state where the vessel is registered, the flag state, and tonnage (size) of the yacht, there are safety and security compliance requirements for the yacht itself and the crew to meet and which will require ongoing attention, as well as an annual survey and a regular safety audit.

The Process:

Once a yacht owner decides to list his yacht for charter, the yacht must first be accepted as viable for charter by the flag state. To qualify, the yacht must meet standards of construction, maintenance, and operation that are required by the flag state safety codes and include not only the physical elements of the yacht, but depending on the tonnage and requirements of specific flags, softer items, such as crew employment terms, security plans, and more. Furthermore, the approval of the yacht's insurer should be sought. Only after these initial steps are complete can the yacht owner take the next steps to listing the yacht as available to the charter market.

After qualifying the yacht for charter service, with the issue of certificates by flag, confirmation of the tax environment and approval of the insurer, the owner will then need to make the yacht available to the charter market.

Then, the yacht owner will contract a service provider to represent the yacht in the "wholesale charter" market. Here, we run into some of the jargon that can be a distraction in this world. The "wholesale" charter service, also known as "charter management" or sometimes "charter marketing", is the service that the owner needs here.

The charter management service works on behalf of the yacht owner, handling the multiple listing services, keeping the yacht calendar, responding to charter inquiries, administering charter contracts, and acting as an escrow agent for the fees and other costs.



Charter Management

The service of representing the yacht in the wholesale charter market; may also be called "charter marketing".

Charter Management Agent

The service provider who represents the owner and their yacht in the wholesale charter market. A charter management agent may be a single person, or a team of charter management agents. These agents may work for a charter yacht company, or a yacht brokerage.

Charter Broker

The service provider representing the yacht charter client in the retail charter market.

Charter Management Agent vs. Charter Broker

The management agent represents the yacht owner, the broker represents the chartering client. It can be confusing because sometimes the captains, crew, and even owners will refer to the agent as their "broker". While not strictly incorrect, it can be confusing, as a "charter broker" is also a term to refer to the broker which serves the charter client. It is doubly confusing because some individuals will actually perform both roles and certainly many companies will include both roles in the scope of services provided by different groups within the company.



YACHT CHARTER CLIENT

Not everyone wants to own a yacht for themselves, but some still choose to enjoy the benefits of the yachting environment on an occasional basis. What better way to have an unforgettable getaway without the capital investment on the platform itself? How do these clients find a suitable yacht, and ensure themselves that the service, location, and facilities of the yacht will meet their expectations? These clients enter the “retail charter” market and need to find a charter broker to represent them. The charter brokers represent the chartering clientele and it is their business to know the market and be familiar with the yacht locations and the crew. Armed with this knowledge, the broker will be able to identify a suitable yacht (or candidate yachts) for any client’s needs.

When discussing the market with their broker, the charter client should have in mind certain preferences such as the size of boat, budget, the number of people in their charter party, charter destinations, and vacation dates. The charter broker will then advise on suitable yachts. Clients should remember that in the majority of cases for charters on “foreign flag” yachts (Cayman Islands, Marshall Islands, etc.), there is often a statutory limit of 12 guests. Certain large yachts can qualify up to 36 passengers, but the compliance requirements for this limit are significantly more demanding and therefore there are considerably fewer yachts available at this limit.



Retail Charter

The chartering client with their broker.

Wholesale Charter

The yacht owner with their management agent, “wholesale” because the managing agent will likely have a fleet of yachts contracted.

To make matters worse in this jargon-riddled environment, many yachting companies will provide both the wholesale and retail services to their clients, with different personnel and groups within the company providing those services.

CHARTER CONTRACTS

After the charter broker and their client have identified a suitable yacht, the broker will communicate with the charter management agent to confirm the yacht's availability, amenities, location, and other matters. This exchange may also include the captain or crew of the yacht. The multiple listing services for charter yachts indicate their seasonal rates and there may be some negotiation on price, based on booking demand, potentially allowing for discounts on multiple week charters, or to repeat clients or other elements.

Once a price is agreed upon, a contract will be put in place and signed by stakeholders on both sides. The format of the contract will depend on several elements: the flag state of the yacht, tax status of the yacht, location of the charter, and other aspects.

There are two types of yacht charters: term charters and bareboat charters. A term charter includes the yacht staff and the yacht itself as one entity, while a bareboat charter requires the yacht and the crew to be considered separate entities with separate fees. Depending on the charter type, the contract must outline the fees and expectations associated with each type of charter.

The contract will identify not only the fee for the charter, but also the amount for the Advanced Provisioning Allowance (APA), which is additional to the fee itself.



Advanced Provisioning Allowance (APA)

Since the contract only delivers the yacht and crew, there is a need for additional monies to be provided to cover the cost of fuel, dockage, food, beverages, and other items associated with the delivery of the charter itself. The charter broker will advise their client on what to expect for the APA based on the location, length, and other elements of the envisaged charter. In years past, an estimate of 30% of the charter fee may have been used, but the variations in charter fees for yachts young, old, large, and small make this rule of thumb less useful nowadays.

The charter contract will also identify calendar dates for transfer of the fees and APA monies. The fees will be held in escrow by the charter management agent until completion of the charter, while the APA will be passed along to the yacht captain once the charter management agent receives it so he can start preparation for the charter.

Separate from the comments above regarding tax status of the yacht and the owner's tax affairs, there may also be taxes that apply on the charter contract itself, with taxes to be paid by the charterer from the charter fee funds. These taxes are normally assessed against the charter fee rate and are imposed by the country in which the charter

originates. The charter broker will advise the charterer on disposition of these taxes, the percentage of which may vary from country to country.

With the contract in place and the monies being transferred as required by the contract, the preparation process begins. The captain, chef, and charter management agent will likely prepare a preference sheet to be sent through the charter broker to the client. This sheet allows the luxury process to be refined to include any food allergies, preferences for wine, possibly details on guided shore excursions, and more.

CHARTER DELIVERY



The charter will start on the date and time and at the location identified in the charter contract. The client should expect their broker to check in with them to ensure that all has gone smoothly with boarding, and the captain and crew will look after them throughout the charter. The captain will account for the spending of the APA and report to the charterer if funds run low. With good communication between captain, broker, and charter management agent, additional APA funds can be requested and provided to ensure the smooth continuation and completion of the charter. There are countless options when it comes to activities on the water and at the coast of all continents to even try to fully expand on how a charter will go. However, the client should expect that they will receive better than five-star service throughout the trip.

At the end of the charter, the captain should have the APA accounting report ready for the client to inspect, with any balance leftover to be returned to the client.

TIPPING

Surely it is not necessary to have a whole section on the topic of tipping, but it can be a controversial one

and the amounts concerned can be significant. Some yacht owners will, in discussion with their captain and wholesale charter management agent, establish a tipping policy which—while perhaps not part of the contract—will be communicated through the charter broker to the client. Again, in days past when the APA was handled almost entirely in cash, it was often the practice for the client to simply hand the remaining balance of the APA back to the captain as a tip for the crew. Nowadays, when the APA may be delivered as a pre-paid credit card, there often needs to be a more sophisticated method of payment for the gratuity. From the yacht owner's perspective, the crew may be motivated to work on a charter yacht specifically for the financial benefit of the charter gratuities, so the owner must find a way to assure that the gratuity is appropriately distributed among the crew.



Maritime Labour Convention (MLC)

Hours of Work and Rest

This sounds like a highly nuanced compliance requirement, and in truth it is exactly that, but both charter clients and yacht owners alike need to be aware that in an effort to reduce fatigue-related accidents, the International Maritime Organization (IMO) and International Labour Organization (ILO) mandate daily and weekly amounts of rest for maritime crew, including yacht crew. The implication of this is that the owner needs to ensure that “turnarounds” between charters include suitable time for rest, and charter clients will need to be sensitive to these requirements if the captain tells them that a member of the crew is unavailable.

More detail on yacht compliance is available in another paper in this series.



AFTER THE CHARTER

The charter will end at the date and time and in the location defined in the contract, and the crew will assist the client with their onward transfers. At that point, the remaining balance of the charter fee will be transferred to the owner. The client should expect to be asked for feedback on elements of the charter, such as if the service and experience were what they expected. This information will be used to improve and develop the yacht's next charter offering.

The team of yacht experts at Denison Yachting welcomes the opportunity to work with current and prospective yacht owners and charterers in the delivery of their yachting dreams. For more information on our superyacht services, please visit www.DenisonYachting.com or contact Ben Farnborough directly at Ben@DenisonYachting.com or 954-632-4740.



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