

ECONOMICAL IMPACT LARGE YACHT CHARTER

SUMMER 2019 BALEARES – REPORT PREPARED BY AEGY



CHARTER SEASON SUMMER 2019 – RESULT LARGE YACHT CHARTER

It is a pleasure to present the sixth consecutive annual report that reflects the development of the charter market for large yachts in the Balearic Islands.

As a reminder: On the 30th October 2013, the Law 16/2013 of the 29th October was published in the BOE which, among other tax measures, modified the Special Tax on Certain means of transport (IEDMT) extending its exemption to any yacht intended exclusively for charter, without limit of length.

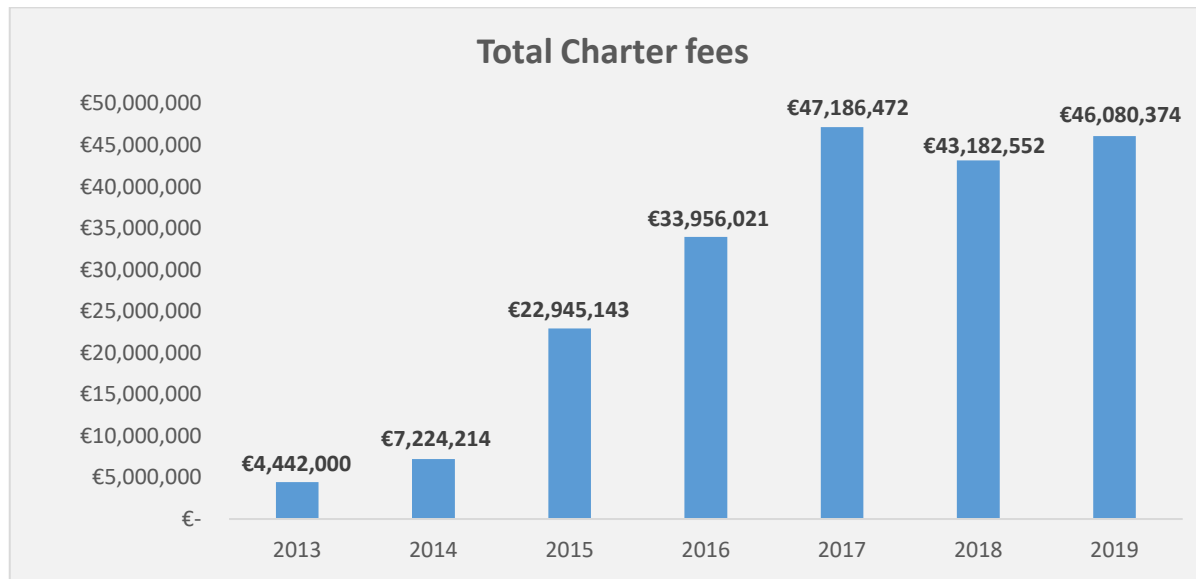
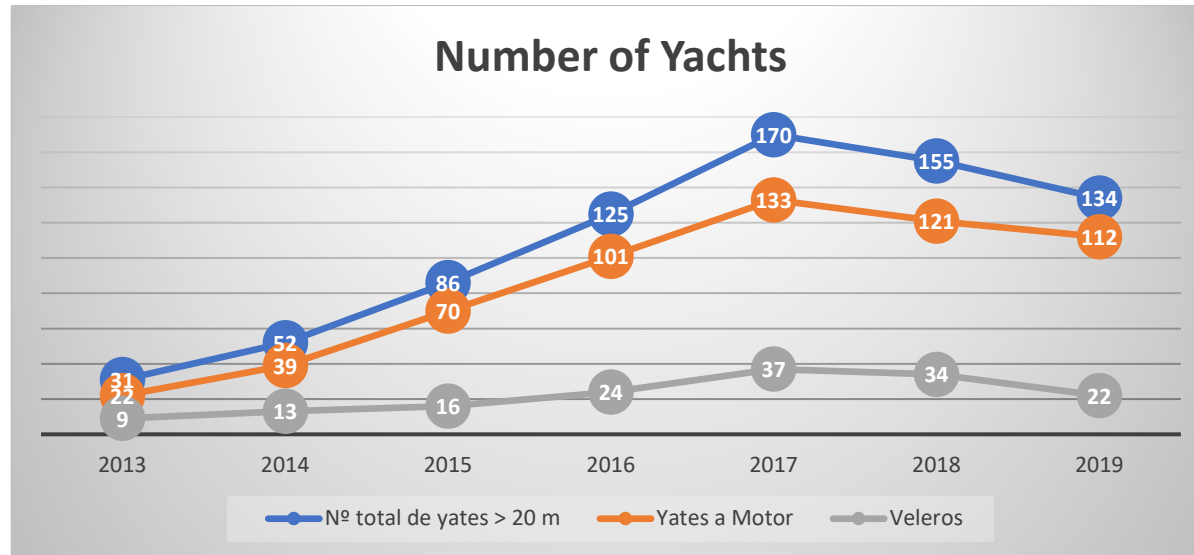
At the end of March 2014, a Binding Consultation of the DGT (General Tax Directorate) was published which confirms that yachts owned by a non-resident entity dedicated to charter, can be chartered by individuals linked to the leasing company, provided that these individuals are not residents of Spain or have a permanent establishment located in Spain, without modifying the circumstances that gave rise to the exemption from the IEDMT. In fact, this consultation regularized the private use of yachts dedicated to charter and brings Spain closer to legislation in other EU Member States. This is currently subject to new interpretations and could have a very negative effect. See note on page 7.

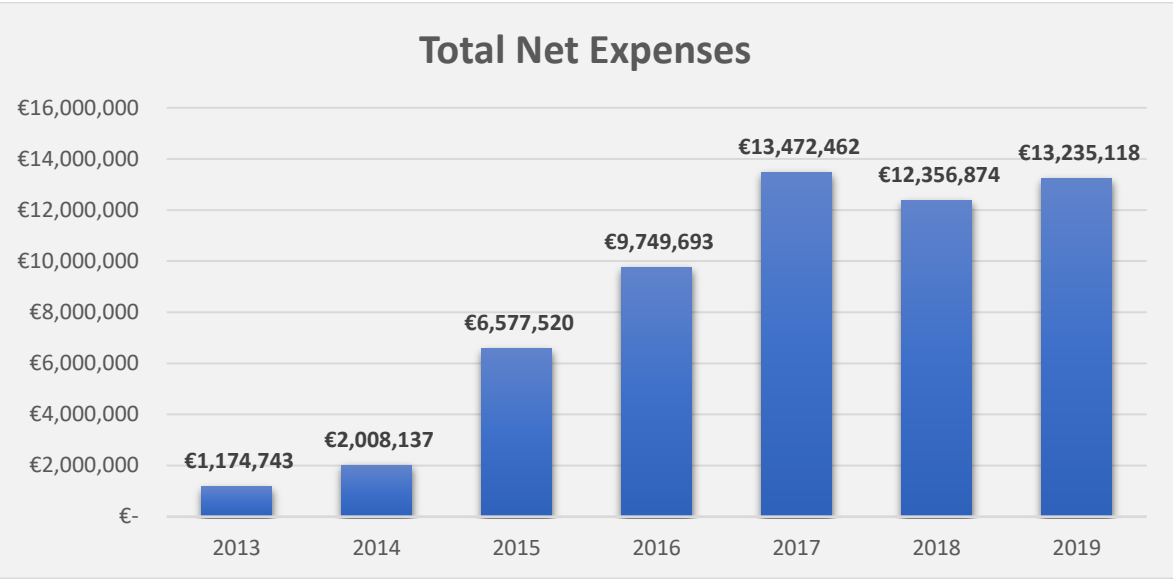
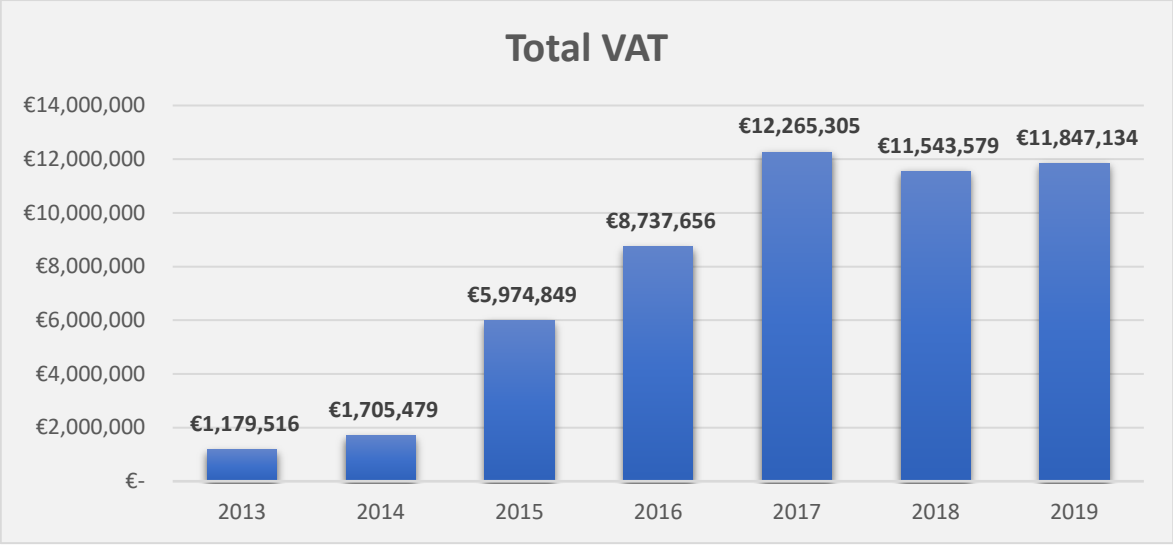
To achieve reliable figures, the representative of each yacht offered by the large international companies in this sector has been contacted to find out the exact number of days that the boat has been chartered in Spain during the 2019 summer season.

After collating all the data, we can calculate the following information:

- 1) The number of the yachts registered for charter in the Balearics and the number of the "active" yachts, those that have actually spent the season here.
- 2) The number of charter days in high season (HS) and low season (LS)
- 3) The total amount of the charter fees. The amount the owners receive which they can use towards the maintenance cost of the yacht.
- 4) The impact on the local economy: the yachts' expenditure directly associated with the charter: fuel, moorings, food, drinks, transfers. It is calculated at 30% of the charter price for motor yachts and 25% for sailing boats. These are net amounts, without VAT
- 5) Other expenses: An estimate of 5% of the rental price for disbursements indirectly associated with the charter: purchases by passengers in shops, restaurants, hotels, golf, beaches, clubs, etc. Again, calculated in net amounts, without VAT
- 6) VAT on rent and VAT on expenses: 21% VAT is applied to the rental price. As every year we see that some charters have started in France or Italy, so no VAT has been charged in Spain. This explains that the VAT charged on the charter is not exactly 21% of the total rentals.

Yachts registered for charter	2013	2014	2015	2016	2017	2018	2019	% of 2018
Total N° of yachts > 20 m	31	52	86	125	170	155	134	-14%
Motor Yachts	22	39	70	101	133	121	112	-7%
Sailing Yachts	9	13	16	24	37	34	22	-35%
N° of "active" yachts	NA	NA	NA	NA	119	117	112	-4%
Total N° of charterdays	NA	NA	NA	NA	3346	2914	3226	11%
Total Charter fees	€ 4,442,000	€ 7,224,214	€ 22,945,143	€ 33,956,021	€ 47,186,472	€ 43,182,552	€ 46,080,374	7%
Provisioning (without VAT)	€ 991,190	€ 1,709,247	€ 5,629,374	€ 8,346,551	€ 11,522,608	€ 10,572,471	€ 11,330,970	7%
Other expenses (without VAT)	€ 183,553	€ 298,890	€ 948,146	€ 1,403,142	€ 1,949,854	€ 1,784,403	€ 1,904,148	7%
Total Expenses (without VAT)	€ 1,174,743	€ 2,008,137	€ 6,577,520	€ 9,749,693	€ 13,472,462	€ 12,356,874	€ 12,356,874	7%
VAT on Charter Fees	€ 932,820	€ 1,283,771	€ 4,593,570	€ 6,690,220	€ 9,436,089	€ 8,948,636	€ 9,067,759	1%
VAT on expenses	€ 246,696	€ 421,708	€ 1,381,279	€ 2,047,436	€ 2,829,216	€ 2,594,943	€ 2,779,375	7%
Total VAT	€ 1,179,516	€ 1,705,479	€ 5,974,849	€ 8,737,656	€ 12,265,305	€ 11,543,579	€ 11,847,134	3%





Results:

For the second consecutive year the number of yachts registered for charter in the Balearics has decreased. It dropped from 155 to 134 units, 14% less than in 2018. The number of motor yachts decreased 7% while the number of sailboats fell by 35%.

The fact that a vessel is registered for charter in the Balearics does not mean that it has actually spent the season here. In 2018 there were 117 "active" yachts and in 2019 112, 4% less than in 2018.

In contrast, the total number of charter days has increased, both in high season (July and August) and in low season (June and September) from 2914 days to 3226 days, 10% more. **For owners who decided to locate their yacht in the islands the result has been positive.**

The total charter income has grown 7% and the impact on the local economy has also improved by 7%.

VAT collected on charters only grew by 1%. Several long-term charters on very large yachts started in France to take advantage of the reduced French VAT.

Although the final economic result has been positive compared to 2018, the number of registered and active yachts in the Balearics is stabilizing downwards which will undoubtedly have an effect on the coming seasons.

If we compare the numbers with the year 2013, the results are still spectacular: both VAT revenues and local disbursements have increased tenfold.

Of the 134 yachts, 34 are over 45 metres long - in 2013 there were none. 51 boats are over 35 metres in length, compared to 5 in 2013.

The **main reasons** for the reduction in the number of registered yachts are as follows:

- VAT: In the countries around us a reduced VAT rate can be applied according to the itinerary: 10% in France, 6.6% in Italy, 13% in Croatia and 12% in Greece. In Spain we must apply 21% and we cannot compete on equal terms. *** This situation is changing, see note on page 7.
- Complicated un-unified bureaucratic procedures. However, in 2019 the unification of procedures has been successfully achieved and hopefully by 2020 the registration for charter will be a more streamlined process.
- The Balearic Islands are no longer a new destination.
- The trendy destinations, the hotspots, are cyclical. Especially for non-Spanish clients, the most popular destination in 2016 and 2017 was Ibiza, while in 2018 Southern Italy and in 2019 Greece were more in vogue.

The situation will change in 2020.

- The European Commission does not agree with the way the flat rated reduced VAT is applied in France, Italy, Greece, Malta and Cyprus for international itineraries and has sent instructions to these countries to change the system. It will only be possible to reduce the VAT for the time the yachts have actually cruised in international waters and the countries mentioned before will have to adapt their legislation as soon as possible. As a result, the large difference between the cost of a charter in Spain and one in the rest of the Mediterranean will disappear, and the Spanish industry will be in a position to compete on equal fiscal terms.
- The unification of bureaucratic procedures should streamline the process of registering a boat for charter.
- It is not all good news. A possible new interpretation of the circumstances that entitle to exemption from registration tax, places yacht owners in a situation of legal uncertainty and I fear that the number of registered yachts may fall considerably in 2020. Foreign owners will not renew their charter permits for the time being. This would leave the local charter market again at a clear disadvantage compared to the countries around us.

The charter of large yachts is a sector that has room to grow and the international sector bets on the Balearic Islands. Of the 8 largest companies in the world dedicated to the luxury yachting sector, 6 have offices in Mallorca, which supports this.

The catalysing aspect of the charter industry on the local economy (EUR 13,142,283 in local expenditure) is not limited to the summer. The yachts that are already in Spain for the charter season tend to spend the winter here to do their maintenance work and reforms, thus contributing to the creation of direct and indirect employment in the marine industrial sector.

To achieve a sustainable and lasting growth, we consider it of utmost importance to continue working to achieve the following improvements for the marine industry:

- **More urgent than ever:** The elimination of the matriculation tax on large yachts and recreational vessels that does not exist in any European country. AEGY and ANEN have lodged a complaint with the European Commission to abolish the tax, which has so far gone unanswered.
- Development of a campaign to popularise/socialise Spanish sailing.
- Development of national and international marketing campaigns to promote Mallorca and Spain as a nautical destination. Maritime Clusters, both at national and autonomous level, are involved in developing these.
- To improve technical education in the nautical sector with the creation of medium and higher-level courses in Vocational Training (maintenance, repair and construction of pleasure boats)
- To promote the use of specialized professionals for procedures and consultations so that the legal security of yacht owners is optimized.

The alignment of regulations to what has been established by our European neighbours will allow Spain to improve its position in the large yacht sector, to compete on equal terms, to become a permanent base for yachts, a privileged tourist destination in the Mediterranean and to help create sustained economic growth and quality employment.

Anne Sterringa
Diciembre 2019

Sources:

- YachtFolio.com (Commercial Intranet MYBA)
- Charter Companies - MYBA members
- Charter Companies - Yacht Folio subscribers
- Independent owners