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Augustea: A Family-Owned Company Confronting Major Challenges in the Global Shipping Industry

by

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Augustea is a family-owned shipping company that can trace its origins back to 1629, when Pietro Antonio Cafiero, a ship-owner from the province of Sorrento, Italy, established a charitable fund to ensure the release of sailors captured by pirates and held for ransom on the Mediterranean Sea. Historically, Sorrento has been home to one of the oldest communities of sailors in the world, as the area has always been an important shipping centre from ancient Greek civilization to Roman times to today. While sailors still need protection from pirates, they may now need protection from climate change and its effects on the global shipping industry. Along with 13 other long-lived family businesses in Italy, Augustea is a member of the Hénokiens, an association of family-owned firms that are more than 200 years old.

Having spectacular views of the Bay of Naples, Mount Vesuvius and the Isle of Capri in Southern Italy, the adventurous seamen from the Sorrentine Peninsula took to their wooden crafts and navigated the Mediterranean Sea to the shores of Tripoli. Over the centuries, the Sorrento shipping community thus became an economic pillar of the Sicily and, later, of the Italian maritime industry.

The Cafiero family played a key role in turning Sorrentino into a global marine power. Early in the 19th century, Salvatore Cafiero, a descendent of the founder, founded the local Sailors Mutual Society and became director of the Steamship Navigation Company of the Sorrentine Peninsula. In 1850, the shipping interests of the Cafiero family were entered into Lloyd's Register of Shipping, whose aims were to enhance the safety of life, property, and the environment, by helping its clients ensure the quality construction and operation of ships and ports.

Following WW2, the 10th generation family leaders founded a harbour towage company called Augustea Imprese Marittime and Salvataggi S.p.A., after the renowned harbour in the province of Syracuse in Sicily. In the post-war boom, the Augustea fleet of sturdy tug boats operated amongst the fast-growing petrochemical ports of Augusta and Syracuse on the east coast of Sicily, the largest refining hub in the Mediterranean. In 1964, Cafiero diversified into the deep-sea shipping and continued to develop both businesses until the end of his long and productive life in 1982.

In 1987, Lucio Zagari, who is related to the Cafiero family, became CEO of Augustea Group and indeed, the Zagari family now own and control the Naples-based Augustea Group. Raffaele Zagari (12th generation), nephew of the founder Salvatore Cafiero, is the current chairman and CEO of the Augustea Holding, which has grown from a local tug boat operator into a major player on the global shipping scene. Its vessels once occupied an important place among dry bulk carries and heavy cargo transportation businesses.

In 2010, Raffaele Zagari established a holding company to provide accounting, finance, treasury, management control, internal audit, information technology, and human resource services to its 15 operating subsidiaries, including Augustea Atlantica, Augustea Grancolumbia, Augustea Ship Management, Augustea Technoservices. Most subsidiaries are headquartered in Milan, where Raffaele Zagari is based, but other business units are located in Malta, Colombia and London. Its clients include some of the largest global companies in the world such as Cargill.

However, the global shipping industry has lost some of its lustre as the global demand for fossil fuels is falling. Ship owners and those companies like Augustea Holding that provide shipping services are watching their market shrink. According to Maritime Strategies, a shipping industry research group, total seaborne trade in oil, coal and liquefied natural gas will tumble from a peak of about 5.5 billion tonnes in the early 2020s to about 3.7 billion tonnes by 2045. The shipping industry has suffered periods of weak demand, but a sustained drop would be unprecedented.

The crisis affecting the shipping industry has finally caught up to Augustea Holding. In April 2016, Raffaele Zagari sold the company's fleet of 16 harbour tugs, which had always been specialized in serving oil tankers, to Rimorchiatori Riuniti, a larger Italian towage company owned by the Gavarone and Delle Piane families. Following the acquisition of Augustea, Rimorchiatori Riuniti confirmed its leadership as the largest Italian tug operator in the Mediterranean with a fleet of about 82 harbour tug boats, ranging in power from 1.100 to 8.200 BHP. Said Raffaele Zagari, "The respect for the Gavarone and Delle Piane families has convinced us to proceed with this transaction

because we believe the Rimorchiatori Riuniti group represents, for Augustea shareholders, the best opportunity for an organic growth in the national towage market.”

A year earlier, Raffaele Zagari also took steps to save his fleet of dry bulk carriers. He decided to test run a revolutionary new technology on some of its dry bulk carriers in the company’s subsidiary, Augustea Atlantica. Dry bulk carriers transport dry cargo such as grain, coal and iron ore across the world’s shipping lanes. The CEO expected to reduce fuel consumption and pollution by as much as 40%. Augustea Atlantica engaged the services of New York-based Magnuss Services, a start-up marine technology leader that has invented a mechanical sail that can be installed on bulk carriers. Called a Magnuss VOSS (Vertically-variable Ocean Sail System), it is a 100-foot tall, spinning, hollow, steel cylinder installed on a carrier’s deck that propels it, somewhat like a conventional sail but 10 times more efficiently. Raffaele Zagari expected a return on his investment in five to seven years, but the reality was very different.

In 2018, however, he was forced to sell his fleet of 16 dry bulk carriers to Star Bulk Carriers Corp., a Greek marine company, in an all-share transaction in which Augustea Atlantica acquired 11.3% of Star Bulks common shares. As part of the transaction, Star Bulk assumed debt of approximately \$309.0 million, while Raffaele Zagari was named as a director of the Star Bulk board.

Augustea Holding still manages some offshore equipment, dredging equipment and voluminous cargo. In addition, the company has maintained a limited presence in a wide range of shipping and fleet-related activities. Augustea’s strategy is to strengthen its reputation as a world-class innovation leader in the shipping sector. It is HSQE certified (Health, Safety, Quality, Environment), one of the first shipping companies in Italy to have earned this prestigious certification. Moreover, the company continues renewed its fleet on a regular basis so that the average age of its vessels is only six years old.

Apart from innovations in the dockyard, the leadership team at Augustea has turned its attention to innovations in the boardroom. Although not publicly listed on the stock exchange, Augustea rendered its own corporate governance system compliant with the principles set out in the *Self-Regulatory Code* for listed companies prescribed by the Italian Stock Exchange. Based on international best practices, the company’s governance structure has put rules and regulations into place. Family shareholders are now assured that their company has a long-term plan in place. In fact, the leadership team have published corporate governance reports since 2012. Raffaele Zagari is convinced that the Augustea model can be used by many family-owned firms seeking to learn from his company’s difficult experiences.

Part 10 of this 11-part series will feature a profile about a long-lasting family firm.

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