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CRUISE SHIP TRENDS AND CHALLENGES

(Submitted by Art Kane)

CRUISE SHIP TRENDS AND CHALLENGES

Art Kane, Port Developers, Fort Lauderdale, FL

The purpose of my presentation today is to describe the challenges which ports in the Caribbean area face as they seek to develop or to increase their cruise ship business. I will outline some of the actions which I believe will help ports to improve their attractiveness as ports-of-call. I shall begin by giving some information on current trends in the cruise industry which Caribbean ports need to be aware of when planning their future development.

Cruise Industry Trends

- The cruise industry has enjoyed tremendous growth over the past 10 years, as can be measured by the tremendous growth in the number of ships. Major lines like Royal Caribbean, Carnival and Princess that had four or five ships a few years ago, now have 10 or more ships with four or five more on order.
- As a result of mergers of some lines and the disappearance of some smaller players, the industry is dominated today by the three lines just mentioned: Royal Caribbean which also owns Celebrity Cruises; Carnival which owns Holland America, Windstar, Costa, Cunard, and part of Airtours; Princess which is owned by P&O.
- But the most significant development in the industry is growth in the number of mega-ships, those of 70,000 gross registered tons that carry 2000 passengers or more, plus crews of 1,000 or more. Prior to 1988, there was only one ship that was of that size, the SS Norway. Today there are 32 mega-ships serving the Caribbean and Mexican Riviera and there are at least 22 more on order, which will mean more than 50 mega-ships in these waters in the near future. Instead of ships 600-700 ft. long, these ships are 850 to 930 ft long, except for Royal Caribbean's Eagle Class ships that are 1,015 ft.

- A more recent industry trend is in new propulsion systems for these mega-ships. Cleaner engines with lower emissions have been ordered for the latest ships, including gas turbines which will shortly mean almost no emissions. Additionally, azipod propulsion systems are now common on the newest ships; their propellers can revolve 360 degrees. Port directors should be aware that these systems could affect their piers underwater and therefore should determine whether the berths can sustain the thrust of these systems.

Cruise Port Requirements

It should be obvious that the cruise industry with its growing number and size of ships is in need of more ports and of enhanced facilities in existing ports. Cruise lines with several ships serving the Caribbean cannot have the ships calling at all the same ports. They need more ports in order to have a variety of itineraries. For example, Carnival Cruise Line in the past 5 years or so has added new ports of departure in Florida, New Orleans, and Texas and is presently looking to secure berths in new Caribbean ports-of-call.

It might be helpful, therefore, to list what a cruise line looks for in selecting a port-of-call:

- Location - the port must be within cruising distance of other ports on a particular itinerary.
- Port facilities - does it have adequate berths, fresh water available, an ability to accept shipboard waste.
- Interesting shore tours and activities for the passengers.
- Marquee value - will the destination help to sell the cruise.
- Visitor safety and comfort - local transportation, no hassling of visitors, low crime in tourist areas.
- Head taxes - increasingly a factor, they should be reasonable.

One factor that the lines do not appear to consider is whether a port will be overcrowded with ships and passengers in a way that will negatively affect

the visitors' experience in the port. It is therefore up to the ports to decide whether they can accommodate the number of ships wishing to call on a particular day. We will come back to this point because it offers a genuine challenge for some ports.

Challenges for Ports

For a long time tourism has been the principal source of revenue and jobs for Caribbean economies and cruise tourism has become a major contributor to those revenues. In my view the challenges facing Caribbean ports and tourism officials involve meeting two principal goals:

- To deliver a product that will ensure visitor satisfaction, and
- To maximize visitor spending opportunities.

I believe that to achieve these two goals ports and local tourism departments must have a joint strategy, that they must work together and not apart, just as governments and the private sector must work together to maximize the benefits of tourism.

Without this joint planning and cooperation, ports have been known to approve a ship's request to call on a day when a number of ships were already calling and severe overcrowding of shoreside tourist facilities and transportation was the result. The product and visitor satisfaction both suffer in this situation.

Because of the size of ships today it is essential that destinations decide how many cruise passengers they can comfortably accommodate on any given day. Three ships in port a few years ago meant perhaps 3,000 total visitors ashore, today three ships could deliver up to 8,000 passengers. Grand Cayman determined that it could serve up to 6,000 cruise visitors at a time and therefore limits calls in a single day to ships carrying a total of 6,000 passengers. Grand Cayman realized that congestion ashore was a negative on visitor satisfaction and the quality product which the Cayman Islands advertised and sought to maintain. Other ports need to consider a similar strategy, particularly in this era of mega-ships.

Product Quality

In addition to avoiding overcrowding of tourist facilities, there are other key elements of the tourism product which every destination must offer to ensure visitor satisfaction with their experience ashore. Again, port authorities cannot alone regulate the quality of the tourism product; the cooperation and joint strategy of the port and tourism departments, the government and private sector are necessary, and admittedly this cooperation, as essential as it is, is not always easy to achieve.

Here are some of the elements that contribute to a quality tourism product:

- Offer a variety of interesting tours and monitor their operations.
- Taxis and buses in good condition (cruise lines prefer buses for tours). Taxi operators are the front line of the tourism industry for cruise visitors.
- Trained tourism guides and service personnel.
- Make retail shopping areas appealing and comfortable for visitors.

Maximizing Visitor Spending Opportunities

The Port of St. Thomas, U.S. Virgin Islands, is still the best example of how Caribbean ports can help to maximize local revenues. The port converted a number of old warehouses into retail stores right next to the dock that often has three ships alongside. Instead of decreasing visitor spending in the city center, the volume of sales increased extensively because the same stores operated at the port where passengers could shop up to the last minute without fear of missing the ship. Barbados also converted an old warehouse to the same use very successfully.

Many port authorities have land that could be freed for the development of retail shops, restaurants, a communications center and even entertainment facilities that would enhance port revenues and increase visitor spending. The development of these facilities, as well as the construction of additional berths to satisfy the needs of more and bigger ships, can be done a number of ways.

It should be said that although the cruise lines are spending billions of dollars building new ships, they have not up to now been willing to invest in Caribbean port facilities. They feel that they are spending all their money on building ships and bringing visitors to the destinations, and that it is the responsibility of the islands to provide the suitable port facilities.

There are a number of ways that ports with limited funds can today finance the development of new and better facilities, particularly facilities that will produce revenues from visitor spending (retail shops, etc.)

- A government-owned port can be privatized or made into a separate corporation which would then enable it to raise money from the local private sector or other sources for development or expansion.
- A port can do a joint venture with a developer at a cost to the port of nothing more than the land contributed to the project.
- A B.O.T. is another method where a private developer Builds, Operates for a number of years to recover his investment, and then Turns over the developed facilities to the port.
- A leasehold is where the port grants a lease to a developer who develops the port lands and makes lease payments at an agreed rate or on a percentage of revenues he receives from the developed lands.

In the past few years I have been involved in one way or another with proposals involving each of these methods of securing funds for development. Obviously, the availability of local resources and the private or public sector nature of the port administration have a great deal to do with the most useful means for any particular destination.

Conclusion

I would like to summarize my presentation with these five points

- The cruise industry will continue to grow and therefore continue to need additional ports able to accommodate their ships and passengers.

- Many Caribbean ports are already expanding or planning to expand their facilities in order to serve more and bigger ships; ports wishing to enhance their cruise business must be prepared to do the same.
- Head taxes, that is, per passenger charges usually imposed and collected by the governments, should not be seen as a major revenue source. Because the cruise line itself pays this charge, an excessive head tax can determine whether a line chooses to visit a particular port. Passenger spending is a much greater revenue source for the local economy.
- In order to maintain tourism product quality and maximize visitor spending, it is necessary for port authorities and tourism officials to develop a common strategy and to work together, as well as with the private sector that provides tourism services.
- Finally, even though the cruise lines have not been investing in port facilities in the Caribbean, they are now willing to sign long-term agreements with ports to bring their ships on a regular basis for periods up to 25 years in return for port rate concessions. These agreements make it possible for ports to arrange financing for the port improvements they might require.

I am grateful for your attention and appreciate very much the invitation to be with you today.

Art Kane
Port Developers
Fort Lauderdale, FL
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THE CARIBBEAN MEGASHIP PARADE

(Ships of 70,000 GRT and 2000+ passengers)

Cruise Line/Year	Ship	GRT	Total Pax	Cost \$millions
1988				
Royal Caribbean	Sovereign of the Seas	73,192	2,640	175
1990				
Carnival	Fantasy	70,367	2,634	225
1991				
Royal Caribbean	Monarch of the Seas	75,000	2,786	
Carnival	Ecstasy	70,367	2,634	275
1992				
Royal Caribbean	Majesty of the Seas	75,000	2,786	300
1993				
Carnival	Sensation	70,367	2,634	300
1994				
Carnival	Fascination	70,367	2,634	315
1995				
Carnival	Imagination	70,367	2,634	330
Royal Caribbean	Legend of the Seas	69,000	2,250	300
Celebrity	Century	70,606	1,950	320
Princess	Ron Princess	77,000	2,500	300
1996				
Carnival	Inspiration	70,367	2,634	270
Carnival	Destiny	101,000	3,500	400
Royal Caribbean	Splendour of the Seas	69,000	2,250	315
Royal Caribbean	Grandeur of the Seas	74,000	2,500	290
Celebrity	Galaxy	77,713	2,150	317
Costa	Costa Victoria	75,000	2,500	300
1997				
Princess	Dawn Princess	77,000	2,500	295
Royal Caribbean	Enchantment of the Seas	73,000	2,500	290
Royal Caribbean	Rhapsody of the Seas	75,000	2,700	275
Celebrity	Mercury	77,713	2,150	320
1998				
Carnival	Elation	70,367	2,634	300
Carnival	Paradise	70,367	2,634	300
Disney	Disney Magic	85,000	2,400	380
Disney	Disney Wonder	85,000	2,400	380
Royal Caribbean	Vision of the Seas	75,000	2,600	275
Princess	Sea Princess	77,000	2,500	300
Princess	Grand Princess	109,000	3,300	450
1999				
Carnival	Carnival Triumph	101,000	3,500	400+
Princess	Ocean Princess	77,000	2,500	300
Royal Caribbean	Voyager of the Seas	142,000	3,500	500
2000				
Royal Caribbean	Explorer of the Seas	142,000	3,500	500
Carnival	Carnival Victory	101,000	3,500	430
Princess	Unnamed	109,000	3,300	425
Norwegian	Norwegian Sky	77,000	2,000	300
Costa	Costa Atlantica	84,000	2,000	400
Celebrity	Millennium I	77,000	2,150	350
Carnival	Carnival Spirit	84,000	2,100	375
2001				
Celebrity	Millennium II	77,000	2,150	350
Royal Caribbean	Radiance of the Seas	85,000	2,700	350
Norwegian	Unnamed	80,000	2,000	300
Carnival	Carnival Pride	84,000	2,100	375
2002				
Royal Caribbean	Adventure of the Seas	142,000	3,500	500+
Royal Caribbean	Brilliance of the Seas	85,000	2,700	350
Carnival	Unnamed	82,000	2,100	375
Carnival	Carnival Conquest	101,000	3,500	450
2003				
Carnival	Carnival Glory	101,000	3,500	450

Sources: Cruise Industry News Annual Report 1996; Seatrade Review (Mar 1996); Seatrade Cruise (2001); Miami Herald