



COVER STORY

The cruise industry can protect itself by:

- reviewing deposits, fees and surcharges
- focusing on the Caribbean and emerging markets
- investing in environmental performance

MarketOutlook

Well protected

With the full extent of the global downturn yet to be realised, cruise lines have already experienced volatile oil prices and a fall in consumer spending. But as CLIA president **Terry Dale** explains, the industry, though vulnerable, has the resources to generate opportunities for survival and even growth.

As the world enters another economic downturn, it is important to look back at how the cruise industry has fared during previous recessions. During the 1980s, there was the Iranian war and the oil crisis; in the 1990s, there was a major downturn in trade and manufacturing; and in 2000, there was the boom and bust of the dotcom industry followed by the 9/11 terrorist attacks, which created much uncertainty around the world. Nonetheless, the industry did well during these times, showing an annual growth rate of 7.5%.

The cruise industry is not recession-proof but has been recession-resilient and there are strong fundamentals that can help ensure that the industry will weather these stormy times, namely the value of a cruise vacation, and how consumers view it as more of a right rather than a discretionary privilege. During challenging periods, consumers look to stretching their vacation dollars as far as possible. When customers do their research, they find that the cruise industry offers excellent value for money. The inclusive value of a cruise means our customers get a stateroom, gourmet

dining, a wide range of top entertainment to suit any taste, and multiple destinations all in one price. The price-value ratio works to the industry's advantage; the only variables that may change from the consumer's point of view is that instead of a two-week or ten-day cruise, they will take a seven-day trip or, particularly for US passengers, they will consider driving to their nearest port instead of flying.

People are spending less, there is no doubt about that. Bookings for 2008 remained strong although there was some softening towards the end of the year. Looking to early 2009, our members anticipate consumers will continue to cruise but will be booking closer to the travel date. Given the difficult economic times, our lines have tactical measures in place, such as minimal deposits, the relaxation of cancellation fees, elimination of fuel surcharges and special offers for families and groups.

How the economy will affect shipbuilding orders is difficult to predict because there are so many variables to consider: the price of raw materials; the value of the dollar against the euro; and yard capacity and accessibility. But looking at the period from 2009 to 2012, the 35 CLIA ships on order add up to a significant \$24 billion investment in the industry. Fuel costs have been another major concern. In July 2008 the price of oil reached a high of \$147 a barrel. Thankfully, this has now come down.

Another positive factor has been the continuation of port expansion projects. For example, Port Everglades, Florida, has gone through a remarkable transformation and is attracting additions to the CLIA fleet, such as Royal Caribbean's *Oasis of the Seas*. It just goes to show that when you invest you will get a rate of return of significant magnitude. Indeed, we expect to see an increase of 1.4 million cruise passengers. Elsewhere, improvements at the island of St Maarten in the Caribbean has resulted in a tremendous increase in capacity.

Destinations

The Caribbean will remain the cornerstone of the industry and we expect it will maintain its resilience because of its amazing diversity in a number of areas. It serves a wide range of cruise clients, from the large and new to the luxury and

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The popularity of the Caribbean remains a cornerstone of the industry.



premier. The region is a great introduction for a new cruiser and can offer trips from three to seven days and longer. For US passengers in particular, it provides the best 'close to home' cruising, especially during the winter when passengers can board in New York and escape to more temperate weather. All these factors bode well for the future of the Caribbean and we will work with operators to make sure that it stays this way.

Europe has become critical as a deployment destination and for sourcing new passengers. In 1995, 10.1% of CLIA's passengers were sourced from North America, and this has leapt to 20.5% for 2008. Further growth is expected in the UK, Germany, Italy and Spain and as new tonnage enters Europe, this creates a buzz



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in the media, which then encourages more people to cruise.

Cruising in Europe provides great value for US citizens, especially those pre-paying in dollars. Airfares and European hotel rates have been on the rise, highlighting the inherent value and convenience of reaching Europe by sea. Americans wanting to visit Europe will see that cruising is the best way to do this. Of note, river cruising is showing good solid growth.

The Far East and South America are emerging markets with multifaceted destinations, which is of particular interest to North Americans. CLIA lines are analysing these markets, working out what they can offer passengers and which destinations will suit them best. These countries will continue to grow as the industry grows. Adventure cruising such as trips to Antarctica and the Galapagos will continue to see growth as will emerging markets such as the Middle East.

The US remains the strongest market for cruising and this area still shows great potential. Only 19.9% of Americans have ever cruised. That's barely scratching the surface. The US market is more mature than

that of, say, the UK, but it's not saturated by any stretch of the imagination. It is growing and we will continue to work to cover other markets.

In addition to our 24 member cruise lines, CLIA has 16,000 travel agency members who are trained to make recommendations and ensure the right fit for our US consumers.

We expect to see the 20% of Americans who have cruised to increase over the years. Using the internet for cruise information and making bookings will also help the industry's growth.

Keeping positive

There are many good reasons to remain optimistic about 2009, despite the recent economic downturn.

The important thing is to keep our passengers' needs at the forefront of whatever we do, and the environment is one area that concerns everyone.

CLIA members are committed to preserving and protecting the oceans we cruise and has invested heavily in new technology. Our industry continues to raise the bar on environmental performance.



CLIA president Terry Dale.

The cruise industry is among the leaders in environmental protection within the maritime sector through innovative ship design, state-of-the-art wastewater treatment systems, and the implementation of aggressive waste management, recycling and disposal programmes. We also have a valued strategic partnership with Conservation International, sharing information and technology.

History has shown that cruise is a growth industry and is remarkably resistant and successful in weathering challenging times. As long as the industry is flexible and innovative in developing strategies and keeps on top of what cruisers want, cruising will always give good value. [wc](#)