



With the price of oil falling, cruise lines have withdrawn their controversial fuel supplements, but could they return? All Leisure Group's **Rob Bryant**, Carnival Cruise Lines' **Tim Gallagher** and Fred Olsen's **Nigel Lingard** tell Andrea Ashfield how the industry needs to tread carefully.

Strike a balance

Throughout 2008, the world's petroleum market experienced unparalleled volatility, with the price of crude oil soaring to almost \$150 a barrel in July. In order to meet the rising cost of bunker fuel, many operators introduced fuel surcharges, prompting criticism from passengers and even an investigation by the Florida attorney general's office into possible price collusion. Millions of dollars were voluntarily refunded by some of the industry's biggest names and by the end of the year the price of oil had fallen sharply to around \$40 a barrel. The controversial fuel supplement has now been largely withdrawn, but operators are reserving the right to reintroduce it should circumstances change.

Fred Olsen Cruise Lines revised its fuel supplement policy at the end of last year, stipulating that passengers cruising after 1 January 2009 would be refunded if the price of Brent Crude stayed below approximately \$40 a barrel in the month before departure. The rebate is provided in the form of credits which can be used on board.

The price of fuel rocketed in early 2008, rising above the level at which we

had set our budget in late 2007,' explains Fred Olsen marketing manager Nigel Lingard. 'We were losing money, so we had to exercise our right to introduce the supplement. In November 2008 we took the decision to revise our policy because fuel was back down at the level we had originally budgeted for. We felt it would effectively be dishonest to continue with the charge and have always taken the view that we should be transparent and open to audit. We didn't apply it immediately in terms of reducing prices, but by way of rebates.'

According to Rob Bryant, CEO of All Leisure Group, which incorporates the brands Swan Hellenic, Voyages of Discovery, Hebridean Island Cruises and Discover Egypt, the introduction of the fuel supplement was unavoidable. 'In previous years, the cost of oil remained low and relatively stable. It was the industry norm not to hedge,' he says. 'When the price of fuel got out of control, the industry was forced to pass on the additional cost. The soaring cost of oil impacted on everything and prices for every product were adjusted upwards, affecting every industry and everybody.'

In order to counter the rising cost of fuel, All Leisure Group opted for fuel swaps, resulting in a fixed price arrangement. 'During the course of last year, the world saw the cost of oil reach unprecedented highs, stemmed only by the collapse of the global banking system and world industry output,' says Bryant.

'While oil was trading at its high we decided to purchase fuel swaps – a form of hedging. This allowed us to lock into a fixed price for our fuel and subsequently build this into the price the customer pays, allowing us to offer a guarantee.'

Rising costs

The introduction of fuel surcharges sparked controversy among passengers, but will this have any lasting impact on the traditional view of cruising as a value for money holiday option? Bryant does not think so, maintaining that increased prices affected virtually every sector last year. 'The cruise industry was not the only holiday choice that was affected by the need to pass on additional costs,' he says. 'I believe our customers still see our product as offering value for money, especially with

the weakness of the pound against world currencies. Passengers see our product with guaranteed sterling cruise prices plus onboard sterling prices.'

What's more, the principle behind the supplement is one that regular cruise enthusiasts are more than familiar with.

'Our average target market can remember many previous fuel surcharges,' he says. 'It has been a pretty common practice over the years and people remember it.' Nevertheless, Fred Olsen's customers have been pleased with the abolition of the charge, and the company continues to receive positive feedback on the subject. 'People appreciated our honesty on the matter,' adds Lingard.

According to the marine fuel supplier Chemoil, several factors affect the price of bunker fuel, including global oil production, port-to-port fundamentals, operational costs and global shipping activity. For operators, this unpredictability is one of the biggest challenges they face. 'Volatility in the price of any of the components that make up the total cruise sale prices presents a serious challenge in any climate,' Bryant says.

'Nobody can predict the price of crude oil so the decision as to whether to hedge and at what price is difficult,' explains Lingard. 'It means the difference between economical operation and offering attractive itineraries. From an operating point of view, we want to sail slowly, but the itinerary planners want to visit lots of exotic places. We can no longer be so easy going about where we sail.'

Positive feedback

Carnival Cruise Lines also suspended its fuel surcharge in December, with refunds provided in the form of shipboard credits. The company says its passengers have reacted positively. 'We have received excellent feedback for our decision

to suspend the fuel supplement,' says Tim Gallagher, Carnival's VP of public relations.

The company has turned to other measures to help drive down costs. 'Fuel prices remain highly volatile, which presents both Carnival and other cruise operators with many challenges, especially in the current economic environment,' Gallagher explains. 'We have also instituted a number of initiatives to increase fuel conservation and reduce consumption across the fleet.'

Fuel supplements remain in abeyance, but cruise operators say they would not rule out reintroducing the charge if fuel prices rose sharply again.

For Fred Olsen Cruise Lines, this is a situation that is carefully monitored. 'We can accept short-term spikes, but if we saw prices rising, and it was likely to be prolonged, we would revisit the surcharge,' says Lingard. Whatever happens, All Leisure Group is not expecting a problem in the short-term future. 'As long as the hedging product remains available, relevant and is purchased then any need to charge a supplement should be negated,' says Bryant.

With the price of oil so difficult to predict, it seems that reintroducing fuel supplements is rarely very far from the thoughts of the industry's major operators. [wc](#)

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