

INDUSTRY INSIGHT

West Coast cruise: 2013 outlook

By Darryl Anderson,
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Photo courtesy of Nanaimo Port Authority

British Columbia represents more than 50 per cent of Canada's entire cruise business with cruises to Alaska through B.C. ports ranked as one of the most popular itineraries in the world. The British Columbia economy, seeing over a billion dollars in economic impact each year, continues to enjoy significant benefits from the cruise industry. The 2012 cruise season increased by more than 13,000 passengers over 2011, for a total of 1.2 million passengers visiting the B.C. port communities of Nanaimo, Prince Rupert, Vancouver and Victoria on a total of 427 calls. The estimated total economic impact of the cruise industry on the B.C. economy was \$1.3 billion. Carmen Ortega, Chair of Cruise BC stated: "Consistent passenger volumes through our province demonstrate the strength of our excellent cruise product."

It has been almost five years since the start of the 2008 recession. Given the importance of the cruise sector to the Pacific Northwest regional economy, this article explores cruise industry changes that have occurred since the recession and features the homeport and port-of-call highlights for the 2013 season. With Cruise3sixty (a travel agent trade show) returning to Vancouver in June, we will also look ahead to gain industry leaders' insights



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on the issues driving future growth in our region.

Impact of the recession

The chart in *Figure 1* summarizes the cruise capacity that is deployed by the members of the Cruise Lines International Association in the top six markets. The chart clearly shows that, in the immediate aftermath of the 2008 recession, cruise lines allocated ship capacity away from the West Coast of North America (Alaska through to Western Mexico).

The charts in *Figures 2* and *3* reveal the impact of cruise line decisions regarding where to deploy their vessels. They show the trend in terms of the number of vessel calls and passenger traffic volume for the homeports of Vancouver, Seattle and California (Los Angeles, San Diego and San Francisco), and British Columbia's ports of call.

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Chris Chase, Business Development Manager, Port of Los Angeles, stated that: "our issues revolve around the

weak market for ships going to Mexico with the perceived security issues there. Most cruise lines have limited their sailing to Mexico. We have seen positive results in cruises to Hawaii and California coastal cruises from Los Angeles to Santa Barbara, San Francisco overnight, Ensenada Mexico to Los Angeles." He added that, "longer term we can see things improving but the short term is still a big challenge".

Adam Deaton from the Port of San Diego offered his perspective when he said: "Over the last three years, the trend in Southern California has been a continual decline in cruise business. The decline has slowed from 2012 to 2013, but we are still seeing a downward trend. The primary reason for this is continuing violence and drug-related crime in Mexico. The crime has been so extensive that the Mexican authorities have failed to keep the violence out of the tourist areas in major marquee destinations like Acapulco, Mazatlan, and Puerto Vallarta. The only good news on the West Coast of Mexico has been that Cabo San Lucas has, for the most part, escaped the violence."

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It's useful to take stock of the level of cruise activity in 2013 to see which ports and destinations have been able to adapt their business model and position themselves to grow further as the North American economy recovers in the years ahead.

2013 season highlights

The prevailing paradigm has the Pacific Northwest duo of Port Metro Vancouver and the Port of Seattle as the perennial cruise homeport combatants engaged in a sea-saw battle for homeport supremacy. Yet, a more nuanced examination reveals that the California Port of San Francisco plays an important role for B.C.'s cruise ports and with a continued weak southern California marketplace, San Francisco may play a more important role in the future.

Port Metro Vancouver anticipates 820,000 revenue passengers, with a variety of ships making 230 calls during the 2013 cruise season. Surprisingly, Vancouver's season started on February 25 with the *MS Amadea* and ends in late September. Since the recession, the port has experienced modest growth after reaching a low point during the 2010 cruise season, however the cruise traffic number in 2013 represents a 20 per cent surge over 2012. Higher passenger volumes are coming from larger ships and additional ship visits. Carmen Ortega, Manager, Business Development for Port Metro Vancouver also attributes the growth to Vancouver's many advantages that result in the "best experience for cruise passengers". Advantages of a Vancouver-based cruise itinerary, said Carmen, "include a great destination, more time spent sailing the actual Inside Passage, the port's customer service and delivery". Ortega also cited the new ships for the 2013 cruise season as being a reason for Vancouver's robust growth outlook. Two vessels, the *Disney Wonder* and *Amsterdam*, will be making round trips from Vancouver; and two ships, the *Norwegian Sun* and *Regatta*, will have some combination of open and closed-jaw itineraries.

Ortega further noted that Port Metro Vancouver is undertaking investments to enhance the cruise ship shore power options at Canada Place. Further details can be expected from the Port Authority along with Holland America and Princess Cruises later this spring but at the time *BC Shipping News* went to press it had been confirmed that when the shore project is completed, the west berth will have two plug-ins and an additional one for the east berth. "The shore power investment will provide more operating flexibility for the port's customers and allow for a different class of cruise ship to use this environmental friendly option," said Ortega.

Seattle anticipates 851,900 revenue passengers from 188 vessel calls in 2013 according to Peter McGraw, Media Relations Officer for the Port of Seattle. Thus, Seattle will maintain a slight homeport lead over Vancouver in 2013. Yet for Seattle, while the total number of cruise ships will fall slightly, the remaining cruise ships that visit that port in 2013 will be larger in size. When asked about the highlight of the upcoming cruise season, Port of Seattle officials note that they have new itineraries in the luxury sector with the *MS Regatta* and the innovative *Celebrity Solstice*, the largest ship to homeport out of Seattle. The *Regatta* will call at

Bell Street Terminal at Pier 66 and the *Celebrity Solstice* will depart from Smith Cove Cruise Terminal at Pier 91.

Michael Nerney, Maritime Marketing Manager for the Port of San Francisco, said that the port "expects 66 ship calls and 200,000 passengers in 2013 — this is comparable to our volumes in 2012 (65 ship calls, 195,000 passengers)". Unlike their southern California-based homeport cousins of Los Angeles and San Diego, cruise traffic at the Port of San Francisco has rebounded nicely from the depths of the recession in 2010. At that point in time, cruise traffic had dropped

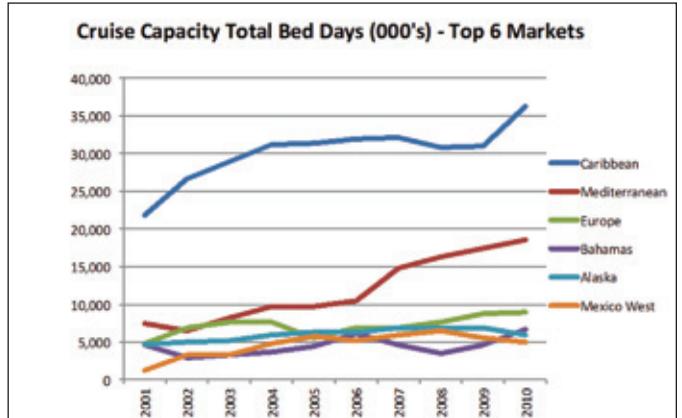


Figure 1. Cruise capacity in the top six markets.

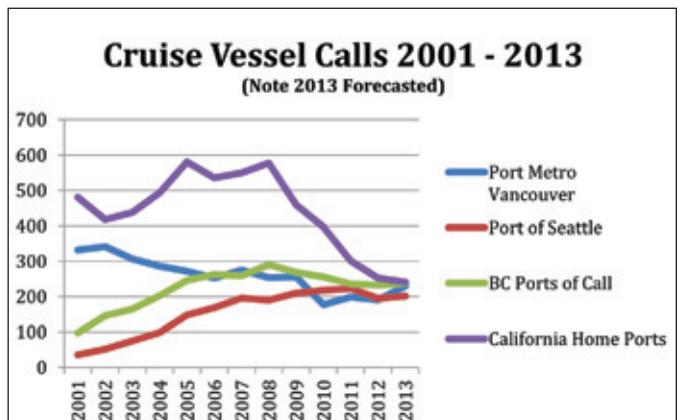


Figure 2. Tracking cruise vessel calls.

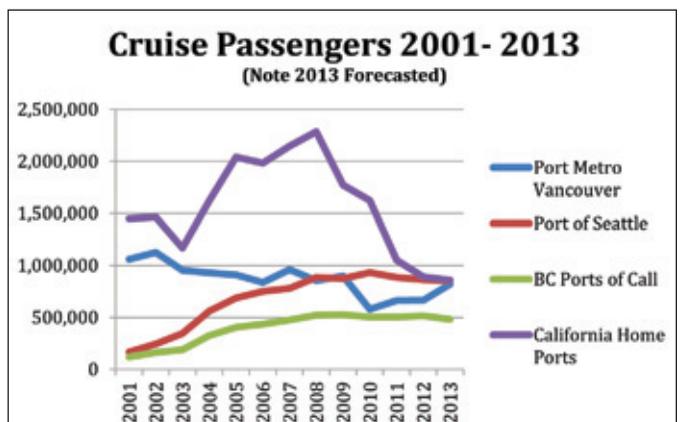


Figure 3. Tracking cruise passengers.

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A British Columbia benefactor of San Francisco's cruise growth and resiliency is the Greater Victoria Harbour Authority...

to 41 vessels calls and 112,175 passengers. Reasons for San Francisco's rebound in cruise traffic include the diversification of itineraries offered by the port. The cruise destinations include Hawaii, Alaska, Mexico, and the California coast. A British Columbia benefactor of San Francisco's cruise growth and resiliency is the Greater Victoria Harbour Authority where a number of itineraries serving that community have a San Francisco component. Highlights for the upcoming cruise season include the *Grand Princess* beginning year-round homeport calls at San Francisco on March 16, 2013. The extensively renovated *Grand Princess* will first offer a series of Alaska cruises during the summer months from the "City by the Bay," followed by a schedule of Hawaiian Islands, Mexico and California Coast sailings between fall 2013 and spring 2014.

While the recent pattern for southern California homeports (Los Angeles and San Diego) will hold for 2013, significant upward momentum will be felt in 2014. San Diego port official Adam Deaton note that a highlight this year was the fact that "this spring, Celebrity Cruises will have a number of Pacific Coast cruises including wine cruises that depart from San Diego, visit Santa Barbara, Monterey, San Francisco, Astoria, Victoria, and disembark in Vancouver". Deaton felt this was a great offering from Celebrity, giving guests a tour of the West Coast's extensive wine country.

Victoria has emerged at the strongest cruise port-of-call of the Pacific Coast. It could be argued that good geography and United States cabotage shipping regulations are sole reasons behind the destination's success yet a closer look reveals a

number of factors at play including serving customers from each of the cruise homeports mentioned earlier in this article. Curtis Grad, President and Chief Executive Office of the Greater Victoria Harbour Authority commented that "211 ship calls are scheduled, bringing approximately 466,000 passengers and close to 200,000 crew members" in 2013. This represents a decrease in ship calls from the record year experienced in 2012 but only a nominal reduction in passenger numbers due to larger ships in the market. GVHA officials confirm that highlights of the upcoming cruise season include welcoming the *Celebrity Solstice* as a regular weekly caller. This newer-generation ship carries 2,850 passengers at 100 per cent occupancy. Another reasons for Victoria's resiliency and cruise growth during the recession has been their focus on improving the guest experience. Grad said: "There will be some major changes in transportation serving the terminal. The installation of a float at Ogden Point will allow marine-based shore excursions to pick-up directly at Ogden Point. It may also serve a marine shuttle from Ogden Point to downtown." Equally important, Grad noted, was that the Harbour Authority "was also advancing a multi-year terminal upgrade plan. For 2013, improvements in front of Pier A will provide more staging area and enhance the walking routes off the site. Future improvements include reconfiguring and enhancing the customs area at Pier A, reconfiguration of the ground transportation staging, a new customs facility at Pier B and opportunities for commercial kiosks". Local residents will also be pleased to learn that a new walking webpage will be launched off the www.victoriacruise.ca website to provide routing information and points of interest for those visitors wishing to enjoy a walk to downtown, Fisherman's Wharf or Beacon Hill Park.

The results of the recession have perhaps had their most significant impacts on British Columbia's small cruise ports with the Wei Wai Kum Cruise Terminal in Campbell River



effectively sitting on the sidelines awaiting further market developments. Yet, three other B.C. ports of call are all adjusting their cruise business development efforts.

Doug Peterson, Manager of Marketing & Sales at the Nanaimo Port Authority, said that “we will have seven cruise visits this year from large ships for an estimated 15,000 passenger visits”. With a brand new cruise facility that came online in 2011, infrastructure investments are not a major requirement so port officials and their community partners are continuing to focus on providing a very special welcome to cruise visitors to make their visits unique. The Nanaimo Port Authority is taking a prudent approach to managing local expectations regarding cruise traffic growth but have stated publicly that 20 large ships by 2015 would be a most welcome target. This would appear to be a reasonable growth target since cruise passenger volume peaked at 36 vessel visits in 2007 with 30,418 passengers arriving on either small pocket cruise ships or being tendered ashore from large cruise ships anchored in the harbour.

Prince Rupert has been one of British Columbia’s hardest hit cruise destinations since the recession. In 2008, cruise traffic peaked at 103,635 passengers from 63 vessel calls. Perhaps the low point for Prince Rupert came in 2012 when only four ship calls were on the schedule. The main reason for the decline is the loss of the weekly stop from Norwegian Cruise lines that occurred between the middle of May and the end of September last year. Numbers for 2013 improve however with nine ship visits carrying 4,856 passengers. This remains well short though of past years.

David McCormick, Manager of Property and Community Relations for the Port Alberni Port Authority, said: “We’re a small, niche destination that we do hope grows but are at the early stages of re-examining the business model and where we may fit as the industry is evolving”. The Holland America ship, the *Statendam*, is expected for a visit to Port Alberni on May 22, 2013. Of note is that this year’s

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Photo courtesy of Prince Rupert Port Authority

Prince Rupert expects nine cruise ship calls this year, bringing almost 5,000 passengers to the community.

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cruise visit will inaugurate the use of the new breakwater at Harbour Quay, located in the city centre, as the reception point for cruise passengers using the ship's tenders.

North American Emission Control Area (NA-ECA)

The North American Emission Control Area (NA-ECA) regulations are one issue on the immediate horizon that is having an impact on the Pacific coast cruise industry. NA-ECA was adopted under Annex VI to the International Convention for the Prevention of Pollution from Ships (MARPOL). While the NA-ECA entered into force on August 1, 2012 in the U.S. — and set a one per cent limit on the sulphur content of marine fuel (to be followed by a 0.1 per cent limit in 2015) — Canada has yet to follow suit. The proposed *Regulations Amending the Vessel Pollution and Dangerous Chemicals Regulations* were published by Transport Canada on July 21, 2012, and the public comment period ended on October 4, 2012. Although not yet enforced in Canada, Transport Canada issued interim measures in July 2012 and encouraged operators of vessels to voluntarily comply.

According to TC representatives: "The official regulation will be published in due time."

Outstanding issues, such as fuel availability and whether alternative equivalency models that achieve the same goal of reduced air emissions would be accepted, remain unanswered. Regardless of whether the government accepts the proposals put forth by cruise industry representatives, including the North West and Canada Cruise Association, the cost of operating in North America is bound to put pressure on the lines to be able to continue to operate a viable industry without passing some costs on to consumers.

A look ahead

A review of homeport, cruise port-of-call traffic and passenger volumes sheds some interesting light on how the respective ports and destinations have fared since the recession. Based on the 2013 season highlights, industry leaders have indeed been making adjustments to reflect the new realities in the cruise marketplace.

One of the most important trends to emerge since the start of the recession has been the intense price competition experienced in the industry. Cruise Lines International Association data from the 2010 *Cruise Destination Analysis* shows important trends in average per diem rates achieved by their member lines. From a British Columbia perspective, it is encouraging to see that the Alaska cruise market remains among the top in terms of average per diems. The U.S. coastal west has also strongly rebounded. The Mexican west market however remains subdued with average per diems significantly below other markets. This pricing trend no doubt is one of the reasons why cruise lines have been eager to redeploy vessels to other cruise markets and thereby reduce the number of ships that might be more readily available to be repositioned in the B.C. and Alaskan cruise marketplace.

For consumers, cruise industry price trends for 2013 are expected to move slightly upward. In late December 2012, Carnival Corporation announced that, since September 2012,

booking volumes for the first three quarters, including Costa, were running in line with the strong volumes experienced last year at slightly lower prices. However, cumulative advance bookings for 2013 continue to be behind the prior year at slightly lower prices.

The importance of the tourism consumer is not lost on British Columbia's cruise industry leaders. Industry officials are thrilled that the leading cruise travel agent trade show, Cruise3sixty, is coming to Vancouver this June. This is only the second time in the nine-year history of the show that it has ventured away from its home in Fort Lauderdale. Cruise3sixty offers access to 1,400-plus travel agents, senior management of every major cruise line and hundreds of travel industry executives. In total, over 2,200 attendees are expected, generating a strong economic impact in its own right.

Joel Tkach, Chair of the Pacific Rim Cruise Association observed: "Cruise3sixty is a critical element of Vancouver's success as a home port of the Alaska fleet. Everyone involved in this event—organizers, educators, suppliers, and most importantly, agents—are top calibre and committed to the industry."

Cruise3sixty is also important to the Port of Seattle. Media representative Peter McGraw noted that it "is always an excellent opportunity to promote Seattle as a destination. Since the show is close to home, we were able to confirm several of our partners from hotels, attractions and transportation to represent Seattle with us in the booth."

The Greater Victoria Harbour Authority's Curtis Grad provided his own thoughts on Cruise3sixty stating that it "provides a great opportunity for all of the Victoria stakeholders in the cruise industry to position Victoria as a destination of choice, not just a necessary port-of-call on the Alaska run. The cruise specialist travel agents can be a great asset in promoting Victoria to cruise passengers and encouraging an itinerary that includes Victoria."

It is now commonly understood that the unilateral imposition of onerous new taxes on the cruise industry in Alaska, just prior to the recession, had negative ripple effects on the

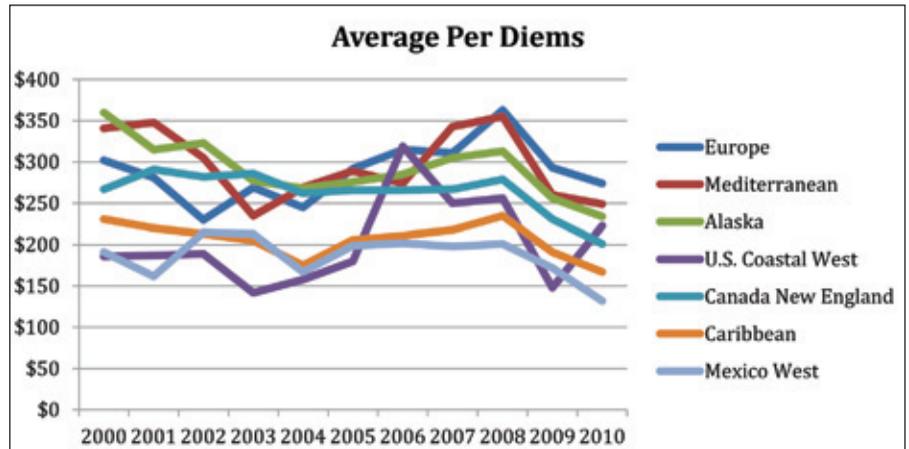


Figure 4. Average daily expenditures of cruise passengers.

entire Pacific Northwest cruise industry. It is encouraging to hear Carmen Ortega, Chair of the Cruise British Columbia Association acknowledge that: "our business is the result of an Alaska cruise product". For this reason, Cruise BC has worked with the Alaska Travel Industry Association over the past couple of years to leverage the

natural connection. Collaboration has included adjacent booths and co-hosting an industry reception at Seatrade, the Cruise Ship Conference in Miami, Florida. Equally important in terms of destination development was the fact that, last year, Cruise BC completed a business case for three-to-five-day itineraries featuring B.C.'s cruise-ready

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Online...Dave Roels' Photo Essay

Cruise industry services: Photographer Dave Roels rode along with Tymac staff and caught the day's activities while servicing the *MS Amadea*, Vancouver's first cruise ship to call in February.

Visit www.bcshippingnews.com/photo to see the results.



Photos by Dave Roels, www.daveroels.com

destinations and ports. The results of the business case will be used in the Association's marketing efforts.

When industry leaders were asked if they were concerned that the southern California homeports of Los Angeles and San Diego continued to struggle, we received a variety of responses. Michael Nerney of the Port of San Francisco observed that "the sooner the situation improves in southern California, the better it will be for San Francisco, which is also a homeport for Mexico cruises". And Peter McGraw noted that: "Seattle continues to see a full complement of the major brands and had a record year in 2012 however it is beneficial for the cruise lines to keep ships on one coast all year so we would like to see more ships depart Seattle for Alaska in the summer and then to Mexico in the winter." Curtis Grad offered this perspective: "The proximity to an off-season market used to be key to an itinerary's viability however, with the Panama Canal expansion and the speed of the newer ships, the industry is able to move assets with ease throughout the globe. Alaska continues to be a sought after destination for passengers and remains highly profitable for the lines. As long as that remains the case, the ships will continue to come to this market."

When industry leaders were asked about major cruise trends impacting their destination, both Port Metro Vancouver and Port of Seattle officials pointed to the expansion in the international market with destinations such as Asia and Australia. Introducing these travellers to cruising is increasing the internationally sourced cruise passengers for North America and officials from both ports thought they were well positioned to serve the international traveller.

The fact that more and more lines are introducing shorter cruises, attractive to time-strapped working professionals, first-time cruisers who want a shorter alternative, and travellers who like to combine a cruise with a land-side vacation was also a trend noted by cruise industry leaders. They cited the fact that the Pacific Northwest offers alternatives to the seven-day Alaska itinerary with shorter cruises that would include popular destinations such as Seattle, Victoria and Vancouver.

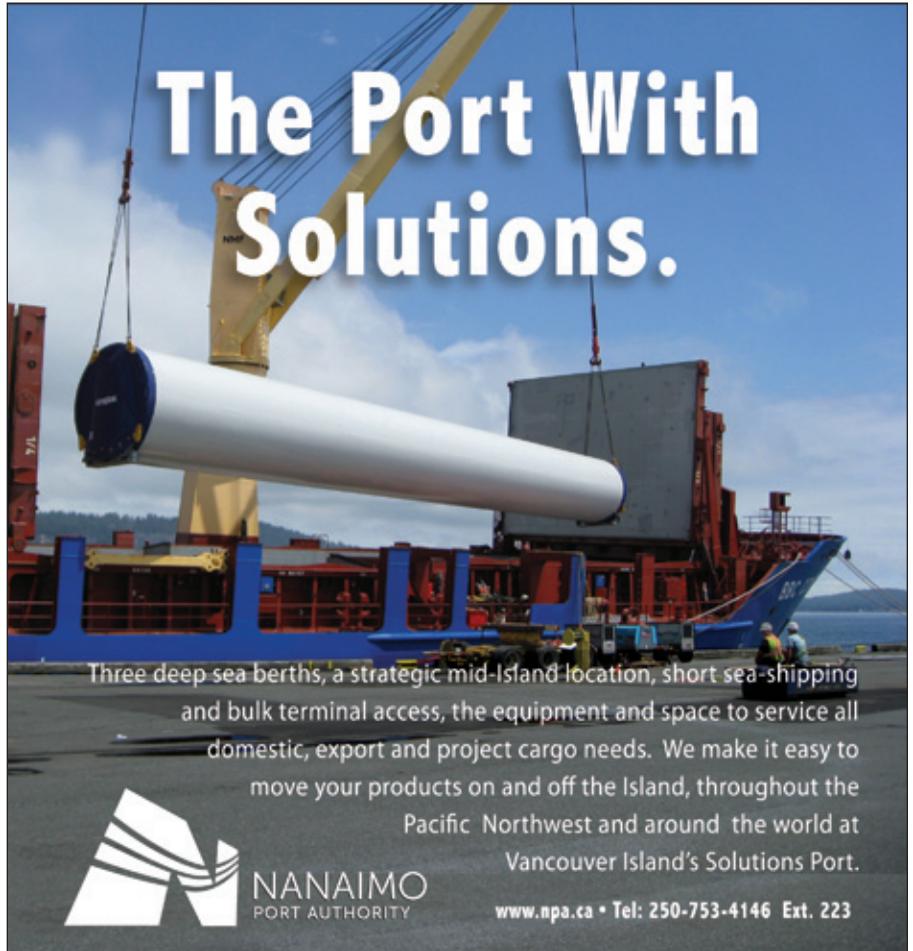
Looking forward, Doug Peterson "believed we will begin to see the gradual deployment of larger ships to the West Coast, and, as the cruise market softens in other parts of the world, we will see more ships deployed into the West Coast theatre".

Conclusion

Our tour of Pacific Coast cruise ports revealed that industry officials in the Pacific Northwest have been hard at work dealing with changes that have occurred in the marketplace as result of the 2008/2009 recession. Not only have some destinations been able to grow their business, others have undertaken important investments to improve the quality of the guest experience or contribute to enhanced sustainability. This bodes well for the communities that rely on cruise traffic to generate an important economic contribution, whether it is the homeport passenger spending of an average of over \$260 in Vancouver, or the smaller amounts spent in B.C.'s ports-of-call.

Like other destinations, cruise industry leaders and our province have found new ways to collaborate and in fact improve on the resiliency of the industry. We can only hope that after the provincial election in May our newly elected officials in British Columbia will fully appreciate and understand the importance and interdependency of the cruise industry to our neighbours and ourselves. While tourism industry collaboration and cruise destination development are important, so too is a competitive business and investment climate. Perhaps we can all take lessons from the Port of New Orleans where cruise traffic in 2012 surpassed the pre-Hurricane Katrina levels and the homeports of southern California where industry recovery is a few years off. We cannot take our success for granted. Only by working together can we successfully chart a course for the sea conditions that lie ahead.

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Cruise associations in British Columbia

With cruise being such a significant component of the marine industry in B.C., a number of associations have been established to deal with specific aspects of the business. For additional information on each, please visit the websites noted.

Cruise British Columbia Association (www.cruisebc.ca) — Cruise BC is a consortium of four ports: Greater Victoria Harbour Authority, Nanaimo Port Authority, Port Metro Vancouver and Prince Rupert Port Authority. The Association facilitates further development of a B.C.-destination cruise theatre; provides a vehicle for co-operative initiatives of further developing B.C. ports and communities as viable cruise ship destinations; and compliments the efforts of existing organizations in marketing and promoting the cruise industry in British Columbia.

Cruise Industry Association of B.C. (www.ciabc.ca) — Representing the suppliers of services and product to the cruise industry, CIABC's goals are to foster the economic growth of the B.C. cruise industry; to co-ordinate the marketing activities and enhance business opportunities for its members; to act a centre for aggregating and disseminating information to its membership; and to serve as a single point of contact to the cruise industry in raising their awareness of services and products available in B.C.

North West and Canada Cruise Association (www.nw-cruiseship.org) — NWCCA represents the major cruise lines operating in the Pacific Northwest — British Columbia, Washington State, Alaska and Hawaii — and in Atlantic Canada and Quebec. Their role includes the development of strong partnerships with the communities where its member lines are based and those they visit. The association is at the forefront of initiatives related to government, security and safety, as well as community and government relations.

Pacific Rim Cruise Association (www.tourismvancouver.com and www.hellobc.com) — PRCA provides a collaborative platform for Port Metro Vancouver, Tourism British Columbia, Tourism Vancouver and the Vancouver International Airport to market Vancouver to the cruise lines as a premier destination in the Pacific Northwest. Over the years, PRCA has played an integral role in initiatives such as co-operative advertising with cruise lines and strategies aimed at raising awareness within the global travel industry of the appeal of cruising out of Vancouver.