

Thoughts on the Economic Benefits of Cruise Shipping

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Presentation Objectives

- ◆ Why Invest In Facilities?
- ◆ Economic Justifications
- ◆ Future Observations on Cruise Terminal Justifications

Disclaimer: These views represents those of the author and not the policies of the U.S. Army Corps of Engineers.

The Contribution of the North American Cruise Industry to the U.S. Economy in 2005

Table ES-1 – Economic Contribution of the North American Cruise Industry, 2001 – 2005

	2001	2002	2003	2004	2005	Average Annual Growth			
						2002	2003	2004	2005
U.S. Passenger Embarkations (Millions)	5.90	6.50	7.11	8.10	8.61	10.2%	9.4%	13.9%	6.3%
Direct Economic Impacts									
Passenger and Cruise Line Spending (\$ Billions)*	\$ 10.98	\$ 11.95	\$ 12.92	\$ 14.70	\$ 16.18	8.8%	8.1%	13.8%	10.0%
Employment	101,636	109,553	117,353	135,197	142,720	7.8%	7.1%	15.2%	5.6%
Wages and Salaries (\$ Billions)	\$ 3.50	\$ 3.92	\$ 4.29	\$ 4.80	\$ 5.19	11.9%	9.6%	11.9%	8.1%
Total Economic Impacts									
Total Output (\$ Billions)	\$ 18.60	\$ 20.40	\$ 25.44	\$ 30.06	\$ 32.43	9.7%	24.7%	18.2%	7.9%
Employment	267,762	279,112	295,077	315,830	330,346	4.2%	5.7%	7.0%	4.6%
Wages and Salaries (\$ Billions)	\$ 9.72	\$ 10.66	\$ 11.62	\$ 12.42	\$ 13.52	9.7%	9.0%	6.9%	8.8%

- Includes wages and salaries paid to U.S. employees of the cruise lines.

Source- Business Research & Economic Advisors for International Council of Cruise Lines

The Contribution of the North American Cruise Industry to the U.S. Economy in 2005

Table ES-2 – Global Summary Statistics for the North American Cruise Industry, 2001 – 2005

	2001	2002	2003	2004	2005	Average Annual Growth			
						2002	2003	2004	2005
Capacity Measures									
Number of Ships	167	176	184	192	192	5.4%	4.5%	4.3%	0.0%
Lower Berths	173,846	196,694	215,405	240,401	245,755	13.1%	9.5%	11.6%	2.2%
Available Bed Days (Millions)	60.85	61.00	63.38	70.60	75.47	0.3%	3.9%	11.4%	6.9%
Global Passengers and Revenues									
Global Passengers (Millions)	8.40	9.22	9.83	10.85	11.50	9.8%	6.6%	10.3%	6.0%
Global Passenger Bed Days (Millions)	53.76	61.47	66.17	73.88	80.32	14.3%	7.6%	11.7%	8.7%
Capacity Utilization (Bed Days)	88.4%	100.8%	104.4%	104.7%	106.4%				
Gross Revenues (\$ Billions)									
Gross Revenues per Passenger	\$ 1,646	\$ 1,549	\$ 1,498	\$ 1,553	\$ 1,667	-5.9%	-3.2%	3.6%	7.3%
Gross Revenues per Passenger Cruise Day	\$ 257	\$ 232	\$ 223	\$ 228	\$ 239	-9.7%	-4.2%	2.4%	4.7%

Source- Business Research & Economic Advisors for International Council of Cruise Lines

Percentage Contribution of Tourism to Output and Employment in Caribbean Countries

	Output				Employment			
	2000	2001	2002	2003	2000	2001	2002	2003
Hispanic and non-Hispanic Caribbean	16.6	15.8	14.2	13.9	14.9	14.2	13.6	14
Antigua & Barbuda	83.9	77.6	74.4	74.3	95	94.8	89.4	89.2
Bahamas	54.9	54.5	50	52	69.8	68.5	61.9	64.6
Barbados	44.9	42.8	47.5	47.8	50.5	47.8	52.6	52.9
Belize	23.9	23.2	23.1	21.8	23.5	22.7	22.7	21.3
British Virgin Islands	95.2	95.2	95.2	95.2	94.4	95	95	95
Cuba	13.3	12.7	12.1	12.5	11.5	10.9	10.4	10.7
Dominica	24.2	24.5	23.5	22.3	22.1	22.3	21.3	20.2
Dom Rep.	22.7	21.4	21.5	21.9	19.7	18.5	18.6	19
Grenada	27.8	25.4	25.9	25.9	25.9	24	24.3	24.2
Guyana	10.3	9.7	8.6	8.4	12.5	11.7	10.4	10.2
Jamaica	32.1	31.5	29.7	32.4	28.3	27.7	26.2	28.7
Puerto Rico	6.4	6.4	5.2	5	7.1	7.2	5.6	5.5
St Kitts/Nevis	28	28.8	26.3	26.4	28.5	29.3	26.6	26.5
St. Lucia	44.8	41.8	42.5	47.9	45.1	41.6	42.2	47.7
St. Vincent/Grenadines	31.5	32	31.8	31.4	28.2	28.7	28.4	27.9
Trinidad & Tobago	11.5	10.7	10.5	10.4	11.1	10.5	10.1	10

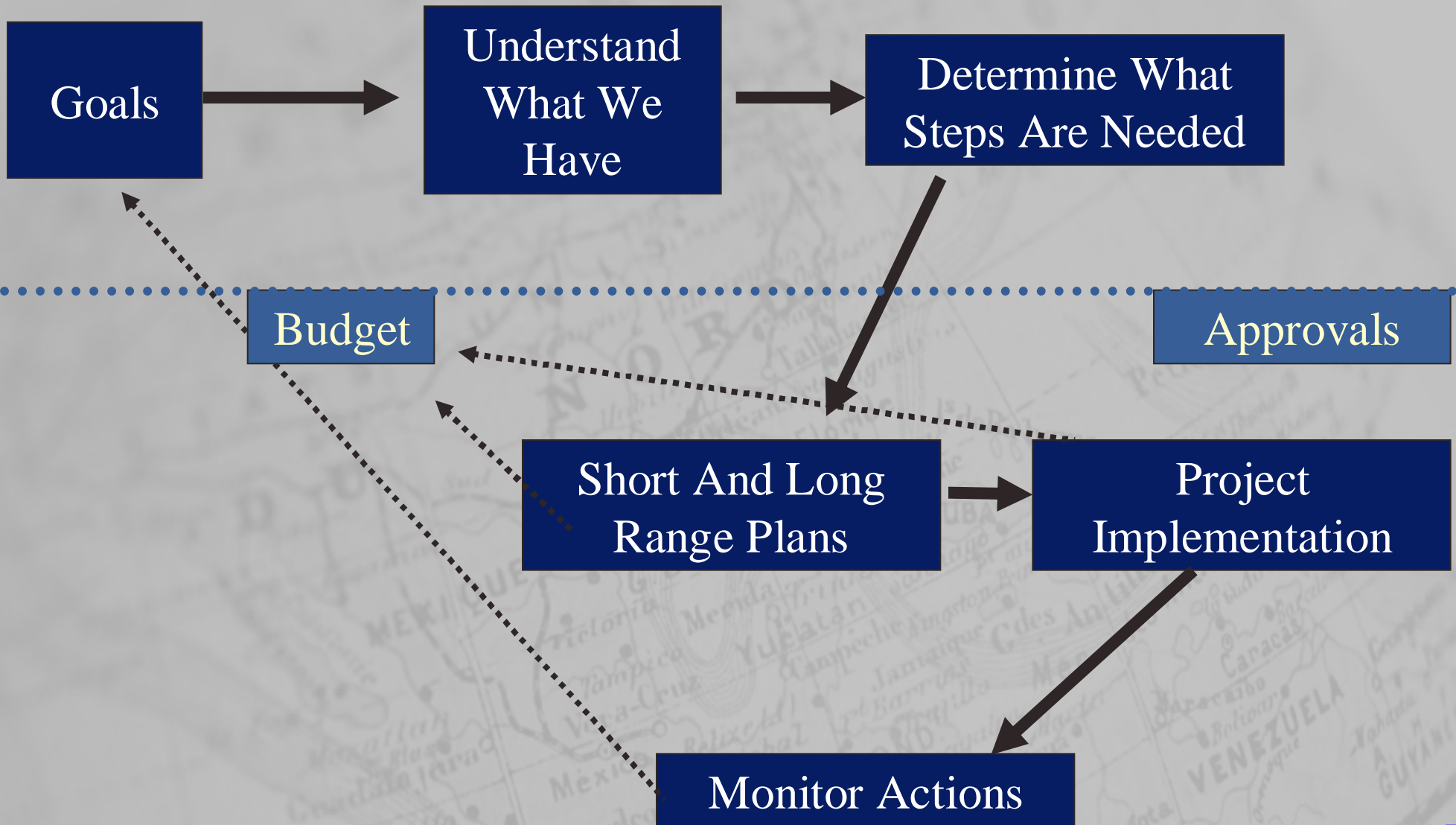
Source: Based on data in WTTC 2004 Report

Cruise Lines Select Ports by:

- 1) Location of the port and cruising distance relative to other ports on a particular itinerary.
 - 2) “Marquee” value and activities available for passengers.
 - 3) Visitor safety and comfort.
 - 4) Existence of head taxes.
 - 5) Physical capabilities of the port to accept cruise ships
- *Destination port connections, attractions, hinterland

Source: World Bank Port Kit Model

A Generic Planning/ Construction Process



Why Invest in Port Facilities?

Expectations for Improvements -

- ❖ Improved Vessel Operations (no change in fleet or routing, but per movement costs decline or reliability improves)
- ❖ Change in Port Routings (realignment of services with existing fleets already in trade)
- ❖ Induced Calls (larger vessels or new vessels enter service)

Market Response occurs unevenly

- ❖ Time
- ❖ Adoptability
- ❖ Partnerships
- ❖ Scale of investment

Who benefits from improvements

- ❖ Carriers – reduction in operating expenses, profits, reduction in costs to passengers (unexpected)
- ❖ Ports – additional revenues, prestige, local employment
- ❖ Governments and other local industries – additional revenues, employment
- ❖ Passengers – increased experiences and variety, minimized disruption, reduced out of pocket costs, valuation of time
- ❖ Other port users?

Negative Externalities from Tourism

- ❖ Environmental damage (trash, development, etc.)
- ❖ Cultural degradation
- ❖ Leakages regarding benefits?
- ❖ Passengers staying on boat and not spending time in destination ports
- ❖ Security concerns, etc.
- ❖ More imports to support tourism's demands (good/bad?)

Challenges Facing Port Development

- ◆ Ports are land development agencies
- ◆ City-Port challenges
- ◆ More considerations for navigation planning
- ◆ Balancing system operations
- ◆ Financing challenges
- ◆ Timelines have changed
 - Change is dynamic
 - Physical life of infrastructure exceeds economic life
 - Removing bottlenecks may result in others

Can We Help People Make Better Decisions?



Economic Justifications of Cruise Shipping in U.S.

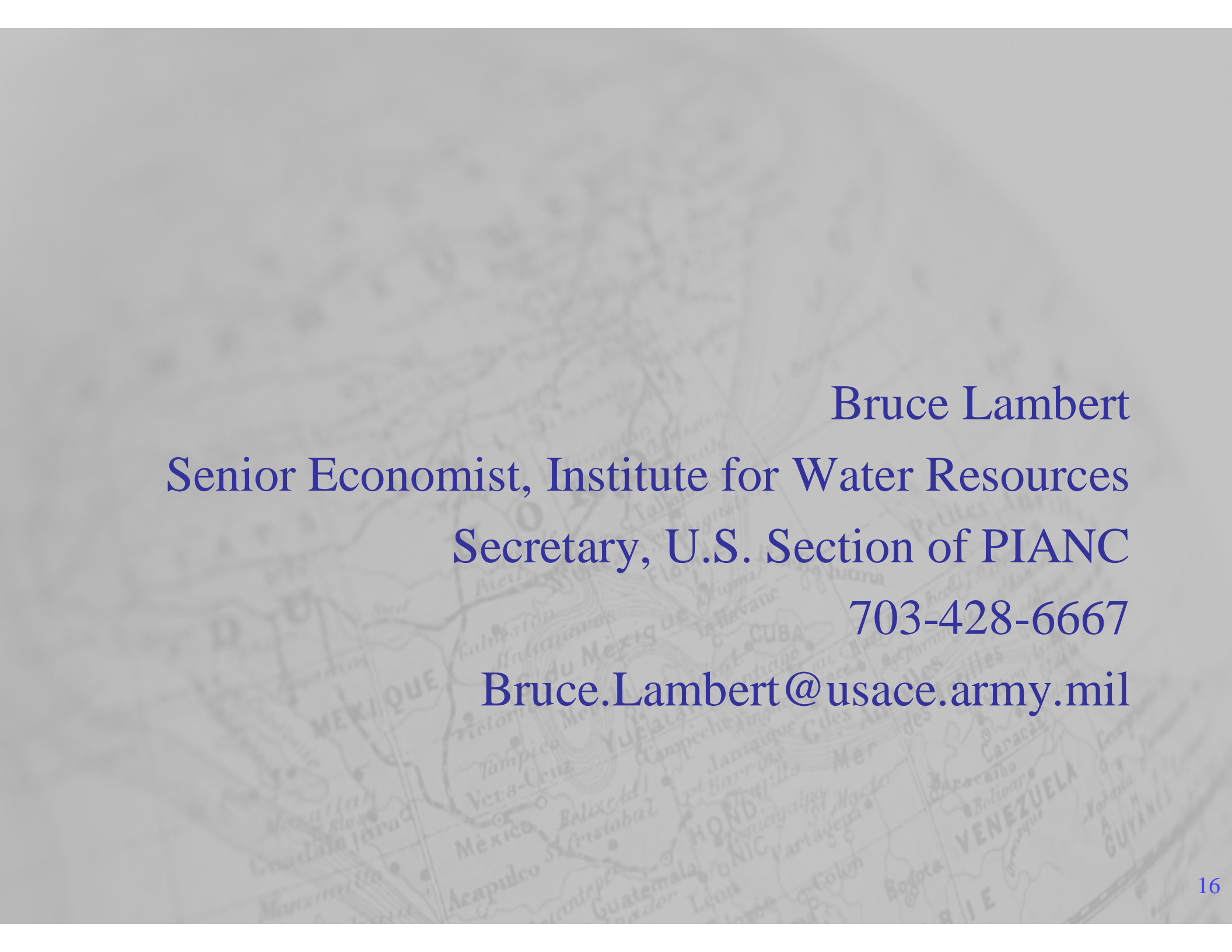
- ◆ No standard Economic Benefits for cruise tourism
 - No framework on destination shopping
 - No framework on benefits of cruise on total area or local level
 - No framework for hierarchical studies for projects
- ◆ Corps Guidance only applies to dredging policies
 - Based on current and forecasted fleet operations
 - Recognize nature of commercial and recreational benefits

Variables in Economic Studies

- ◆ Nature of decision maker differs
- ◆ Cycle of Port Planning/Investment differs
- ◆ Dredging and Operational Constraints
- ◆ Conflicting messages from markets and legislation
- ◆ Failing to treat cruise and cargo operations differently
- ◆ Nature of port and carrier competition
- ◆ Risk aversion in cruise industry

Thoughts on the Future...

- ◆ Collaboration between ports/carriers? Ports themselves?
- ◆ Changing benefit estimated related to destination and intermediate port to a systems perspective.
- ◆ Change in port estimates of national estimates
- ◆ Dynamic markets do exist
 - Developing tourism from cruise base (returns, meetings, etc.)? Second order effects?
 - Only 40 years old – still evolving vessels, etc.
- ◆ Adequately funding of economic studies
- ◆ Port Certification on facilities
- ◆ Carrier and port consolidation



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