

## HEALTHY OUTLOOK FOR CRUISE SHIPS

In the wake of the massive “9/11” effect on the international cruise market, and the more recent escalation in newbuilding prices, a new analytical Report suggests that the lack of new vessel ordering in the past 2-3 years is set to see potential cruise ship shortages emerge by 2008. With demand continuing to grow, there will continue to be a healthy demand for new ships in subsequent years, although the scale of annual requirements is unlikely to match the delivery volumes witnessed at the start of this decade.

In a 240-page detailed report – entitled '*THE WORLD CRUISE SHIPPING INDUSTRY to 2020 – a detailed appraisal of prospects*' – the UK-based independent research company *Ocean Shipping Consultants Ltd* forecasts a strengthening cruise ship market over the next 5 years, even under a low growth scenario. In the longer-term however, the annual new vessel requirement is expected to average a lower level than the annual average delivery volumes witnessed over the past half-decade.

A summary of some of the findings of this major new study is provided hereunder:-

### World Cruise Ship Fleet

- The world cruise ship fleet has continued to expand at a rapid pace in recent years, with the total number of berths offered on multi-day cruises for vessels of 50+ passenger capacity increasing from around 160,000 at the beginning of 1995 to over 310,000 in 2005. This represents a near-doubling in capacity over the past decade, with aggregate fleet numbers in the interim period suggesting overall expansion since 2000 of over 33%.
- Whilst all size sectors of the fleet have experienced growth, there exist large differentials between different size classes, with generally greater proportional increases for the larger size classes.

- Total capacity for the 1,000-2,000 berth category has increased by approximately 120% since 1995, and by over 30% since 2000. The most dramatic rise however, has been for larger vessels – with the >2,000 berth category increasing in volume by over 600% from approximately 17,000 to 126,000 berths. Most of this expansion has occurred in the current decade, with a 2000 total for this sector of around 45,000 berths.
- Approximately 91% of all vessels on order are above 1,500-berth capacity - with this size sector representing just 27.5% of the existing fleet – providing further evidence of the strength of the trend towards larger tonnage.
- Capacity on order represents negligible volumes for vessels of under 1,500-berth capacity, with just 10% for 1,500-2,500 berth vessels, but 74% for larger tonnage. For fleet capacity overall, the current orderbook represents 18% of the total number of berths in existence.

### **Cruise Ship Operators**

- Whilst the extensive world cruise ship fleet is run by a large number of individual cruise lines, the industry has continued to become more concentrated in a small number of major operators over the past decade. Indeed, this market consolidation by the major lines has accelerated in recent years through further merger/take-over, and the cessation of operations of several smaller lines. Based on the current orderbook, this trend is set to continue to dominate over the coming decade.
- In terms of the major lines increasing in significance within the world fleet, of the current world fleet, the top 13 cruise lines account for over 75% in terms of passenger capacity - i.e. 236,000 of the global aggregate of 313,000 berths. Significantly, these top lines account for almost all tonnage currently on order - thus suggesting continued consolidation in the near-term.
- If controlled tonnage under different cruise lines is included, the following profile of existing capacity (lower berths) ownership applies:-
 

Carnival Group :	133,500
RCCL Group :	62,200
Star Group :	26,000
- Together therefore, these groups account for no less than 71% of the world aggregate of existing capacity, with a corresponding level of almost 89% for tonnage on order.
- The dominance of the large vessel market by the top individual lines is inevitably highlighted for the 3 major groups - accounting for a combined 93% of all >1,500 berth capacity vessels, and 100% of all >2,000 berth vessels.

## **World Cruise Demand to 2020**

- For the forward study period, cruise demand will continue, as in the past, to be partly supply-driven, with the introduction of new ships, new itineraries, and new themes promoting customer interest and sales. Long-term trends will continue to be subject to short-term factors – but will be linked to underlying trends in international tourism, economic growth, and population development.
- For cruise demand in **North America**, the longer-term trends are expected to reflect underlying growth, moderated by the continuing negative impact of the terrorist threat. After advancing from 4.4m passengers in the mid-1990s to almost 7m passengers in 2000 and approximately 9.25m in 2005, the North America total is expected to develop to almost 12m by 2010, almost 14.5m by 2015 and approximately 17.2m by 2020. Total forward expansion thus approximates 86% from the expected total in 2005 - equivalent to an annual average expansion rate of approximately 4.25%.
- For the **UK** market, annual growth is expected to average approximately 6.5-7% over the near-term, slowing in subsequent years. In absolute volume terms, the annual total is forecast to develop from the 1.1m of 2005 to over 1.5m by 2010, over 1.9m by 2015, and almost 2.3m by 2020.
- For **Germany**, the large-scale increase in available capacity geared specifically to the German market, will continue to count strongly in favour of further expansion, with high growth rates anticipated over at least the near-term. Annual expansion is thought likely to average approximately 10% over much of the remaining decade, with some moderation to around 7% by the middle of the decade, and further to around 4.25% by the end of the study period. Overall passenger volumes are thus expected to climb from approximated 0.66m in 2005 to around 1.05m by 2010, over 1.5m by 2015 and almost 2.0m by 2020 – representing overall forward growth of some 197%.
- With a rapidly increasing volume of new tonnage targeted at the **Italian** market, the forward period is set to see further significant growth, especially in the near-term. The passenger total is forecast to increase from the estimated 0.42m of 2005 to 0.58m in 2010, over 0.72m in 2015, and over 0.87m in 2020. Significant growth is also expected for the rapidly developing **Spanish** cruise market.
- For **Europe** as a whole, the cruise passenger total is forecast to increase from the estimated 3.2m of 2005 to 4.5m in 2010, almost 5.9m in 2015 and over 7.1m in 2020. This translates to overall forward growth of 120% - equivalent to a little under 5.25% p.a..
- In **Asia**, the overall **Japanese** market is forecast to increase from the estimated 0.23m passenger level of 2005 to over 0.27m by 2010, expanding to almost 0.32m by 2015 and over 0.36m by the end of the study period. Total forward expansion thus approximates 59% - equivalent to average annual growth throughout the period to 2020 of approximately 3.25%.

- Several other **East Asian** markets offer massive cruise potential, in terms of both new destinations for Western cruise passengers and, perhaps more importantly, sources of cruise passenger growth. This is most notably the case for **China**, with significant potential also existing for the markets of Taiwan and South Korea. In terms of overall volumes, the East Asian total is forecast to expand from the estimated 0.44m of 2005 to 0.72m by 2010, with growth to almost 1.0m by 2015 and over 1.2m by 2020.
- In **SE Asia**, cruises have increased in popularity and continue to do so, although there exist several key problems to any large-scale volume growth being achieved. In terms of the future outlook, SE Asian cruise passenger volumes are forecast to develop from an estimated 0.4m in 2005 to 0.55m by 2010, almost 0.7m by 2015 and an end-period level of around 0.82m.
- Elsewhere in the **Asia/Pacific region**, a significant volume of cruise ship capacity is being directed to deployment for the Australian and Indian markets – both represent sources of growth potential, especially the latter given the changing income profile and the size of the population.
- After expanding from below 4.4m to 5.9m in the first half of the 1990s, and then to almost 10m passengers in 2000 and an estimated 13.6m in 2005, the **world** cruise passenger aggregate is expected to approximate 18m passengers by 2010, 22.6m by 2015, and 27m by 2020.
- Total forward expansion approximates 98%, with average annual development approximating 5.75% p.a. in the near-term to 2010, a little over 4.5% p.a. in the first half of the next decade, and around 3.75% in the final part of the study period.

### **Cruise Ship Fleet & Demand to 2020**

- The level of extra demand of around 18,000 berths witnessed in 2004 and expected in 2005 is set to represent the expected average level throughout the forward study period, although annual levels are expected to vary around a 17,500 berth level for much of the remaining current decade. Annual growth is then set to reach almost 19,000 berths around the middle of the following decade before ending the study period at around the 17,500 berth level.
- Excluding further orders, the overall fleet is set to increase from the 313,000 berth total of 2005 to over 352,000 by 2009. This represents an increase of approximately 12.5%. With no vessels currently on order with a delivery date post-2009, the minimum fleet level is expected to decline to around 334,000 berths by 2015 and 321,000 berths by 2020.
- The implication is that whilst new capacity requirements are likely to exceed new deliveries over the near-term, the extent of this tonnage shortfall will vary greatly, subject to actual new tonnage completion. For 2008, with only a relatively small volume of new capacity expected to be delivered, the shortfall will become highly significant, compounded with a likely net fleet decline in the following year.

- There will be a requirement for an extra 72,000 berths for newbuilding deliveries by 2010, with this rising to approximately 179,000 berths by 2015 and 280,000 berths by 2020. These levels are the equivalent of an extra 29 vessels of 2,500 berth capacity by 2010, 71 vessels by 2015 and 112 vessels by 2020. To place these levels in an historical context, newbuilding delivery volumes have varied within a 19-30,000 berth range since 2000, with an average level of just under 24,000 berths – equivalent to around 10 vessels (each of 2,500 berths) p.a.. The implication therefore, is for an annual newbuilding requirement at a lower level than witnessed in the recent past.
- The overall implication is that the slowdown in new vessel ordering in recent years is set to see a strengthening cruise ship market over the next 5 years. Even with relatively poor future demand growth, there is likely to be a requirement for around 11 large vessels by 2010 in addition to those currently on order.
- In the longer-term, the requirement for new tonnage is expected to average around 8-9 large vessels (2,500-berth capacity) p.a., with this representing a level below that witnessed since 2000 (approximately 10 vessels p.a.).

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In around 240 pages, the highly detailed and extensive new report contains analysis of all aspects of the world cruise shipping industry. With detailed forecasts of developments over the period to 2020, the Report is essential reading for all parties with an interest in the future development of any aspect of the cruise sector.

## **'THE WORLD CRUISE SHIPPING INDUSTRY to 2020 - a detailed appraisal of prospects'**

Available 23<sup>rd</sup> May 2005.

Price : £950 (UK) or €1400 or US\$1900 (overseas)

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