



Early Wave Season Booking Reports

With all the news of a downturn in consumer spending last month, even among the affluent, it's not surprising that many retailers are reporting a less than spectacular start to business in the new year. "If anything is surprising," says Steve McGillivray, Vacation.com, Alexandria, Va., "it's that given all the bad economic news, the cruise business is still hanging in."

Here's a sample comment from a large, national retailer: "Overall, we are steady but not seeing anything spectacular. Q1 Caribbean bookings have been strong right along, so there is not a sense of urgency by the cruise lines to move the remaining cabins. We receive a lot of calls regarding Europe, but air prices are extremely high, and many customers are reconsidering their options given the high prices."

A general consensus emerging is that while it's fairly busy now, the concept of a traditional Wave Season may be a thing of the past. John Brennan, Ambassador Cruises, Ft. Washington, Md., says: "There's nothing really exceptional going on with bookings right now. Perhaps the collective emphasis by the industry on getting people to book ahead is having an impact now, as opposed to the usual, big January publicity push to get people jumping on cruises. It's healthier if bookings are spread more evenly over the year."

As for individual market strengths, some cite Alaska as reliably strong, but even here it depends on what the individual agent is pushing. Take the comments of Gloria Wessels, Cruises by Gloria, St. Louis, Mo., who says, "I'm surprised that my Alaska sales are not going as well as Europe, but I'm getting a lot of calls for people interested in Europe cruises this summer. Fortunately, I have some Europe group space where the air fare is \$900 until February 20, so I'm able to convert the interest."

But really, Wessels has been promoting Europe over Alaska. "With no commission on air and a lot of noncommissionable charges with Alaska, it's becoming like short Caribbean--hard to make a profit given the time spent selling the vacation," says Wessels. "At least with Europe, the cruise prices are higher."

Varying Predictions

Two financial analysts following the challenges facing the cruise industry reach different conclusions.

Robin Farley, UBS Warburg, says cruise yields can go up more than prices this year, because yield growth is not solely dependent on consumer demand: "Helping contribute are a positive mix shift from redeploying ships to higher-demand itineraries and away from weaker markets; lower absolute capacity in the Caribbean and a younger fleet mix that brings higher yielding cabin categories; the growth from European passenger sourcing; all

factors that do not change if the U.S. consumer weakens. Caribbean prices have yet to recover to '05 price levels and have easy first half '08 comps."

However, Robert Simonson, William Blair & Co, said rising U.S. unemployment "is likely to hurt demand for Caribbean cruises." And he says that's not the only segment of the cruise market likely to be affected by trends in the economy. Simonson, who downgraded both Carnival and Royal Caribbean, said, "Faltering stock prices and housing values will increasingly pressure higher income consumers that purchase European cruises."

But there may be pockets of strength still out there. Michael Drever, President/CEO of CruiseShipCenter International in Canada, reports a record high in total sales for the first two weeks of January. "We are up 15% and are projecting even stronger growth for the remaining two weeks of the month and are anticipating total growth for the month to finish in the 25% range." The figures are based on same store locations.

Challenging Times For Distribution

In the latest move by a major cruise line against non-producing agents, Carnival this past week implemented new eligibility requirements for agents to qualify for reduced rate agent space (including qualifying a minimum of five Carnival bookings within a 12-month period).

Moves like these may help cut off routes of revenue loss for producing agents. But in talking with numerous agents in the past week, it's clear their focus is not so much on the YTBs of the world but on the economic challenges of stagnant business.

There've been plenty of reports on consumers going online to book travel. Not getting much print is that even CLIA numbers continue to show erosion in the percent of consumers booking through travel agents, with the latest available figures from the 2006 market study saying that 78% of cruisers polled say they book at least "some of their cruises" with travel agents. This compares with 88% responding that way in 2002 and 80% in 2004. And that's not even for all their cruises.

Also sobering are those CLIA stats indicating downward influence of agents overall. For instance, of the cruisers polled by CLIA, only 12% said they were influenced in their choice by agents compared to 30% noting the influence of cruise websites.

And in a year when value is thought to be the mantra for selling travel, agents appear to be at a perception disadvantage--one that is unrooted in reality--that they don't provide value. For instance, some 95% of cruisers say they are satisfied with the level of service they receive from travel agents and give high marks for knowledge and expertise. But more than half (56%) believe they get better rates when they book on their own.



Latest On Battle Over Hawaii Cruises

When the Dept. of Homeland Security on November 21 asked for feedback on the issue of foreign flagged ships operating sailings from the West Coast to Hawaii, all the language in the proposal was specific to that market.

The very wordy summation noted: "This document proposes new criteria to be used by Customs and Border Protection to determine whether non-coastwise-qualified vessels [i.e. foreign-flagged ships] are in violation of the Passenger Vessel Services Act when engaging in cruise itineraries in which passengers board at a U.S. port, the vessel calls at several Hawaiian ports, and then the vessel proceeds to a foreign port or ports for a brief period, before ultimately returning to the original U.S. port of embarkation."

Last week, Cruise Week reported NCL America's response to the proposal: "Unfair foreign competition poses an imminent threat to the remaining U.S. flag passenger vessels operating in the Hawaii trades."

At that time, it seemed the proposal was strictly meant to adjudicate NCLA's beefs with other cruise lines plying Hawaii. However, politicians and port authorities are seeing other implications.

Hawaii And Beyond

Naturally, West Coast politicians have weighed in. Hawaii congressman Neil Abercrombie supports the rule change, arguing that foreign flagged ships shouldn't benefit from dodging U.S. laws. Abercrombie's argument comes at a time when Hawaii's tourism industry is struggling and facing the disappearance of about 120,000 cruise ship passengers once the *Pride of Hawaii* departs for Europe in February.

Meanwhile, San Diego Congressman Bob Filner opposes the change, saying, "This proposed rule could.... drastically impact our city's tourism and economy." His argument is also understandable given that the proposal could delay renovations to the S.D. cruise terminals.

But the issue has gone beyond Hawaii. For example, the Republican Governor from Alaska, Sarah Palin, issued a press release noting that if passed, this change would "cut back their [passengers'] time in Alaska ports, putting hundreds of millions of dollars a year out of the Alaska economy." But would this proposal even affect Alaska cruises? Does NCL risk impacting its interests negatively in Alaska?

The Alaskan governor asked the bureau to exclude Alaska cruises from its interpretation, and the bureau has already said they will put this recommendation into economic impact analysis before making a final decision.

Aaron Ellis, of American Association of Port Authori-

ties in Alexandria, Va., concurs with Governor Palin that the proposal might impact ports not mentioned in the proposal. Calls by Cruise Week to customs sources finds the AAPA is correct in its interpretation.

Again, going back to the original document from November 21 being debated: "Customs and Border Protection will presume that a stop at a foreign port is not a legitimate object of the cruise unless: (1) the stop lasts at least 48 hours at the foreign port; (2) the amount of time at the foreign port is more than 50 percent of the total amount of time at the U.S. ports of call; and (3) the passengers are permitted to go ashore temporarily at the foreign port."

Ellis says, "If this rule went into effect, there would be no incentive to call in any of the cruise ports in Maine, for example, because that would require them to spend half their trip in Canada and at least 48 hours in a Maine port such as Bar Harbour."

The bigger loser would be Key West, which Ellis says, "handles 831,000 cruise passengers annually with foreign flagged ships. If this requirement goes into effect, ships would be required to stay for at least 48 hours in Key West, and they won't do that."

In the meantime, the winner appears to be Ensenada, as Ellis reports that more lines are now scheduling eight-hour calls there as opposed to pit stops in the middle of the night.

News Shorts

⇒ In the latest symbolic (and very visible) sign of Cunard's revitalization, **three Queen vessels** sailed together out of lower Manhattan on Sunday night, led by *QM2*, then *Queen Victoria*, with *QE2* last. The revitalization goes beyond photo ops: When Cunard retires the *QE2*, the line will move from having the oldest fleet in the business to the youngest, and when the *Queen Elizabeth* arrives in 2010, the average age will decrease even further--six years for *Queen Mary 2*, three for *Queen Victoria*, and zero for *Queen Elizabeth*--making it far younger than any other line in the business.

⇒ In a move having possible significance for the cruise business, **Harrah's Entertainment** on Monday announced a scheduled closing date for its long-pending \$27.8 billion acquisition by funds affiliated with Apollo Management and the Texas Pacific Group. The deal raises the possibility that Harrah's, the world's largest casino operator, could expand its operations to ships owned (or partially owned) by Apollo. Previously, Harrah's opted out of participation in cruise lines such as Crystal, saying the market was too small, but now Apollo's portfolio encompasses well more than a dozen ships with casinos onboard.