Cruising is booming, but there’s a catch

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At a time when cruising is booming — thanks in part to the “Trump Effect,” — cruise executives have little to worry about. But the one thing that keeps them up at night? The threat of geopolitical instability.

Cruise executives from Carnival Corp., Royal Caribbean Cruises, Norwegian Cruise Line Holdings and Geneva-based MSC took the pulse of the industry Tuesday during the keynote address at the industry’s largest annual conference, held in Fort Lauderdale.

More than 10,000 people are expected to attend the four-day Seatrade Cruise Global conference, which moved to Fort Lauderdale, Fla., last year while the Miami Beach Convention Center undergoes renovations.

Central to the discussion was the industry’s record number of ship orders for the next 10 years. A total of 74 new ships will be built in the next decade, equating to more than $50 billion in investments from the cruise lines.

Never in the history of the cruise industry have we looked at an order book that looked 10 years in the future, said Pierfrancesco Vago, executive chairman of MSC.

That investment comes at a time when cruising’s popularity continues an upward trend, executives said at the annual State of the Industry address. More than 25 million people are expected to take a cruise vacation in 2017, up from 24.2 million in 2016, according to the Cruise Lines International Association.

"Never in the history of the cruise industry have we looked at an order book that looked 10 years in the future," said Pierfrancesco Vago, executive chairman of MSC. "This is a commitment from the industry for long-term investments for the bright future that we have ahead."

Cruises are a niche product that have only penetrated 3 to 4 percent of the potential global travel market, leaving plenty of room for industry growth, Vago said.

Vago and the executives from three other major lines presented TED Talk-style presentations on major trends in the industry. Carnival Corp. president and CEO Arnold Donald spoke about innovation; Norwegian president and CEO Frank Del Rio talked about the destinations; Royal Caribbean chairman Richard Fain discussion environment and security, while Vago, whose firm also has a massive cargo operation,
discussed shipbuilding.

But it was during a joint panel talk, moderated by CNBC’s Susan Li, that the executives dove into some of the global factors affecting their business.

One of them was the “Trump Effect,” a double-edged sword that is stimulating business but could also stifle growth in some of industry’s new destinations, such as Cuba.

“We have had the Trump Effect. The stock market is at an all-time high ... Most businesses recognize that the Trump administration is a pro-business government,” said Norwegian’s Del Rio. “We are all going to benefit from a basket of benefits, whether that is infrastructure, regulations or tax reform.”

By the same token, Trump has previously warned he may scale back the eased travel restrictions that have allowed the cruise lines to take passengers to Cuba from the U.S. for the first time in 50 years.

This year, eight U.S. lines, including from the three U.S. companies represented in the panel, are expected to take an estimated 172,000 Americans to Cuba.

A tightening of those rules is particularly worrisome, said Royal Caribbean’s Fain, at a time when cruises have been able to circumvent many of the island’s infrastructural challenges in a more hassle-free way than airlines, for example, which have scaled back their trips to the island.

“I find it interesting that the cruise industry is so much at the center of the Cuba discussion, as well. Nobody is talking about, ‘This is great for the hotel industry.’ Nobody is talking about, ‘This is great for the airline industry.’ ” Fain said. “Cruising allows [travelers] to visit ports of call that otherwise they wouldn’t be able to visit.”

Cuba can be major force in cruise business for years to come and I hope the [Trump] administration would see that potential. Frank Del Rio, president and CEO of Norwegian Cruise Line Holdings

Del Rio, whose company Norwegian will be sailing to Cuba on all three of its cruise lines, advocated for ending the U.S. trade embargo with Cuba.

“Cuba can be major force in cruise business for years to come and I hope the administration would see that potential,” he said.

Still, the lines are relatively insulated against geopolitics because they can move their ships if need be, Vago said.

That becomes more challenging when global events prevent the lines from calling in
entire areas of the world, like Libya, Egypt, Turkey and Tunisia, the executives said.

Terrorism was the one threat that worries them most now, in this time of relative success.

"I worry about the things I can’t control and that is primarily geopolitical events," Del Rio said. "Every morning that I wake up and hope there is no headline news."

Other things the lines can’t control, like the recent travel restrictions China imposed on South Korea (China is expected to become the top cruise market in the next decade), could cloud the industry’s otherwise bright future.

"The only thing that stops our industry is people’s inability to travel," said Carnival’s Donald. "As long as the world stays open to travel, we are going to do fine."