

Carnival Cruise Lines: One Of The City's Most Valuable Assets



Carnival Corporation & plc owns and operates Carnival Cruise Lines, along with 11 cruise brands throughout the world. Each week Carnival Pride and Carnival Paradise sail between Long Beach and Mexico, bringing more than 7,500 people to the city. Pictured, from left to right, are Carnival Corporation & plc's Carlos Torres de Navarra, director of strategic planning and port development; Giora Israel, vice president of strategic planning; and Remco Buis, manager of West Coast port development.

■ By **STACY CLEMENTS**
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It appears the Queen Mary has met her match. While the Queen has become synonymous with Long Beach, over the past five years, two colossal cruise ships have emerged as some of the city's most valuable assets. Each week Carnival Pride and Carnival Paradise sail between Long Beach and Mexico, bringing more than 7,500 people to the city and creating an impact far greater than their stately silhouettes on the ocean's horizon.

In April 2009, Carnival Cruise Lines' biggest ship – Carnival Splendor – will steer her way to Long Beach and replace Carnival Pride. The newer vessel is nearly 40 percent larger, with capacity to hold an additional 1,000 passengers and 300 crewmembers. Carnival also recently submitted plans with the city for an estimated \$8 million to \$10 million pier and terminal improvement project. Adjacent to the former Spruce Goose dome, the proposed project would create a comfortable area for passengers waiting to board the ship.

As the world's largest cruise operator, Carnival Corporation & plc's global presence surpasses its competitors with nearly 50 percent of the market share. The dual-listed company is publicly traded on both the New York and London stock exchanges, and it is the only company on both the S&P 500 and FTSE 100 indexes. As the industry leader, Carnival continues to forge ahead through its acquisition of sinking ventures and product expansion. The company operates 12 brands, including its largest and most recognizable cruise liners in North America – Carnival Cruise Lines with 22 ships, and Princess Cruises with 16 ships.

“We are not only a cruise company, but we are really a global vacation company more than anything else,” says Giora Israel, vice president of strategic planning.

It would be difficult to appreciate Carnival's global enterprise without first examining its local impact. In an unprecedented move for a cruise company, Carnival built a port from the ground up, including a terminal and pier. In 2003, the Long Beach Cruise Terminal opened, representing a \$50 million investment, without public funding or tax credits. In its first year, approximately 225,000 passengers set sail on either a seven-day cruise to the Mexican Riviera aboard Carnival Pride or a three- to four-day cruise to Baja, Mexico, aboard Carnival Paradise.

“We've always told community leaders and the city that, ‘We will do this and we will do that.’ And it's reckoning time,” Israel says. A recent report aims to answer Carnival's question to the community, “Have we delivered what we promised?”

“I was involved on day one – the design, the building and everything, so I have a special place in my heart for this project,” he adds. “We're not as involved in the day-to-day life of the business community as other businesses based here are, but we're very much a part, I believe, of this community. And we want to become more [involved] with the community.”

California State University, Long Beach economics professors Lisa Grobar and Joseph Magaddino, who is also department chair, researched and completed a report that assesses Carnival Cruise Lines' economic impact locally, regionally and statewide. The report is based on the company's 2006 figures

According to the report, Carnival's "total direct economic impact" on the state's economy is \$82.4 million. The report estimates an \$81 million economic impact in the Southern California region, with \$78 million in Los Angeles County.

The study also shows that direct expenses generate tax revenues (fiscal impacts) and create additional indirect and induced impacts – referred to as "the multiplier effect." Essentially, indirect effects result from Carnival's direct purchases of good and services from California industries, while induced impacts occur when Carnival employees and its supplier employees spend their wages in the regional and state economies. Considering direct, indirect and induced expenditures, Carnival Cruise Lines' Long Beach operations are estimated to have a \$132 million economic impact in the state.

Additionally, Carnival Cruise Lines generates 536 jobs in California, totaling about \$18 million in wages. It spent nearly \$58 million on operations and purchases in the local economy for goods and services, such as food, beverages, fuel, hotel supplies and equipment, while passengers and crewmembers spent roughly \$25 million in the local economy.

When a ship docks, about half of its crewmembers leave the ship to conduct personal business, such as shopping, dining and banking. The Passport bus has also proved to benefit crewmembers, who often ride it to local shopping centers.

"They love it, and for the City of Long Beach to have put that in there is a tremendous advantage," says Remco Buis, manager of West Coast port development.

But could more be done to take advantage of the thousands of weekly passengers and crewmembers who come to Long Beach with money to spend?

"Long Beach becomes [the crew's] home for eight hours," Israel says. "You should see how they come back with bags full of stuff. I think there is a market to do something for our crew."

Cruise passengers also stimulate the local economy through their expenditures at local hotels, restaurants, shops, airports and gas stations, generating sales tax and hotel tax revenues. In fact, many passengers arrive on JetBlue Airways. The report estimates that in 2006 passengers spent \$6.9 million on food and beverage, \$4.5 million on airfare, \$3.4 million on hotels, \$3.3 million on parking, \$1.9 million on retail and more than half a million dollars on taxis and ground transportation.

Carnival subleases a portion of land from Queen Mary leaseholder and development group Save the Queen. The land includes space inside the dome for passenger operations. "We have a consent and recognition agreement with the City of Long Beach," Israel says. "Our interests are protected for 55 years by our agreement with the city and the port."

The Long Beach Cruise Terminal is one of North America's top 12 ports, capturing nearly four percent of the market and serving approximately 400,000 passengers a year. Carnival's economic impact is expected to increase upon the arrival of *Splendor*, completion of terminal renovations and Save the Queen's future development of the Queen Mary site. The *Pride* and *Paradise* currently exceed 100 percent occupancy, which is calculated per person/per room and not by individual cabins.



Carnival's plans for an estimated \$8 million to \$10 million pier and terminal improvement project would create a comfortable area for passengers waiting to board the ship. The project includes a covered facade as well as landscape improvements, outdoor seating areas and facilities to store luggage. (Rendering courtesy of Carnival)

Triumph Over Peril

"All big companies start with some sort of a disaster, and so it happened with us," Israel says. In 1972, Carnival began with one converted transatlantic ocean liner – *Empress of Canada* (renamed *Mardi Gras*) – that was run aground on its inaugural cruise. Carnival has since recovered from its first peril at sea.

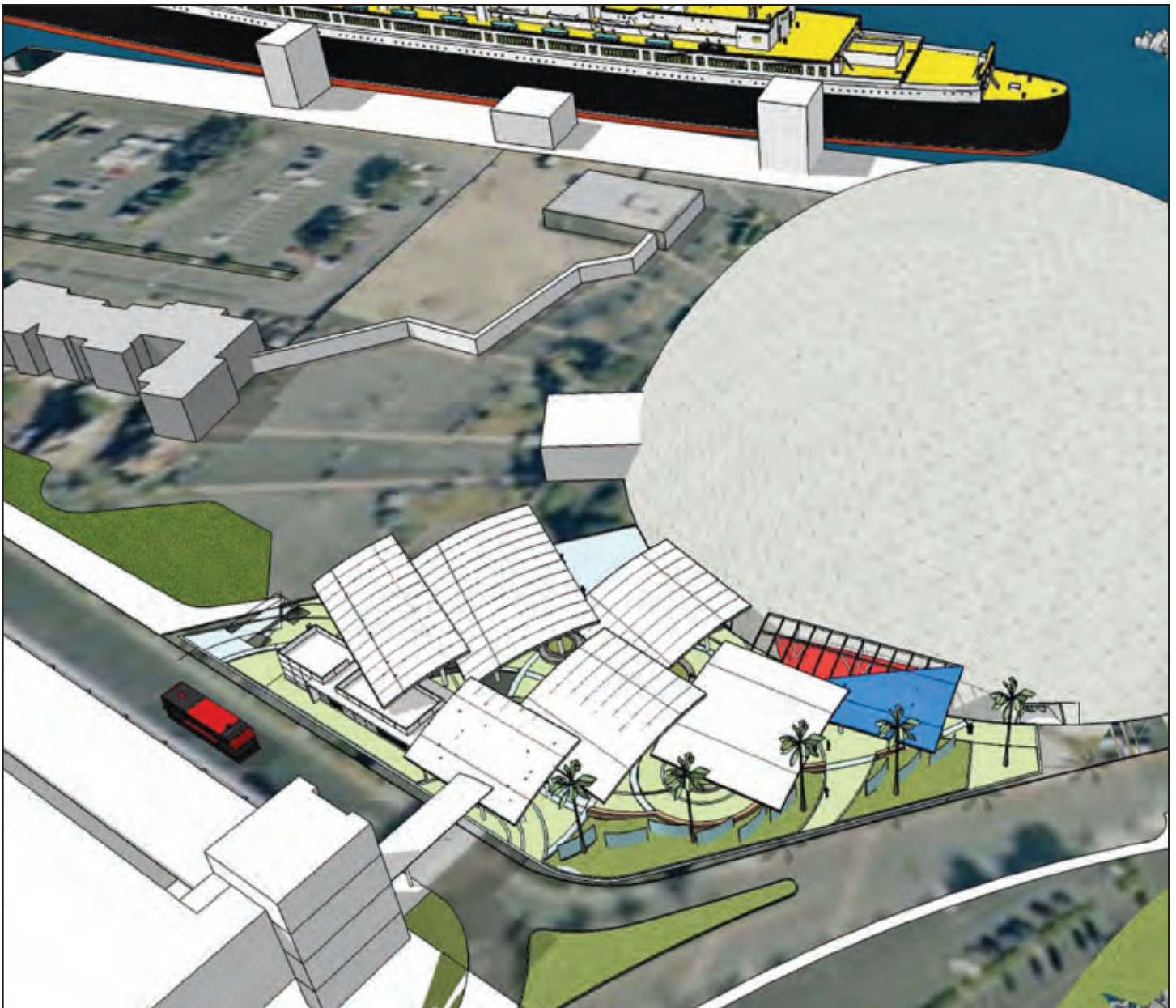
In 1985, Carnival purchased Holland America and soon after acquired several companies that were unable to keep afloat in a competitive industry.

"When the Boeing 707 came [to the market], and you could cross the Atlantic [Ocean] in eight hours, these ships and companies died," Israel explains. "The first ship of Carnival was an ocean liner, which we bought for \$1 and a mortgage of \$5 million. So from the ashes of the ocean-liner industry, the cruise industry started."

"The profound difference between ocean liners and cruise liners is ocean liners really are transportation – we are not transportation," he adds. "We go from Long Beach to nowhere, and then we come back. We don't transport you – we take you on a vacation."

After the bankruptcy of numerous airlines in the 1990s, Carnival changed its course and headed toward a new horizon. The company decided that in order to remain competitive, it had to bring the ships to the people, rather than expect people to come to the ships. Carnival focused on marketing a vacation experience and sought ports that would attract new and repeat passengers. Carnival operates out of 26 ports in North America and another eight ports in Italy and emerging markets throughout the world, such as Asia, Germany and Spain.

The Carnival brands also include Holland America Line and The Yachts of Seabourn in North America; P&O Cruises,



With the arrival of Carnival Splendor early next year, Carnival anticipates an increase in passenger traffic. The new vessel will replace Carnival Pride and will have the capacity for an additional 1,000 passengers and 300 crewmembers. Carnival currently leases a portion of the former Spruce Goose dome from Save the Queen. Its plans to improve the passenger terminal area aim to be both aesthetically pleasing and improve overall passenger satisfaction. (Rendering courtesy of Carnival)

Cunard Line and Ocean Village in the United Kingdom; AIDA Cruises in Germany; Costa Cruises in Europe; Ibero Cruises (ibero cruceros) in Spain; P&O Cruises Australia; and Costa Asia.

“The cruise industry fleshed out weak players,” Israel says. “It’s not for the faint of heart.”

“There’s a high cost to the barrier of entry,” adds Carlos Torres de Navarra, director of strategic planning and port development. “Not that many people can afford half-a-billion-dollar ships. And even if you could afford one, to get beyond the critical mass, it would be very difficult to break into this market. There [are] very little plays left in the industry in terms of making yourself bigger, because the only way you’re going to get bigger is to get more ships.”

Carnival’s current fleet of 87 cruise ships is expected to increase with the addition of 18 more vessels between 2008 and 2012, though some of its older ships could be sold, retired or

rebranded during this period. The company also owns Holland America Tours and Princess Tours in Alaska and Canada, respectively.

The new ships are being built in Germany and Italy. Israel notes that nearly all ships of significant size (holding more than 100 people) are built in these two countries, as well as Finland and France.

“[People] sometimes take an airline flight to New York because [they] have to. Nobody has to go on a cruise – it’s a choice,” Israel says, adding that cruise vacations have an almost 95 percent satisfaction rating. “To have such a high level of satisfaction on a choice is very, very important. And that keeps us, as an industry, going.” ■