

Cruise Tourism in a Pandemic Reality: The End of the Industry or Not?

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Abstract. The following research work aims at analyzing coronavirus disease impact on cruise industry. The study provides a general overview of the sector before the crisis, as well as current Covid-19 pandemic situation and suggests possible post pandemic evolution of the industry.

The findings show that despite the biggest crisis in the sector, the business is too successful to go down and sink under the pressure of financial problems. Even bad publicity of cruises is going to be temporary. According to 2020 CLIA Report 82% of cruise travelers are likely to cruise again. The fact testifies to the high attractiveness of the cruises. Another 'pro' is a positive attitude tendency of society about cruising. [1].

Keywords: cruise industry, cruise tourism, pandemic, covid-19, crisis

1. INTRODUCTION

In terms of globalization the world became very sensitive to economic, political, technological, cultural, environmental and social aspects. This implies that integrated global markets react instantly to innovations, dangers, development or challenges in any area. Until recently the society was accustomed to technological leaps, political polarizations and instability, extensions or collapses of international trade, financial crises (latest 2008y. I & 2009 y. II) and other fluctuations. However, another significant variable that appeared to be homicidal and underestimated by the society is global health thread.

Despite H1N1 and SARS viruses that occurred in the 21th century, the 2020 world proved to be completely unprepared to deal with a brand new disease, that made it kneel down all the nations.

Besides the health threats caused by Covid-19, coronavirus pandemic has knocked down the globe economy. The head of the International Monetary Fund (IMF) Kristalina Georgieva declared that today we were facing the worst global economic crisis since the Great Depression (1929-1932) [7]. All the businesses are severely affected. The situation was and still is very tough on everyone, however, tourism, hospitality, aviation and cruise industry are the most paralyzed sectors. According

to World Bank, one of the first sectors to be badly affected by coronavirus pandemic were the travel and tourism industries. [6]

It feels especially painful when it was hard to find even a couple of more successful businesses to run than cruises.

Cruise tourism implies travelling on a cruise ship for recreation purposes with all-inclusive services. According to UNWTO (World Tourism Organization) cruise tourism is “a wide range of activities for travelers in addition to its traditional function of providing transport and accommodation”. Cruising, unlike passenger shipping for transportation or other shipping, is a unique type of tourism that combines transportation ,accommodation, attractions and hospitality. This type of vacation has become a choice for millions of people worldwide.

Originally cruise tourism was mainly located within warmer climate zones like the Caribbean and Mediterranean. However, now more and more people choose diverse and unusual destinations like Norway or the Arctic. CLIA deploys cruise travelers by regions as follows: Caribbean (32%), Mediterranean (17%), Europe w/o Med (11%), China (5%), Australia/NZ/Pacific (5%), Alaska (5%), Asia w/o China (5%), South America (2%), all other (17%). [1]

Although most people associate cruises with the sea luxurious tours, this belief is far from the today's reality. Nowadays you can take a river cruise down the Nile , take a part in an expedition cruising to Galapagos Islands, make a whirlwind tour of the world in 90-120 days or discover the Arctic. Contrary to popular belief, cruises are popular among youth, and not only elderly rich people are enjoying their holidays on the water. Cruising is a developing industry, offering a lot of diverse itineraries and services for any taste.

2. CRUISE INDUSTRY DYNAMICS

Cruise ships industry had been growing dynamically for the last 40 years till now. Starting at its cradle-in North America, this form of traveling became more and more popular in Europe, later in China, Australia and now all over the world.

Since 1980 till 2017 world cruising grew from 1.8 ml passengers to 25.8 ml passengers respectively. The average rate of growth for cruise tourism was 7.5% per year , while the traditional tourism was not more than 4.9% . [3]

Table 1- International arrivals and the number of cruise passengers in the world, 1980 – 2017 Source: (Peručić, DIEM (I) 2019)

Year	Tourist arrivals in ml.	Annual growth rate %	Cruise passengers in ml.	Annual growth rate %
1980-1985	285.9-327.2	2.3	1.8-2.8	7.7
1986-1990	338.9-458.2	6.2	3.3-4.5	6.4
1991-1995	463.9-565.5	4.0	4.92-5.67	2.9
1996-2000	596.5-681.3	2.7	6.5-9.72	8.5
2001-2005	680.3-802.0	3.3	9.92-14.47	7.8
2006-2010	846.0-952.0	3.0	15.11-18.8	5.6
2011-2017	983.0-1326.0	5.1	20.6-26.75	4.5
1980-2017	285.9-1326.0	4.9	1.8-26.75	7.5

Rising demand and thus expanding market requested new solutions for the industry. To satisfy the demand and meet the requirements of new travelers cruise lines decide to upgrade the sector. As cruises are perceived as floating hotels there were 3 dimensions for this purpose:

- Ships;
- Services;
- Destinations.

Thus, huge profits and popularity made companies invest into larger ships with appropriate infrastructure for them (new berths), as well as develop new itineraries with diverse range of services. Soon travelers were offered a large number of destinations all over the world, starting from 2 days trips to 2 months travelling onboard of modern equipped ships of all sizes.

Over the last couple of decades the size of the cruise ships has significantly increased from 500 passenger capacity in 1997 up to today's giant – "Symphony of the Seas", which is currently the largest cruise ship in the world. Its tonnage is 228,081 GR, measures 362m long. Ship's capacity is almost 9000 passengers including the crew. [4]

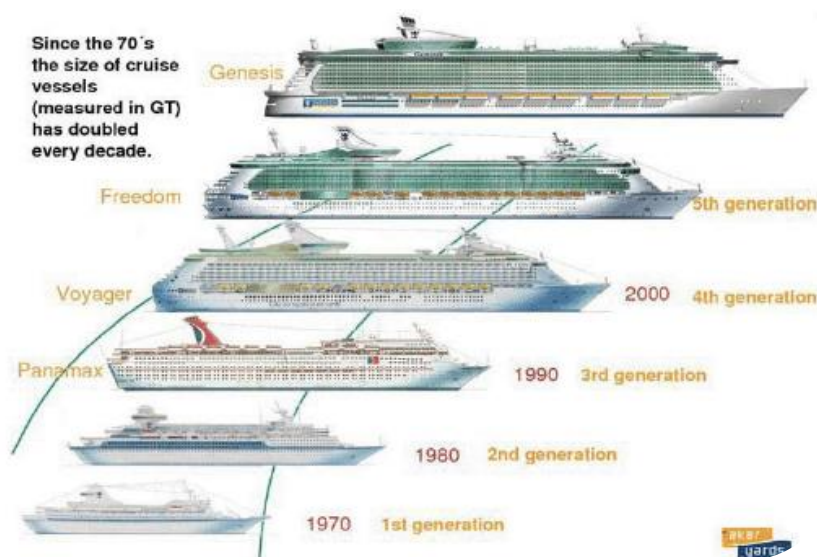


Figure 1-Sizes of cruise ships since 70's Source: GOALDS – Goal Based Damage Stability of Passenger Ships (SNAM 2013 Annual Meeting)

As you can see the data in Table 2, Royal Caribbean cruise lines own 7 of world's biggest vessels.

Table 2- 10 largest cruise ships in 2020. Source : (Peručić, DIEM (I) 2019)

Ship name	Cruise line	GT	Passengers N	Year built
Symphony Of the Seas	Royal Caribbean	228,081	6,680	2018
Harmony of the Seas	Royal Caribbean	226,963	5,479	2016
Allure of the Seas	Royal Caribbean	225,282	6,780	2010
Oasis of the Seas	Royal Caribbean	225,282.	6,296	2008
AIDA Nova	Carnival Corporation	183,900	2,600	2018
MSC Meraviglia	MSC Cruises	171,598	4,500	2017
Quantum of the Seas	Royal Caribbean	168,666	4,180	2014
Anthem of the Seas	Royal Caribbean	168,666	4,905	2015
Ovation of the Seas	Royal Caribbean	168,666	4,905	2016
Norwegian Bliss	Norwegian Cruise Line	168,028	4,002	2018

According to Joseph V Michallef's article "State Of The Cruise Industry: Smooth Sailing Into The 2020's" written for Forbes in January 2020, the last 10 years were incredibly successful for the cruise industry and nothing seems to change in 2020. [5] Before the tables have turned cruise industry

revenues have grown from about 15.7 bln \$ in 2010 to an approximately 31.5 bln \$ in 2020, the rate of growth of 7.2%. [1]

According to CLIA (Cruise Lines International Association) report , until March 2020 cruise industry was the fastest growing sector of travel industry. [1] Referring to some statistics, cruise tourism passenger traffic was:

- 26.7 million passengers in 2017
- 28.5 million passengers in 2018
- 30 million passengers in 2019
- 32 million passengers were expected to cruise in 2020. [1]

Global cruise market consists of more than 280 ships , 55 cruise lines, 400 executive partners, 15 000 travel agencies and 53 000 travel agent members worldwide. [1] According to KPMG (a global network of professional firms providing Audit, Tax and Advisory services) $\frac{3}{4}$ of this market is controlled by 3 main entities:

- Carnival Corporation;
- Royal Caribbean Cruises;
- Norwegian Cruise Line.

They manage 18 own cruise line brands and their overall income made \$34.2 billion in 2018. [2] In addition CLIA reports that estimated revenue of the global cruise industry reached \$ 45.6 billion in the same year. [1]

And now a \$150 billion output business with 1,177,000 jobs and \$50.24 billion in wages/salaries worldwide seems to be sinking in today's pandemic reality. [1]

3. PANDEMIC REALITY

2020 has become a total nightmare for the whole world. However, cruise lines have been the first ones to face the novel disease crisis. The frontline ended up aboard numerous cruise vessels. During the spring 2020 there were several COVID-19 outbreaks: The Diamond Princess (Carnival Corp.), quarantined during 14 days at the port of Yokohama, Japan; the Grand Princess in California and another 25 cruise ships with similar situations [8]. Cruise giants like those listed in Table 2 are of huge passenger capacity (4000-7000 passengers). In terms of COVID-19 this fact puts significant percentage of cruise consumers who are over 65 at high risk. Thus, cruise ships have acquired a reputation as deadly cages of disease. Bad publicity has aggravated already grave situation.

Announcement of a temporary suspension of cruising till the end of May was the first step undertaken by CLIA. The Centers for Disease Control and Prevention (USA) has also announced a “no sail” order for all cruise ships in United States till there is no emergency. [9]

Since the March three core cruise enterprises (Royal Caribbean, Carnival Corporation and Norwegian Cruise Lines) have already experienced major drops in stock prices of their companies.

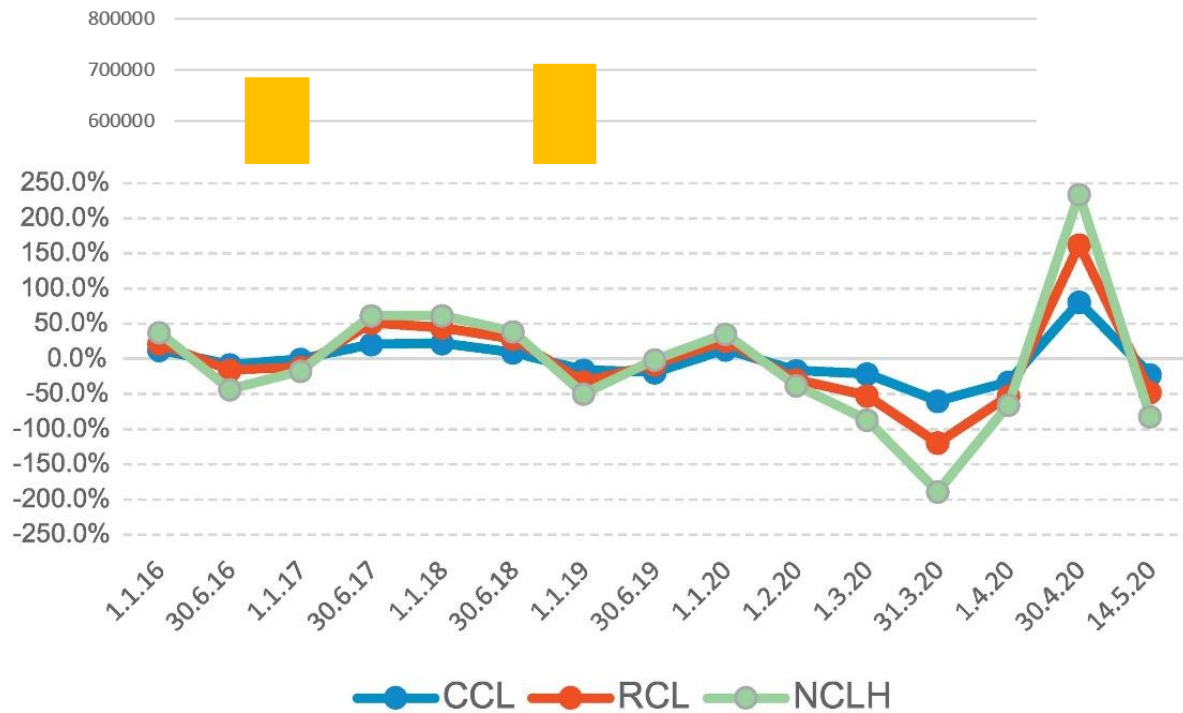


Figure 2- Cruise share returns (%) – Post COVID-19 impact. Source: (Theodore Syriopoulos 2020)

Norwegian Cruise Lines have lost up to 80 % since the beginning of the year. Royal Caribbean stocks have dropped 70% of their value. With \$500 million monthly expenses Carnival Corporate had to require \$6 billion cash flow injection to stand the crisis [6]. These unfavorable circumstances are reflected in the sharp drop of share prices and the market value of the leading listed cruise lines [12] (Figure 2). The Carnival’s stock has fallen by 60% [11]. According to UNWTO forecasts, the whole tourism industry revenues in 2020 will be 35% lower than in 2019 (\$685 bln. in 2019 and down to \$447 bln. in 2020. [10, 11]

The huge drop in stock prices and reputational damage by COVID-19 will affect the regeneration ability of cruise companies. A quick recovery is not going to be a denouement for the 2020 crisis. Moreover, according to World Bank Group “Tourism response, recovery and resilience to the COVID-19 crisis” report published in July 2020, ‘measures’ are taken to help ‘travel and tourism as a whole’. Quote: “Measures include direct financial support to alleviate debt obligations,

cash grants and subsidies, employment and training support, easing of regulatory burdens and waiving of fees and charges.” However, cruises are considered a luxurious type of traveling with high level of income that brings the industry to the end of the line for getting help. In the “Response Options by Tourism Subsectors” by WBG, World Bank has proposed some mitigation plan activities like:

- ‘Assess impacts on ports that are primarily ports of call for day visitors versus those which are refueling and restocking ports or home ports’;
- ‘Consider repurposing vessels to support health efforts and to provide emergency housing’;
- ‘Rebuild confidence of consumers and receiving ports through specific marketing campaigns to overcome negative image of the industry as part of the cause of the problem, i.e., Princess cruise ship saga in Japan.’

3. METHODOLOGY

The study is based on the desk research, that implies processing of already existing research materials. Official sector reports, statistical information, articles of governmental and non-governmental agencies and other similar documentation was analyzed in pursuit of latest and relevant information. Quotes of industry experts are also used in order to put the picture of cruise lines industry together. The paper introduces the world of cruise tourism and provides recent information in the terms of COVID-19. Different sources are used to reflect today’s situation. Gathered information is checked. The data is collected and summarized in accordance with the pandemic timeline, starting from March 2020 up to now (November 2020).

4. CONCLUSION

Since COVID-19 struck the world global cruises have suffered not only huge economic losses, but also become infamous as deadly cages of disease. Bad publicity has aggregated the situation. Though there is no good forecast for any of travel and tourism industry until the disease thrives, ‘economies of scale’ play their roll for cruises. While small firms have to close because of collapsed consumer demand and lack of cash reserves, cruise lines are big enough to withstand the challenges and face the crisis. Notwithstanding the fact that cruise's reputation has suffered greatly by images of trapped passengers on quarantined ships, the industry is ready to come back with new proposals. After CNN News officially declared in November Coronavirus vaccine developed by Pfizer to be 94.5% effective [13] , the industry has gotten the second wind.

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Table 1 - Doris Peručić, “Analysis Of The World Cruise Industry” Edward Bernays University College,Zagreb, Croatia;

Table 2- Marine Insight “Top 10 Largest Cruise Ships in 2020”

Figure 1- GOALDS – Goal Based Damage Stability of Passenger Ships (SNAME 2013 Annual Meeting)

Figure 4- Cruise share returns (%) – Post COVID-19 impact (Theodore Syriopoulos 2020)

Figure 5- COVID-19’s impact on Global Travel and Tourism. Industry revenues from 2019 to 2020 (in million USD) Source: Statista