

# Ports under pressure to justify terminal investments

By Tony Peisley



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**E**conomic impact figures can, just like share prices, go down as well as up. The difference is that their publication never carries that warning which accompanies all share-based investment options to alert the unwary to the downside.

Cruise companies have long advised ports against over-spending on terminal infrastructure based on over-optimistic projections of potential cruise traffic and exaggerated assumptions of cruise line requirements.

A spate of recent developments in North America underline the wisdom of this advice. These include the dip in the overall impact of the cruise sector on the US economy in 2009, which was down nearly 13% from \$40.2 billion in 2009 to \$35.1 billion – a total also below the impacts achieved in 2007 and 2008. Direct cruise industry spending in the US also fell for the first time since 1997.

This, though, was not the reason Philadelphia ended its 12-year flirtation

with the cruise business. Rather it was competition from neighbouring ports such as Baltimore and New York that reduced its calls from a peak of 36 in 2006 to a handful in 2010, and just two scheduled this year.

As a result it has terminated its lease of the former Navy Yard – where it once spent nearly \$21 million converting a machine shed into a passenger terminal. The Delaware River Port Authority said "it no longer makes economic sense" to continue with the cruise business.

Other ports have also come under local media scrutiny, as cruise traffic falls while the port authorities are completing expensive terminal projects.

In San Diego the completion of a \$28 million terminal is coinciding with a dramatic decline in cruise business caused by a range of factors including fuel-related itinerary variations, the general economic downturn, and crime and security issues in Mexico, the major destination for cruises departing the port.



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downturn in Alaska, which has been highlighted by the latest economic impact figures published by Cruise BC. These show a sharp fall from the record C\$1.6 billion generated by the cruise sector in British Columbia in 2009 to just C\$1.2 billion in 2010, a total also below the C\$1.3 billion achieved in 2007.

Similarly, revenue cruise passenger numbers fell from 1.4 million to just over 1 million in the same period.

Vancouver bore the brunt of the downturn with just 579,000 passengers last year compared with 898,000 in 2009 – a 36% drop – caused both by deployment switches to Seattle and by moves away from Alaska altogether.

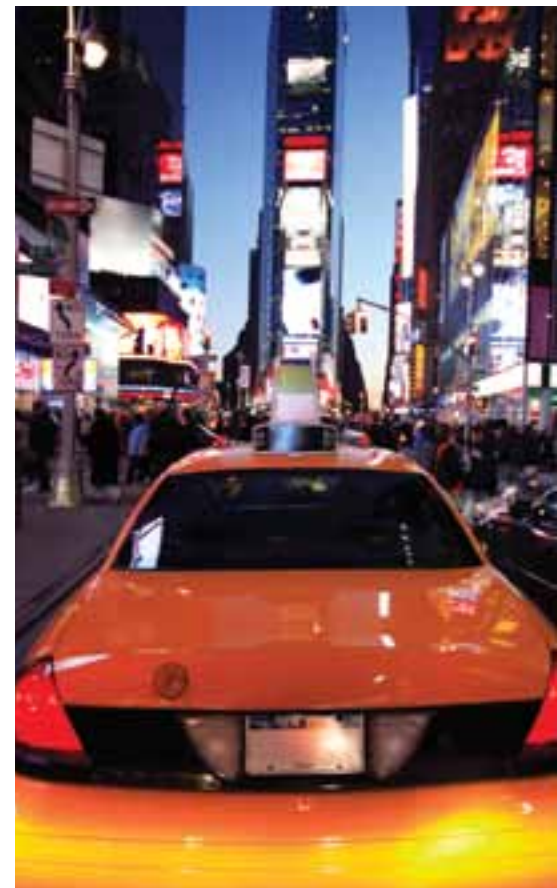
These developments put a significant dent in the usual C\$1 billion total economic impact from the cruise sector for the city, although some of that will return this year when about Vancouver expects about 15% more cruise calls.

Those Seattle switches have, though, benefited Victoria, with Seattle-based ships needing a Canadian port of call before heading for Alaska in order to avoid cabotage issues. As a result there was only a marginal drop in Victoria's business – from 452,000 to 441,000 passengers. Similarly Prince Rupert's traffic remained stable at about 55,000 passengers, though from fewer calls: 26, down from 31.

Given the new terminal, though, Nanaimo's drop from 19,000 passengers and 15 calls to fewer than 7,000 from six calls was disappointing. It stimulated local media concern, as did Campbell River's failure to follow up its single cruise call of 2009 with any in 2010 – although the port remains popular with superyacht owners.

Impact figures for the US economy are likely to have returned to growth in 2010, and should continue that trend in 2011 with CLIA's North American passenger numbers growing from 10.2 million to 11.1 million in 2010 and projected to rise to 11.7 million this year.

But the rapid Australasian growth, for example, shows again how globalised the cruise industry has become. The major cruise companies are no longer wholly dependent for their financial health on that North American market. After all, CLIA's 2009 economic impact report showed that North American ports accounted for 66% of global embarkations – compared with 77% in 2004 – and that ratio will not have changed significantly by the end of this year. □



The *San Diego Union-Tribune* predicted that cruise traffic at the port will be halved this year, but the port argued that the terminal was designed for use by the city as well as by the cruise sector – and that it was, in any case, a long-term investment.

Similar concerns have been raised in British Columbia where *The Province* reported that "Vancouver and Victoria are the only profitable cruise terminals in BC – despite massive investments at smaller ports."

This referred primarily to the C\$19 million terminal at Campbell River and the C\$22 million terminal about to open at Nanaimo, but also included the "several million dollars" spent upgrading the Prince Rupert facility built in 2004.

*The Province* pointed out that Campbell River had not seen a medium or large cruise ship since 2008, and that plans for regular small ship calls by Cruise West had been ended by the collapse of that operator.

Neither port is being helped by the