

Cruises: Main Business Development Strategies

During the *VIII Regional Cruise and Nautical Tourism Meeting*, held in Colonia in October last year, a panel was convened on “**Establishing Partnerships: Coordination Strategy for the Development of the Industry**”. Panelists were Marco Ferraz, Executive President of the Brazilian Association of Maritime Cruises (CLIA Brazil), Fernando Tapia, from the Uruguayan Chamber of Tourism, Fernando Torrejón, from the Chilean Port Corporation, and Miguel Martinez, from the Uruguayan Navigation Center (CENNAVE). The panel discussion was moderated by Fernando Amado, Director of Tourism at the Municipality of Montevideo.

Below is a transcription of the presentation made by Marco Ferraz, who has been the Executive President of CLIA Brazil since 2014. The organization he chairs is part of the Cruise Lines International Association (CLIA), the world's largest cruise industry trade association. Its partners expect CLIA's activities in Brazil to inject 3.8 billion reais into the economy and generate about 48,000 jobs in the 2022-2023 season. CLIA's mission is to support policies and practices that promote a safe, healthy, and sustainable environment on cruise ships for the nearly 30 million passengers who cruise annually, as well as to promote the cruise travel experience. This partnership format not only includes companies directly involved in the business but also a wide range of travel companies.

The Cruise Lines International Association (CLIA) has 90% of the total cruise beds available worldwide, with 56 cruise lines having 280 ships, and 550,000 beds that are currently in use. CLIA also has other members in each destination, including ports, shipbuilders, and suppliers. It brings together cruise lines, suppliers, and also travel agents in one organization. There are 15,000 agencies associated with CLIA and, within said agencies, 57,000 agents who are trained to sell all the beds in the industry. On average, 75% of worldwide sales are made by travel agents, while only 25% come directly from cruise lines. Travel agencies are the main sales channel for cruises.

Until 2019, the cruise segment was the fastest-growing industry in the tourism market worldwide, growing around 5- 6% every year. Nevertheless, the arrival of the pandemic brought the industry to a standstill during 2020 and 2021. We have been slowly starting to recover: first in Europe, later in the Caribbean, the South of Asia, Australia, and Latin America. Nowadays, only the Chinese cruise industry remains closed. We have 100 countries open to cruise ships and the numbers are very satisfactory.

Where Are Cruise Passengers Coming From?

Of the 30 billion cruise passengers in 2019, more than half were from North America. We want to work with our partners so that these travelers come to Uruguay, Argentina, and Brazil, as they enjoy traveling and don't need a visa to come to this region. While flight prices are good, they lack air connectivity from their home countries. If we provide better air connectivity, we will be able to attract North Americans to South America.

Europe, due to its greater air connectivity, receives 7.7 million North American cruise passengers. Each year, cities such as Miami, Fort Lauderdale, and Tampa welcome around

6.6 million cruise passengers who vacation in Florida and stay there, spend a lot of money before and after, go on cruise trips, get to know the Caribbean and return to other Florida destinations. We need to do the same thing here. It all starts with air connectivity. Work is underway to bring new airlines to the south, both to Brazil and Argentina. To fill a cruise ship that starts off its journey in Salvador with 5,200 passengers, we needed 20 Boeing 737 airplanes, and we do not have them. If we wanted to charter those airplanes, we would have to pay twice as much as for a normal trip. So what comes first? The chicken or the egg? We conclude that we need better air connectivity to bring more North Americans and Europeans to South America.

New Markets

China has been growing a lot. Australia is a role model for us: with 40 million inhabitants, it already has 1.35 million cruise passengers. In Brazil, we have 213 million inhabitants and 560,000 cruise passengers. This represents 0.24% of our population, while that number is about 6 % in Australia. If we managed to increase passengers by 2%, we would have 4 million cruise passengers in Brazil.

Where Are Cruise Ships Sailing Now?

6 out of 10 cruise ships are in the Caribbean or Europe, while the remaining 40% are sailing around the rest of the world: China, Australia, etc. Take the example of Alaska: compared to South America, this American state alone has 2.5 times more ships sailing there than in all of South America. We have great potential. The cruise business generates 154 trillion dollars and over 1.1 billion jobs globally, while the average cruise passenger spends 385 dollars in the city of embarkation. We are talking about bringing not only Americans and Europeans but also Colombians and Mexicans, who will stay here overnight before and after going on the cruise, and thus will spend those 385 dollars, as well as 100 dollars in stopover cities.

South America

The 2010-2011 season brought about a record number of cruise ships in South America. We had 20 ships, but then we started to lose them to other destinations due to a lack of competitiveness. We lost ships to Cuba, China, Australia, South Africa, Saudi Arabia, and the Arab Emirates, which got us down to 7. The business began to pick up again in 2019-2020: 8. Then the pandemic hit us hard, dropping from 800,000 cruise passengers to 358,000, including Uruguayans and Argentines.

Borders were closed during the 2021-2022 season. There was no travel from Brazil to Uruguay or Argentina, but we had 5 ships on domestic tours from November to April. Then, problems with the Omicron variant arose. At the end of December, authorities forced us to shut down operations for two months, January and February 2022. We came back in March and it was a success. We were only able to sell 70% of our capacity, which quickly sold out.

In 2022-2023 season, we will have 9 ships in operation until April. We are extending the season to almost 6 months. Our goal is to no longer have "seasons" but instead have ships operating all year round. It is a concrete possibility because, in the next 5 years, the industry will have new ships in need of new destinations in South America.

In Brazil, we have 5 ports of embarkation: Itajaí, which will have 2 ships coming to Montevideo and Argentina; Rio, Salvador, and Santos, the traditional ones; and Maceió, which is a port of embarkation in the northeast. Some circuits can be called "butterfly": with a route toward the

south and another one towards the northeast. If someone wants to embark in Salvador and come to Montevideo, they will have the chance to go on a 14-day tour and visit the northeast of Brazil, Argentina, and Uruguay. The season numbers will be a 10-year record, with 780,000 beds and the possibility of generating 3.6 million reais and 48,000 jobs in Brazil.

Ships Sailing in the Region this Season

Some of the larger cruise ships will be the **Costa Fortuna**, with 3,400 beds, which is coming to Uruguay and Argentina every week, and the **Favolosa**, departing from Itajaí with Brazilian passengers and boarding passengers in Uruguay. We will also have the largest cruise ship ever to arrive in Uruguay, the **SeaView**, which is a record for the entire region. The **Firenze**, Costa's largest ship with 5,200 beds, is sailing the northeast, and the **SeaShore**, the largest ship arriving in South America, will make the northeast circuit but is not coming to the Rio de la Plata. Other ships coming to the region are the **Armonia**, the **Fantasia**, the **Música**, and lastly the **Preziosa**, which is also doing a mix between Uruguay, Argentina, and Northeast Brazil. Out of 9 ships, 7 are coming to Uruguay and Argentina.

It will be a long season. We had not had international cruises in the region since 2019-2020. We will have 36 ships in total, with the possibility of almost 300,000 passengers disembarking, with the smallest ship having 148 passengers and the largest having over 3,000.

Uruguay's Numbers

Taking into account international and domestic operations: 124 stopovers in Montevideo, 72 in Punta del Este, almost 500,000 total beds for the country, 82,000 crew beds, and 36 ships from 9 cruise lines. It is a very interesting season for the region.

Cruises and the Environment

Along with the health and safety of guests and crew members, the environment is a priority for us. We must invest in ports to be prepared for LNG and *shore power* because, in 4 or 5 years, we will have ships coming here that will need that and we must be able to connect them to a power supply in the ports. CLIA has signed an agreement with the European Community in which it committed to a 40% reduction of carbon by 2030 and reaching carbon neutrality by 2050 in cruise ships in that area.

LNG is a temporary solution, we must think about hydrogen, ammonia, and methanol by 2050. All ports in Brazil, Argentina, Uruguay, and Chile need to be ready for the next generation of ships. The same applies to water treatment and gas cleaning systems. We need to improve our environmental impact every year.

Infrastructure

We need more investments, as ships will be bigger and they will need more passenger terminals, more docks, more fenders, and more bollards. Investments are of the essence since the industry is going to migrate to South America and we must be ready.

The same destinations are repeated every season. We need to offer cruise passengers a wider variety. In Brazil, we are talking with Rio Grande near Porto Alegre, with São Francisco do Sul, with Ilha do Mel near Paranaguá. We are thinking about transforming Paranaguá into a port of embarkation. In Vitoria, Espírito Santo, we have already worked with Morro de Sao Paulo, Itaparica. We are working in the northeast and the Amazon, in some cases to simply have a dock in destinations such as Buzios, Ilhabela, Ilha Grande, and Balneário Camboriú. We need a

diversity of destinations and if there are potential destinations in Argentina or Uruguay, we will work together to achieve that goal.

Costs, Taxes, and Regulations

We must work on reducing costs, as operating in South America is, on average, 40% more expensive than in the Caribbean and Europe. We have to make a difference. If Brazil has to bear higher costs, that will hurt Uruguay and Argentina, and vice versa.

Regarding taxes, Argentina and Uruguay have an advantage over Brazil: when operating a cruise in Brazil, fuel is 27% more expensive, but that 27% is not charged if the ship also sails to Uruguay. This is why we must maintain our reciprocal agreements, since that translates into a win for the entire region. We must work to reduce costs in Brazil and also keep costs and taxes here.

A ship in Brazil pays the same taxes as a company on land, and cruise lines have raised complaints about this issue. We are working to lower taxes, for example, purchasing a chocolate bar on-board can cost 80% more in taxes, which is very expensive.

With regard to regulations, we have to work as a region. It is not possible to have a health and labor protocol in Brazil, another one in Argentina, a different one in Uruguay, and yet another one in Chile. That is why CLIA is here in Colonia, so that we can work together and attract cruise ships to the region. The efforts of a single country are not enough, we must promote ourselves as a region: Argentina, Chile, Uruguay, and Brazil.

Concerning CLIA's work, I am pleased to inform you that we are going to work in Uruguay, Argentina, and Chile next year. We will start slowly, bringing information we have on the business at a global scale and in Brazil to work together on these pillars: infrastructure, regulation, promotion, taxes, and cost reduction.

We must be prepared to receive cruise ships in South America. Everyone's help is needed to make this possible.

A Few Important Industry Facts:

- 100% of ships are in operation worldwide, in 100 countries.
- More than 740,000 beds.
- Main destinations located in the Caribbean, Europe, and South Asia.
- One job for every 24 cruise passengers.
- Out of all cruise passengers who are used to cruising, 84% intend to go on a cruise next year.
- Out of all the people who have never gone on a cruise, 69% want to travel.
- As of 2023, Brazil, Uruguay, and Argentina are returning to the volume they had 10 years ago.
- Worldwide, 4.7 million more passengers are expected to go cruising by 2025.

