

SPRING 2015

# NZBPT BUSINESS OVERVIEW



Ann Sherry AO, Chief Executive Officer, Carnival Australia

## NEW ZEALAND'S PLACE IN THE WORLD'S FASTEST GROWING CRUISE MARKET

*It was a privilege to welcome Ann Sherry AO to Parliament for the Spring Business Overview on November 11. Ann is the Chief Executive Officer of Carnival Australia. Carnival is the world's largest cruise ship operator and owner of iconic brands P&O Cruises, Princess Cruises, Aida, Cunard, Carnival Cruise Lines, Holland America Line and Seabourn. She has transformed the industry and growth has been double digit each year since 2007.*

Thank you for the invitation to speak to you this evening. It's always a pleasure to be in New Zealand and to have this opportunity to speak about the growth of cruising and its economic

contribution in this growing regional market.

Let me begin with a snapshot of Carnival as a global organisation. It is the world's biggest leisure

and travel company with a worldwide fleet of 102 ships and 10 separate brands. In this region, we account for seven of those brands, with ships based here year round, on a seasonal basis or

calling during world voyages. Cruising in this region is on a remarkable growth trajectory and has grown by about 20% for nine consecutive years.

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*I could also begin by telling you that we are in the first few weeks of another record summer cruise season in New Zealand with more ships, more passengers and more itineraries, and all of that is true – and exciting. This season, New Zealand welcomes a record 28 ships from across the cruise industry including six ships making inaugural visits.*

Most of the ships are from one of our major brands. Princess Cruises is the most frequent visitor to New Zealand, while Holland America Line, Cunard and Seabourn ships also make regular calls.

In fact, six Princess ships are scheduled to make more than 200 calls to local ports in coming months comprising one third of all cruise ship visits to New Zealand. Indeed, Princess Cruises has the distinction of carrying more Australians across the Tasman than all other cruise lines combined.

Our home brand, P&O Cruises, has a long tradition of cruising from New Zealand and is the only cruise line to home-port ships in Auckland.

From the end of January, P&O's Pacific Pearl - which was introduced to the P&O fleet in 2010 as New Zealand's first superliner - will be based in Auckland for a five-month cruise programme.

The cruising story is far bigger and more multi-dimensional than a single summer cruise season when viewed from a regional perspective. Australia and New Zealand are at the centre of the world's fastest growing cruise market.

Our passengers, both here and in Australia, regard the South Pacific and South East Asia as their cruising backyard. It is a vibrant market where growth is set to continue.

Last year, we reached our target of more than one million people a year cruising – a target achieved a full six years earlier than anticipated.

Once you bring the South Pacific into the equation, you also bring into focus a host of dynamic factors that are linked directly to developing economies, an area of interest that is so important in this region and to our business.

Developing a successful tourism industry in our neighbouring countries is particularly important for New Zealand in light of its ongoing aid programme and contribution.

We can now quantify how important cruise tourism is to South Pacific economies. Last year, Carnival Australia helped fund a ground breaking study by the World Bank that showed the cruise industry brought almost \$35 million to the Vanuatu economy in direct expenditure, or the equivalent of 10% in export value, along with \$18.5million in indirect stimulus.

Furthermore, the cruise industry generates more than 3,200 jobs on land without taking into account the hundreds of Ni-Vanuatu crew that we employ on our P&O ships.

So, you can see that a thriving cruise industry is also vital to the region's economic development with various considerations coming into play including sustainable cruise tourism to protect island cultures and the environment.

Also vital is enabling island communities to share in the economic benefits of cruising and encouraging the establishment of tourism-related business ventures based on the idyllic features and attractions of island life.

An essential element is working with governments and aid agencies in effective public private partnerships to achieve positive and mutually beneficial outcomes.

Carnival Australia has been active in this space with programmes that include commissioning destination management plans in places such as Mare and Lifou, building infrastructure to support cruise ship visits to existing and new destinations and developing effective private-public partnerships in the region.

We were the first private organisation to sign an MoU with the Australian Department of Foreign Affairs and Trade. We have helped island communities establish local shore tour businesses and outlets for locally produced handicrafts.

We have also enabled local suppliers such as Vanuatu Water and Tanna Coffee to become part of Carnival's supply chain in addition to employing hundreds of Ni-Van crew on our ships.

These programmes and acquired knowledge are now being 'exported' to other emerging destinations including PNG and the Solomons.

We are also working with Save the Children in the funding of kindergartens and health posts in Vanuatu through the P&O Pacific Partnership in which passengers have been contributing one dollar via their onboard accounts.

All of this activity has allowed us to develop close and empathetic relationships with South Pacific communities and this became very real when Cyclone Pam devastated Vanuatu earlier this year.

Ships from four of our cruise lines – P&O Cruises, Princess, Carnival Cruise Line and Holland America Line – carried humanitarian aid to Port Vila and Santo.

Carnival made a combined contribution of \$300,000 to support Save the Children's relief efforts on the ground in Vanuatu. Our ships carried

everything from bottled water to tents and tarpaulins and even industrial-sized mulchers to dispose of tons of fallen vegetation.

P&O passengers sailed into Port Vila on Pacific Dawn and Pacific Pearl fully knowing that they wouldn't be allowed to leave the ships – only humanitarian aid was getting off because Vanuatu was still a disaster zone.

Again highlighting the strength of the relationship built up over so many years, our passengers contributed

to the relief effort by contributing canned food, personal hygiene items and bottled water.

We also arranged family reunions at the wharf-side for our Ni-Vanuatuan crew who were naturally worried about their homes and families.

It was reassuring for them to know that the company cared about them at such a difficult time, and has strengthened the bond.

Looking to the future, we see good potential for more private - public private partnerships in the South Pacific involving New Zealand. For example, the updating of navigational charts is a priority and we have already worked together on hydrographic surveys at Wala and Pentecost Island. There is scope for this to continue in Vanuatu and potentially Tonga. We are also working with the NZ Ministry of Foreign Affairs and Trade on the revitalisation of the Port Vila foreshore.

However, we do not have a formal MoU with the Ministry or, as a consequence, the regular dialogue that we have developed with DFAT in Australia as a result of our MoU with them. There is more opportunity to formalise these ties here in New Zealand and that can only benefit everyone by opening up the lines of communication.

Taking all of this into consideration and given the potential to work more closely with the New Zealand Government and its agencies, it is disappointing that the Government has introduced a new tax on cruising with the Border Control Levy. It was surprising for this to come from a Government with such a strong reputation for being business friendly and consultative.

I mentioned earlier that Carnival Corporation is the world's largest vacation company with more than 100 ships in its global fleet.

Each ship is a mobile asset which can be deployed where passengers want to go and where it makes economic and business sense to deploy them.

The Border Control Levy will affect the cost of doing business in New Zealand and is on top of what is already an expensive destination in terms of port and related costs.

When viewed in the context of an ever more attractive Asian cruise market and a weaker New Zealand dollar, prospects for the growth of cruising

are already changing. This new tax will curb the industry's growth trajectory and, as a consequence, its potential economic contribution.

While the industry will continue to see some growth, over the longer term, it will not reach the stellar levels that we had expected.

In fact, the two main brands operating in here – Princess Cruises and P&O Cruises - are already shifting their approach to the New Zealand market in response to economic conditions, which heightens price sensitivity.

While their combined numbers for 2016-2017 might suggest another strong year rising from 92,000 to 95,000 guests, the figures disguise a

reduction in Princess Cruises' forecast capacity from 74,000 to 58,000 guests.

Also masking the trend is that P&O Cruises has doubled to 20 the number of domestic cruises for the local market.

As we think about our 2017-2018 deployments and beyond, it is likely that the number of international passengers will remain flat or even decline over the long term.

This is an 'opportunity cost' to New Zealand's tourism economy due to limited growth in the influx of overseas money that would otherwise be spent in here.

Both markets – the international passengers on a Trans-Tasman

voyage as well Kiwis sailing from home – are required to have a thriving cruise sector. It is the classic double-edged sword.

The domestic cruise market drives local investment, supply chain provisioning of our ships and local jobs. However, it is the international market that attracts passengers who spend more.

International cruise passengers are the backbone of the New Zealand cruise market but global dynamics make it tough to attract them and the new tax just makes it even tougher for companies to do business.

The Border Control Levy will have unintended consequences. Its impact



will certainly be seen in the grassroots impact on the destinations we visit around the country.

Our ships visit some 11 different ports and will make almost 260 port calls – a record number – with more than 560,000 passenger port days but with fewer itineraries in New Zealand in 2016 and beyond, the number of calls will naturally fall.

In fact, we estimate a 30% drop in the number of port visits to 179 by 2017 representing significant dollars lost for every regional port.

Each visit generates an estimated \$500,000 in economic impact so the reduced port visits will mean a potential \$30 million hit for the New Zealand economy. It is hard to reconcile this

impact when the new Border Control Levy aimed to raise just \$7.5 million per year.

I understand that the Government is concerned about protecting New Zealand’s borders. But working with the industry from the outset would have delivered a better outcome – and still could – to address the biosecurity risk.

In closing on a more positive note, Carnival Australia, particularly with its brands Princess Cruises and P&O Cruises, remains committed to this market.

We remain ambitious for the New Zealand market in spite of any difficulties. This is one of the most beautiful countries in this region and our guests and crew love coming here. About 70,000 Aussies are expected to cruise across

the Tasman this year alone.

Tourism in Australia is a growth engine. This is also an opportunity for New Zealand and there is still so much more we can do together to build the trans-Tasman relationship.

While we are disappointed that our growth will no longer be as strong as we had anticipated, we are confident that cruising will remain an important part of your tourism success story.

Thank you.

