



20 Years – People, Passion, Success China and Asia 12 months on

An Overall Perspective

Sydney ~ Thursday 8 September, 2016

Ted Blamey



Our Agenda

	TOPIC
A	Asia Cruise Trends 2016 Findings
1	Size and recent growth of the Asian Source Markets
2	Profile of the Asian cruise guest today
B	The big questions about Chinese cruising
1	Where might China's market go from here?
2	Will Chinese take to Fly-cruise options and come to Australasia?
3	How do tastes and preferences of Chinese vary vs. westerners?
4	Will the Chinese build and operate their own ships?
5	How may South China Sea politics affect cruising in the region?
6	Will the new capacity in China help us in Australia?
7	How can the ACA influence the outcomes?

A

Asia Cruise Trends 2016

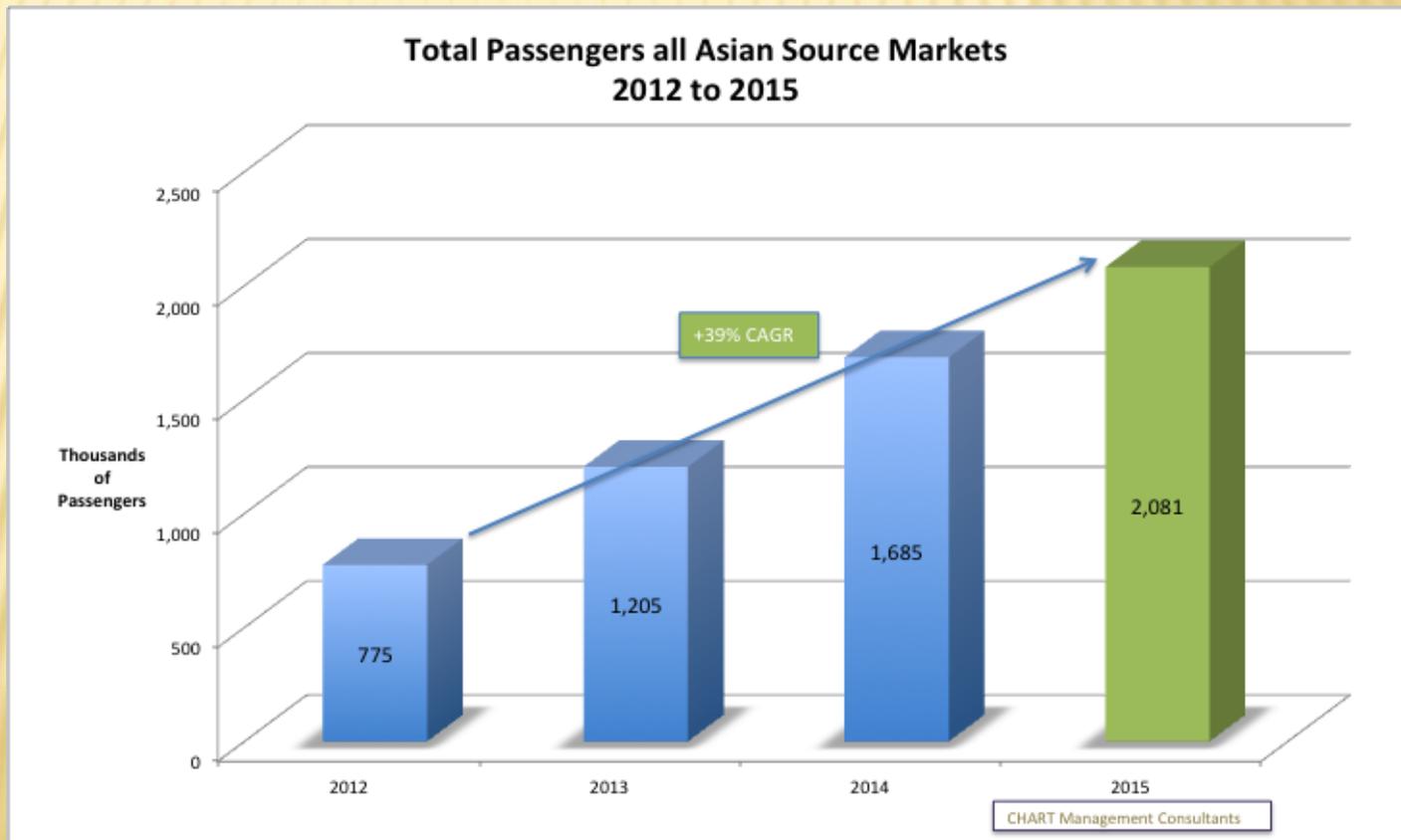
Conducted by CHART Management Consultants for CLIA

See

<http://cruising.org/docs/default-source/research/clia-2016-asia-cruise-trends-report-.pdf?sfvrsn=0>

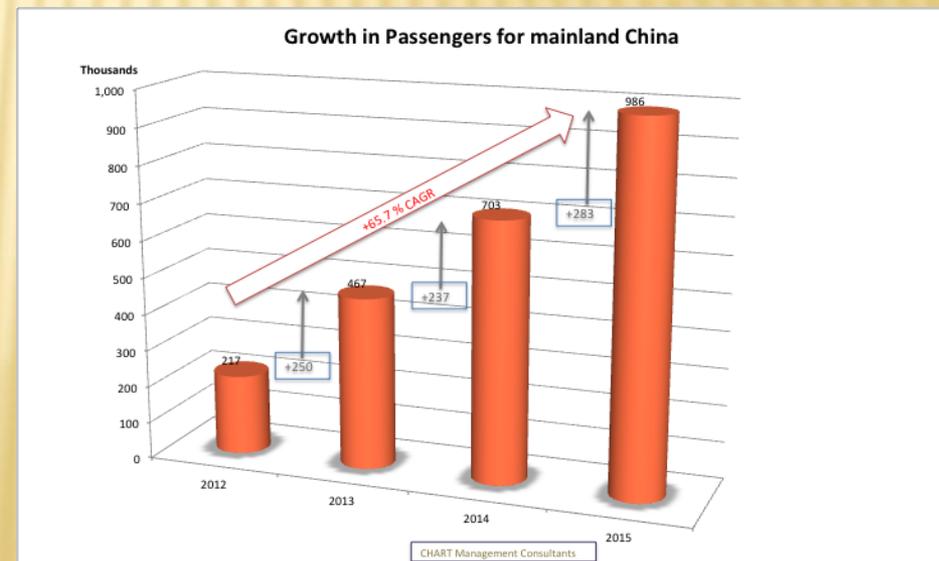
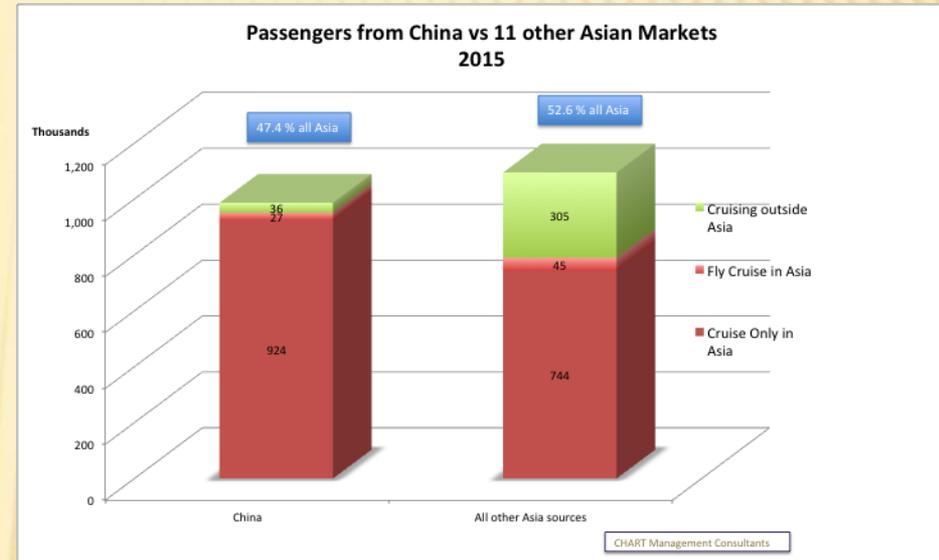
1. Powerful growth in Asian source markets

- * 2.08 million Asians cruised in 2015
- * Over 3 years:
 - ✓ 39% CAGR
 - ✓ 1.3 million more passengers
 - ✓ 2.7 times more Asian cruisers in 2015 than in 2012



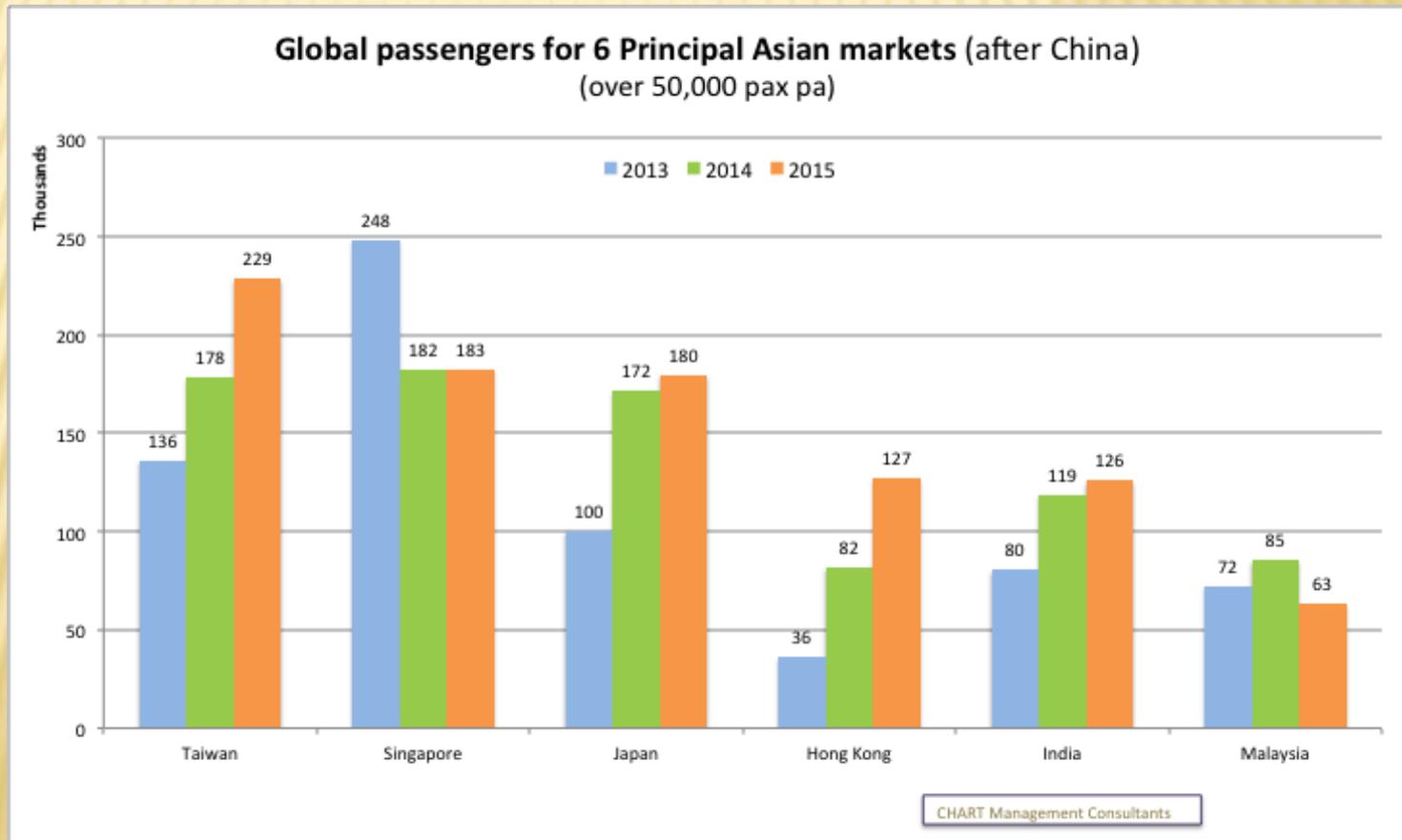
China is the leading and most exciting Asian Source Market

- ★ Mainland China provides almost as many passengers in 2015 as all other Asian markets combined
- ★ Chinese passengers strongly prefer Asia cruise only
 - 94% took Asia cruise only vs. 68% from all other Asian markets.
 - Only 4% took international cruises vs. 28% of all other Asians.
- ★ China has shown spectacular growth in three years:
 - Quarter of a million more Chinese cruisers each year
 - With a compound growth of 66% per annum
 - China is *the* fastest growing major global source market



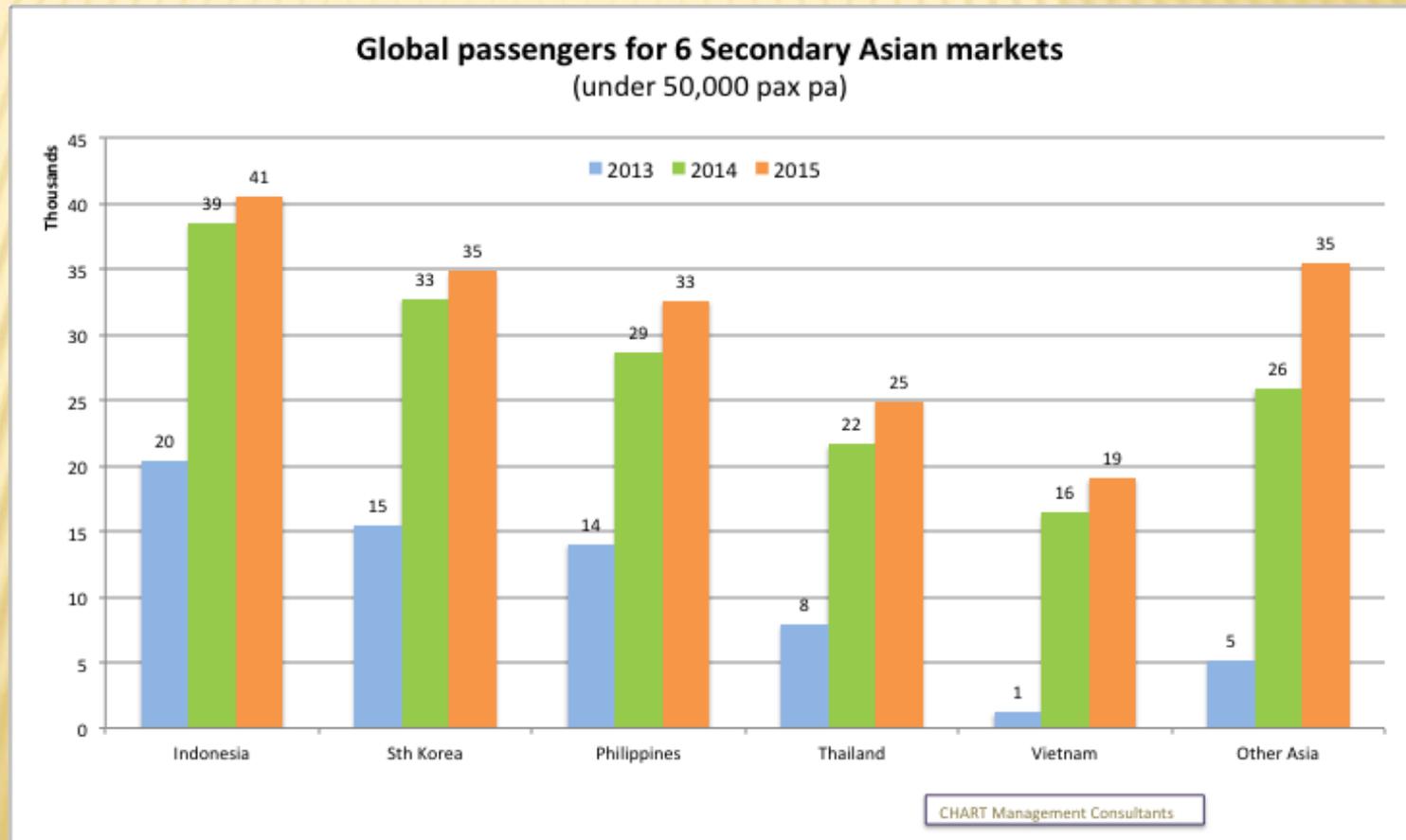
The next six primary markets generate attractive passenger numbers

- ★ Singapore, Taiwan and Japan consistently over 100K passengers
- ★ Taiwan showing strong growth
- ★ Hong Kong, India, and Malaysia all more than 50K passengers



The six secondary markets are showing strong growth

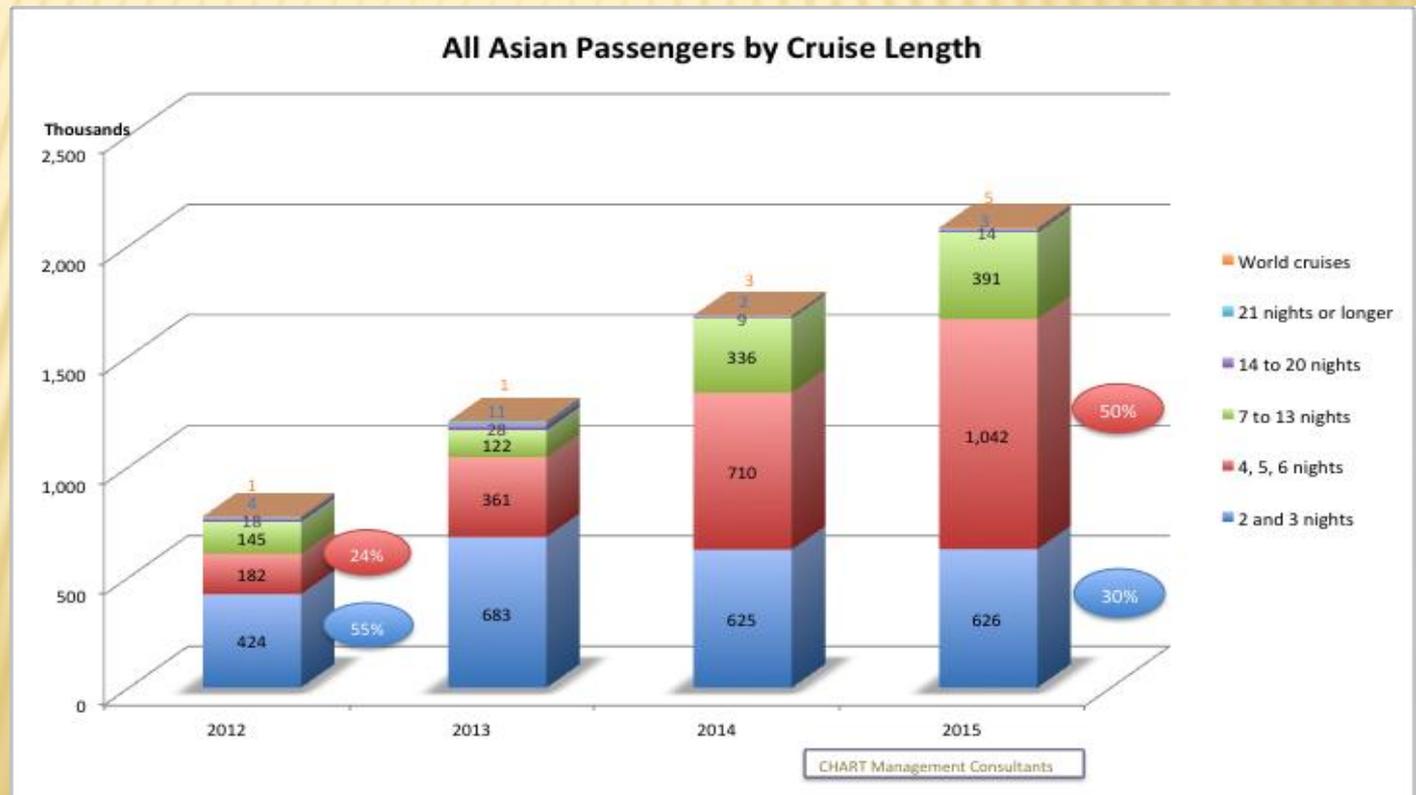
- ★ All still less than 50K passengers
- ★ Suggests high potential for future



2. Profiling the Asian guest

Asians prefer short cruises – though preferences are lengthening

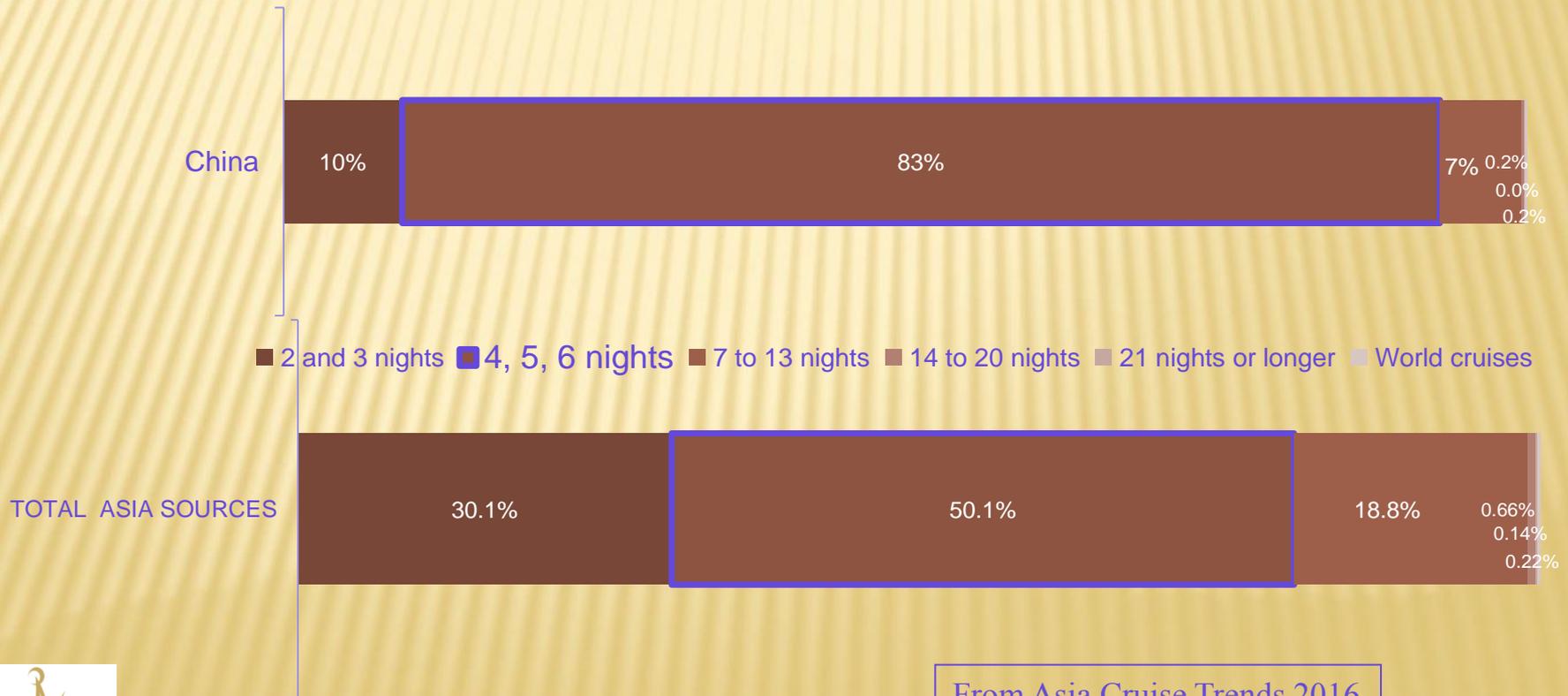
- ★ Very short (2/3 night) cruises *had* been most popular were 55%, but now 30% of all Asian pax
- ★ But 4,5,6 night cruises are now more so were 24%, now 50% of pax
- ★ 7 to 13 night cruises make up the bulk of the remainder (19%)
- ★ Longer cruises (over 2 weeks) account for very few Asian passengers (1% 2015)



* The mainland Chinese especially prefer 4/5/6 night cruises

- ✓ 83% of all cruises selected in the China source market
- ✓ While 7-nights are only 7% of their total

Length of Cruise, 2015



From Asia Cruise Trends 2016



Most Asians cruise wholly within Asia

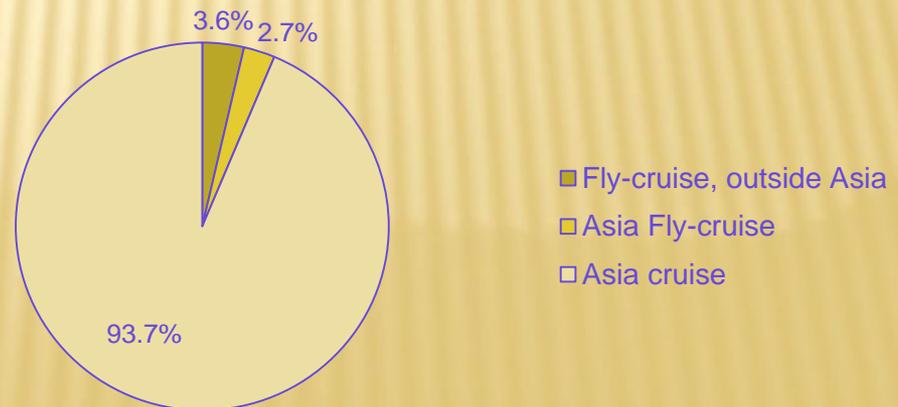
- ★ 84% of Asian passengers are cruising within Asia in 2015
 - 81% on cruise only (departing and returning to the same port)
 - 4% on fly-cruises within Asia
- ★ A growing percentage are cruising outside of Asia, but still small (16 to 17%)

CRUISE TYPE	Passengers from all Asian Markets				Increase		% of 2015
	2012	2013	2014	2015	2012 to '15	3 yr cagr	
Cruise Only in Asia	614,350	1,037,698	1,353,591	1,667,813	1,053,463	39.5%	80.1%
Fly Cruise in Asia	42,943	39,352	41,839	72,261	29,318	18.9%	3.5%
Cruising outside Asia	117,243	128,088	290,025	340,924	223,681	42.7%	16.4%
Cruising Globally	774,536	1,205,138	1,685,455	2,080,998	1,306,461	39.0%	100.0%

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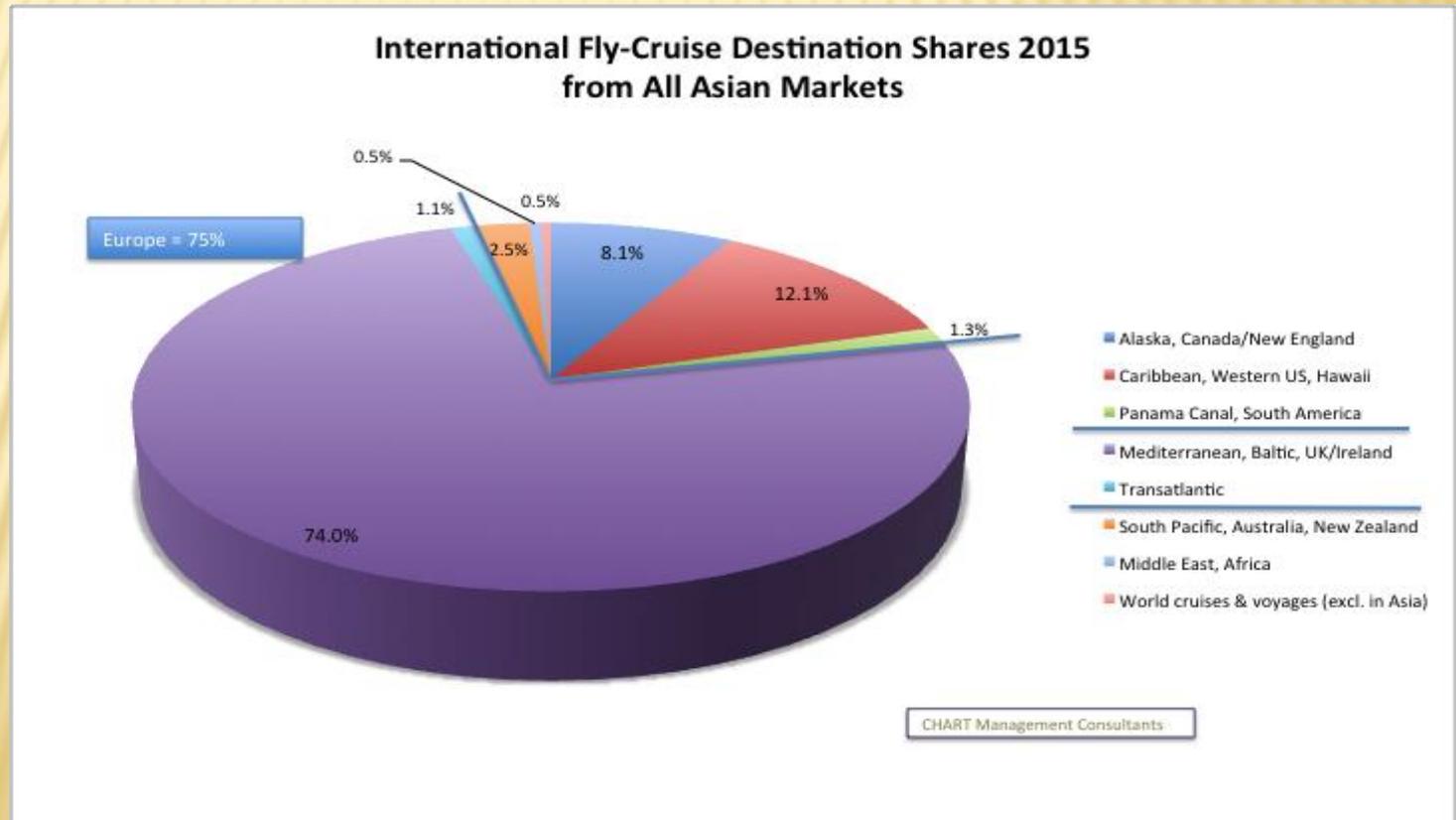
- ★ And even less (under 3%) of the Chinese cruise outside Asia

China: Share of passengers by cruise type, 2015



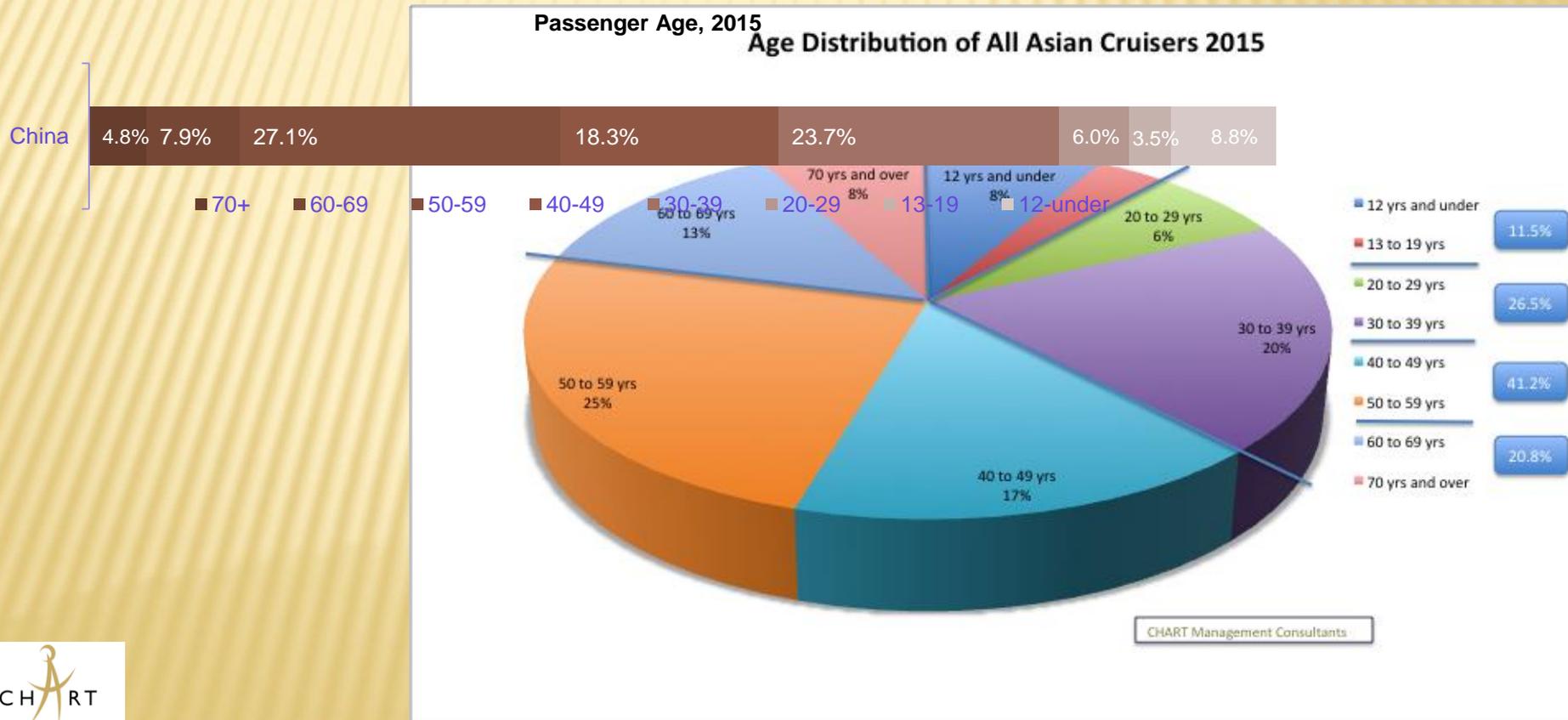
If Asians do fly-cruise they mostly go to Europe

- ★ Of the 341,000 Asians on international fly-cruises
 - ✓ Europe is the dominant destination (75% of all passengers in 2015)
 - ✓ Followed by the Caribbean (12%)
 - ✓ Alaska/Canada is also favoured (8%)



Asian passenger ages are broadly spread

- ★ 41% of passengers in 2015 are from 40 to 59
- ★ The average age across all Asia was 45 years and generally consistent across all markets, except
 - Japan 58
 - India 37
 for mainland Chinese it is 42.7



B

7 Questions about Chinese Cruising

1. Where might China's market go from here ?

* Many favourable trends

- ✓ Huge increases in capacity being dedicated to China
 - new lines (NCL, MSC, Carnival, AIDA, Dream)
 - new ships from existing lines (Costa, Star)
- ✓ Ships customised to Chinese tastes (Majestic P, N Joy, Ovation, Genting Dream)
- ✓ Very small penetration so far (1 m pax, 1.4 bn population = 0.1%)
- ✓ Growing awareness and acceptance
- ✓ Government support (“Maritime Silk Road”)

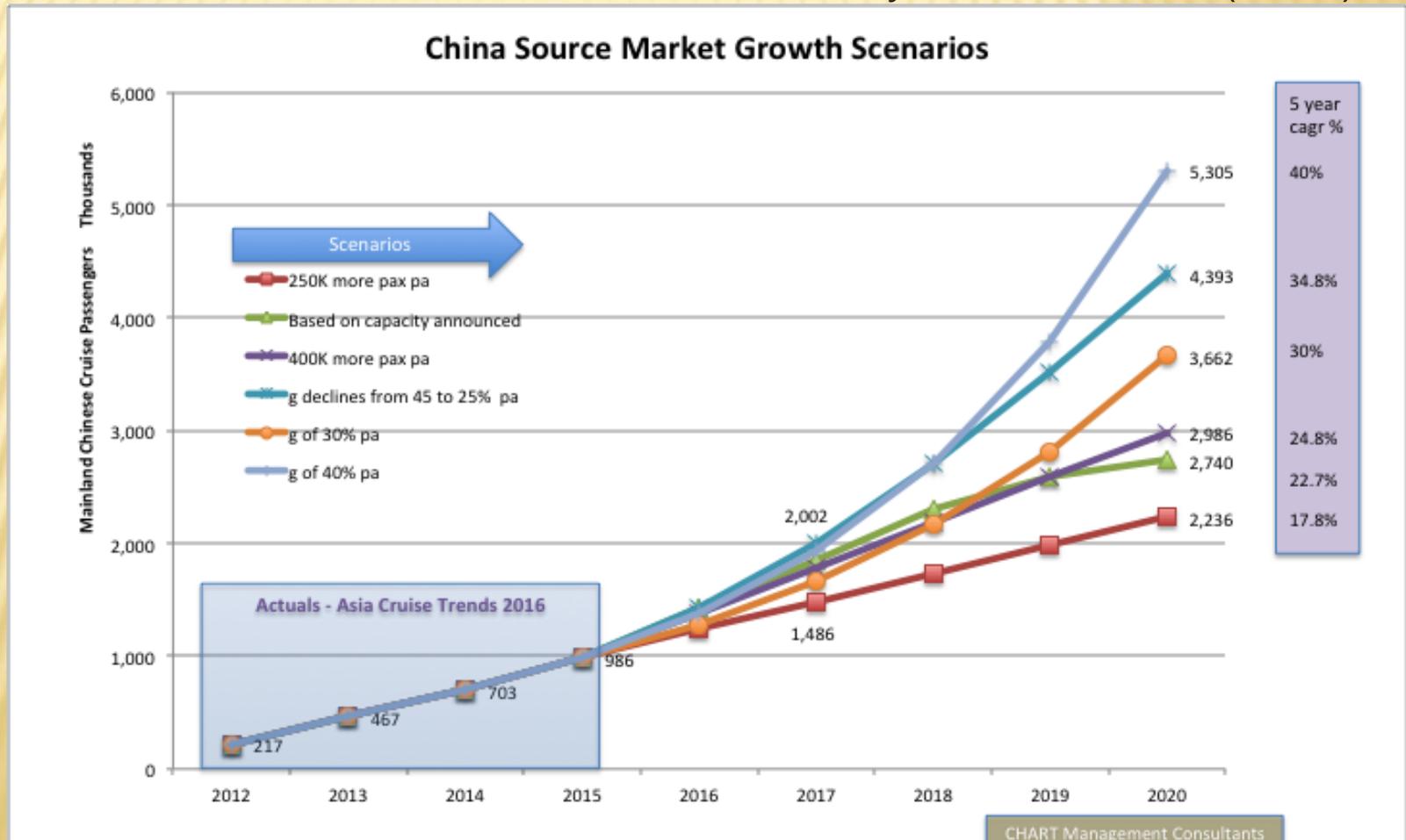
Wikipedia: The "21st Century Maritime Silk Road" first proposed by Xi Jinping in October 2013 is a complementary initiative aimed at investing and fostering collaboration in Southeast Asia, Oceania, and North Africa, through several contiguous bodies of water – the [South China Sea](#), the [South Pacific Ocean](#), and the wider [Indian Ocean](#) area.
- ✓ Gradual relaxing of govt. restrictions (visas, licence to sell travel, etc)
- ✓ Possible acceptance of longer vacations
- ✓ Cruise line and OTA efforts to solve the distribution problem

China from here (cont.)

- ✦ Let's look at some “what if” scenarios for China's market size:
 1. Keep adding 250,000 pax per year (as the past three years)
 2. Based on new capacity announced for China (and assume Chinese guests take up an increasingly high % of that)
 3. Add 400,000 pax per year
 4. Grow at 30% every year
 5. Grow at 45% this year, then at 5% less each year to 25% in 2020
 6. Keep growing at last year's rate (40%) every year

China from here (cont.)

- ★ Quite a range of possibilities – but all impressive!
 - ✓ Between 1.5 and 2 million by 2017
 - ✓ Somewhere around 3.5 to 4.5 million five years from now (2020)



2. Will the Chinese take to fly-cruise and come to AU?

- * Why is this important?
 - otherwise, almost no chance Chinese will cruise here except on world cruises
- * What is the evidence so far?
 - ✓ only 35.5K international fly-cruises sold to Chinese last year (3.6% of total)
 - ✓ and 20.5K of that was to Europe
 - ✓ with only 1,010 pax. to SoPac, AU and NZ (0.1% of total)
- * What influences this today?
 - ✓ market just starting to “get” cruising
 - ✓ vast majority taking short cruises
 - first trial experiences
 - limited opportunity to take days away
 - ✓ over 90% of cruises sold by charterers
 - ✓ Chinese want to depart from a China home-port
 - ✓ even open-jaw Shanghai>Sydney needs 16+ days
 - ✓ other international destinations have more “marquee” appeal.

Will the Chinese fly-cruise to AU? (cont.)

- * BUT, all this will move over time in favour of AU/SoPac.
- * How big may it become?
 - ✓ If China source market is 1.75m in 2017 and 4.5m by 2020
 - ✓ **If** the % taking fly-cruise to our region grows to 0.33% by 2017 and 2% by 2020
 - ✓ Expect 5,775 mainland Chinese cruise guests in 2017 and 90,000 in 2020!
 - ✓ **Plus** guests from the primary markets: Taiwan, Hong Kong and Singapore.

How many mainland Chinese may cruise our region?

Potential China Market size (million pax)		1.75	4.5
	Possibly reached in	2017	2020
Chinese taking Australasia & SoPac Fly Cruise			
<u>Model</u>	<u>Proportion</u>	<u>Mainland China pax to our region</u>	
China (& Taiwan) 2015	0.10%	1,750	4,500
Singapore 2015	0.33%	5,775	14,850
Malaysia 2015	0.55%	9,625	24,750
Hong Kong 2015	0.90%	15,750	40,500
Japan 2015	2.22%	38,850	99,900
China one day?	5.00%	87,500	225,000

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3. How do Chinese tastes and preferences vary to westerners ?

- a. Differences in priorities
- b. Differences in preferences
 - ✓ food and beverage
 - ✓ activities
 - ✓ itineraries
- c. Implications for deployment & port planning

a. Differences in priorities

Caution: we are talking generalities - there are many exceptions - but typically...

* What are the primary motivations to cruise?

<u>Westerners</u>	<u>Asians</u>
To relax To enjoy the company of like-minded people	To see and do as much as possible To enjoy time with their family To acquire bragging rights, status

* Who do they cruise with?

Their partner, their kids Couples dominate	Their extended family Large groups dominate
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* How long do they intend to cruise?

One to two weeks	3 to 5 days (mainstream market) 7 to 10 days (upscale market)
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* What sort of ships do they like?

In general ALL want smart, modern ships with latest features, plus ...

Multiple dining options Western in style Size from intimate to massive	Packed full of activities Tailored to Asian preferences. Large
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b. Differences in preferences - food and beverage

Caution: we are still talking generalities - but typically...

* How do consumers like to dine?

<u>Westerners</u>	<u>Asians (mainstream)</u>
It's an event, it's leisurely	It's fast-paced, it's busy
Lots of polite conversation	Can be loud
Good wine, maybe cocktails	Tea, (hot) water or beer (unless toasting)
Three courses, including desert	Family style (several dishes on table)
Waiter Service - course by course	or buffet
Enjoy formal (dress up)	Many will <u>not</u> dress up – dine elsewhere

* What cuisine do they prefer? Cruise guests like to try different dishes and exotic cuisines. But most cannot do without their personal favourites for long

Steaks, seafood, etc as mains	<i>Authentic</i> Asian, rice at every meal
American, Italian, French cuisine	Halal (Muslim guests). Vegetarian (Indian guests)

* How important are bars/lounges and drinking?

Drink because enjoy the taste	Drink to foster and build (business) relationships
Bars and lounges popular for relaxing, socialising, drinking	Bars and lounges of little interest

b. Differences in preferences - activities

Caution: we are still talking generalities - but typically...

* What do guests like to do on-board?

<u>Westerners</u>	<u>Asians</u>
Daytime: on deck, in the sun, in the pool, at the bars and at lunch Evening: at dinner, bars and lounges, at the shows and smaller venues, dancing	Daytime: avoid the sun, don't enjoy swimming - tend to stay indoors; shopping Evening: at the casino, karaoke, at the production shows, more shopping Connecting on-line

* How do guests like to spend their time ashore?

Selected tours (50% of pax buy organised shorex) Sights of personal interest Cultural/experiences (e.g. museums)	Multiple organised tours (90% of pax buy organised shorex). Shopping, food Sightseeing (cover the iconic sights)
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* With whom?

With partner (and kids if also on board)	With extended family In large groups
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b. Differences in preferences - itineraries

Caution: we are still talking generalities - but typically...

* What governs choice of cruise?

<u>Westerners</u>	<u>Asians</u>
<p>Generous vacation entitlements (esp. outside USA)</p> <p>Many wealthy retirees with plenty of time and few ties to daily family life</p>	<p>Very limited vacation entitlements</p> <p>Inappropriate to take lengthy breaks:</p> <ul style="list-style-type: none">- Employees tied to work- Retirees tied to looking after grandchildren <p>Heavy seasonal peaks (national holidays)</p>

* What cruise types are most popular?

<p>Fly anywhere to experience new cruise regions, destinations</p> <p>Open-jaw (allows greater number of countries or destinations in one cruise)</p>	<p>Depart from a nearby homeport</p> <p>Round-trip cruises (to avoid</p> <ul style="list-style-type: none">• extra time• air cost• additional visa & customs headaches• travel restrictions).
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c. Implications ~ for deployment and port planning

Given the mass market is oriented towards short, round-trip cruises and large ships in Asia, and to allow for the inevitable growth, there need to be more...

- * Itinerary options →
- * Ports of call (transit ports) within short cruising distance of homeports
- * Berths and turnaround facilities
- * Trained guides and tour buses

These in turn require...

- * Infrastructure investment (but not necessarily in grand terminals)
- * Dredging
- * Charts and marine surveys
- * Jetty facilities for tender landing

4. Will the Chinese build and operate their own ships?

* Answer = yes!

But when and how is much less clear

* Considerations:

- ✓China (and Korea) have major shipbuilding ability and capacity for all manner of commercial ships
- ✓Can no doubt develop the facilities to build hull and machinery
- ✓But it's the hotel side of a cruise ships that has taken European yards decades to perfect
- ✓All the subcontractors, outfitters are highly specialised companies and all are in Europe
- ✓And have economies of scale: e.g. Myer Werft cabin manufacturing automated production line
 - Capacity up from 2,500 to 4,000 cabins per year
 - 24 cabins will be finished during a working day
 - Prefabricated cabin modules with everything included except the floor
- ✓And technical advantages: e.g. Meyer is now building world's first two LNG powered 180k GRT cruise ships for Costa

Sources: CHART, Seatrade Cruise News, Seatrade Cruise Review

Chinese building? (cont)

* Some Asian Developments:

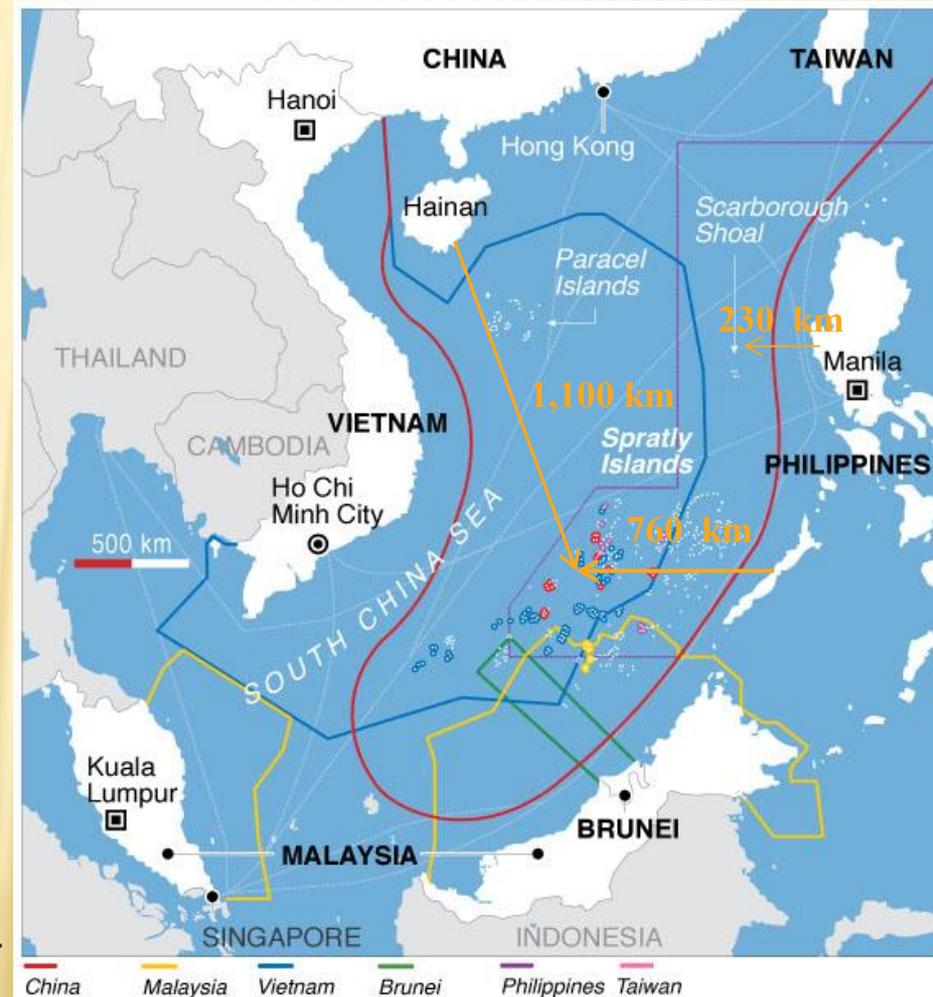
- ✓ Mitsubishi delivering its second generation ships for AIDA of 125k GRT (2016, 2017)
- ✓ JV between CSSC, Fincantieri & Carnival to build cruise ships at Shanghai Waigaoqiao Shipbuilding, backed by China Investment Corp
- ✓ Fincantieri partnering with Huarun Dadong for China ship repair and conversions
- ✓ 3 other China shipyards say will build large cruise ships: Wuchang Shipbuilding, Xiamen Heavy Industry, Zhoushan Shipbuilding

* But mostly the lines still look to Europe

- ✓ Genting is building 2 ships for Dream cruises (150k GRT), 2 for Star Cruises (201k GRT), several for Crystal Cruises (117k and 25k GRT)
And has purchased 3 yards in Germany
- ✓ Costa Asia is building two 135.5k GRT ships at Fincantieri

5. How may South China Sea politics affect regional cruising ?

- * The South China Sea (南中国海 - Nán Zhōngguó Hǎi)
 - ✓ part of the Pacific Ocean, around 3,500,000 square km.
 - ✓ importance largely results from
 - one-third of the world's shipping sailing through its waters
 - believed to hold huge oil and gas reserves beneath its seabed
 - ✓ The sea and its mostly uninhabited islands subject to competing sovereignty claims by 6 countries.
 - ✓ Note: mostly a *long* way from China (Spratly Is. 2700 km by air from Shanghai)!
 - ✓ Philippine government incorporated Kalayaan group (Spratlys) into Palawan Province as a municipality in April 1972 (within the Philippine 200-mile exclusive economic zone)



Source includes: Wikipedia, CHART

South China Sea (cont.)

* Current Disputes

- ✓ Involve both Spratly and Paracel islands, areas near to sea, boundaries in the Gulf of Tonkin, etc.
- ✓ Interests of different nations include:
 - acquiring fishing areas around the two archipelagos;
 - potential exploitation of crude oil and natural gas under the waters of various parts of the South China Sea
 - strategic control of important shipping lanes.
- ✓ China has reclaimed land and built military grade bases in certain locations. It has warned local fishermen off waters they have fished for generations.
- ✓ In July 2016, a tribunal constituted under Annex VII of the United Nations Convention on the Law of the Sea ruled against China's maritime claims, but
 - not enforceable
 - China does not acknowledge the tribunal nor abide by its ruling
 - Insists any resolution should be through bilateral negotiations with other claimants
 - strident reporting in domestic media – nationalist sentiment



Source includes: [Wikipedia](#)

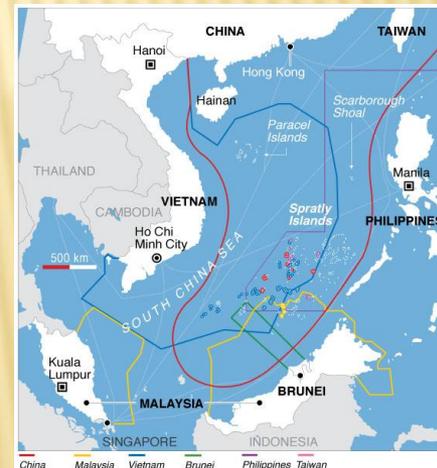
South China Sea (cont.)

* Non-claimants

- ✓ Want the South China Sea to remain as international waters
 - USA conducting “freedom of navigation” operations.
 - Australia insists states abide by UNCLOS
- ✓ Discussions are proceeding between the region’s leaders
USA and Australia taking an active interest.

* Unlikely to much affect cruising the region

- ✓ So far, very few cruises transit the contested islands
 - For south-east Asian waters, ships mostly hug the coasts of west Malaysia, Thailand, Vietnam
 - For east Asian waters, ships can stay north of the SCS – going to South Korea, Japan, Taiwan
- ✓ World cruises and repositioning voyages between China and Australasia also follow the coasts



Source includes: Wikipedia

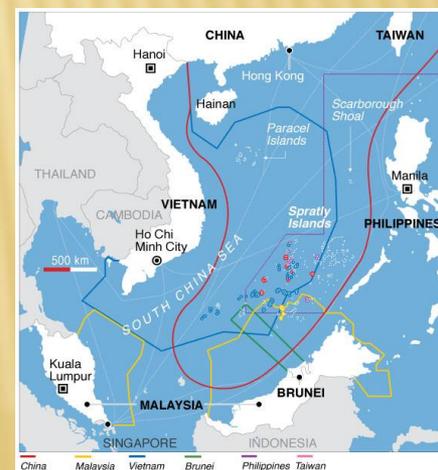
South China Sea (cont.)

* However:

- ✓ development of the little discovered but very promising cruise destinations in the Philippines may be affected, because;
 - Tensions may erupt between the two nations making it impolitic for Chinese cruisers to visit (cf. with Japan 2013 – Senkaku/Diaoyu Islands dispute)
 - Ships from southern China have to pass through the South China Sea to get to Palawan, Manila, North Luzon, Boracay, etc.
 - The Expedition ships, already discovering the Philippines, may be set back too
- ✓ as ships stay to the west of SCS, east Malaysia/Borneo/Brunei could be affected too.

* Of course, if tensions escalate to military confrontation

- ✓ all bets are off!
- ✓ Could even help South Pacific and Australasian cruising
 - if ships are redeployed out of Asia
 - or shorten their seasons in Asia while the situation eases.



6. Will the new capacity in China help us in Australia?

Three modes for the China source market to cruise AU

1. Cruises from or to China

*Sydney is 13 nights from HKG and from SHA (at 16 knots with no stops)

- ✓ 5,156 n miles Hong Kong > SYD
- ✓ 5,215 n miles Shanghai > SYD

2. Voyages between AU and HKG or Shanghai

*There are 7 voyages in 2017 – from 14 to 26 nights

- ✓ Pacific Princess – 12 Feb. to 2 Mar. (18 nights) –via CNS, Rabaul, YAP, Kaohsiung, Busan, to HKG
- ✓ Arcadia – 18 Feb. to 12 Mar (22 nights) – via BNE, CNS, Alotau, Japan(3), Busan to Shanghai
- ✓ Magellan – 23 Feb. to 21 Mar. (26 nights) – via QLD(3), DRW ,Indonesia (3), Malayisa (2) to HKG
- ✓ Q.Elizabeth - 26 Feb. to 23 Mar. (25 nights) –via BNE, CNS, Alotau, Japan(5), BUS to SHA
- ✓ QM 2 - 2 Mar. to 18 Mar. (16 nights) – via BNE>CNS>BSB>Vietnam(2)>HKG OR (20 nights) on to >KEL>SHA
- ✓ Dawn Princess – 16 Mar. to 3 Apr. (18 nights) –via BNE, Singapore, KoSamui, Vietnam(2) to HKG
- ✓ Golden Princess – 19 May to 2 Jun (14 nights) – via BNE, Rabaul, Manila to HKG [[straight line](#)]

3. International Fly-Cruise based on Sydney

- * Many options are possible (both large ship and, increasingly, Expedition)
- * But we need the Chinese market to become more cruise sophisticated first

How may help Australia (cont.)

So the opportunities for AU will come from

1. Growth and sophistication of the China Source Market

- *The market will move beyond 3 to 5-day cruises so as to experience more interesting itineraries and wider scope of destinations
- *The international fly-cruise product will become more popular
- *Chinese cruisers (especially upscale repeaters, retirees) will move beyond Europe to other world cruising regions – including the Pacific
- *AU's reputation is strong and will grow as a marquee destination

Time-frame: long term

2. Winter deployment from China to the Pacific

- *Cruising north Asia in the winter is not appealing
- *Many new ships are arriving in China
- *Cruise lines may seek alternate destinations from November to March, bringing new capacity into our region
- *That in turn creates repositioning voyages between CN and AU
- * (and more AU calls)

Time-frame: short to medium term

How may help Australia (cont.)

Some examples China to Australia seasonal re-positioning

1. Ovation of the Seas

- ✓ 7 night cruise from HKG to SIN
- ✓ then a 15 night cruise from SIN to SYD
- ✓ departing 30 Nov 2016
SIN/ FRE/ ADL/ HBT/ SYD

2. Golden Princess

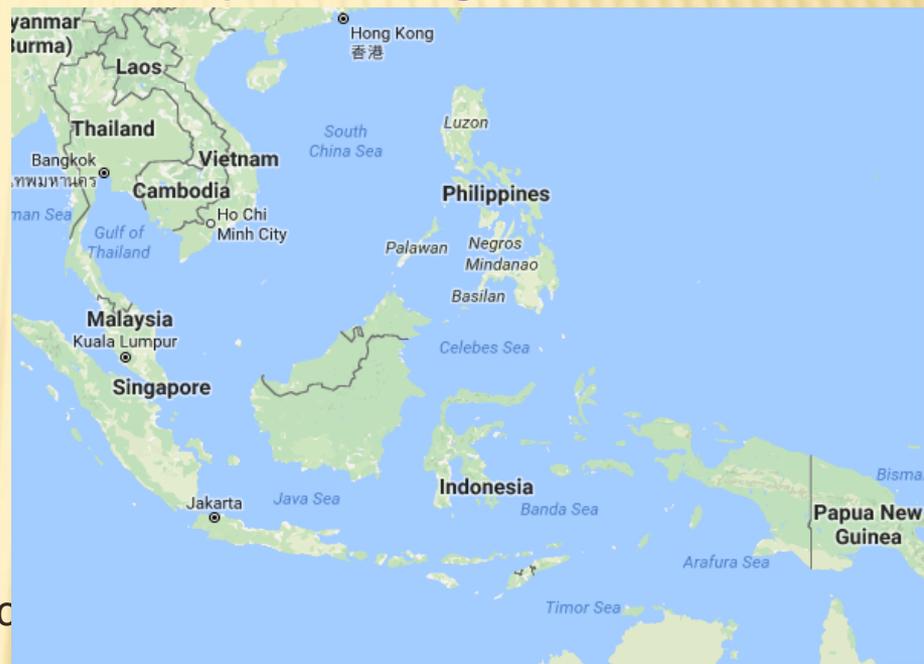
- ✓ 24 night cruise from Tianjin to BNE
- ✓ departing 17 Oct 2016
TSN/ OSK/ KEE/ HKG/ NhaTrang/ PhuMy/
Bali/ DRW/ BNE/ SYD
- Or 17 night voyage departing HKG on 25 Oct

3. Legend of the Seas

- ✓ 18 nights from HKG to BNE departing 19 Oct 2016
HKG/ MNL/ PuertoPrincesa/ KK/ Bali/ DRW/ CNS/ BNE

4. Norwegian Star

- ✓ 21 nights from HKG to SYD, departing 16 Jan 2017
HKG/ Nha Trang/ HCM/ LaemChabang/ SIN/ Bali/ Komodo/ DRW/ CNS/ AirlieB/ BNE/
SYD – and then MEL/ Burnie/ NZ.



7. How can ACA influence the outcome?

- * As ACA/ CDU has proven, the most impact comes from meeting and educating just two executives in every cruise line deployed in the region (now or potentially):

- ✓ Itinerary planning
- ✓ Shore programs

Though very valuable too to bring the CEOs and COOs into the loop!

- * How?

- ✓ Getting to them at the major conventions (esp. Seatrade Global)
- ✓ Making appointments to see them in their offices
- ✓ Bringing them here on famils
- ✓ Giving them information and insights on navigation, port, itinerary, destination and shorex options
- ✓ Helping them with local contacts: port authority, port agent, tour operator/ ground handler, etc.
- ✓ Inviting them to speak at ACA!

Influencing the outcome (cont.)

- * The decision makers for Asia are, in priority order:
 1. For international lines, the same execs. as for Australasia/Pacific
 - For ships that move seasonally (RCI, Princess, etc.)
 - For the new ships dedicated to the China market (Princess, NCL, RCI, etc.)
 2. The established Asian player
 - Star Cruises – Hong Kong
 3. The new players in China/ Asia:
 - Dream Cruises – Hong Kong
 - SkySea Cruises – Shanghai
 - Bohai Cruises – Tianjin
 - Diamond Cruise – Shanghai
 - And, quite likely, some TBA !!

Influencing the outcome (cont.)

- * Soon may be time to look at the regional conventions too
- * 5 of these in 2016:
 - ✓ Seatrade Cruise Asia (Busan, May)
 - ✓ International Cruise Summit (Qingdao, May)
 - ✓ Asia Cruise Forum Jeju (South Korea, August)
 - ✓ China Cruise Shipping (No. 11, Tianjin, September)
 - ✓ Seatrade Asia Pacific Cruise Congress (Shanghai, October)



제4회 제주국제크루즈포럼
2016 Asia Cruise Forum Jeju



To recap, we have reviewed...

	TOPIC	
A	Asia Cruise Trends 2016 Findings	
1	Size and recent growth of the Asian Source Markets	
2	Profile of the Asian cruise guest today	
B	The big questions about Chinese cruising	
1	Where might China go from here?	UP!
2	Will Chinese take to Fly-cruise options to Australasia?	Eventually
3	How do tastes and preferences of Chinese vary ?	In many ways
4	Will the Chinese build and operate their own ships?	One day – but when?
5	How may South China Sea politics affect region's cruising?	Minor - we hope
6	Will the new capacity in China help us in Australia?	Yes, in time
7	How can the ACA influence the outcomes?	In the ways it knows already



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