

WORLD PASSENGER AND PASSENGER CARGO FLEET DEVELOPMENT / THE ISL CRUISE FLEET REGISTER

At the beginning of 2004, the total passenger fleet for ships of 300 gt and over was composed of 3,960 ships totalling 27.3 mill gt and representing 4.8 per cent of the total gt tonnage of the world merchant fleet. During the period 2000 – 2004, the total passenger tonnage, in terms of gt, expanded on average by 6.2 per cent per year. Looking at the ship type composition of the total passenger fleet, different developments can be observed.

This issue of SSMR also deals with the *ISL Cruise Fleet Register* which includes all seagoing passenger vessels of 1000 grt/gt and over, with 100 or more berths year-round or temporary engaged in cruising.

There are 266 vessels (11.19 mill gt) actively trading in 2004 or planned to be commissioned until December 2004.

Tonnage supply 2004

The total passenger fleet is composed of various sub-types having their own momentum in the market. (Compare Table 1 and 2)

The tonnage development of the pure passenger fleet which increased by 9.9 on average in the period 2000-2004) is largely influenced by fleet additions of (larger) cruise vessels.

Tab. 1: Fleet development as of January 1st, 2000 and 2004

Ship type	2000		2004		Av. growth rate '00-'04		Average age (years)	
	No	gt	No	gt	No	gt	2000	2004
Cargo passenger	231	0.8	218	0.7	-1.4	-3.3	30.6	32.5
Ro/Ro passenger	2137	12.6	2299	14.9	1.8	4.2	20.9	22.1
Pure passenger	1323	8.0	1443	11.7	2.2	9.9	19.6	20.5
Total	3691	21.4	3960	27.3	1.8	6.2	21.0	22.1

Ships of 300 gt and over; tonnage in mill.
ISL based on LR/Fairplay

In the mentioned period the tonnage of the ro-ro passenger ships expanded by 4.2 per cent p.a., whereas the cargo passenger tonnage decreased by 3.3 per cent yearly.

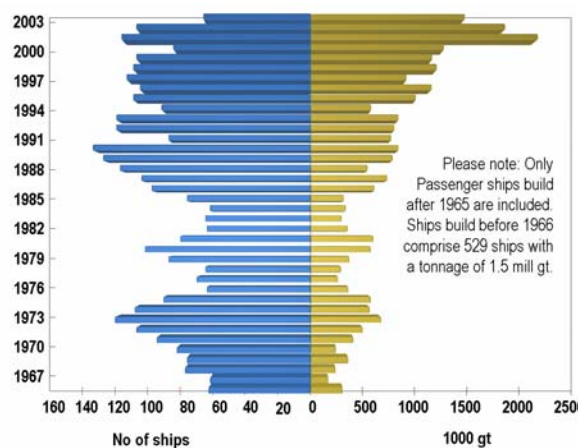
During 2003 only 75 vessels with 0.6 mill gt were broken up. Passenger vessels, ferries and cargo passenger vessels reached by far the highest age with about 38 years before they are scrapped.

Mor over, ISL figures show that the total passenger fleet additions (newbuildings) during 2003 reached 1.4 mill gt, thereof 7 cruise vessels with 0.7 mill gt. Compared with last year's results the additions decreased by 31.3 per cent.

At the beginning of 2004, passenger and passenger cargo ships had an average age of 22.1 years. Nearly 55 per cent of all ships, which equals to more than 36 per cent of the total gross tonnage, were already built

before 1989, whereby the age profile for the various sub-types differs.

Fig. 1: World passenger fleet by year of build as of January 1st, 2004



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At the beginning of 2004, 3,778 passenger ships equal to 97.1 per cent of all passenger ships representing in terms of gt 69.9 per cent of the total world passenger tonnage were attributable to size classes below 35,000 gt. This includes all ro-ro passenger ships and all cargo passenger ships.

19 passenger ships, all of them cruise ships ranging in size classes above 100,000 gt, were built since 1998, with the exception of the Carnival Destiny, which was build 1996.

With 148,528 gross tons Carnival's flagship, the "Queen Mary 2" is by far the world's largest cruise ship. With regard to passenger capacity, the Voyager class ships of Royal Caribbean Cruise Lines with a capacity of around 1,180 crew and around 3,100 passengers are still the record holders.

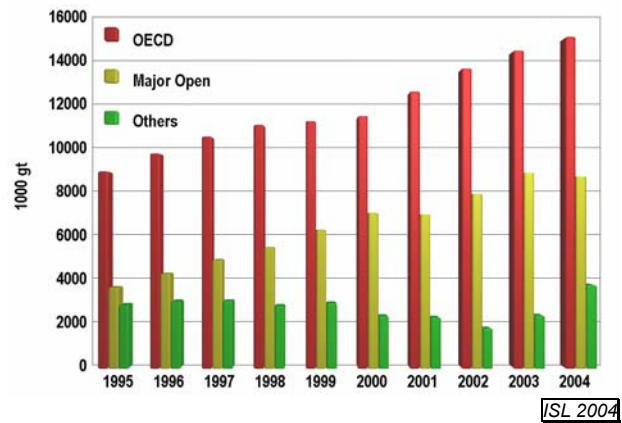
As in previous years passenger ships added to the fleet during 2003 mainly consisted of units in size classes

above to 50,000 gt. The order book as of January 1st, 2004, reflects that additional tonnage consists by nearly 80 per cent of units above 80,000 gt. More precisely the order book included 16 passenger ships (all cruise ships) above 80,000 gt representing 1.6 mill gt.

Ownership patterns 2004

The following chart shows the distribution of the total passenger fleet with regard to country groups. Large shares of the passenger and cargo-passenger fleet are attributable to open registry flags. As of January 1st, 2004, 9.0 mill gt equal to 33.0 per cent of the total passenger fleet were registered for the top ten open registry flags. In the period 2000-2004 the yearly average growth of these flags amounted to 6.5 per cent.

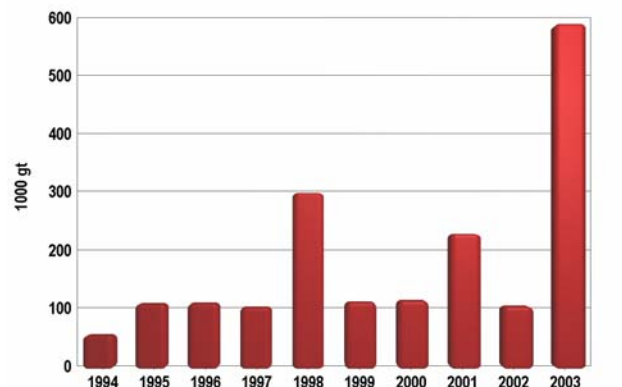
Fig. 2: Fleet by major country groups as of January 1st, 1995-2004 (ships of 300 gt and over)



Supply / demand development in the passenger/cargo fleet sector

Two factors are relevant for future tonnage supply of passenger and passenger cargo ships, namely the demolition potential and the order activity.

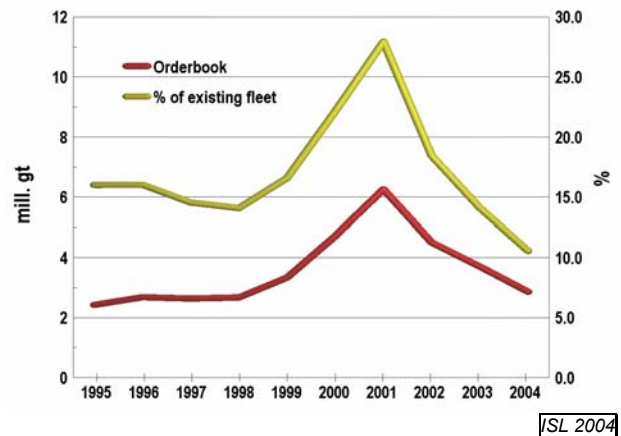
Fig. 3: Yearly broken-up tonnage of Passenger and Passenger cargo ships 1994-2003



ISL 2004

In 2003, 75 passenger and passenger cargo ships totalling more than half a million gt were sold to breakers, which represents, in terms of tonnage, an increase of 698 per cent compared with results in 2002. This high amount results from the scrapping of 49 ro-ro passenger ships totalling 301,000 gt.

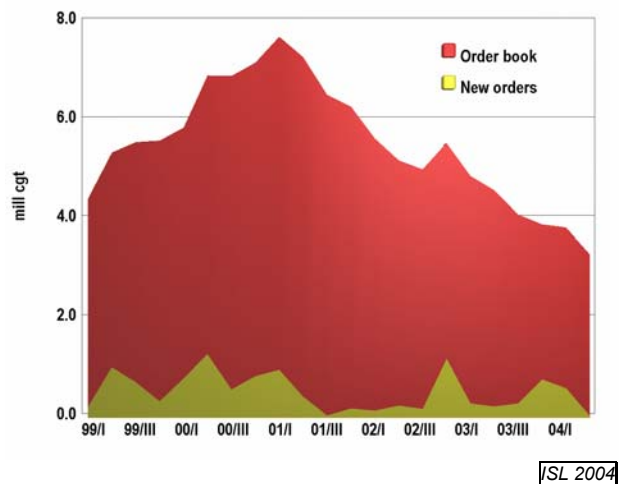
Fig. 4: Passenger and passenger cargo fleet – Order book and share of existing fleet as of January 1st, 1995 - 2004 (mill gt)



ISL 2004

Order activities for passenger and passenger ships are an indicator for the “market climate”. Ordering of new tonnage developed positively during the period 2000 - 2004 with a peak of 37 new orders totalling 102,000 gt during the third quarter of 2002. In the second quarter of 2004 28 ships with 0.6 mill gt were ordered.

Fig. 5: Passenger and passenger cargo fleet – Quarterly order book and new orders development 1999 - 2004



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As of July 1st, 2004, the order book represented a gt-share of 9.2 per cent related to the existing fleet (compare figure 5).

At the beginning of 2004, the passenger and passenger cargo ship order book (ships of 300 gt and over) consists of 180 ships with 2.9 mill gt, thereof 9 cruise vessels in the size class of 100,000 gt and above. As in the previous years, order activity in this fleet sector has been on cruise vessels. As of January 1st 2004, the order book saw 33 ships with a tonnage share of 67 per cent of the total passenger order book. In terms of gross tonnage, the order book of passenger (cruise), passenger cargo and ro-ro ships (ferries) decreased by 22.3 per cent compared with tonnage figures at the beginning of 2003.

The shipbuilding industry

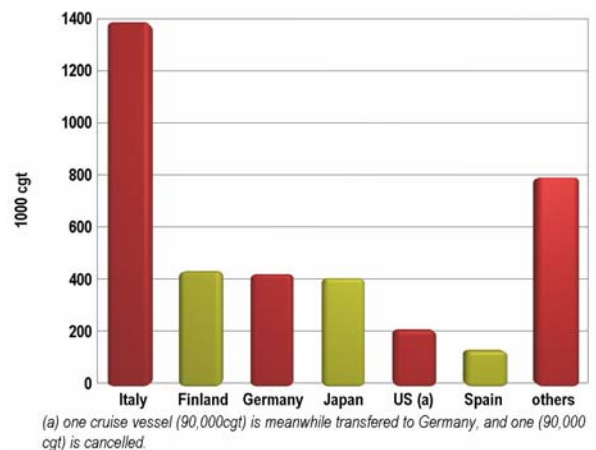
The year 2002 was the record year of passenger shipbuilding activities. After a decrease during 2003 the newbuilding figures for passenger ships show increasing tendencies.

At the beginning of 2004, the order book reached a level of 3.5 mill cgt for all passenger ships. Two third of this tonnage belongs to cruise vessels and about 20 per cent to ro-ro passenger ships. Compared with previous years' cgt figures, the order book for all passenger ships decreased by 23.4 per cent.

Marked leader is Italy (in particular the yards of Fincantieri and Visentini). Passenger ships ordered at Italian yards summarized up to 29 ships with 1.4 mill cgt, the market share on all ordered passenger tonnage stood at 36.5 per cent. As of January 1st, 2004, 70 per cent of all ordered passenger tonnage (cgt) was placed on Italian, Finish, German, Spanish and French yards.

At the beginning of 2004, the order book for AWES-yards stood at 2.7 mill cgt. AWES countries lost further market shares to Asian competitors. The cgt-market shares fell from 87.5 per cent in 2000 to 72.5 per cent at the beginning of 2004.

Fig. 6: Passenger and Passenger cargo ships on order by country of build and gt size class as of January 1st, 2004 (in cgt)



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THE ISL CRUISE FLEET REGISTER 2004/2005

The following contribution is based on the ISL Cruise Fleet Register 2004/2005 published in this issue.

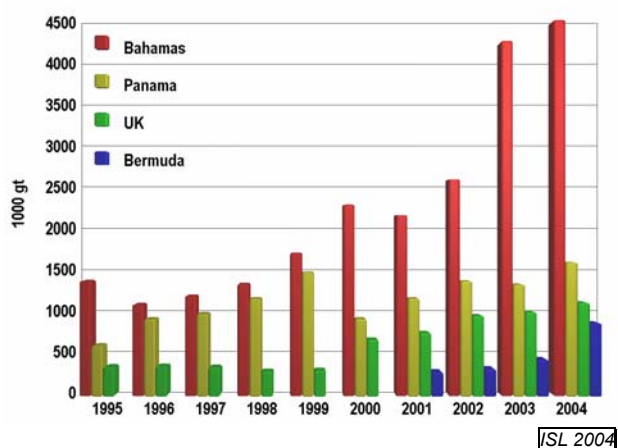
Development of the cruise markets

Demand for cruises is increasing at an average rate of more than 8 per cent since the 1980ies. Such an average is hiding periods of stagnation and subsequent growth by leaps and bounds. Normally increase in demand for cruises is dependent on new capacity. If new ships are introduced they are often running at full capacity from the first trip. 2002 was a different year. The terrorist attacks lead to a changed behaviour of the American passengers. The refrained from flying and a minor part also from cruising, at least for a while. Cruise operators had to adjust the routes to more „Home cruising“ from US ports and used a marketing tool which always works, they offered lower prices. Thus, while a lot of new ships were delivered by the shipyards 2002 and 2003 the impact on the load factor was not too dramatic. Passengers spend also money on board and while the profits of the big operators made a dip, they still earned money. Perhaps the lower tariffs attracted new people to cruising, in any case, the fares are rising again and the load factor is back to old high levels today.

Few people only doubt that the cruise industry has still best prospects for expansion in the medium and longer run. The optimism is still based on the fact that only a small part of the population has ever taken a cruise. Especially in Europe, the clientele is expanding versus lower income groups and the age group making cruises is becoming larger. Last not least the share of cruising among all segments of tourism is increasing because passengers are very satisfied with their cruise experience.

As far as can be judged today, 2005 should become a very good year for the operators with the confidence of passengers being restored and the capacity of the fleet rising only by a few thousand beds. For 2006 the increase will be larger because of few more new ships ordered since 2001 and postponed delivery dates. New orders can be expected during 2005.

Fig. 7: World cruise fleet - development of the top ranking registered flags 1995 - 2004 (in 1000 gt)



From 2003 to 2004, the world cruise fleet increased again by one mill gt. By number of ships the growth looks smaller - from 258 to 266 - but by number of beds it is also a major jump: 296,000 against 275,000 one year before. These increases result in higher average figures of the ships which show now a size of 42,000 gt and more than 1100 beds. The graph shows the development during the last 10 years.

The growth of average ship sizes will hold on during the next years. On the newbuilding scene larger capacities have been announced by leading owners and in the existing fleet the mean size must also keep rising because of the higher age of smaller ships. Now it is expected that the potential of second hand additions will dwindle because available ships will hardly meet the requirements on future cruise ships.

One new hurdle will become effective with updated SOLAS regulations which require smoke detectors and sprinkler systems from 2005 onwards. By 2010 non fire-proof materials like wooden panelling are forbidden in the ship's interiors. This could lead to the scrapping of many ships built before 1960 until 2005 and those built before 1970 until 2010. It goes without saying that these cannot be replaced by others built to the same standards and not refitted which is often too expensive for such old ships.

Thus, it could happen in 2005 that the number of cruise ships will be reduced while the tonnage and bed

capacity will increase. However, the increase will be small because only four big ships - and no smaller ones - are in the orderbook for late 2004 and 2005 delivery. This is a consequence of the September 2001 terrorist attacks and the high ordering volume of before 2001. Then, so many ships were ordered that the shipyards had work until 2005, but afterwards only very few ships were added to the orderbook.

Among the 2004 additions to the fleet, the smallest ship has 33,000 gt, the next more than 80,000 gt. Times are gone when the standard size of new ships was 70,000 gt.

Ownership patterns and cruise operators

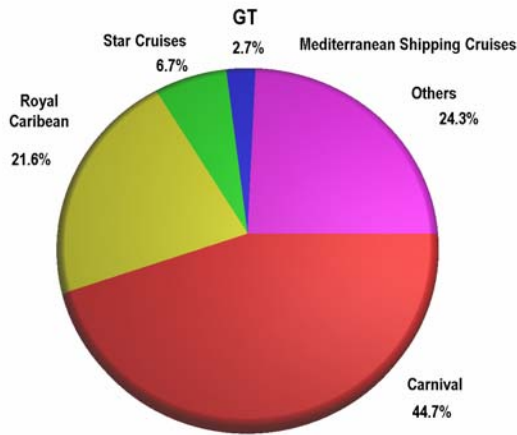
The Carnival Group would not have ordered so much ships for 2003-04 delivery before September 2001 if they had an idea of the developments in 2001-02. But, as part of the long-term development plans and late delivery of one ship by Mitsubishi, within little more than six months seven big ships had to be integrated into the fleet. It was the fastest growth in the history of the group. As it turned out, Carnival not only filled those seven ships, it also raised fleet-wide cabin prices beyond the expectations of analysts.

Having now a reduced orderbook, Carnival is expected to announce orders for the next generation of ships. As previously indicated the size could be around 170-180,000 gt with far more than 3,000 berths.

Royal Caribbean Cruise Ltd. together with the sister brand Celebrity Cruises seems to slow down the pace of expansion to reduce the debt ratio. After not confirming two options with Meyer Werft RCL has currently only one ship under construction, the first „Ultra Voyager“ with 3,600 beds. An option for a second ship has to be declared soon. In addition RCL is to lengthen several units of the 2000 bed „Vision Class“. This is a further step to lower costs per berth and improve the capital base of the company.

The Star Cruises/NCL group has once again restructured the brands and the financial bases. The Malaysian owned group is No. 3 in world cruising with the aim to introduce one ship per year to modernise the fleet.

Fig. 8: Market shares of the major cruise ship owners in 2004 (gt- per cent share)



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In Europe several things went wrong. All efforts to establish a real European cruise company by Georg Poulides vanished within a few months. The company Festival Cruises which operated three older ships since several years quite successfully had introduced three newbuildings with 1,200 and 1,500 beds between 1999 and 2002. Fast expansion, lack of own capital, increased competition and slow booking especially during winter months may have helped together that Festival could not pay interest and capital instalments as planned and during the last winter banks, the shipyard of the Alstom Group which is under pressure itself and other creditors seized several ships. In July 2004, none of the ships was left and Festival had to close his offices.

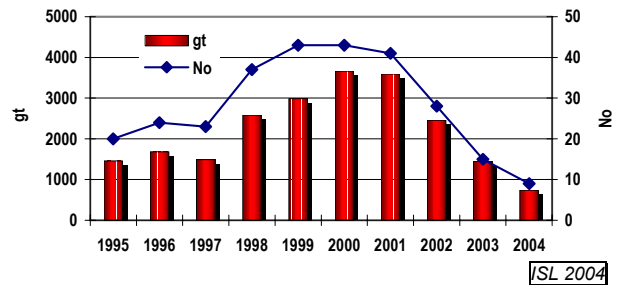
Star performer in Europe is clearly Mediterranean Shipping Company (MSC), a sister company of the giant container ship operator. Until last year MSC had only three older ships running. 2003 and 2004 two new vessels were commissioned of the same size and similar type to the Festival ships. However, when times became hard for Festival, MSC could bank on the financial potential of the family empire in shipping and ordered two more and larger ships for further expansion. Moreover, negotiations for more new tonnage were announced. Out of the two Festival ships bought by auction one is running again, for the second one it was too late in the season. It will take up cruising next year. With a minimum of six modern vessels by 2007 MSC then is the leading European based mid-size operator with a modern fleet.

Future tonnage developments – supply demand

The order book is now drastically reduced. Mitsubishi as the first Asian entrant into the exclusive club of

builders has delivered its two ships. Again the leading four, which are Fincantieri, Chantiers de l'Atlantique, Masa-Yards and Meyer Papenburg are only joined by other European builders. Currently it is the Bremerhaven Lloyd Werft which is famous for rebuildings and completions of cascos. When the PRIDE OF AMERICA sank to the bottom of the port during a storm early 2004, the yard had to declare insolvency but meanwhile yard and ship are salvaged and the PRIDE will be completed by the yard, however one year later.

Fig. 9: Cruise vessels on order - Development of newbuilding contracts from 1995 – 2004 (up to July)



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After the flood of orders signed before 2001 the ship builders had work for several years. The hope to fill the extended capacities for a longer time vanished as an effect of September 2001. Meanwhile Atlantique and Meyer have reduced the capacity and use them partly for gas tankers and container ships. Masa Yards are only building cruise ships in one of two yards and they will face difficulties to find new work for the smaller Helsinki building dock if most new ships are larger than 90,000 gt.

The only order book of a shipyard extending into 2007 is that of Fincantieri. All of the four leading yards have got one or two new contracts after 2001 but the Italians had still the longest order backlog for their client Carnival Group.

Carnival's AIDAuara in Thessaloniki



Photo by Arnulf Hader, ISL

For the near future orders are expected for a new type of larger ships for the Carnival brands Carnival Cruise and Princess Cruises. A few more orders will certainly be placed by other owners. However, a real rush of

orders is less than probable because Carnival and Royal Caribbean will use the period of a smaller increase in capacity to rise the fares, reduce debts and improve profits. In such a dominating role they are now in a position to do that.

*Dieter Stockmann, Editorial Assistant
Reinhard Monden, Economist
Arnulf Hader, Geographer*