Recovery and Revitalization of Chinese Cruise Industry under the Normalization Background of Epidemic Prevention and Control

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Impact of epidemic on Chinese cruise economy
I. Overall Impact of Epidemic on Chinese Cruise Economy

The epidemic has a profound impact on Chinese cruise industry. As estimated, as of the end of 2020, the epidemic had caused about RMB 10.5 billion of direct revenue losses on Chinese cruise ports, duty-free stores and cruise companies in China. According to the 2020 Asia and Chinese Cruise Economic Prosperity Index Report released by SICBI, the Asia and Chinese cruise economic prosperity index before epidemic showed a steady upward trend. Subject to the epidemic impact, the Asia and Chinese cruise economic indexes in 2020 fell to 99.55 and 99.65 respectively. Compared with 2019, the significant decrease trend occurred. Chinese cruise economy entered into the "extension of strategic adjustment period" from the "strategic adjustment period", and would last for a certain period.
II. Drastic Decline of Large Contribution of Chinese Cruise Economy

**Total loss of economic revenue in cruise operation:** the loss of cruise company during the epidemic period included three aspects, **the cruise ticket price revenue of tourists, on-board revenue of tourists**, some expenses that must be paid during the cruise suspension period (for instance, partial cruise operation expenses and depreciation and amortization). At the same time, there were still expenses resulted from cruise company in response to the epidemic, tourist complaint, and the Contractual default between the upstream and downstream of industrial chain, etc.

**Sharp decline of cruise port's economic revenue:** subject to the reception service of cruise port, the cruise port's economic revenue would suffer severely. At present, the whole industrial chain development of Chinese cruise industry is still at the primary stage, and the cruise industry economy is mainly concentrated at the operation service of cruise port. **The revenue of the cruise port and relevant supporting service enterprises sharply declines under the situation that there is no berth of cruise.** Meanwhile, the lower profitability, unbalanced development and other problems of Chinese cruise port have become more highlighted.
III. Suppression against Growth of Cruise Market Size in China

Return-to-zero of short-term cruise market size: Chinese cruise market continued to be in a period of market adjustment in 2020, and many whole new cruises were launched onto the market, which might stimulate more potential consumption demands. Therefore, it might be hopeful for the cruise market size to enter into the incubation period of a new round of growth. However, subject to the epidemic impact, the Chinese mainland firstly started the full suspension at the end of January 2020, and Chinese cruise market size had suffered from the unprecedented bluff type slump.

Slow growth of long-term cruise market demand: at the early stage of epidemic outbreak, the exaggerated rendering of public opinion raised the concerns of cruise consumers, and the consumption confidence of consumers sharply declined, so did their consumption willingness. In addition, Chinese cruise tourism belonged to the non-rigid demands. Coupled with the impact of income decline resulted from economic slowdown, immigration policy, etc., it was hard to generate the compensatory rebound demand. Therefore, it would take much longer time to recover the consumption confidence of cruise tourism, and the long-term demand growth of cruise market would become very slow.
IV. Strategic Layout and Adjustment of Cruise Enterprises on Chinese Market

Active deployment of Chinese market before the epidemic: before the epidemic, various major international cruise companies actively perfected their cruise strategic layout on the market of Chinese Mainland, improving the confidence on the development of a new generation of Chinese cruise market through luxury and large-sized cruises. According to statistics, 16 cruises of 10 major brands would be arranged on the market of Chinese Mainland (including 13 foreign-invested cruises and 3 Chinese-invested cruises), and the types of cruises were diversified. In addition, compared with the annual market operation capacity in 2019, a slight increase occurred.

Break of market layout plan by the epidemic: The cruise market layout continuously changed according to the epidemic change. Chinese cruise line was dominated by Japan and South Korea lines. When Chinese epidemic was under control, although Chinese cruise port had already conformed to the line recovery standards, it was still hard to dock the cruises at the cruise ports due to the ongoing severe epidemic situations at abroad. Therefore, it was impossible to recover the cross-border cruise lines. Under such a background, the arrangement plans of many cruise enterprises on Chinese market had to be stranded, and the new adjustment and planning were required.
V. Growing Difficulty in Cultivating Cruise Culture in China

The cultivation of Chinese cruise culture is still at the initial stage, the public perception and understanding on cruise culture is inadequate, the perception on the cruise leisure culture is incomplete, "marine city", "marine park", "mobile castle" and a series of other beautiful words for describing the cruise image still fail to win great popular support.

A great number of negative information about the epidemic impact on cruise drags down the public interests on the cruise, which makes the public have the cognitive bias and has a certain adverse impact on the cultivation of cruise culture. Especially the mass infection event occurring to the Diamond Princess, caused negative impact subject to the network spread, and it was crowned with the "terrible cruise", "marine cage", "cruise nightmare" and other words by many medias. Such description of cruise image will produce more deep-rooted negative impact, which will increase the difficulty for cultivating the cruise culture in China.
VI. Coexistence of "Dangers" and "Opportunities" in the Whole Industrial Chain of Chinese Cruise Industry

More highlighted pressure for development of local cruise brands: subject to the epidemic impact, firstly, the development of local cruise brands with difficulty in operation goes from bad to worse; secondly, it affects the strategic arrangement of Chinese-invested enterprises that previously planned to invest the cruise operation sector. Therefore, the cruise purchase plan and cruise tourism development may be postponed. Besides, the local advantage will boost the growth and expansion of local cruise industry. Among them, Astro Ocean Cruise has already obtained the first business license of marine tourism line pilot of cruise port in Hainan Province, boosting the marine tourism line pilot of cruise port in Hainan Province to encounter the new breakthrough. Under the epidemic pressure, the local cruise is also exploring new development path of local cruise. Through the local advantages and policy support, it will boost the perfection and expansion of cruise operation links in the whole industrial chain of Chinese cruise industry.
VI. Coexistence of "Dangers" and "Opportunities" in the Whole Industrial Chain of Chinese Cruise

Construction of local cruise enters into the rapid lane of development: the epidemic has changed the situation of cruise construction market, the delivery of cruise construction order is delayed, the shipyard capacity increase plan is stagnated, and the business plan and working emphasis will be fully adjusted. Under such a background, what the development of Chinese local cruise industry faces is the window period for adjustment of global cruise pattern brought by the epidemic. Coupled with the good epidemic control situation in China, it is a perfect period for Chinese local cruise enterprises to develop their own strengths, and it is also a very good opportunity for local cruise construction project to continuously promote the development and relentlessly tackle the technical difficulties. Fully utilize the current window opportunity, actively strengthen the weakness, stop up the leaks, improve the weaknesses, boost the confidence, and try to achieve the "international compatibility" and even "corner overtaking" for development of local cruise.
Countermeasures for development of Chinese cruise industry under the epidemic situation
I. Continuously Growing Guidance Strength of Government Departments on Cruise Epidemic Prevention and Control

China has attached adequate attention and guidance to the prevention and control of cruise epidemic and the government departments related to the cruise industry have subsequently issued many prevention and control guidance measures, including the harbor management, ship management, staff management, port management, construction of cruise tourism prevention and control system during the epidemic period, and guidance for cruise line recovery and industrial policy support under the normalized situation of epidemic prevention and control, etc., conducting the overall deployment and guarantee for the cruise line recovery.

The Maritime Safety Administration of the People's Republic of China issued the **Guideline for Operation for Prevention and Control of COVID-19 among Ship's Crew (V6.0)** on June 10, such a series of prevention and control guidelines reflected the continuously growing guidance strength for the epidemic prevention and control of China's government departments on cruises and ports, and the cruise epidemic prevention and control system was also gradually perfect under the guidance of relevant policies and exert positive effects.
II. Various Cruise Companies Actively Promote the Cruise Line Recovery

At the initial stage of epidemic outbreak: actively launch the cruise ticket refund, change and endorsement policy, safeguard the interests of customers, and safeguard the subsequent consumption confidence of consumers.

During the suspension period: Spare no efforts to improve the epidemic prevention and control capacity of the cruise, fully upgrade the epidemic prevention and control guarantee of cruise companies, and promote a new round of improvement on the safety of cruise tourism; fully finance to cope with stress of working capital, and start the multi-channel financing, debt restructuring, reduction of capital expenditure and other methods to relieve the financial stress under the situation of withdrawal of partial funds and the huge operation costs.

In the post-pandemic era: actively formulate and promote the cruise line recovery planning, selectively deploy the cruise through the issuance of preferential policies and according to the global epidemic development situation, and gradually carry out the cruise line recovery practice.
III. Overall improve antiepidemic capacity of cruise ports

Firstly, **continuously perfect the cruise port construction and strengthen the matching of cruise port.**

Secondly, **improve the epidemic prevention and control capacity of cruise port and perfect the epidemic prevention and control system.** The severe epidemic prevention and control situation also forces the cruise port to improve the epidemic prevention and control capacity, so as to better cope with various works of cruise line recovery. Chinese cruise port promotes the transformation of software and hardware facilities, such as the optimization of inward and outward port procedure of tourists, level improvement of body temperature measurement and other facilities of the port, and the strengthening of epidemic prevention and control knowledge training to working staffs at the port; further optimize the inspection and quarantine service management and other works of cruise port joint inspection units, and provide the guarantee for cruise line recovery from time to time.
IV. Cruise-related culture and tourism enterprises enhance cruise consumers’ confidence

**Initial stage of the epidemic:** Travel was restricted and tour plans were halted. Under such a special circumstance, travel companies, travel agencies and online travel companies issued policies to actively deal with the business of booking cancellation, and *provided guarantee services for tourists in the first time*. Large-scale tourism enterprises responded to the call for epidemic prevention and control in an all-round way and were determined to control the epidemic.

**Later period of the epidemic:** Relevant enterprises *actively guided the market*, helped consumers to have a rational understanding of cruise ships, and cooperated with the publicity department to *enhance the publicity of cruise safety*. Besides, in the gap period, they sped up the supply of innovative cruise products, attracted cruise tourism, and *developed more humane policies to protect consumers' interests, strengthen cruise consumers’ confidence* and prepare for the recovery of the cruise market.
V. Industry associations and related organizations actively guide the development of the industry

Since the outbreak of the epidemic, China Tourism Association, China Association of Travel Services, China Tourist Attractions Association and other industry associations have actively guided the development of the industry. Various research institutions have also responded positively. Cruise Economics Team of Shanghai University of Engineering Science, Shanghai International Cruise Business Institute, CCYIA, China Tourism Academy and other research institutions have actively organized seminars to deeply study the impact of COVID-19 epidemic on the cruise industry, countermeasures and suggestions for cruise resumption, and actively participate in discussing the recovery and development path as well as the implementation plan of the cruise industry in the post-epidemic period so as to promote the establishment of an anti-epidemic community, and make a plan for the recovery and revitalization of the cruise market.
New Situation for Development of China's Cruise Industry
I. Chinese local cruise fleet realizes breakthrough development

In the first decade of China's cruise market, local cruise fleets were all operated by private enterprises on a single ship. From 2018, local cruise fleets started the new era, and more strong national teams got involved. **In 2020, Chinese local cruise fleets witnessed the brand-new breakthroughs.**

- **Carnival Cruise Lines:** “The Atlantic” cruise was officially delivered in 2020, and the second one, “Mediterranean”, will be delivered in 2021. By 2029, it plans to own 8-10 large cruises, becoming the largest China-funded cruise company with international operation in China.

- **China Merchants Shekou & Viking Cruises Limited:** It built the five-star red flag high-end cruise fleet. The first cruise to which the five-star red flag is hung, the "Viking Sun", has also been available.
II. The development of the whole cruise industry chain in China continues to advance

At present, China is gradually forming a whole industrial chain covering cruise design, construction, maintenance, financial leasing, fleet operation, cruise tourism consumption, port services, and commercial services.

- **Port + supporting economy:** Relying on the construction of cruise ports, China will constantly improve the supporting facilities of cruise ports, and make the berthing and supporting economy of cruise ports an important part of the economy of the whole cruise industry chain.

- **High output value economy of the whole industry chain:** China's cruise economy has entered a new ten-year development period. The cruise economy enters the development stage of the whole industry chain. The cruise industry chain extends from the middle and lower reaches to the upper reaches, and from low value-added links to high value-added links.

- **New breakthroughs in the field of cruise ship construction:** The construction project of China's first domestic large cruise ship continues to advance. China has achieved epidemic control and work resumption at the same time, and effectively improved the development speed of the whole industry China from the perspective of luxury cruise ship building.
III. The upgrading of cruise ships in Chinese home ports is accelerating

The epidemic did not shake the confidence of international cruise companies in the Chinese market, and there will be many flagship cruise ships in China in the future. In addition, China-funded cruise companies are also promoting the construction of quality cruise fleets, and the upgrading of cruise ships in Chinese home ports is accelerating further.

- **MSC Cruise:** In 2022, “Huacai” and “Glory” will jointly enter Chinese home ports to start the “dual flagship” market layout.
- **Royal Caribbean International:** “Wonder of the Seas” (230,000t level) and other new cruise ships enter Shanghai, and will start the first voyage in China in 2022.
- **Costa:** “Florence” is expected to arrive in China in 2022.
- **China Merchants Shekou & Viking Cruises Limited:** The first “Five-star Red Flag” cruise ship - “Viking Sun” is renamed “IDUN”, opening the market of high-quality cruise market.
IV. The recovery of the cruise travel market speeds up

North American market: In March 2021, the “Independence” cruise ship of the American cruise company resumed in Florida and it plans to resume all 13 ships in this summer. Norwegian Cruise Line announced to **expand 2021 American resumption plan** in June. Major destinations, including the Caribbean, Bermuda and the Bahamas, **resumed voyages in June**. Various cruise companies are expanding their routes to North America this year.

**European market:** TUI Cruises and MSC Cruise have taken the lead to resume in Europe. Various cruise companies are actively deploying the British market. In May this year, some cruise companies started to resume voyage plans in **Italy, the United Kingdom, France, Spain, Malaysia, Greece** and other regions, and Europe is about to embark on a **large-scale resumption**.

**Asian market:** Singapore Tourism Board has launched “destination-free cruise” since 2020. Dream Cruises’ “World Dream” and “Quantum of the Seas” of Royal Caribbean International have **extended the operation time in Singapore**. Royal Caribbean International held a press conference on the route of the new ship "Miracle of the Seas" on April 20, and plans to **make a deployment in Shanghai, China in 2022**. On June 9 this year, Dream Cruises’ “Genting Dream” entered the waters of Hong Kong, preparing for the first sailing of “Super Summer Seacation” on July 30.
Conclusions

- The cruise industry has developed for a hundred years, and the market resilience has been verified. Therefore, the long-term positive fundamentals of the global cruise market will not be changed due to the outbreak of the epidemic. China remains an important segment of the global cruise market and also one of the most promising emerging markets in the world.

- As the epidemic prevention and control enters the normal stage, the cruise ship resumption plan has been put on the agenda. The consumer confidence of cruise tourism is expected to be restored in the promotion of cruise port epidemic control and safety and in the marketing activities of cruise operators, and the consumer demand of cruise tourism will be gradually recovered.

- In the future, with the release of policy effectiveness, the normalization of epidemic control, and the recovery of cruise tourism demand, cruise companies will adjust their route layout more frequently in the Chinese market, and the pace of market recovery will further accelerate.
Thanks for listening!