Hospitality Review

Volume 13
Issue 1 *Hospitality Review Volume 13/Issue 1*

Article 4

1-1-1995

Five Years in the Rise of the Modern Cruise Industry

Laurence Miller
Florida International University, hospitality@fiu.edu

Five Years in the Rise of the Modern Cruise Industry

Abstract
The years from 1969-74 were critical in the evolution of the passenger shipping industry from crossing to cruising. Faced with a decline in demand for point-to-point passenger transportation and an increase in the demand for cruises, steamship lines were also faced with a number of internal and external challenges. The writer discusses some companies that met these challenges, some that did not, and some new, cruise-oriented companies now leading the industry today

Keywords
Laurence Miller, Cruise, FIU

Five Years in the Rise of the Modern Cruise Industry

by
Laurence Miller

The years from 1969-74 were critical in the evolution of the passenger shipping industry from crossing to cruising. Faced with a decline in demand for point-to-point passenger transportation and an increase in the demand for cruises, steamship lines were also faced with a number of internal and external challenges. The writer discusses some companies that met these challenges, some that did not, and some new, cruise-oriented companies now leading the industry today.

If any half decade can be said to have been critical in the development of the present-day cruise industry, witnessing the transformation from passenger ships as transportation to these same ships as destinations, it was the five years between and including 1969 and 1974. During this brief time, major events shaped the industry as a whole and some major players in particular.

Actions and reactions to these events as well as the trading environment arguably determined which lines would be major players in the '90s and which were not destined to stand the severe tests of time and changing conditions.

At the start of this period, the ranks of passenger ships and companies in regular transatlantic service were thinned but still formidable. There was still regular Atlantic service with a choice of ships, lines, and destinations most seasons of the year. One could travel on the liners of such companies as Holland America, the French Line, and the Italian Line, in addition to the ultimate survivor — Cunard. The Swedish American, North German Lloyd, and Norwegian America Lines still had transatlantic schedules.

But the writing was on the wall. A million passengers had crossed the Atlantic by sea in 1957. By 1965, this number had plummeted to 650,000 and in 1968, the year immediately prior to the period under review, the numbers stood at 306,000.[1]

Many Companies Had Financial Problems

Many established companies were on the ropes. Their status was about to be made even more precarious by the Arab Oil Embargo and

FIU Hospitality Review, Volume 13, Number 1, 1995

the accompanying worldwide fuel shortage, which brought about canceled voyages, a few uncompleted sailings, and fuel surcharges.

The plight of most companies was made more difficult by a number of factors which have since been outgrown or overcome. The fleets of most companies consisted of ships that were not economic, whether crossing or cruising. Any profits were seriously eroded by inflated labor costs thanks to single-nationality crews retained either out of sentiment or flag requirement.

The corporate mental adjustment from cruising as a means of reducing off-season losses to cruising as a highly lucrative trade was just beginning. The mutually profitable marriage between air and cruise lines had in some instances been consummated, but for many firms was still in the early courtship stages.

In 1971, the almost-new, 45,600-ton *Michelangelo* and *Raffaello* of the Italian Line, the last Atlantic express liners ever built, carried between them 35,425 passengers on 42 crossings of the Atlantic.[2] This yielded a load factor of just 50 percent which, even in summer, averaged no better than 56 percent. By comparison, *France* averaged 74 percent on the North Atlantic that year, and the *QE2* 69 percent.[3] The experience of the leading four ships still in Atlantic service is representative of what was happening on the North Atlantic at that time: moderate availability of sailings, marginal load factors, and, with the possible exception of *QE2*, an otherwise very efficient ship, labor costs that absolutely precluded a profit.

In the case of Italian Line, losses were assumed by the Italian taxpayer, thanks to the strong support of organized labor. But by this time, losses were so great that they were increasingly difficult to ignore even with the strength of the maritime unions. In 1974, losses incurred by the long-distance passenger services of the Finmare Group, which included the Italian Line, amounted to $60 million.[4]

Holland America Line, more a creature of private enterprise, nearly went under through a combination of high labor costs and management blunders. Dutch labor unions, instead of compromising in the early '70s, increased their wage demands. Holland America responded by making the decision in September 1971 to transfer registry of its ships to the Netherlands Antilles and discharging the Dutch service and deck crews that had been the hallmark of the line.[5] However, there had been inadequate training of the Indonesian replacements, something that undermined the sophistication of service levels available aboard the ships for several years.

The French Line's *France*, fundamentally an Atlantic rather than a cruise liner, was withdrawn from service in September 1974. On her last voyage, the 1,100 crew members took over the ship, and held it in the English Channel while demanding a 35 percent wage increase.[6]

Swedish American Line, with a fleet of dual-purpose ships admirably designed more for cruising than for Atlantic service, and faced with the same set of tradeoffs as Holland America, elected to sell its two modern ships in 1975 and leave the passenger business.[7]

FIU Hospitality Review, Volume 13, Number 1, 1995

As is often the case when businesses are in transition, the incentives not to continue in the passenger business seemed to loom much larger for some lines than the incentives to convert to cruising. In the case of Swedish American, the line faced a long period of labor difficulties which it was unwilling to face. In addition to spiraling fuel costs, their lovely and spacious ships, the *Gripsholm* and *Kungsholm*, also had some of the lowest passenger densities then in existence — another revenue-negative factor.

Many Lines Barely Survive

Norwegian America Line, offering ships that in category were quite similar to those of SAL, managed barely to hang on through this period. Density of its ships was quite similar to those of Swedish American. The 24,000-ton *Sagafjord*, built in 1965, carried just 425 on luxury cruises but required a crew of 300. It is said that she lost money even when full, and has survived to the present day by having her accommodation increased to 660 through addition of inside cabins and singles converted to doubles.[8] Norwegian America Line became Norwegian American Cruises in 1980 and was subsequently purchased by Cunard.

Marine architects had yet to produce the super-profitable cruise ships of today made possible by modern propulsion, light-weight metals and prefabricated construction. In order to provide luxury standards for cruises with the five-star-plus ships of today, cruise vessels built prior to the '80s had to be large and of extremely low density. Examples included not only the Norwegian America and Swedish American vessels, but perhaps the best-known, Cunard's *Caronia*. Designed in an era when operating costs were much lower, owners of these ships found the market would not support fares that provided a good return on the investment, or even sufficient fares to break even.

Thus some of the finest cruise ships ever built were not really viable just as cruising was coming into its own. In the future, shipbuilding technology would make it possible to provide the same or superior standards of accommodation in a much more economical physical plant.

Arab Oil Embargo Has Impact

Just as economies were stagnating in Europe and North America, the Arab Oil Embargo forced the price of heavy bunker fuel from about $35 per ton to $95 and higher. This had little impact on motorships, which used much less fuel, but most passenger vessels were still powered by steam turbines that typically consumed from 200 to 400 tons of fuel per day at cruise-service speed.

While many of the ships in existing fleets were lovely to behold, they were, in general, unsuited to making money in full-time cruising. Reasons included the following:

• Many had been built to accommodate two or three classes of passengers. This meant duplicated facilities and, therefore, wasted space that could have been used for additional cabins, uneven standards of accommodation, and inconvenient layouts when cruising as one-class ships.

• Draft often exceeded the 28.5-foot level accommodated in many cruise ports, and such features as bow thrusters to aid maneuvering in the absence of tugs were rare. Today's cruise ships typically draw 25 feet of water or less.

• While discounting of passenger fares was comparatively rare, overall average standards aboard many ships precluded pricing at profitable levels. A large percentage of berths were intended to meet cabin- and tourist-class amenity levels.

• There was often a "You come to us" marketing approach promoting the cruise product, a hangover from line-service days.

A number of illustrations will add color to these generalizations.

Many Lines Fail to Regain Profit

Cunard, which was eventually to survive this era, had placed itself in jeopardy by commissioning in 1954-57 a quartet of 22,000-ton ships that were not air-conditioned, in which most cabins lacked private facilities, and which carried 10,000 tons of cargo worked through seven hatches.[9] In 1962-63, the line converted the first two, which had also been badly decorated, into cruise ships and renamed them *Franconia* and *Carmania*, formerly the *Saxonia* and *Ivernia*. While cruising had shaped the refit, they emerged from the shipyard as dual-purpose Atlantic/cruise liners, but with such non-amenities as exposed wiring, some cabins without private facilities, contemporary but rather gloomy interiors, and — in the case of the *Franconia* — an instrumental group that soon earned the nickname, "The Morticians."[10] Except for the just-completed *QE2*, as the only ships left in the Cunard fleet, they were described as "marginally profitable" in 1971 by Cunard Chairman Sir Basil Smallpeice.[11]

Italian Line's lovely new 45,911-ton *Michaelangelo* and *Raffaello*, designed to maintain an Atlantic service to the Mediterranean starting in 1965, had a service speed of 26.5 knots and carried 1,775 passengers in three classes. However, of five decks sited within their hulls, the lowest three had no portholes in what may have been a misguided safety move after open portholes were said to have hastened the sinking of the *Andrea Doria*.[12] Portholes are easy to cut and this could have been corrected in their later careers.

They might still be in service as this is written, enjoying the same panache as NCL's *Norway*, were it not for the engine/boiler design. Each set of engine rooms and boilers drove just one propeller. This meant that both had to be staffed and operated regardless of service speed. When in 1975 the "Renaissance Liners" were taken out of service and placed on the market, they were inspected by Carnival, Chandris, and every other line in an expansion mode, but rejected as incapable of making cruising profits; this in spite of spectacularly fine sun areas and public rooms.

It should also be mentioned that all state-owned Italian passenger companies were saddled by a particularly inefficient and, at times, incompetent parent organization that had been capable of producing ships of this design in the first place. Later an attempt was made to run the most cruising-suitable ships under the aegis of a new company, Italian Cruises International. However, with the same management and labor problems, plus poorly-refitted ships, the effort was doomed to failure.

New Entrepreneurs Enter the Scene

Just as several traditional lines were in their death throes, new entrepreneurs came to the fore on the South Florida cruise scene. One has to go to the mid-'60s to trace the prehistory of what was to happen in the 1969-74 period.

Until then, quality cruises from the area were mainly available through seasonal deployments by such lines as Italian Line, Home Lines, and Costa. Cruise ships often called there to pick up or disembark passengers on cruises that originated in New York.

New York was still the cruise capital of the world. Companies with year-round programs included Chandris, Cunard, Greek Line, Incres, Holland America, especially toward the end of this period, and Home Lines. Of these, only Chandris and Home Lines were really successful. They survived the early '70s and the oil embargo, along with Cunard and Holland America. Greek Line and Incres, which offered highly successful cruise programs in the '50s and '60s were forced under by the fuel crisis and the interest of their owners in pursuing other investments, notably tankers, financially lethal for some firms with the onset of the embargo.

Year-round cruise programs from Florida were available primarily aboard former American coastwise steamers such as Eastern Shipping's *Evangeline*, *Yarmouth*, and *Bahama Star*, the *Florida* of Peninsular and Occidental, and offerings by marginal operators. Proximity to warm-water cruising was, to some extent, offset by distance from major population centers. This factor was soon to be overcome through the magic of the air/sea program.

Ted Arison Has Influence

Ted Arison, who was later to found Carnival Cruise Lines, had a hand in changing this through his role as general sales agent for, among other vessels from time to time, the modern car ferry/cruise ship *Nili*, owned by the private Israeli firm Somerfin. The ship began to offer three- and four-day cruises from Miami to Nassau. This service came to an end when, thanks to the line's cargo operations, Somerfin collapsed financially.[13]

Simultaneously, the Norwegian shipowner Knut Kloster had a modern vessel but no trade for her. He had completed the original *Sunward* in 1966 for the U.K.-Gibraltar trade which ended when the Spanish closed the border with the British colony. Reading of Kloster's plight in *Travel Weekly*, Arison met with him and, in return for guaranteeing him an income of a half million dollars the first year of operation, obtained the agency for the ship. Arison did not have the money, but made the guarantee anyway, and was lucky when the service prospered.

The agreement between Arison and Kloster called for the former to receive a commission of 22 percent. In return, Arison served not only as sales agent, but also performed certain shoreside services.

In 1972, there was a disagreement between Arison and Kloster over how much money was owed the latter. The agency agreement dissolved, and Kloster hired away most of Arison's staff. Arison decided to let the courts determine the fate of the money in contention, but meanwhile used these funds to found his own company, Carnival Cruise Line, in Association with AITS (American International Travel Service) which provided $6.5 million in initial financing. This incident was to color the relationship between two of the key players in the American cruise industry for years to come.

Arison went to England with the object of purchasing the Cunarders *Franconia* and *Carmania*, then laid up in the River Fal. He had even decided that the ships of his new cruise line would comprise the "Golden Fleet," since there were originally to have been two ships. On inspecting the Cunarders, he was less than delighted with their condition and general suitability. It came to his attention that Canadian Pacific's *Empress of Canada*, a greatly superior ship, was for sale. Arison inspected her, liked her, and, as the saying goes, the rest is history. She became *Mardi Gras*, Carnival's first ship, entering service in 1972.

Modern Cruise Industry Begins

In the first three years of the decade, as the old era of point-to-point transportation was dying, some important components of the modern cruise industry were in place.

In 1971, Kloster completed a rapidly-developed fleet of four modern "White Ships," marketed extensively on an air/sea basis. Largely car ferries in basic design mode, their accommodations, public areas, and deck space were high density but, nevertheless, very competitive as cruise ships by contemporary standards.

Carnival had made a modest beginning, and was struggling, but destined to make it. The firm had not yet acquired its second ship, which was essential to survival. This was to come in 1975-76 when Carnival purchased *Queen Anna Maria*, later *Carnivale*, from the bankrupt Greek Line.

Another small operator, Commodore Cruise Lines, had been operating two car ferry/cruise ships so typical of early new buildings. These were *Boheme*, completed as a new ship in 1968 and placed in service, assisted on a seasonal basis from 1969 by *Bolero*. Commodore was destined never to achieve breakthrough status, though it survives to the present day operating two older cruise ships.

Costa was heavily involved in cruising from South Florida throughout this period and employed mainly rebuilt or upgraded second-hand tonnage, seemingly on an "as available" basis.

It was left to the Norwegians to usher in cruising's new era. Nothing illustrates better the evolution experienced during this five-year period, during which the *France* and major Italian liners still sailed the Atlantic in regular service, than the birth of Royal Caribbean Cruise Lines and Royal Viking Line.

The former was the project of two Norwegian freight companies, Skaugen and Wilhelmsen. They commissioned in rapid succession the *Song of Norway* (1970), *Nordic Prince* (1971), and *Sun Viking* (1972).

Two other Norwegian companies, Det Bergenske and A.F. Klaveness, placed in service during 1972 and 1973 the three original ships of Royal Viking Line, *Royal Viking Star* (1972), *Royal Viking Sky* (1973), and *Royal Viking Sea* (late 1973). These were designed to duplicate the luxury cruise standards of such earlier traditional ships as Cunard's *Caronia* in a modern hull.

These cruise ships represented something completely different from anything that had entered service previously. They were intended never to sail in line service. They were also designed, from the keel up, to be cruise ships. In this, they transcended and outclassed the transitional modern vessels that either had been built as high-class car ferries, such as Kloster's original *Sunward*, or those where the design had much in common with that of a car ferry, in some cases with garage accommodation, such as NCL's "White Ships" and *La Boheme*, quintessential examples of transitional designs.

The contrasts evident during this period can be realized when one considers that the construction of Cunard's *QE2* and Royal Caribbean's *Song of Norway* were but one year apart, commissioned in 1969 and 1970, respectively. The Cunard ship, while intended as dual-purpose, is more Atlantic than cruise ship in its design. *Song of Norway*, which reaches the age of 25 this year, was in every way the modern single-purpose cruise ship.

The five-year period that is the focus of this article represented, in many respects, a process of natural selection for the industry. The companies that could adapt sufficiently to deliver a cruise product in exchange for which passengers were willing to contribute the full, unsubsidized cost survived. The new companies formed during this period constitute the basis of the modern cruise industry. For many reasons — lack of entrepreneurial interest and/or skills, failure to reach accommodation with unions, insufficient flexibility and adaptability, or simply overwhelming difficulties — some of the best-known lines failed to make it. It is interesting to observe the factors that advanced and hindered companies on the path to demise or survival as part of the present-day cruise industry.

FIU Hospitality Review, Volume 13, Number 1, 1995

References

[1]Peter Kohler, "Italy's Renaissance Superliners," *Steamboat Bill* 43, no. 3 (Fall 1986): 256-57.

[2]*Ibid.*, 257.

[3]*Ibid.*

[4]*Ibid.*, 259.

[5]John Maxtone-Graham, *Liners to the Sun* (New York: Macmillan, 1985), 273-74.

[6]William Miller, *The Last Atlantic Liners* (New York: St. Martin's Press, 1985), 155.

[7]Algot Mattsson, *The White Viking Fleet* (Goteborg: Tre Bocker, 1983), 7.

[8]Peter Kohler, "Hands Across the Sea – Den Norske Amerikalinje," *Steamboat Bill* 43, no. 2 (Summer 1986): 92.

[9]Miller, 121.

[10]Personal observations and recollections of writer, a cruise passenger on board; also, of Willis Giese, a transatlantic passenger, as related to writer.

[11]Sir Basil Smallpeice, *Of Comets and Queens* (Shrewsbury, England: Airlife, 1980), 230.

[12]Deck Plan, published June 1964, author's collection.

[13]Laurence Miller, "From the `Golden Fleet' to the `Fun Ships': a History of Carnival Cruise Lines," *Fairplay Cruise Review* (London: Fairplay Publications, 1988), 17-22. This section of the article is taken from the Fairplay chapter which was based on interviews with Mickey Arison, now Carnival Chairman, and Meshulam Zonis, Carnival's senior vice president for operations.

Laurence Miller is Director of University Libraries at Florida International University.

FIU Hospitality Review, Volume 13, Number 1, 1995