ICELAND'S POSITION

AS A

CRUISE DESTINATION

Commissioned by:

Iceland Tourist Board - New York

Port of Reykjavik

Port of Akureyri

Port of Isafjördur

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Table of Contents

1. SITUATION

- **North America**

  - Cruise Market

    - In contrast with the air lines, Cruise Lines International Association <CLIA> - representing 23 cruise lines <attachment A> with 98% of the cruise capacity marketed from North America - reports that after September 11, 2001 North Americans are actively cruising once again.

      Current pricing levels coupled with already exceptional value have contributed to the renewed consumer confidence in cruising, resulting in over 7 million passengers in 2002.

    - Since 1981, growth in cruise capacity has averaged 7.6% annually, which is in line with the 8.4% annual passenger growth rate the industry has experienced since 1980.

      With a total of 16 ships - accommodating up to 3000 passengers each -, more capacity enters service in 2002 than in any other single year in the history of the cruise industry.

It is expected that cruise capacity will increase at an average rate of 7.9% over the next five years.

Note: The growing world cruise fleet and cruise ship capacities require increased Europe deployment.
Therefore, for Iceland the time is right to actively approach selected cruise lines in order to increase the number of cruise ship visits!

- Passengers, in general, are getting younger:

	average age
1986	56
1995-2000	50
prospects	43

although many passengers visiting Europe are experienced cruisers at higher than average age.

- Destinations
  - World events led several cruise lines to shift their focus away from the eastern Mediterranean, revamping itineraries to stay closer to North America and to feature additional visits to the western Mediterranean, United Kingdom, Baltic Sea and northern Europe.

While the number of cruises slated to sail the Mediterranean in 2002 dropped by 20%, CLIA's destination analysis shows an 86% increase in the rest of Europe featuring new itineraries and ports, resulting in an increase in the variety of destination experiences.

Note: This new itinerary trend offers a unique opportunity for Iceland to actively approach selected cruise lines in order to increase the number of cruise ship visits!

- The historically most popular destinations continue to predominate:

	2001	2002
Caribbean	44.5%	46.6%
Europe	8%	11%
Mediterranean	12.7%	10%
Alaska	7.89%	7.95%

- In a recent CLIA study, destination selection was cited by more than 85% of all respondents as the most important factor in the decision to take a particular cruise.

- **Europe**

  - In addition to the United Kingdom, Germany has developed as a growing European cruise market with a strong interest in the Nordic countries.
  - Several North American cruise lines have developed subsidiaries and designated cruise ships as "German products" to better capture this market.
  - Both the United Kingdom and Germany appear to have substantial potential for increased cruise ship visits to Iceland.

- **Cruise Arrivals**

  Growth of cruise arrivals in Iceland has been considerable:

  - **Reykjavik**

    1992-2002 cruise ship visits increased from 26 (1992) to 51 (1995) per year (2002: 50).

    Passenger counts ranged from 11,742 (1992) to 30,088 (2002), an increase of 156% over 11 years (14% annually).

    The average passenger count per ship call ranged from 403 (1993) to 602 (2002).

    <Source: Port of Reykjavik - attachment B>

Except for the tender pier, the Midbakki and Faxagardur, the present cargo pier facilities used for cruise vessels require a shuttle service to downtown Reykjavik.

- **Akureyri**

  1988-2002 cruise ship visits increased from 15 (1990) to 35 (2002) per year.

  Passenger counts ranged from 6,016 (1988) to 20,199 (2002), an increase of 236% over 15 years (16% annually).

  The average passenger count per ship call ranged from 351 (1989) to 627 (2001) (2002: 577).

  <Source: Port of Akureyri - attachment C>

  Both pier and tender facilities are within walking distance to downtown Akureyri.

- **Isafjördur**

  1995-2002 cruise ship visits increased from 6 (1995) to 13 (2002) per year.

Passenger counts ranged from 1705 (1995) to 2992 (2002), an increase of 75% over eight years (6% annually).

The average passenger count per ship call ranged from 216 (1996) to 454 (1998) (2002: 230).

<Source: Port of Isafjördur - attachment D>

Tender facilities are within walking distance to the historic district.

Shore excursion motorcoach capacity is limited. Additional capacity from Reykjavik would add to the cost.

Available boat transport to Vigur is an advantage.

- **Other Ports**

  In addition, other smaller ports (Djupivogur, Seydisfjördur, Westmann Islands) have potential for future cruise visits.

- **Scenic Cruising & Whale Watching**

  Scenic cruising and whale watching are valuable destination opportunities.

- **Circumnavigation**

  Iceland circumnavigation cruises from Reykjavik have potential for further development and homeporting.

- **Overland Tours**

  Overland tours between ports (Reykjavik - Akureyri; Reykjavik - Isafjördur) are interesting opportunities.

- **Tourist Arrivals**

  The 2000/2002 tourist comparison is as follows:

  - 2000 International Tourist Arrivals by Air

Nordic Countries	USA Canada	UK	Germany	Other	Cruises	Total
91,500	57,300	45,000	33,000	50,700	25,500	303,000
30%	19%	15%	11%	17%	8%	100%

(Source: Icelandic Tourist Board)

Note: No later statistics available due to Schengen Agreement.

- 2000 Reykjavik Cruise Arrivals

Nordic Countries	USA Canada	UK	Germany	Other	Cruises
77	6,221	5,678	10,345	3,255	25,576
0%	24%	22%	41%	13%	100%

- 2002 Reykjavik Cruise Arrivals

Nordic Countries	USA Canada	UK	Germany	Other	Cruises
102	9,199	5,037	12,707	3,043	30,088
0%	31%	17%	42%	10%	100%

<Source: Port of Reykjavik>

- 2000 Akureyri Cruise Arrivals

USA Canada	UK	Germany	Other	Cruises
1,965	5,023	7,291	2,524	16,803
12%	30%	43%	15%	100%

- 2002 Akureyri Cruise Arrivals

USA Canada	UK	Germany	Other	Cruises
2,236	4,773	10,319	2,871	20,199
11%	24%	51%	14%	100%

<Source: Port of Akureyri>

Note: - The percentage of German cruise passengers is considerably higher than for land tourists.

- Although the number of U.K. land tourists is substantially higher than from Germany, the number of U.K. cruise passengers is far lower.

  An opportunity for U.K. cruise operators!

2. OBJECTIVES

- Increase the number of cruise passenger arrivals in Reykjavik from 30,000 (2002) to 50,000 by 2010, representing an increase of 8¼% per year from 2003.

  Since 2003 itineraries have already been announced and 2004 is in the planning stage - which should be completed by March 2003 -, it is realistic that the first major impact of an increased and continuing marketing effort can be expected for 2005 and beyond.

  It should be noted that projecting future cruise passenger volumes is difficult to even the most well established, data-rich cruise destinations.

  Projections for destinations with less than 100,000 passengers per annum are subject to the fact that a single ship may have a significant positive or negative influence on arrivals.

  Cruise vessels by their nature are mobile resorts, capable of redeployment at a moment's notice:

  - To meet new market opportunities.
  - React to a change in port, regional and/or global policies.

- To compete stronger with Baltic Sea and Norwegian Fjords, increase awareness of Iceland as a natural, scenic, mystical, unusual and safe cruise destination among cruise lines, prospective passengers and travel agents in both Europe and North America.
- Expand the economic and social contribution of cruise activities to Iceland.

3. STRATEGIES

- Target cruise lines in Europe and North America to include Iceland in their itineraries.
- Design and deliver a targeted presentation to selected cruise lines with large, medium and small-size cruise vessels.
- Develop a public relations campaign to increase awareness for Iceland with emphasis on both (soft-)adventure and non-adventure travel in a country of unique natural beauty and diversity where many people speak English.
- Continue special cruise line marketing effort for several years.

4. SWOT ANALYSIS

- **Strengths**

  - Iceland is a desirable 'collectors' destination.
  - The natural beauty and diversity are out of the ordinary.
  - More than one attractive port and scenic cruising offer Iceland circumnavigation and other diverse itineraries.
  - Iceland as a destination, is of interest to adventure, soft adventure and other tourist experiences.
  - Diverse half and full-day shore excursions offer a variety of interesting and worthwhile tourist opportunities.
  - Ample availability of certified English/German speaking tour guides.

- **Weaknesses**

  - Geographic location requiring a day at sea to/from Iceland is not favorable for "regular" cruise itineraries.
  - Iceland levels below Baltic Sea, British Isles, Norwegian Fjords and Arctic.
  - Short season (June - mid-September).
  - Lack of updated navigation charts for Iceland circumnavigation.

- Reykjavik pier facilities are not close to downtown and are not Passenger-friendly.
- Isafjördur lacks identification of historic houses/buildings.
- Lack of authentic upscale Icelandic souvenirs.
- North American consumer and cruise line awareness for Iceland is generally limited.

- **Opportunities**
  - Enhance Iceland destination opportunities:
    - Multiple Icelandic ports with overland tour opportunity.
    - Scenic cruising.
    - Whale watching.
    - Circumnavigation.
  - Include in following itineraries:
    - Transatlantic sailings via Greenland.
    - Spitsbergen combination for Europeans.
    - Norway combination.
    - Continent/Irish Sea combination.
    - Exploration cruises (Artic).

  - Target selected European and North American cruise lines to include Iceland in their itineraries.

- Expand the economic and social contribution of cruise activities to Iceland:
  - Organize a program to develop authentic upscale Icelandic souvenirs.
  - Ship chandlers to approach cruise lines/cruise ship hotel managers for supplying fish.

- **Trouble**
  - Competing destinations:
    - Baltic Sea.
    - Norwegian Fjords.
  - Limited scheduled air availability for homeporting in Reykjavik.

5. HOMEPORT

- Limited scheduled air availability and non-competitive pricing (Icelandair only) restricts passenger capacity for homeporting larger cruise ships in Reykjavik, unless supported by less desirable air charters.
- Packages offering one, two and three-night hotel stays would reduce required air capacity.

- Reykjavik four-star hotel availability of 2000 beds <Source: Iceland Travel Industry Association - attachment E> would support smaller ships for homeporting.

  Preference is to have all passengers accommodated in one (or two) hotels.

- Development of a season of roundtrip Iceland circumnavigation cruises from Reykjavik would be of interest for further evaluation.

6. PROPOSED ACTION PLAN

- **Marine**

  - Conduct a complete assessment of secondary ports (Heimaey, Seydisfjördur, Djupivogur, Husavik) to establish minimal operating criteria.
  - Develop formated operational information for each (potential) cruise port.
  - Update navigation charts for:
    - Iceland circumnavigation.
    - Scenic cruising (Westmann Islands, Dritvik, Latrabjarg, Jokulfirdir, Hornbjarg, Breidamerjokull).
    - Whale watching (Skjalfandi, Gardur, Hellissandur).

  - Compare competitive port costs/passenger tax.

- **<u>Shore Excursions</u>**
  - Evaluate the desirability to update established and to develop new shore excursions.
  - Develop special destination tours (Westmann Islands, Kulusuk, Grimsey on Artic Circle).
  - Develop new in-depth or special experience 'signature' tours for smaller groups of seasoned travelers.
  - Develop overland tours (Reykjavik - Akureyri; Reykjavik - Isafjördur).
  - In view of the high participation level, pay attention to sufficient half-day tours for both (soft-)adventure and especially 'regular' tours.
  - Strive for increased competition among shore excursion operators in order to stay price competitive and innovative.

- **<u>Destination</u>**
  - <u>Welcome</u>
    - First impression upon arrival in the port is important.
    - Ports use welcome signs, flags, and girls in national costume handing out flowers to female passengers, etc.
    - A tourist information booth on the pier is welcome.

- Both senior citizens and school children are usually willing volunteers.
- Music on the pier at departure is much appreciated.

- Shuttle Service
  - Depending on passenger nationalities, tour participation usually varies between 50% and 90%.
  - It can be anticipated that at any time during a ship's call up to 50% of the passengers may be non-tour visitors. In order to get a positive evaluation of the port, the experience of these guests needs to be positive.
  - Where the docking (Reykjavik)/tender landing facilities are over ½ km away from the downtown/shopping area, a shuttle service to one central location needs to be offered.
  - Clean city buses would be acceptable.
  - In many ports around the world, this service is offered on a complimentary basis.
  - Sponsors could include the tourist office, port authority, government, chamber of commerce or merchants association.
- Telephones
  - Have sufficient telephones for credit card use available on the pier (mobile unit).

- Shops
  - Arrange for Tax-Free Shopping representatives to be on each cruise ship before departure from the last Icelandic port to refund the sales tax in US$ or Euros.
  - Encourage shops to be open on Sundays/holidays when cruise ships are in port.
  - Closed shops affect passenger port ratings negatively.
- Reykjavik
  - Evaluate the feasibility for cruise ships to use a multi-purpose pier within walking distance to downtown.
  - Availability of a street map with highlights (including post office and shopping area) would enhance passenger experience.
- Isafjördur

  In order to make Isafjördur more visitor-friendly, consider:
  - Place a numbered historical marker and Historical Society flag on appropriate houses/buildings and update suggested walking brochure with (numbered) mention of history.
  - Open one or more historical houses for visitors.
  - Better identify shops of interest to visitors by placing signs on sidewalks.
  - Invite artisans/painters to sell their souvenirs near the tender pier.

- Children/senior citizens in period costumes and entertainment in the downtown square would enhance passenger experience.

- Homeport
  - Develop a homeport plan for smaller cruise vessels including Icelandair and hotel aspects.

- **Marketing**
  - Cruise Iceland
    - Organize "Cruise Iceland" in order to represent the country as a total destination.
    - It allows for a greater atmosphere of cooperation and participation.
    - Overall scope of the association should focus on the key issues of marketing, brand awareness and emphasis on product development.
    - The Icelandic Travel Industry Association could be the starting point for a "Cruise Iceland" association.

    Note: "Cruise Copenhagen" is a prime example of a successful association in this respect.

- Continue membership of "Cruise the North Atlantic Islands".
- Continue participation in Seatrade Miami and possibly Seatrade Europe, which may need further evaluation.

- Cruise Line Presentation
  - Develop and deliver focused marketing and operations presentations targeted to individual North American, European (Germany, U.K., Costa) and exploration/adventure (members of International Association of Antarctica Tour Operators <IAATO - attachment F>) cruise lines operating large, medium and small-size cruise ships, including:
    - Daily sunrise/sunset chart from June until mid-September.
    - Daytime temperature chart (C/F) from June until mid-September.
    - Nautical distance chart and map from Reykjavik to the nearest and most important ports in Norway, Scotland, Ireland, England, Continent, Faroe Islands, Greenland, Canada and U.S.A.
    - Nautical distance chart and map of Iceland with reference to ports, scenic cruising and whale watching.

  - Sample half/full-day shore excursions for Reykjavik, Akureyri and Isafjördur.
  - Selection of sample itineraries.

- <u>Cruise Line Visits</u>
  - Early 2003 visit selected cruise lines with a small delegation representing port operations, tourism and government (consul) for specific one-hour presentations.
  - 2004 and beyond continue visits with one or two-person delegation.
- <u>Cruise Line Familiarization</u>
  - During summer months of 2003 and beyond arrange familiarization trips for potential cruise line customers - concentrating on cruise planning and operations decision-makers of North American and European (Germany, U.K., Costa) cruise lines - to better understand Iceland, both touristically and operationally.
- <u>CD-Rom</u>
  - Provide appropriate cruise lines with photographs of destinations and shore excursion highlights for use in cruise brochures.

- Video

  - Provide appropriate cruise lines with Iceland video to be shown to passengers prior to arrival.

- Public Relations

  - As an affordable marketing tool - especially in North America - develop a public relations campaign to increase consumer, cruise line and travel agent awareness of Iceland.
  - Develop a public relations campaign in Iceland to create awareness and appreciation for cruise ship visits.

- Return Visits

  - Develop marketing programs specifically intended to capture cruise line passengers for long-term return visits to Iceland.

- Survey

  - Update "1995 Survey Among Foreign Sea Cruise Tourists" (University of Iceland) with more emphasis on major nationalities (North America, Germany, U.K.) by selecting cruise ships carrying a majority of passengers from each of these countries.

- **Economy**

  - Souvenirs

    - Develop a program with artisans/painters (Ministry of Culture?) to design authentic upscale Icelandic souvenirs, possibly using natural products (lava, granite) and jewelry.

    - Meanwhile, consider existing Viking (Scotland) and Danish designs/products.

  - Shops

    - Encourage shops to be open on Sundays/holidays when cruise ships are in port.

  - Ship Chandlers

    - Suggest for ship chandlers to encourage cruise lines/ship hotel mangers to purchase fish when visiting Iceland.

7. TIMETABLE

- Early 2003

  - Establish "Cruise Iceland".
  - Develop strategic action plan.
  - Develop cruise line presentation.
  - Visit selected cruise lines.

- <u>Next 5 to 10 years</u>

  - Develop fiscal directives to secure funding, infrastructure/operations directives, marketing directives for mid- to long term agreements, environmental, regulatory and political directives for approvals and buy-in to result in prioritized, phased-in improvements.