Memorandum

MIAMI-DADE COUNTY

Date: April 23, 2010

5/4/2010
Agenda Item No. 6(B)1

To: Honorable Dennis C. Moss, Chairman
and Members, Board of County Commissioners

From: George M. Burgess
County Manager

Subject: Port of Miami

The Port of Miami is a centerpiece of Miami-Dade's economy, second only to Miami International Airport as a business and financial hub. Our seaport balances its roles as an attractive and competitive cruise center that set a new world record in annual cruise passengers and a resurgent cargo center that ranks as the top container port in Florida.

As requested at the April 6th meeting of the Board of County Commissioners, this report outlines the business outlook for both operations and recaps three years of significant strides in our finances, operations and security.

Cruise Marketplace

The Port of Miami achieved record numbers of cruise passengers in 2006 through 2009. During this period, we added 378,000 cruise passengers – more than any other port in Florida – while setting a world record of 4.1 million each of the last three years. We have also increased our contractually guaranteed cruise passenger movements by 20 percent. At the same time, we brought online two new of the world's most modern new cruise terminals to serve Carnival Cruise Lines, the world's largest cruise line.

Recent media coverage of the Caribbean cruise market has focused on the strategic position of our Port and Broward's Port Everglades, specifically on their long-term contractual cruise line commitments. The Port of Miami introduced this contractual business model more than a decade ago.

Each new agreement between a port and cruise line generally reflects the long-term growth trend in the Caribbean cruise market, while establishing new benchmarks for the structure and magnitude of port fees. The new Carnival Corporation agreement with Port Everglades is one such agreement, as it replaces two expiring contracts.

While this new contract is beneficial for both Carnival and Port Everglades, the level of commitment guaranteed by Carnival (even 15 years into the future) is very similar to the number of passengers at Port Everglades today. The contract thus serves to re-commit what exists today rather than pledge future growth. To provide perspective: Carnival's passenger pledge to the Port of Miami for the upcoming year (established more than 10 years ago) is slightly higher than the new contractual commitment at Port Everglades for the same year.

Understanding the overall Florida cruise market is important to understanding new contractual commitments. There are currently 24 cruise terminals throughout Florida capable of serving large, modern cruise ships. Our port controls six of those terminals, or 25 percent of the market. In 10 to 15 years, we expect there to be only 27 or 28 such terminals, of which the Port of Miami will likely control eight and Port Everglades nine.

Because of industry consolidation, Royal Caribbean International and Carnival Corporation – through their portfolio of cruise brands – now control 75 percent of the world cruise market. The consequences of this consolidation are significant in terms of business strategies. In general, these two cruise families attempt to balance passenger volume across multiple ports, thereby providing a strategic negotiating platform, facilitating brand alignment, and avoiding cannibalizing within cruise families. As much as we would like to capture all growth in the Caribbean cruise market, two factors have limited our efforts. First, market consolidation has increased pressures to equalize (and lock-up through long-term contracts) berth capacity across multiple ports. Second, the industry's growth has far outpaced Miami's growth in peak-season berth capacity.

It should be acknowledged that – unlike Carnival's new contract in Port Everglades – the Royal Caribbean deal of several years ago greatly accelerated Port Everglades' position within the cruise market. Significantly, though, when the Port of Miami failed to win the bid for Royal Caribbean's Oasis-class vessels, it did not have – nor does it now have – a terminal capable of serving this extraordinary class of vessel. The Oasis and its future sister ship would have required two full-sized Port of Miami terminals to service its 5,400 guests. Port Everglades had an available berth and terminal development area, and thereby secured 10 years of Royal's growth in the Caribbean market.

More broadly, it is critical to understand that cruise passengers view South Florida as a unified and attractive region. Growth at both the Port of Miami and Port Everglades is beneficial across county lines, expanding our exposure in the global marketplace and cementing our shared future as a jewel of international leisure travel.

Future Options

Port staff has extensively studied how to grow the cruise side of our business. With the six major cruise berths on our north side under contract and nearly filled to capacity during peak season, our options are limited. The Port could attempt to add more vessels out of season, discount rates for mid-week calls, and explore incentives to capture "port-of-call" growth. These strategies, however, are on the fringes of the cruise market. New berths are the key; without them, we will likely continue to struggle to maintain our share of the market. Over the past four years, we have managed to maintain 39 percent of the Florida cruise market, while controlling only 25 percent of the berths – an achievement in itself.

There are, however, long-term options being developed in concert with Bermello Ajamil and Partners, a leading cruise and maritime planning firm. Using vessel-simulation software with Port of Miami pilots and engineers, we have identified potential sites for two new, full-sized berths, which would allow us to expand from six to eight berths along the North Channel.

We are developing plans for a large, innovative and cost-effective terminal that will be capable of servicing multiple cruise ships within a single structure. We have received positive feedback from key cruise lines who have been briefed on this concept. In coming months, we will take these proposals to the Board, providing us with an opportunity to expand our cruise business to the fullest capacity. With the addition of two new berths and a new multi-user mega-terminal, the Port of Miami expects to host more than six million cruise passengers annually by 2030.

We must keep at least two things in mind as we plan for our future. First, it is not recommended that the Port of Miami become a discount port. We are currently less expensive in terms of port-controlled passenger fees than is Port Everglades, and perpetuating the pricing gap will not increase passengers. (Port of Miami fees represent approximately 2 percent of the overall weekly expenses incurred by a cruise line to serve a cruise passenger, providing the necessary revenue to build and maintain hundreds of millions of dollars of cruise infrastructure.) Rather than pursue discounting strategies, we will be offering attractive incentives to cruise lines to do business with us. These incentive packages will be similar to those that secured our $100 million commitment from Norwegian Cruise Line two years ago.

Second, we must prepare for our next growth period. In reality, we are several years away from the next market expansion that will take place when the cruise industry re-energizes its new-build program. We are currently in discussions with Carnival and Royal Caribbean about their long-term plans to serve the Caribbean market, and their opportunity to accommodate much of it at our port. Royal and Carnival are our largest partners and very valued ones. These companies bring jobs to our community, financial stability to our port, and large numbers of passengers through Miami International Airport.

Cargo Development

While cruise operations are extremely important to our port and community, cargo activity is also hugely important, producing the lion's share of the 176,000 jobs that emerge from operations on our island. In the last three years, we have re-established ourselves as the top container port in Florida, secured funding for the Port of Miami Tunnel, and been authorized by Congress as one of only three ports on the east coast for deep dredge. During this stretch, the Port signed the two largest cargo-terminal operating contracts in our history, with total revenue pledges in the range of a half billion dollars, more than doubling our annual cargo revenue guarantees. The largest cargo carrier in the state – and two of the three largest carriers in the world – has bet heavily on our future, and so have we.

In the same manner we are developing a bright future for cruise, we have a broad and aggressive vision for cargo development. In the next several months, we will start a concerted business-community campaign focusing on developing the infrastructure that will be required to succeed in a post-Panamax marketplace. This infrastructure includes the tunnel, our deep-dredge program, rail enhancements and warehousing and distribution development. This infrastructure development program will be of regional importance and will require the united support of our business and political leadership.

Urban Vision

As part of our 2035 master planning work, the Port has developed a new vision that will, for the first time since we became an island port nearly 50 years ago, integrate the Port of Miami into the downtown waterfront. If vision becomes reality, we will be on par with a select number of ports around the world that have successfully merged an active port with urban life. In the next several years, this community will be building a world-class waterfront, and we will be proud to be part of it.

Summary

Although recent news reports have called into question the Port of Miami's competitiveness, we believe that we are on track for a bright future. The broader story concerning the South Florida cruise market should be less one that focuses on annual bragging rights and ship repositioning, and more one about how South Florida ports will continue to enjoy growth in the cruise market until each reaches its natural capacity.

In terms of cargo, our future will depend on the willingness of the business and political leadership of this community to fight for the infrastructure that will ensure our role in a post-Panamax world. We are off to a great start with the tunnel, and we need to press at the state and federal level for deep dredge funding commitments.

Lastly, we are excited about the possibilities of integrating the Port into what will become a world-class waterfront for Miami. We will return to the Board with this vision over the summer.

c: Honorable Carlos Alvarez, Mayor
Ysela Llort, Assistant County Manager
Bill Johnson, Director, Port of Miami
Charles Anderson, Commission Auditor
Barry Johnson, President & CEO, Greater Miami Chamber of Commerce
Frank Nero, President & CEO, The Beacon Council
Bill Talbert, President & CEO, Greater Miami Convention and Visitors Bureau