

Royal Caribbean Cruise Port Investments & Privatization Examples

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Posidonia Sea Tourism
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Overview of Presentation

- RCCL as a company
- RCCL ComDev Department review
- Examples of RCCL Port Privatizations

Royal Caribbean Cruises Ltd.

- 2nd largest cruise company.
- 25% of worldwide cruise volume.
- 42 ships, 6 brands.
- 440 destinations.
- 78,650 berth capacity.
- 4.5 million total passengers in 2011.
- 53,650 employees.
- Raising the Bar – Oasis of the Seas.



RCCL Commercial Development (ComDev) Group

- Group Formed in 1999
- Six person staff; everything outsourced
- Managing RCCL's Port Infrastructure Development Worldwide
- Enlarging Docks for larger ships
- Creating New Ports
- Investing in Privatizing Ports
- Creating Mixed-Use commercial development
- Bringing the community to the waterfront
- Earning Superior Returns on Invested Capital

Port Development: A Long-Horizon Business

- Port Planning for 5+ years out in the future, much further than vessel deployment schedule.
- Port pre-development time period between 3 to 6 years. (Istanbul 8 years already & counting..!)
- Port privatization concessions are for 30+ years (once in a generation!)

Port Demand: Growing Fleet of Ships, Expanding Operating Theaters

- Current world fleet 280+ ships built since 1980
- 20 ships under construction for delivery thru 2012.
- Few ships are retired; most cruise ships ever built are still sailing; every ship stops in at least four ports weekly. Over 50,000 port calls annually.
- Each new ship stops at 4 or 5 ports weekly: 250/year
- Avg 10 new ships annually add 2,500 calls each year!
- Port demand increases over time as ship traffic grows: more traffic and larger ships require ongoing infrastructure expansion & enhancement.

Why Privatize Ports?

- Ports require capital and professional management
- To be competitive, port infrastructure needs regular upgrade and enhancement
- Government has competitive needs for capital
- Governments manage ports with political agendas
- Private operators run ports for commerce, not job creation
- Growing usage demand can pay for privately-financed infrastructure
- Examples of RCCL Port Privatizations

RCCL Port Privatization Projects

Examples- Caribbean Ports

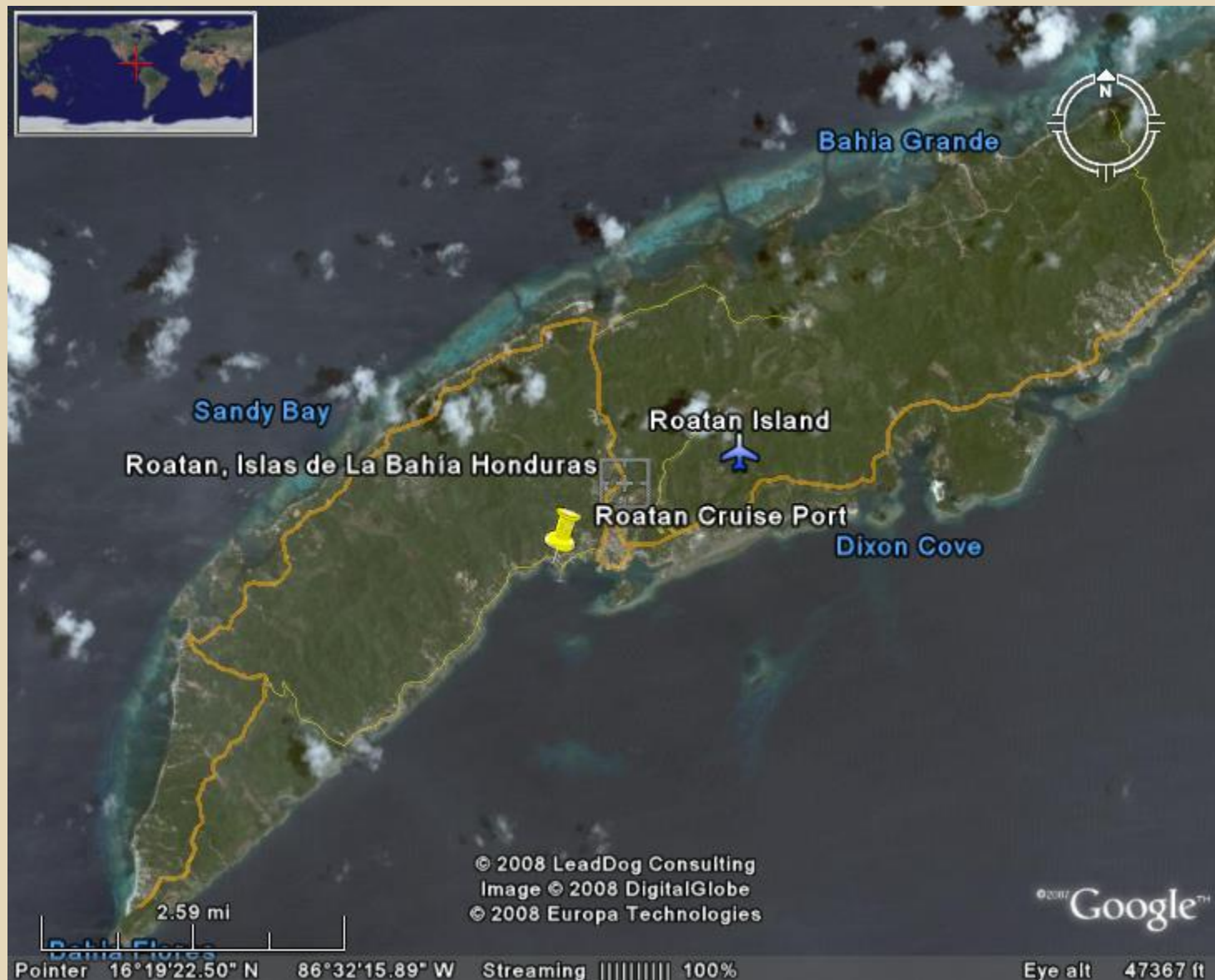
- Port of Roatan Honduras Phase I
- Port of Falmouth, Jamaica Phase I

Port of Roatan, Honduras



Roatan, Honduras

Coxen Hole Cruise Port



Port of Roatan

Project Summary: All Phases

- Operating Concession: 30 years starting 2007.
- Concession thru tender: RCCL only bidder
- Venture: RCCL majority, Honduran Govt small minority%
- Project serves cruise passengers & land-based touristic and local business
- One Cruise ship dock and tender facilities.
- 5 acre land reclamation.
- Master plan: 75,000 sq. ft. retail & restaurants, hotel & apartments.
- Upper story apartments and offices.
- \$15 million investment Phase I. Privately financed.
- Upgraded Cruise Port & Roatan Towne Center mall.
- \$24 million investment proposed Phase II with hotel.
- Cruise passengers in Roatan in 2005: 80,000
- Cruise passengers in Roatan in 2010: 800,000

Cruise Port of Roatan, Pre-existing Conditions 2006



Port of Roatan: Pre-existing Conditions (Feb 2006)



Port of Roatan Town Center – Phase I (Current Conditions)



Port of Roatan Town Center – Phase I (Current Conditions)



Port of Roatan Town Center – Phase I (Current Conditions)



Port of Roatan Town Center – Phase I (Current Conditions)



Port of Roatan Town Center – Phase I (Current Conditions)



Port of Roatan Town Center
Total 6 Acres of New Land Reclamation



Port of Roatan Town Center

90 Room Hotel & Marina Aerial- Phase II



Port of Roatan Town Center

Hotel & Marina - Phase II



Port of Roatan Honduras

Privatization Pros & Cons

GOOD

Direct negotiations between RCCL & Govt: Structure focused on relative rights and touristic growth, not price maximization.

All govt agencies participated from the beginning.

Balance of objectives: Honduras upgraded a port and RCCL paid for it.

RCCL recoups investment from mix of cruise tariffs and commercial revenues.

RCCL agreed to minimum investment level in exchange for no capital buy-in.

Govt must approve future tariff increases.

President Zalaya offered to mediate and did when needed

BAD

Honduras spent \$500,000 on consultants for public tender: only RCCL showed

New gov't administration agencies challenging previous govt's tax incentives and other nuances; tax man shake down...

New RCCL Caribbean Investments

Falmouth Port, Jamaica



Falmouth, Jamaica

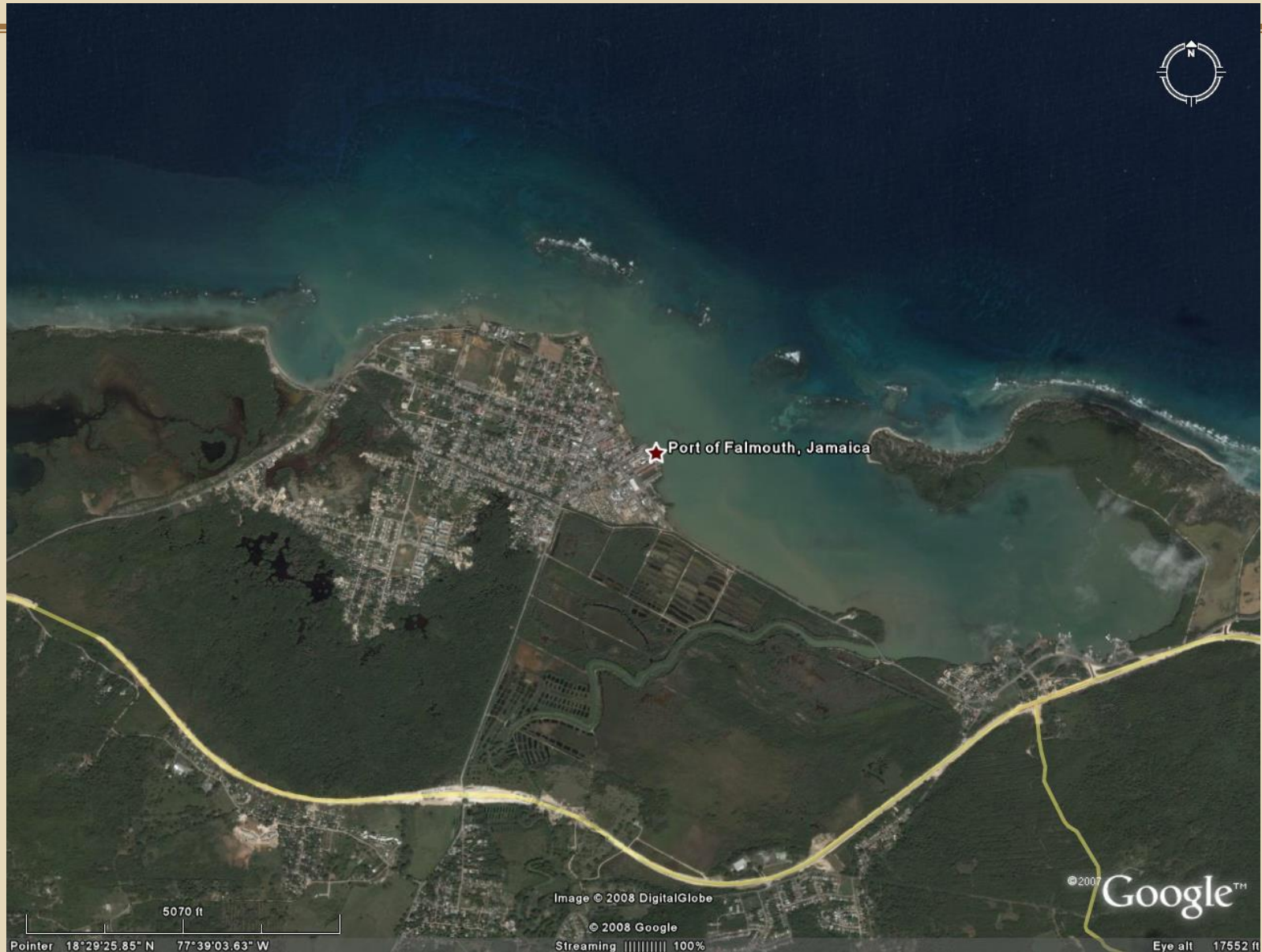
New Historic Themed Cruise Port of Call



Port of Falmouth Jamaica

- Greenfield new Port on Jamaican North Coast
- Port Operations Remain in Port Authority
- RCCL organized and developed entire project thru negotiation
- Jamaican Govt guaranteed \$125 million debt for new port
- 15 hectare land reclamation; 1,500,000 m³ of dredging.
- Two Oasis Cruise ship berths
- RCCL leases land 49 years and operates 10,000 m² of shops for cruise passengers & land-based touristic and locals
- Upper story apartments and offices
- RCCL \$45 million investment Phase I commercial
- Cruise passengers in Falmouth in 2010: 0
- Cruise passengers in Falmouth in 2011: 600,000

Falmouth - Aerial View



Falmouth City Map With Project Superimposed



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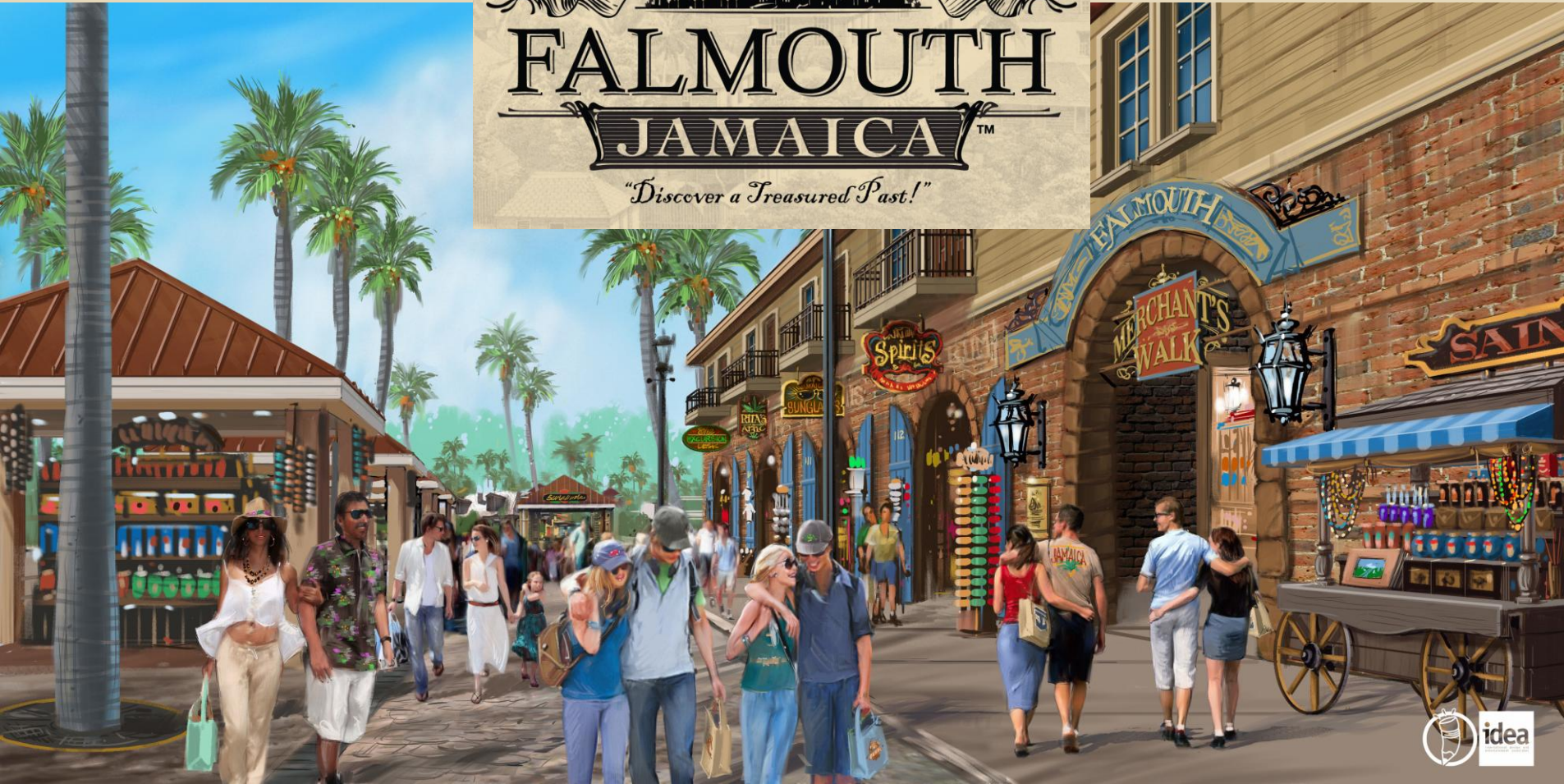
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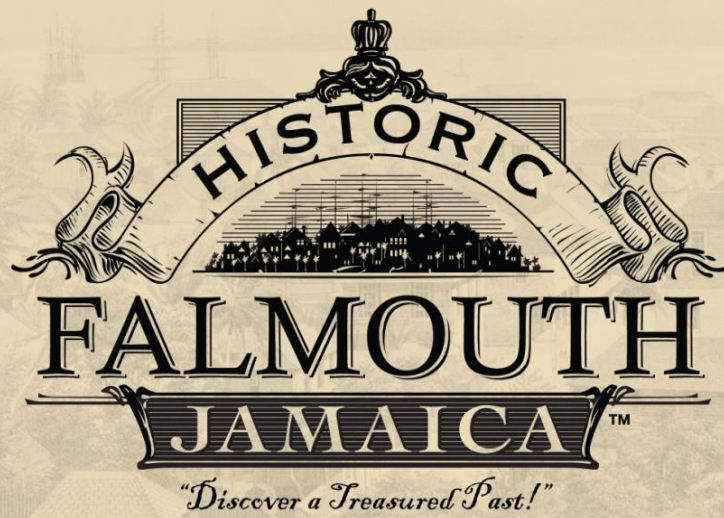


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Port of Falmouth Jamaica

Pros & Cons

GOOD

Direct negotiations between RCCL & PAJ: Structure focused on relative rights and cost recovery, not price maximization.

All govt agencies participated at the beginning; both Prime Minister candidates supported the project in election.

Balance of objectives: Jamaica added a new port and paid for it, RCCL made some guarantees to assure long term parking spot for big new ships.

Clearly stated investment criteria for RCCL & PAJ

PAJ managed permits and all govt agency interaction (Environmental, etc)

BAD

PAJ wasted 12+ months on flawed construction tender before negotiations with RCCL

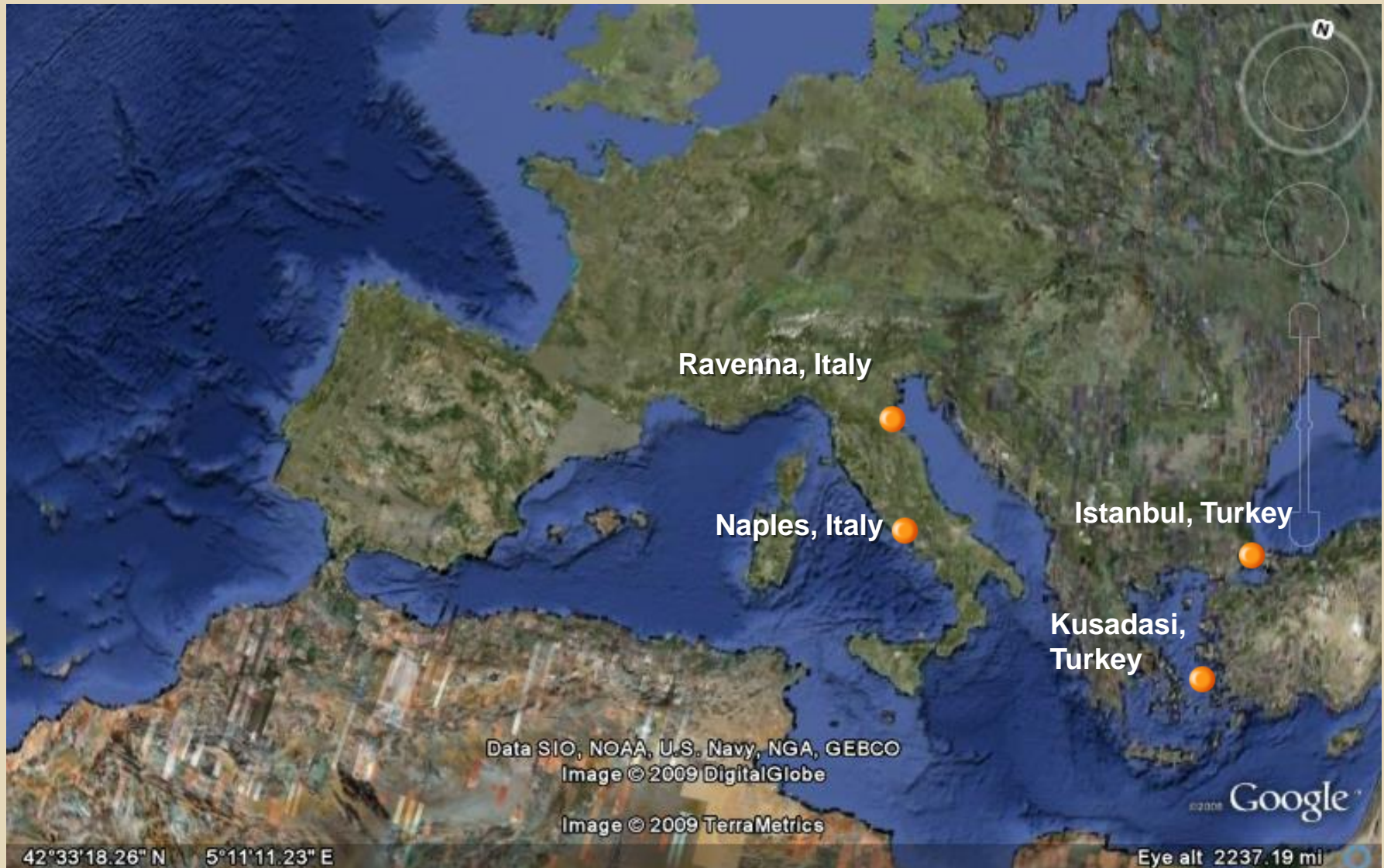
Agencies piece meal approvals- still waiting for tax incentive package 4 years into the deal; way too much bureaucracy

RCCL Port Privatization Projects-

Examples:Mediterranean Ports

- Port of Kusadasi, Turkey
 - Port of Naples, Italy
 - Port of Ravenna, Italy
- Istanbul SeaPort (2011)

Examples RCCL Port Privatizations-Med



Port of Kusadasi, Turkey

- Turkish Govt privatized thru competitive bid for lump sum: 1st privatized port in Turkey
- RCL & Turkish partners privatized port in 2004 for 30 years
- Failed winner of bid – Mayor & Chamber of Commerce - still suing government in politicized Turkish judicial system for “illegal tender”
- RCCL Venture built commercial project of 5,000 m2 on pilings.
- \$40 million investment (2004-2005) privately financed.
- 500,000 cruise passengers 2010

EGE Ports – Kusadasi, Turkey



EGE Ports - Kusadasi, Turkey



EGE Ports - Kusadasi, Turkey



Kusadasi Port Privatization; Turkey

Pros & Cons

GOOD

- 100% privatization: EGE venture is effectively the Port Authority for Kusadasi; operates pilots and tug boats as well as commercial center.
- Private motivation to provide top customer service, marketing, promotion, responsive operations.
- Very fast privatization process: tender to transfer less than six months.

BAD

- Flawed bid process: sole govt objective was maximizing price; no weight given to qualifications or subsequent capital requirements
- Turkish govt immediately started to compete against EGE Ports by offering ships zero head taxes at govt –owned Izmir Port
- Agencies piece meal approvals- each bureaucracy makes up its own rules; decentralized government shake down of concessionnaire.
- Local Municipality never stops fighting the EGE venture.

Port of Naples, Italy

Project Summary

- Port Authority (PAN) privatized cruise operating concession through negotiation with MSC & Italian partners in 2000; Operating Concession: 7 years.
- Subsequently MSC brought in Costa & RCCL; PA extended concession 30 years
- PA stayed in with 5% “golden shares”
- Venture operates Four Cruise ship docks + historic Terminal Bldg;
- \$30 million investment (privately financed) to upgrade building: 2,000 m² congress center; 2,000 m² retail center.
- 2010 cruise pax: 1,300,000

Port of Naples

Terminal Napoli



Port of Naples

Terminal Napoli



Naples Port Concession; Italy

Pros & Cons

GOOD

Direct negotiations between PAN & venture: Structure focused on relative rights and cost recovery, not price maximization.

Concession includes all cruise operations in Naples, plus operation of building

Interesting collaboration of three largest cruise lines.

PAN very involved (see below); but PAN has made significant post-concession capital investments in infrastructure.

Cruise lines operate concession to minimize taxation

Port usage has doubled since privatization; now full capacity.

BAD

Extremely politicized environment in Naples. Any initiative is subordinate to political objectives delaying all activity.

Port wields golden share aggressively; effectively controls concession agenda.

Historic Terminal rehabilitation, privately financed, very expensive and uneconomic.

PAN forced venture group to include a difficult local partner; then forced us to let that partner try to develop the property- flawed results.

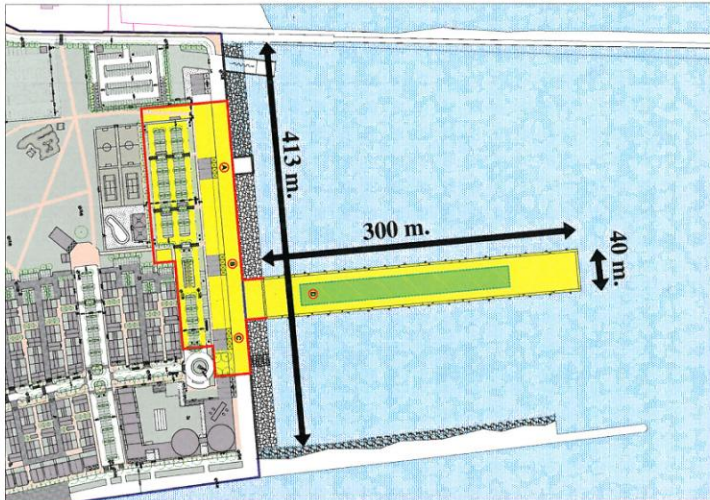
Port of Ravenna, Italy

Project Summary

- Port Authority (PAR) developed E25 million new port with state funds: Two Cruise ship docks & small homeport facility
- Offered 10 year Operating Concession thru negotiation
- PAR selected RCCL, with Italian private partners, & VTP, Ravenna Chamber of Commerce and Bologna Airport Authority
- New Port facilities completed April, 2011
- 2010 total cruise pax: 10,000
- Over 120,000 cruise passengers in 2011
- RCCL bringing 90,000 in 2011

Port of Ravenna Under Construction

THE NEW CRUISE TERMINAL – 1st PHASE



THE NEW CRUISE TERMINAL – 1st PHASE



Ravenna Port Concession; Italy

Pros & Cons

GOOD

PAR requested Qualifications, then selected and invited consortium partners.

Direct negotiations between PAR & venture: Structure focused on relative rights and cost recovery, not price maximization. No comparable competitive group.

Concession includes all cruise operations in Ravenna. No buildings.

Interesting collaboration of Italian partners with cruise line.

No PAR participation.

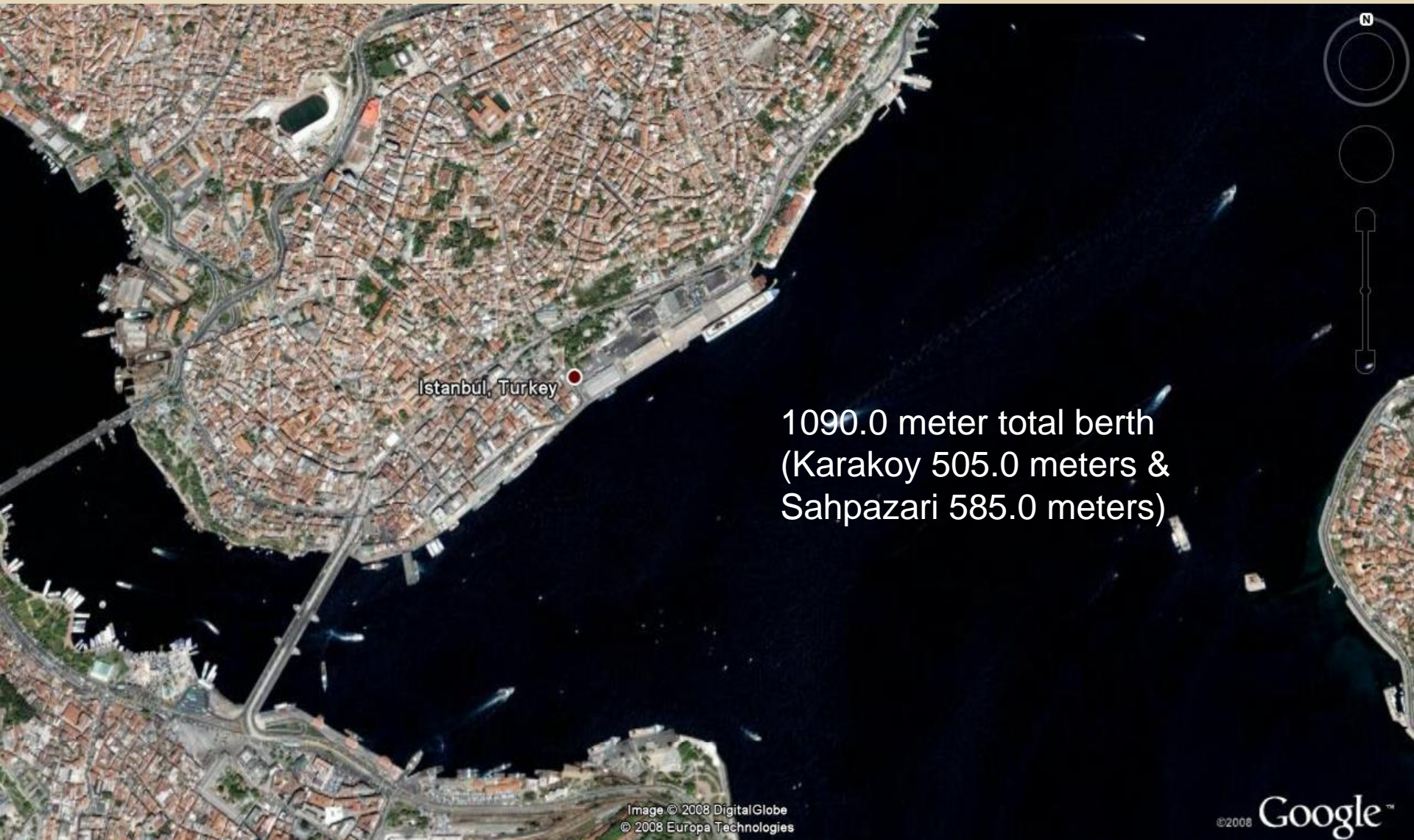
PAR & Govt paid for port infrastructure, venture shares revenue with PAR.

Port usage jumped after privatization.

BAD

Really nothing bad. Ravenna Port did everything they said they would, remedial infrastructure work as necessary, and they are leaving the venture alone while continuing to advise.

Istanbul, Turkey Galata Port on Bosphorus



Istanbul, Turkey

1090.0 meter total berth
(Karakoy 505.0 meters &
Sahpazari 585.0 meters)

*Istanbul Galata Cruise Port Today:
Obsolete & Inadequate; 8.5 meter depth*



Istanbul, Turkey

New Alternative: Zeyhatayin Cruise Port



Zeyhatayin Cruise Port

30 hectare reclamation Site Adjacent to Highway



*Zeyhatayin Cruise Port & Mixed Use Waterfront Development:
E1 billion investment in 5 berths, 7 hotels, 100k m2 regional mall; 50k m2
congress center, 1000 slip yacht marina*



Executive Summary

A Unique Landmark Project in Istanbul

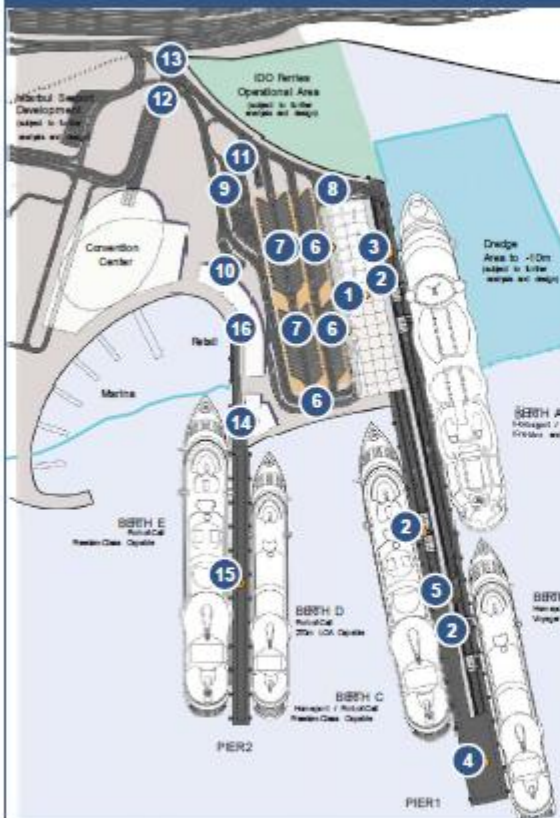


Zeyhatayin Cruise Port & Mixed Use Waterfront Development; Advanced Design

Overview of Istanbul Seaport Cruise Port



Components of Cruise Port



- | | |
|---|---|
| 1 Passenger Terminal – Phase 1 + 2 (13,600 m ²) | 9 Bus and Taxi Staging Area |
| 2 Loading Bridge and Mobile Elevating Gangway (2 stories) | 10 Entrance to Basement Parking |
| 3 Berth A Apron and Security Zone (15.7 m wide) | 11 Exit from Basement Parking |
| 4 Pier 1 (36 m Wide) | 12 Entrance to Cruise Port District |
| 5 Loading Bridge to Berths B and C (Dual Height) | 13 Exit from Cruise Port District |
| 6 Curbside Drop-Off Zone | 14 Port-of-Call Terminal Building (1,950 m ²) |
| 7 Primary Bus Logistics Area (11,970 m ²) | 15 Pier 2 (18 m Wide) |
| 8 Provisions Staging and Inspection Area | 16 Port-of-Call Retail Area (2,000 m ²) |

Contemplated Cruise Port Will Have 2 Piers with 5 Berths:

Pier	Berth	Size	Draught (m)	Function
Pier 1	Berth A	Freedom class	10.0	Home, port of call
	Berth B	Voyager class	10.0+	Home, port of call
	Berth C	Freedom class	10.0+	Home, port of call
Pier 2	Berth D	270 m LOA	10.0+	Port of call
	Berth E	Freedom class	10.0+	Port of call

- Piers of the cruise port will provide cutting edge pier facilities at draught of min 10 meters
- Piers will allow access to a wide range, almost all, cruise vessels

Port of Istanbul “Z-Port”

Privatized Operating Concession & Mixed Use Development

- Turkish Govt tendered waterfront site for cruise & mixed use development in 2007, 3 years after failed Galata port tender
- Z-Port group won 49 year concession in 2008 but finally resolved typical Turkish lawsuits (environmental groups, historians, etc) in 2010.
- Project concept includes potential for up to 3 homeport or overnight Freedom ships and/or 5 transit ships starting 2013
- Turkish Z-port development group invited RCCL to invest and to organize the cruise component.
- Group invited MSC, Costa, and NCL to join consortium (pending)
- Cost: Euro 50 million Phase I; Euro 20 mill Phase II; privately financed
- Istanbul Port total pax 2011: 600,000

John Tercek's Privatization Observations

Privatized Operating Concessions & Mixed Use Developments

- Competitive Bids have inherent flaws: future customers have to pay winner.
- Flawed Competitive bid process seeks to maximize return to government; bidder must raise operating prices to pay govt premium & cover costs; then higher prices chase away customers to other ports. Worst example: Turkish privatization process.

John Tercek's Privatization Observations

Privatized Operating Concessions & Mixed Use Developments

- Competitive Bids have inherent flaws: customers have to pay winner.
- Flawed Competitive bid process seeks to maximize return to government; bidder must raise operating prices to pay govt premium; then higher prices chase away customers to other ports.
- There are no international investors in cruise ports; only local construction companies that want to pour concrete.
- Existing or proposed cruise ports are not worth much; they require a large amount of periodic capital upgrade and they need cruise customers.

John Tercek's Privatization Observations

Privatized Operating Concessions & Mixed Use Developments

- Competitive Bids have inherent flaws: customers have to pay winner.
- Flawed Competitive bid process seeks to maximize return to government;
- There are no international investors in cruise ports;
- Existing or proposed cruise ports are not worth much;
- Govts' objective should be to attract more visitors with enhanced infrastructure and good marketing, promotion and management: Ravenna model.
- Transparent public negotiation produces better results for tourism

John Tercek's Privatization Observations

Privatized Operating Concessions & Mixed Use Developments

- Competitive Bids have inherent flaws
- Flawed Competitive bid process seeks to maximize return to government
- There are no international investors in cruise ports
- Existing or proposed cruise ports are not worth much

- Govts' objective should be to attract more visitors with enhanced infrastructure and good marketing, promotion and management: Italian model.
- Transparent public negotiation produces better results for tourism

- Better approach: "Ravenna Model" RFQ Request for Qualifications, then enter negotiations with best group to arrive at fair pricing structure and operating requirements
- Value added approach: "Mixed-use" project concept enables commercial ventures to generate diverse income streams with government participation; supplements cruise revenues

John Tercek's Privatization Observations

Privatized Operating Concessions & Mixed Use Developments

- Better approach: “Italian Model” RFQ Request for Qualifications,
- “Added Value” approach: “Mixed-use” project concept
- What is really the governmental objective? To raise \$20 million from selling an asset or to build a growing stream of tourism revenues? A port is infrastructure that enables cruise tourism to grow. The destination needs to be packaged and promoted to attract more cruise visitors. Who will do this?
- Ravenna “Consortium structure” balances local political objectives and reasonable business objectives.
- Look for a privatization group that:
 - has port development and operating experience;
 - is capable of making necessary capital investments;
 - understands the cruise tourism industry;
 - knows how to package and promote to cruise lines and travel agents internationally.

Tercek's

Privatization Guidelines

Tender should be for Qualifications, not Price

Ideal Qualifications should be consortium with international experienced partner and local partners

Direct negotiations between Govt/Port & Privatization Consortium

Investor agrees to minimum investment level instead of no capital buy-in.

Govt should publish the structure and invite submissions from comparably qualified group.

Better for Port to not be a consortium partner but to be the landlord, approving changes in policy or tariffs.

Ideal Structure focuses on relative rights and touristic growth, not price maximization to Govt; govt should participate in success, not burden the development.

All govt agencies should participate from the beginning, including assisting with permits and tax structure: make it easy for the bidder, not difficult!

Balance of objectives: Honduras upgraded its port and RCCL paid for it; Ravenna govt developed new port and private consortium is operating and promoting it.

Private investor should recoup from mix of cruise tariffs and commercial revenues.

Royal Caribbean Cruise Port Investments & Privatization Examples

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Posedonia
June, 2011

