

Carnival Cruise Line



Company Background

Carnival Corporation was incorporated in Panama in 1972 and Carnival plc in England and Wales in 2000. Along with their subsidiaries, they are referred to collectively as Carnival Corporation & plc. They claim to be the world's largest leisure and travel company. Their portfolio includes Carnival Cruise Line, Princess Cruises and Holland America Line, among others. In 2019, the company reported revenues of US \$20.8 billion and net income of US \$3.0 billion, operating 104 ships and carrying nearly 45 percent of cruise passengers globally.

Problems Related to the Cruise Industry

In recent years, the cruise ship industry has enjoyed tremendous growth in terms of passenger volume, ports of call, and the number and size of ships in their fleets. Given that the natural beauty associated with cruises is an integral part of their attractiveness, environmental performance and compliance are critical to the industry. Yet there is a long history of the cruise industry engaging in irresponsible conduct on environmental issues which has resulted in hundreds of pollution violations. The industry has been subject to millions of dollars in fines for illegally dumping liquid, solid and other toxic waste. This waste matter, when not treated and disposed of properly, contains pathogens and other toxic substances that are harmful to human health and marine ecosystems including, but not limited to, coral reefs. Cruise ships are responsible for a disproportionately large volume of waste and pollutants relative to their share of international maritime activity. While cruise ships make up less than 10 percent of non-military maritime vessels they account for 77 percent of global maritime pollution.

In addition to environmental damage, cruise ships have also experienced repeated incidents of viral and bacterial epidemics on board; sickening both passengers and staff. In some instances, these outbreaks have caused cruises to be terminated prematurely. They have resulted in lawsuits involving financial compensation to passengers.

After Carnival Cruise Lines, the next two largest cruise companies are Royal Caribbean Cruises Ltd. which is incorporated in Liberia and Norwegian Cruise Lines Holdings which is incorporated in Bermuda. These three companies together have 75 percent of the global market share. Though they are headquartered in Miami, they do not pay U.S. corporate income taxes. This is made possible by a fuzzy maritime structure that blurs

jurisdictional power and accountability. The cruise ships fly flags of convenience from countries that serve as tax havens and have little interest or capacity to enforce health and safety standards for passengers, work conditions of staff, or compliance with sound environmental practices.

Carnival Cruise Line Controversies, Accidents and Incidents

This case focuses on Carnival Cruise Line, the largest of the cruise line companies. Carnival has had a history of controversies, accidents and incidents related to its operations. These include the following:

- *Costa Concordia (2012)*: This ship crashed into a rock formation and sank off Tuscany, Italy killing 32 people while the captain abandoned ship.
- *Poverty Wages (2012)*: The *Guardian* newspaper reported that the company was paying cruise ship staff wages of about £0.75 per hour. Thus, a junior waiter would be paid £250 per month for working 11 hour shifts seven days a week. The general secretary of the British Trade Union Congress stated, “It’s high time the disgraceful practice of allowing the shipping industry to pay poverty wages to workers who don’t live in the U.K. be stopped.
- *Carnival Triumph (2013)*: This ship suffered an engine room fire that left over 3000 passengers adrift in the Gulf of Mexico without air conditioning or working toilets for several days. The resulting media coverage dubbed the ordeal as the “poop cruise”. In response to a related lawsuit Carnival stated that its contract with passengers *“makes absolutely no guarantee for safe passage, a seaworthy vessel, adequate and wholesome food, and sanitary and safe living conditions.”*
- *Carnival Ecstasy (2015)*: An electrician on board this ship was crushed to death while working in an elevator.
- *Penalties for Illegal Dumping (2017/2019)*: In 2017, The U.S. Department of Justice fined Carnival’s Princess Line US \$40 million for dumping oil-contaminated waste at sea and falsifying records. Two years later its CEO entered a guilty plea on behalf of the company for continued environmental violations including an alleged 800 incidents of illegal dumping from April 2017 to April 2018. In 2019, Carnival agreed to pay an additional criminal penalty of US \$20 million for deliberate acts of ocean pollution including dumping plastic waste.
- *Carnival Dream (2018)*: A pipe burst in the ship’s fire suppression system resulting in the flooding of 50 staterooms.
- *Carnival Glory and Carnival Legend (2019)*: The two ships collided in the port of Cozumel in Mexico resulting in damage to the Carnival Glory’s stern superstructure.

Carnival Cruise Lines and Covid-19

In addition to the issues above, Carnival has come under scrutiny for its handling of the Covid-19 virus on its ships. In February 2020, the *Diamond Princess*, which was sealed off for weeks in Japan, had more confirmed Covid-19 infections at the time than any country other than China. Despite knowing about the Covid-19 problem, its executives kept the party going on board another ship, the *Grand Princess*. It was stuck off the coast of California for several days. Passengers were finally allowed to disembark in Oakland after the U.S. Center for Disease Control (CDC) took over the arrangements. Between the *Diamond Princess* and the *Grand Princess*, 850 people tested positive and 14 died. In March 2020, another Carnival ship, the *Ruby Princess*, turned out to be the single most important source for the coronavirus in Australia. Over 660 guests of its guests and 190 of its crew are known to have been infected with coronavirus. The death toll of 28 from that voyage was the highest on any Carnival cruise. The chaotic manner in which the *Ruby Princess* passengers disembarked in Sydney led to further infections and deaths in Australia among people that had not been on the cruise.

By April 2020, nine of the company's ships had become virus hot spots resulting in 1,500 positive infections and at least 39 deaths from Covid-19. The U.S. CDC viewed Carnival's actions as helping fuel the crisis by continuing to run cruise voyages well after it knew that it was risky to do so. As of April, Carnival still had passengers aboard its ships, almost a month after the CDC issued an advisory on March 8 to halt all cruise ship travel worldwide. Carnival's response was that it was not under any legal obligation to follow the CDC's advice. The legal structure of Carnival and other cruise companies enables them to disregard healthy and safety guidelines such as those issued by the CDC related to Covid-19. Carnival is incorporated in Panama and the U.K., is based in Miami, and flags its ships in tax havens such as Bermuda. This enables it to ignore legal and social responsibility and accountability.

Assignment Questions

You are the Chief Investment Officer for the Denali Sovereign Fund (a fictional fund) and have been asked to explore the feasibility of investing in Carnival. As you prepare to make your recommendation, please be prepared to answer the following questions.

- How would you rate Carnival Cruise's performance in the area of Corporate Social Responsibility? How does Carnival's CSR performance compare to other companies in the cruise line industry?
- Do you have any recommendations for Carnival Cruise related to their CSR strategy?
- Would you currently invest in Carnival Cruise Line? Why or Why Not? Please explain the rationale for your decision.

Instructions

- Teams should record their presentation and upload their video to a private YouTube channel. Make sure to include the YouTube link and your team name (e.g. Team A1) on the first slide of your presentation (instructions available at <https://www.tacoma.uw.edu/node/37431>).
- Submit a PDF of your presentation slides to a Google Drive folder that will be shared with you when you receive the case, no later than 1:00 pm local time on Saturday, February 20.
- You should NOT identify your university by name in your presentation and Power Point. Rather identify your team by the number assigned to you (e.g., Team A1, Team A2 etc.)
- Late submissions WILL NOT be accepted.
- While you may (and should) practice your presentation between Saturday, February 20 and Thursday, February 25, you may not make any changes to the content of your PPT nor add any research or conclusions after 7 pm on Saturday, February 20.
- Your video presentation should be no longer than 15 minutes. During our synchronous preliminary round on February 25, the judges will have 10 minutes for Q&A and 10 minutes to provide you feedback.
- If your team is selected for the final session, you will present LIVE (via Zoom/YouTube) on February 26. All team members should plan to be present for this presentation.
- Be prepared to defend your position in a professional manner that is grounded in your own research about the company, the market, and its competitors.

You may use any publicly available information about Carnival Cruise Line, and the cruise industry, and trends in corporate social responsibility. You may not contact any other organizations for information nor consult anyone outside of your team. This case provides the opportunity for you to use your knowledge, research, and analytic skills to explore the issues related to corporate social responsibility, social impact, environmental and social sustainability, financial statement analysis, company stock returns and other related topics.