

TESTIMONY TO THE SENATE COMMITTEE ON
COMMERCE, SCIENCE AND TRANSPORTATION

October 6, 1999

Hearing on S. 1510

The United States Cruise Ship Tourism Development Act of 1999

Veronica Sanchez, Executive Director
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Mr. Chairman and Members of the Committee:

My name is Veronica Sanchez, Executive Director, Cruising America Coalition and a founding member. I am also the Manager of Governmental Affairs for the Port of San Francisco. I am honored to speak to you today in support of S. 1510, The United States Cruise Ship Tourism Development Act of 1999.

The Cruising America Coalition is a grass roots coalition of U.S. ports, cities, consumers, convention bureaus, tourism and maritime businesses, including ship repair yards, stevedores, tug operators and vendors to the cruise industry. It also includes consumers and elected and appointed officials.

Four years ago, California's Ports started this Coalition out of frustration over the fact that we have one of the most scenic coastlines in the world, but we can't market California coastal cruises without including a foreign port. The 113-year-old Passenger Services Act impacts our states' ports very seriously because we don't have foreign islands off our Coast like the Eastern Coast. Even San Diego, the California Port closest to Mexico is disproportionately affected by the PSA, as evidenced by the fact that cruises to Hawaii are sailing out of Ensenada.

Our Coalition grew nationally to include the support of the American Association of Port Authorities (AAPA) and individual ports of all sizes throughout the country. Major tourism groups, like the three major associations (ASTA, ARTA, NACOA) representing travel professionals, joined our Coalition. Other cruise dependant businesses like the American Hotel & Motel Association and American Bus Association also joined us. Individual travelers and elected City officials have voiced their support for us. Countless times, travel agents and port officials must explain to bewildered vacationers why they must travel to a foreign port as a condition of cruising between their own countries ports.

Our goal is simple: to develop a new U.S. tourism product by reviving coastal cruising between U.S. cities aboard large ocean liners. By doing so, we can create new business opportunities for U.S. Cities and U.S. businesses. The PSA creates an inequity among U.S. ports by enabling those that are closer to foreign destinations to have a competitive advantage. Even cities closest to foreign ports would benefit from S. 1510 because they could diversify their cruise business and not be exclusively reliant on cruises to foreign ports.

Today, we are pleased that three prominent maritime unions have joined us in supporting S. 1510: the Master Mates and Pilots, Marine Engineers and Beneficial Association and Sailor's Union of the Pacific. In the past, we have testified on opposite sides of this issue, but over the past few months we've reached agreement and produced a compromise framework that can draw bipartisan support. It contains real business incentives, not obstacles, for international and U.S. companies to enter the domestic cruise market. Our Coalition's members are excited about the prospect that S. 1510 provides the best chance for U.S. ocean liners to break into the coastal market. If U.S. ocean liners succeed, we succeed in increasing our cruise calls and revenues.

The basic principles that we agree on are:

1) The status quo is not working! The PSA is not serving its original purpose of preserving jobs for U.S. seamen. The number of U.S. seamen working on the Independence and Delta Queen is small when considering the dramatic growth of this industry. The PSA combined with the decline of the U.S. cruise ship industry has limited job opportunities aboard U.S. ocean liners to one U.S. Flag ship in Hawaii. It took special legislation passed in the 1997 Defense Appropriations bill to stimulate the prospective entry of new U.S. Flag ships into the Hawaii trade after a forty-year hiatus.

2) Creative Incentives Needed! To stimulate U.S. coastal cruising we must be creative and visionary about laying out a framework of incentives that will work for the 21st century. If we truly are committed to creating jobs from this new domestic trade, we can't be paralyzed with fear about the impact of this change on a separate maritime law relating to cargo, the Jones Act, which is strongly protected in our bill.

S. 1510 is Compromise Legislation to Jumpstart U.S. Coastal Cruising

The legislation before you today, S. 1510, is a creative framework and a reasonable compromise. This is a different approach for the Cruising America Coalition. In past years, we pursued legislation focused on the international cruise industry because of the availability and size of the international fleet. If we had fifteen, U.S. Flag ocean liners serving all four coastlines, we would not have spent so much time, energy and resources asking Congress for help. But we don't want to miss out on jobs and business opportunities that could be available now with a limited waiver to the PSA.

S. 1510 works for us because we can sell our Port cities by allowing international flag cruise lines to cruise between U.S. ports for a limited amount of time (200 days per ship until December 31, 2006). With a proven track record in these new cruise products, we believe the effect of S.1510 will be to open up a host of new opportunities.

The impressive growth of cruise tourism has stimulated the interest of U.S. investors like Voyager Holdings to enter coastal cruises with ships manned by U. S. crews. S. 1510 provides a fast track for the entry of cruise ships by allowing foreign built ships to be reflagged U.S. and enter the U.S. domestic market. This means real dollars in one or two years for ports, travel agents and hotels. Meanwhile, U.S. investors would simultaneously contract to build a replacement ship. With S. 1510, we are creating a new market opportunity for the building of the next series of U.S. Flag ships in U.S. shipyards.

S. 1510 proposes to use foreign assets to build the market for domestic cruising for the benefit of all Americans, including potential U.S. Flag vessel owners. When the market for new types of domestic cruises is tested, investors will follow.

U.S. Coastal Cruising Will Meet Passenger's Interest in More Cruise Vacation Choices

The cruise industry is the most exciting growth category in the entire leisure market, according to the market survey recently completed by CLIA, the international cruise industries own marketing group. ☺ Since 1980, the industry has had an average annual growth of 8%. By 2000, 6.5-7 million passengers per year will cruise. These are very exciting numbers for ports trying to diversify their maritime portfolios and travel agents striving to offset losses from airline caps.

But most important to the development of U.S. coastal cruises for both international and U.S. Flag cruise lines are the following figures from CLIA's report:

Taking a cruise is the dream of 56% of all adults in the North American market☺. The highest rate being exhibited in the emerging baby boomer category.

To date, only 11% of the U.S. population have ever cruised.

Market potential for the next five years: 75 million people.

Of the number of people surveyed 56% expressed an interest in cruising over the next five years. The cumulative economic impact over the next five years from these individuals cruising could be as high as \$97 billion.

31% of the people surveyed, said they will probably cruise in the next five years, for a cumulative impact of \$54 billion.

The industry is responding to these projections with aggressive shipbuilding plans. Forty-seven ocean liners are on order through the year 2004 for a total of \$14 billion dollars. Two of these vessels include the first U.S. built, U.S. Flag ships to enter the U.S. domestic market: the American Classic Voyages ships for the Hawaii market, which have an estimated total cost of almost \$1 billion.☺

As stated in the CLIA report, the on-going challenge for our cruise industry is to convert cruise prospects into new cruisers. The international lines have responded to this challenge with new ship design (ships of all sizes), new on board/on-shore activities (including rock climbing walls, spas, shopping malls, ice rink, and alternative dining rooms) and new themes.

New Cruise Destinations Lure First Time Cruisers.

In the last four years since the Cruising America Coalition was started, we have seen new ports added as major cruise hubs that we never envisioned would be on the list of major cruise Ports. This proves the industries desire to open up new cruise destinations to keep the cruise vacation product fresh and exciting. It also reflects the need to make room for newer and bigger tonnage by testing new cruise products with older ships.

Here are some examples:

Texas -- The entry of Norwegian Cruise Lines (NCL) into Houston for Texaribbean Cruises was a major turning point in the diversification of cruise ports. NCL line is capitalizing on the regional market in the Southwest and Midwest to attract customers. The itinerary includes small ports in the Honduras where the infrastructure was not in place. Texaribbean Cruises have been so successful that this year, NCL positioned a larger vessel, the NCL Sea carrying 1600 passengers. Another cruise line will begin Yucatan itineraries in 2000.

This year Carnival Cruise Lines announced it will homeport the "Celebration" in Galveston for 70 cruises per year to Mexican Ports. A new \$4.8 million cruise terminal, financed with revenue bonds, will be built to accommodate the new business. This is an important change for Carnival whose President, Bob Dickinson, once remarked "Cruising out of Houston was like cruising out of Omaha."

Corpus Christi, gateway to San Antonio, will open its cruise terminal next month. The cruise terminal and waterfront commercial development is funded with a sizeable grant from the U.S. Department of Commerce (EDA).

If S. 1510 passes, Texas' Ports can offer new cruise itineraries to New Orleans, Tampa and Key West. With their proximity to the Gulf Coasts beautiful coastline, why should Texas' ports be limited to only Mexican cruises?

Seattle is With its proximity to Vancouver, Seattle has been at a severe competitive disadvantage and has seen more cruise passengers move out of SEATAC Airport than its cruise terminal. In 2000, Seattle will generate 21 new cruise calls to Alaska from one of the fastest ocean liners to be built by NCL. The ship will stop in Vancouver as a port of call the night before it arrives back in Seattle to get around the PSA. RCCL will also do 9 short cruises to British Columbia.

Boston -- Boston has become one of the top cruise ports in the nation with 77 cruise calls because of the popularity of New England-Canada cruises and Bermuda. The City's prominent position as a historical and cultural center and its proximity to regional markets makes it very marketable as a point of embarkation for Bermuda cruises. Carnival recently gave the City a vote of confidence by positioning a larger vessel, the Destiny, a 2600 passenger ship for its New England-Canada cruises. Boston has certainly established itself as a cruise port but it has the potential for cruises that go South to the Mid Atlantic, South Atlantic and Florida ports. It is also a prime location for marketing charter and incentive cruises because of the presence of numerous large corporations and institutions, its large airport and popular visitor attractions.

Charleston is Charleston's will have 23 cruise calls with 21,500 passengers. The Carnival also been positioned there. The charter and incentive market is also promising for Charleston's Destiny because of its proximity to fabulous golf attractions beaches and historical sites.

Baltimore will get 18 cruise calls next year, an increase from seven calls. But Baltimore is dependent on Bermuda sailings and because of the PSA can't market itself as a hub for American historical cruises. Next year, Holland Americas Rotterdam will arrive from a Transatlantic

voyage. It will generate hundreds of jobs for metal trade workers at Baltimore Marine Industries where it will be repaired. The Rotterdam will embark passengers for a Caribbean cruise terminating in Florida.

Philadelphia completed its cruise terminal last year after rehabilitating an old cargo pier. In 1999, 17 ships called with 21,000 passengers. The new terminal is a refurbished former Navy Yard facility and cost the Port Authority \$ 5 million. Next year, 26 cruise calls are expected with new business from Philadelphia to Bermuda.

Cities like Norfolk and Savannah are planning new cruise terminals. The QE2 already comes into the cruise terminal at Newport News with proximity to Williamsburg and Virginia Beach. Savannah's business community is strongly behind our efforts. The need for changes to the PSA were evident when Celebrities Zenith was not allowed to call at Savannah from Canaveral during Hurricane Floyd. U.S. Customs threatened to enforce the \$200 fine under the PSA.

Cruise marketing groups in the Great Lakes have successfully attracted two international cruise ships with European passengers to Chicago, Cleveland, Toledo, Saugatuck, Detroit and Duluth. There will be twelve cruise itineraries between Great Lake's ports and Canada. These local communities hadn't seen cruise ships in decades. But the Great Lakes reports logistical problems in having to work within the constraints of the PSA because some Great Lakes ports are too remote from Canada, adding days to itineraries.

These statistics show the moving trend towards opening new ports. While new ports and more calls have been added under the existing PSA structure, the potential for growth among these ports and others is much greater. If cruise itinerary planners weren't constrained by the PSA they would not have to include days in foreign ports that may not be as interesting to vacationers as a day in a U.S. port of call.

Or, smaller ports that are too remote from foreign ports would be able to break into the market in significant way. In California, and Washington State, we have prime examples of ports like Eureka, Monterey, and Grays Harbor that desire new cruise tourism but don't have a fair chance to pursue it because of the PSA. My own City of San Francisco, a Conde Naste destination, relies on longer Alaska cruises (10-12 days) as the core of its business. If two of our Alaska homeported ships leave, our Cities cruise numbers drop from fifty annual calls to 30. This was our experience in 1998 when local restaurants at Fisherman's Wharf were directly impacted by the loss of 43,000 passengers.

Every port (including the larger cruise ports) needs to diversify its cruise business to anticipate redeployment of vessels from their core business, weather changes or changes in the consumer marketplace. Additionally, larger cruise ports desire cruise calls on days besides weekends when the longer seven day cruise ports need facilities. As new cruise terminals are built with public and private capital, there is a need to keep them busy for more than one or two days a week when ships turn around.

Shorter Cruises are Fastest Segment of Cruise Market

S. 1510 will allow U.S. Ports that are too remote from foreign ports to compete in the booming short cruise market. According to the CLIA study, the cruise industries hottest growth category has been the 2-5 day cruise category. From 1980 to 1998, there was a 407.5% growth in the 2-5 day cruise market versus 250.9% in the 6-8 day cruise market and 207.2% in the 9-17 day market. From 1983 to 1991, there was a steady decline in the length of cruise vacations is a reflection of more capacity being added in the short cruise market.

Shorter cruises offer travel agents exceptional marketing opportunities to put passengers on the decks of ships. Shorter cruises that cost less are more tempting for passengers who'd like to explore cruising as a vacation option without committing a longer period of time. They also appeal to baby boomers who have busy schedules and/or are juggling retirement and college tuition.

Once you get them on the deck of the ship, passenger satisfaction is very high. Whether first-time or frequent cruisers, 60% of those surveyed in the CLIA Report rated cruising better than other vacation experiences. This means that travel agents will get these customers back to their agencies, because 95% of cruises are sold via travel agents.

Cruise line executives constantly remind travel agents at trade shows of how cruise vacationers desire for more choices. More choices .. more ships, more attractions à more cities! These are the marketing themes of the industry. The industry has a huge marketing campaign to capture the other 89% of the U.S. population that haven't cruised. Lines are aggressively competing for new and repeat cruises and are venturing to establish new cruise ports.

S. 1510 will provide international cruise lines with new opportunities to meet the consumer interest in new cruise destinations and shorter cruises. Ultimately, it will be a business decision for every international cruise line to review the legislation as passed and assess whether it will take advantage of it. Some may and others may not. But if market trends continue as they do, the opening of the domestic market will be very attractive to cruise lines competing for new and repeat cruisers. In the end, our Coalition will have done our job in advocating for legislation that has the least amount of restrictions to enter this market.

S. 1510 enables more U.S. cities to enable passengers to "sample" their destination, which is one of the reasons cited by passengers (79% of CLIA survey respondents) for why they enjoy their cruise vacation. Nearly 50% of passengers surveyed in the CLIA study stated they expect to return to the same geographical area/ destination for another type of vacation. Local tourism businesses (i.e. hotels, buses, restaurants and retailers) will directly benefit from the cruise Passenger's visits and their return visits to their cities. For this reason, convention bureaus and state tourism associations have strongly supported the Cruising America Coalition's efforts.

Protections for Small U.S. Boat Companies

Our Coalition has always sought to fill the void in the market place of cruises aboard large, overnight, deep sea going vessels without impacting the successful operations of smaller

U.S. vessel operators. S. 1510 responds to the concerns raised in last years hearing in the House Coast Guard Committee from smaller vessel operators over competition from larger international cruise lines. This bill prohibits the entry of international vessels under 9,000 GETS from entering the coastal cruise market. Between the range of 9,000-20,000 GETS, the vessel must have an all suite luxury configuration with cabin sizes not smaller than 240 square feet.

This language was drafted with the input of travel professionals who speak daily with customers and understand the difference in the type of entertainment and amenities that vessels offer. Smaller U.S. vessel operators highlight the benefits of a small yacht adventure cruise in their marketing brochures. Travel agents and prospective customers know the differences between large ocean cruises and smaller vessels. It is similar to travelers who know the difference between hotels and bed and breakfast. They do not compare and they do not compete.

Smaller U.S. flag vessel companies are thriving because they indeed operate in different niches. Alaska Sightseeing, for example, operates in a market where there are as many as 30 foreign flag cruise vessels, because both products are distinct. Similarly, the entry of the smaller Delta Queen vessels with 250 passengers (1580 GETS) will be a distinct product marketed to a certain type of cruise passengers. The new Delta Queen vessels will truly not be a competitor for the same customers as large U.S. Flag ocean liners in coastal itineraries.

In summary, Mr. Chairman, we thank you for you your commitment to keep changes to the PSA at the top of this Committee's maritime agenda. Your leadership and interest in opening up this U.S. market have been essential in getting us here today. We have produced a reasonable compromise full of incentives for opening up a new tourism product for our nation.

S. 1510 is about new choices and new chances! It provides cruise customers with new choices of U.S. ports. S. 1510 provides American ports, businesses and maritime workers with new chances to benefit from the boom in cruise vacations. Every U.S. port deserves a chance to tap into the growth of this market for the benefit of their local communities, regardless of their distance from foreign ports.

Thank you for this opportunity.