

Cruise Ship Industry
Who are they, how do they work?

1. Estimated Number of Visitor to Sitka:

Estimated number of cruise ship visitors to Sitka in 2006 – 267,000. See attached spreadsheets for numbers of visitors since 1996. There will be 121 vessel stops by small cruise ships for a total of 11,716 visitors (4% of total visitors).

2. Visitor Trends for Sitka-

The drop in Passengers from 1996 to 1997 was due to Holland America Line moving three of their ships from Sitka to Skagway. Holland America Line has always had an Alaska Highway component and prior to 1997 people would fly to Juneau and take a small passenger vessel from Juneau to Skagway and then embark the ship or go up the highway; they now load the passengers directly onto the ship from the Highway tours.

The increase from 2005 to 2006 is due to lack of berth space in Ketchikan on certain days. Sitka gets the overflow from a couple of ships. This will change in 2007 when it is anticipated that the extension to berth three in Ketchikan will be completed and Berth 4 will be constructed. It is expected that Ketchikan will have an expansion of their port facilities of approximately 56 million dollars in 2006 and 2007. Sitka also loses the Infinity, which is an every Friday ship to the port of Icy Strait Point (Hoonah). The preliminary 2007 schedule shows Sitka getting approximately 200,000 passengers or a decline of about 25% next year with no real increase in sight. Hoonah will have five (5) ships per week next year and because of their size will have about as many passengers as Sitka

Source: Stakeholder Fred Reeder

3. TRENDS FOR ALASKA 2006

“In fact, Alaska’s tourism industry might well set a record this summer. The head of the Alaska Travel Industry Association projects a nearly three percent increase in visitors this summer compared to last year’s 1.5 million tourists.

Most tourists come to Alaska on cruise ships. Last year, about 970,000 cruise passengers disembarked in Alaskan ports. This summer, the industry is expecting to bring between 970,000 and a million people to Alaska... (Anchorage Daily News – May 17, 2006 – “Gas Prices won’t keep the tourists away”.)

4. Ships to Sitka 2006

Cruise line corporations and ships arriving in Sitka in 2006:

Ship	Max Passengers	Cruise Line	Corporation
Amsterdam	1460	Holland American Line	Carnival Corporation
Oosterdam	1900	Holland American Line	Carnival Corporation

Statendam	1266	Holland American Line	Carnival Corporation
Veendam	1266	Holland American Line	Carnival Corporation
Westerdam	1494	Holland American Line	Carnival Corporation
Zaandam	1460	Holland American Line	Carnival Corporation
Carnival Spirit	2124	Carnival Cruises	Carnival Corporation
Island Princess	1992	Princess Cruises	Carnival Corporation
Regal Princess	1590	Princess Cruises	Carnival Corporation
Infinity	2038	Celebrity Cruise Line	Royal Caribbean
Radiance of the Seas	2100	Royal Caribbean	Royal Caribbean
Summit	2038	Celebrity Cruise Lines	Royal Caribbean
Serenade of the Seas	2100	Royal Caribbean	Royal Caribbean
Spirit of Oceanus	114	Alaska Sightseeing	
Seven Seas Mariner	700	Seven Seas Radisson	Carilson Companies
Silver Shadow	350		Silver Sea Cruises
Empress of the North	236	American Steamboat	Oregon Rail Holdings
Spirit of Alaska	80		Cruise West
Spirit of Columbia	80		Cruise West
Spirit of Endeavour	107		Cruise West
Spirit of Discovery	80		Cruise West
Spirit of Ninety-Eight	100		Cruise West
Sea Bird	70		Wilderness Cruises
Sea Lion	70		Wilderness Cruises

5. Optimum length of Port Call

Minimum eight to twelve hours. This allows passengers to take a tour and shop/sightsee.

Source: Stakeholders Fred Reeder and John Dunlap.

6. Cruise Ship Schedule

1. The Marketing Department of the individual cruise lines determines what Ports are most marketable, those ports that have plenty of shore excursions, and also those ports that are able to

handle the ships, i.e. docks, terminals, shopping close to the ships, historical significance, cultural themes, etc. They also determine whether what length of cruise to put together, i.e. 7 day, 10 day, etc.

2. The individual Lines then determine what to use as a homeport to begin the cruise, Seattle, Vancouver, San Francisco, Seward. Most Americans like to begin their vacations on either a Saturday or Sunday due to vacation time from work, this maximizes 5 days from work into 9 days away from home.

3. The next step once all the lines figure out what the itinerary will be, i.e. 7 day cruise Seattle-Seattle with stops in Juneau, Hubbard Glacier, Sitka, Ketchikan and Victoria, B.C. Canada; they are all plotted on a Calendar by Cruise Line Agencies of Alaska. If there are conflicts that are noted, such as 10 ships being in Juneau on one day some of the ship's itineraries are changed; such as calling on Sitka first then Juneau instead of the other way around.

4. The reason why Wednesday's are busy in Sitka is due primarily because of #2, if all the ships leave the homeports on Saturday or Sunday they will be in the Alaska ports on the same days. One thing to keep in mind is that all of the ship's are foreign flagged so by U.S. law must have at least one Foreign port in their itinerary, thus the stops in Prince Rupert, Victoria and Vancouver B.C.

5. There are no agencies that set up the schedule of ships coming to Sitka. The only agency that works at promoting Sitka is the Convention and Visitors Bureau. Most communities work to get the Cruise ship business because of the positive economic benefits they bring. The Sitka Harbormaster and myself sit down once we see the ships that are on the schedule and figure out what tender dock to put them at. Originally when there was only Crescent Harbor it was easy, they all went there; in 1996 we had more ships coming to Sitka than we do this year. While other ports have worked at bringing ships to their ports Sitka has lagged in attracting the ships. In 2007 we can expect a sharp decline over this year due to Ketchikan improving their facilities enough to handle 5 ships on any given day, thus Sitka loses 28 ship calls to Hoonah and Ketchikan. If Sitka does not do something to encourage the Cruise Industry it is my feeling that we will lose it all together or it will decline to the point that many of the shops will close and tour operators not be able to survive.

Source: 5/24/06 email from Stakeholder Fred Reeder

7. Small Ships

The Spirit of Oceanus, Empress of the North, Cruise West Ships and Wilderness Cruises can dock at the Petro Marine dock and other harbor docks. Total number of passengers for these ships is 11,716 with 121 vessel stops. The number of passengers represents 4 percent of total cruise ship passengers to Sitka for 2006.

8. Lightering Facilities

The Crescent Harbor dock and the Lightering Facility under the O'Connell Bridge can each handle two lighters with a capacity of 150 passengers each. A tender is allowed to stand by to dock as soon as one lighter leaves. The Harbor Master said there were no capacity issues and

Cruise Lines seem satisfied with arrangement. An unknown number of passengers are picked up directly from the ships for early morning tours and do not need to be tendered to shore.

Each passenger goes through security check at the docking point and onboard the ship as well. The bottleneck, which most people see with the lines on the sidewalks, visitors leave extra early because they think it may take longer to go through security (since other ports are walk on/walk off) and they fear they may miss the ship. With Crescent Harbor's redesign, it has helped keep them organized.

Source: Ray Majeski - Harbor Master

Sandy Lorigan – Stakeholder

9. On Board Marketing Program

“Onboard Media (<http://www.onboard.com/>) is a travel media company, specializing in the cruise industry. The company operates a paid-for port shopping promotional program, which promotes businesses in the ports of call to cruise ship guests. Onboard Media’s current partners are Royal Caribbean International, Celebrity Cruises, Princess Cruises, MSC Cruises, Crystal Cruises, and Disney Cruise Line.

This paid-for program includes live promotions and seminars by port and shopping guides, advertisements in onboard publications, promotion via in-cabin television, and inclusion in port maps and guides.

Guests onboard each ship are advised that the program is paid-for advertising and that each store has agreed to participate in the 30-day guarantee. The guarantee is printed on the port maps provided by Onboard Media:

Shop with confidence in port, as all shopping in Alaska is unique and must be experienced!

The merchants listed on this map advertise with the On Board Media in order to promote the wonderful shopping opportunities shore side. They have paid an advertising fee to advertise onboard the ship, and they guarantee their merchandise for 30 days.

This guarantee ensures buyers that merchants listed on this map will repair or replace any unsatisfactory item, excluding buyer’s negligence or buyer’s remorse. Many stores in port may offer similar guarantees. Please inquire about individual store return policies before finalizing any purchase.

For purposes of determining quality and value of jewelry related to a buyer’s complaint, only appraisals secured by a buyer from independent graduate gemologists, not affiliated with any retail jeweler, will be acceptable.

The port shopping program is operated by Onboard Media. The cruise line receives a promotional fee from Onboard Media. Onboard Media handles all customer relations claims relating to the guarantee. Should you require assistance during this cruise regarding a purchase from a store listed on this map, please contact the Shopping Guide onboard for immediate assistance. If a problem arises after the cruise but within 30

days of the purchase date, contact the Customer Relations Department at Onboard Media:

*960 Alton Road,
Miami Beach, FL 33139,
Phone: (800) 396-2999,
Fax: (305) 673-2741
Email: shoppingissues@onboard.com
Hours: Monday through Thursday 9:00 am to 7:00 pm - Friday 9:00 am to 5:30 pm
(Eastern Standard Time)*

Source: Fred Reeder – Stakeholder

Fees and commissions for preferential mention in on-board advertising are paid to businesses like Onboard Media, owned by Louis Vuitton Moet Hennessey, or Panoff Publishing, a Florida company. The take from such promotion can reach 45% of the price of the goods or services (Klein, pers. communication). These services are not necessarily performed by the cruise lines themselves.

Source: Personal communication from Ross Klein to Stakeholder Floyd Tompkins

10. Cruise Line Agencies

Cruise Line Agencies of Alaska (CLAA) headquartered in Ketchikan is the agency linking the cruise ships and the community. They provide the following services:

- + Handle freight transfers
- + Handle ships' mail
- + Escort & Coordinate Customs & Immigrations
- + Provisions (general, special needs, emergencies)
- + Handle various passenger & crew needs
- + Itinerary Planning
- + Moorage
- + Setup of Pilotage
- + Accounting
- + Liaison for all Federal Regulatory Agencies and Cruise Lines
- + Consultants on Environmental Compliance

Fred Reeder –Port Manager for Sitka and Icy Straight.

<http://www.claalaska.com/index.html>

11. North West CruiseShip Association

“The North West Cruise Ship Association (NWCA) is a not-for-profit association representing the major cruise lines operating in the Pacific Northwest, Canada, Alaska and Hawaii. The Association was established in 1986, initially for the purpose of providing security services to the member lines. Its role was later expanded to include government relations on legal and regulatory issues. NWCA also works to develop strong partnerships with the communities where its member lines are based, and those they visit. The Association provides support for the work

of local organizations to mitigate industry-related concerns, and to develop local opportunities. It supports economic and environmental studies related to the industry, and collaborates with government agencies to ensure a workable regulatory environment. The NWCA office is located in Vancouver, BC, Canada. The Association has affiliate associations based in Ketchikan, Alaska and Hawaii .”

Source: <http://www.nwcruiseship.org/group.cfm?menuId=96>

12. Cruise Ship Business Model

“Competition. The cruise industry is highly competitive, operating at the global scale. Cruise lines typically are vertically integrated corporations with various subsidiaries that own resorts, tour companies, travel agencies, hotels, and other key components of the travel experience (Dickenson and Vladimir 1996). Within a typical cruise port, a significant portion of businesses and real estate are owned by the cruise lines so they can capture a greater percentage of the tourist dollar. Cruise corporations benefit from economies of scale and offer goods at competitive prices, making it difficult for local business owners to compete. In some cases, cruise corporations have purchased uninhabited islands and created their own destinations—capturing every dollar of visitor spending and controlling the flow of visitors. They also have established contractual relations with local firms to provide tours to cruise guests, who book these tours online before the cruise or on board the ship, with the cruise lines taking a commission. The onboard advertising of these partner companies gives the firms a significant comparative advantage over other tour operators selling their services on shore.”

Source: 2005 Pacific Northwest Research Publication. Tourism and Its Effects on Southeastern Alaskan Communities: case studies from Haines, Craig, and Hoonah, Alaska. Pages 25-27
http://www.fs.fed.us/pnw/publications/pnw_rp566/

Cruising has become an extremely popular and profitable industry. In 2003, there were 9.5 million cruisers worldwide, including 8 million guests from North America alone (CLIA 2004a, 2004b). Alaska as a cruise destination held approximately 8 percent of the market share in terms of traveler “beddays,” behind the Caribbean and the Mediterranean (CLIA 2004a) (table 3). Since 1999, Alaska’s portion of the market has eroded somewhat, because of increased competition from the Baltic Sea, Hawaii, and the Caribbean.

Clients. The cruise industry has expanded its market by reaching out to a new breed of traveler. By expanding their ship-board offerings and partnering with tour companies in each port, they successfully advertised their products to a younger, more active demographic. In 1986, the average age of the cruise guest was 56. This average dropped to 54 years in 2002 (NFO Plog Research 2004). Media advertisements featured climbing walls, casinos, and workout facilities on board and adventure-oriented excursions on shore (Lindberg 1999). The industry also reached out to families and expanded onboard offerings for children. The North American public began to accept that cruising was not just for grandparents and retired neighbors. At the same time, the cruise lines slashed their prices owing to increased capacity and stiff competition, making a cruise vacation more affordable.

Capacity. The cruise lines have expanded capacity, bringing on more ships of larger sizes. Between 2002 and 2004, 62 new ships entered service of the global cruise fleet, adding 70,000 new berths (CLIA 2004a, 2004b).

Table 3—Market share for largest global cruise destinations: 1987, 1995, 2001, 2004

Region	1987	1995	2001	2004
	<i>Percent</i>			
Caribbean	43.3	42.8	36.6	40.3
Mediterranean	4.1	9.8	12.7	12.6
Alaska	8.4	8.4	7.9	7.7
Bahamas	9.4	7.7	7.9	4.7
Europe (Baltic)	1.8	4.4	8.1	9.7
Rest of world	32.9	26.9	26.8	25.0

Note: This is measured in bed-days, a cruise industry standard Measurement for volume. These figures indicate percentage of total bed-days.

Source: Cruise Lines International Association (2004a).

From 1994 to 2004, there was an average annual increase in cruise ship capacity of 7.6 percent for ships visiting Alaska (Northwest Cruise Ship Association 2004). Not only is the number of ships in the global fleet increasing, but also the newer ships are larger. In the 1970s, the largest ships were under 1,000 passengers, with most holding 600 or 700 guests. In the late 1980s, megaships were introduced by Royal Caribbean, with capacity up to 2,800. In the late 1990s, Carnival and Royal Caribbean both brought on ships with accommodations for 3,400 to 5,000 guests (Klein 2002). Of the 25 cruise ships visiting Alaska in 2002, 11 carried 1,900 passengers or more, along with several 100 crew members.

Consolidation. Frequent mergers between cruise companies have consolidated ownership and reduced operating costs. In the 1980s, Carnival Corporation began buying cruise lines and by 2003 owned seven major cruise lines, including Holland-America and Princess (Klein 2002). Together, these three cruise lines brought about 75 percent of cruise passengers to Alaska in 2002 (Juneau Empire 2002a).

13. Flags of Convenience

“A **flag of convenience** is a [flag](#) of one country, flown by a [ship](#) owned by a citizen of another country. The ship owner can thereby often avoid [taxes](#) and make registration easier; the country providing the flag charges money for that service. The [International Transport Workers' Federation](#) (ITF) maintains a list of countries that use their flag for this purpose.

The use of a flag of convenience in order to take advantage of another nation's laxer registration standards is frowned upon for two reasons: The practice causes nations with stricter requirements to lose income and safety/work conditions of shipboard employees may suffer. However, many nations under the International Ship and Port Facility Security Code (ISPS) require minimum standards for vessels entering their national waters. In the case of the United

States, the Coast Guard requires inspections on at least an annual basis and may deny entry to American waters based on defects not corrected.

Ships at sea fly a national [flag](#) called an [ensign](#). Under conventions of [international law](#), the flag flown by a [ship](#) determines the source of law to be applied in [admiralty](#) cases, regardless of which [court](#) has [personal jurisdiction](#) over the parties.

Cheap registration fees, low taxes, and freedom from [labor laws](#) or safety standards are motivating factors for many flags of convenience.”

Source: Wikipedia.org web address: http://en.wikipedia.org/wiki/Flags_of_convenience

14. Cabotage Laws and Alaska

CABOTAGE LAW: Laws limiting a foreign company’s right to transport passengers between two points in a country. Under the *US Passenger Services Act*, for example, only a US registered cruise ship can take passengers on an Alaska cruise from Seattle without stopping in BC. A ship not registered in the US must stop at a BC port in order to comply with US cabotage laws. Canada’s cabotage laws similarly prohibit a foreign-flagged vessel from operating BC-only cruises.

Source: *Playing off the Ports, BC and the Cruise Tourism Industry* – Ross Klein