Chapter 3

Cruise Ship Tourism in Small States

3.1 Introduction

Despite its rapid growth, the cruise sector is still relatively small in comparison to land-based mass tourism in SIDS. However, its rapid growth and expansion, especially over the last ten years or so, and the forecasts for growth in the next ten years, make this niche sector worthy of further attention.

It has been observed that 'Cruise lines are possibly the most difficult sector to target to improve the level of income that remains in the local economy' (Travelwatch 2006: 10). However, the opposing argument in the academic literature (see Ritter and Schafer 1998) and from tourism ministries in many destinations is that the cruise industry overall generates great benefits for the host. The cruise operators and associations support this view and go one step further to suggest that destinations should pay cruise ships to stop at their ports, given the revenue generated from onshore expenditure by cruise ship passenger and crew and port fees (Peisley 2012a) and, in some cases, from investment in port development. This chapter will examine these arguments in the context of 'mega' cruise ship tourism.

3.2 Background to the cruise tourism industry

For some small states, the opportunity to diversify the tourism product from land-based tourism to include cruise tourism came about when ocean crossing liners were retired, as affordable mass air travel emerged. As cruise holidays rose in popularity during the 1970s and 1980s, the capacity of cruise ships increased, as did the portfolio of indoor and deck activities and entertainment (Dowling 2006). In the 1970s cruise ships typically accommodated 1,000 passengers; this increased to 2,000 passengers during the 1980s, while today the largest cruise ships, such as the Royal Caribbean's *Allure of the Seas*, can carry more than 6,300 passengers (Rodrigue and Notteboom 2012: 13; Royal Caribbean 2012).

The cruise tourism industry has seen a rapid and significant increase in passenger numbers and operations. Growth in cruise tourism has remained at an impressive 7 per cent year on year for the last ten years (Rodrigue and Notteboom 2012: 13). This demonstrates remarkable resilience, given the ongoing global economic downturn. This resilience has been associated with the industry's ability to diversify the products and services that appeal to a broader demographic by strategic itinerary setting and, perhaps more important, by dropping prices (Larsen et al. 2013). That said, cruise itineraries have concentrated on two main regions only: the Caribbean, accounting for over 40 per cent[32] of the annual cruise supply; and the Mediterranean region, accounting for 29 per cent (Rodrigue and Notteboom 2012: 14).[33]

3.2.1 Business models and itineraries

Diversity of products and services is achieved through different itinerary types that operate to maximise passenger capacity all year round. The Caribbean region, for example, lies in the subtropics and can sustain cruise tourism throughout the year, with reduced operations during northern hemisphere summer, when extreme weather events are common. This perennial itinerary sustains both demand and overall resilience. However, cruise destinations located in regions found in the extreme north and south experience seasonal itineraries that operate during selected months only. This strategic itinerary setting allows cruise operators to increase annual passenger numbers by expanding the geographical range of cruise holiday options.[34]

The mobility of the cruise ship itself allows this sector to exploit the global seasonality of weather events and the main holiday periods to their advantage and during the seasonal transition from one region to the next a third itinerary type emerges. Repositioning is commonly used when cruise ship operations move from one region to the next as seasonal changes occur; more typically, between the Caribbean and Mediterranean regions. This itinerary differs, as it is effectively one-way and passengers require air travel for their return journey.

In all cases, the business model used by cruise ship operators has increasingly focused attention on their unique assets that are not available to land-based tourism suppliers:

1. 'Floating' destinations: The development of cruise ship technology has created vessels that are themselves floating or 'mobile destinations' (Hall 2005), offering the same activities and services as a coastal tourism destination, but with retail and leisure services more commonly associated with high-end city destinations such as Dubai or Singapore.

2. Captive audience: Cruise itineraries typically visit ports of call during daylight hours (8am to 4 or 5pm); otherwise, passengers are confined to the ship and are therefore a willing, but captive, audience. In order to retain the passengers' spend, off-ship (as well as on board) sales of activities and excursions are heavily promoted on board. On-board services are important contributors to cruise ship revenues and account for 20–30 per cent of total revenue (Rodrigue and Notteboom 2012: 13).

3. Mobile and excessive choice: Cruise ships are not fixed assets and are not dependent on one location. Therefore the industry has the flexibility to change itineraries and ports of call with ease. Given the number of small states located in tropical and sub-tropical latitudes, the cruise industry has a wide range of (usually willing) host destinations to choose from.

3.3 The benefits of cruise tourism

The costs and benefits of cruise tourism to small states and SIDS are explored in this section. It uses research studies and reports from academic, government and independent organisations to build knowledge and understanding of this increasingly important tourism sector as it relates to small states. It establishes key themes and issues.

3.3.1 Economic benefits

The main economic benefits for the host destination cited by the cruise industry and its supporters include involvement with a dynamic and fast-growing tourism sector that brings high yield tourists with higher daily expenditure than other types of international tourist (Dwyer and Forsyth 1996; BREA/F-CCA 2009). While some cruise passengers fit the high yield category, there are two caveats. First, the cruise industry has diversified its products to open up cruises to a mass market, rather than just wealthy customers, and so this may no longer be an accurate categorisation of passengers (Wood 2000).[35]

Second, it can be debated whether cruise ship passengers spend their money in the port of call or whether passenger expenditure remains primarily on board. Retaining as much passenger spend on board as possible is the general business model of the cruise industry (Pattullo 1996; Wood 2004). It should also be noted that while cruise ships may stop over in some destinations, especially in the more remote islands, most stay in port for an average of 8–10 hours during the day; therefore the night-time economy of the destination does not gain from cruise passenger spending.

3.3.2 Cruise passenger and crew expenditure onshore

The destinations and the cruise sector use surveys to measure the onshore spend of passengers and crew. However, the evidence suggests that data collection, particularly at the destinations, is inconsistent and lacks sufficient granularity to identify nuanced spending patterns. In the Caribbean region, Jamaica is an exception and offers detailed information. This is summarised in Box 3.1 and is accompanied by a short analysis that reveals interesting, and in some cases surprising, results. To represent the cruise sector, a 2009 economic impact study conducted by BREA/FCCA provides detailed evidence of spending patterns onshore by passengers, crew and cruise ships. This is summarised in Tables 3.1, 3.2 and 3.3.

Box 3.1 Case study: visitor expenditure in detail, Jamaica

Jamaica is used as a best practice case study to illustrate the direct expenditure of land-based and cruise passengers in the winter and summer seasons.

This level of data can enable governments, analysts and developers to take more strategic decisions when it comes to future tourism development options. This level of granularity is not sufficient for inclusive growth strategies.

The data indicate that:

- Tourist behaviour and motivation differs between the seasons;
- Spending is higher in winter than summer; however, shopping attracts higher spend in summer; and
- Transport, restaurants, attractions and retail all benefit directly from tourist spend.

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The data do not indicate where tourist spend is taking place, for example:

- At local or foreign-owned businesses (apart from 'in-bond' shopping); and
- At natural or man-made attractions (and related activities); and
- On imported or locally-produced goods.

Visitor expenditure (US$ million)	**2009**	**2010**
Stopovers	1,848	1,922
Cruise passengers	78	79
Distribution of expenditure (%)	**2010**	**2010**
Stopover visitors (%)	**Winter**	**Summer**
Accommodation (including F&B)	56.6	54
F&B	6.8	5.7
Entertainment	11.6	11.7
Transportation	5.9	5.7
Shopping	8.9	11.3
Miscellaneous	10.2	11.7
Average spend per person (US$)	127.79	109.69
Cruise passengers (%)	**Winter**	**Summer**
F&B (off ship)	4.7	4.5
Attractions	23.2	18.9
Taxis	2.9	1.9
Car rental	0	0.1
Other transportation	1	0.7
Shopping 'in-bond'	27.2	34.1
Coffee	2	1.9
Clothing	7.2	7.3
Spices	0.7	0.7
Spirits (alcohol)	5.4	5.6
Straw products	2.7	2.7
Wooden articles	4.8	3.7
Other shopping	2.1	2.2
Tips	0.7	1.1
Misc (including tax)	15.4	14.8
Average spend per person (US$)	89.11	87.35

Source: Jamaica Tourist Board, Annual Travel Statistics 2010

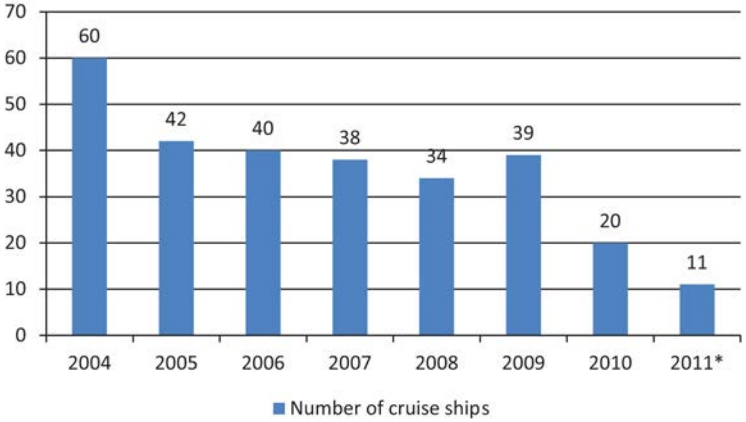
Destination survey results from Jamaica

Typically, it is accepted that cruise passengers spend less per person than stay-over tourists, and 2010 Jamaican data reinforce this, showing an approximate difference of around US$39 per person per night. However, when the main component of stay-over expenditure, accommodation, is removed, the data show a different story, revealing that stay-over tourists spent less than cruise passengers (US$33 in winter and US$36

Box 3.2 The value of cruise ship tourism to remote SIDS: Seychelles

Unlike the Caribbean SIDS, Seychelles does benefit from cruise tourism through port fees, bunkering, ship chandlery and a passenger head tax.

Typically, a cruise ship with 2,000 passengers would provide SCR35,000 (US$2,458) in port fees alone. Cruise tourism is still an emerging market here and its growth is severely limited at present.



Piracy in the Indian Ocean has advanced to Seychelles outer islands. This has significantly impacted on cruise ship arrivals, offshore, high value fishing and diving activities, as well as general prices for everyday food and non-food items (the majority of which are imported).

There is an expectation that the cruise tourism and other offshore activities will resume after international security forces succeed in combating piracy in the region. Currently Seychelles hosts the vessels and visiting personnel, who themselves contribute to the local economy when in port.

Table 3.1 Estimated total expenditure onshore (US$ million): passengers, crew and cruise lines

Caribbean region	Estimated total expenditure onshore (US$ million) 2008–09			
Selected destinations	**Passengers**	**Crew**	**Cruise lines**	**Total**
Antigua and Barbuda	38.3	5.5	4.5	**48.3**
The Bahamas	169.5	28	48.5	**246**
Barbados	42	6.4	5.2	**53.6**
Belize	45.7	4.5	8.4	**58.6**
Grenada	13.4	1.9	6.4	**21.7**
Jamaica	81.8	7.7	11.9	**101.4**
Puerto Rico	118.8	29.2	34.2	**182.2**
Trinidad and Tobago	1.8	0.5	0.6	**2.9**

Source: BREA/FCCA 2009

Table 3.2 Average passenger expenditure onshore (US$) and share of all onshore visits (%)

	Average expenditure	Share of all onshore visits (%)
Shore excursions[a]	35.78	52.2
F&B at restaurants and bars	14.37	45.3
Local crafts and souvenirs	15.82	44.6
Clothing	21.76	44.0
Ground transportation	12.86	27.9
Watches and jewellery	165.88	21.8
Other purchases	45.63	20.5
Retail purchase of liquor	17.73	11.3
Perfumes/cosmetics	29.6	4.2
Entertainment/night clubs	43.02	2.2
Telephone and internet	5.71	2.0
Lodging	134.25	1.2
Electronics	63.54	0.9

[a]Local tour operators selling direct to onshore passengers
Source: BREA/FCCA 2009: 8

in summer) (Jamaica Tourist Board 2010). This single study appears to contradict the dominant view in the literature on cruise ship impacts at ports of call.

A similar spending pattern is noted with shopping between summer and winter; cruise passengers spend is split between 'in-bond' shopping (duty free) and shopping (handicrafts and locally produced products). Although 'in-bond' shopping expenditure falls in the winter months (by 6.9%), shopping (which includes coffee, spirits, straw products, wooden articles, clothing and spices) remains consistent throughout the year (24.9% in winter and 24.1% in summer). In comparison, stopover visitors spend significantly less on shopping, and the amount differs between the seasons (8.9% in winter and 11.3% in summer). It is clear that the principal expenditure for stopover

Table 3.3 Average spend onshore (US$): homeport passengers, in-transit passengers and crew

	The Bahamas passengers	Crew	Barbados in-transit	Homeport	Crew
Shore excursions[a]	85.79	50.9	64.2	274.24	68.5
Local crafts and souvenirs	39.3	16.4	26.7	32.68	21.1
Clothing	46.1	36	44.9	42.7	33.3
F&B restaurants and bars	36.6	35.8	23.4	47.24	27.9
Other purchases	171.8	75.6	56.54	431.86	19.2
Taxis and ground transport	26.2	12.6	23.9	36.06	21.3
Watches and jewellery	236.8	167.5	330.3	137.62	43
Perfumes/cosmetics	46.6	28	57.7	65.82	35.7
Retail purchases of liquor	32.5	19.2	27.4	33.34	22.3
Entertainment/night clubs	94.4	191.1	51	57.44	36.3
Telephone and internet	10.3	14.4	8.1	11.97	19.2
Electronics	153.8	25	49	n/a	22.5
Lodging	n/a	n/a	n/a	220.26	n/a

[a]Passenger expenditure is based on cruise parties which are typically 2–2.3 people.
Source: BREA/FCCA 2009

visitors is on accommodation; when this is not included in total spend per person per night and the spend is compared with cruise passengers, stopover visitors' spend is significantly less (US$33.65 less in winter and US$36.89 in summer).

Even if 'in-bond' shopping is excluded from the average passenger spend, it is still more than the average spend per stopover visitor.[36] This evidence suggests that in this particular case cruise passengers contribute more to the local economy than stopover visitors, contradicting the dominant view in the literature. It also suggests that cruise passengers spend more on attractions, handicrafts and local produce than land-based tourists; this spend makes up a large proportion of their total expenditure on land (an average of US$46 per person per night in winter and US$40.80 in summer). This corroborates the findings of Nurse (2009), which show higher spend by cruise passengers at heritage attractions than by land-based tourists.

If we consider passenger spending more closely (Table 3.2), the level of detail in the data for cruise ship passengers is significantly higher than that for land-based tourists and could be attributed to the nature of the cruise industry and the business model[37] adopted by the main operators (particularly in Caribbean SIDS).

There is more opportunity to monitor the impact of cruise passengers, as their movements onshore are limited by time, and to an extent by space, with shopping, pre-booked activities and excursions taking place in selected areas. By comparison, land-based tourists are more or less free to explore a destination beyond the hotel boundary, so it is more difficult to track visitor spend.

Passenger spend provides only a snapshot of the total direct contribution however. First, it is not clear whether cruise passenger expenditure is on locally-produced goods and services at the cruise centres or is with local, independent sellers outside the port boundary. Second, land-based tourism expenditure requires further granularity to differentiate spending by package tourists from spending by independent or special interest tourists. It is possible that spending is not tracked sufficiently outside the main tourist centres and therefore remains unaccounted for. Third, the perception that headline visitor arrival numbers from cruise ships are a priority over sometimes lower land-based tourist arrivals (Pattullo 1996) may be concluded, as data on spending are partial or incomplete. Finally, it is not clear whether passenger expenditure includes both in-transit and homeport passengers. This is an important detail, since the difference in expenditure patterns between the two is significant; this is analysed in more detail later in this chapter using data from BREA/F-CCA (2009).

Apart from this one very particular study, anecdotal evidence from other destinations suggests very different findings; specifically, it suggests that an estimated US$12 million[38] has been lost as a consequence of cruise operators not always paying head tax.[39] It is not clear over what period of time this loss was calculated. However, the evidence supports the views of many critics about cruise practices in developing countries. This is not necessarily true for other SIDS (or for all cruise operators), although it is more likely to be relevant to Caribbean SIDS than to those in the Indian and Pacific Oceans.[40]

This entire area needs further research by governments and international organisations to gain a better understanding of the dynamics between cruise operators, different destinations and different world regions. This could prove significant for SIDS in relation to the development of inclusive growth strategies.

Cruise sector survey results

Data recorded from passenger surveys of cruise ships operating in the Caribbean region are detailed in the BREA/F-CCA 2009 Economic Impact Study report. Table 3.1 outlines the estimated total expenditure (US$ million) onshore by passengers, crew and the cruise lines for 2008–2009 at selected Caribbean homeports and in transit.[41]

In Table 3.1, The Bahamas and Puerto Rico are worth highlighting, given that the estimated total expenditure onshore by passengers, crew and cruise lines is significantly higher than in the other selected destinations. Puerto Rico is a main Caribbean homeport and 30 per cent of cruise line expenditure is from purchasing ship supplies. This expense is typical of homeport destinations where cruise ships will typically stay overnight in port. Most cruise lines' expenditure onshore is on port fees, taxes and navigation services; however, this varies among destinations. For example, of the US$48.5 million spent by cruise ships in The Bahamas, 98 per cent is accounted for by port fees and taxes. This is probably attributable to the fee structure adopted by The Bahamas, which differentiates cargo from cruise by applying a fee based on the length of the ship as opposed to the tonnage (Peisley 2012b).

The average passenger expenditure data in the BREA/F-CCA report are based on 29 destinations and include cruise ships in transit and at their homeport. They are a useful proxy for typical spending patterns by cruise passengers in the Caribbean and emphasise the spend per passenger on luxury goods such as jewellery and cosmetics. Although it is not clear where these purchases were made, it is likely to be from 'in-bond' shopping. Lodgings are also included in Table 3.2; however, this figure only relates to homeports and it is not clear what type of accommodation is used and whether this includes locally-owned and managed properties as well as international hotel chains.

For a more nuanced understanding of passenger and crew expenditure in both homeports and in-transit ports, The Bahamas and Barbados are examined further in Table 3.3.

Homeport destinations clearly have an advantage, as they benefit from both homeport and in-transit passengers. It is perhaps obvious that expenditure by homeport passengers will be higher, as it includes paying for accommodation and contributions to the night time economy from additional spend on F&B and entertainment. By comparison, passengers in transit spend twice as much on watches and jewellery, but far less on shore excursions. This suggests that transit passengers spend more time within the port boundary where 'in-bond' shopping is located. If the average length of stay in port is 4.3 hours (see Box 3.3), then this could explain why transit passengers not only spend less on excursions, but also on other goods and services outside the port area (e.g. local crafts and souvenirs, restaurants and bars, and other purchases).

3.3.3 Port development, investment and fees

It is reasonable to assume that the seeming prioritisation of the cruise sector by many governments in SIDS is also influenced by the investment opportunities offered by cruise operators, rather than by a purely rational and economics-based argument (e.g. applying tourist spend per head as a metric). Investment opportunities include the development of new cruise ports and terminals, and upgrading existing infrastructure.

Box 3.3 Main attributes of port-of-call passenger visits

Average hours ashore: 4.3

Purchased onshore excursions and tours:

77.5 per cent of excursions were purchased from the cruise lines

17.7 per cent were from onshore tour operators

4.8 per cent were made at a travel agent

The average price of an excursion:

US$57.37 from a cruise line

US$27.21 from an onshore tour operator

US$77.56 from a travel agent

Source: BREA/FCCA 2009: 13

Different approaches have been taken by the various destinations, particularly in the Caribbean and Latin America, to attract cruise ships to their shores. These range from investing significant sums of money in the development of cruise villages complete with water parks, beaches and transport hubs, to offering no investment or financial help at all. According to Royal Caribbean International (RCI) President Adam Goldstein, these differences are the result of 'market forces at play … that evolve over time as ports gain or lose stature in the industry' (cited in Peisley 2012b). They are examined in more detail below.

In some cases, cruise operators favour enclave port development,[42] with private beaches or islands for the exclusive use of their passengers.[43] For example, Castaway Cay in The Bahamas is a private island owned by the Walt Disney Company and is for the exclusive use of Disney cruises. It is unclear what revenue is derived from cruise passengers disembarking at Castaway Cay (apart from passenger head taxes), as all the services, activities and facilities are managed by the cruise line. The products sold in the island's restaurants, bars and shops may be regionally sourced (e.g. fresh fruit and vegetables, and handicrafts); however, no evidence could be found to confirm this. A number of questions arise, given the lack of evidence and the exclusivity of privately owned islands that challenge the concept of inclusive growth.

Investment in port infrastructure and development that is shared, through a partnership between the cruise operator and the port authority, seems to have more potential for the development of inclusive growth strategies. For example, Falmouth Port, Jamaica is a US$260 project where the port authorities have invested US$120 and retained ownership and operator rights (see Appendix 2, Table A2.13 for further details and examples). The development of the cruise berths has increased capacity by 50 per cent, and in-bond shopping and the regeneration of the heritage town offers employment opportunities that are accessible to the local workforce with skills in craftwork, woodwork, retail and hospitality. The projected spend per cruise passenger from this redevelopment was US$100. One year after the port was opened, the local communities were still not benefiting from the projected increase in spending at Falmouth Port. According to local people, this is because the cruise lines tempt passengers away from local businesses towards the international chain stores, while RCI claims that passengers prefer to take up onshore excursion and sightseeing packages, leaving less time and money for shopping. A third reason is given by the Vice President of Jamaica's Port Authority, William Tatham, who states that Falmouth Port 'is still adapting to its new role as a resort town'. He suggests that although there are many opportunities for local business entrepreneurs, 'the problem in Falmouth is that the residents are not tourist savvy' (Royal Caribbean 2012).

A final example that emphasises the varying approaches taken by different destinations, particularly in the Caribbean and Latin American region, uses Panama and Puerto Rico as case studies. They perhaps exemplify the cruise ship industry's view that destinations should pay them to stop at their ports, given the additional economic and social benefits accruing from cruise passengers, 'at minimal cost to the destination' (Peisley 2012b: 19). Panama spent US$100 million on port infrastructure at either end of the Panama Canal to entice cruise ships to add this destination to their itineraries. On top of this investment, the government further incentivised cruise ships by offering to pay a passenger head tax of US$2–12 per passenger, depending on the number of passengers and brand, and further incentivising cruise lines who registered their ships in Panama. It is reported that the onshore spend is US$106 per passenger, of which one-third is estimated to be spent on locally produced goods.

In 2010/2011, Puerto Rico's cruise industry was estimated to be worth US$250 million to the economy; directly and indirectly, it was estimated that it supported 4,000 jobs. Passenger head taxes are also paid to the cruise lines, starting at US$2.95 per passenger (for up to 10,000 passengers) and rising to US$7.45 when the total number of passengers exceeds 140,000. To encourage spending in the local supply chain, a 10 per cent discount is offered on all locally purchased goods and procurement, with a further 5 per cent discount if the goods purchased are locally made or manufactured. (Peisley 2012b: 21).

In other SIDS regions, while there is interest in the cruise sector, this appears to be less of an issue. The difference in attitude is likely to be linked to: (i) the distance between the originating markets and SIDS; (ii) remoteness and spatial dispersion; (iii) less competition among cruise operators and other SIDS; and (iv) exogenous shocks.

3.3.4 Employment generated by cruise tourism

Although it is recognised that cruise tourism broadly generates less employment than stay-over tourism at destinations, some local employment is clearly created onshore. In some cases, there is also some employment on board for local workers, but generally cruise ships are crewed by cheap labour from low- income countries in Southeast Asia such as Indonesia or the Philippines, with the officers typically from Europe or North America. In the Caribbean, estimates of local employment on cruise ships vary from 5 to 26 per cent of the crew. Employment information from other regions is scarce.

3.3.5 Government revenue

SIDS governments also receive revenue from passenger taxes, port fees, bunkering and fuel charges (on remote islands) and taxes on tourist (and crew) expenditure onshore. This could prove a useful revenue stream for some small states and SIDS, but few data exist for this, given the general lack of useable and detailed tourist data from many small states. It is also unclear how much of the revenue from port fees, bunkering and passenger head tax goes to the port authorities themselves, rather than to governments. Reports suggest, however, that the Caribbean region, and in particular some SIDS, failed to adjust their port tariffs when cruise ship tourism increased, so that port charges continued to be based on cargo traffic and tonnage. This can deter cruise lines from including those destinations in their itineraries, favouring others with more favourable rates for cruise lines. Barbados was noted earlier in this report as a small state that has updated its port tariffs for cruise ships (Peisley 2012b: 23).

3.3.6 Environmental benefits

It is difficult to find convincing evidence in the existing literature of any significant overall environmental benefit accruing to small states from the cruise ship industry.

It is important to point out, however, that increased cruise ship traffic to tourist destinations may put pressure on governments to develop plans and policies on environmental disaster preparedness. This may trigger the emergence of private sector companies that will respond to the environmental and waste management needs (onshore and offshore) of this tourism segment, and thus generate jobs. There are clear challenges, however, particularly in relation to offshore environmental management.

3.3.7 Social benefits

In terms of social benefits for destinations, an argument can be made that local communities benefit from having cruise ship tourism. As noted earlier regarding the economic benefits, employment opportunities are created by cruise tourism. Although the numbers of local people from small states employed on board is likely to be low, the arrival of cruise ships generates social benefits from employment creation onshore in businesses such as retail outlets, catering, transport and ground handling, handicrafts and local attractions.

In addition, it could be argued that local communities in small states also benefit from new developments and infrastructure specific to cruise ships, such as the regeneration of historic buildings,[44] new roads and transport hubs, new (redeveloped) beaches and/or beach infrastructure.

However, questions remain concerning the overall social benefits of cruise tourism in a range of small state destinations, including those regions with a high concentration of cruise ships, such as the Caribbean, as well as the more remote regions of the Indian and Pacific Oceans.

3.4 Costs of cruise tourism for small states

The cruise ship business model is different to land-based stay-over tourism; it benefits significantly from accessing economies of scale, oligopolistic market power and loopholes in international regulation. This section considers the costs of cruise ship tourism in destinations.

3.4.1 Economies of scale

In terms of economies of scale, as noted above, there is a trend towards ever larger ships, with the largest now able to carry more than 6,000 passengers. This means that the economics have shifted positively for the cruise lines and cruise ships now have a lower build cost per room than the equivalent four or five star hotel room onshore. It has been recently estimated that the cost per cabin on the larger ships is US$250,000, compared with around US$750,000 per room in a new four or five star Caribbean resort (MacLellan 2012). The large cruise companies can reduce unit costs by exploiting these economies of scale and implementing a high level of standardisation across their fleets (Barbados Free Press 2012).

3.4.2 Oligopolistic market power

In the Caribbean, the oldest and dominant cruise region, ownership is highly concentrated, with three large companies, Carnival Cruises, Royal Caribbean International and Norwegian Cruise Line, owning over 85 per cent of total capacity. This oligopoly and economic strength gives the cruise industry significant market power, as well as important political influence in relation to the region's small states (Novelo et al. 2007). There is also the fact of foreign ownership outside the small states. In the Caribbean, the cruise industry is predominantly owned by US firms who therefore have a major role in the Florida-Caribbean Cruise Association (FCCA). Foreign ownership also means that there is a flow of profits away from the host destination small states, who lose potential revenues from taxes on profits. Other economic leakages, mentioned above, are outcomes of this oligopolistic market power, such as the employment of foreign workers or sourcing of provisions from homeports (especially the USA). Where cruise ship companies have established their own onshore tourist operations, lower economic benefits for local businesses and stress on existing infrastructure are likely outcomes, unless governments intervene with policy measures that reverse this trend. This is not easy given the characteristics of the sector.

3.4.3 International regulation and exploiting the loopholes

By operating at sea between legal jurisdictions, cruise lines can exploit loopholes in national law on employment, the environment and health and safety by registering their ships under 'flags of convenience' such as Liberia, Bermuda or Isle of Man. In one sense, cruise ships can be seen as an advanced form of global capitalism, freed from the geography of the nation state. As 'mobile floating chunks of multinational capital, cruise ships have no permanent home, whatever their current "homeport" might be' (Wood 2004: 160).

The cruise lines' business model and their use of international regulatory loopholes mean that operating costs are also significantly lower than those for similar sized large resort operations onshore. It can be reasonably assumed that the cruise industry also has lower variable costs, such as labour costs, with its non-unionised workforce and lower costs for health and safety regulation, as they operate under 'flags of convenience' (see Appendix 4, Table A4.1). Onshore tourism resorts in small states and SIDS clearly cannot compete with this model on a like-for-like basis.

3.4.4 Cruise ship infrastructure

One major area of economic cost for the small state destinations is infrastructure costs, for example dedicated cruise terminals and jetties and deep water channels. The cost of constructing and maintaining these has increased significantly due to increasing ship size. Although many cruise operators invest jointly with the destination's port authorities, the management of the port infrastructure, including the 'in-bond' shopping centres, usually lies with the cruise operator. Further research on cruise operators and individual port destinations is needed to gain any real sense of the economic costs associated with these business relationships.

3.4.5 Passenger spend onshore

Another aspect of the costs of cruise tourism is passenger spend ashore. Although estimates vary, the overall pattern seems to be that cruise passengers spend significantly less per person in the destination than stay-over tourists. Estimates vary, with some data from the 1990s suggesting as little as US$10–20 spend per passenger in the Caribbean (Pattullo 1996). Data from Belize from 2005 show that cruise passengers spend around US$45 per day, compared with US$96 per day for staying visitors (Honey 2009). Nearby Costa Rica had a cruise passenger spend of US$55 per day, compared to a US$653 per person spend for visitors overall (approximately 14 times that of cruise passengers). In Costa Rica, staying visitors spent around US$1,000 per visit (approximately 18 times more) (Honey 2009). Different data presented by the FCCA and Caribbean destination surveys from 2008 (BREA/F-CCA 2009: 7) show an average spend of around US$97 per passenger for Caribbean and Central American destinations, with the lowest spend being US$33 (St Vincent and the Grenadines) and the highest US$193 (US Virgin Islands). Nevertheless, these cruise passenger spend figures are far lower, both in relative and absolute terms, than the average spend by stay-over tourists.

3.4.6 Cruise passenger duties

There also seems to be limited revenue for small states and SIDS from passenger duties. Bermuda, for example, levies an exceptional charge of US$60 per visitor and insists on a 2.5 day port visit, but as far as the authors are aware no Caribbean port demands this. However, Bermuda is in a somewhat unusual position for a small island, as there are no other destinations close by. When other small state destinations have attempted to raise passenger duties, the cruise lines have responded vigorously by threatening to pull out and call at rival destinations that do not levy the increased duties. In the early 2000s, the average Caribbean port passenger charge was only US$5–10, which Wood (2004) commented was a tiny amount compared with airport departure taxes in the region at that time. More recent examples illustrate the continuing low level of typical passenger charges: Belize still only charges a nominal US$7[45] per cruise passenger (Ministry of Tourism 2010), while Jamaica charges US$2 per cruise passenger.

3.4.7 Cruise ship provisioning

In addition, there is little provisioning from islands and other small state destinations in general, especially in the Caribbean, since food and beverages and other supplies are normally loaded at the vessel's homeport in the USA, thus reducing opportunities for local sales. In addition, given the routes, bunkering is often not needed, as sufficient fuel can be carried on board. However, for more remote oceanic destinations such as Seychelles, there is the possibility of some food and beverage sales, as well as revenue from bunkering.

3.4.8 Onshore excursions

Another cost for the destinations is the cruise lines' control over onshore excursions, an aspect of their port visits that could otherwise generate useful income for the small state. Typically, cruise lines insist on the addition of a substantial mark-up to local tours and excursions, thus creating extra profits when the tours are purchased on board. Box 3.3 shows the average cost of an excursion organised by the cruise ship, onshore tour operators and travel agents. The difference is quite marked, but interestingly it is the travel agent that profits the most (it is unclear if the travel agent is local, national, international or internet based). In some cases, cruise companies have even taken food for their passengers ashore or brought their own firm's bicycles to the islands rather than renting them from local SMEs (see Slatter 2006 on Vanuatu).

3.4.9 Return of cruise passengers as stay-over tourists

It is usual for destinations to measure tourists' intention to return 'in the belief that they are a valid surrogate for predicting actual repeat propensity'; for example, one 2009 publication (BREA/F-CCA 2009) cited returns from passenger surveys stating that 50 per cent planned to return to their destination for a land-based vacation. However, research suggests that this is not the case because 'intention is typically measured as a vague aspiration and not in a probabilistic manner' (McKercher and Tse 2012: 671). Unless follow-up research is conducted to measure 'actual' returnees,[46] there is limited use in measuring 'intention to return'.

Wilkinson (1999) and Wood (2004) doubt that cruise passengers do in fact return to a region as staying tourists. Wilkinson (1999) found that only 6 per cent of tourists in The Bahamas had previously visited the islands as cruise passengers.[47]

In addition, the cruise industry works hard to retain passengers, with loyalty schemes, discounts and upgrades for repeat customers.

3.4.10 Environmental costs

Cruise ships generate clear environmental costs, with significant negative impacts on coral reefs, mangroves and seagrass beds. Operations that are damaging to the environment range from dredging deep water channels and harbour areas for the new larger cruise ships to clearing mangroves and other natural sea defences for port development and expansion on land.

Another common environmental cost is the physical overcrowding at attractions and high spatial concentration of passengers where 'the environmental impact of both the vehicle and thousands of people descending on a small island community can create more damage than the economic benefits of visitor and company spend. Many islands levy much disputed taxes to cover for this' (Commonwealth Secretariat 2006: 11). In St Thomas in the US Virgin Islands, for example, five or six cruise ships may visit the island at the same time, which can result in more than 2,000 tourists per day disembarking in peak season (Spencer-Brown and Paloti 2012). The impact on public water and waste and sewage facilities is significant, particularly in countries with poor infrastructure that struggles to meet the local demand.

In addition, the literature also lists common issues with water (grey water), solid waste and other associated environmental damage. A study completed by Klein in 2009 for Friends of the Earth states that the carbon footprint of a cruise passenger is '… 36 times greater that the carbon footprint of a Eurostar passenger and more than three times that of someone travelling on a standard Boeing 747 or a passenger ferry' (Klein 2009: 4). Furthermore, because of the number of passengers and crew on board cruise ships that concentrate in the same region and sea routes, the impact of solid waste emissions can be significant.

Klein's report is a comprehensive study of the impact of cruise ships on the environment. It states that in spite of strict regulations on pollution in countries such as the USA (the largest cruise market) and the International Maritime Organization's (IMO) Convention for the Prevention of Pollution from Ships (MARPOL), if a cruise ship is registered with a flag state that is not a signatory of MARPOL, pollution regulations do not apply. This is a useful strategy that cruise ship operators adopt to avoid strict regulations in their operating country.

Figure A2.1 in Appendix 2 illustrates the regulations on pollution laid down by the IMO and other organisations that cruise ships are obliged to follow. The flowchart clearly indicates what waste can be dumped at sea, where it can be disposed of at sea (in terms of distance from the shore) and, perhaps more interestingly, what waste, including recycling, can be treated at onshore facilities. This raises a number of questions, particularly with regard to SIDS that are already struggling to maintain a safe and effective domestic waste and sewage disposal system.

Another potentially large environmental cost for small states is shipwreck and accident. The cases of the *Costa Concordia* in early 2012 off the coast of Italy and the breakdown of the *Costa Allegra* near Seychelles, also in early 2012 (BBC 2012a, b) illustrate the risk of accident. Cruise ship accidents create a risk of significant amounts of oil spill and other contaminants into the sea that can seriously affect the coastline; for many small states, and for SIDS in particular, this is an important and vulnerable ecosystem.

3.4.11 Social costs

One interesting aspect of the cruise ships' itineraries and daily schedule is that most ships arrive at destinations at about the same time to give passengers the maximum daylight time ashore. This leads to an arrivals 'spike' for cruise passengers compared with staying visitors, whose flights arrive throughout the week on different days. There was an infamous case in the Cayman Islands when several cruise ships all arrived at the same time and there was gridlock not just in the port area as passengers waited to disembark, but also in Georgetown, where passengers' tour buses and taxis caused severe traffic congestion and even prevented some local shopkeepers from opening their shops for the cruise passengers. This arrivals 'spike' problem is likely to worsen as cruise ships get ever larger. In addition, once onshore, cruise passengers tend to stay in and around the port area that is in the tourist 'bubble' (Jaakson 2004). Further research is required to understand the social impact of these arrivals 'spikes' in small state destinations so that the expected future increases in cruise passengers can be sensibly managed.

3.4.12 Winners and losers from cruise ship enterprises

1. Overall, who reaps the benefits and costs, since there appears to be an uneven distribution of the main impacts between foreign owners (cruise ship companies) and local communities and business owners?
2. Do the positive benefits mainly operate at regional level, while the negative impacts have an impact at national level?
3. In the final analysis are more jobs overall created for small state local residents? If so, small states' governments will receive greater income and payroll taxes. In addition, governments may gain through reductions in the cost of social security benefits.
4. There is an under-researched area concerning overall migration into port areas for employment. This can lead to an increase in street beggars, as has happened in Mexico (Dowling 2006).
5. In terms of pollution, little seems to be known about environmental externalities such as traffic congestion or overcrowding of port entertainment facilities (Peisley 1992).

3.4.13 Small state tourism and cruise ship tourism policy and regulations

Hall (2001) suggests that governments can use five main policy categories to regulate marine tourism, including the cruise sector: regulatory instruments; voluntary instruments (public information, volunteers and non-governmental organisations [NGOs]); the use of expenditure (often by the state, but including public–private partnerships); financial incentives (e.g. taxes, grants, loans and subsidies); and lastly, what he calls deliberate 'non-intervention' as a purposive policy choice.[48]

Co-operation between small states has been suggested as a policy move to attempt to counteract the sizeable economic and political influence of the cruise lines. In the recent past, tourism advisors suggested that Caribbean governments should join forces to protect their countries' interests from 'unreasonable' demands made by the cruise ship industry (Barbados Free Press 2012). Logic suggests that a common policy is needed to ensure that the region obtains substantial benefits from the cruise sector. However, this seemingly sensible policy route is not without problems and may not be straightforward in practice. In addition, if one small state makes different policy choices to its neighbours, this can be exploited by the large cruise companies. For example, in 1999 Grenada levied a tiny environmental tax of US$1.50 on cruise ship passengers, which quickly led to Carnival Cruises pulling out of its port (CARICOM Secretariat 1999).

3.4.14 Uniting the cruise industry with the wider travel and tourism community

The cruise industry has been compared to the aviation industry of 20 or so years ago, operating 'very much within its own bubble'. Issues such as taxation and the environment are resolved within the bubble even though they 'are common to all companies within the sector, and are not competitive' (Peisley 2012b). This distinct separation of the cruise sector from the rest of the travel and tourism industry appears to be a fundamental barrier to the achievement of consensus and 'one voice' by the global industry in the face of common challenges. At the destination level, this separation contributes to challenges faced by governments attempting to draw up effective, comprehensive tourism policies, especially when one considers the importance of robust and reliable datasets in achieving this. Cruise industry data appear to be more comprehensive, but they are not nuanced enough to show impacts at the level of specific destinations.

Table 3.4 presents information about the top five cruise companies operating worldwide, showing individual brand passenger market share, company market share and membership of cruise associations in Europe (European Cruise Council [ECC]), North America (FCCA) and worldwide (Cruise Lines International Association [CLIA] and WTTC). No cruise companies or associations are members of the United Nations World Travel Organization (UNWTO), but most are members of one or more

Table 3.4 Top five cruise companies: market share (%) and association membership

Cruise company	Brands	Share of worldwide passengers (%)	Organisation membership			
			ECC	FCCA	CLIA	WTTC
Carnival Corporation	Carnival Cruise Lines	21.1	✓	✓	✓	✗
	Costa Cruises	7.7	✓	✓	✓	✓
	Princess	6.1	✓	✓	✓	✗
	AIDA	4.6	✓	✓	✗	✗
	Holland America	3.3	✓	✓	✓	✗
	P&O Cruises	1.7	✓	✓	✗	✗
	P&O Cruises Australia	1.6	✓	✓	✗	✗
	Ibero Cruises	1.1	✓	✓	✗	✗
	Seabourn	0.3	✓	✓	✓	✗
	Total market share (2012): 48.4%					
Royal Caribbean Line (RCL)	Royal Caribbean International (RCI)	16.4	✓	✓	✓	✓
	Celebrity	4.4	✓	✓	✓	✗
	Pullmantur	1.9	✓	✗	✗	✗
	CDF (subsidiary of Pullmantur)	0.4	✗	✗	✓	✗
	Azamara	0.2	✓	✓	✓	✗
	Total market share (2012): 23.3%					
Norwegian Cruise Line		7.6	✓	✓	✓	✗
	Total market share (2012): 7.6%					
MSC Cruises		7	✓	✓	✓	✗
	Total market share (2012): 7.0%					
Disney Cruise Line		2.5	✓	✓	✓	✗
	Total market share (2012): 2.5%					

Source: Peisley (2012b)

travel agent associations such as the Association of British Travel Agents (ABTA) and the United States Travel Association (USTA).

The cruise sector is a very small part of the global travel and tourism industry, which contributed 9 per cent to global GDP and generated 1 in 12 jobs worldwide in 2011 (Peisley 2012b). However, the forecast for the sector suggests that this 'niche market' will continue to grow as demand for travel from the BRIC nations (Brazil, Russia, India, China) begins to make an impact.

For SIDS and coastal small states, a continued growth in the global travel and tourism industry, including the cruise sector, will arguably intensify the demand for limited space and natural resources on land, around the coastline and within territorial waters.

According to Peisley (2012b), a more holistic approach is taken by travel and tourism organisations such as the International Air Transport Association (IATA), which 'now talks about the overall tourism industry instead of just quoting its own traffic and revenue numbers'. Fewer than five cruise companies are members of the WTTC, with only two of these (Costa Cruises and RCI) among the largest cruise companies (Carnival Corporation and Royal Caribbean International) (Table 3.4).

The largest cruise associations (CLIA, FCCA and ECC) are conspicuous by their absence from the global travel and tourism industry. CLIA and ECC, however, have recognised the benefit of 'taking a unified approach as an industry' (ECC 2010/2011 Report), so they can respond more effectively to international and regional regulatory, policy and technical issues and changes affecting the cruise sector. This is a positive step; however, the association representing the largest cruise passenger market (North America), the FCCA, continues to operate separately.

The recognition given to the travel and tourism industry as a vehicle for economic and social development in the Declaration of the Mexico G20 summit in 2012 is evidence of a unified travel and tourism industry. The importance of organisations such as the WTTC and UNWTO in persuading global leaders to confront industry-wide challenges (including the cruise sector), notably visa administration and restrictions, was critical.

> **G20 Declaration, 2012 summit, Mexico**
>
> 25. We recognize the role of travel and tourism as a vehicle for job creation, economic growth and development, and, while recognizing the sovereign right of States to control the entry of foreign nationals, we will work towards developing travel facilitation initiatives in support of job creation, quality work, poverty reduction and global growth.

An evidence-based research report by the WTTC and UNWTO was completed and presented to the G20 Ministers of Tourism prior to the summit in June 2012, setting out the potential impacts of tourism in generating jobs and economic growth. It clearly served its purpose, giving the global travel and tourism industry more power to address global challenges with governments and tourism ministers, including SIDS and small states.

A call to the cruise sector from the WTTC's president and chief executive officer, David Scowsill, to join the wider travel and tourism industry was made at the 'Cruise Shipping Miami' conference on 12 March 2013. The outcome remains to be seen (WTTC 2013).

3.5 Best practice and lessons from small states

3.5.1 Caribbean examples

While all major destinations have developed their own overall tourism policies, Belize was the first destination in the Caribbean and Central America to commission a major research study that led to the creation of a specific cruise ship policy in 2000 which was then revised in 2003 (CESD 2006). There are some interesting lessons here for other small states.

This aspect of tourism policy-making in Belize must be seen in the broader context of the government's approach to creating 'responsible tourism'; this dates back to the first national tourism strategy in 1998 (CESD 2006; Ministry of Tourism 2010). Belize's original 2000 Cruise Ship Policy had several aims. The main points were to:

- Manage the number of cruise ships and total passengers within agreed capacity limits;
- Maximise revenue from the cruise sector;
- Increase economic linkages between local suppliers and the cruise sector;
- Develop new visitor attractions and expand existing attractions to even out the flows of cruise passengers ashore; and
- Find ways to convert cruise passengers to eventual stay-over return visitors.

Interestingly, in light of the evidence presented in this report about overcrowding and the spatial concentration of passengers, the 2000 Cruise Ship Policy also set upper limits for passenger numbers (e.g. a maximum of 3,000 per day disembarking at Belize City). This was a bold move. However, when it was revised in 2003, the policy substantially increased the maximum number of disembarking passengers by doubling the limit to 6,000 per day. This was subsequently raised to 8,000 and then to 10,000 in 2007. According to CESD (2006: 34), this was one of the changes 'that weakened some of its progressive measures'.[49]

3.5.2 Indian Ocean examples

Seychelles is another interesting example. In this case, its remote, oceanic location is an advantage in terms of generating revenue from cruise ships. Unlike most Caribbean or Central American small states, Seychelles benefits from providing bunkering, provisioning and other port services to visiting cruise ships, since the distance to the islands necessitates some re-supply and, normally, bunkering for fuel. Therefore in Seychelles proportionally more revenue is collected from cruise liners than in other SIDS (i.e. more than just a nominal passenger head tax). There is also some evidence concerning the economic benefits from cruise passenger expenditure ashore for SMEs, especially local handicraft producers, but this is mainly anecdotal and gathered from destination interviews (by the authors in 2012) and actual evidence was not available.

3.5.3 Pacific Ocean examples

In the Pacific region, Vanuatu has an interesting (and atypical) tourism industry, where the majority of stay-over visitors appear to be business travellers rather than holiday-makers; this is combined with a healthy cruise tourism sector. This makes for an interesting case study.

For the region, MacPherson (2008) is positive overall and sees cruise tourism as important for Pacific destinations if 'managed effectively' by government. But the political economy of the recent experience of small states with the global cruise industry would suggest that this is not as simple as it seems at first glance. In comparison, Slatter (2006) argues that in Vanuatu there are positive effects of some tourist spend and some direct employment, but there are also issues where the cruise lines use a local (expatriate-owned) firm for ground transport, rather than local owner-operated taxis and buses. The cruise lines engage in anti-competitive oligopolistic behaviour, which suggests there is some way to go before the sector is managed so that the benefits to the local economy and especially to the environment, can be better understood in the context of the global tourism industry and also in this diverse and growing sector.