PLAYING OFF THE PORTS

BC and the Cruise Tourism Industry

By Ross A. Klein, PhD

AUGUST 2005

CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
BC Office

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Summary

The dynamics of the cruise ship industry in BC have changed in recent years. While Vancouver has long been a "home port" for cruises to Alaska, faster ships are increasingly leaving instead from Seattle. Between 2000 and 2004, Seattle's cruise passenger numbers increased 362 per cent, while Vancouver's decreased 12 per cent.

BC ports, however, are indispensable to cruise lines due to US cabotage laws that require non-US registered ships visiting multiple US ports to either include a foreign port in their itineraries or to embark and/or disembark passengers at a foreign port (cruise lines use foreign-flagged ships as a means of dodging US taxes and labour standards). To get around this, cruise ships have historically used Vancouver as a home port, but ships leaving Seattle can just as easily make a stop at any other BC port to satisfy the cabotage requirement.

Luring cruise ships has thus become a *de facto* industrial policy for many coastal communities in BC, one that is facilitated by federal and provincial governments. Attempts to draw cruise ships are seen as an economic driver for communities. Substantial sums of public money are being invested to provide the infrastructure for cruise ship operations, in the hopes that a stream of economic benefits will flow from cruise ship passengers to local businesses and communities.

But without a coordinated plan, ports risk being played off one another – a common scenario in the Caribbean and Mediterranean. Ports around BC, such as Nanaimo, Campbell River and Prince Rupert, are spending millions of dollars to build facilities for cruise ships, while also competing with each other to provide low port use fees, all of which benefit an industry that is notoriously footloose.

There are substantial risks in making these public investments that a cruise line may choose another port offering a better deal (as happened recently when Campbell River poached ships for 2006 that are currently docking in Nanaimo) or may limit their stop to a "technical call" in which passengers do not disembark the ship (this happened recently to Prince Rupert).

To avoid being played off of one another, the same structure of port charges and per-passenger taxes for cruise ships is needed for all BC ports. There are regional precedents for such moves. Several Alaskan ports have raised per-passenger taxes in recent years and Alaska is contemplating a state-wide passenger tax that would be shared with communities impacted by cruise tourism.

BC also risks becoming the toilet of the Pacific Northwest, as it is far behind neighbouring US jurisdictions in setting and enforcing environmental standards for the cruise industry. Alaska, California and Washington states have all made moves to protect their marine environments, and have been successful in reducing environmental impacts. BC waters, on the other hand, are under federal jurisdiction, and Transport Canada says it will be 2010 or later before mandatory regulations governing cruise ship discharges are implemented.

The pressing question is how BC and its ports can maximize the economic value of cruise tourism and at the same time preserve BC's value as a destination for tourists arriving by and staying on land. The key to maximizing the benefits of cruise tourism is to avoid competition between ports.

The provincial government should create a provincial Cruise Ship Authority to ensure an equitable distribution of ships between ports and avoid the costs associated with ports undercutting each other (with cruise lines exploiting these differences). The authority could develop a passenger tax, not unlike that being considered in Alaska, whereby cruise passengers landing in BC or traversing BC's waters are levied a flat fee. A portion could be distributed to each port, whether or not they receive cruise ships that year.

Ports themselves need to make conscious decisions about the nature of cruise tourism they want. They need to ensure a return on investment when contemplating or building expensive new terminals and piers to attract larger or more ships. Ultimately, there needs to be a balance between income and growth on the one hand and preservation of local heritage and beauty on the other.

Ports also should not underestimate the economic value of small cruise ships. They have higher per diems than most mainstream cruise lines and cater to a different clientele – one that prefers ports "off the beaten track" and away from the masses and crowds that characterize cruise tourism. It is also a clientele likely to spend larger sums of money per person on local products and services and have a larger proportion of people likely to return to BC.

Small ports can afford to maintain their beauty and charm and to sell the characteristics that make them attractive. They can afford to resist incentives that would otherwise make them just another port along BC's Inside Passage. For example, the ports served by Port Alberni-based *M/V Lady Rose* and *M/V Francis Barkley* (Bamfield, Kildonan, Sechart, Ucluelet) could all benefit from small-ship cruise tourism. This sort of sustainable development should be supported but requires the coordination a provincial Cruise Ship Authority could provide.

BC can and should do better to capture the economic benefits of the cruise industry. Working collectively, and in recognition of BC's role under US cabotage laws, the province's ports can all participate in and make money from cruise tourism.

Introduction: BC and the Cruise Industry

Cruise tourism is big business for BC and the ships themselves are highly visible and glamorous symbols of tourism. BC's cruise industry accounts for 72 per cent of all cruise ship passenger visits to Canada. This is largely because of Alaska, the second largest cruise destination in North America with 7 to 8 per cent market share worldwide. The cruise industry's impact on the BC economy is estimated to be $1.2 billion annually, including $660 million in direct spending by cruise lines, their passengers and crew. This represents a six-fold increase in just five years.[1]

Vancouver has long been an important "home port" for cruises to Alaska, and could be seen as the model that coastal communities in BC hope to replicate. Growth in cruise tourism out of Vancouver has steadily increased over the past two decades, at a pace exceeding the growth of the global industry as a whole. But the growth trend reversed in 2003; in just two years 56 port calls were lost. The decline is anticipated to continue in 2005 and 2006.[2]

Changes in technology have made possible faster ships that can leave for Alaska cruises from Seattle instead of Vancouver. Norwegian Cruise Line (NCL) was the first, in 2000, to use Seattle as a homeport for Alaska cruises. Between 2000 and 2004, Seattle's cruise passenger numbers increased 362 per cent, while Vancouver's decreased 12 per cent (see Table 1). Growth of Seattle's port is expected to continue, and there is discussion of developing a third cruise ship terminal.[3]

Key Terms

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.

FOREIGN-FLAGGED VESSEL: A cruise ship registered with a "flag of convenience" or in a country different than where the ship's owners reside or where the corporation is based. For example, Carnival's ships are registered in Panama or the Bahamas but the company is headquartered in the US and its owners are overwhelmingly American. Cruise ship companies use foreign-flagged vessels because there are tremendous cost savings resulting from the use of overseas cheap labour while avoiding US taxes and other laws and requirements.

HOMEPORT: The port where a cruise begins and/or ends; where passengers disembark and are replaced by a new set.

PORT CALL: A port where a cruise stops en route to another destination, often enabling passengers to disembark for several hours.

TABLE 1: Cruise Embarkations/Disembarkations, Seattle, Vancouver and Victoria, 1995–2004

	Seattle		Vancouver		Victoria	
	Number of passengers	Number of ships	Number of passengers	Number of ships	Number of passengers	Number of ships
1995	9,518	n/a	596,744	283	38,382	53
1996	10,398	n/a	701,547	289	33,143	47
1997	7,152	n/a	816,537	298	35,292	41
1998	8,763	n/a	873,102	294	23,774	26
1999	6,615	n/a	947,659	309	39,178	34
2000	119,002	32	1,053,985	336	53,276	45
2001	170,495	79	1,060,383	331	118,145	77
2002	244,905	100	1,125,252	342	160,902	110
2003	345,000	95	953,376	307	185,978	118
2004	550,000	150	929,976	286	262,400	143

Source: Port of Seattle, Transport Canada, Greater Victoria Harbour Authority.

Vancouver's loss has created new opportunities for smaller BC municipalities to get in on the cruise ship game by becoming "ports of call" to satisfy US cabotage laws. A non-US registered ship visiting multiple US ports is required by the *Passenger Vessel Services Act* to either include a foreign port in its itinerary or to embark and/or disembark passengers at a foreign port. To get around this, cruise ships have historically used Vancouver as a home port, but ships leaving Seattle can just as easily make a stop at any other BC port to satisfy the cabotage requirement.

Luring cruise ships has thus become a *de facto* industrial policy for many coastal communities in BC, one that is facilitated by federal and provincial governments. In the context of global competition for investment, attempts to draw cruise ships are seen as an economic driver for communities. Substantial sums of public money are being invested to provide the infrastructure for cruise ship operations, in the hopes that a stream of economic benefits will flow from cruise ship passengers to local businesses and communities.

Victoria's cruise passenger numbers increased 575 per cent between 1999 and 2004; the number of ships increased 321 per cent (Victoria is selling itself as a port of call, not as a homeport). Prince Rupert, Campbell River, Nanaimo, Port Alberni, and Squamish, among others, have recently undertaken their own efforts to attract cruise tourism. They are encouraged and supported by an Alaska cruise market which has expanded over the past decade (see Table 2). They appear unfazed by industry predictions that growth of Alaska cruise tourism will be static in 2006 and beyond into the foreseeable future.[4]

The appearance is that there is plenty of business to spread around and every port can benefit. But without a coordinated and intelligent plan, ports risk being played off one another – a common scenario

Table 2: Alaska Arrivals by Cruise Ship, 1995–2004

Year	Number of arrivals
1995	283,500
1996	336,500
1997	392,100
1998	431,222
1999	457,106
2000[b]	483,550
2001	510,000
2002	581,000
2003	620,900
2004	712,400

Notes:

[a] Numbers do not include passengers arriving in Alaska by other means and joining a cruise in Skagway, Whittier, or Seward, of Anchorage – this would add approximately 180,000 arrivals in 2004. The numbers appear small in relation to numbers for Seattle and Vancouver. Ports count passengers' embarkation and debarkation; Alaska counts only arrivals in the state (and not departures) by cruise ship.

[b] Arrivals data was not gathered in 2000. The number is an estimate based on the midway point between 1999 and 2001 arrivals.

Source: Alaska Department of Commerce, Community, and Economic Development.

in the Caribbean and Mediterranean. There are also economic implications as cruise ships shift from Vancouver as a home port to other BC communities as ports of call. More passengers may land in the province, but economic benefits could decrease.

Homeported ships provide direct income from provisioning and other spending by the ship and its crew, as well as from embarking and disembarking passengers who stay in town for a night or two before or after the cruise. The numbers can be significant. Seventy-three per cent of passengers beginning a cruise in Seattle in 2003 spent a night or more in the city (average 1.6 nights). They spent on average US$63 per night per person for a hotel. Those making local purchases spent per person an additional US$27 in restaurants, US$26 on retail purchases, US$34 on local transportation and rental cars, and US$30 on entertainment and landside tours.[5]

Yet, despite its success, cruise operations at the port of Seattle lost $150,000 – $200,000 in 2003 and barely broke even in 2004.[6] Investing public funds to attract cruise tourism carries many risks for BC municipalities with regard to return on public funds and unrealistic revenue expectations. Given the invaluable nature of BC to the cruise industry, it is reasonable to expect significantly greater economic benefits than those currently being derived by ports and the province.

BC can and should do better to capture the economic benefits of the cruise industry. This paper explores the relationship between ports competing for cruise ships and the corporations that run them, and suggests policy alternatives that would ensure BC communities do indeed benefit from the industry's presence. It updates in the BC context two previous papers by the author for the CCPA, *Charting a Course: The Cruise Industry, the Government of Canada, and Purposeful Development* and *Cruising Out of Control: The Cruise Industry, the Environment, Workers and the Maritimes*.

The appearance is that there is plenty of business to spread around and every port can benefit. But without a coordinated and intelligent plan, ports risk being played off one another.

Avoiding Divide and Conquer: BC Ports and the Cruise Industry

"Everyone is very excited … To be selected as a port of call is a real honour and it creates a rather glamorous side to our community."[7]

— Councillor Morgan Ostler, Campbell River, BC

Port cities collectively spend millions of dollars to attract cruise ships and to keep them coming back. Expenditures are justified by a belief that cruise ships leave tons of money in their wake. But these public investments also carry a great deal of risk, as the hoped-for benefits may not materialize. A key risk comes from competition among ports, which is illustrated both by BC's experience to date and in other jurisdictions.

The prospect of attracting cruise ships has become common for a number of BC coastal communities:

- *Mercury* is one of two large cruise ships planning to visit Nanaimo in 2005. Nanaimo announced in 2004 plans to spend $13.5 million to upgrade its wharf and to accommodate large cruise ships.[8] The city believes it has the potential to attract 20 to 40 calls on its port per year.[9]
- Campbell River officials so strongly believe that attracting cruise ships will have a major economic impact on the region that they spent $4.23 million to build a cruise ship dock half a mile from downtown.[10] In 2006, Campbell River will receive the *Mercury's* port calls that Nanaimo had in 2005.

- Prince Rupert opened a new $9 million terminal in 2004 with the expectation that cruise ships would flock there. The city anticipated more than $30 million in annual revenue: projections said each passenger would spend $80 and each crew member would spend $14.[11] Thirty-five stops were scheduled, but then, at the start of the season, Celebrity Cruises announced that *Mercury* would shorten its 13 stops to one-hour "technical calls."[12] Passengers would not disembark.
- Port Alberni, from which *M/V Lady Rose* and *M/V Francis Barkley* seasonally operate daily coastal services, is working to attract large cruise ships.[13]

The belief in the cruise industry as a source of economic development knows few geographic limits. Nunavut, for example, is spending considerable energy to develop cruise tourism. In 2004, its tourism agency published a handbook to instruct communities on how to attract and orchestrate cruise ship visits,[14] and it is working directly to attract cruise ships even though visits are erratic and often cancelled.[15] At the other end of the hemisphere, Punta Arenas, Chile, is under pressure to lower the fees it charges cruise ships in order to be more competitive with nearby Ushuaia, Argentina.[16] The season is short, the number of ships is limited, and the two ports compete for the same, finite business. Competition between ports in close proximity is not unique.

BC has much to learn from experience with the cruise industry elsewhere to ensure that the industry makes a positive contribution to the economy. For example, expectation gave way to disappointment on Canada's Atlantic coast when Saint John, New Brunswick learned in August 2004 that one-third of its cruise ship passengers would be lost in 2005 because Royal Caribbean's *Voyager of the Seas* was going to Bermuda instead.[17] Compared to 59 cruise ship calls with 143,000 passengers in 2004, the city expects 37 calls with 88,000 passengers in 2005. It had constructed a $12 million cruise terminal specially built to accommodate *Voyager of the Seas*.[18]

In other cases a cruise line abandons a port because it has negotiated a better deal with a port down the coast that will charge less and give more. It is common in the Caribbean and elsewhere for local authorities to spend public funds to create the infrastructure for cruise operations, a subsidy to the industry as communities compete against each other. This is a threat in BC where multiple ports compete for the same business. Because one port's success is another's loss there is temptation to undersell others to get part of the action.

BC's Strong Bargaining Position

BC ports' greatest strength is their indispensability under US cabotage laws. However, from a cruise line's perspective BC ports are essentially interchangeable. They satisfy the requirement for a foreign port. Relative income or cost savings may be an incentive to choose one over another. For BC as a whole, it is inefficient to have four or five ports competing for the same ships and the results are bound to be less than optimal.

When choosing ports of call, companies consider both the costs in port use charges and potential revenues through the sale of products like shore excursions to passengers. Port use charges can include passenger fees, which range from zero in Prince Rupert to $11 per passenger in Vancouver. In addition, fees for wharfage, fresh water, and harbour services vary from port to port. Some ports, such as Juneau, levy additional per-passenger taxes; the state of Alaska levies a per-passenger fee for costs associated with monitoring and enforcement of discharge standards for cruise ships operating in state waters.

In the cruise industry's relationship with ports, each competes for the same finite dollars. Cruise lines work to keep any port and docking fees or taxes as low as possible – the lower the port fees the greater their revenues, given that passengers are generally concerned only with the total price of a cruise. There is a predictable dance when a port considers raising fees: a port announces its intent, the cruise industry threatens to move ships someplace else if fees are raised, and the port usually backs off.

Such a dance is not confined to the municipal level. In 1989, the federal government considered a tax on cruise ships for liquor, fuel, and other stores consumed in Canadian waters, but ultimately gave in to industry pressure and dropped the idea.[19] The BC government has enacted changes to fuel taxes that benefit the cruise ship industry. In July 2001, BC eliminated the tax on marine bunker fuel, and in February 2003 provided a tax exemption for marine gas oil when used in marine gas turbines used to propel commercial passenger or cargo vessels.

On the revenue side, shore excursions sold on board are a large income source for cruise companies as the ship retains as much as 70 per cent of what passengers pay; the local tour provider receives less than one-third for the product being delivered. Tour providers fear the ship will stop somewhere else or use a different provider if they fight for a larger share.

Shore excursions are just one income source. Ships also make money from stores in the port. In 2004, the PPI Group, which works for several cruise lines, expanded its referral program to Seattle. According to the *Seattle Times*, "It costs $3,000 to be on the company's shopping map for passengers aboard four ships. It costs more to be included in the lecture or in television commercials."[20] The experience in Alaska was that amounts were initially small, but as cruise tourism became established and dependence on cruise ships grew the fees increased significantly. Some stores today reportedly pay "commissions" of as high as 40 per cent of revenue from cruise passengers. And it is increasingly the case that stores in Alaska's ports are owned by companies outside the state – in many cases offshore – so economic impact is further reduced. The pattern has played out over and over in most areas where cruise tourism has taken hold.

> There is a predictable dance when a port considers raising fees: a port announces its intent, the cruise industry threatens to move ships someplace else if fees are raised, and the port usually backs off.

Merchants, tour providers, and politicians defend the arrangement: money is being made, so why complain? But the issue is one of getting a reasonable return to local economies. Cruise fares to Alaska are higher than to the Caribbean[21] and yield a larger margin of profit than most other areas of the Americas. This suggests opportunity for generating greater local income. Yet CruiseBC, an association of ports, local marketing agencies and federal and provincial governments, markets the province for its lower operating costs than Alaska or Canada's East Coast.[22] They seem to forget they are selling themselves to an industry earning billions of dollars in net profit globally, an industry that pays virtually no tax on income generated in BC or in Canada.

Three global corporations dominate the mainstream cruise industry. Because they operate foreign-registered ships, the companies are free of Canadian and US labour law protections (the vessels are referred to by some activists as "sweatships"[23]). Carnival Corporation is the largest global cruise corporation. Registered in Panama, it is headquartered in Miami and controls more than 50 per cent of the North American market. It operates 12 brand names (including Princess Cruises, Holland America Line, and Carnival Cruise Lines), 79 ships, and has more than 150,000 passengers at any point in time. Its net income in 2004 was US$1.85 billion on revenues of US$9.73 billion. It had a 16 per cent increase in revenue and 41 per cent increase in net income in the first six months of 2005.[24] Carnival's closest competitors are Royal Caribbean Cruises Limited (Royal Caribbean International and Celebrity Cruises) and Star Cruises (Norwegian Cruise Line); together the two control an additional 40 to 45 per cent market share.

The cruise industry often defends its tax-free status with claims of high economic impact. While figures advanced by the industry are impressive, they are many times inflated or based on faulty methodology.[25] Economic impact is often extrapolated from assumptions that are rarely if ever tested, and passenger spending studies rely on completed and returned surveys. The industry and most ports claim cruise passengers spend on average US$100. A thorough study done in Key West in 2004/2005 found cruise passengers there spent on average US$27.41. Cruise lines say the numbers are low because the survey might not have included tickets for tours and attractions purchased while on board the cruise ship.[26] This underlines the need to focus on income actually received from cruise tourism and to adjust for passenger spending that either never makes it onshore or which, through leakage, ends up out of province.

Taxation of the Industry

An easy way for BC ports to maximize the value of cruise tourism is to recognize what they have to offer, and the value this has to cruise lines. To avoid being played off of one another, the same structure of port charges and head taxes for cruise ships is needed for all BC ports. There are regional precedents for such moves. Several Alaskan ports have raised head taxes in recent years. Ketchikan raised its head tax from $4 to $6 for passengers on cruise ships tied up at the downtown dock and from $2 to $4 for those tendered to town from ships anchored on the Tongass Narrows.[27] Sitka is considering a $4 to $5 per passenger tax.[28]

In recent years a number of ports have been concerned about the cost of hosting cruise tourism and that cruise ships are not contributing a fair share to local economies. In 1999, 70 per cent of voters in Juneau, Alaska, approved a $5 head tax for each cruise passenger landing in the city.[29] This was over and above port and docking fees and was the first time any intermediate port in a US state had imposed such a fee.[30] The money is used to ameliorate social costs of cruise tourism, and to provide funds to assist in improving the city's cruise ship hosting capacity. The industry threatened to legally challenge the tax, but the threat was never realized. However, Holland America Line retaliated with an announcement that it would withdraw much of its support to local charities.

In 2006 Alaskans will vote on the Cruise Ship Ballot Initiative, placed on the ballot by a state-wide petition campaign. The initiative would levy a state-wide head tax of $50 per passenger (to be shared among impacted communities – $5 per passenger to ports of call and 25 per cent of total revenue to non-port of call communities); reinstate an apportioned income tax on the cruise industry's Alaska marine operations; and tax gambling profits aboard ships at the same rate levied against other gaming operations.

Not surprisingly, the cruise industry actively opposes these measures. Organizers of the Cruise Ship Ballot Initiative petition campaign say industry representatives repeatedly interfered with the collection of signatures. Then, after the petition was certified by the state's Lieutenant Governor and recertified by the state's Director of Elections, the North West CruiseShip Association hired a former Secret Service agent to search for forgery among the more than 23,000 signatures submitted and several days later launched a lawsuit to challenge the tax.[31]

The Caribbean Tourism Organization (CTO) also undertook an initiative to tax the industry. In early 2003, it discussed a $20 passenger levy on every cruise ticket sold to the Caribbean. The money would go into a "Sustainable Fund" and be used for regional security, environmental management, product development and marketing, human resource development on the islands, and to engage lobbyists in Washington. Any excess would be shared by island governments.

Details of the levy were leaked to the cruise industry before the plan had been circulated to all CTO members. The Florida-Caribbean Cruise Association lobbied against it and made rounds in the Caribbean. It aggressively argued its position to governments and private sector suppliers, which had the effect of short-circuiting and undermining a full discussion of the plan by the members of the CTO.[31] Despite a great deal of media attention and publicity, the passenger levy did not succeed. An editorial in a Bahamian newspaper observed:

The cruise line officials' opposition to the levy tax, their scare tactics, empty pretensions and vain posturing, suggest that in their dealings with the Caribbean they are operating with an unsophisticated colonialist mentality. Their thinking seems rooted in the premise that Caribbean countries are here to serve metropolitan needs and that the islands exist primarily to provide a market for them to extract wealth and repatriate the profits, while they contribute very little to the regional development.[32]

Though the 2003 initiative lays dormant, there is still considerable support among Caribbean states to impose a passenger levy.

Some Caribbean ports have differential port fees depending on the length of stay in a port. Fees are higher for short port calls with the higher fees serving as an incentive to stay longer and offsetting some money otherwise lost because of a short stop. This strategy requires a port to recognize its value and to drive a bargain that is in its interest. BC ports can push further and harder than they do to avoid the Prince Rupert scenario of a one-hour "technical call" that contributes little to the local economy.

BC should watch these developments carefully and consider the value of similar initiatives. It may be time to reconsider the 1989 federal plan to impose a tax on cruise ships for liquor, fuel and other stores consumed in Canadian waters. At the same time, BC ports and the provincial government should view the recent introduction of BC-focussed cruises from Seattle with Alaska's Ballot Initiative as a backdrop.

Environmental Protection

Despite the cruise industry's history of irresponsible environmental practices, BC is unique in failing to have in place safeguards to protect what tourists are inevitably drawn to: the natural beauty of water and land in BC en route to Alaska. Other West Coast jurisdictions are well ahead of BC in setting and enforcing environmental standards for the cruise industry. Table 3 shows the nature of waste generated by a typical cruise ship.

BC is unique in failing to have in place safeguards to protect what tourists are inevitably drawn to: the natural beauty of water and land in BC en route to Alaska.

Alaska began enforcing environmental standards in 2001 with the Alaska Cruise Ship Initiative – the first time a state held cruise ships accountable to environmental standards. A ship with an Advanced Wastewater Treatment System (AWTS) was permitted to discharge in state waters (within three miles of the coast) if the system was certified by the state. Inspections could also lead to decertification if they didn't meet standards: 4 of 18 ships certified in 2003 were subsequently decertified and later recertified.[33]

Alaska's Cruise Ship Initiative had positive effects. Air emission violations were reduced from 39 incidents between 1999 through 2001, to one in both 2002 and 2003, and none in 2004. Violations of wastewater discharge standards are now almost nil compared to four in the first two months of the initiative.

To the south, California has also legislated environmental regulations for cruise ships. Three bills introduced in the California state legislature in 2003 were supported by an August 2003 report prepared by the state Environmental Protection Agency and the state Water Resources Control Board, which concluded: "Many vessels are not complying with international, state or federal standards in regards to handling hazardous materials, garbage, and discharges or treatment of grey water or sewage." The report said it found 'particularly troubling' the discharging of sludge 12 miles out to sea, and the lack of monitoring of shipboard treatment plants and grey water, which had higher fecal coliform counts than treated sewage.[34]

The industry lobbied hard; it blocked one bill and gutted another. Only a bill dealing with hazardous waste went through with minor changes.

The California legislature again considered three bills in 2004.[35] The legislation captured elements lost in 2003 and each passed despite strong opposition from the cruise industry. Collectively, the legislation

Table 3: Summary of Cruise Ship Waste Streams (Per Ship Per Week)

Type of waste	Estimated amount generated in typical week	Content/type	Notes
Sewage (blackwater)	210,000 gallons	Wastewater and solids from toilets.	Can introduce disease-causing micro-organisms and excessive nutrients to waterways.
Greywater	1 to 2 million gallons (An average ship discharges 200,000 gallons/day; a large ship discharges 350,000 gallons/day of treated blackwater and greywater.)	Wastewater from sinks, showers, galleys, and laundry. Contains detergents, cleaners, oil and grease, metals, pesticides, medical and dental wastes.	Has potential to cause adverse effects due to the concentration of nutrients and oxygen-demanding substances in the waste stream.
Hazardous wastes	110 gallons	Photo chemicals.	Can contain silver, a toxic metal.
	5 gallons	Drycleaning waste (perchloroethylene and other chlorinated solvents).	Perchloroethylene is a chemical that can cause neurotoxicity and kidney effects in humans.
	10 gallons	Used paint.	
	5 gallons	Expired chemicals, including pharmaceuticals.	
	Unknown	Other wastes, such as print shop wastes.	Can contain hydrocarbons, chlorinated hydrocarbons, and heavy metals that can be harmful to humans and aquatic species.
		Used fluorescent and incandescent light bulbs.	Contain small amounts of mercury, a toxic metal.
		Used batteries.	Contain heavy metals and acids.
Solid waste	8 tons	Plastic*, paper, wood, cardboard, food, cans, and glass.	May be incinerated with ash discharged at sea; some solid wastes disposed or recycled on shore. Ash can contain hazardous wastes.
Oily bilge water	25,000 gallons	Liquid collected in the lowest point in the boat when the boat is in its static floating position.	Under international and US regulations, ships are only allowed to discharge bilge waters containing less than 15 ppm of oil.

*Under international regulations, the discharge of plastics is prohibited.

Source: United States Bureau of Transportation Statistics <www.bts.gov/cgi-bin/breadcrumbs/PrintVersion.cgi? date=6165907>, accessed July 6, 2005.

prohibits cruise ships from discharging greywater from kitchens, laundries and showers into state waters; dumping sewage (treated or untreated) into state waters, including effluent from AWTS; and burning garbage, paper, sludge or any other materials in on-board incinerators while operating within three miles of the California coast. Governor Schwartznegger signed the bills in September 2004,[36] giving California the strictest regulation of cruise ships of any state in the US.

Washington State has also moved to protect its environment. Several efforts to legislate controls have failed, but the state signed a Memorandum of Understanding (MOU) with the North West CruiseShip Association in April 2004.[37] The road leading to the MOU was not smooth, and in the first year there were three known violations of the MOU.[38] Despite assurances given by the cruise industry to the Port of Seattle that Alaska's standards would be followed by cruise ships in Washington state waters, the *Norwegian Sun* on May 3, 2003 was cited for the illegal discharge of 16,000 gallons of raw sewage into the Strait of Juan de Fuca. A couple of months later it was disclosed, again contrary to industry assurances, that ships docking at the new cruise pier at Terminal 30 were not using low sulphur fuels while in port. The Port of Seattle claimed the requirement was voluntary, but it had twice previously said use of low sulphur fuels would be a condition for ships docking at Terminal 30.

While cruise lines knew the conditions when they committed to using Terminal 30, they subsequently argued they couldn't use low sulphur fuels. According to the Seattle Post-Intelligencer, "Tom Dow, vice president of Princess Tours, said his company plans to remedy the problem [in 2004] by substituting two cruise ships with cleaner burning engines for the single vessel calling"[39] but didn't address the current year. He also minimized the impact of Princess' ships, stating that his ship will be in Seattle only 18 days, and only for part of those days. "That's a tiny fraction of the parade of ships that enters and exits Puget Sound."[40] The ship left Seattle for Alaska, sailing through Canada's coastal waters.

Protection of BC's marine environment is left to the federal government, which has taken a "voluntary self-regulation" approach to the industry, issuing pollution prevention guidelines it hopes the industry will respect.

In contrast to its neighbours, protection of BC's marine environment is left to the Government of Canada, which has taken a "voluntary self-regulation" approach to the industry. In January 2004, Transport Canada issued – quietly and without public announcement – pollution prevention guidelines it hopes the industry will respect.[41] The Government of Canada permits ships fitted with normal marine sanitation devices to discharge in the province's coastal waters and ports,[42] yet these systems are known to be unreliable and to produce results that are grossly unhealthy. Alaska's Governor described test results of these systems as "disgusting and disgraceful."[43] Such discharge is not permitted in Alaska, California or Washington State. The *Clean Cruise Ship Act* currently before the US Congress would prohibit discharges from marine sanitation devices within 200 miles. Discharge from advanced wastewater treatment systems would be permitted beyond 12 miles.

This creates a curious situation. Ships visiting Alaska and using Seattle as a homeport are held to lower standards in Canada than in either state. They can discharge in Canada's waters what they are not allowed to discharge elsewhere. It is obvious that ships could retain sewage sludge and other waste generated while in Alaska or Washington and then discharge it in BC. As BC embraces cruise tourism it risks becoming the toilet of the Pacific Northwest. Transport Canada says it will be 2010 or later before mandatory regulations governing cruise ship discharge are implemented.

Maximizing BC's Share of Cruise Tourism

Working collectively, and in recognition of BC's role under US cabotage laws, the province's ports can all participate in and make money from cruise tourism. There is no question that shifts between ports in the province will continue. There is also potential for growing cruise tourism in the province, even if Alaska stagnates as predicted by some. The pressing question is how the province and its ports can maximize the economic value of cruise tourism and at the same time preserve BC's value as a tourist destination.

As the province develops and pursues a cruise ship strategy (whether manifested as individual ports, through CruiseBC, or as part of a federal-provincial partnership), it must balance investments and commitments with the risks inherent in becoming dependent on cruise tourism.

Rethinking Cruise Tourism

Ports need to make conscious decisions about the nature of cruise tourism they want. They need to ensure a return on investment when contemplating or building expensive new terminals and piers to attract larger or more ships. Ultimately, there needs to be a balance between income and growth and preservation of local heritage and beauty.

First, BC needs to decide on the types of cruise tourism it desires and then cultivate forms that are economically beneficial and sustainable. It is not in the province's interest to sell itself as a "bargain" to be had in the Pacific Northwest. More money is to be had with short cruises that begin in Vancouver or other BC ports and stop at a US port to comply with Canada's cabotage laws than the reverse.[44] There is money from provisioning the ship, homeported passengers spending a night before or after the cruise, and transportation services from the airport to the ship.

Second, BC shouldn't underestimate the economic value of small cruise ships (e.g., Cruise West, Clipper Cruise Line, America Safari Cruises). They have higher per diems than most mainstream cruise lines and cater to a different clientele – one that prefers ports "off the beaten track" and away from the masses and crowds that characterize cruise tourism. It is also a clientele likely to spend larger sums of money per person on local products and services, and have a larger proportion of people likely to return. Marketing efforts need to be tailored to different segments of the industry so the type of cruise tourism being sought and exploited is consistent with each community's goals and interests. Ports should specialize in and build on local heritage and local strengths.

In their rush to meet the expectations of cruise lines and their passengers, many ports forget why they are an attractive tourist destination. Driven by homogenized passenger tastes and cruise line demands, they appear to give up their soul in their quest for dollars. Ports are frequently told by cruise executives that uniqueness and individual personality is what passengers want, but they are also instructed to maintain buses of specific quality and standards, tourist stops of a certain type – rustic is not generally included – and of course shops, shops and more shops.

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Ports in BC need to recognize and sell their strengths. It is not just the items sold to passengers on shore, but also the shore experience itself. Hosting large cruise ships with thousands of passengers works in some places and may not have adverse effects. Passengers can have a positive shore experience and present minimal disruption. But the appeal of other places is natural beauty, small size, and being uncluttered, and that one can walk down a main street or along a nature trail and not run into scores of other cruise passengers. People will pay a premium for authentic experiences. BC has many of these types of potential tourist destinations for cruise ships, but their attraction and premium pricing can be quickly compromised if the focus is only on large "luxury" cruise ships. Some ports are best to be developed and marketed to small ships serving a more affluent clientele.

The key to maximizing the benefits of cruise tourism to BC is to avoid competition between ports. Even though ports join together in CruiseBC for marketing purposes, they still compete for the same cruise ships. Instead, the province should take the lead and help coordinate cruise tourism.

One option would be to create a provincial Cruise Ship Authority that ensures an equitable distribution of ships between ports and avoids the costs associated with ports undercutting each other, or cruise lines exploiting differences. The authority might develop a passenger tax, not unlike that being considered in Alaska, whereby cruise passengers landing in BC or traversing BC's waters are levied a flat fee. A portion could be distributed to each port, whether or not they receive cruise ships that year.

Small ports can afford to maintain their beauty and charm and to sell the characteristics that make them attractive. They can afford to resist incentives that would otherwise make them just another port along BC's Inside Passage. For example, the ports served by Port Alberni-based *M/V Lady Rose* and *M/V Francis Barkley* (Bamfield, Kildonan, Sechart, Ucluelet) could all benefit from small-ship cruise tourism. This sort of sustainable development should be supported and requires the coordination a provincial cruise authority could provide.

There has also been discussion for several years about the need to develop and market BC-focussed cruises. One way to make this happen is to continue efforts to attract a current cruise operator to offer such itineraries. It isn't a matter of having someone offer BC-focussed cruises, but of ensuring that the cruises showcase BC, have adequate economic benefit, and contribute to cruise tourism industry growth in the province.

The economic incentives, however, needed to induce a company to offer BC-focussed cruises may not be sufficient to fully develop BC-based cruises. Another strategy is seen in Northern Quebec where Inuit-owned Makivik Corporation is getting into the cruise line business. Under "Cruise North Expeditions" it will market a 66-passenger ice-class ship that set sail from Kuujjuaq on July 10 with its first group of tourists and traveled to Inuit communities in Nunavik and Baffin Island.[45] The cruises are expected to provide both employment and money to Nunavik.[46] The success of the effort remains to be seen, but it is instructive.

While the financial arrangements for Cruise North Expeditions were not made public, the costs associated with chartering or purchasing a cruise ship may not be excessive. Caspi Cruises, a new cruise line begun by a group of investors in Israel, purchased the former *Song of Norway*. The 23,000 ton ship with accommodations for 1,000 passengers cost US$15 million; another US$6 million was spent for refurbishment.[47] Three former Royal Olympia Cruises vessels, *Odysseus*, *Triton*, and *World Renaissance*, sold in April 2005 for US$2.2 million, US$9.5 million, and US$3.4 million respectively.[48]

One option is for the province to purchase a ship to establish and/or develop BC-focussed cruises – and include a "Made in BC" label. There are also a range of creative arrangements. Local interests and the province could work to develop a cruise product that yields the form of cruise tourism they want rather than depending on others who have their own interests. Alternatively, BC Ferries could be encouraged to test market a BC cruise-ferry product. Or, learning from Newfoundland, the province could work with organizations such as Adventure Canada and offer a selection of province-based cruise itineraries. These strategies can produce more immediate results and help create realistic expectations for BC-only cruise tourism.

Recommendations

The foregoing discussion makes several suggestions to BC ports, municipalities and the provincial government to maximize the benefits of cruise tourism. The key to maximizing the benefits of cruise tourism is to avoid competition between ports.

The province has a role in building cruise tourism and in maximizing BC's share. It should establish a provincial Cruise Ship Authority to:

- Develop cruise tourism in a rational and sustainable manner. This may mean limiting the growth of some ports, spreading business around so all ports have a share, and supporting the development of a range of sizes and types of cruise destinations and ports.
- Market differentiated cruise products. The province has a range of ports and a variety of products to offer cruise ships of various sizes. There is value in selling ports specializing in large cruise ships, but there is also economic value and great potential in actively marketing to operators of smaller vessels.
- Implement a province-wide per-passenger levy along the lines of Alaska's Ballot Initiative. There is a growing trend of regions and ports seeking to recover some of the costs associated with cruise tourism. A per-passenger levy should be reasonable yet reflect both BC's unique value and the cost of building an infrastructure for cruise tourism. It might also introduce

incentives for homeporting a ship in BC (e.g., Vancouver, Victoria, Prince Rupert, etc.), offer incentives to ships calling at multiple BC ports, and/or disincentives for ships making short port calls or calls at times shore-side shops are typically closed.

- Explore the establishment of a "Made in BC" cruise product. If BC wants BC-focussed cruise itineraries, there are a range of options to be considered: partnering with private interests to deliver BC-only cruises; inducing an existing cruise line to offer a BC product; and/or building capacity of operators presently in BC.
- Work for environmental protection of BC's waters. At the very least, cruise ships in BC should be regulated to the same standards as Alaska. The province should advocate for federal standards at least as strict as those in California, though ideally for the same standards contained in the *Clean Cruise Ship Act* currently before the US Congress.

In addition, the report recommends that ports and municipalities:

- Develop and sell strengths. Ports need to keep in mind why they are, or may be in future, chosen as a port of call – what makes them attractive (other than their role as a non-US itinerary on Alaska cruises). They should be careful not to sell themselves short.
- Do not be afraid to specialize. Cruise tourism is a widely differentiated product and various size and types of ports are attractive to different types of vessels and clientele. A vessel with 100 passengers or less may leave more money per passenger in its wake than larger ships with considerably fewer environmental and social impacts. Smaller ports can offer as attractive features their size, authentic cultural heritage, nature experiences and eco-tourism.
- Remain realistic about income potential. There is money to be made from cruise tourism, but ports need to keep perspective, factoring in infrastructure costs, and being cognizant of the mobility and fickle nature of cruise ships.

Notes

[1] Figures for 2004 are taken from "New Figures Confirm Economic Magnitude of Cruise Industry in Canada, BC," Vancouver Port Authority, October 29, 2004, <www.cnw.ca/fr/releases/archive/October2004/29/c6455.html>, accessed November 24, 2004. Figures for 1999 are contained in the *1999 Vancouver-Alaska Cruise Passenger Study* prepared by InterVistas Consulting Inc. for Tourism Vancouver, the Vancouver Port Authority, the Vancouver International Airport Authority, Tourism BC and the North West CruiseShip Association. Alaska's share of world cruise tourism is reported by the Cruise Line International Association <cruising.org>.

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[9] Valerie Wilson. "City Could Attract 40 Cruise Ships a Year," *Nanaimo Daily News*, December 28, 2004. <www.nanaimodailynews.com>, accessed December 29, 2004.

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[12] Leanne Ritchie. "Mercury Cruise's Stops in Rupert Shortened," *Prince Rupert Daily News*, May 7, 2004. <www.canada.com/princerupert/index.html>, accessed May 9, 2004.

[13] Alberni Valley Cruise Ship Society Contribution Request, Received via e-mail November 7, 2004.

[14] The handbook was entitled Cruise Ship Visits: A Handbook for Your Community. See Sara Minogue. "The inside scoop on cruise ships," Nunatsiaq News, August 20, 2004. <www.nunatsiaq.com/news/Nunavut/40820_05.html>, accessed August 22, 2004.

[15] Sara Minogue. “Cruise ship industry uneven across Nunavut,” *Nunatsiaq News*, August 20, 2004. <www.nunatsiaq.com/news/Nunavut/40820_04.html>, accessed August 22, 2004.

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[24] See Carnival Corporation Form 10-K, US Securities and Exchange Commission, filed July 7, 2005.

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[31] See Statement by the Secretary General of CTO, Mr. Jean Holder, On the Proposed Cruise Levy (September 18, 2003), <www.onecaribbean.com>, accessed September 18, 2003.

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