

The View from Europe
By David Jessop

Taxes, safety and living with the cruise lines

Something interesting is happening in the US Senate's Commerce, Science and Transportation committee. There in recent months a crusade has been underway to try to have the cruise ships that ply the Caribbean and the seas of the world, pay tax, become safer and be subject to greater US regulation.

After a period during which the reputation of cruise lines have been tarnished by events including the sinking of the Costa Concordia, a fire on the Royal Norwegian's Grandeur of the Seas off the Bahamas, alarming reports in the US media about onboard crime and other incidents, and criticism of the industry's legal but aggressive tax avoidance measures, the cruise companies now face a new form of censure.

Following hearings in which the cruise lines did not acquit themselves particularly well, Senator Jay Rockefeller, the Chair of the US Senate Commerce Committee, has introduced legislation seeking to eliminate the tax exemption that the cruise industry enjoys and to provide for consumer protection.

The Senator's proposed legislation aims to tackle the minimal levels of US tax the industry pays on its billions of dollars of profits, achieved by registering their vessels in the Bahamas, Panama and Liberia. His objective is to eliminate some of this exemption by imposing a five per cent excise tax on the lines gross income if passengers embark or disembark from a cruise ship in a US port.

Senator Rockefeller also aims to improve consumer protection for cruise passengers and close gaps in cruise reporting requirements relating to passenger safety and security by having the federal government afford greater protection to cruise ship passengers, and by making publicly available details of all crimes committed on cruise ships.

The legislation comes in response to a growing sense in the US that the cruise ships not only pay minimal taxes but the normal safeguards expected by US consumers relating to hygiene, safety and security either do not exist, are not legally enforceable, or are obviated by the small print in the cruise lines contracts of carriage.

For its part, the Cruise Lines International Association has responded by releasing details of what it and its members are doing to be more proactive, and individual lines have begun to publish details of shipboard incidents and are agreeing to meet the often huge costs of the US Coastguard and other emergency services following at-sea incidents.

How far Senator Rockefeller's legislation proceeds remains to be seen, as does the level of support it receives from other committees, but an army of lobbyists has begun work to halt the bills.

That said, these are all issues that the Caribbean governments and tourism industry should be following closely as they touch issues that are of as much relevance to the region as to the consumers who use the cruise lines.

This is because, like it or not, the cruise industry has become of significant economic importance to the Caribbean, with around 17.5m of the total 25m visitors to the Caribbean in 2012 arriving for a day by sea.

Since the economic downturn began in 2007/8, cruise tourism has experienced a significant growth in popularity, in part because cruise vacation is seen as offering value for money in a manner only otherwise available through all-inclusive hotels and packaged vacations.

As a consequence the Caribbean, the closest point to the world's largest cruise market, has become and is expected to remain, the dominant cruise destination in the world, hosting the leading share of the cruise industry's capacity.

Despite this there is a still pervasive sense that the cruise lines use the region and leave little behind. Although statistics vary as to the economic benefits the cruise lines bring, the industry suggests that in 2013 the region will account for around 37 per cent of all global cruise itineraries and receive on average a spend of around US\$96 per passenger and crew member or US\$225,596 per typical cruise ship port-of-call. Other estimates suggest less.

While these sums and the taxes paid by cruise ship passengers arriving in the Caribbean are minimal in comparison to what land-based travellers spend, the reality is that vast numbers of visitors are gaining their first impressions of the Caribbean from one-day stops on board cruise ships.

The commercial challenge for the region, therefore, is to develop programmes such as those in the Dominican Republic that actively try to convert cruise visitors to taking a future vacation on land, and to attract the cruise lines to home port in the Caribbean.

Although the cruise companies sometimes seem to be their own worst enemies by being less than transparent or forthcoming, a better relationship between land and cruise based tourism is long overdue, as are effective programmes to capitalise on the numbers of visitors they bring.

That apart, there are other, more fundamental concerns requiring attention. These include the manner in which the cruise companies play one destination off against another to reduce levels of taxation on cruise visitors; are less than keen on home porting, local employment or provisioning in the region; are active politically in a low key way to ensure their interests are protected locally; and are, at times, less than environmentally sympathetic.

This is not to suggest cruise ships do not have an important role in Caribbean tourism, nor is it to take the position of those who oppose their business model or presence. Rather it is to point to a need for better regulation, transparency, and proper understanding at a policy level in the Caribbean of the broader economic and commercial implications of cruising. It is also to argue for more thought and debate about finding new ways to sustainably integrate cruise tourism into regional economic development.

Cruising brings much needed revenue to the Caribbean region. Senator Rockefeller's interest in greater regulation illustrates well that a significant part of the Caribbean economy and tourism product lies in the hands of a group of poorly regulated and taxed external entities that need to become more locally accountable and better integrated into the way in which the rest of the Caribbean's premier industry operates and thinks.

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