

***CHALLENGES
AND
OPPORTUNITIES IN THE
CRUISE MARKET
SEPTEMBER 25, 2008***

***AAPA ANNUAL CONVENTION
ANCHORAGE, ALASKA***



**CRUISE LINES
INTERNATIONAL
ASSOCIATION**

***Michael Crye
Cruise Lines International Association
(CLIA)***

Who is CLIA?

- Cruise industry's premier marketing, regulatory, and travel-agent training organization in North America.
- 24 member cruise lines representing the largest cruise lines and cruise berths marketed in North America.
 - ✓ foreign and domestic
 - ✓ international and inter-coastal
 - ✓ mass market and luxury
- Supported by 17,000 member travel agencies and over 100 industry business partners



Economic Snapshot of Today's Environment

Not the best of news...

Fuel Prices



Subprime Hangover



Food Prices



US Election - Change & Uncertainty



Devalued Dollar



Low Consumer Confidence



Economics - How Are We Doing?

Not a Bad Start in 2008...

CLIA Member Line Passenger Carrying Report Summary - Q1 2008

	Q1 2008	Q1 2007	Variance	%
<u>Change</u>				
North American	2,612,030	2,520,564	91,466	3.63%
International	551,082	422,116	128,966	30.55%
<u>Total World</u>	<u>3,163,112</u>	<u>2,942,680</u>	<u>220,432</u>	<u>7.49%</u>
Bed Days Available	21,732,022	20,081,629		
Bed Days Achieved	22,749,398	21,006,982		
Occupancy	104.7%	104.6%		
Length of Cruise	7.2	7.1		



Economics - Remaining 2008 Passenger Forecast

▶ **12.8 million passengers (+200,000)**

- 10.5 million passengers - North America
- 2.3 million passengers - International



▶ **Capacity Driven Forecast**



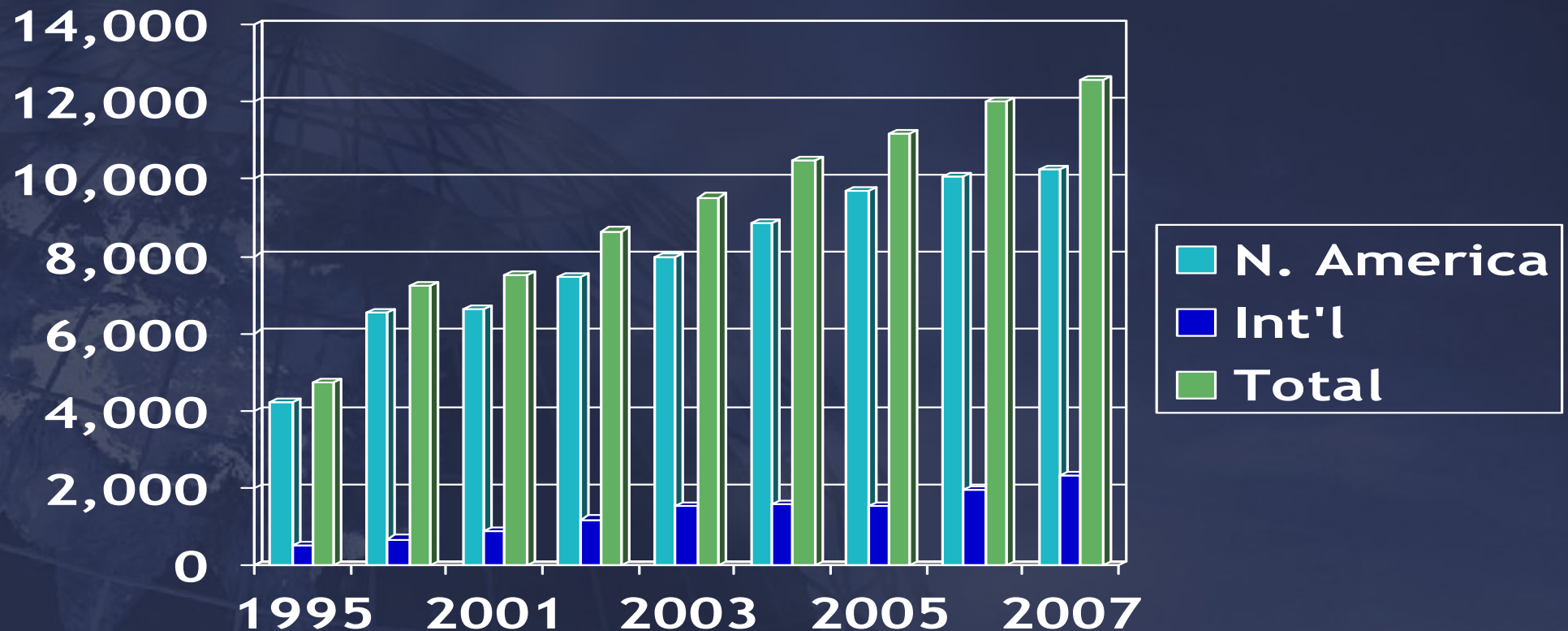
Economics - Worldwide Sourcing of Passengers

Consistent growth from North America and International Source Markets

1995 - 4.7 million guests, 89.4% from North America

2007 - 12.56 million guests, 81.5% from North America

Guests (000)



Regulatory - Environmental

The IMO MEPC Cmte approved amendments to MARPOL Annex VI Regulations to reduce harmful emissions from ships. Proposed amendments will be adopted in October at it's next meeting and enter into force 16 months thereafter.

Proposed changes in Emission Control Areas:

- Reduction in sulphur oxide (SO_x) emissions from ships 1.50 TO 1.0 then .1% by 2015
- Reduction in nitrogen oxide (NO_x) emissions.

Annex VI will allow for Emission Control Areas to be designated for SO_x and NO_x .

Worldwide sulfur cap of 1.5% in 2020



Regulatory - Environmental

U.S. NPDES - Vessel General Permits (VGP)

Northwest environmental advocates vs. EPA: Judge rules that EPA must have regulatory program in place for operational discharges

Proposed VGP issued in June 2008; 28 discharges regulated recreational, and fishing exempted by legislation

EPA given reprieve to December 18, 2008. EPA indicates Final permit will be issued days before permit becomes Effective. Industry will be given no time to assimilate VGP and comply



Legislative - Environmental

Durbin Farr Clean Cruise Ship Act

- ✓ Prohibits discharges of untreated wastewater, sewage sludge, incinerator ash and hazardous waste in U.S.
- ✓ Establishes new effluent limits for treated wastewater, prohibits discharges within 12 miles off shore. Requires use of advance wastewater systems to 200 miles from the coast.
- ✓ Requires operators to provide blueprints, maintain discharge log, submit to inspections, and test and report all discharges
- ✓ Places observers on board to monitor compliance
- ✓ Assesses per pax fee
- ✓ Fines, criminal liability and civil suits



Legislative - Criminal Reporting

Pending Bills - Federal

- **Coast Guard Reauthorization Act of 200....**
 - ✓ **Crime Reporting and Internet Publication**
 - ✓ **Passed House April, 2007**

- **Cruise Vessel Security and Safety Act of 2008**
 - ✓ **Design and structure, procedures, crime and Internet reporting, LE, environmental monitoring, crew blacklist, medical, DOHSA**
 - ✓ **Still in committee**



Legislative - Enforcement and Reporting

Pending Bills - California

■ Simitian Ocean Ranger Bill

- ✓ Rangers to sail on all CA voyages
- ✓ LE and environmental monitoring
- ✓ Crime reporting and Internet publication
- ✓ Fee/tax on all CA home-ported ships
- ✓ Defeated in Assembly Public Safety Committee



California Jurisdiction

- Extends 3 miles from shore line
- Includes same broad class of crimes on land
- Examples:
 - ✓ Crimes in Port or w/in state waters
 - ✓ Air emissions, water discharges or other environmental laws
 - ✓ ABC Enforcement
 - ✓ Gambling Laws

Practical Considerations - Enforcement and Reporting

Allocation of Resources vs. Need

- Ships in CA waters very short time
- FBI and USCG testimony in Congress
 - ✓ Low crime rate
 - ✓ No known crimes unreported
 - ✓ All serious allegations investigated
 - ✓ Cruise Lines cooperate fully

Legal Problems with LE Rangers

- Facially unconstitutional:
 - ✓ Supremacy Clause and Federal Preemption
 - ✓ Commerce Clause
 - ✓ Compact Clause
 - ✓ Fourth Amendment Search & Seizure



Practical Considerations - Enforcement and Reporting

Alaska's Rangers

- No law enforcement functions
- Authority limited to environmental compliance
- No travel or role outside the state
- Ships in state waters majority of cruise



Practical Considerations - Enforcement and Reporting

Florida Model

- Extends state's jurisdiction to crimes on cruises *outside* state waters if:
 - ✓ FL suspect or victim on board, or
 - ✓ More than 50% embark/disembark in state, or
 - ✓ Offense causes substantial effect in state, or
 - ✓ Master commits suspect
- But places restrictions on enforcement



Customs and Border Protection

Passenger Vessel Service Act (PVSA)

- CBP interpreting the PVSA to allow, without penalty, diversion of ships when a port has been closed due to weather or safety concerns.

However, CBP has been assessing the full penalty when vessels are repositioning to their homeport; \$300 per passenger can generate fines up to \$1,000,000.



Customs and Border Protection

CBP Current Issues

■ Coming WHTI

- ✓ Air entries - passports required January 2007
- ✓ Land and sea port - passports, pass cards, enhanced drivers licenses, border crossing cards required by June 2009
- ✓ Exception: U.S. passengers on closed loop cruises; only ID plus proof of citizenship required

Cruise industry continues to encourage passports.



Customs and Border Protection

CBP Current Issues

- **Coming WHTI**

- ✓ U.S. Exit - proposed collection of finger prints by airlines and cruise lines upon departure from U.S. and visa waiver country visitors.

Potential for delays.



Medical/Sanitation

Current Issues

- ✓ New revision to U.S. CDC Vessel Sanitation Operations and Construction manuals; due out in 2009.
- ✓ Pandemic flu planning programs and potential quarantine of vessels
- ✓ New International Ship Sanitation Certificates under WHO's International Health Regulations



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