Thank you (name).

I appreciate the invitation to speak to the American Association of Port Authorities, and it’s good to be back in Atlantic Canada, especially in Halifax, this region’s gateway city. Last year I was in Saint John for their Port Days and had the opportunity to participate in the opening of their new cruise terminal, and so it’s once again great to be back in the area.

I’d like to take the opportunity to first thank the Port of Halifax, our ports in Atlantic Canada, and indeed all the ports throughout the western hemisphere that welcome Princess ships and our passengers. We appreciate your tourism partnership.

I was asked to represent the cruise industry here today, and I’m proud to do so because ours remains a dynamic and important industry. Over the last 40-plus years the modern day cruise industry has evolved in exciting ways – with an array of exceptional alternative restaurants; entertainment rivaling shows found on Broadway and in Las Vegas;
amenities like giant, poolside movie screens and water parks; interesting enrichment and learning programs; and fascinating new destinations.

Back in 1984 Princess introduced what was then the largest cruise ship ever built. It was our Royal Princess, and at 45,000 tons she carried 1,200 passengers. Who could have ever imagined that a couple of decades later a ship weighing just over a quarter of a million gross tons and carrying 6,000 passengers would be a reality?

This ship is just one of the 167 vessels which last year carried over 13 million passengers around the globe, many visiting the ports you represent. The economic impact cruising brings is undeniable. In the U.S. alone last year, our industry had direct expenditures of more than 17 billion dollars.

So while cruising still makes up a small part of the maritime and shipping business, I know ports like yourself are very interested to know how and why cruise lines make the decisions they do, and what that can mean for you.
So my presentation today is going to take the form of seven questions – I think that’s a lucky number. And of course I’ll provide the answers that I hope will provide some relevant information and insight to your port.

So the first question is: How’s the cruise business faring in the current economic environment? And what’s the short term business outlook?

Well, none of us have a crystal ball but we think that 2011, like 2010, will be a challenging year.

In simple supply and demand terms, the financial crisis has reduced demand. In order to stimulate demand, we have had to reduce prices. This, of course, has had a negative impact on yield and profit. In addition passengers are not booking their cruises as far in advance as they normally would. In general, because North American passengers typically book their cruises far in advance we tend to feel the effects of a financial downturn later than other travel sectors but we also tend to recover later.

This, along with rising fuel prices and a weak US dollar, have all had a negative impact.
We’ve had to lower prices to fill our ships, and “value” is the key message we’re focusing on delivering right now. And concurrently, at Princess we’re closely watching our costs and controlling expenditures, and even reducing costs in many areas. But these reductions are in areas that our passengers won’t see or realize. They’re behind-the-scenes savings that don’t affect what our passengers experience. In fact, at Princess we’re actually adding services and amenities for our passengers.

For example Caribbean Princess, our ship in the midst of its expanded Canada/New England season, last year underwent a multi-million-dollar drydock. We remodeled the atrium into a stunning piazza, with a relaxing entertainment space, added our signature adults-only Sanctuary, and created some new dining venues, to mention just a few changes.

If you think about it, while some cruise lines are taking the opposite approach, we believe that by investing in our product during the more challenging times, we can differentiate ourselves, and emerge a stronger company when the economy improves.
The cruise industry has been through downturns before. No doubt all of us remember the events of 2001 and the significant slowdown in travel as a result. It was a challenge, but we did manage to fill ships and actually introduced quite a few new people to the idea of a cruise vacation. And as you’ve seen here, we recovered from that downturn into what became a period of dramatic growth for the industry.

We believe that the cruise industry’s track record of continued growth and significant value for travelers will see us through this period of uncertainty.

What can you as ports do during this time? Well, a couple of things. You can actively manage your costs so that you are not passing on cost increases to us and, working together, identify opportunities for greater common efficiencies. And I want to take a moment to thank all of the ports here who have not increased their costs this year.

If we’re disciplined about making the right decisions and supporting each other’s cost management and quality service efforts in a difficult business environment, we will both be all the more stronger when the crisis is over.
Here’s question #2: How do we decide where to deploy our ships?
What do we look for in a port when designing itineraries?

This is a question we often get from ports. Well, I’m going to try to make this easy. In itinerary planning there are five basic factors. The first factor is customer demand. We are a customer-driven business and we respond to the demands of the marketplace. Simply put, we take passengers where they tell us they want to go.

And how do we know where passengers want to go? We ask them. We ask every passenger on every cruise where they would like to cruise to next. And we also ask passengers on every cruise how important each port was in their decision to buy the cruise. Marquee ports, a common term in our industry, are those ports that passengers rate as most important when buying a cruise. So if we are doing our research correctly we know both where passengers want to cruise to next and what ports in each destination are the most important in terms of the passenger purchase decision. And what is the key message here - that ports should aspire to be marquee ports – to be destinations that travelers both recognize and wish to visit.
The second itinerary planning factor is customer satisfaction. We take passengers to the places they like best. On every cruise we ask passengers to rate each of the ports – in other words to tell us how much they liked each of the ports they visited. The key point here is that customer satisfaction is paramount to your success as a port; it’s that simple, but we work very hard to achieve that simplicity.

How important is it for a port to have a berth and a cruise terminal? Regarding a berth, we certainly prefer being alongside versus being at anchor. At anchor can result in passenger delays and complaints and also requires greater ship resources to operate the ship to shore boating services. And shoreside tender services are typically very expensive. However there are certainly many ports around the world where we are at anchor and we would not avoid a quality port because it is at anchor.

The third itinerary planning factor is yield. We deploy our ships where we can achieve the best financial return. Yield is the cruise fare and onboard revenue less our operating and overhead costs. And what is the key takeaway here – it is critical that ports and service providers in those ports remain affordable.
The fourth itinerary planning factor is geographic proximity. A port’s location relative to other desirable cruise ports is a critical aspect in planning an itinerary. It’s important to remember that cruising offers both quality and variety, and itineraries with more ports generally sell better than those with fewer ports. The key message here is that ports should work cooperatively to improve the quality of all ports in the region.

The fifth and final factor is marine and other operational requirements. As Port Executives, you know this is actually a threshold requirement. This includes port facilities, safety, security, infrastructure, and services—basically all the things our passengers should never be aware of, because they work so well they are invisible. The main point here is that ports need to have both the right hardware and software in place to handle a cruise ship visit.

**Question #3 is also a question we’re frequently asked: How do cruise lines select turnaround ports?**

For turnaround ports, those ports where cruises begin and end, there are two additional factors. The first factor is scheduled air lift. We
prefer to take advantage of scheduled flights with direct services from major U.S. and international airports and not to charter aircraft ourselves. The second factor is a cruise terminal or an alternative facility to properly handle the debarking and embarking of passengers and their luggage.

Regarding cruise terminals, they are generally expensive to build and difficult to achieve a positive financial return unless you have very high throughput. So if you already have a cruise terminal, that’s great, and if you want to become a turnaround port you will need one, but for the vast majority of you who are transit ports, or even the occasional turnaround port, we are not sure a cruise terminal is the best investment for you. And quite frankly as cruise lines we do not want to see our port costs increase to pay for it.

Saint John is a good example of a port that has invested in the cruise industry, but has built a multi-use facility that serves as a cruise terminal when ships visit, and are used for other purposes the remainder of the time.

Some ports are under the impression that being a home or turnaround port is the brass ring. In reality, though, it’s not necessarily the big
money maker for the port. For example with 3,000 passengers visiting your port during a transit call, that’s 3,000 people that are touring your port and city and supporting your tourism and hospitality businesses. Unless you’re a marquis port, in-transit passengers are generally arriving at the airport and going straight to the ship, or going straight home after their cruise. You need to do the numbers but many ports have determined that they’re happy to be a transit port because it represents a greater economic benefit.

**Question #4: What can ports do about congestion?**

Well there’s no question with more cruise ships than ever before that port congestion is becoming a problem. As a starting point we need to work with those ports where congestion is a chronic issue to identify affordable opportunities to expand infrastructure. We need to ensure that the tourism infrastructure in these ports can support an increase in daily visitors. We also want to ensure that ports have a fair and pragmatic berth reservations policy and we are happy to work with ports on this. And last, but not least, congestion also represents an opportunity for many of our boutique and emerging ports as cruise lines look for new and different destinations.
And question #5 is: Should my port be considering shore power? How do cruise lines view shore power?

Well, let me begin by saying that we all share a common interest in protecting the environment. Shore power, which is also called cold-ironing, is where ships in port connect to a shoreside source of electricity. Currently three ports are set up for shore power – Juneau, Vancouver and Seattle, with San Francisco, Los Angeles, San Diego and New York in progress.

Princess pioneered shore power in Juneau, Alaska in 2001 and it is still in effect today. Juneau’s power source is hydroelectric power and the city’s utility was producing more power than required. Princess has 5-6 ships every week in Juneau, all docking at the same pier. So with a clean power source and an excess of supply, and frequent ship calls, our plugging-in in Juneau made perfect sense. Unfortunately, there are very few ports around the world that have this same situation. As I understand it, most ports do not have an excess of power or cannot provide us with electricity at an affordable rate, or do not have the frequency of calls from ships equipped to connect. Ideally the shoreside power source needs to be a cleaner option than the ship producing its own power.
Question #6 is: Are there any legislative issues on the horizon that could affect both the cruise industry and ports?

The cruise industry has been very appreciative for the support of the AAPA in the past, and we thank you for your support of legislation that is reasonable, practical and sensible.

One of the issues currently confronting us -- especially here in Halifax and ports in the rest of Atlantic Canada and Quebec -- is the proposed 200 mile Emissions Control Area -- or ECA -- requiring the use of low sulfur fuel within 200 nautical miles from Pacific, Atlantic and Gulf coasts of the United States, Canada, French territories in North America and the eight main Hawaiian Islands.

The Northwest and Canada Cruise Ship Association is engaged with Transport Canada and others to explain the potential problems and impacts of this new regulation on cruise operations.

As you know, the Atlantic/New England and Quebec destinations are particularly impacted, since the entire voyage of a cruise ship on a typical itinerary would be within the 200 mile zone. I know you
understand that winds are offshore in the North Atlantic, unlike my home in Southern California, and there are other differences in air quality between the two areas, though the ECA zone is the same for both coasts.

We support environmental stewardship. And the North West & Canada Cruise Association member cruise lines are at the forefront of these developments, serving as a model for cruise ships in other jurisdictions. Collectively Princess and other lines have invested over $100 million dollars on advanced wastewater treatment systems that treat water to standards higher than most land-based operations. Additionally, cruise lines have invested in shorepower, pilot projects to test exhaust gas scrubber technology, and cleaner burning fuels that reduce air emission.

We appreciate your support and involvement in this issue and we need to work together. We can avoid real risks to human health from ship emissions and at the same time avoid very real risks to the economic health of the ports and regions that depend on cruise ships and passengers. We are hopeful that we can, with your support, work with officials in both Canada and the U.S to find the right solution.
Beyond the ECA, the industry has grown dramatically more global in recent years. So improving the processing of visas and efficient processing of passenger ships through Customs and Immigration is more important than ever, particularly with larger ships.

And no region should take the cruise industry for granted. Alaska is one of our industry’s most important cruising partners. A small group sponsored a ballot initiative in 2006 in Alaska. They convinced voters to approve by a narrow margin several new taxes and regulations that applied only to cruise ships and passengers. We believed some were not legal and most imposed unreasonable requirements on our industry. The initiative supporters told Alaskans that cruise lines would not reduce capacity as a result. They did not believe their actions would affect our deployment. With the greater financial burden placed on our industry in Alaska, and therefore the higher fares charged to our passengers in a very price-sensitive environment, Alaska lost several ships and 140,000 cruise passengers this year. What the ballot initiative supporters failed to consider is that our industry is mobile. We deploy our ships where there is greatest demand and where we can obtain the highest profit. Costs Matter!

Policy-makers in Alaska, recognizing the impacts, have revised the law, reducing taxes and revising regulations. We view this as a positive
move, but the industry plans itineraries years in advance and the damage has been done for 2010 and 2011.

So the last question, #7, this afternoon is: How can your port positively impact the cruise passenger experience?

I’ll end with a list of three things.

#1: Create a warm welcome for cruise passengers. Atlantic Canada is known for this, and it could be a model worldwide. Whether it’s a special local greeting, a friendly environment upon disembarkation, or a stress-free arrival through Customs and Immigration, this will create an impression about your port, and it’s not lost on our passengers – again, may I emphasis who rate each of our port experiences following their cruise.
Halifax is a great example of this. They’ve invested in cruise growth. They added more berths to meet need for expanding demand for destination and the lengthened season. And they also added a welcoming shopping area so our passengers’ first experience is a warm and interesting, rather than arriving into an empty terminal.

And #2: Create an identity for your port, and a breakthrough visitor experience. Encourage stakeholder participation from local tourism officials, tour operators and port agents. This could be celebrating your past such as restoring a historic building or other site, or creating a pedestrian street or other signature feature that differentiates your port.

And, finally, #3: Provide a seamless experience and good tourism infrastructure in your port and city. Our passengers won’t be able to put their finger on why exactly their visit was so great, but they’ll leave with a memorable experience.

I hope that I’ve offered some interesting insights into the cruise business, and suggestions for successful partnership in the years ahead, and thanks again for the invitation to be with you today.