

## Alaska Cruise Association ~ Cruise Ship Tour

August 21, 2009, ten Homer Chamber representatives and several Soldotna Chamber and Kenai Chamber members toured the Royal Caribbean Radiance of the Seas cruise ship sponsored by the Alaska Cruise Association. Tour facilitators were Rod Pfleiger, Membership & Community Relations for Alaska Cruise Association, and Andy Nelson, VP - Tour Operations of Royal Caribbean.

The day began with a briefing on the bus ride from Soldotna to Seward. Aboard the Radiance, the group toured the bridge, engine control room, solid waste, recycling and laundry systems and galley. The Homer members asked many questions relating to water discharge, business opportunities, cruise ship head taxes and many other issues relevant to our economy and preserving our environment. The Ship Captain, crew, and tour facilitators were very informative and helpful with answering all our questions. A DVD was provided to the Homer Chamber titled "Navigating Tourism Business Opportunities with the Alaska Cruise Industry." This video is available for viewing at the chamber or you can also download it from the Alaska Cruise Association website: [www.akcruise.org](http://www.akcruise.org) or contact Rod Pfleiger for a copy: [rod@akcruise.org](mailto:rod@akcruise.org). The website also shares the 2009 Tourism Best Management Practices document created in collaboration by the Juneau tour operators, cruise lines, transportation providers and the City and Borough of Juneau.

### Homer Chamber Representatives

- Don Cotogno, Homer Chamber Board President & owner of Timber Bay B&B
- Shelly Erickson, Homer Chamber Cruise Ship Committee Chair & owner of Homer Tours and HomeRun Oil
- Katie Koester, Rep. Paul Seaton aid
- Bryan Zak, Homer City Council, SW Director of Small Business Development Center (SBDC), & owner of Alaska Adventure Cabins
- Mako Haggerty, Mako's Water Taxi and member of Friends of Kachemak Bay State Park
- Zach Tappan, Homer Air
- Jon Faulkner, Lands End Resorts & Lodging
- Jenny Martin, Homer Chamber Ex. Assistant & Membership Services
- Bob Shavelson, Cook Inletkeeper
- Melanie Dufour, Center for Alaskan Coastal Studies

Below is a summary of questions posed by the Homer Chamber members and the responses provided by the tour facilitators.

### **Recycling & Refuse**

*Rod Pfleiger (PF):* 66% of refuse onboard ship is recycled on the ship. Recycling is off loaded either in Seattle or other ports with approved vendors. Any money earned from recycling is placed into to a fund and divided amongst crew members. Ships are not allowed to take on recycling from other communities due to regulations, ie: cruise ships are not allowed to transport "freight". All products that are brought on and taken off the ship must be accounted for, including general waste and hazardous waste.

*Homer Chamber Member (Member):* Our landfill in Homer is filling up, so any cruise ship refuse that is off-loaded in Homer will quicken this pace.

*Andy Nelson (AN):* Royal Caribbean (RC) works to decrease the amount of waste that is created on board. They do this by working with vendors to reduce packaging and also doing some of our own repackaging prior to loading on board. We also contract with approved vendors within Alaska for offloading hazardous waste and some recycling.

### **Ocean Rangers, & Cruise Ship Taxes**

*Member:* What is your view on the Ocean Ranger program?

*RP:* AK Cruise Association (ACA) does not agree with the wide range of authority given to the Ocean Rangers program set up by the Ballot Initiative from 2006. We argue that the Ocean Ranger cannot be properly trained as an authority in all of the areas that they are required to supervise while on board the cruise ships. This program is funded via cruise ships taxes. Cruise ship head tax is currently \$46 per passenger for state tax. ACA feels this is a targeted tax and is unfair. Some ports of call also charge an additional head tax such as Juneau and Ketchikan. These head taxes are passed on to the passengers in the form of additional fees when they pay for their cruise. From May-September each year, about 28 cruise ships are operating in Alaska waters, with approximately 300+ vessel visits (ie: number of voyages).

### **Ballot Initiative & Water Discharge**

*Member:* How can water discharge be measure if not from the “pipe” point of discharge?

*RP:* Engineers state you can measure water discharge quality in the holding tank before you release it into the ocean and then test the mixing zone area.

*Member:* In 1992, standards were set to permit ocean vessels every 5 years with increasing standards which in turn would drive technology so that in future years we would have a zero discharge. We need to drive technology to get to this zero discharge status, and would applaud cruise ships who reached that status. With current wording of initiative, there is no motivation or drive to improve technology. With higher standards, all cruise ships are on the same playing field and are better able to compete with each other. As well, as standards increased, cruise ships would advocate more for increased /improved technology to meet these standards.

*AN:* We want to get to this technology level, the problem is we do not have the space sometimes to physically place it on the ship. We would need to build new ships before we could incorporate the technology.

*RP:* ACA is concerned that if the bar is set too high before technology is there to reach it, the cruise industry in Alaska could break and the ships will be deployed to other regions in the world.

### **Cruise Ships, Tourism & Economics**

*Member:* Is there ever a threat of other countries, such as China, compete with our ship building industry?

*AN:* There is always a possibility, but the limits and restrictions set at each port (such as ship size, number of ships allowed each year, etc.) will always limit the production of ships.

*Member:* of the 28 vessels operating in Alaska each year, what are the general sizes?

*AN:* they average from 700-2500 passengers with a few having 50-250.

*RP:* Seven companies are part of ACA (see website). Of the 28 ships currently operating in Alaska this year, 2 will be redeployed in 2010 to the Caribbean. Reason for redeployment is based on decreasing Alaska cruise passengers in the last year, reduction of Alaska tour prices by 30-40%, higher cost of operating in Alaska due to distances traveled between ports, and various cruise ship taxes. As well, in the past year we have started to attract a different type of passenger, one that is spending less at the local shops when we are in port.

*AN:* When our ships reach the final destination of their tour, about half of cruise passengers (1100 of 2200 average) will continue on with a land package tour in Alaska. Another ¼ (approx. 550) will go to the airport for a return flight home. The remaining ¼ (approx. 550) we do not know what they do. We suspect many of them are planning their own land based vacations in Alaska that they coordinated on their own. Tours and ports of call are often planned 3-5 years in advance. Royal Caribbean will be redeploying 1 of our Alaska based vessels to the Caribbean in 2010 due to changes in the tourism economy and legislation in Alaska. To move this vessel back to Alaska will take several years as ship loses its port of call preference in various cities and are required to go on a wait list.

*Member:* What is the cost/expense of having a cruise ship cross the Gulf, turn into Kachemak Bay and also go to Anchorage?

*AN:* Time, distance, and speed are all factored in. We need to save money on fuel. For example, we slowed down the speed of one of our vessels going to Whittier, so that it arrived 1 hour later, and it saved us \$48,000 per voyage. Some of our investments prevent our company from changing ports, as we have invested in land based tour packages that start/end at these ports.

*Member:* Why does Holland America want to come to Kachemak Bay and Anchorage next year? It seems too costly, just considering fuel alone, to make this worth while for the company?

*AN:* I assume the company is attempting to increase their tour sales by marketing a new package which will offset their fuel costs.

*RP:* The competition between cruise companies is high. Holland America is taking a risk to add this 14 day package to Homer and Anchorage in 2010. They are trying to appeal to different markets and to offer something new to repeat cruise passengers, as well they are trying to increase their competitive edge. There are 6 areas relative to the future of the cruise industry: 1. fuel costs, 2. market demand, 3. taxes and regulations, 4. value of the dollar, 5. global economy, 6. return on investment. By losing these 2 ships next year from Alaska to the Caribbean, we are also losing \$7 million per ship in general advertising of Alaska (ie: "visit Alaska" type advertising to the general public) by the cruise ship industry. These funds will now be directed toward advertising of the Caribbean. The Western Coast of Canada is also attempting to market themselves as "the new Alaska"; they are easier to get to and you see the same scenery and wildlife.

*Member:* What is the longevity of the Holland America ships continuing to come to Homer, 1-2-3 years?

*AN:* It's too complicated to predict. It depends on sales and return on investment. For my company Royal Caribbean, the delivery and distance is just too expensive.

*Member:* Recently one of the Southeast Alaska ports has restricted local vendors to a 10x10 area in which to stand and provide tour information to cruise passengers as they disembark the ship. Will that be applied to Homer? What opportunities will our Homer businesses have to sell our tours to passengers?

*AN:* The 10x10 area for vendors was created and is enforced by that one specific SE city. They did this because cruise passengers were becoming frustrated with the number of vendors crowding them as they disembarked and it was creating a negative impression on their experience of that community. Homer could choose to implement something similar, but that is the responsibility of the Homer city and/or port. For Royal Caribbean, we look at each tour a vendor wants to provide to see if it meets safety standards and will provide a great experience for the passenger. The more unique and enriching it is, the more the tour aids us in selling the cruise. Homer businesses need to contact the Holland America rep to discuss tour proposals. (See Jenny at the Homer Chamber or information on page 2 of current newsletters, which can be downloaded from the chamber website). Typically, the cruise company will receive a commission for selling a tour for a vendor, however the commission rate or flat rate fees can be negotiated in the tour proposal with the cruise company. The reason the Holland America RFP's were sent to the Homer businesses so late (with a short turn around time) was that Holland America made the decision late in their season. Normally, businesses have a much longer time to return these proposals. That being said, I would encourage Homer businesses to contact Holland America even after the RFP deadline if you have tour proposals that would be a unique experience and really showcase your town well. Companies can often add more tours later in the season. Especially if you have something new- or unique to your area. Example- in Skagway, they have a local person go on the ship and provide local history information to the passengers- it's a big seller.

*Member:* Are there any liability issues with Homer vendors being at the parking lot of the Homer Harbor Dock where passenger will disembark? Or liability issues for the cruise company when a passenger purchases a tour from a Homer Vendor on their own (once they have landed) vs. purchasing a Homer tour via the Cruise ship company or while on board?

*AN:* The cruise companies have no control over the harbor port area once the passengers are off the ship. The cruise ships have no liability regarding vendors selling their tours to passengers in the Harbor dock areas. Cruise companies offer passengers approved vendor tour packages where we can increase the control, ie: safety issues, making sure the passengers will be transported to and from the tour by the appropriate time frames to meet the ship docking and sailing. If a passenger chooses to book a tour on their own, not through the cruise company, the passenger is then responsible for getting to and from the tour and back to the ship prior to sailing. If the passenger gets hurt on the tour, the tour operator is liable not the cruise company. Its bad press for all businesses involved, included the cruise company, and the cruise company will do what they can for their passenger.

*Member:* Why can't the cruises coming to Homer allow the passengers to stay in Homer for 2-3 days vs. 1 day?

*AN:* Due to the cruise trip planning, that often cannot happen as well as other customs rules, ie: the ship is only allowed in the port for so many hours. Approx. 30% of cruise passengers come back to Alaska after they have done a cruise here.

*RP:* 30-50% of cruise passengers are independent travelers and are not sure what they want to do in port. They do not sign up for Vendor activities that the cruise company sells. The cruise companies do exit polls with passengers to see which port they like the best and why.

*Member:* what is the median average age for cruise passengers in AK.

*AN:* mid 40s to mid 50s. Each cruise age make up is also dependent on which age group the company was marketing to for that specific cruise. Royal Carribean focuses more on kids and families and active people. Royal Celebrity focuses is more refined with high end entertainment and food.

*Member:* Did all cruise ship destination regions/areas throughout the world experience downturns in bookings?

*RD:* All regions have experienced some drops in bookings. AK cruises are predicting our 2010 bookings to equal our 2004 stats. We can't compare 2008 to 09 yet. Europe did the best this past year and seems to have recovered faster. The troubling part is that Alaska had a much deeper decline than other areas due to taxes, cruise cost higher, etc. Alaska decline was a mix of cancellations, decreased bookings. In 1996, there were 4 million berths in the world and Alaska had 10%. In 2010, there will be 15 million berths in the world and Alaska will have 5%.

*Member:* When did this drop from 10% AK berths drop to 5%?

*RD:* It didn't really drop as much as AK isn't keeping up with the rest of the world.

*Member:* Where are Alaska passengers from?

*AN:* Cruises are target various ages and regions based on the destination and theme of the cruise. Often Alaska cruises target: California, New York, Seattle. The high airfare rates to Alaska in 2009 also hurt cruise bookings.

### **3 Members provide Feedback after the Tour**

Member 1: I most appreciate the 'staff' comments more than the party line coming from the corporate office. They truly do seem invested in clean waters for our lifetime and the future. I also would like to learn more about how each company could partner with the communities they visit in raising environmental standards and providing the incentive to do so.... if at all possible. The boat of course was beautiful, the company fun and stimulating, and it certainly provided me with an opportunity for learning that I appreciate and have shared with my co-workers.

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Member 2: I enjoyed the outreach opportunity made available by Royal Caribbean through the Homer Chamber of Commerce. Although I have been on a cruise ship before I have never been behind the scenes to see how the ship is dealing with waste, trash, laundry, navigation and engineering. There were so many state of the art instances of the use of technology that it really opened my eyes to the opportunities for our Alaskan municipalities to benchmark and therefore improve our existing systems. One point made by the Captain during our lunch was that if Alaskan Communities should consider applying the same requirements for waste water expulsion that are applied to Cruise Ships. It would be interesting to see a comparison of the City of Homer's waste output compared to a cruise ship, i.e. amount, quality.

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Member 3: I appreciated the opportunity to participate and I'll be sending emails to Rod and Andy to let them know too. From my perspective, a central purpose of the tour was to marshal support for rescinding the cruise ship head tax. Yet nowhere in the discussions did the head tax factor into why Alaska is such a difficult place, relatively, to do business for the cruise ships. Other factors – including

corporate tax, gambling tax, moorage agreements, environmental compliance and fuel costs seemed to me more determinative.

Royal Caribbean is the second largest cruise ship corporation in the world, and they enjoyed over \$1/2 billion in profits last year – see [http://www.wikinvest.com/stock/Royal\\_Caribbean\\_Cruises\\_\(RCL\)](http://www.wikinvest.com/stock/Royal_Caribbean_Cruises_(RCL)) While they have had losses in 2009, the market gurus seem bullish on the stock. Of course they want to sure-up their Alaska assets, but repealing the head tax – which I agree could be better appropriated to a wider range of projects in port communities – does not seem to address the issue, especially if playing field is level for all cruise companies (I was not sold on the argument that cruise ships would go elsewhere; Alaska is not eastern Canada, and while some ships may leave, there will always be a robust market for Alaska cruises – I’m just not sure they will venture beyond the Seward/Whittier and Vancouver/Seattle runs). Rising fuel costs, on the other hand, play a huge role in decision making, and that’s why we asked so many questions about Holland America’s decision to come around the corner to Homer and Anchorage in 2010. While I’m no expert, I cannot see that extended travel and associated fuel costs making economic sense in the long run.

So I would caution the Chamber to go slow, and I would hope the Chamber could invite Holland America to a public meeting where some of the financial, social and water quality issues could be addressed.