

## The impacts of the cruise industry on tourism destinations

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**Abstract:** In this paper we describe the evolution of the cruise tourism industry and we analyze different impacts on tourism destinations of this segment of the travel industry. The study includes the discussion of economic, social, environmental, cultural and political effects. We present data to analyze and compare the performance of the main cruise destinations and cruise lines. Analysis and data are based mainly on a selection of information taken from different official worldwide reports (OMT, CTO), press releases and previous studies. The economic impact is estimated from tourist expenditure and local information. Environmental impacts are compiled from historical and current data. We also describe different activities related to the cruise ship industry to identify costs and benefits to different actors of the local economies. From the analysis, we discuss some stylized facts about the cruise ship industry and we show that some optimist evaluations of local decision makers are not completely true.

**Keywords:** Cruise Ship Tourism, Socio-Economic Impact, Environmental Impact

### 1. Introduction

The cruise ship industry has been the fastest growing segment in the travel industry around the world, and since 1980, the average annual growth rate in the number of cruise passengers worldwide has been 8.4%. In 2007, 12.6 million worldwide passengers were carried on the Cruise Lines International Association members, an increase of 4, 1% over the previous year. Cruises are especially popular in the United States and in 2007, 10 million Americans took a cruise vacation representing 76 percent of the total cruise passengers of the World and is expected 51 million of them cruising in the next three years (CLIA, 2008). Nowadays, there are about 300 liners sailing the world's seas, with further 35 ships scheduled to join the global fleet over the next four years representing investments over U\$D 20 billion. But as ship order book and passenger number grow, so, too, do cruising's impacts at different levels: socio-cultural, economic, political and environmental.

The Caribbean region, continue being the most preferred cruise destination; according to FCCA statistics, accounting for 41.02% of all itineraries. Consumer interest in cruising continues being strong despite downward pressure on travel in general due to the economy and fuel costs; 77 percent of past cruise vacationers and 55 percent of vacationers who have not taken a cruise, expressed interest in doing so within the next three years. All over the world, but especially in the Caribbean region, one can observe that local governments investing large amounts of money in high quality infrastructures to attend the colossal ships and thousands passengers arrivals. There are very few studies concerning the different impacts of the cruise industry to destinations. Then the question is: are we sure that the benefits of attracting cruises to a tourism destination are higher than the costs? Is it sure that the major players in the cruise industry, including cruise lines, local governments and population, shore operators, civil society organizations are taking proactive measures to ensure a sustainable future for cruise tourism while preserving cruise destinations? Management techniques, such as regional collaboration to levy head taxes in order to increase economic benefits and limiting total cruise passengers to reduce social impacts must be coordinated between local governments. With the cruise industry's boom, nobody wants to be backward. Maybe that is the reason why several governments, especially in Latin America, provide surveys and data about the cruise passenger's expenditure that are not adequately justified. There are some studies that show values of cruise passenger expenditures higher than expenditures of normal tourists who have to pay hotel and meals (US\$1.690 spent by a cruiser compared with US\$1.180 spent by a non cruiser tourist in a week, according to FCCA).

### 2. Cruise impact's overview

#### 2.1. Economic Effects

The cruise industry has the potential to provide economic benefits to a port state. These economic benefits arise from five principal sources: 1) spending by cruise passengers and crew; 2) the shoreside staffing by the cruise lines for their headquarters, marketing and tour operations 3) expenditures by the cruise lines for goods and services necessary for cruise operations; 4) spending by the cruise lines

for port services; and 5) expenditures by cruise lines for the maintenance. However, accommodation of large cruise ships into port requires a great deal of initial capital investment in infrastructure as well as maintenance costs. As cruise ships continue to grow larger, further investment may be required. Under these types of tourism scenarios with high infrastructure or environmental costs, rapid growth of tourism may result in a stagnation of or even a decline in GDP (Gooroochurn and Blake (2005); Nowak et al (2003) and Nowak and Sahli (2007)). Without significant foreign investment into this infrastructure, it is questionable whether construction of large cruise ship terminals could pass a benefit-cost analysis. According to CLIA (2007) the major economic impacts of the U.S cruise industry during 2006 included a total passengers and crew expenditures that generated \$35.7 billion in gross output in the United States, a 10.2 percent increase over 2005. This, in turn, generated just under 348,000 jobs throughout the country paying a total of \$14.7 billion in wages and salaries. These total economic impacts affected virtually every industry in the United States.

Tourism is one of the main sectors for the development of the Central American and Caribbean regions and therefore, it must be supported by both the public and private sectors (Espinol, 2005). In 2008 a record of 11 million passengers are forecasted to cruise in the Caribbean region. The cruise visitors contributed to tourism with more than 21 million dollars. The industry is also booming in Asia, Australia and Europe. The U.K., Germany and Italy are experiencing considerable growth in the popularity of cruising and there is also significant development in Spain (but less in France (Klein (2003).

## **2.2. Power Groups**

Arguably, cruise lines are the most benefited with the activity. More than 50% of land-based activities are sold on board by themselves. From the value paid by cruisers for on shore activities, the local tour operator is left with between a level of 50% and sometimes 25% of that value. Tourism service providers who want to appear in advertisements delivered on board (videos, brochures, etc.) have to pay for it. There is a high cost of participation in the most important annual industry event that ranges from U.S. \$ 16,500 including registration and booth (Klein (2005). Others incomes provide from "the dream islands". These territories are private islands property of each cruise line. This clearly reduces the economic benefit to communities not to disembark at the destination. There are no profits for the chain of local tourism and cruise lines obtain all incomes, from rental of aquatic equipment, food and beverages to souvenirs that are sold to passengers on board.

Like any great business, cruise industry, is a strong lobbying group of lawmakers in port destination. From 1997 to 2007 Cruise Line International Association spent the amount of US\$10.017.807 on lobbying the U.S Congress (Cruise Junkie). It was also noted that power with the participation of the Carnival Corporation as a partner of the firm Puerta Cancun-Xcaret, SA de CV, whom the Mexican government gave the construction and operation of a terminal for big ships, the fact generated a heated debate. Others significant lobbying groups are the wholesaler receptive tourism operators. These companies are able to underbid, then so, they dominate the operation of tours and shore excursions in the port destination. Small local tourism operators and providers not only resign themselves to profit what the cruise line deems fit, but they would have to deal with displeased passengers. These operators prefer not to vie with cruise lines for fear of losing the small part of the business that they share. On the other hand, there is a group composed by hotel sector. Cruise sector causes apprehension to hotel managers for reasons as the nonpayment of taxes compared with those who pay these entrepreneurs. In Aruba, hotels and operators feel that their traditional packages lose ground to ships scheduled. With regard to these disagreements, Manuel Butler Halter (expert from the WTO) states that cruise sector growth and traditional tourism sector are not irreconcilable if they develop diversification and motivation policies in destinations (SECTUR, 2003).

## **2.3. Environmental Effects**

Cruise ships generate a number of waste streams that can result in discharges to the marine environment, including sewage, graywater, hazardous wastes, oily bilge water, ballast water, and solid waste. They also emit air pollutants to the air and water. The environmental costs of the sector are incalculable given that the cruise ship industry is unregulated and difficult to gauge widely its impacts, despite enforcing environmental standards for the industry. This is an example of the large

volumes of waste generated by vessels (Wikipedia): blackwater and graywater (respectively 15.000 to 30.000 and 90.000 to 255.000 gallons per day by a typical large ship with 3000 passengers); solid waste (24% vessel worldwide comes from cruise ships); Bilge water (an average of eight metric tons of oily bilge water for each 24 hours of operation); ballast water and air pollution. There are very few regulations and not always successful. Despite several efforts to enforce the sector, they have failed and violations continue. In 1999 Royal Caribbean paid fines for US\$18million for discharging oily bilge water in Alaska's Inside Passage. The same amount was paid by Carnival Corporation in 2002 for dumping oily waste from five ships and admitted that employees made false entries in record books from 1998 to 2001. Although cruise ships represent a small fraction of the entire shipping industry worldwide, public attention to their environmental impacts comes in part from the fact that cruise ships are highly visible and in part because of the industry's desire to promote a positive image.

#### **2.4. Social Effects**

Interactions between resident and cruise passengers can have positive effects offering residents the possibility of learn about the world and explore new life perspectives. At the same time, increasing cruise activities restrict the space of residents and sometimes push them to adopt different moral conducts. Flagged ships do not precise a legal minimum wage. There are several failed attempts brought to the USA Congress. While the allegations are representative and there are organizations that defend their job rights (such as the ITWF) cruise companies finally win out. Some of them, flagged by Panama, lobbied hard to obtain an exemption of the obligation to provide a day of rest per week to workers. In addition to the social impact mentioned, there are series of reactions triggered by the wave of cruise tourism, the competition for a space, specifically in the small ports, where the ratio (cruise tourists/inhabitants) is large (According to (Espinal, 2005) 11 cruise tourists for Bahamas; 8 for Aruba; 7 for Antigua & Barbuda, 5 for Dominica and 2 in average for 4 more countries), situation that differs from the other ports as Miami, Barcelona and European destinations in general, where the number of cruise visitors is small compared with tourists or residents.

This competition starts between surrounding ports for its desire to attract cruises and offering formidable concessions to them. Then, in the same port, cruise ships compete with the cargo shipping industry for port space (long hours staying and higher fees than cruise industry). Another dispute of space is fought by the stay tourist (who normally pays a large amount of accommodation per night and on other services within and outside the hotel), who has to spend lot of time in the row to visit a monument or museum, do not find space in the discotheque and at the end, feels confused with the horde (Jaramillo (2001). Transport scarce too (particularly taxis) because cruise passengers create an artificial large demand only for some particular days. Another space is fought for the informal salespeople (mobile) who also want to benefit from the presence of the cruise passengers

#### **3. Cruise Industry Taxation**

The economic effects of head taxes in travel and tourism have not been analysed extensively. However, head taxes are not a rarity. We know little about their impact on the demand of these taxes on international travel. To date, economic analyses of tourist taxes have focused largely on the hotel occupancy (bed) tax and daily car rental tax is levied by many US localities (Mak, 2008).

There is no homogeneity on the application of taxes to cruises. Some ports have levy reasonable fees. For example, Alaska approved US\$50 (Mak, 2008). Some countries approve a derisory fee and, in less than a week, the decision is repealed. This is the case of Mexico, where the power of the lobbying group felt it. Starting October was repealed (not the first time) the "cruise ships levy", whereby every cruise passenger arriving in Mexican coasts should pay a right of US \$5. Supported legislators argue that will continue seeking approval of this right because host communities need such economic leakage to invest in its image; further, they assert that "if the shipping lines insist in not paying, we will explore the way to made them withholding tax" (president Tourism Commission in the Chamber of Deputies). Another incredible situation is the case of cruise lines adopting the "flags of convenience" (FAO). This cruise ships are exempt from multiple tax responsibilities and implement lenient standards of safety, undergo few environmental inspections, operating costs low, recruit staff without national or international regulations. In any case, the most unusual scene is the role played by Panama, engaging to pay cruise lines for each passenger landed to "encourage the flagging of vessels in the Panamanian

flag" (CCAAIC, 2001). This incentive per passenger goes from US \$2.5 to US \$12 according to the number of visitors arriving with the ship.

In consequence of the lack of a rigorous tax policy of cruise ships arrivals, there are cases where ports do not allow cruise ships to dock, unless that the industry pays an amount for local development, like Playa del Carmen (Mexico) declared.

## Conclusions

There is no question that cruise ships bring money to local businesses, but ensuring the sustainable development of a cruise destination has a very high cost. We reiterate the initial question: are we sure that the benefits of attracting cruises to a tourism destination are higher than the costs? Is it sure that the major players in the cruise industry are taking proactive measures to ensure a sustainable future for cruise tourism while preserving cruise destinations?

As could be observed, there is a portion of the decision makers of destinations that pressure to promote cruise tourism but there is no policy in the local governments to control the impacts of such activity. Given this fact, an alarm signal arises. The lack of planning that allows confronting the massive arrivals of cruise tourism is the guarantee of multiple negative effects in a destination wherever this segment exists or is under consideration like an option for its economic growth. Ports too often perceive that they need the cruise ships more than the cruise lines need them, but in fact there is a mutual need. Ports have not yet realized that with the recent expansion of the cruise industry cruise lines need new ports as much if not more than the ports need them. Ports continue building new piers and terminals to both attract cruise ships and to keep them coming back (Klein (2003). This paper intend to be a reflection that invite decision makers of cruise destinations to think about what they expect with the promotion of cruise tourism and to take decisions based on serious studies. It is also very important that destinations have a serious policy of promotion and management of cruise activity in their territory. This paper is nothing more than a preliminary study about cruise ship industry. We intend to use this study as an initial material for future researches. There is much to do, trying to hear players points of view who have not been heard, collect data and thereby (there is very few data about cruises and in particular about impacts of their activity), provide results that can be used to inform local governments on the effects of cruise tourism and so on.

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