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Joseph B. Boschulte
President & CEO
The West Indian Company, Ltd.

Testimony on the Impact of the Re-opening of Cuba
On the U.S. Virgin Islands Economy
Monday, September 28, 2015

The Honorable Janette Millin-Young, Chairperson of the 31st Legislature's Committee on Economic Development, Agriculture and Planning; committee members, senators present, legislative staff, fellow testifiers, viewers, listeners and members of the public present this afternoon.

Good morning. I am Joseph B. Boschulte, President and CEO of the West Indian Company, Ltd., the U.S. Virgin Islands' premier cruise ship port.

Thank you for inviting WICO to testify on the impact of the reopening of Cuba on the U.S. Virgin Islands Economy.



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The United States government is in the process of restoring full economic and diplomatic relations with Cuba to include the ongoing loosening of travel restrictions.

It is clear that Cuba will become a competing tourist destination. Needless to say, the rest of the Caribbean is sitting up and taking notice like never before.

As I mentioned several days ago when I appeared before the Committee on Finance, the Caribbean remains the cruise industry's top destination, with a solid thirty-five-point-five percent (35.5 %) of the global deployment capacity market share, almost twice that of the Mediterranean, the second leading destination.

This is the most tourism-dependent region in the world.

According to the Florida-Caribbean Cruise Association (F-CCA), of the twenty-two-point-one (22.1) million passengers who cruised globally, fifty-five (55) percent, or twelve (12) million, were from North America – the United States and Canada.

The impact of the unrestricted opening of Cuba on Caribbean tourism overall – both cruise and air - is being described in some circles as “unprecedented”, something that will “change the total Caribbean travel landscape forever”, “invigorate the Caribbean



market and attract repeat cruisers who have been there and done that.”

It certainly will not be business as usual.

Cuba needs to replace and increase declining income from Russian and Venezuelan oil revenues, increase revenues to balance the budget and pay for social programs like free health care and education, so it has begun to rely on the more steady income readily available from tourism.

According to the Caribbean Hotel Association (CHTA) whitepaper *CUBA: The Great Disruption for the Good of the Caribbean* Cuba received more than three (3) million stopovers or overnight visitors in 2014.

One-point-seventeen (1.17) million were from Canada; seven-hundred-thirty-thousand (730,000) from Europe; and one-point-zero-nine-six million (1.096) from other countries, mostly South American.

Cuba has learned from its success in attracting investments and tourists from non-US markets that tourism presents the fastest opportunity to generate foreign revenue, stimulate employment and address budget shortfalls.



With the cruise industry encouraging destinations to develop products and experiences beyond sun, sand and sea, Cuba is in the position to market itself as a unique destination.

And market itself Cuba does.

A quote again from the CHTA whitepaper:

“[T]hose countries...who might have been lulled into believing that Cuba is a greenhorn at tourism, will be surprised at how sophisticated and effective the Cuban marketing machine has become. When those competing countries turn to other markets to replace whatever effect Cuba will have had on their US business, they will find well-entrenched and fully-established Cuba promotional programs.”

The Cuban National Statistics and Information Bureau (ONEI) tourism statistics indicate Canada continues to be the main tourism source country for Cuba.

Almost forty-nine percent of more the three-hundred-seventy-one thousand visitors this past January hailed from Canada.



Germany was second with almost sixteen thousand (16,000) visitors, and England third with more than fourteen-thousand-five-hundred visitors (14,500).

The nature of the cruise industry is to anticipate or create new, exciting directions in an effort to be innovative, profitable and anticipate travelers' interests and needs.

For the past decade those directions have included private islands, larger and larger ships with amazing amenities and celebrity-themed restaurants, plus port development partnerships in emerging destinations.

All of which have involved billion-dollar investments.

But there have been no new destinations. Until now.

Clearly visible on the horizon is the opportunity to profit exponentially from an exotic, previously-forbidden, frozen in time destination ninety (90) miles from Florida, easily and fuel-efficiently reached from Miami, Charleston, New Orleans or Galveston.

Whatever plans cruise lines do have, are - for the most part - being kept very close to the vest. But rest assured, all lines have Cuba contingency plans.



The February 18, 2015 *Cruise Critic* featured a quote by Norwegian Cruise Line CEO Frank Del Rio, a native of Cuba, in which he said he has itineraries locked in his upper right hand drawer and ready to go.

“My unfulfilled dream is to be on the bridge of one of my ships coming into Havana harbor,” he said.

Cruise Critic members reported receiving a survey outlining potential Cuba itineraries from Celebrity Cruises, which is owned by Royal Caribbean Cruises.

The proposed trips range from four (4), five (5) and seven (7)-night Eastern Caribbean cruises from Fort Lauderdale, to eleven (11) to fourteen (14) night trips that combine Cuba with a traditional Southern Caribbean cruise from Miami.

This may come as a surprise, but Cuba already is one of the largest tourism destinations in the Caribbean, and is second only to the Dominican Republic in visitor arrivals in the Greater Antilles.

The 1962 U.S. embargo did not end tourist visits to Cuba. It only prohibited U.S. companies in most industries from doing business with Cuba, and forbade ships that sailed to Cuba from entering U.S. waters for six (6) months.



For most other nations, it remained business as usual.

Americans continued to travel to Cuba, but not en mass.

Although concrete figures are unavailable, at least one-hundred-thousand (100,000) Americans travel there illegally every year.

Tourism in Cuba today is alive, doing very well and promises to do even better.

With specific regard to cruise tourism, in 2005 Fidel Castro's well-publicized opinion about cruise ships effectively ended cruise ship arrivals to the island after he cancelled the contract of the Italian firm managing Cuba's port terminals.

However, the ban lasted only for a few years.

In 2005 one-hundred-two thousand (102,000) cruise passengers visited Cuba.

Arrivals fell to eleven thousand (11,000) by 2007.

The big loss came in 2006 when the Spanish cruise line Pullmantur was purchased by U.S.-based Royal Caribbean Cruises, which ended regular service from the island because of the embargo.



However, Star Clipper, Thomson, Saga, Fred Olsen, Swan Hellenic and Nobel Caledonia, all European-based cruise lines, are some of the known lines that currently include stops in Cuba in their Caribbean itineraries.

Cruise tourism to Cuba has grown more than five (5) fold over the past three (3) years with the number of ships increasing from twenty-four (24) in 2012 to one-hundred-thirty-nine (139) in 2014.

Cruise passenger arrivals increased from six-thousand-seven-hundred-seventy (6,770) to thirty-five-thousand-five-hundred-nineteen (35, 519).

Through May of this year there already have been one hundred-seventy-four (174) port calls with more than sixty-two-thousand (62,000) visitors.

These figures are from Cuba's Transportation Ministry, posted on the state-run website and reported in the July 9, 2015 edition of the *Miami Herald*.

The Cuban cruise market will expand considerably in 2016.



Swiss-base MSC Cruises has announced it will homeport its twenty-one hundred (2,100)-berth *MSC Opera* in Havana from December 2015 through April 2016.

The ship will spend two (2) nights in Cuba with the itinerary that includes Cozumel, Montego Bay and the Grand Caymans.

Carnival Cruise Lines, the world's largest cruise line, has received permission from the U.S. Government to begin sailing to Cuba in May 2016 under the banner of its new Fathom brand.

This is not a commercial tourist cruise.

It is considered a social impact cruise, one of the twelve (12) categories of travel permitted by the U.S. Department of Treasury.

The 710-berth *MV Andonia* will provide seven (7) night, bi-weekly, all-Cuba cruises focusing on education, the environment, economic development, and featuring Spanish lessons and workshops on the country's heritage.

Prices begin at almost three-thousand dollars (\$3,000), triple the cost of leisure cruises, and almost double that of a similar social impact program to the Dominican Republic. Taxes and port fees are not included.



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Pearl Sea Cruises, tour giant Globus and small-ship line Haimark also have announced plans for social impact programs that now, thanks to recent changes in U.S. policy, can be booked directly by U.S. travel agents.

Currently Cuba Cruise, a Canadian-based company launched in 2013, offers round-Cuba sailings on the twelve-hundred (1,200) passenger ship, *Louis (Celestyal) Crystal*.

The social impact cruise costs six-hundred-sixty dollars (\$660) double-occupancy, with a seventy-five dollar (\$75) registration fee.

Since the December announcement that restrictions were easing, the company has experienced an onslaught of inquiries, with those from Canadians interested in getting there “before McDonalds does”.

U.S. inquiries increased from ten percent (10%) of total calls to fifty percent (50%). As a result, the line is considering extending its season and adding another ship to meet demand.

There is the belief that once restrictions are lifted, tourist-gear and American businesses will swarm in to the country, leading to a less authentic experience.



That desire for an authentic experience combined with general curiosity contribute to travel agency and industry analysts' estimates that at least one (1) million Americans will visit Cuba in the first year of totally unrestricted travel.

The Bahamas, the Cayman Islands and the Greater Antilles are perhaps the most enthusiastic because of their proximity to Cuba and the possibility that extended cruise itineraries will include their islands.

However, they too should be concerned.

In a December 2014 interview with the *Tico Times* which took place after the easing of travel restrictions between the U.S. and Cuba was announced, Michelle Paige, president of the Florida-Caribbean Cruise Association specifically identified Bahamas and Jamaica as destinations that should be concerned about losing cruise ship calls.

Although both destinations are popular because they are relatively close to the U.S. mainland, both have reported rising violent crime rates against cruise passengers in recent years.

“Destinations that provide a satisfactory experience for passengers and are doing a good job have nothing to worry about.



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It's the destinations that are having problems that need to worry," Paige said.

This leads us to the sixty-four-thousand dollar (\$64,000) question: will cruise lines drop existing ports to accommodate Cuba?

Regarding cruise tourism, the Caribbean Hotel & Tourism Association whitepaper says dropping calls to other ports will likely be attributed mainly to the novelty of the destination, Cuba's close proximity to the United States and savings in fuel costs.

The negative impact is expected to mostly affect southern Caribbean destinations.

I quote:

"The likelihood that cruise lines will drop some existing ports to accommodate Cuba port visits is real and the proximity of Cuba to the US mainland can allow for Cuba to be easily added to a schedule that can impact itineraries to near markets such as the Bahamas, the Cayman Islands and Jamaica.

It seems inevitable that by adding the opportunity to have Cuba included in multi-destination cruises nearer to the United States with the attendant savings in fuel costs, will negatively impact southern Caribbean destinations."



Since Cuba is an island with multiple ports and distinct regions, cruise lines can focus on all-Cuba cruise itineraries that include Havana, Guantanamo, Santiago de Cuba and Isla de la Juventud.

However, there also is the possibility that cruise lines can homeport in Cuba with passengers flying to the island in fifty (50) minutes, then cruising for a weekend or longer.

There are a wide range of packages to sell.

You should be aware that the U.S. Treasury Department has approved several licenses for passenger ferry services between the US and Cuba.

Many, like CubaKat, a catamaran ferry service; and Baja Ferries, which runs existing service between Puerto Rico and the Dominican Republic, are poised to enter the market.

Treasury also has issued a license authorizing Palm Beach-based a luxury yacht company Paul Madden to provide charter services to Cuba.



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In the restrictions eased most recently, authorized travelers – those traveling under one of the twelve (12) categories of permitted travel to Cuba - can now travel without prior permission of the U.S. Office of Foreign Assets Control (OFAC).

Those categories of travel are:

- family visits
- educational activities
- official business of the U.S. government; foreign governments and certain intergovernmental organizations
- professional research and professional meetings
- religious activities
- public performances workshops, athletic and other competitions
- support for the Cuban people
- humanitarian projects
- private foundation activities or research or educational institutes
- certain export/import or transmission of information or information material



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- and transactions that may be considered authorized under existing regulations and guidelines.

Although general tourism travel remains illegal, U.S. citizens already licensed to travel to Cuba can return to the United States with \$400 worth of Cuban goods and \$100 in duty free rum and cigars.

No one can predict if or when restrictions will be totally lifted by Congress, although the pressure to do so is mounting nationally and internationally.

However, the Friday, September 18th edition of Travelweek quotes a U.S. official familiar with the most recent round of eased restrictions.

“By the end of the year, the former Cold War foes should resume direct postal service for the first time in five decades and clinch an agreement on regularly scheduled commercial flights.”

Once it happens, industry projections suggest it will be three (3) years at most before all the pieces fall into place because it will take time to deliver a proper product.

The immediate challenge appears to be Cuba's infrastructure.



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An infrastructure is in place. It is, for the most part, aging and designed to accommodate smaller ships, those that carry less than one thousand (1,000) guests.

Most ports are too small to accommodate larger ships needed to meet the anticipated overwhelming demand, and many do not directly face the sea, but are inland.

Ships would have to negotiate narrow channels and often encounter unmapped islands.

Although not favored by passengers, floating jetties or tendering are viable options.

So is massive private investment by the cruise lines to dredge and develop the ports: the question is: would it be worth it?

Carnival Cruise Lines CEO Arnold Donald may believe so.

Noting the shallow draft of Havana's port during his earning comments, Donald said, "There will be investment in ports and other infrastructure required over time."

The major cruise companies have a well-established track record of successfully investing in new port infrastructure and quickly establishing new or improved ports of call.

We have seen how quickly the BVI developed its new port.



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As I mentioned, the newly refurbished twenty-one hundred (2,100) passenger MSC *Opera* will homeport there beginning this winter.

Carnival Cruise Lines has a good idea about the Cuban infrastructure since the Costa Cruises invested Havana port development in the 1990's.

Carnival acquired the Costa line in 2000, and the cruise terminal in Havana reportedly has been refurbished.

However, an automobile tunnel reportedly traverses the mouth of the bay and prevents the city from dredging deeper to receive lower-draft ships.

An hour to the west of Havana, though, is the new billion-dollar, Brazilian-funded Mariel port which caters to container and commercial traffic, and also can accommodate larger ships.

According to F-CCA's Michelle Paige, "Cruise tourism requires the least amount of infrastructure. It is perfect for Cuba. They don't need hotels; they just need to move people."

The Labor Day weekend Carnival *Liberty* incident demonstrated that concept is possible, quite easy and very profitable for local businesses.



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With the ship restricted from leaving port, passengers were able to enjoy the best of two worlds: the luxury of the ship and access to the island's bars, restaurants and nightlife.

One line is considering plans for a fly-cruise package: fly in late and overnight for two nights on board the ship in Cuba to give visitors a taste of the nightlife reminiscent of the days of the Tropicana club before moving on to another port.

Because everything is up in the air, anything is possible.

The cost of travel to Cuba is another challenge that has to be overcome.

Traveling there by cruise ship is not a bargain compared to other Caribbean islands, mainly due to bureaucracy.

There are multiple layers of bureaucratic governmental ministries all wanting a piece of the capitalism that will be created, so things take a long time to happen in Cuba.

However, the ministry of Tourism has consolidated most tourism companies in Cuba under one roof.

The industry has become centralized under the banner *Havanatur*, which will create less competition.



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American tourists on organized tours are not even allowed to make their own reservations at private restaurants.

There also is the question of sufficient air-conditioned tour busses, shopping venues and restaurants to accommodate the number of visitors expected to swarm to Cuba. Will it be ready?

As of December 2014 Ronen Paldi, president of Ya'lla Tours US, an authorized travel service provider that has been carrying visitors to Cuba since 2002, says it is not.

But they are getting there.

Lack of infrastructure, amenities and red tape doesn't make cruise tourism development in Cuba impossible or insurmountable. Just difficult.

Since cruise lines have proven to be both patient and resourceful, obstacles to successfully forging forward in Cuba are minor in light of new leadership and the overwhelming need for funds.

To recap, we expect that overall the opening of Cuba will:

- Add a new destination that will invigorate the Caribbean market.
- Provide multiple new ports of call



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- Serve as an embarkation point for cruises to other islands
- Create a surge in regional tourism employment
- Create a wide range of packages to sell

With all eyes on Cuba, where does that leave us?

Fortunately, the U.S. Virgin Islands is ideally situated geographically to benefit from multi-destination itineraries that may begin in Florida or Cuba and head south through the eastern Caribbean.

The U.S. Virgin Islands is still a desirable port with one of the most generous duty-free shopping allowances in the Caribbean. Fascinating tours, historic sites, an abundance of unique bars and restaurants and friendly people as well as beautiful vistas also keep us appealing to visitors.

Although the WICO dock can accommodate many of the European-based, smaller ships that currently call on Cuba and the lines are familiar with these islands, the issue of stringent clearance and regulatory requirements of U.S. Customs/Immigration and the U.S. Coast Guard in U.S. ports can be extremely taxing to smaller lines.



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For similar reasons, larger lines such as Costa and P&O that call on the BVI and Dominican Republic choose to bypass us.

Although it is unlikely that the easing of travel restrictions to Cuba will change customs and immigration regulations, we can revisit talks with the lines about including our destination in their itineraries.

As a territory, we also must press Federal authorities to address the impediments for clearing large groups of non-US passengers and crew.

WICO's plan, in tandem with the territory's position announced late last year by Tourism Commissioner Beverly Nicholson-Doty, is to continue to provide the best possible service to the lines we currently work with and negotiate for additional lines – possibly those that include smaller ships - with a win-win outcome as our primary end result.

One thing should be noted; a warm welcome goes a long way and makes a big difference. Visitors make note and appreciate it.

In an article on Cuba welcoming the return of cruise ships to the island, one British visitor noted how the Cuban people were leaning out of windows, smiling and waving at them.



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By comparison, he received nothing like that in the other ports visited during his two-week cruise that included the more southern Caribbean islands.

All visitors – no matter their category of spending - appreciate it when residents make them feel welcome.

The last passenger ship to leave Havana for the U.S. in September 1962 was the West India Fruit & Steamship Company's *City of Havana*.

Back then, the lines had no trouble filling cabins with a forty-two dollar (\$42) rate, and P&O's *SS Florida* made three trips weekly between Miami and Cuba.

Then came the Cuban Revolution followed by U.S. sanctions and restrictions that affected travel and business practices.

Those political developments allowed tourism, particularly cruise tourism, to become one of the U.S. Virgin Islands' main economic drivers.

More than fifty (50) years later, political tides and public sentiment have changed toward favoring an end to the half century of broken relations between the countries.



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The final decision on Cuba rests with the U.S. Congress and the Cuban government, but Americans – currently our primary source market - are eager to get a peek behind Cuba's iron curtain.

Cuba already has experienced an immediate increase in visitors from all around the world. And the announcement that America is easing restrictions is only adding to the destination's appeal.

There is no doubt that totally lifting the restrictions will present a challenge to our economy and impact our profile in the cruise industry, more than development in any other port in the region.

There is a pent up demand for Cuba.

In closing, as the US-Cuba relations continue to thaw, there will be an impact on the economies of all Caribbean islands.

While we should be concerned, the most effective way to deal with potentially strong competition is to be prepared as best we can.

We must continue to strengthen our product and the level of service we provide to insure that both WICO and the territory continue to create positive, memorable experiences for our visitors



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and inspire confidence by the cruise lines that will keep us in demand as a destination.

We are fully aware of the challenges which exist because of the current uncertain economic climate, increasing and unrelenting competition from the usual destinations as well as newcomers that as recent as five years ago were sleepy players.

But as far as U.S. sourced-tourism, Cuba has been a sleeping giant for more than 50 years. And the giant is waking up.

However, I remain confident of WICO's ability to adapt and withstand the current business climate and the possibilities that Cuba's reopening may bring.

We have weathered many storms over the course of our hundred-plus-year history.

I am confident we will continue to do so.