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Mr. Michael Sacco
President
Seafarers International Union
of North America, AFL-CIO
5201 Auth Way
Camp Springs, Maryland 20746

Dear Mr. Sacco:

I apologize for the delay in responding to your 26 October 1995 letter regarding the Passenger Vessel Services Act. I appreciate you bringing this matter to my attention.

I understand that the issue was debated at the White House Conference on Travel and Tourism. In fact, changes to the existing PVSA were not recommended to the White House by the WHCTT.

The President understands how important this matter is to working men and women in the American tourism industry and he will not consider harmful "reforms" such as a liberalization of the PVSA.

Thank you for your interest in protecting American interests in the travel and tourism industry.

Sincerely,

Harold Ickes
Assistant to the President
and Deputy Chief of Staff

Ok

fjs

SIU

Seafarers International Union of North America, AFL-CIO

Michael Sacco
President

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Dana Singiser
Status? - Frank or Yourself

11/7
Jennifer O'-
H I needs to respond to Sacco.
Please draft.
This is timely. J.

October 26, 1995

The Honorable Harold Ickes
Assistant to the President and
Deputy Chief of Staff
The White House
First Floor, West Wing
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mr. Ickes:

On behalf of the Seafarers International Union (SIU) representing unlicensed seafarers working onboard U.S.-flag vessels including the five largest U.S.-flag overnight cruise vessels, I am writing to express our deep concern about the White House Conference on Travel and Tourism (WHCTT).

While the SIU is supportive of President Clinton's efforts to promote the tourism industry, one proposal may be advocated by the WHCTT with the best of intentions, but will prove to be detrimental to both U.S. marine and leisure industries. It is our understanding that foreign-flag cruise companies are manipulating uninformed WHCTT delegates into supporting repeal of the Passenger Vessel Services Act (PVSA) which reserves the transport of passengers between U.S. ports to U.S.-owned, built and crewed vessels.

These foreign companies do not pay corporate taxes, employ foreign workers in shipboard positions, operate unregulated, untaxed casinos onboard their foreign subsidy-built ships (re: floating leisure) and want domestic trading privileges while maintaining these advantages.

The administration's commitment to revitalize American shipyards was first made at the NAASCO shipyard in San Diego, California. That same shipyard is now in the final stages of a Maritech project to begin construction of U.S.-built cruise ships. They have publicly stated that they will be contract ready in early 1996.

American Classic Voyages (ACV), with whom the SIU has a collective bargaining agreement, is the ship operating company teaming with NAASCO in the Maritech project. ACV has recently spent $65 million to build the *American Queen*, the largest overnight cruise vessel built in the United States

BROTHERHOOD OF THE SEA SIU AFL-CIO

in 37 years and spent $35 million renovating one of their American Hawaii Cruises vessels in U.S. yards and is planning to spend $40 million more renovating a second ship. That renovation project as well as up to six newbuildings at $250-300 million a ship, in a California yard are jeopardized by potential anti-PVSA actions of the pending White House conference.

Not only are U.S. marine interests threatened, however, since foreign cruise lines compete with U.S. shoreside venues in all fifty states for the consumer travel dollar. Repeal of the PVSA is only part of the foreign interest agenda and I have enclosed a fact sheet which briefly outlines the nature of the threat.

I respectfully urge you to do all within your power to see that the administration does not inadvertently support a policy change which is so harmful to working Americans in many travel and leisure occupations as well as U.S. marine operators and shipyards.

Sincerely,

Michael Sacco

Michael Sacco

Attachment

PROPOSED REPEAL OF PASSENGER VESSEL SERVICES ACT WILL ALLOW FOREIGN FLAG CRUISE SHIPS TO COMPETE UNFAIRLY AGAINST U.S. HOTELS AND RESORTS

Introduction and Summary

Currently about 130 foreign ships serve U.S. ports, many on a year round basis. At least 30 new large foreign cruise ships with more than 50,000 additional berths (beds) will begin service during the next four years. With these massive resources, foreign cruise lines have launched an aggressive campaign to amend U.S. laws in order to

- *operate without restriction between U.S. ports utilizing subsidy-built, untaxed floating resorts, and*
- *to allow tax deductions for business meetings based on their ships, without ever calling on a U.S. port if it suits their purposes, and*
- *limit passenger lawsuits and eliminate current access to U.S. courts by foreign crew, and*
- *exempt their employees (U.S. citizens or foreign) from withholding taxes on wages earned in U.S. waters, and*
- *exempt their operations from ADA, EEOC and other laws and regulations which apply to all U.S. hoteliers and travel service providers.*

With lower capital costs, cheaper foreign labor in many positions and no federal corporate tax, these giant foreign vessels would be able to come into any U.S. port during the peak tourist season and seriously undercut not only hotel and resort business in coastal communities, but U.S. leisure destinations throughout the United States, only to sail away at the season's end. Much of the revenue paid to these foreign corporations will contribute to the U.S. balance-of-payments deficit.

In an effort to abuse the window of opportunity created by the deregulatory mood in Congress, foreign cruise ship lobbyists already have succeeded in getting legislation introduced to expand the convention tax deduction to foreign owned, registered and crewed vessels which need not ever call on a U.S. port. Legislation also is being drafted to repeal the Passenger Vessel Services Act (PSA). They are actively seeking endorsement of the proposal by the White House Conference on Tourism and Travel scheduled in Washington, D.C. for October 30-31, 1995.

Background

1. **Current Law Limits Cruises Between U.S. Ports, and Tax Deductions for Shipboard Business Meetings/Conventionse to Vessels Built in the U.S., Owned by U.S. Citizens, and Crewed by U.S. Citizens.**

Passenger Travel

- Like most other countries, the United States has cabotage or coastwise laws which limit the transportation of passengers and cargo between its ports to its own vessels. 46 U.S.C. § 289 (Passenger Vessel Services Act); 46 U.S.C. App. § 883 (Jones Act). Similarly, other modes of domestic passenger travel (air, rail, road) are required to be U.S. companies, employing U.S. citizens and subject to federal, state and local taxation.

Business Meeting/Convention Tax Deductibility

- The U.S. tax code permits tax deductions for business related meetings held on land in North America, in certain Caribbean countries and on board U.S.-flag passenger vessels calling at ports in the United States or its possessions. Legitimate meeting deductions are available on a multiple basis for attendance at U.S. landside venues. U.S. shipboard meetings, however, are limited to one per year with a firm limitation on the amount deductible. 26 U.S.C. § 274(h).

2. **U.S. Flag Vessels Complement American Hotels and Resorts.**

- More than 1,200 U.S. flag vessels carry passengers. Most of these vessels are excursion boats, dinner cruise boats, passenger ferries and casino boats.

- Only recently there were just a half dozen U.S.-flag vessels carrying more than 130 passengers. Only two are oceangoing cruise ships, with a capacity of approximately 800 passengers each, which offer specialized cruises. In 1995, however, two vessels were added to the fleet and capacity was increased on an existing vessel adding approximately 650 berths under U.S. flag. Additional capacity increases to an existing vessel, and legislation which has passed the House and is pending in the Senate, could add 1700+ berths in 1995 or early 1996.

  Construction projects being developed by U.S. shipyards can add thousands more berths to the U.S.-flag fleet in the next five years. These projects represent $2-5 billion in economic activity which would result in significant business and leisure travel expenditures.

- One of the newest U.S.-flag passenger vessels, the *American Queen*, began operation earlier this year to rave reviews on the inland waterways. With a 400-person capacity she is the largest overnight passenger vessel built in the United States in 37 years.

- Recently announced is the first new overnight passenger ferry to be built for the Alaska Marine Highway System in 18 years which will be constructed by Halter Marine Inc. of Gulfport, Mississippi. The 380-foot ship with berths for 322 passengers should be in service by 1998.

The Problem

1. **The Foreign Flag Cruise Fleet Has Grown Dramatically to the Point Where for the First Time in Over a Decade Supply is Likely to Significantly Exceed Demand.**

    - Since the early 1980s, the cruise industry has sustained a nearly 10% annual compound growth rate driven by massive foreign subsidies and no U.S. corporate or gaming taxes and wide access to the U.S. market.

    - In response, foreign cruise lines have continued to build new ships. The Cruise Line International Association (CLIA) estimates capacity will increase roughly 10% annually each of the next three years.

    - The 30 new vessels on order (excluding those rumored to be near contract) will bring the cruise fleet to at least 160 ships by 1998 with more than 150,000 total berths. Under existing rules CLIA has estimated 10 million passengers annually on foreign ships by the year 2000. If the foreign lines succeed in implementing their agenda this number is sure to grow at the expense of U.S. hotel/resorts.

2. **The Over Supply of Cruise Ship Berths Has Prompted an Aggressive Effort by the Cruise Lines to Change U.S. Laws in Order to Expand Itineraries and Increase Market Share at the Expense of U.S. Hotel, Gaming and Leisure Industries.**

    - With a reported investment of at least $8.5 billion for ships on order, foreign cruise lines need new itineraries and markets for their ships and the North American market continues to be the prime target.

    - The International Council of Cruise Lines (ICCL), the registered foreign agent which lobbies for the foreign cruise lines, has publicly stated its objective of going on the offensive legislatively to change the cabotage laws and expand the cruise ship tax deduction for conventions to foreign flag vessels. The tax legislation (H.R. 1083) granting foreign cruise ships an advantage over U.S. venues has already been introduced. The bill is well intentioned and generally positive but the foreign-flag provisions are lost in an array of changes which are beneficial to the U.S. travel and leisure industries. At least one cabotage (PSA) bill has been drafted.

- As part of their new political activism, key U.S.-citizen cruise line executives have established a six-figure "CruisePac" for campaign contributions their non-citizen employers could not otherwise make. Coupled with a $250-300 million annual advertising budget, the foreign cruise lines have marshalled a formidable public relations war chest. Now they have the benefit of the budgetary resources utilized for public affairs and government relation activities in many U.S. ports working on their behalf. Many of these ports are public entities.

3. Foreign Cruise Ships Have Significant Cost Advantages Over American Hotels and Resorts.

- Significantly lower capital costs -- the new ships are all built in foreign yards, most with attractive government subsidies. *The current $8.5 billion worth of foreign shipyard contracts for these floating hotels include more than $800 million in subsidies!* Studies conducted for the shipbuilding industry show that for every $1 of construction, another $3 in economic activity is generated. Thus, more than $25 billion in economic activity has produced business and leisure travel expenditures in European economies rather than the United States. Now that Europe has prospered, their subsidy-built floating hotels will sail to the United States to compete with American landside venues!

- One competitive advantage enjoyed by the foreign cruise lines is currently being investigated by the Attorney General of Florida for overcharging cruise passengers for "port taxes and fees" in amounts above advertised cruise prices. The foreign lines have admitted charging figures sometimes twice the amount actually paid in port taxes. They have justified this by claiming a "fee" is anything they define as such. No reputable hotel/resort operator would dare to arbitrarily increase occupancy taxes and pocket the difference between what is collected and those actually paid to government entities. Yet cruise lines arrogantly defend their right to do so even when the homeports/ports of call are located in the United States.

- Significantly lower wage rates for many hotel personnel -- as low as $3,000 per year plus tips in lower level positions. In other higher cost skill front/back of the house positions, cruise line employees are required to pay withholding on only that portion of wages earned in U.S. waters. Anticipating repeal of the PSA when all or most of those wages would be earned in U.S. waters, foreign lines are seeking complete exemption for their employees from withholding tax. Some cruise lines use the charade of "port taxes and fees" to pay employee withholding. No U.S. landside facility could ever overcharge the public for "taxes and fees" which were used to pay employee costs.

- Foreign cruise lines are not subject to <u>any</u> federal corporate tax or state gaming tax, can offer duty-free sales in their shops and are attempting to shelter themselves from the limited withholding taxes imposed on their employees.

- Result: cruise ships' advertised per diems are as low as $100 (or even less) per day which includes transportation, accommodations, <u>all</u> meals and entertainment. The ability to offer casino gaming, otherwise illegal in many resort jurisdictions, offers yet another competitive advantage. Even those U.S. venues which can offer gaming must pay a significant gaming tax (8-20%) which cruise lines are exempt from paying. Several foreign cruise lines have company policies of allowing 18-year-olds to drink alcohol which no U.S. landside venue may do legally.

4. **The Impact on the Domestic Hotel and Resort Industry Not Only in Port Cities but Across the United States Could be Staggering.**

- The new generation of foreign vessels reflects a significant size increase. Already three mammoth 100,000 gross ton vessels are on order (the *Norway*, the world's largest operating passenger vessel is only 76,000 gross tons). These new vessels have maximum passenger capacities exceeding 3,000 berths, have large casinos, spas, shops, etc., all competing with amenities offered at U.S. venues.

- By way of comparison, just one of these ships has more than three times the cabins as the Willard Hotel has rooms (365) and more than twice as many as the Mayflower Hotel (659 rooms). In fact only one hotel in the entire Washington, D.C. area is as large as these new ships (the Sheraton Washington at 1,505).

- In addition to undercutting domestic hotels, gaming destinations and ski resorts and the U.S. workers who are employed there, repeal of the Passenger Vessel Services Act will have a devastating impact on existing U.S.-flag passenger vessel operators, their suppliers, maritime labor and domestic shipyards where these vessels must be built. Consequently, the business and leisure travel expenditures generated in this sector, almost all of which are domestic, will be reduced and U.S. travel and lodging providers, etc. will be hurt even more. Many of the tax and liability changes sought by the cruise lines will also generate losses in the U.S. cargo sector, thus forcing additional business closures and job losses which will lower domestic travel receipts.

- Despite what foreign cruise lines would have U.S. ports and travel industries believe, the hotel industries in the Caribbean countries have not had the all-positive experiences.

  "The exploitation of the Caribbean by the capital-intensive cruise industry is resulting in the consistent erosion of heavily taxed land-based tourism,"

John Bell, executive director of the Caribbean Hotel Association (CHA). *"Cruise shipping, in its present form, will put many Caribbean hotels out of business,"* Gordon Stuart, chairman of the Sandals Hotel Chain and CHA's 1992 hotelier of the year.[1]

[1] Transcript; Seatrade Cruise Conference, March 1993.