

The Virgin Islands Consortium

WICO's Joseph Boschulte Highlights Challenges, Benefits For Territory As Cuba Reopens

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Joseph B. Boschulte, President & CEO of the West Indian Company, Ltd. was among those in the tourism industry invited recently to testify before the 31st Legislature's Committee on Economic Development, Agriculture and Planning on the impact of the reopening of Cuba on the U.S. Virgin Islands Economy. The following is an excerpt of his testimony.

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, cruise lines had no trouble filling cabins with a \$42 rate. Then came the Cuban Revolution followed by U.S. sanctions and restrictions that affected travel and business practices.

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

Political tides and public sentiment gradually have moved toward ending the half century of broken relations between the countries. Americans, currently our primary tourism market, are embracing the allure of this long forbidden destination.

Lifting of U.S. restrictions against Cuba will present a challenge to our economy and impact our profile in the cruise industry. Cuba will become a competing tourist destination, and the entire Caribbean is sitting up and taking notice like never before. It will not be business as usual.

Cuba needs to replace and increase declining income from Russian oil revenues, increase revenues to balance the budget and pay for social programs like free health care and education, so it is relying on the increasingly steady income from international tourism. In particular, cruise tourism to Cuba has grown more than five-fold over the past three years with the number of ships increasing from 24 in 2012 to 139 in 2014. And the Cuban cruise market will expand considerably in 2016.

The Bahamas, the Cayman Islands and the Greater Antilles are perhaps the most enthusiastic about the improved U.S.-Cuba relations because of their proximity to Cuba and the possibility that extended cruise itineraries will include their islands. However, they should be concerned.

The Bahamas and Jamaica are popular because they are relatively close to the U.S. mainland, but both have reported rising violent crime rates against cruise passengers in recent years and this is a factor negatively affecting their cruise business.



Joseph Boschulte, President/CEO, WICO

“Destinations that provide a satisfactory experience for passengers and are doing a good job have nothing to worry about. It’s the destinations that are having problems that need to worry,” F-CCA president Michelle Paige said in a December 2014 interview with the *Tico Times* shortly after the easing of travel restrictions between the U.S. and Cuba was announced.

Every port and Caribbean tourism official is asking the same question: will cruise lines drop existing ports from their itineraries to accommodate Cuba?

The Caribbean Hotel Association (CHTA) whitepaper *CUBA: The Great Disruption for the Good of the Caribbean*, says dropping calls to 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.

Cruise lines are keeping their plans for commercial tourism investment in Cuba very close to the vest. But rest assured, all lines have Cuba contingency plans.

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

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

But there have been no truly new destinations. Until now.

The opportunity to profit from an exotic, forbidden, frozen in time destination 90 miles from Florida that is an easy and fuel-efficient sail from Miami, Charleston, New Orleans or Galveston is clearly visible on the horizon.

Cuba's immediate challenge is its aged infrastructure. There are multiple hotel development projects underway, but most of Cuba's ports are aging and designed to accommodate smaller ships which carry fewer than 1,000 guests.

Many ports do not directly face the sea, but are inland. Ships have to negotiate narrow channels and often encounter unmapped islands.

Floating jetties or tendering are viable options for larger ships, but these are not transportation options favored by American tourists. Cuba must have massive private investment by the cruise lines to dredge and develop fully functioning and viable ports with all the attendant landside amenities.

The cruise terminal in Havana reportedly has been refurbished, and an hour west of Havana is the new billion-dollar, Brazilian-funded port in the city of Mariel which caters to container and commercial traffic. It also can accommodate large cruise 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 recent Labor Day engine room fire on board the Carnival *Liberty* demonstrated this concept is possible and profitable for local businesses. With the ship restricted from leaving port, passengers were accommodated on the ship while enjoying three additional days at the island's bars, restaurants and shore offerings.

One line is considering plans for a Cuban fly-cruise package: fly in late and enjoy a two-night stay on board aimed at giving visitors a taste of the vibrant nightlife reminiscent of the days of the Tropicana Club before moving on to another port.

Another challenge Cuba has to overcome is the high cost of travel.

Traveling to Cuba by cruise ship is not a bargain mainly due to bureaucracy. Prices on U.S. cruise line social impact cruises currently begin at almost \$3,000, triple the cost of leisure cruises. Taxes and port fees are not included.

There are multiple layers of government ministries all wanting a piece of the capitalism that will be created, and things take a long time to happen in Cuba. But they eventually will happen.

Some experts question whether Cuba will be ready when U.S. restrictions are lifted. 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 will not.

But they are getting there fast.

Cuba is experiencing an immediate increase in worldwide visitors, and the announcement that America is easing restrictions only adds to the destination's appeal.

Once restrictions are lifted, many believe that tourist-centered and American businesses will swarm in to the country which in turn will lead to a less authentic experience. The desire for an authentic experience combined with general curiosity contribute to industry analysts' estimates that at least one million Americans will visit Cuba in the first year of totally unrestricted travel.

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. Our status as a U.S. territory, fascinating tours, historic sites, an abundance of unique bars and restaurants, friendly people as well as beautiful vistas contribute to our appeal.

WICO is aggressive in its commitment to do all we can to continue to provide the best possible port services and negotiate for additional calls and additional lines to strengthen and expand the territory's cruise tourism business.

The WICO dock can accommodate many of the smaller European-based ships that currently call on Cuba, and these lines are familiar with the Virgin Islands. We are at a disadvantage from attracting these lines because of the stringent clearance and regulatory requirements of U.S. Customs/Immigration and the U.S. Coast Guard, which are challenging to smaller lines. Larger European lines such as Costa and P&O that call on the BVI and Dominican Republic choose to bypass us for similar reasons.

The territory also must aggressively lobby Federal authorities to address the current impediments for clearing large groups of non-US passengers and crew.

There will be a real impact on the economies of all Caribbean islands as U.S.-Cuba relations continue to thaw. The most effective way to deal with potentially strong competition is to be prepared as best we can.

We at must continue to strengthen our product and improve the level of service we provide to insure that both WICO and the territory continue to create positive, memorable experiences for our visitors and inspire confidence by the cruise lines that will keep us in high demand as a marquee destination.

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

I remain confident of WICO's ability to adapt and thrive in the current business climate and embrace the opportunities 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.

