

CRUISE SHIPPING POLICY

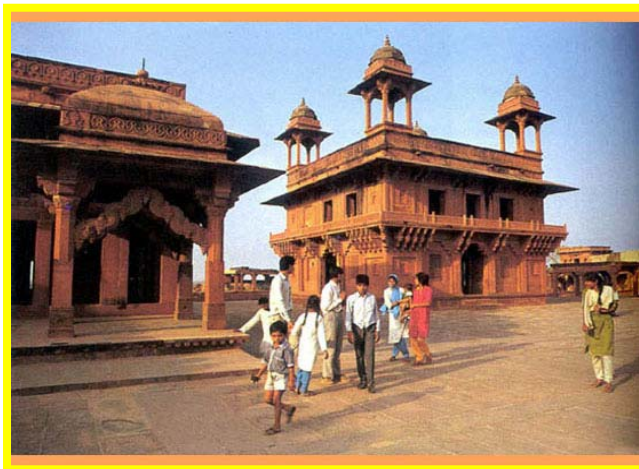
Background

1.1 'Cruise Shipping' is one of the most dynamic and fastest growing components of the leisure industry worldwide. It is fast emerging as a new marketable commodity/product. Growing at the rate of 12% per annum globally, this sector has witnessed some activity in India as well in recent times. However, it is still in its infancy in India.

1.2 'Cruise Ships' are like moving township studded with state of art facilities and variety of recreational activities. The idea is fast catching, as journey on board cruise liners is not only pleasurable, but also comparatively free from sea travel health hazards. Experience in the Caribbean, Latin American and South-East Asian countries indicate that huge amount of foreign exchange can be earned and employment can be provided onshore by providing the right policy environment and infrastructure for the growth of cruise shipping.

1.3 Cruises are no longer considered the privilege of the rich and the elderly and today more and more young tourists are cruising. This industry annually generates US\$ 14 billion world-wide and enjoys a passenger base of over 10 million, which is expected to almost double by 2009. As regards number of cruise ships, projections/forecasts are the number will increase the present 257 to 285 by 2009.

1.4 India with its vast and beautiful coastline, virgin forests and undisturbed idyllic islands, rich historical and cultural heritage, can be a fabulous



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tourist destination for cruise tourists. With the Indian economy developing at a

steady pace, middle class growing in number and increasingly possessing disposal incomes which could be spent on leisure activities, Indians could also take on cruise shipping in a big way.

2. Current Status

2.1 While the growth rate witnessed globally in cruise shipping sector (in terms of cruise ship fleet and passengers carried) is in the range of 10% -20%, Indian coastline is not witnessing the same growth pattern.

2.2 At present, no Indian shipping line owns any luxury cruise liner. As regards the trend in Cruise (foreign lines) passengers landings at Indian ports, it may be seen from the Statement at Annexure-I that the no. of cruise passengers have been increasing since 2004-2005.

2.3 Perhaps the fastest emerging product in leisure industry that Cruise Shipping is, it requires a special marketing strategy and focus.

3. Economic benefits of Cruise Shipping

3.1 The principal beneficiary of the 'cruise shipping' is the economy of the respective maritime nations where the cruise vessels call. Cruise shipping, world over, is seen as employment generating leisure activity. It is estimated that on an average a cruise tourist spends about US\$ 200-300, a cruise staff/officer spend about US\$ 100-150 per port visit. Besides, a vibrant 'Cruise Shipping' sector has a number of spin-off effects in Service sector.

3.2 On an average about 1000 passengers travel on a cruise vessel (medium size). When such vessels arrive at a port, automatically there is demand for a whole lot of services. For instance, temporary stalls are erected at the berth/wharf, which sell traditional items of handicrafts, souvenir, etc. These are very popular among the cruise tourists who for some reason do not always take to city travel. In many cases, tourist buses and in some cases chartered flights are engaged for the cruise tourists. The services of guides and local tour operators besides the vessel agents are also availed. The passengers spend handsome amount on buying traditional handicraft, dresses, etc. The cruise tourists also pay admission/user charges etc at the monuments of historic significance. Thus a cruise call results in gainful employment to a lot of people,

and the earnings could be in foreign currency if the cruise tourists are foreigners.

3.3 Cruise Ships also require bunkers, provisions, bond stores in large quantities, agency service, crew etc. All these demands can be met locally. To that extent, there will be contribution to Indian Economy.

3.4 Thus it can be seen that cruise tourism is a new popular leisure activity generating employment, local growth and earning foreign exchange. As such, the nation stands to gain substantially by promoting cruise tourism.

4. Potential in Indian context

4.1 Cruise tourism has tremendous potential in India. There is a definite curiosity value attached to this sector since it is relatively new concept for the Indian travelers and is mostly seen as a luxury item. If cruising is made more affordable and the opportunity becomes available in India, the vast Indian “middle class” could make a huge pool of client base/market.

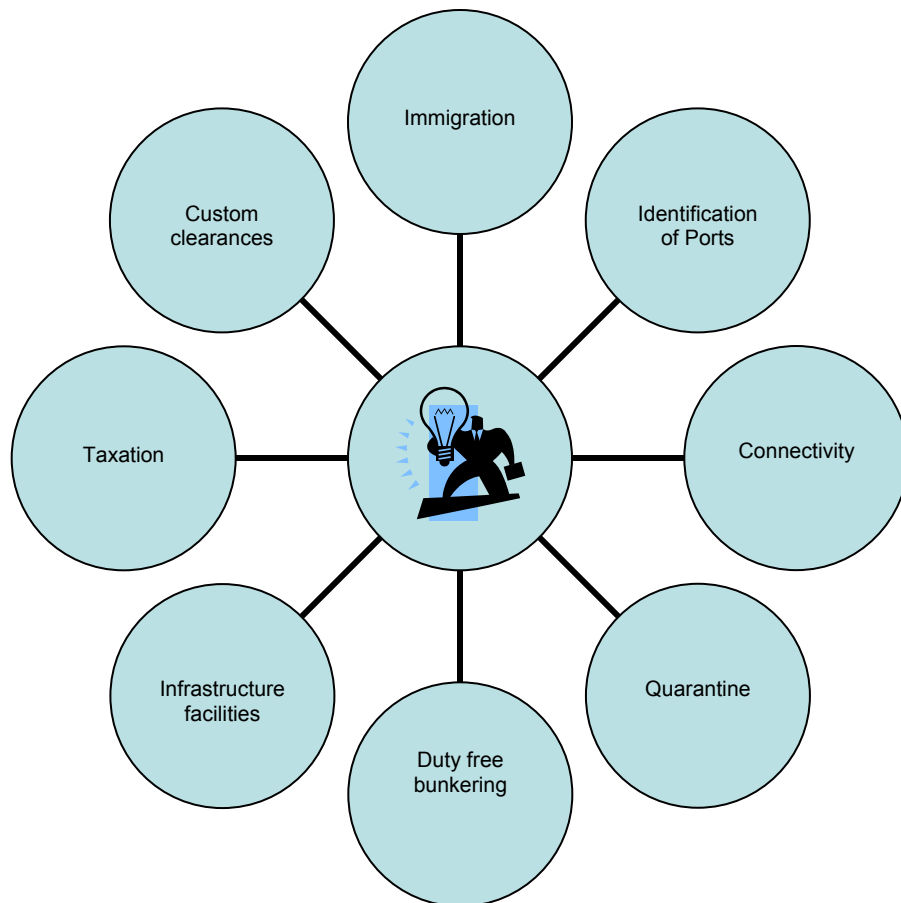
4.2 An important aspect of Cruise tourism activity is that Cruisers/liners look for newer destinations. World’s most favourite cruising areas, i.e, Carribean, Mediterranean, Alaska and the latest additions in South East Asia have saturated for quite some time. Newer areas could be points of attraction for the ever-increasing fleet of cruise ships/tourists.

4.3 In this backdrop, there is tremendous opportunity for Indian Ocean region. India with its large coastline and varied unspoiled tourist destinations which can all be explored for cruise shipping by visiting any of our sea-ports makes it an ideal place for marketing cruise shipping/tourism to both domestic and international clients.

5. Problems/Bottlenecks:

5.1 Despite the inherent advantages/economic benefits and tremendous potential of ‘Cruise Shipping’ sector, the country has not witnessed any worthwhile growth, as compared to the growth witnessed in Latin America and South East Asia in this segment.

5.2 ‘Cruise Shipping’ is an international industry and its efficiency judged by the contribution it makes to the country’s economy is governed by the industry structure infrastructure and policy package in place. Various relevant components are: (i) Stated Policy on Cruise Shipping covering various aspects,(ii) Well developed port-infrastructure, cruise terminals etc,(iii) availability of cruise liners,(iv) conducive fiscal regime, (v) Hassle free immigration and transit facilities,(v) Marketing strategy, (vi) Connectivity to on-shore destinations by various modes(road, rail, air and IWT), (vii) Duty free bunkering and (viii) Institutional framework for holistic development of ‘Cruise Shipping’:



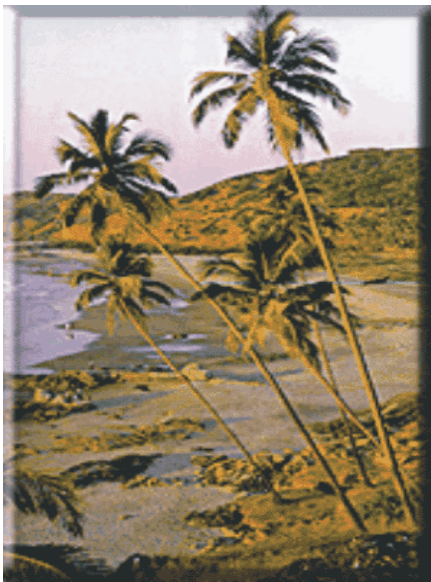
5.3 “The Cruise Shipping Policy” as outlined below attempts to touch upon each of these aspects and seeks to develop “Cruise Shipping” in India at a fast pace.

6. Objectives:

- To develop India as Destination as well as Source Market with state of art infrastructure and appropriate marketing strategy
- To increase the number of cruise ship calls and passenger arrivals in a sustainable manner
- To achieve a target of at least 10 lakh cruise passengers landings per year by 2010.
- To strengthen inter-sectoral linkages, whereby cruise liners source the requisite supplies of goods and services from local Indian suppliers
- To consolidate existing ports of call, explore other ports and suitable anchoring sites on the Indian coast with a view to making additional cruise ship calls to other areas of the country.
- To operationalise appropriate promotional programmes that would effectively convert cruise passengers to long stay visitors.
- To maximize the benefits from the cruise industry consistent with protection of environment.
- To ensure that the cruise shipping industry in India becomes internationally competitive with other destinations and contributes to the economy in terms of generation of foreign exchange, income, employment and business opportunities.
- To attract the right segment of foreign tourists to cruise shipping in India
- To popularize cruise shipping with Indian tourists.
- To enhance absorptive capacity of the country by developing existing and new visitor attractions, including event attractions in line with India's efforts to improve the tourism product

7. Policy Issues

7.1



India as a Destination Market or Source Market?

7.1.1 Given the rich cultural heritage, a number of scenic spots and variety of flora and fauna in proximity to the ports, India is a potential candidate for destination brand development as well. Given the vastness of the country and the fact that Indian economy is growing at

an impressive annual average growth rate of more than 8% per year, as also the fact that India is the 4th largest economy in PPP terms, the country is poised to become a major source market for Cruise Shipping provided, of course, right policy environ is in place. Thus India should be promoted both as destination and source market.

- 7.1.2 Importance and potential of India as a destination market to be driven home through India's participation in international exhibitions and trade fairs on cruise shipping on a continuous basis. Destination brand development may be attempted by promoting India as a region.
- 7.1.3 Source market development may take place through Economic Survey, proper segmentation of market, marketing efforts, positioning of Cruise as aspirational product, proper pricing of this product etc within the country.

7.2 Well Developed Port Infrastructure and Connectivity

- 7.2.1 Phased programme will be evolved for development of facilities at ports for cruise shipping.
- 7.2.2 The ports will avail of the financial assistance, which is available under the scheme of Department of Tourism for funding of tourism projects, wherein assistance upto 25% of the project cost subject to a ceiling of Rs. 50 crores is provided by the Ministry.
- 7.2.3 Notwithstanding the above, if any major/ non major port is able to attract a BOT operator to invest in infrastructure facilities, the port be encouraged to develop such facility.
- 7.2.4 Necessary infrastructure like Rail and Road Connectivity, IWT connectivity, Air connectivity and Metro connectivity will be developed. Individual Ports identified in this policy will plan to develop suitable infrastructure. However, the cruise shipping policy will provide comfort to future investors for committing resources etc.
- 7.2.5 Port shall augment financial resources to develop cruise terminals/infrastructure in order to have more calls from cruise liners.

Private agencies interested in developing cruise terminals shall also be encouraged to do so at cruise destinations. Central Government/State Government/UT Administrations shall provide financial resources and other incentives for promoting cruise tourism.

7.2.6 Efforts shall be made for the development of Marina for Yachts and small boats at all important coastal tourist destinations like Goa, Cochin, Chennai etc. based on BOT/PPP model wherever possible.

7.3 Absence of Indian Flag cruise vessels and Cabotage relaxation

7.3.1 Cruise vessels under Indian Flag will be promoted.

7.3.2 Presently no Indian Shipping Line owns any luxury cruise liner. Policy dispensation being prescribed vide this document is expected to lead to Indian flag cruise liners becoming a reality in not so distant future. However till that happens, foreign cruise liners must be encouraged to undertake coastal runs. Moreover, since we intend promoting India as a region, it is imperative (given the present situation when we have no Indian flag cruise liner) that foreign cruise lines touch more than one port.

7.3.3 As per Section 407(1) of the MS Act, no ship other than an Indian ship or a ship chartered by a citizen of India or a company or a cooperative Society which satisfies the requirements specified in class (b) or as the case may be clause (c) of Section 21 shall engage in the coasting trade of India except under a licence granted by the Director General under this Section. This puts restrictions on foreign lines embarking passengers/disembarking along coastal runs.

7.3.4 Efforts will be made to attract investment for Indian Flag cruise liners. Foreign flag Cruise ships/vessels will be permitted to make coastal voyages between different ports of India in relaxation of the provisions of Section 407(1) of MS Act. This dispensation (cabotage relaxation) presently given till December, 2008 under Section 407(3) of MS Act will be extended for another 10 years.

7.4 Immigration

Cruise tourism is a leisure activity involving disembarkation of a large number of tourists (1000 – 2000 at a time) at the ports of call. Delays on account of immigration formalities not only spoil the mood of the tourists but also give negative publicity to the country as a whole. Hence it is imperative that immigration formalities are completed quickly and with ease. It will be ensured that immigration formalities are completed within one hour of disembarkation of the cruise passengers from the ship. To ensure this, the procedure outlined at **Appendix-A** (p/ 12-13) will be followed.

7.5 Quarantine

7.5.1 Indian Port Health Rules 1955 govern quarantine restrictions for passenger ships, cargo ships as well as cruise ships. Diseases, which come under the purview of these Rules for the purpose of quarantine restrictions, are Cholera, Plague and Yellow Fever. Indian Port Health Rules also have provisions to tackle public health emergency like SARS.

7.5.2 In 1951 WHO adopted ‘International Sanitary Regulations’ which was renamed in 1969 as International Health Regulations (IHR). The purpose of IHR is to ensure maximum security against the international spread of disease in world traffic. The existing IHR covers three diseases – Cholera, Plague and Yellow Fever. In the revised IHR spread of three diseases - Small pox, Poliomyelitis and SARS – is being made to be notified on mandatory basis. Besides, spread of nine diseases – Congo fever, Ebola Fever, Anthrax, Encephalitis, Hemorrhagic Fever, Cholera, Plague and Yellow Fever – will be notified based on assessment.

7.5.3 In view of the above, it seems adequate measures are available for the security of cruise passengers in Port Health Rules as well as International Health Regulations. It, therefore, does not appear to be necessary to frame separate rules for this purpose. However, Indian Port Health Rules 1955 will be aligned with International Health Regulations (as relevant to cruise shipping) from time to time.

7.6 Custom

Customs clearance will be provided at customs notified ports for disembarking/embarking cruise tourists subject to provisions of Baggage Rules, 1998. Further, transfer of baggage between airports and seaports under bond would be permitted by Customs and undertaken by cruise-lines/airlines as per provisions of the Customs Act, 1962.

7.7 Waste disposal

7.7.1 The Cruise liners will be mandatorily asked to comply with all requirements of Marine Pollution (MARPOL) Convention and its annexes and to follow the guidelines of Indian Maritime Administration to ensure inter-alia the following:

- No waste (sewage waste, solid waste, waste/contaminated water or used oil) will be released or dumped into the sea or on islands during the cruise ship tour in Indian waters.
- Any boat or smaller vessel taking tourists to an island destination in India will ensure that no litter or waste is thrown over-board or left littering the island. All waste originating from the mother ship will be disposed off in a manner stipulated by the Maritime Administration.
- No oily or contaminated bilge water will be released in Indian territorial waters except in emergency situations where the vessel is taking on water to the extent that the safety of the vessel or those aboard will be threatened.

7.8 Conducive Fiscal Regime

Direct Tax

7.8.1 The fiscal environment (governed by incidence of taxation) should be conducive to encouraging cruise ship itineraries in Indian ports on the one hand and encouraging domestic tourists to avail variety of entertainments/services on board cruise ship on domestic circuit.

Duty on Bunkering

7.8.2 The Customs duty on bunkering for coastal (Cruise) ships is presently around 33%. Therefore a foreign flag vessel if it is not engaged in coastal trade in India and purchases bunker in India, the bunkering is 33% cheaper as compared to the purchase of bunker by a vessel having an Indian flag or a foreign flag engaged in coastal trade of India (Details at **Appendix-B/** p-14). This makes Cruise Shipping operations in Indian waters highly uncompetitive.

Taxes on facilities/services provided by cruise ships for their passengers on board

7.8.3 Various types of facilities/services such as restaurant, bar, discotheque, swimming pool, duty free shops, jewellery shops, massage parlours, beauty parlours, sauna baths, gymnasium, golfing, bowling etc are provided on board cruise ships. At present, these facilities/services attract following taxes/duties:

- (i) Service Tax (levied by the central Government) on services like, massage/ beauty parlors, sauna bath etc, if the Cruise ship is on a coastal circuit. Taking these activities outside the purview of Service Tax will be a minor concession; however it (the concession) will help the cause of cruise shipping promotion.
- (ii) Entertainment Tax levied by the state Governments - Since States are direct beneficiary of cruise passengers consuming a variety of services otherwise, the State Governments would be urged not to levy entertainment tax on the shows/activities on board a cruise ship, may be by bringing about amendment in their respective statute.
- (iii) Duties on food, beverages, and consumable & fashion goods: - **Duty** free shops on board a Foreign Cruise Vessel are required to be sealed when they convert to coastal leg. Such an act may become an irritant for the passengers on board. It would be desirable that the shops are not sealed and duty free goods continue to be provided to the passengers.

7.8.4 The Central Government will establish an appropriate fiscal regime for Cruise Shipping, consistent with the overall fiscal policy of the Government. Anomalies, if any, in the fiscal policy will be addressed through the budgetary process.

7.9 Cruise Tourism Promotion

7.9.1 Ministry of Tourism will the Cruise shipping itineraries consultation with State Governments, Popularise circuits by State/Central PSEs undertake appropriate publicity campaigns.



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7.9.2 Government/PSUs are providing Leave Travel Concession (LTC) facility to their employees; the underlying principle being, to encourage employees to take a break from work and indulge in leisure to enhance their productivity. In so much as Cruise Shipping is fast emerging as a popular leisure activity, Government would include Cruise Shipping itineraries in India offered by Luxury Cruise Liners as a permissible mode of travel/destination under LTC scheme.

7.10 Marketing Strategy

7.10.1 Cruise Shipping is a new product in Indian context. This new product needs to be developed and marketed and for that purpose an effective institutional framework is a must. In fact, institutional framework will hold the key to success of this new Product development. Some of the major marketing challenges in Cruise Shipping development process are: Idea generation, screening, concept/brand development, business analysis, product development, brand positioning, source market development vs destination market development, market testing and commercialization.

Appendix-A
(Para 7.4 of the Policy)

Procedure for hassle free, quick and timely immigration

- (i) The cruise shipper should send the details of all passengers at least seven days in advance to the respective immigration authorities.
- (ii) As regards passengers who are arriving without visa, the Visa Manual provides for grant of collective landing permit (TLP) with multi-entry facility for a group of four or more for a period not exceeding 60 days.
- (iii) No landing permit is granted to citizens of Afghanistan, Bangladesh, Ethiopia, Iran, Nigeria, Pakistan, Sri Lanka and Somalia. Passengers whose names appear on our PRC/Black List will not be allowed to enter unless they have been granted permission by the competent authority.
- (iv) The cruise travel agent should give an undertaking for departure of all cruise passengers for grant of TLP.
- (v) For no wait situation, there should be arrangement with cruise shippers to take an immigration staff to the previous port on their cost of travel and insurance during travel to the port of entry in India so that this official may screen all the travel documents/passports while the ship is cruising and the cruise passengers who are cleared are given Yellow Passes immediately after boarding out at the port of arrival in India.
- (vi) For faster immigration clearance, additional immigration counters be set up at identified ports for cruise shipping.
- (vii) Since only Mumbai and Chennai ports are being manned by BoI and other sea ports like Cochin, Goa etc. are manned by the State Government officials, for the specific days when the cruise ships are arriving, there is requirement of large number of immigration officials to man the counters.

(viii) Bureau of Immigration (BoI) will organize training programme at Chennai and Mumbai for pool of State Government officials for faster immigration clearance.

(ix) As regards issuance of multi entry TLP for all the ports in India, it may be possible by enhancing the passenger fee. BOI has been requested to work out the details. Immigration Officer at the cost of travel and insurance will have to accompany passengers in the ship from one port to another.

(x) Since Dock Entry Permit and Yellow Pass issued by the immigration authorities are one and the same, there is no need for revocation of any existing card.

Duty on Bunkering

It is estimated that incidence of duty on bunkers consumed by a vessel on coastal run is approx. 33%, as per the details given below:

DUTY ON FUEL OIL	
Basic Custom Duty	10%
Counter-vailing Duty i.e. Excise Duty	16% of 110 (i.e. 17.6%)
Education Cess	2% of Excise Duty (i.e. 0.35%)
Education Cess	2% of entire amount above (i.e. 2.56%)
Total duty on Fuel Oil (FO)	Around 31%
Total duty on diesel oil (further 3%)	Around 34%

The difference between the total delivered rates of Fuel Oil (F.O.) Grade Bunker for Coastal Bunkers (Duty Paid) and International Bunkers (Excise Bonded) ranges from around 24% (Mumbai) to 28%(Vasco) to 38.5%(JNP).
