St. Lucia in the Cruise Tourism GVC

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The Duke University Global Value Chain Center undertakes client-sponsored research that addresses economic and social development issues for governments, foundations and international organizations. We do this principally by utilizing the global value chain (GVC) framework, created by Founding Director Gary Gereffi, and supplemented by other analytical tools. As a university-based research center, we address clients' real-world questions with transparency and rigor.

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Executive Summary

This report uses the Duke Global Value Chain (GVCC) framework to examine St. Lucia's position in the cruise tourism global value chain (GVC) and identify opportunities for small businesses within the sector. While cruise tourism remains a small niche within the broader tourism industry—its 24 million passengers constitute just 2% of worldwide travelers—it is a critical economic activity in the Caribbean. More than two-thirds of the tourists in the region are cruise-ship passengers. Although cruise ship tourism is not as lucrative as other forms—tourists on cruise ships spend as little as one-tenth the consumption of stay-over visitors—it still accounts for an aggregated US$3.1 billion in expenditures in 2014-15 and supported roughly 75,000 jobs in the Caribbean.

St. Lucia conforms to this regional trend. Cruise tourism has a large footprint on the island, contributing 63% of the 1.05 million tourists who traveled to the island in 2017. Although there has been some fluctuation, the number of cruise arrivals has trended higher in more recent years. Passenger spending had lagged before 2016 before displaying an upturn. Despite this, there are still some weaknesses in the sector, most immediately the low impressions of St. Lucia's cruise tourism products as well as the lack of strategic agenda. This report identifies some of the most prominent constraints and outlines potential upgrading strategies to boost passenger expenditures.

The Cruise Tourism GVC

Cruise tourism can be separated into three categories of actors: consumers, distribution intermediaries, and service providers. Consumers historically have come from the United States, with the Caribbean being the primary source of supply. Global demand for cruises increased from 17.8 million passengers in 2009 to 24.2 million in 2016, which is a total jump of 36%. One of the emerging trends in the industry is its shift away from its traditional North American-Caribbean axis, with Asia-Pacific supply and demand driving much of the change.

Distribution intermediaries describe the category of actors that coordinate, package and sell individual services. These businesses include travel agents and cruise companies as well as Shore Excursion aggregators that bundle domestic activities. The industry is notable for its consolidation. Three companies—Royal Caribbean, Carnival and Norwegian—control more than 80% of the market. Most recently, these companies are investing in larger ships with enhanced onboard entertainment while also diversifying their onshore product offerings.

Popular service providers in the cruise tourism GVC include excursions to local attractions, dining at local restaurants and shopping. Estimates suggest 94% of all visitors get off the ship in Caribbean locations. For smaller businesses that wish to integrate into the chain, the most straight-forward strategy is to connect with domestic Shore Excursion aggregators, although lobbying cruise lines directly is also a possibility. Even when that approach is successful, cruise companies still retain significant control, capturing as much as 70% of the value of consumers' shore excursions through commissions and sub-contracting relationships.

Beyond the general industry trends, a number of strategies among the leading firms can be observed, including many that have relevance for local businesses in individual locations. These include the following:

- **Ocean-bound cruises are enhancing on-board amenities.** Cruise companies are improving entertainment on the ship to keep consumers on board, even during port calls.

While passenger tickets generally account for 70-75% of the revenue for the three leading companies, the share of onboard entertainment revenue has trended upward in recent years for all cruise lines. There is geographic disparity as well—Carnival reported that passenger income represented 72% of its revenue for North American operations in 2016 and 82% for European consumers.

- **Cruises are expanding shore offerings in integration efforts designed to capture increasing shares of passengers' money.** Cruise companies' drive toward integration also includes the development of resorts and private ports in locations throughout the Caribbean. Norwegian owns Great Stirrup Cay, which is a private island in the Bahamas, and developed the Harvest Caye destination in Belize. Carnival owns Mahogany Bay in Honduras while Royal Caribbean has a similar venture in Mexico.

- **Cruise companies attempt to contain costs through reduction of port fees and other taxes.** Cruise companies use their negotiating power to drive down costs at ports. Expenditures at each location include passenger-based fees, navigation fees, port taxes, and charges for utilities, such as water, power and sanitary services. The leverage of individual countries to negotiate higher fees is limited by the substitutability of ports and the low levels of sunk costs made by cruise companies in the form of capital investments. Attempts by individual countries to increase fees have largely been unsuccessful.

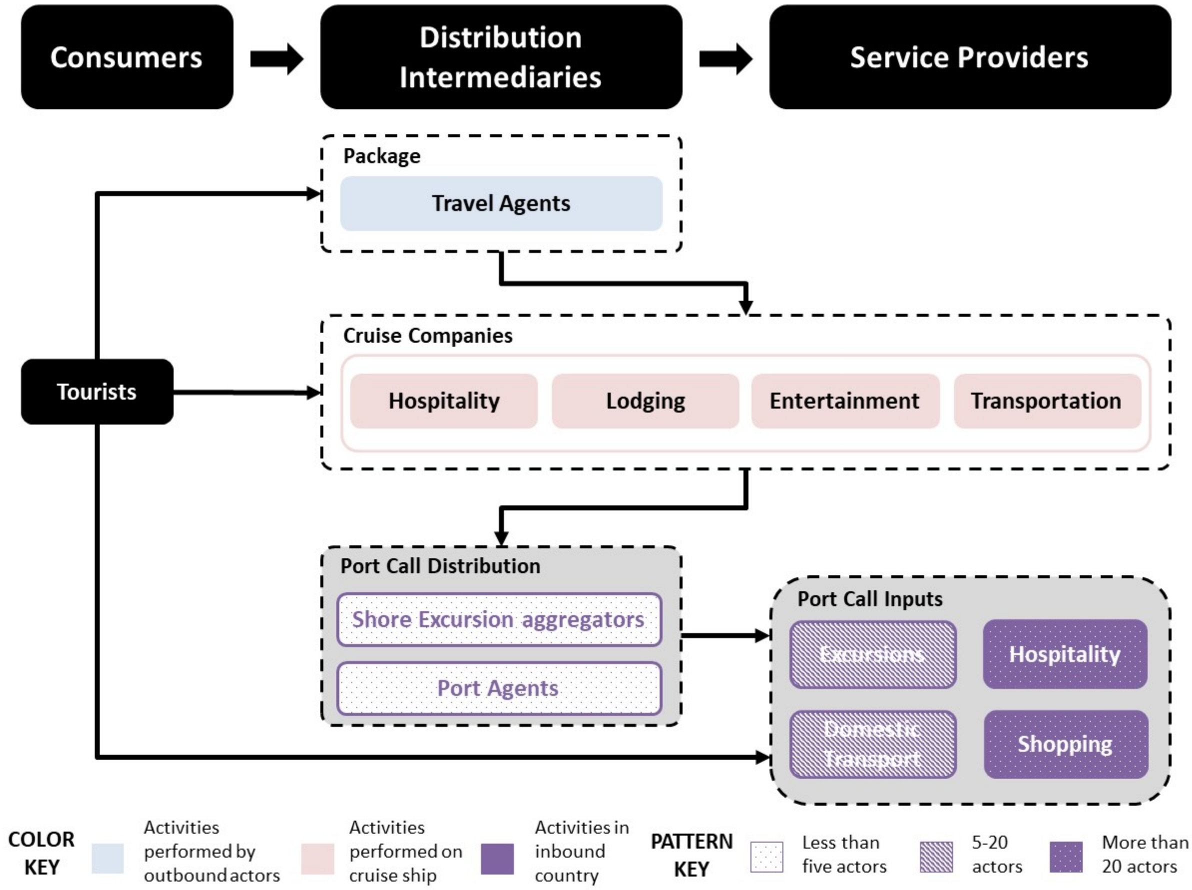
- **In considering new locations, cruise companies prioritize overall itineraries, not individual destinations.** Cruise companies' negotiating power is further strengthened by their emphasis on selecting destinations based on overall itineraries rather than individual attractions—each piece must fit into a coherent package (Rodrique & Notteboom, 2013). While there is not complete substitutability of port calls, cruise companies must balance the selection of destinations against operational considerations such as the sequencing of stops, the sailing schedule of ships, and the size and quality of port infrastructure. The overall implication is that the power of individual locations is often constrained by factors other than quality of tourism attractions.

St. Lucia in the Cruise Tourism GVC

Tourism is St. Lucia's most important economic activity. Cruise tourism has been estimated to provide direct employment to 942 people on the island and indirectly to 1,422 individuals (BREA, 2015b). Of the 1.05 million tourists who traveled to the island in 2017, 63% arrived via cruise ships. While passenger spending had lagged in recent years, there was an increase in 2016. Aggregated, the combination of visitors and expenditures was estimated to have generated US$57.2 million during the 2014/15 cruise season (BREA, 2015b).

St. Lucia's competitiveness in the cruise tourism sector is predicated on the performance of three separate categories of businesses: 1) tour operators; 2) vendors; and 3) taxis. Of these, power is concentrated with the local distribution intermediaries, especially Cox & Company and Foster & Ince. Both acts as tour operators primarily by aggregating shore excursions offerings of other businesses. Although there are some exceptions, neither Cox & Company nor Foster & Ince have extensive capacity in multiple stages of the chain. Instead, distribution intermediaries have established supply chains with strong linkages between the different categories of businesses. Market relationships generally dominate. Figure E-1 provides a representative illustration.

Figure E-1: St. Lucia in the Cruise Tourism GVC



Source: Authors.

Given its importance to the St. Lucian economy, tourism is a source of interest for multiple government institutions. To boost the sector's competitiveness and assist small businesses entering the sector, stakeholders can attempt to harness the following advantages:

1. **Strong linkages between consumers and distribution intermediary segment.** Cruise passengers arriving St. Lucia purchase tours from sources other than cruise lines in comparably high numbers, strengthening the linkages between those visitors and local tour operators, vendors and transportation companies. Additionally, the competitive atmosphere between the two places an emphasis on innovation that allows for opportunities for new businesses to integrate into the chain.

2. **Local businesses provide established supply chain with no major gaps.** Key businesses in St. Lucia have established histories and mature supply chains, affording the companies a high degree of experience, technical proficiency and familiarity with leading cruise companies.

3. **Natural resources generate competitive advantages.** St. Lucia's natural resources include its beaches and mountainous regions. While other locations in the region certainly can sell beaches, the combination of beaches plus the elevation gains surrounding the Pitons

provide the country with opportunities to entice passengers off cruise ships.

4. **Capital improvements at Pointe Seraphine.** The US$18.8 million expansion of Berth One at Pointe Seraphine was an important step, providing St. Lucia with a dock large enough to accommodate ships with a capacity of up to 5,000 passengers.

5. **Economic reliance on tourism leads to hospitality-oriented population.** With the tourism industry supporting such a high number of the island's workforce, domestic stakeholders reported there is a general awareness of the soft skills accentuated in key segments of the chain. Educational institutions throughout the country indicate regular demand for tourism-related subjects, discouraging supply bottlenecks.

6. **Engaged Small Business Development Center.** St. Lucia's Small Business Development Centre (SBDC) was established in 2014 to assist small and micro-sized businesses operating on the island. Many of St. Lucia's enterprises that provide goods or services in the tourism sector report having received support from the SBDC.

Although the island has strengths, there are multiple challenges, some of which have become particularly pronounced in recent years. The most immediate include the lack of strategic agenda.

1. **Lack of strategic initiatives focusing on cruise tourism.** St. Lucia's tourism officials have lamented the absence of a strategic agenda focused on the sector (St. Lucia News Online, 2016). While the SLTA, SLASPA and Ministry of Tourism provide St. Lucia with an institutional foundation, there have not been any prominent initiatives launched in more recent years. Without a comprehensive industry master plan or a clear vision emanating from critical stakeholders, any coordinated steps taken by stakeholders across the value chain have been limited with minimal top-down direction.

2. **Underdeveloped and overlapping institutions.** The lines of demarcation surrounding public-sector institutions with interests in the cruise tourism sector are not always clear. There are multiple examples. Pointe Seraphine and its shops are operated by Invest St. Lucia, yet across the port, the duty-free shopping at La Place Carenage is controlled by SLASPA. The NCA moved from under the Ministry of Tourism's purview to the Ministry of Equity, Social Justice, Empowerment, Youth Development, Sports and Local Government, despite the fact the NCA provides substantial goods and services for visitors.

3. **Minimal product diversity and unfavorable impressions of existing experiences, especially when compared to the opinions of stay-over tourists.** Domestic businesses highlight the need for St. Lucia to diversify its tourism products. Cruise customers' impressions of existing experiences are poor. Only 48% of cruise passengers indicated they would be willing to return to St. Lucia for a land-based vacation in the next three years while 62% would recommend the island (BREA, 2015a). This is a dramatic departure from the impressions of stay-over guests, who are overwhelming satisfied and would recommend the island. Additionally, the average amount spent by cruise passengers on food and beverage is less than half the regional average. Aggregated, the low metrics associated juxtaposed with the favorable impressions of overnight guests suggests the areas most frequented by cruises passengers (Castries, beaches) are in need of re-invigoration.

4. **No expansive home port arrangements.** While one or two of the smaller cruise companies do embark and disembark in St. Lucia, the major companies do not have packages that begin or end on the island, thereby depriving the country the opportunity to benefit from stay-over visitors.

5. **Infrastructure constraints.** While the distance between the airport and the port at Castries limits the potential for St. Lucia to serve as a home port, domestic businesses highlight the need for improved roadways.

6. **Aggressive vendors damage perception of St. Lucia's hospitality.** The island's economic dependence on tourism can promote an aggressive in vendors and service providers that impairs the overall perception of the country's hospitality.

7. **Environmental vulnerabilities.** Much of St. Lucia's appeal centers on its natural resources. Part of the NCA's mandate is maintaining and cleaning key sites such as beaches; while the organization has employees spread on 25 sites throughout the country, its resources are limited, and individuals at different sites report varying levels of effectiveness.

St. Lucia's upgrading path in the cruise tourism GVC should serve to address these challenges. The most immediate upgrading trajectories that will accomplish these aims include:

1. **Short-Term Process Upgrading to Strengthen SME Capacity in Cruise Tourism:** St. Lucia's supply chain has relatively established links with cruise companies, with three categories of businesses most often interacting with passengers: 1) Tour operators; 2) vendors; and 3) taxis. While there have been smaller-scale initiatives to bolster the capabilities of businesses in those areas, there is room for coordinated strategies moving forward to bolster the capabilities of St. Lucian businesses with the goal of increasing backward linkages between the cruise sector and the local economy. Both passengers and cruise companies have indicated there is a clear need for St. Lucia to refresh its onshore experiences. The SBDC, the NCA and the Ministry of Tourism can all be active participants. The government and other stakeholders can concentrate on different strategic areas, including the following: 1) Human capital development among service provides (vendors and taxis); 2) Facilitation of greater coordination between SMEs and cruise companies.

2. **Short-to-Medium Term Product Upgrading to Improve Existing Infrastructure around Castries and Surrounding Areas:** The US$18.8 million capital improvement to improve the berthing capacity at the port in Castries was a useful step. There are, however, still infrastructure constraints that limit St. Lucia's competitiveness in the cruise sector. Roads in the country are crowded and narrow, reducing options during busy periods. The port area is also aesthetically limited, with the Vendor's Arcade and areas around La Place Carenage not particularly inspiring. Stakeholders also report that facilities at existing beach attractions could be improved. If St. Lucia aspires to become a home port for the major cruise lines and increase spillovers into the conventional (stay-over) tourism value chain, the construction of a port closer to the airport would be required. The benefits would have to be weighed against the costs; the possible new opportunities available to SMEs in the southern part of the country would need to be balanced against potential damage to stakeholders in the northern regions. Additionally, the potential economic value of being a home port would need to be analyzed to determine the likelihood of creating stay-over guests.

1. Introduction

The cruise sector constitutes a small but growing pocket of the global tourism industry. What was once an activity characterized by American consumers sailing to Caribbean locations to soak up the sun has expanded to new destinations, first in Europe and then in the Asia-Pacific region. At the same time that the geographic profile has diversified, the ships themselves have become larger with more elaborate entertainment features as leading companies attempt to capture more revenue from their consumers. The pursuit of new destinations and onboard amenities led to 25.3 million global passengers in 2015, supporting some 956,000 jobs and generating an estimated $117 billion in total worldwide economic output (CLIA, 2017).

As a 238-square mile island in the southern Caribbean with a population of close to 180,000, St. Lucia's economy relies heavily on tourism. The sector generates more than half of the country's exports and accounts for close to 14% of GDP. With 63% of all visitors arriving on cruise ships, the cruise industry is a significant feature of the local environment. But while the number of arrivals has generally been increasing, the enthusiasm of passengers for St. Lucia's cruise products is muted, thereby muting the sector's economic benefits.

This report uses the Duke GVCC Global Value Chains (GVC) framework to assess how St. Lucia can increase domestic linkages to the cruise tourism industry with the goal of boosting passenger expenditures, thereby providing increased benefits for its small and medium-sized enterprises (SMEs). It first examines the global sector, identifying key trends, important actors and the ways these features influence local enterprises in individual locations. It then shifts its focus to St. Lucia, where companies such as Carnival Cruise Lines and Royal Caribbean have strong presences, delivering more than 79-86% of the island's passengers in most years. After an analysis of the domestic landscape for both the private and public sector, it identifies advantages and constraints that influence the country's participation in the chain.

The paper then examines St. Maarten's and St. Kitts & Nevis' experiences to extract useful lessons. St. Maarten is notable for the critical infrastructure improvements it has made through partnership arrangements between its government and cruise lines that have allowed the country to increase average passenger expenditures. St. Kitts & Nevis, meanwhile, has solidified its institutional structure foster a strategic agenda. The report then concludes by identifying upgrading trajectories for St. Lucia as well as recommendations to allow these strategies to take root.

2. The Cruise Tourism Global Value Chain

Tourism is a dynamic source of economic growth throughout the world. The industry indirectly supported an estimated 292 million jobs in 2015 and indirectly accounted for 10.2% of global GDP.[1] Its direct effect to global GDP was estimated at 3.1%, and tourism's growth rate—also 3.1%—was higher than many other sectors, including agriculture, manufacturing, retail and financial services.[2] Because of the expansion, tourism generated close to 7% of the world's total exports in 2015 (UNWTO, 2016). The vitality of the industry is not confined to any one region; while Europe

[1] Unless otherwise specified, the global and regional statistics cited in this section are compiled by the World Travel & Tourism Council (WTTC). The WTTC data can be accessed through the WTTC website: http://www.wttc.org/datagateway/.
[2] The WTTC defines direct contribution to GDP is as follows: "GDP generated by industries that deal directly with tourists, including hotels, travel agents, airlines and other passenger transport services, as well as the activities of restaurant and leisure industries that deal directly with tourists (WTTC, 2017a)."

remains the most visited continent in the world, Asia Pacific and Africa had the highest growth rates in visitors over the decade from 2006-2015.

With its idyllic beach settings and unique cultural experiences, tourism is a significant economic activity in the Caribbean. All forms of tourism accounted for 15% of the Caribbean's GDP in 2016, which was the largest share of any region in the world (WTTC, 2017a). Buoyed by a 7% growth in visitor arrivals in 2015 (CTO, 2015), tourism also accounted for the highest share of total employment, capital investments and visitor exports in the Caribbean of anywhere in the world (WTTC, 2017a). Table 1 provides a summary of tourism's contribution to various regions and highlights many of these trends.

Table 1: Regional Rankings for Tourism's Direct Contribution to Economies, 2016

	Direct Contribution to GDP (%)	Direct Contribution to Employment (%)	Share of Total Investments (%)	Share of Visitor Exports (%)
Caribbean	***1 (4.7%)***	***5 (4.2%)***	***1 (12.3%)***	***1 (20.7%)***
Southeast Asia	2 (4.7%)	7 (3.6%)	4 (6.8%)	4 (8.6%)
North Africa	3 (4.4%)	6 (4.2%)	2 (7.3%)	3 (10.7%)
European Union	4 (3.7%)	1 (5.0%)	9 (4.9%)	11 (5.9%)
Oceania	5 (3.5%)	3 (4.9%)	7 (5.5%)	2 (12.5%)
Middle East	6 (3.3%)	8 (3.1%)	3 (7.2%)	7 (8.0%)
Latin America	7 (3.2%)	10 (2.9%)	5 (6.0%)	8 (7.3%)
South Asia	8 (3.2%)	2 (5.0%)	8 (5.4%)	10 (6.1%)
North America	9 (2.9%)	4 (4.6%)	11 (4.3%)	6 (8.0%)
Sub-Sahara Africa	10 (2.6%)	11 (2.4%)	6 (5.6%)	5 (8.6%)
Other Europe	11 (2.6%)	13 (1.8%)	10 (4.5%)	9 (7.0%)
Northeast Asia	12 (2.5%)	9 (2.9%)	13 (3.1%)	12 (5.6%)
Central Asia	13 (1.6%)	12 (1.9%)	12 (4.3%)	13 (0.4%)

Source: WTTC, 2017a. **Note:** The table is sorted by direct contribution to GDP. The share is in parenthesis.

Cruise ship tourism provides for the largest share of tourist arrivals, and is an important foundation for much of the economic activity in the region; however it is not as profitable as conventional tourism. More than two-thirds of the tourists in the Caribbean are cruise-ship passengers (Briceño-Garmendia et al., 2014). Although cruise ship tourism is not as lucrative as other forms—tourists on cruise ships spend as little as one-tenth as stay-over visitors (Briceño-Garmendia et al., 2014)—it still accounts for an aggregated US$3.1 billion in expenditures in 2014-15 and supported roughly 75,000 jobs in the Caribbean (BREA, 2015a).

The following section of the report concentrates on the cruise tourism global value chain. It starts by discussing relevant features of the sector, including overall size and prominent industry trends. It then outlines the value chain, examining how each segment links with one another before analyzing the governance of the industry and assessing how lead firms such as Carnival and Royal Caribbean have leverage over smaller actors in the chain. The global section concludes by briefly examining human capital characteristics of the industry.

2.1. Global Cruise Tourism Industry

The cruise sector is a niche within the broader tourism industry. In 2015, there were almost 1.2 billion worldwide travelers compared with just 23.19 million cruise ship passengers, which means the cruise industry has less than 2% of the volume of participants as conventional tourism (CLIA, 2017; UNWTO, 2016). The economic contribution of cruise tourism to local economies is similarly muted. Estimates vary in terms of the discrepancy between the economic benefits associated with cruise tourism and stay-over visitors; however, the body of research clearly indicates cruise tourism does not generate the same financial returns. Cruise passengers spend 30% less than conventional tourism (Brida & Zapata, 2010); other estimates have suggested cruise tourism only generates 10% of the overall revenue (Briceño-Garmendia et al., 2014). While the industry is relatively small with limited economic benefits transferring to local economies, there are favorable growth trends. Global demand for cruises increased from 17.8 million passengers in 2009 to 24.2 million in 2016, which is a total jump of 36% (CLIA, 2016a).

If these are two of broad characteristics of the cruise industry—a small yet increasing facet of the tourism industry—there are also pronounced characteristics and trends that can be observed. These include the following:

- **The cruise market is diversifying away from its traditional North America-Caribbean foundation, with Asia-Pacific supply and demand driving much of the change.** The cruise industry's roots can be traced to the late 1960s and early 1970s. Carnival Cruise Lines incorporated in 1968 with Miami as its home port. North America demand for Caribbean cruises remained the industry's defining characteristics in its incipient phases. As recently as 2005, North American consumers still accounted for 70% of cruise consumers while the Caribbean region attracted approximately 50% of all available lower berth days on all cruise ships (Gui & Russo, 2011).[3]

  By 2016, however, the North American and Caribbean position had deteriorated to a degree—North American customers represented roughly 50% of all cruise consumers, while the Caribbean accounted for 34% of all cruise bed nights, which was a 3.6% decline from five years earlier. Interest in cruises in Asia and Australia drove much of the change. Chinese demand for cruises jumped from 700,000 customers in 2015 to 986,000 in 2016, and Asia had the highest growth in available of lower berth days (5.6%) in the period from 2012-2016. Meanwhile, Australia's demand for cruises increased six-fold in the period from 2004 to 2014, and the country has the highest market penetration of citizens taking cruises of anywhere in the world (4.2%) (CLIA, 2017; Dowling & Weeden, 2017).

Table 2: Cruise Line Deployments by Regions (% of Available Lower Berth Days)

Region	2012	2013	2014	2015	2016	Change
Caribbean	37.3%	34.4%	37.3%	35.5%	33.7%	—3.6%
Mediterranean	19.9%	21.7%	18.9%	19.5%	18.7%	—1.2%
All Other	16.5%	15.8%	14.5%	15.0%	13.8%	—2.7%
Europe (w/o Mediterranean)	9.8%	10.9%	11.1%	10.6%	11.7%	+1.9%
Asia	3.6%	3.4%	4.4%	6.0%	9.2%	+5.6%
Australia	4.1%	5.0%	5.9%	6.0%	6.1%	+2.0%
Alaska	5.4%	4.8%	4.5%	4.5%	4.1%	—1.3%
South America	3.4%	3.9%	3.3%	2.9%	2.7%	—0.7%

Source: CLIA, 2017.

[3] Lower berths refer to beds available on a ship cruise ship.

Cruise companies have responded to the changing supply and demand demographics. From 2014 to 2016, Carnival Cruise Lines' worldwide revenue increased 3.2% across all regions; during the same time period, its revenue from Asia-Pacific increased by almost 20%.[4] As a response to the changing demand demographics, cruise companies have prioritized opening new regional headquarters in Asia and Australia and expanded efforts to connect with travel agents and tour operators in emerging markets (Carnival Cruise Lines, 2017; Dowling & Weeden, 2017; Norwegian Cruise Lines, 2017). Table 2 above lists the supply associated with the global cruise industry as well as the percentage change in the period from 2012-2016. Table A-2 in the Appendix includes worldwide demand in 2015 and 2016.

- **Cruise companies are investing in larger ships with increased capacity.** The three most prominent cruise companies in the world had 175 ships in operation at the end of 2016 (Carnival Cruise Lines, 2017; Norwegian Cruise Lines, 2017; Royal Caribbean, 2017). The three largest ships currently in use—all operated by Royal Caribbean—have all made their debut since 2009. *Harmony of the Seas* is the biggest—the 227,000 ton ship that can carry 5,496 passengers was launched in 2016 (Dowling & Weeden, 2017); second largest is *Allure of the Seas* (225,282 gross registered tons, launched in 2010, 5,400-person capacity), while the third is *Oasis of the Seas* (225,282 gross registered tons, launched in 2009, 5,400-person capacity). Expansive additional capacity is scheduled to come online soon, with total investments of more than US$6.8 billion expected to come online in 2017 (CLIA, 2017). There are 17 new cruise ships that have been ordered for 2018, 22 for 2019 and 32 for 2020-2026. Table 3 below lists the projected capacity for new cruise ships expected to come online between 2017 and 2026. The average capacity of ships coming online in 2017 is 1,154 lower berths per ship and 1,732 in 2018; in 2019, it is slated to be 2,355, while from 2020-2026, it will be 3,734 lower berths per ship.

Table 3: Projected New Cruise Ship Capacity, 2017-2026

Year	Ocean	River	Ships Ordered	New Capacity (Lower Berths)	Average Capacity Per Ship
2017	13	13	26	30,006	1,154
2018	15	2	17	29,448	1,732
2019	20	2	22	51,824	2,355
2020-2026	32	0	32	119,510	3,734
Total	**80**	**17**	**97**	**230,788**	**2,379**

Source: CLIA, 2017.

- **Cruise ship companies are diversifying product offerings.** At the same time Asia and Australia have become increasingly important markets, the product options in traditional markets are diversifying. River cruises have had success attracting customers, especially in Europe. River products have different profiles than ocean cruises, with education and cultural opportunities in ports ranking as more significant attractions (CLIA, 2016b). Within ocean cruises, culinary offerings, stateroom amenities and entertainment options are major selling points, with destinations de-emphasized in favor of on-board amenities (CLIA, 2016b). To take advantage of the interest in onboard entertainment, cruise companies are improving stateroom and dining options in ways that appeal to younger consumers while also offering

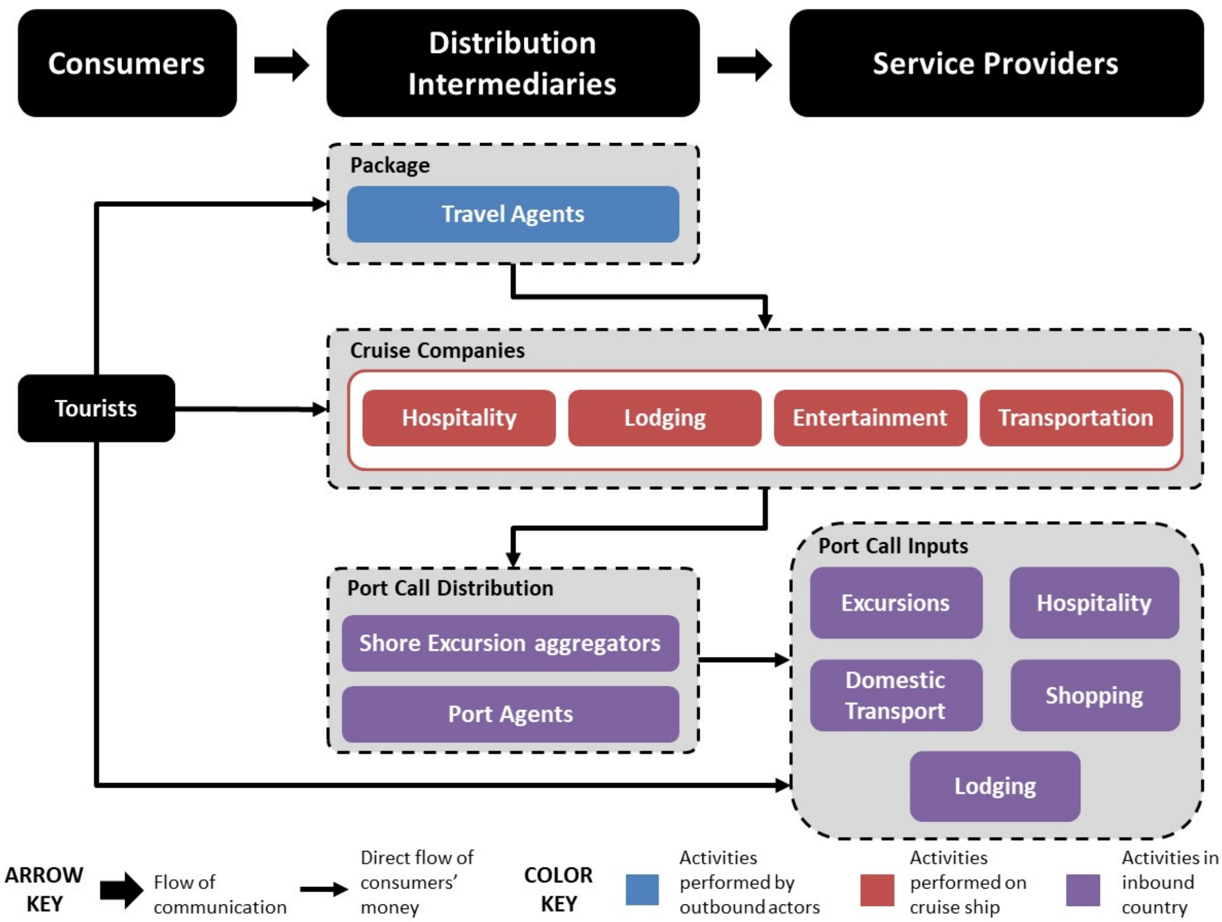
[4] During the same period, revenues from North America increased 7.3% while falling 7.4% from Europe and 13.5% from the rest of the world (Carnival Cruise Lines, 2017).

themed cruises that are capitalize on popular media and show-business trends (Kasriel-Alexander, 2016). The governance section below analyzes product offering trends in further detail while also extrapolating regional-level implications.

2.2. The Cruise Tourism Global Value Chain

The GVC methodology has been used to analyze the tourism industry in various regions of the world.[5] The focus, however, has been on different types of leisure travel and the cruise industry has been studied under the GVC lens less frequently.[6] Building upon distinctions of tourism actors outlined by Christian & Nathan (2013) and used by other value chain researchers (Daly & Gereffi, 2017), the cruise tourism value chain can be divided into three categories of actors: consumers (or tourists), distribution intermediaries, and service providers. Figure 1 below provides an illustration, tracing both the communication flows and tourists' expenditures and experiences through the chain.

Figure 1: Cruise Tourism Global Value Chain



Source: Authors.

[5] Michelle Christian has published many research papers on the tourism industry using a GVC lens (Christian, 2013, 2015; Christian et al., 2011; Christian & Nathan, 2013).

[6] Exceptions include Clancy, who used a global commodity chain approach (Clancy, 2008) (Clancy, 2008). The global commodity chain framework preceded the GVC literature but has many similar features (Bair, 2005)

As can be seen in Figure 1, there are three possible distribution channels; identity, power, and linkages among actors depend on which of these three channel consumers use to access the product. The *package distribution channel* is depicted at the top of the diagram. In cruise tourism chains, the package channel captures the significant role played by travel agents; these actors largely sell already-assembled packaged tours or vacation experiences.[7] As primary point of contact with consumers, a major value addition is that travel agents create trust that the experience will conform to travelers' expectations.

Travel agents are particularly prominent features of the cruise tourism value chain, with as many as 70% of cruise travelers accessing cruise products through these actors (CLIA, 2016b). Norwegian Cruise Line—one of the largest three companies in the world—estimates it has a network of 23,000 travel agents worldwide that sell its products (Norwegian Cruise Lines, 2017). Royal Caribbean also relies on travel agents for most of its booking and cultivates strong links with these retailers (Royal Caribbean, 2017).[8]

Tourists who do not purchase cruise packages through travel agents can book directly through cruise companies. **Cruise companies** are analogous to integrated tour operators in conventional leisure tourism chains, aggregating individual services—hospitality, lodging, entertainment and transportation—and bundling tourism experiences. The governance section that follows provides further detail on the power they wield over domestic actors; however, two of the most prominent characteristics when considering the dynamics of the chain are as follows: 1) Cruise companies are increasingly integrated, offering expanded hospitality, shopping and entertainment options in addition to lodging and transportation on the ship as well as pursuing direct ownership over shore attractions; and 2) Cruise companies often control consumers' access to services in ports, capturing as much as 70% of the value of consumers' shore excursions through commissions and sub-contracting relationships with Shore Excursion aggregators, Gate Agents and other ground handlers (Cheong, 2013).

Shore Excursion aggregators and **Port Agents** are the two most important domestic distribution intermediaries. *Shore Excursion aggregators* are similar to DMCs in traditional leisure tourism, interacting directly with the tourist while providing transportation, hospitality, excursion or shopping offerings. While they may be integrated and offer individual excursions themselves, these businesses can bundle various services into cohesive packages. They may also coordinate any transfer to local airports if passengers are permanently disembarking. *Port Agents* generally are not oriented toward customers, although they may provide transportation between airports and sea ports in locations where cruises commence and conclude. Although this provides value, their primary services relate to the ship itself when docked. In addition to booking berths and organizing the clearance of the ship through customs, Port Agents interact directly with the crew, handling any services that are required during the port call. They may also handle provisions and the loading of cargo containers. In smaller destinations, Shore Excursion aggregators and Port Agents are regularly

[7] In traditional leisure tourism value chains, the package tour channel includes networks of travel agents, tour operators and Destination Management Companies (DMCs) that coordinate tourists' activities in a location.
[8] In its annual report, Royal Caribbean characterized its relationship with travel agents thusly: "We believe in the value of this distribution channel and invest heavily in maintaining strong relationships with our travel partners. To accomplish this goal, we seek to ensure that our commission rates and incentive structures remain competitive with the marketplace. We provide brand dedicated sales representatives who serve as advisors to our travel partners. We also provide trained customer service representatives, call centers and online training tools (Royal Caribbean, 2017)."

integrated, although separate departments often concentrate on the different activities (Daly & Fernandez-Stark, 2017).

Tourists do have the ability to direct their own sight-seeing activities once off the ship, a fact that is illustrated in Figure 2 with the bottom arrow linking directly with port call inputs. However, existing research indicates this distribution channel remains underdeveloped, with individual studies indicating that more than 50% of land-based activities being controlled by cruise companies (Brida & Zapata, 2010; Diedrich, 2010; IFC, 2014, 2016). In total, estimates suggest 94% of all visitors get off the ship in Caribbean locations (BREA, 2015a). Popular activities for cruise tourists in ports include excursions to local attractions, dining at local restaurants and bars, and shopping. In an economic analysis of consumer spending during the 2014/15 cruise season in 35 Caribbean locations, visitors spent at average of $103.83 at each destination (BREA, 2015a). The only two categories that the majority of tourists participated in were shore excursions (53% of all disembarking passengers) and food and beverage at local establishments (51%).

2.3. Lead Firms and Governance

After a wave of consolidation in the late 1990s and early 2000s, the cruise ship industry today is highly concentrated around three leading companies—Royal Caribbean, Carnival and Norwegian—that control more than 80% of the market (Dowling & Weeden, 2017). With a diverse array of brands that appeal to different geographic locations and market segments,[9] the companies generated more than US$29 billion in sales in 2016. Carnival Cruise Lines is the largest of the three as measured by employees, annual revenues, number of ships and passenger capacity. The company's 2016 sales were roughly double those of Royal Caribbean and almost four times greater than Norwegian. It also has more employees and ships than its two closest competitors combined. Table 4 below provides brief profiles of the leading companies. Together, the trio employ close to 190,000 workers.

Table 4: Profiles of Leading Cruise Companies

	Carnival Cruise Lines	Royal Caribbean Cruise Lines	Norwegian Cruise Lines
Headquarters	Doral, Fla.	Miami	Miami
Founded	1972	1968	1966
Brands	Carnival Cruise Line, Holland America Line, Princess Cruises (Princess), Seabourn, Aida, Costa, Cunard, P&O Cruises	Royal Caribbean International, Celebrity Cruises, Azamara Club Cruises	Norwegian Cruise Line, Oceania Cruises, Regent Seven Seas Cruises
2016 Sales (US$, millions)	$16,389	$8,196	$4,874
Employees	91,300	66,100	30,000
Ships	102	49	24
Lower Berths	226,000	123,270	46,000

Sources: Company annual reports.

[9] Carnival Cruise Lines, for instance, has Carnival, Princess, P&O, Holland America, Aida, Seabourn, Cunard and others under its corporate umbrella. The Carnival brand has 25 ships and targets mass markets in North America. Princess Cruises has 18 ships and has more expansive upmarket and geographic options. Holland America has 14 smaller ships that provide a more intimate experience. Seabourn focuses on the luxury market while Costa and Aida have more narrow European focuses.

There are a number of entrenched advantages in cruise tourism that accentuate the power of lead firms. One is the high capital costs associated with building new ships—Royal Caribbean's *Harmony of the* Seas, the world's largest cruise ship, was completed in 2016 with a price tag of US$1.35 billion (Smith, 2015). Another is the substitutability of destinations. In many locations, the low levels of sunk costs for cruise companies in terms of capital investments—port facilities are generally financed by the government, although this evolving to a degree—as well as the selection of new locations based on geographic considerations as much as local attractions (see industry trend #3 below) increase the leverage of the big companies. These characteristics are reinforced by current industry trends, the most prominent of which are detailed below. Aggregated, these features point to a relationship between major actors and small businesses that is increasingly ambivalent—a zero-sum rather than a positive-sum game.

1. **Ocean-bound cruises are enhancing on-board amenities.** The "internalization" strategy of cruise lines involves improving entertainments on the ship to keep consumers on board, even during port calls (Clancy, 2008). The Global Cruise Tourism Industry section of this report details the geographical distinctions associated with cruise products—ocean-bound cruises popular in locations such as the Caribbean emphasize attractions on the ship itself while river and other European attractions focus more on shore excursions. The implication of this trend is that cruise lines themselves have limited motivation to encourage customers to disembark during port calls, which means local businesses must have a compelling value proposition.

Table 5: Sources of Revenue for Leading Cruise Companies, 2014-2016

	2014	2015	2016
Carnival			
Passenger Tickets	74.8%	73.8%	73.8%
Onboard	23.8%	24.7%	24.8%
Tour & Other[10]	1.4%	1.4%	1.4%
Royal Caribbean			
Passenger Tickets	73.0%	73.0%	72.0%
Onboard	27.0%	27.0%	28.0%
Norwegian			
Passenger Tickets	69.6%	72.0%	69.5%
Onboard	30.4%	28.0%	30.5%

Source: Company annual reports.

The revenue sources of leading cruise companies reinforce this point. Table 5 above presents a broad global overview of the share of passenger ticket revenue compared with onboard entertainment. While passenger tickets generally account for 70-75% of the revenue for the three leading companies, the share of onboard entertainment revenue has trended upward in the last three years for each. There is also geographic and longitudinal variance. For the Carnival Cruise Company, passenger income represented 72% of its revenue for North American consumers in 2016 versus 82% for European consumers, which reinforces the idea that European consumers are more likely to spend money off the ship. Across all geographies, Carnival's onboard entertainment revenues had increased 7.6%

[10] Carnival includes revenues from the following sources in its Tour & Other category: hotel and transportation operations; land packages; and long-term leasing of ships (Carnival Cruise Lines, 2017).

at the end of 2016 compared to two years earlier with 1.7% for passenger ticket revenue. Consumer spending on entertainment rose by US$55 million in 2016 alone (Carnival Cruise Lines, 2017).

2. **Cruises are expanding shore offerings in integration efforts designed to capture increasing shares of passengers' money.** Cruise companies' drive toward integration also includes the development of resorts and private ports in locations throughout the Caribbean where they receive all revenues. Norwegian owns Great Stirrup Cay, which is a private island in the Bahamas, and developed the Harvest Caye destination in Belize, which opened in 2016 (Norwegian Cruise Lines, 2017). Carnival owns Mahogany Bay in Honduras while Royal Caribbean has a similar venture in Mexico. Cruise ships dock at ports adjacent to these locations, most of which are remote and have limited connections with the broader local economy (Rodrigue & Notteboom, 2013).

3. **Cruise companies are attempting to contain costs through reduction of port fees and other taxes.** If internalization is an industry-wide strategy for increasing revenue, cruise companies also use their negotiating power to drive down costs at ports. Expenditures at each location include passenger-based fees, navigation fees, port taxes, and charges for utilities, such as water, power and sanitary services (BREA, 2015a). Other categories of costs for the cruise companies include food and beverage purchases as well as payments to local tour operators. In the nine Caribbean countries where companies were estimated to have spent more than US$10 million during the 2014/15 cruise season, port and navigation fees were the largest single expenditure, often accounting for 90-95% of the total costs. Table A-4 in the Appendix provides further information and includes notes on significant expenses for cruise companies in each location. In total, cruise companies spent $400.8 million in 35 Caribbean destinations in the 2014/15 season (BREA, 2015a).

   The leverage of individual countries to negotiate higher port fees is limited by the substitutability of ports and the low levels of sunk costs made by cruise companies in the form of capital investments in individual locations (Clancy, 2008). Almost all destinations in the Caribbean charge less than US$10 per passenger (Wood, 2004), although Bermuda is one prominent exception, implementing a tax of US$60 per passenger plus an additional surcharge in high season (Cheong, 2013). Attempts by individual countries to increase fees have largely been ineffective, and collective negotiation by regional organizations has also been unsuccessful (Clancy, 2008).

4. **In considering new locations, cruise companies prioritize overall itineraries, not necessarily individual destinations.** Cruise companies' negotiating power is further strengthened by their emphasis on selecting destinations based on overall itineraries rather than individual attractions—each separate piece must fit into a coherent package (Rodrigue & Notteboom, 2013). While there is not complete substitutability of port call locations, cruise companies must balance the selection of destinations against operational considerations such as the sequencing of stops, the sailing schedule of ships, and the size and quality of port infrastructure. Despite the fact this nuance might afford individual locations increased leverage based on geographic considerations, the overall implication reinforces the governance structure of the industry—potential port calls' power is often constrained by factors other than quality of tourism attractions.

5. **FCCA, CLIA and others act as critical supporting institutions.** The Florida-Caribbean Cruise Association (FCCA) and the Cruise Lines International Association (CLIA) are two industry organizations that wield sizeable influence in the sector. The FCCA, which was created in 1972 and is based in Florida, is composed of 19-member cruise lines, including the three global leaders (FCCA). The organization regularly organizes trade shows that offer smaller businesses educational forums and access to decision-makers from the cruise companies. CLIA represents a broader base, including cruise lines, travel agents and local distribution intermediaries. There are also other important supporting institutions and companies. AON, the insurance company, is one of the more significant—the US-based firm has developed a Tour Operators Liability Insurance Program and regularly offers training sessions in destinations to improve the competitiveness of local small businesses.

   The resources that organizations such as FCCA, CLIA and AON provide to actors in the cruise tourism value chain can provide valuable background on some of the nuances of the industry compared with conventional leisure tourism. Box 1 below highlights some of the ways cruise tourism is differentiated from more conventional leisure tourism where visitors spend nights in local locations.

Box 1: Significant Differences between Cruise and Conventional Tourism

While there are numerous similarities between cruise and conventional stay-over tourism, there are nuances that distinguish the dynamics in the cruise tourism chain. These differences, in turn, have implications for small businesses wishing to participate in the sector. Some of the more pronounced include:

- **INSURANCE:** While there are insurance considerations in conventional tourism, cruise lines demand shore excursion providers have high liability coverage to serve to act as protection from lawsuits.

- **CONSISTENCY:** Cruise passengers are rarely onshore for more than eight hours, and individual excursions typically last for 2-4 hours. The condensed time window places a premium on consistency: Whereas businesses engaging stay-over visitors may have multiple opportunities to correct mistakes, cruise businesses that do not meet customers' standards have little chance to change opinions. According to industry stakeholders, cruise companies are then quick to offer refunds to passengers without discussing with their domestic partners.

- **VOLUME vs. VALUE CONSIDERATIONS:** The strategies for businesses in conventional tourism chains often concentrates on either generating high volumes of visitors or establishing a high value that allows them to charge premium prices. In cruise tourism, high-priced shore excursions face challenges since: 1) Cruise lines often mark-up individual excursions by as much as 100%, inflating the price further; 2) Transportation considerations give economies-of-scale advantages to larger groups. As such, natural environment attractions and other excursions in other settings that are best experienced by low numbers of visitors are at a disadvantage when being evaluated by cruise companies.

Source: Daly & Fernandez-Stark, 2017.

6. **Cruise ships are often exempt from national regulations, influencing their labor, environmental and tax strategies.** Most cruise operators sail under "Flags of Convenience," which allows companies to circumvent tax liabilities, safety standards and inspections as well as environmental laws (Cheong, 2013).[11] Despite the fact there is established international maritime law with conventions under both the International Labor Organization (ILO) and International Maritime Organization, it has proven near impossible for states to enforce domestic and international laws on cruise lines when they are in international waters (Hil, 2015) .[12] There are important consequences of this for labor conditions. Cruise ship workers typically work on six-month contracts, with an excessive workweek of 80 or more hours, seven days a week. Workers have little guarantees of future employment. Additionally, cruise workers are required to pay for transportation to the ship, any visas or work permits and medical or legal permits (Hil, 2015). Salaries range from around US$800-US$8,000 per month, depending on the position and line (Morello, 2015). While officers, entertainers, and many retail workers that engage directly with customers earn equitable wages by North American standards, the majority of the ship's workers do not, earning most of their income through tips (Morello, 2015). Cruise companies also source workers from developing countries that are undergoing rapid development and producing fewer workers whose skills and goals align with the needs of cruise operators (Terry, 2009).[13] Box 2 below has further details on the geographic component to cruise tourism's labor market.

Box 2: Pronounced Geographic Component in Cruise Human Capital

Operating a cruise is a labor-intensive activity, with passenger-to-crew ratios on mass market cruises as high as 2:1 and luxury cruises closer to 1:1. Globally, the industry supports as many as 940,000 jobs and generates approximately US$39 billion in wages and salaries. There is a wide variance in the skill levels associated with each group of workers across the cruise tourism value chain. The highest employment opportunities are regularly found in the service-provider segment of each chain, although these jobs are often lower skilled.

There is a geographical segmentation to cruise labor. The highest-pay jobs are usually held by officers and crew from developed countries while workers from Asian countries such as the Philippines often dominate lower-paid positions. Nations such as Indonesia have cruise training schools, which provide companies such as Carnival with fertile recruiting ground. Cruise ships that traverse the Caribbean can be expected to conform to this pattern—oftentimes they have very few Caribbean nationals working the ships.

Sources: Clancy, 2008, CLIA, 2016a, Wood, 2004.

[11] Flags of Convenience is a business practice whereby a merchant ship is registered in a country other than that of the ship's owners, and the ship flies that country's civil ensign. In these cases, the ship is governed by laws of the country where it is registered, as well as international conventions enforced by that country. For vessels that are registered in the United States, it is worth noting that the country has never ratified the United Nations Convention on the Law of the Sea (UNCLOS).

[12] In recent cases, cruise companies have re-routed ships that have been fined in particular ports without addressing abuses. For example, Royal Caribbean's *Oasis of the Seas* underwent labor inspections while docked in Rotterdam, in the Netherlands and Dutch labor inspectors ultimately fined Royal Caribbean €600,000 ($760,000) for violating Dutch labor laws and the International Maritime Convention, citing that at least 85 employees, mainly from the Philippines and South America, lacked proper work permits and were working excessive hours (Hil, 2015).

[13] Filipinos represent roughly 30% of the total labor force on cruise ships (Terry, 2009).

3. St. Lucia in the Cruise Tourism GVC

Tourism is St. Lucia's most important economic activity. With its picturesque beaches in the northern portion of the country, sailing in and around Castries, and the natural beauty associated with the Pitons near Soufrière, the country attracts large numbers of visitors from the US, Canada and the Caribbean each year. In 2016, tourism's direct contribution to GDP was 13.7% and it accounted for 51.5% of total exports (WTTC, 2017b). The industry as a whole provided direct employment for 17,500 and indirectly supported as many as 36,000 jobs (WTTC, 2017b). Cruise tourism has been estimated to provide direct employment to 942 people on the island and indirectly to 1,422 individuals (BREA, 2015b). St. Lucia is one of the regional leaders in terms of the relative contribution of tourism to the overall economy in many key indicators. Table 6 below provides a summary.

Table 6: Relative Contribution of Tourism to St. Lucia Economy

Variable	St. Lucia	Caribbean Average	Global Average
Direct contribution to GDP	13.7%	4.7%	3.1%
Total contribution to GDP	39.6%	14.9%	10.2%
Direct contribution to employment	27.7%	4.2%	3.6%
Total contribution to employment	46.5%	13.4%	9.6%
Share of total investments	24.2%	12.3%	4.4%
Percentage of total exports	51.5%	20.7%	6.6%

Source: WTTC, 2017b.

Cruise tourism accounts for most visitors to St. Lucia. Of the 1.05 million tourists who traveled to the island in 2017, 63% arrived via cruise ships (St. Lucia Tourism Authority, 2018). In 2016, the share of cruise passengers was 62%.[14] Although there has been some recent fluctuation, with a downturn from 2009-2012 hurting the total number of cruise passengers (see Figure A-1 in the Appendix), both the number of port calls and cruise arrivals have trended upward in more recent years; the 423 port calls and 669,217 cruise passengers in 2017 represented a 26% and 17% increase when compared with 2012.

Most cruise consumers access St. Lucia via Carnival Cruise Lines or Royal Caribbean. Consolidation is a characteristic of the global industry, with the big three controlling approximately 80% of the market (see Global section). St. Lucia largely conforms with the broader industry features—Carnival and Royal Caribbean and their subsidiary cruise lines are particularly dominant, accounting for 79-86% of all consumers from 2015-2017 (Field Research, 2018). Norwegian, by contrast, is a relatively minor player, only generating 2-3% of St. Lucia's cruise arrivals in the same period.

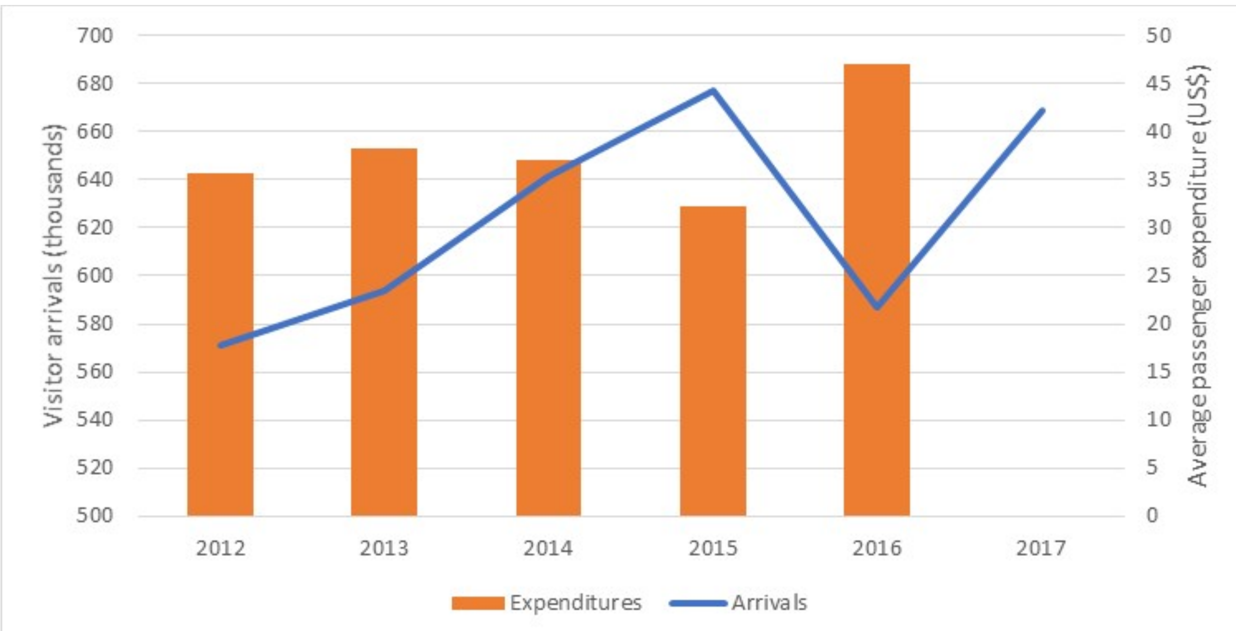
Beyond the sector's general profile, there are recent trends and overall characteristics that warrant accentuation. These include the following:

- **While there are positive trends with arrivals, passenger spending had lagged before 2016.** Both the FCCA and the St. Lucia Tourism Authority (SLTA) collect data for

[14] Cruise passengers' share of total visitor arrivals generally ranges between 50-80%, depending on the country. In Barbados, for example, cruise passengers accounted for 54% of all visitors in 2016. Meanwhile, in St. Kitts & Nevis, cruise passengers usually provide 80% of visitors.

cruise passenger spending. While the FCCA estimates are consistently higher than the SLTA's,[15] both suggest that average passenger spending has remained relatively stagnant in recent years. The FCCA had average passenger expenditures falling from US$82.62 in the 2005/06 cruise season to US$78.44 in 2014/15 while the SLTA had it dropping from US$35.67 in 2012 to US$32.27 in 2015. The SLTA survey did record an increase in 2016, with average cruise passenger expenditures increasing to US$47 per person (see Figure 2 below). Most categories (souvenirs, food & beverage, tours purchased on the ships, transportation) experienced gains of more than 22% from the previous year. It is, however, too early to determine whether the upturn is a one-year blip or more consequential—SLTA did not collect survey data in 2017.

Figure 2: Cruise Passengers Arrivals and Expenditures in St. Lucia, 2012-2017



Source: St. Lucia Tourism Authority. **Note:** Expenditure data for the 2017 season was not available. This graph uses SLTA data to provide greater detail on the annual trends in visitors and passenger expenditures. FCCA data, which is updated every three years, is presented in other sections to allow for comparisons between countries.

- **St. Lucia is notable for the high number of passengers who 1) purchase tours; and 2) buy those tour packages off the ship.** St. Lucia ranks eighth out of 35 Caribbean destinations for the number of passengers who purchase tours onshore tours (BREA, 2015b). It also ranks fourth in the region in the percentage of tours that are purchased from an onshore operator (22%), trailing only Curacao, Bonaire and Ensenda (BREA, 2015b).[16] The high rate of onshore purchases from passengers suggests the island has established

[15] The FCCA represents important industry stakeholders such as cruise companies. The hazards of relying on economic data has been widely noted in academic literature on the sector. "These surveys by FCCA and CLIA has been markedly exaggerated in favor of their employers. For example, the figures reported are extreme and do not account for the leakage of revenue, thus misleading Caribbean nations into investing hundreds of millions of dollars into the industry with little hope of immediate recovery (Pinnock, 2014)."

[16] On the flip side, the island has one of the lowest percentages of tours that are purchased directly from the cruise line (66%) (BREA, 2015b).

more expansive linkages between cruise passengers and the local industry than is customary in the Caribbean.

- **Impressions of St. Lucia's cruise tourism products trail regional peers as well as the country's land-based visitors.** Cruise consumers have a weak impression of many components of St. Lucia's cruise tourism value chain. The island did not score in the top 10 in the region in any area surveyed by the FCCA in its 2014/15. Moreover, St. Lucia's initial welcome (30th), local transportation (29th), shopping experience (27th), shop variety (27th) and quality of purchased tours all ranked toward the bottom of the 35 markets surveyed in the region (BREA, 2015a). Additionally, cruise passengers report relatively low levels of satisfaction with the destination, with 52% indicating they would not be willing to return to St. Lucia for a land-based vacation in the next three years while only 62% would recommend the island to friends or family (BREA, 2015a). This stands in stark contrast to the opinion of stay-over guests, who overwhelming indicate satisfaction and that they would recommend the island—SLTA's last annual survey reported that only 6% of St. Lucia's conventional tourists were not satisfied with their visits and that 90-94% would recommend the location.

- **There are not formal relationships between cruise companies and the St. Lucia government**. Although Royal Caribbean and Carnival Cruise Lines have generated between 79-86% of St. Lucia's cruise customers in recent years, there is not a formal relationship between the government and the cruise lines. Unlike many locations, St. Lucia does not provide incentives to cruise companies to guarantee a minimum amount of passengers,[17] leaving it somewhat dependent on market forces.

This section of the report investigates St. Lucia's cruise tourism industry in further detail. It first examines the country's participation in the value chain, highlighting the segments where it is most active. It then analyzes the industrial organization, concentrating on the importance of both Carnival and Royal Caribbean to the local sector as well as domestic companies such as Cox & Company and Foster & Ince. The industry upgrading discussion then outlines the value-addition prospects of the sector as well as its recent evolution. After assessing the institutional framework, it then examines the most prominent advantages and constraints for potential upgrading trajectories.

The discussion below is based primarily on qualitative data collected during field research conducted in May 2018. Economic analysis complied by BREA, SLASPA and the SLTA is used in spots to support the analysis generated by the interviews. Where appropriate, specific citations are provided; in cases where there is not an individual reference, the information is based on field research.

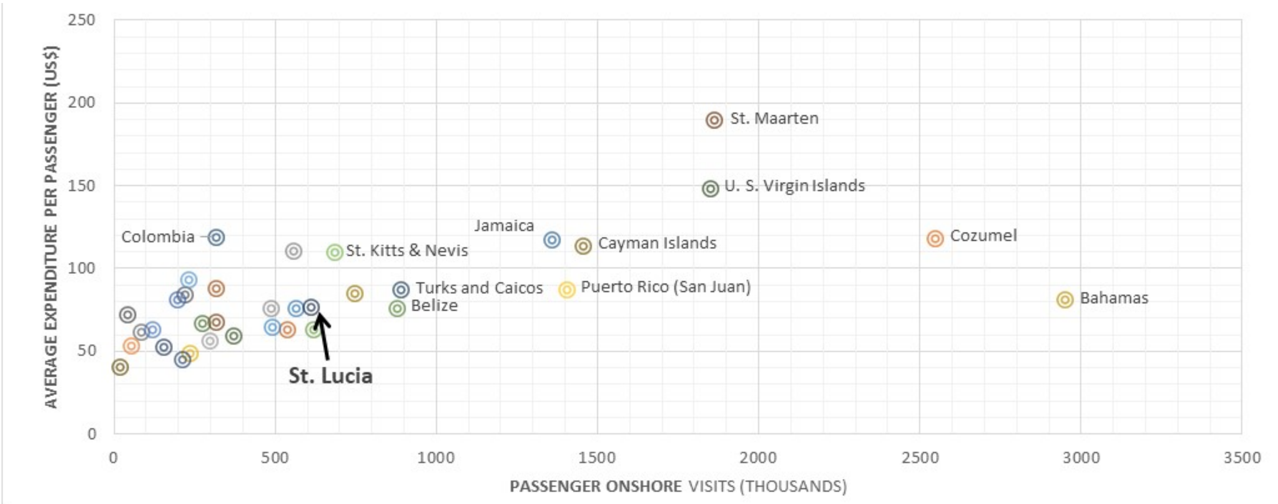
3.1. St. Lucia's Current Participation in the Cruise GVC

Despite its relatively small size and population, St. Lucia is competitive with regional peers in terms of two important metrics in the cruise value chain: onshore visits and the average passenger expenditure. The island had 603,200 onshore visits in the 2014/15 cruise season, which ranked 13th in the Caribbean (BREA, 2015). While that trails leaders such as Bahamas (2.9 million onshore visits) and Cozumel (2.5 million), St. Lucia was generally competitive with Southern Caribbean peers

[17] As a representative example, Barbados has an agreement where it pays Carnival US$2 million annually to provide a minimum number of consumers each year (Daly & Fernandez-Stark, 2017).

such as Barbados (554,500 onshore visits), Antigua (527,000) and Aruba (546,000).

Figure 3: Onshore Visits and Average Expenditures for Caribbean Cruise Passengers



Source: BREA, 2015a.

St. Lucia's average passenger expenditure of US$78.44 in the 2014/15 ranks 18th in the Caribbean.[18] Regional leaders St. Maarten (US$191.26), US Virgin Islands (US$150.21) and Cozumel (US$119.89) capture between US$41-$113 more per passenger than St. Lucia. Figure 3 above maps Caribbean countries for both data points. St. Lucia is part of the cluster of countries toward the bottom left of the image.

Aggregated, the combination of visitors and expenditures was estimated to have generated US$57.2 million during the 2014/15 cruise season (BREA, 2015b). There are multiple segments of the value chain where the country has measurable economic activity. These include the distribution of shore excursions as well as inputs such as ground transportation, the excursions themselves, hospitality (food and beverage) and shopping.

3.1.1. Industry Organization and Governance

St. Lucia's competitiveness in the cruise tourism sector is predicated on the performance of three separate categories of businesses: 1) tour operators; 2) vendors; and 3) taxis. Of these, power is concentrated with the local distribution intermediaries, especially Cox & Company and Foster & Ince. Both acts as tour operators primarily by aggregating shore excursions offerings of other businesses. Both also fulfill port agency services.

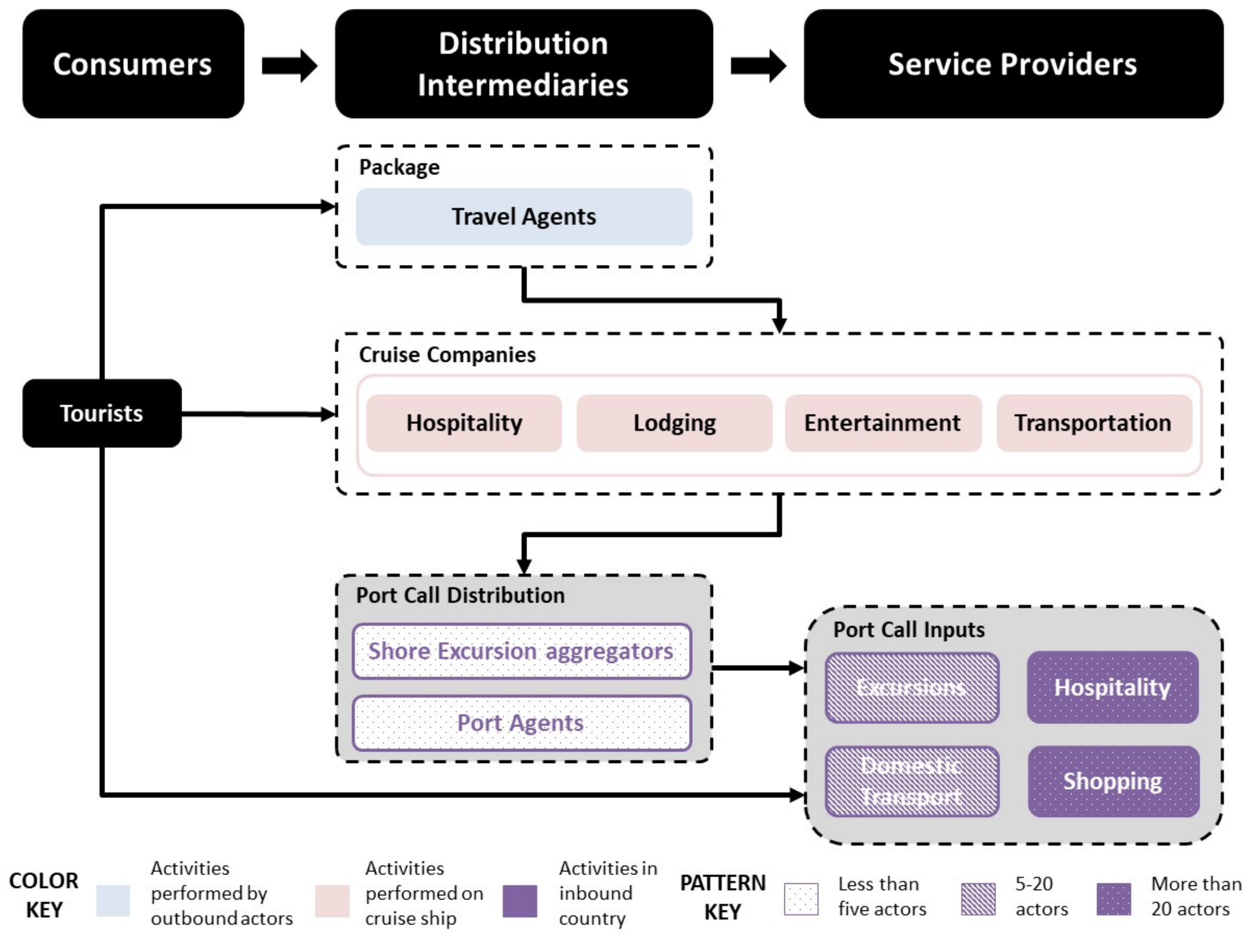
Although there are some exceptions, neither Cox & Company nor Foster & Ince have extensive capacity in multiple stages of the chain. This is evolving to a degree with individual actors pursuing product ownership; however, at this point, the industry is still relatively segmented. Instead, distribution intermediaries have established supply chains with strong linkages between the different

[18] As stated, there is discrepancy between the FCCA and SLTA data on cruise passenger expenditures, with the FCCA's average expenditures eclipsing SLTA's by more than 100%, depending on the year. This section uses the FCCA data to allow for comparisons between countries.

categories of businesses. Market relationships generally dominate—more than one stakeholder characterized the local competitive environment as a "race to the bottom" (Field Research, 2018). Common strategies among distribution intermediaries for building trust among service providers include adding the smaller businesses to existing insurance policies for liability coverage or extending loans to cover financing shortfalls.

The following section examines the linkages between critical distribution intermediaries and smaller businesses in product categories such as excursions, transportation, shopping, hospitality and other segments. Further analysis on the industrial organization of the industry is embedded within it. Figure 4 below provides a summary. Activities depicted in purple represent segments where St. Lucian businesses have the largest presence. The lightest shades of purple illustrate areas where there are fewer than five companies. While these segments have few actors, their power over SMEs is significant. The medium shade of purple represents segments where there are 5-20 companies active. The darkest shades indicate activities where there is the strongest participation.

Figure 4: St. Lucia in the Cruise Tourism GVC



Source: Authors.

3.1.2. Distribution Intermediaries

Carnival and Royal Caribbean generally account for 79-86% of cruise passengers visiting St. Lucia in recent years. As the primary source of consumers, these companies have significant power in determining how passengers engage with St. Lucian businesses. Each features the products of Shore Excursions providers on the ship and facilitates pre-bookings with these actors. Tourists can also create their own experiences by getting off the ship in Castries and surrounding attractions independently or through taxi services that are available.

While Carnival and Royal Caribbean are obviously key conduits for cruise passengers accessing this island's tourism products, St. Lucia is notable for the high volume of passengers who book experiences from onshore tour operators as opposed to through the cruise companies. Surveys conducted in the 2014/15 cruise season suggested 67% of visitors ultimately purchased organized tours while 33% toured individually or did not tour (BREA, 2015b). Of the 67% who purchased shore excursions; 22% bought tours from onshore tour operators (roughly 14% of the total volume), 12% engaged with travel agents (approximately 8% of the total volume) while 66% went through the cruise company (44% of the total volume) (BREA, 2015b). The percentage of passengers purchasing products from onshore tour operators ranked fourth in the region.[19] Table 7 below provides a summary of cruise passengers' engagement with St. Lucian shore excursion aggregators.

Table 7: Shore Excursion Purchases from Cruise Passenger in St. Lucia

	Percentage of St. Lucia Passengers	Ranking in Region*
Passengers that Purchased Shore Excursions^	67%	8th
From Cruise Company	66%	32nd
From Onshore Tour Operator	22%	4th
From Travel Agent	12%	10th
Toured Individually/Did Not Tour	33%	28th

Source: BREA, 2015b. **Note:** * = rankings out of 35 Caribbean locations. ^ = The distribution intermediary that sold the shore excursions is presented in the rows presented immediately below in the table.

For smaller businesses that wish to integrate into the chain, the most straight-forward strategy is to connect with domestic Shore Excursion aggregators. Cox & Company and Foster & Ince are the largest two. Cox & Company was established in 1926 and provides a variety of tour aggregation and Port Agency services. While its focus is on this segment of the chain, with a well-established supply chain of transportation and service providers, it does have some capacity in the product segment of the chain. Meanwhile, Foster & Ince has a similar portfolio, recently expanding into St. Lucia from its home offices in Barbados. Both companies enjoy significant market power, with observers of the domestic industry estimating that they control 60-65% of shore excursions and more than 95% of port agency responsibilities (Field Research, 2018).

3.1.3. Port Call Inputs

St. Lucia ranks in the bottom quarter in the region in terms of passengers making purchases on the island (61%, which ranks 30th out of 35 surveyed locations) (BREA, 2015b). The average passenger expenditure (US$78.44) is also below the regional average, with the amount spent food and

[19] Unsurprisingly, St. Lucia ranks near the bottom of the region in the converse metric—the percentage of cruise passengers visiting the island who purchase tours from the cruise companies is among the lowest in the Caribbean (BREA, 2015b).

beverages coming in 55% lower than the regional average.[20] There are, however, categories where St. Lucia exceeds its peers. The average amount spent on shore excursions (US29.66) is above the regional average and ranks 10th out of 35 locations while expenditures on local crafts and souvenirs are 73% higher than Caribbean peers. Table 8 below lists each category compared with the Caribbean benchmark.[21]

Table 8: Cruise Passenger Expenditures in St. Lucia by Category, 2014/15 season

Category	St. Lucia	Caribbean	Difference
Above Regional Average			
Local Crafts & Souvenirs	$12.35	$7.13	+73%
Perfumes & Cosmetics	$1.47	$1.02	+44%
Shore Excursions	$29.66	$23.33	+27%
Other Purchases	$9.98	$8.84	+18%
Below Regional Average			
Telephone/Internet	$0.14	$0.15	—6%
Ground Transportation	$3.01	$3.64	—17%
Clothing	$8.06	$10.08	—20%
Liquor	$1.76	$2.25	—21%
Watches & Jewelry	$21.21	$37.11	—42%
Food & Beverage	$3.59	$8.01	—55%
Electronics	$0.05	$0.38	—86%
Entertainment	$0.01	$0.51	—98%

Source: BREA, 2015b. **Note:** Each category is the weighted average spent in US$, which captures the average spent per passenger measured against the total number of passengers purchasing goods in that category.

The major cruise companies feature 20-25 **shore excursions** in St. Lucia, although the actual number of attractions and businesses that regularly engage in this segment is less than 20. The St. Lucian excursions that most consistently attract cruise passengers generally revolve around the island's natural resources—tours to the Pitons, zip-lining, hikes, scuba diving, sailing and catamarans, kayaking as well as beach and general island tours. Many of these individual excursions have ties to Cox & Company or Foster & Ince, with the companies coordinating transportation to the sites or offering guided services.

There are multiple **transportation** companies that feed into both Cox & Company and Foster & Ince's supply chain. According to domestic stakeholders, the transport segment of the chain is well represented with many smaller bus companies (Field Research, 2018). Some of the more prominent include Evergreen, Nico's Touring, CM Touring and others. There has been some turmoil in recent years, with competitive pressures and Foster & Ince's expansion into St. Lucia driving some from the market.

Taxis have multiple unions representing their interests with the National Taxi Union serving as a larger umbrella organization. A 2013 review indicated there were 958 registered tourism taxis that comprised 28 associations that fed into the larger National Taxi Union (St. Lucia Ministry of

[20] Watches & jewelry (-42%), electronics (-86%) and entertainment (-98%) are the other categories that are at least 40% lower than the regional average.

[21] As stated, the SLTA's surveys have lower average passenger expenditures. In the most recent survey, collected in 2016, the SLTA estimated that cruise passengers spending was as follows: souvenirs (US$13.29), other shopping (US$10.29), tours (purchased from on the boat) (US$8.66), food and beverage (US$7.51), tours (purchased from on the island) (US$3.22) and taxis/transportation (US$3.36).

Tourism, 2013); however, local stakeholders reported that less than half (300-400) engage with the cruise sector (Field Research, 2018). Those who operate in the Castries area report that cruise customers account for a significant percentage of their overall business. Taxi drivers must compete a training organized by the Ministry of Tourism to provide rides to cruise customers in the port.

Shopping includes duty-free stores in Pointe Seraphine and La Place Carenage, which are in close proximity to cruise ships in the port. Invest St. Lucia operates Pointe Seraphine, which is located on the north side of the Castries port and has roughly 35 businesses operating on its property. La Place Carenage is the older facility; it opened in 1996 and is located on the south side of the Castries port. The property is managed by the St. Lucia Air and Seaport Authority (SLASPA) and features similar businesses as Pointe Seraphine in a two-story shopping mall. Among the options are duty-free alcohol, food, jewelry and clothing. The Vendors' Arcade in close proximity to La Place Carenage also offers a variety of handicraft options.

Finally, **hospitality** captures food and beverage options. There are hundreds of options available on the island, although the options in Castries are somewhat limited to the businesses in Pointe Seraphine and La Place Carenage as well as a small handful of other sites (Field Research, 2018). As highlighted in Table 8 above, the passenger expenditure on food and beverage in St. Lucia is less than half the regional average.

3.2. Institutionalization

Tourism is a source of interest for multiple government institutions. The Ministry of Tourism, SLASPA and the SLTA all play important roles. The Ministry of Tourism has nine tourism officers and takes the lead on regulation of the sector. It also plays an active training role and has coordinated skills developments for categories of actors such as taxi drivers. SLASPA then manages the port facilities and works with the Ministry of Tourism in the formulation of policies that influence St. Lucia's competitiveness in the sector. SLTA, which was previously known as the St. Lucia Tourism Board, focuses on promotion of tourism as a whole. While it does not have individuals assigned solely to the cruise sector, it regularly engages with cruise-specific clients and attends trade fairs in Florida focused on the industry (Field Research, 2018). It also collects data on the tourism sector in most years.

Invest St. Lucia acts as a facilitator for tourism investments. The government organization helped finance the US$15 million expansion to the dock near Pointe Seraphine to accommodate larger ships. While Invest St. Lucia also manages the Pointe Seraphine duty-free shopping complex, its current portfolio is oriented toward conventional land-based tourism, with investments in the accommodation and tourism attraction segments of the chain.

More narrowly, each of the three most prominent categories of businesses identified earlier—tour operators, vendors and taxis—have institutions that help coordinate their interests. The most significant of these is the St. Lucia Hotel and Tourism Association (SLHTA), which is the closest thing to an all-encompassing industry association. While hotels constitute a significant percentage of its overall membership, SLHTA includes tour operators, ground transportation and other cruise-related segments. SLASTA and the Ministry of Tourism also have representatives on the board. Domestic stakeholders credit the organization for being a critical institution in driving skills development while also providing forums for communication and collaboration (Field Research, 2018).

The National Conservation Authority (NCA) plays a key management role for St. Lucia's natural areas. The organization is charged with monitoring St. Lucia's beaches while also regulating SMEs that engage with visitors to those spaces. In total, there are 302 licensed vendors that work on 25 beach and natural areas, with handicraft, beach chair and other beach recreation activities being the most common categories (Field Research, 2018). The NCA used to be housed under the Ministry of Tourism; however, it now falls under the purview of the Ministry of Equity, Social Justice, Empowerment, Youth Development, Sports and Local Government.

There are other institutions that give a collective voice to the individual segments on the supply side of the cruise tourism GVC. For vendors, the Vendors Association offers support, primarily for merchants in the Vendors' Arcade but also more broadly. The National Taxi Union provides similar service for taxis; it recently joined the SLHTA to engage with actors across the value chain. It also has attempted to liaison with government to address concerns that taxi drivers are being squeezed out of the Castries port area. The SBDC was formed in 2014 and engages with small and micro-sized businesses (often smaller than five employees) and provides skills training and other supporting services. Table 9 below lists the key stakeholders in the cruise tourism GVC in St. Lucia as well as their primary role.

Table 9: Key St. Lucian Stakeholders in the Cruise Tourism GVC

Actor	Description	Role
Ministry of Tourism	Government agency charged with overseeing policy to tourism industry	Sets policies and collects information relating to tourism industry; helps coordinate with training programs
St. Lucia Tourism Authority (SLTA)	Marketing and data collection agency for St. Lucia tourism	Promote and raises awareness of entire St. Lucia tourism industry
St. Lucia Air and Seaports Authority (SLASPA)	Port oversight	Manages cruise and cargo ports for island as well as airport; also controls La Place Carenage
Invest St. Lucia	Government agency that coordinates investments, including in tourism	Engaged in overall tourism sector more than cruise tourism; manages Pointe Seraphine
St. Lucia Hotel and Tourism Association (SLHTA)	Tourism industry association	Provides communication forum for all stakeholders in the tourism industry, including the cruise sector
National Conservation Authority (NCA)	Manages St. Lucia natural areas (primarily beaches)	Regulates business in natural areas and has 392 licensed vendors
Small Business Development Center (SBDC)	Support for small businesses	Provides assistance services to the micro and small business in all sectors

Source: Authors.

3.3. Recent Upgrading in St. Lucia's Cruise GVC

The number of cruise arrivals in St. Lucia and the average passenger expenditure has pushed upwards in the most recent datasets (see Figure 3). While the longer-term trend is mixed, local stakeholders believe visitor arrivals will demonstrate growth for the foreseeable future (Field Research, 2018). One reason is the expansion of the cruise ship berth at Pointe Seraphine. It is the most tangible example of upgrading that can be detected in St. Lucia in recent years.[22] There have been other possible process upgrades—the Ministry of Tourism requiring taxi drivers receive training in hospitality is an example—there is not overwhelming evidence that such strategies have yielded clear economic benefits or resulted in improvements in quantifiable metrics. While there are also additional ideas for infrastructure investments—a potential new port in the south of the island at Vieux Fort being one example—those plans are in their infancy and cannot be included in this section. There have been other steps

- **PRODUCT UPGRADING: Berth expansion at Pointe Seraphine in Castries.** SLASPA spent US$18.8 million to extend the capacity of Berth One at Pointe Seraphine by a length of 164 feet and a width of 40 feet (St. Lucia Times, 2018). The project, which was completed in early 2018, also features mooring apparatus and wind protection. The result is that larger ships with up to 5,000 passengers have the capacity to dock in Castries—Royal Caribbean's *Anthem of the Seas* became the largest ship ever to land in St. Lucia when its 4,200 passengers came ashore at the opening in January (St. Lucia Times, 2018).

3.4. Workforce

The tourism industry is one of the leading sources of employment in St. Lucia. The country has a working age population of 145,000 individuals with a participation rate of close to 70%, which means there are approximately 101,500 active workers on the island (Government of St. Lucia, 2017). Tourism directly employs 17,500 individuals, or roughly 17% of the country's working population; indirectly, the industry supports as many as 35% of the workforce (WTTC, 2017a). Cruise tourism generates a smaller share of employment, yet it still provides jobs for 942 people on the island (BREA, 2015b).

Those 942 individuals can be sub-divided into three primary categories: 1) transportation provides; 2) vendors; and 3) tour operators. While there are roughly 950 registered tourism taxis (St. Lucia Ministry of Tourism, 2013), the number that regularly service cruise customers in the Castries area is closer to 300-400 (Field Research, 2018). According to stakeholders, these workers are overwhelming older males.

The next largest category of workers is vendors. The NCA has certified 302 individuals and businesses to work on 25 beaches and other natural areas. There are 10 categories of services or items offered: clothing/beach accessories; souvenirs/handicrafts; hair braiding; massages; beach chair rentals; freelance tours; food/non-alcoholic beverages, carvings; and watersports and boat tours. Of those, there largest three are clothing and souvenirs (85 businesses), watersports and boat tours (52) and handicrafts (50). There are different gender profiles depending on the job category.

[22] Upgrading in the GVC literature describes how actors can improve competitiveness and increase benefits from participating in global industries. There are both economic and social dimensions to upgrading: economic upgrading describes how firms or countries can add value to production or move into higher value activities, while social upgrading encapsulates improvements in measurable standards and the enabling rights of workers (Barrientos et al., 2011). Economic upgrading includes a variety of different forms. *Product upgrading* describes the shift into the production into higher value products or services. *Process upgrading* includes improvements in the efficiency of the production systems such as incorporating more sophisticated technology. *Functional upgrading* is when actors acquire new functions or abandon existing ones to increase overall competitiveness. *Chain upgrading* is when firms or countries move into new—but often related—production activities by leveraging existing capabilities. Finally, *end-market upgrading* describes incursion into new market segments (Gereffi & Fernandez-Stark, 2016).

Overall, 162 of the 302 vendors (54%) are male. However, clothing and souvenirs have much higher female representation while watersports and boat tours are dominated by males.

The island's high youth unemployment rate has been a topic of concern for lawmakers (Government of St. Lucia, 2017).[23] Although specific data was not made available, anecdotal evidence suggests there are high numbers of youth workers in the tourism sector, although stakeholders said that cruise tourism skews older than land-based tourism. Many educational institutions on the island have hospitality programs; however, most of these institutions report the majority of their graduates seek employment in resorts or hotels. Springboard Caribbean trains workers both for businesses that provide hospitality services as well as the cruise lines themselves; yet, many of its graduates either work on ships or in restaurants in the country.

3.5. Advantages and Constraints

St. Lucia's cruise is characterized by generally encouraging passenger trends, although passenger spending had lagged in recent years before an apparent upturn in 2016. While global actors such as Royal Caribbean and Carnival are powerful, linkages with the local economy do exist, with the island ranking ahead of many peers in terms of the percentage of tours who purchase tours off the ship. The sector provides measurable economic activity, generating as much as $57.2 million during the 2014/15 cruise season while directly employing as many as 942 individuals.

Because of tourism's significance in the local economy, the sector offers additional opportunities for small businesses if the government addresses some of the more entrenched challenges. Table 10 below summarizes both the advantages and constraints associated with the industry, with the most pronounced outlined in the section that follows.

Table 10: SWOT of St. Lucia's Cruise Tourism Industry

Strengths	**Weaknesses**
• Strong linkages between consumers and tour operators • Local businesses provide established supply chain no major gaps • Natural resources offer competitive advantages • Capital improvements at the port at Pointe Seraphine • Economic reliance on tourism leads to hospitality-oriented population • Engaged Small Business Development Center	• Lack of strategic initiatives focused on the cruise sector • Underdeveloped and overlapping institutions • Minimal product diversity and unfavorable impressions of existing experiences • No expansive home port arrangements • Infrastructure constraints • Aggressive vendors damage perception of St. Lucia's hospitality • Environmental vulnerabilities
Opportunities	**Threats**
• Growth in arrivals • Favorable impressions of St. Lucian tourism products	• Emerging destinations (Cuba) • Less passengers disembarking from ships due to onboard entertainment • Cruise companies acquiring private islands

Source: Authors.

[23] The youth unemployment rate for males was 42% in 2017 while the youth unemployment rate for females was 36% (Government of St. Lucia, 2017). The unemployment rate for the entire island was 20% in 2017.

3.5.1. Advantages

St. Lucia's strengths in the cruise industry revolve around its natural resources, its capable supply chain, its long-standing familiarity with the sector and engaged stakeholders. The following sub-section expounds upon these features.

- **Strong linkages between consumers and distribution intermediary segment.** Cruise passengers arriving St. Lucia purchase tours from sources other than cruise lines in comparably high numbers, strengthening the linkages between those visitors and local tour operators, vendors and transportation companies. Additionally, while the two largest tour operators with activity in this segment—Cox & Company and Foster & Ince—sell their packages on the cruise ships through the cruise lines, the competitive atmosphere between the two places an emphasis on innovation that allows for opportunities for new businesses to integrate into the chain.

- **Local businesses provide established supply chain with no major gaps.** Key businesses in St. Lucia have established histories and mature supply chains, affording the companies a high degree of experience, technical proficiency and familiarity with leading cruise companies. Moreover, domestic stakeholders do not report major gaps in the chain, with available supply in critical supporting activities such as transportation.

- **Natural resources generate competitive advantages.** St. Lucia's natural resources include its beaches and mountainous regions. While other locations in the region certainly can sell beaches, the combination of beaches plus the elevation gains surrounding the Pitons provide the country with opportunities to entice passengers off cruise ships.

- **Capital improvements at Pointe Seraphine.** As the leading companies construct to bigger ships (see global section), ports increasingly have to make improvements to remain competitive. With this in mind, the US$18.8 million expansion of Berth One at Pointe Seraphine was an important step, providing St. Lucia with a dock large enough to accommodate ships with a capacity of up to 5,000 passengers.

- **Economic reliance on tourism leads to hospitality-oriented population.** Tourism is the leading economic activity in St. Lucia, directly employing 17,500 people and accounting for close to 52% of all exports. With the industry supporting such a high number of the island's workforce, domestic stakeholders reported there is a general awareness of the soft skills accentuated in key segments of the chain (Field Research, 2018). While trainings are still a prerequisite, there is understanding of fundamental concepts. Moreover, educational institutions throughout the country indicate regular demand for tourism-related subjects. Aggregated, these characteristics discourage supply bottlenecks with regard to human capital.

- **Engaged Small Business Development Center.** St. Lucia's Small Business Development Centre (SBDC) was established in 2014 to assist small and micro-sized businesses operating on the island. The SBDC's mandate is to advocate and engage with St. Lucia's smaller businesses, assisting with promotion and identifying funding sources. Many of St. Lucia's enterprises that provide goods or services in the tourism sector reported having received support from the SBDC, suggesting the organization is accomplishing some of its aims.

3.5.2. Constraints

Although the island has strengths and advantages in the cruise sector, there are multiple challenges, some of which have become particularly pronounced in recent years. The most immediate include the lack of strategic agenda. However, all are expounded upon in the sub-section that follows.

- **Lack of strategic initiatives focusing on cruise tourism.** St. Lucia's tourism officials have lamented the absence of a strategic agenda focused on the sector for some time (St. Lucia News Online, 2016). While the SLTA, SLASPA and Ministry of Tourism provide St. Lucia with an institutional foundation, there have not been any prominent initiatives launched in more recent years (Field Research, 2018).[24] Without a comprehensive industry master plan or a clear vision emanating from critical stakeholders, any coordinated steps taken by stakeholders across the value chain have been limited with minimal top-down direction. Interviews with officials indicated there was not consensus or clarity on important considerations such as infrastructure improvements and incentive regimes.

- **Underdeveloped and overlapping institutions.** The lines of demarcation surrounding public-sector institutions with interests in the cruise tourism sector are not always clear. There are multiple examples. Pointe Seraphine and its shops are operated by Invest St. Lucia, yet across the port, the duty-free shopping at La Place Carenage is controlled by SLASPA. Despite government agencies ultimately managing each site, both view each other as competitors. Another is the fact the NCA has been moved from under the Ministry of Tourism's purview to the Ministry of Equity, Social Justice, Empowerment, Youth Development, Sports and Local Government, despite the fact the NCA provides substantial goods and services for visitors. Some private sector organizations and associations also report difficulty in collectively communicating concerns to appropriate stakeholders, with a perception in some quarters that the Ministry of Tourism was unresponsive.

- **Minimal product diversity and unfavorable impressions of existing experiences, especially when compared to the opinions of stay-over tourists.** Many domestic businesses highlighted the need for St. Lucia to diversify its existing tourism products (Field Research, 2018). While individual companies have had successes, the country is still largely reliant on its beaches and the Piton region. Moreover, cruise customers' impressions of existing experiences are poor, at least when compared with the opinions of stay-over visitors. Only 48% of cruise passengers indicated they would be willing to return to St. Lucia for a land-based vacation in the next three years while 62% would recommend the island to friends or family (BREA, 2015a). Stay-over guests, by comparison, are overwhelming satisfied and would recommend the island—only 6% were disappointed with their visits and 90-94% would speak highly of the location. There are more troubling data points. The

[24] There was an industry master plan drafted in 2004. The government had issued a Request for Proposals for a Sustainable Tourism Plan in March 2018 that is being financed by the World Bank. The Ministry of Tourism did publish a National Tourism Transportation Policy framework document in 2013. There have been a small handful of other studies that have provided detailed assessments of St. Lucia's tourism sector, although few of these documents have been published in the last 8-10 years.

average amount spent by cruise passengers on food and beverage is less than half the regional average (BREA, 2015b). Additionally, St. Lucia's rankings in local transportation, shopping experience, shop variety and quality of purchased tours were all amongst the lowest in the region (BREA, 2015a). Aggregated, the low metrics associated with cruise tourism contrasted with the favorable impressions of overnight guests suggests the areas most frequented by cruises passengers (Castries, beaches) are in need of re-invigoration.

- **No expansive home port arrangements.** While one or two of the smaller cruise companies do embark and disembark in St. Lucia, the major companies do not have packages that begin or end on the island, thereby depriving the country the opportunity to benefit from stay-over visitors. Since the selection of home ports is predicated on efficiently transporting passengers from airports to seaports, the location of Hewanorra International Airport on the southern tip of the island is a major obstacle. More than likely, St. Lucia would need to construct a new deep-water port at Vieux Fort in order to be competitive as a home port.

- **Infrastructure constraints.** While the distance between the airport and the port at Castries limits the potential for St. Lucia to serve as a home port, domestic businesses highlighted the need for improved roadways as a more immediate priority (Field Research, 2018). During the winter months when there is high volume of cruise passengers, multiple stakeholders reported traffic congestion and minimal secondary roads that limit the ability of tour operators to plan trips to different portions of the island. Furthermore, the relatively low opinion of St. Lucia from cruise passengers as well as the low passenger spend on found and beverage suggests dissatisfaction with the environment in Castries.

- **Aggressive vendors damage perception of St. Lucia's hospitality.** St. Lucia has a workforce that regular engages with the tourism industry (see Advantages). Although that can lead to an ample supply of labor, the island's economic dependence on tourism can promote an aggressive in vendors and service providers that impairs the overall perception of the country's hospitality. Multiple stakeholders noted this characteristic in interview, an observation that is corroborated by St. Lucia's low scores in "friendliness" and "courtesy" metrics (BREA, 2015b).[25]

- **Environmental vulnerabilities.** Much of St. Lucia's appeal centers on its natural resources. Part of the NCA's mandate is maintaining and cleaning key sites such as beaches; while the organization has employees spread on 25 sites throughout the country, its resources are limited, and individuals at different sites report varying levels of effectiveness (Field Research, 2018). Additionally, there are only limited amount of supporting systematic strategies for maintaining the island's natural allure. Despite some efforts by the government, recycling and waste programs in the country are not expansive (St. Lucia National Trust, 2014; Te-Hsin Tsai, 2013).

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[25] St. Lucia ranked 27^{th} out of 35 Caribbean destinations for the friendliness of its residents and the courtesy of store employees, according to surveys conducted in the 2014/15 cruise season (BREA, 2015a).

4. Lessons in Upgrading in the Cruise Tourism GVC

As St. Lucia seeks to improve its competitiveness in the cruise tourism GVC, countries from the Caribbean region provide tangible examples of success. Upgrading has taken various forms in different countries. Because tourism composes diverse niches, there is no single trajectory or pattern. The multi-sectoral nature of tourism allows for multiple upgrading paths to be pursued simultaneously. Some avenues are more accessible based on the global arrangement of the sector and local capabilities. Domestic policies, access to international markets via tour operators and travel agents, human capital, and a strong brand all help determine country-level tourism success. Table 11 summarizes the key upgrading trajectories that have been pursued by countries in the cruise tourism GVC.

Table 11: Selected Upgrading Strategies in the Cruise Tourism GVC

Upgrading Trajectory	Description
PRODUCT UPGRADING	Improving the tourism offerings to make a country more attractive for cruise lines and cruise passengers. Investments in infrastructure, specifically port infrastructure, are common strategies. Strong private/public coordination between cruise companies and governments is key for a successful product upgrading. *Example:* St. Maarten completed the construction of a second pier in 2009 to support larger ships. The project was developed and financed by a partnership between cruise lines and the Harbour Group of Companies (Port St. Maarten).
PROCESS UPGRADING	Improving efficiency in the production system of cruise tourism results in increasing passenger and crew onshore visits, as well as passenger, crew and cruise lines expenditures. It can involve designing attractive incentive schemes for cruise lines and visitors, implementing innovative methods of processing passengers (for example, expediting arrival procedures) or strengthening coordination among stakeholders amongst others. *Example:* In 2013, Puerto Rico launched the "Puerto Rico Cruise Industry Promotion and Development Act." It featured several incentives packages to boost the sector: 1) Tariff incentives to cruise lines that manage passengers and home port in the country; 2) Cash incentives for time in port; 3) Incentives for purchases of goods and services; and 4) Incentives for tour transportation providers (Business Puerto Rico, n.d.)
CHAIN UPGRADING	Chain upgrading entails moving into or creating strong linkages with other industries. In the Caribbean, the cruise ship industry has developed strong linkages with the rum industry. *Example:* The Rum Renaissance Caribbean Cruise offers a seven-day journey through the Eastern Caribbean, departing from San Juan (Puerto Rico) and visiting other five destinations (St. Maarten, St. Kitts, Antigua, St. Lucia, Barbados). These countries offer full "rum experience," offering packages where passengers visit rum distilleries and sugarcane facilities, plantations and museums (Dreisinger, 2014)

Source: Authors.

4.1. Case Studies

This section examines the upgrading experiences of two countries: St. Maarten and St. Kitts & Nevis. Each represents a successful case of upgrading trajectories in the industry. St. Maarten ranks first amongst 35 Caribbean destinations in terms of average expenditure per passenger, total passenger expenditures, and total tourism expenditures. St. Kitts & Nevis has dramatically increased its passenger onshore visits in the last decade and, despite its relatively small size, ranks in the top 10 in the region in average passenger expenditure (see Table 12).

Table 12: Profiles of Cruise Tourism in St. Lucia, St. Maarten and St. Kitts & Nevis

Destination	St. Lucia		St. Maarten		St. Kitts & Nevis	
Indicator (Value/Rank)	**Value**	**Rank**	**Value**	**Rank**	**Value**	**Rank**
Passenger Onshore Visits (thousands)	603	**13**	1,854	**3**	676	**11**
Average Expenditure per Passenger (US$)	78	**17**	191	**1**	111	**8**
Total Passenger Expenditures (US$ millions)	47	**13**	355	**1**	75	**9**
Crew Visits (thousands)	107	**10**	377	**3**	94	**12**
Average Expenditure per Crew (US$)	45	**20**	119	**2**	42	**25**
Total Crew Expenditures (US$ millions)	5	**11**	45	**2**	4	**15**
Cruise Lines Expenditures (US$ millions)	5	**18**	23	**8**	5	**19**
Total Tourism Expenditures (US$ millions)	57	**15**	423	**1**	84	**10**
Total Employment	1,422	**14**	9,259	**2**	1,263	**16**
Total Employee Wage Income (US$ millions)	12	**13**	189	**1**	11	**14**

Source: BREA, 2015a. **Note:** 2014/15 cruise season.

Both St. Maarten and St. Kitts & Nevis also rank highly in visitors' satisfaction in different indicators. For instance, while St. Maarten ranks first in happiness with shopping experience and second in probability of returning for a land-based or resort-vacation, St. Kitts & Nevis ranks third in overall satisfaction and quality of historic sites and museums and fifth in whether the visit met expectations, well ahead of St. Lucia in both indicators.

When analyzing different prospective paths for upgrading for St. Lucia in the cruise tourism GVC, the steps that both St. Maarten and St. Kitts & Nevis offer insights on how to increase economic returns from the industry. The key takeaways from each location include:

- St. Maarten made critical **product upgrades** through capital investments to its port infrastructure and surrounding areas through partnership agreements between cruise companies and government organizations

- St. Kitts & Nevis made **process upgrades** that drove **product upgrades,** allowing the country to boost the average passenger expenditure by close to 100% in the decade from 2005/06 to 2014/15.

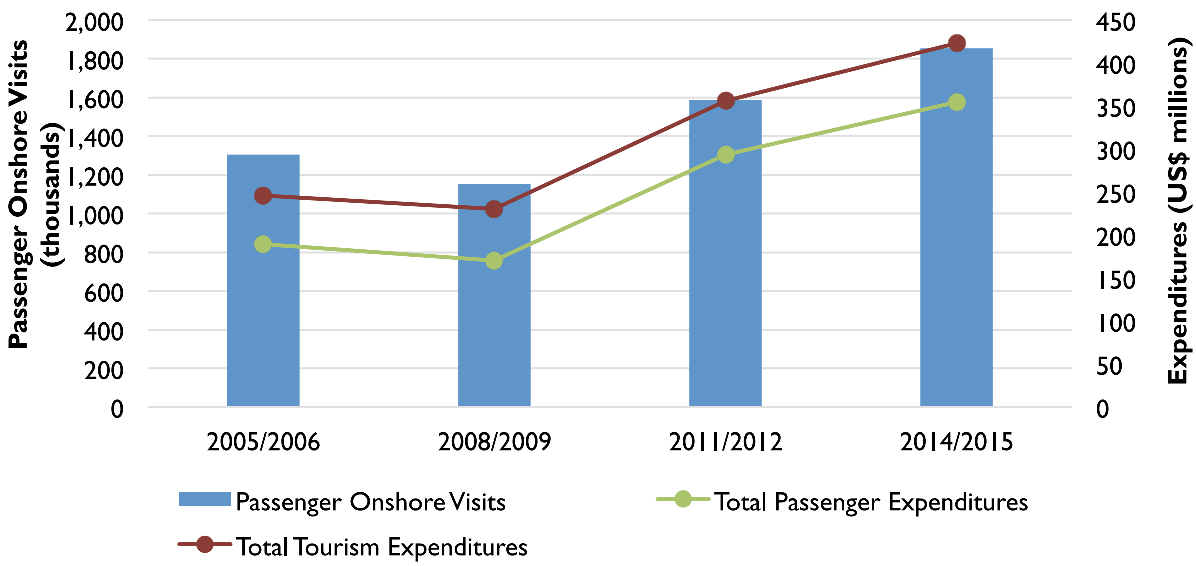
Further analysis about the strategies each destination has used is discussed in the sections that follow.

4.1.1. St. Maarten

Supported by several public-private investments, the cruise industry has been a major pillar of St. Maarten's development, especially since the country opened its first deep water port in 2000. The sector has a broad economic footprint, providing an estimated 9,259 jobs in 2014/2015 (66% more than in 2005/2006) and generating the second highest total expenditure among the Caribbean´s destination (US$45 million). As a result, St. Maarten ranks first in the Caribbean in terms of direct cruise tourism expenditures, with nearly US$423 million in the 2014/2015 cruise year.[26] It was also third in passenger onshore visits (1.85 million) after Bahamas and Cozumel.

St. Maarten offers a range of products to appeal to diverse groups of travelers. The island has built a reputation as a duty-free destination, with arts and crafts, jewelry and international brand clothing options (St. Maarten Harbour Group, 2003). Visits from passengers generated an average total expenditure of US$355 in 2014/15, which is the highest average in the Caribbean, accounting for 14% of total passenger spending in the region. The country also ranks first in per passenger expenditures, with US$191 per visit, second in average expenditure per crew visit (US$119) and third in number of crew onshore visits (roughly 377,000) (BREA, 2015a).

Figure 5: Economic Profile for Cruise Tourism in St. Maarten



Sources: BREA, 2006, 2009, 2012, 2015a.

St. Maarten's organized tours also attract interest. An average of 52% of all passengers purchased shore excursions in the 2014/2015 cruise year (BREA, 2015a). The majority were purchased from the cruise line (72%), while 15% purchased their tour directly from local tour operators and 13% bought their tour through a travel agent or some other means (BREA, 2015b). Aggregated, the vibrant individual segments of the cruise value chain in St. Maarten promote spillovers into more traditional leisure tourism and functional upgrading. In the 2014/2015 cruise season, 62% of visitors said they were likely to return to the island for a land-based or resort vacation, which was the second-highest ranking in the region (BREA, 2015a). From 2005/06 to 2014/15 passenger and crew onshore visits increased by 42% and 26%, respectively, while average expenditure per passenger grew from US$145 to US$191 (see Figure 5 above). The higher passenger expenditures supported increases in the total number of jobs (up 66% in the period from 2005/06) and wages (up 90%); overall, St. Maarten ranks first in the Caribbean in income impact and the second highest employment impact (BREA, 2015a).

[26] Direct cruise tourism expenditure is made from passenger, crew and cruise lines expenditures.

Upgrading Trajectories and Policies

St. Maarten's entry and upgrading in the cruise tourism GVC took place after significant capital investments and attention to the sector from the government. Broadly, three upgrading trajectories can be observed: 1) *Product upgrading,* with the construction of various infrastructure improvements; 2) *Process upgrading,* with establishment and strengthening of agencies and other bodies designed to enhance visitors' land-based experiences; and 3) *Functional upgrading,* with the development and exports of IT services related to the cruise and tourism industry. The following section explores the development of the St. Maarten industry in greater detail, providing relevant details on government policy that supported the upgrading.

- **Product upgrading with construction of various infrastructure improvements.** St. Maarten opened its only deep-water port in 2000.[27] Nine years later, the island completed significant investments in a second pier and the development of a successful waterfront boardwalk and pedestrian shopping district. The project started in 2002 when the cruise lines operating in St. Maarten partnered with the government owned company Port St. Maarten Harbor Group of Companies (PSGC) and co-financed the second pier, which now accommodates the largest cruise vessels in the world.[28] The St. Maarten Harbour Group of Companies invest not only in the port itself, but also in its surrounding community—in 2013, the group finalized the construction of the Simpson Bay Lagoon Causeway, a US$50 million bridge built over an adjacent lagoon to alleviate traffic congestions for tours and improve the area that surrounds the main street of the island. The causeway was also built with the intention of lessening the impact of the cruise industry operations on the environment.

- **Process upgrading with establishment and strengthening of agencies, instruments and other bodies designed to enhance visitors' land-based experiences.** The construction of the second pier was accompanied by the installment of two booths for passenger screening, which expedites passenger disembarking. These developments enhance St. Maarten's ability to maintain long-term business relationships with major cruise lines while also nurturing cooperation between local stakeholders and global companies. More recently, the government established in 2016 the St. Maarten Tourism Authority (STA). The organization consists of a board with industry representatives and supervisory council whose main responsibilities are destination marketing and product development (St. Maarten Today, 2016). STA's primary purpose is to assist temporarily in carrying out the tourism policy of the Government of St. Maarten as a tourist destination; to support the growth of St. Maarten's land- and sea-based tourism by providing the public and private sectors with focused, sustainable and productive marketing; and to enhance overall visitor experience. In addition, the St. Maarten port launched a survey of customer satisfaction in 2017 to better understand at a local level what is important to the customer and enhance destination experiences.

- **Functional upgrading with the development and exports of IT services related to the cruise and tourism industry.** The upgrading in the cruise tourism GVC of St. Maarten has been further accomplished by the development and implementation of the GLS software at St. Maarten's cargo handling in cooperation of a Dutch-based IT firm, which led to the birth

[27] Unless otherwise cited, the information in this section has been retrieved from the Port St. Maarten website: http://www.portstmaarten.com/.

[28] The PSGC is a wholly government-owned group of companies, which owns and operates a diverse range of maritime-related facilities across the island.

of the SMHC Consultancy Company. This firm provides the Caribbean area with port consultancy software and services, such as fueling operations and terminal management, as well as skill outsourcing of St. Maarten's highly trained mechanics to other regional ports having similar equipment, which entails services exports.

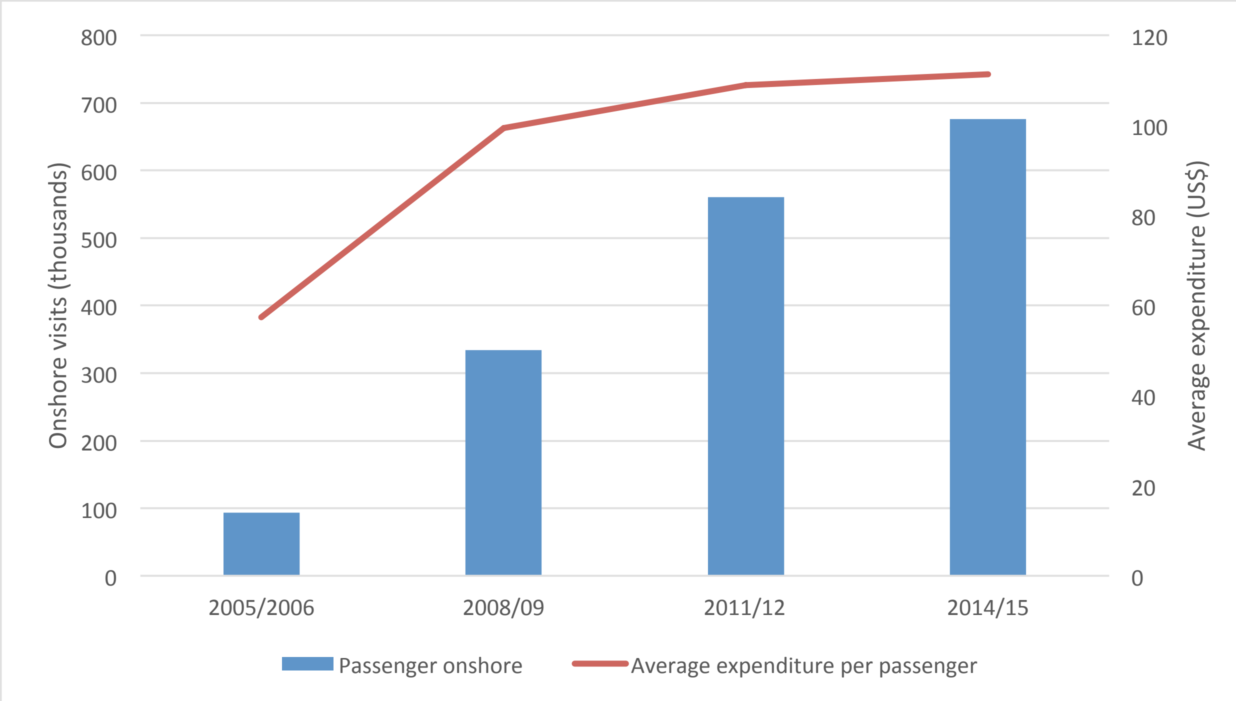
Port St. Maarten is prepared to handle larger sized-vessels that cruise companies are adding to their fleets (see Global section). Additionally, the St. Maarten Port will develop a new attraction and expand both shopping and dining facilities to include more refined offerings; it will be constructed on 14,000 square meters and include cobble stone streets, water gates and bridges, as well as an authentic windmill. There will also be a fashion outlet with four stores, a trade house with five shops, an arts and crafts and building with ground floor shopping, a first-floor restaurant and a bar and lounge on the second floor, a chapel and an ocean side restaurant. The project is estimated at US$40 million and it will be financed by the private developers of the Blue Mall and St. Maarten Port Services, as well as by stores involved in the project (St. Maarten Today, 2016).

4.1.2. St. Kitts & Nevis

St. Kitts & Nevis has been following a steady upward trajectory in the cruise tourism GVC as measured by metric such as visitor arrivals and average passenger expenditures. In the 2005/06 cruise season, 93,800 passengers came ashore on the island, spending an average of US$57.4 per person. Cruise tourism's total contribution to the economy was US$6.7 million (BREA, 2006). By the 2015/16 season, the number of cruise passengers visiting St. Kitts & Nevis had increased to 676,500 while the average expenditure had jumped to US$111.3 per passenger (BREA, 2015a). Figure 6 below charts St. Kitts & Nevis' improvement.

Part of the improvement can likely be tied to passengers' happiness with the country's tourism products. According to a survey conducted in the 2014/15 cruise season, the island ranks among the top five in the Caribbean in overall satisfaction (third), shopping experience (third), satisfaction with historical sites or museums (fourth) and overall ability to meet expectations (fifth). By comparison, St. Lucia ranks 22nd, 28th, 18th and 21st.

Figure 6: Economic Profile for Cruise Tourism in St. Kitts & Nevis



Source: BREA, 2015a.

Upgrading Trajectories and Policies

St. Kitts & Nevis' booming cruise tourism industry has been nurtured by its government and a web of domestic and international stakeholders. Critical steps included the formation of tourism sector strategy that identified a series of recommendations for making the country more competitive. More recent steps include converting old sugar mills into heritage sites throughout the island, improving critical port infrastructure and engaging with critical international actors. The ensuing section presents a short study of St. Kitts & Nevis' upgrading strategy. Broadly, there are three upgrading trajectories that can be observed: 1) *Process upgrading*, with pursuit of strategic initiatives through institutional collaborations; 2) *Product upgrading*, with planned infrastructure improvements; and 3) *Product upgrading*, with the conversion of sugar mills into tourist sites and attractions. Each is outlined below.

- **Process upgrading with pursuit of strategic initiatives through institutional collaborations.** Government stakeholders in St. Kitts & Nevis have pursued a variety of efforts to help give the tourism sector a strategic agenda. The Ministry of Tourism and the Tourism Authority developed a comprehensive plan for the industry in 2006 that included a partnership with the United Kingdom's Department for International Development and the OTF Group (an outside consultant) to formulate a strategic plan. That document generated recommendations that fell into five categories: 1) Product development; 2) human resources; 3) marketing; 4) environment and; 5) strategic alliances (OTF Group, 2006). It also included specific steps to boost the cruise visitor experience, including an emphasis on building stronger relationships and partnerships with cruise lines, promoting its products more expansively and providing onshore concierge services.

St. Kitts & Nevis appears to have followed many of these prescriptions. Specifically, the engagement with cruise lines and cruise stakeholders has been strong. The country's tourism minister has been proactive in visiting critical trade shows to showcase St. Kitts' attractions (Kalosh, 2015). The FCCA—the industry trade group that represents cruise companies—partnered with the Ministry of Tourism in 2016 to host workshops on the island (Times Caribbean, 2016).

The emphasis on strategic initiatives has continued in more recent years and led to product upgrades (see following bullet). The country's tourism authority has been aggressive in protecting natural resources to serve as attractions for both the local population as well as cruise visitors through the National Conservation and Environment Protection Act (Roberts et al.). The government offers incentives and other mechanisms to preserve natural and cultural heritage, promote biodiversity conservation while also encouraging water conversation and energy efficiency. St. Kitts Tourism Authority has also been empowered to monitor adherence to these regulations through the country's Product Standards Department, which falls under its purview.

Another example of the country's institutional commitment and strategic agenda has been the Ministry of Tourism partnership with Sustainable Travel International. The collaboration has led to at least three outcomes: 1) the creation of a Sustainable Tourism Forum through funding provided by Royal Caribbean; 2) the formation of a sustainable tourism council designed to advance sustainable development through collaborations between the Ministry of Tourism, the Chamber of Industry and Commerce, the Department of Marine Resources, Bureau of Standards, and Water Services Department and others; and 3) the launch of the Heart of St. Lucia Sustainability Charter and Foundation, which attempts to identify local businesses committed to sustainability and establish a metric for evaluating performance (Sustainable Travel International, 2017). The effort has partially led to the development of attractions that utilize infrastructure associated with the sugar industry, converting them into tourism attractions (see Functional Upgrading bullet below).

- **Product upgrading with infrastructure improvements.** This upgrading trajectory is still in progress; however, St. Kitts & Nevis has dedicated substantial resources to improving its port infrastructure. The government finalized an agreement with the Canadian Commercial Corporation in late 2017 for construction of a second pier. The new berth will allow the island to increase its capacity to handle large ships and should be completed by 2019 (St. Kitts & Nevis Information Service, 2018).

  The project is projected to cost US$48 million and is being financed through a variety of local stakeholders. The St. Kitts-Nevis-Anguilla National Bank (US$34 million), the St. Kitts & Nevis Social Security Board (US$7 million), the St. Kitts & Nevis Sugar Industry Diversification Foundation (US$5 million) and the St. Kitts & Nevis Trading and Development Company (US$2 million) all contributed funds (St. Christopher Air & Seaport Authority, 2017). The Canadian Commercial Corporation is serving as the prime contractor.

- **Product upgrading with conversion of sugar facilities and infrastructure into tourist attractions.** St. Kitts & Nevis' colonial history included widespread sugar production. While the industry functioned as the economic backbone for a prolonged period, the island is no longer competitive in the sector. After the potential for the integration of sugar infrastructure into the tourism industry was highlighted (Dodds & Jolliffe, 2012), the Heart of St. Lucia Sustainability Charter and Foundation—which was launched as part of the government's partnership with Sustainable Travel International (see Process upgrading above)—has prioritized converting sugar railways into hiking and biking trails that can be used by tourists (Sustainable Travel International, 2017). The trails also provide access to plantation ruins, which are featured in the shore excursion offerings of major cruise companies and as part of the St. Kitts Tourism Authority's marketing platforms.

5. Recommended Upgrading Trajectories for St. Lucia

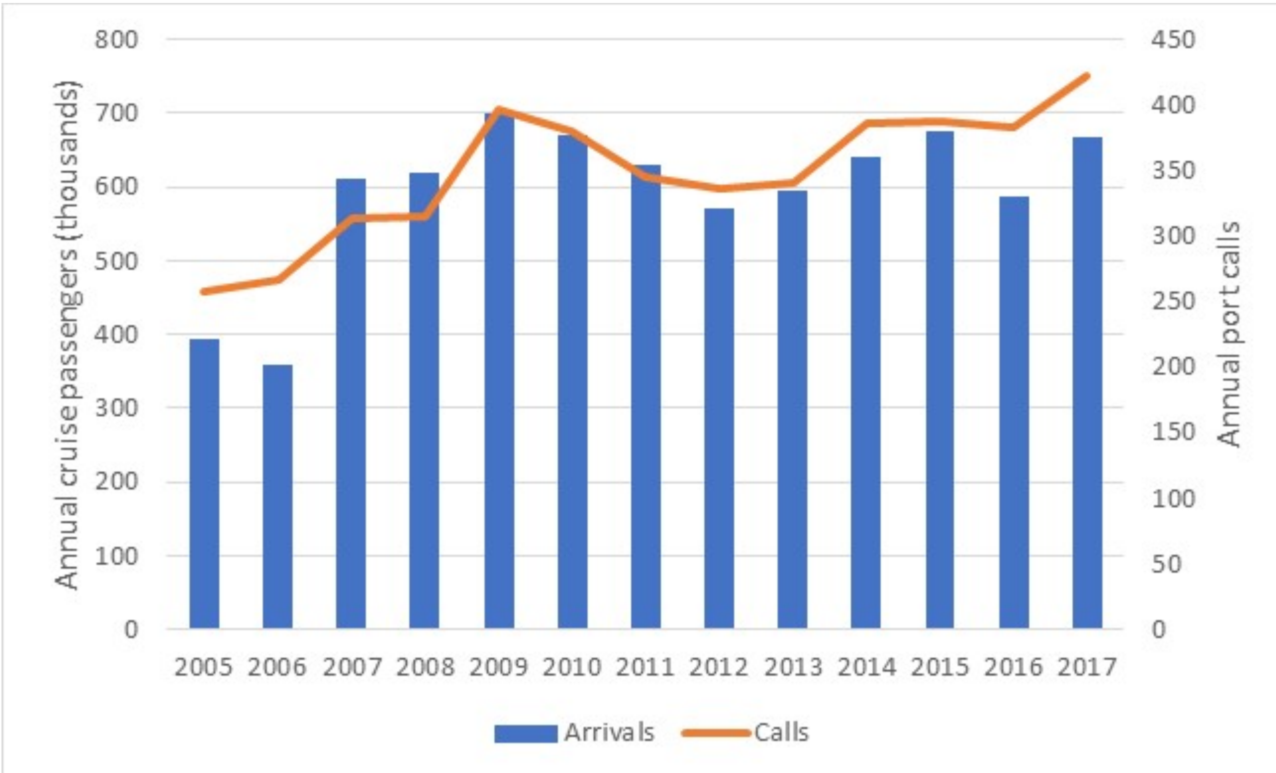
St. Lucia's upgrading path in the cruise tourism GVC can follow some of these examples. It is worth accentuating that upgrading in tourism is rarely linear; the government can pursue multiple strategies at the same time. The overarching goal of these efforts is to increase both passenger arrivals and expenditures, thereby providing increased economic benefits for small businesses. The most immediate upgrading trajectories that will accomplish these aims include:

3. **Short-Term Process Upgrading to Strengthen SME Capacity in Cruise Tourism:** St. Lucia's supply chain has relatively established links with cruise companies, with three categories of businesses most often interacting with passengers: 1) Tour operators; 2) vendors; and 3) taxis. While there have been smaller-scale initiatives to bolster the capabilities of businesses in those areas, with the Ministry of Tourism and the SBDC often playing a coordinating role, there is room for coordinated strategies moving forward to bolster the capabilities of St. Lucian businesses with the goal of increasing backward linkages between the cruise sector and the local economy. Both passengers and cruise companies have indicated there is a clear need for St. Lucia to refresh its onshore experiences, with food and beverage, shopping and tour offerings all trailing in customer satisfaction metrics. The SBDC, the NCA and the Ministry of Tourism can all be active participants. The government and other stakeholders can concentrate on different strategic areas, including the following: 1) Human capital development among service provides (vendors and taxis); 2) Facilitation of greater coordination between SMEs and cruise companies.

4. **Short-to-Medium Term Product Upgrading to Improve Existing Infrastructure around Castries and Surrounding Areas:** The US$18.8 million capital improvement to improve the berthing capacity at the port in Castries was a useful step. There are, however, still infrastructure constraints that limit St. Lucia's competitiveness in the cruise sector. Roads in the country are crowded and narrow, reducing options during busy periods. The port area is also aesthetically limited, with the Vendor's Arcade and areas around La Place Carenage not particularly inspiring. Stakeholders also report that facilities at existing beach attractions could be improved. If St. Lucia aspires to become a home port for the major cruise lines and increase spillovers into the conventional (stay-over) tourism value chain, the construction of a port closer to the airport would be required. The benefits would have to be weighed against the costs; from an SME perspective, the possible new opportunities available to SMEs in the southern part of the country would need to be balanced against potential damage to stakeholders in the northern regions.

6. Appendix

Figure A-1: Cruise Arrivals and Port Calls in St. Lucia, 2005-2017



Source: SLTA.

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