

## Doing Business in International Waters

Given the nature of its business, it should come as no surprise that Carnival—indeed, the whole cruise-line industry—is international in scope. Take the nationality of competitors. Companies can obtain so-called *flags of convenience* from about 30 different countries. Here's how the process works. By registering as, say, a Liberian legal entity, a company can take advantage of lower taxes and less stringent employment rules. Legally, Carnival is a Panamanian company, even though it's listed on the New York Stock Exchange, has operating headquarters in Miami, and caters mainly to passengers who set sail from the United States. Although cruise-line revenue is subject to neither Panamanian nor U.S. income taxes, Carnival does have to pay substantial “port fees” wherever its ships drop anchor.

Only a few cruise-line offerings—such as excursions along the Mississippi River, around the Hawaiian Islands, or among the Galapagos Islands—can be characterized as purely domestic. Even trips from the U.S. West Coast to Alaska are “international” because they stop in Canada. By far the most popular destination for cruise passengers is the Caribbean/Bahamas, largely because the area boasts balmy weather year round. During summer months, Carnival shifts some of its ships from Caribbean/Bahamas to Alaskan and Mediterranean routes.

Obviously, cruise ships go only where there are seaports, but Carnival cooperates with (and owns some) tour operators who provide almost 2,000 different onshore excursions (for additional fees). Carnival estimates that half its passengers to the Caribbean take shore excursions to such sightseeing attractions as the Mayan ruins in Belize. Passengers on Carnival's Princess Lines, which serves Alaska, can helicopter to a glacier for a little dogsledding.

## What It Takes to Operate a Cruise Line

### Ship Shopping

Not surprisingly, ships constitute the biggest investment for cruise lines. Shipyards in several countries—including Finland, France, Germany, Italy, Japan, and South Korea—are capable of building ships that meet cruise-industry needs. To add to its global fleet, Carnival secures bids from all over the world. Because shipbuilding employs so many people and uses so much locally produced steel, governments often subsidize the industry—a practice that works to the benefit of the cruise-line industry by offering less expensive prices for ships. For instance, the Italian government awarded the shipyard Fincantieri about \$50 million in subsidies to build five ships sold to Carnival for \$2.5 billion for a 2010 and 2011 delivery.

### Where to Find Able-Bodied Seamen

Shipping companies—including cargo and cruise lines—scour the world for crew members who not only can perform specialized tasks but who are properly certified (by international agreement, a registered crew member can enter virtually any port in the world). Cruise lines, of course, have special staffing needs—notably, crew who can interact with passengers. About a third of all the world's ship crews are from the Philippines, not only because of reasonable labor costs but because Filipinos are generally fluent in English. On a typical Carnival ship, crew members hail from over 100 countries, and Carnival maintains a range of employee-training programs, including instruction in English as a foreign language.

### Casinos and Other Amenities

Although Carnival has thrived with the concept of informal cruises for a mass market, each of its cruises offers one or two formal nights per week; theme-based dinners centering on national cuisines; a variety of musical entertainment, games and contests; and spas and athletic facilities. Because cruises operate outside the jurisdiction of any national authority, they're not subject to any national laws restricting gambling. Casinos, therefore, are onboard fixtures.

Passengers can also shop for merchandise from all over the world. Indeed, art dealers occasionally hold shipboard auctions and seminars, and one dealer sells about