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# Memorandum

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FEDERAL MARITIME COMM

**TO** : Secretary **DATE:** May 19, 2003

**FROM** : Commissioner Won

**SUBJECT** : Meeting with representatives of Norwegian Cruise Line regarding Proposed Rulemaking in Docket No. 02-15

On Thursday, May 15, 2003, at the request of Norwegian Cruise Line (NCL), I met with company representatives to discuss the Notice of Proposed Rulemaking in Docket No. 02-15 (NPRM) to amend the Commission's rules relating to passenger vessel financial responsibility requirements under Public Law 89-777. Participating in the meeting on behalf of NCL were Colin Veitch, the President and Chief Executive Officer, Robert Kritzman, the Senior Vice President and General Counsel, and William Myhre of Preston Gates Ellis & Rouvelas Meeds LLP, counsel to the company. This memorandum summarizes the substance of those conversations and is submitted for the record pursuant to procedures outlined in the April 3, 2003 notice extending the comment period in this docket.

By way of background, the meeting began with a brief discussion of the history and development of the North American cruise industry focusing on the changes that have occurred since the original statute was enacted in 1966, the same year that NCL began operations in the Caribbean. Mr. Veitch summarized how the industry has grown, including the consolidation of the major players that now defines the current industry size and structure. He also explained the dramatic increase in the use of credit cards by cruise passengers and the inherent consumer protections available to them as a result. He noted that the Commission bonding requirements have worked well to protect passengers against the "fly-by-night" operators that had prompted enactment of the statute in the first place.

Mr. Veitch outlined the likely consequences to the industry if the Commission's regulations were amended as proposed in the NPRM. He explained that the proposal to lift the current ceiling on coverage would in effect remove hundreds of millions of dollars of working capital from the industry. He stated that it would not significantly increase the protections available to passengers because of the combination of the very high percentage who use credit cards together with the protections of the existing bond requirements, adjusted upwards to reflect inflation. Mr. Veitch explained that the proposed rule would have a significant negative impact on the industry by effectively requiring an overnight financial restructuring that would provide a competitive advantage to the largest company while disadvantaging its competitors. There was a specific discussion of the particular impact of the proposed rule on NCL.

There was additional discussion of the widespread use of credit cards in purchasing cruise travel, and mechanics of how credit card purchases work. In particular, we discussed the relationship among the underlying financial institution, the credit card issuer and the cruise line. We discussed the risk assessment analysis made by the credit card issuer and the potential for redundant coverage that could result from the imposition of the proposed rule. The discussion focused on the breadth of protection available to passengers using credit cards and how, in practice, such protections are not limited to purchases made within 60 days of sailing.

The meeting concluded with a discussion of the considerations facing the Commission, including how best to undertake the risk analysis with respect to individual companies, and the challenge of striking the right balance between providing adequate protection for passengers while not requiring redundant coverage or otherwise forcing an inappropriate financial burden on the cruise lines.

Delmond J. H. Won