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Passenger Vessel Financial Responsibility – Notice of Inquiry

Comments of Ann Miller on Behalf of Crystal Cruises

INTRODUCTION

Mr. Chairman, Commissioners, I am Ann Miller and I am appearing today on behalf of Crystal Cruises. Gregg Michel, Crystal Cruises' President, had hoped to appear today but pressing business matters have precluded him from doing so. Crystal Cruises appreciates the opportunity to appear before you this morning to talk about the financial responsibility requirements for passenger vessel operators.

Crystal Cruises, which initiated service in 1990, is a, two-ship cruise line that offers itineraries worldwide. Our offices are in Los Angeles, California. Crystal Cruises offers a luxury cruise experience to a limited number of guests; 940 and 1,080, respectively on its two vessels: Crystal Symphony and Crystal Serenity. Crystal Cruises is a member of the Cruise Lines International Association (CLIA).

Summary of Crystal's Position

Crystal Cruises is fully supportive of the position taken by CLIA in this Notice of Inquiry. CLIA's membership is diverse, including lines both large and small. Crystal Cruises is one of the smaller lines. We do not wish to repeat the testimony to be provided by CLIA today but to supplement it with comments of how a company in our position would be affected by an increase in the current financial responsibility cap.

Crystal Cruises asked to testify today because of its position relative to the current \$15 million cap. Crystal Cruises falls both above and below the cap – depending upon the season and where its ships are embarking passengers. While Crystal Cruises is not advocating that the cap be eliminated, it is opposed to increasing the cap. It is our position that any increase in the cap could have a negative economic impact on our company and our guests without providing meaningful additional protection.



Historically, the Commission has determined that the amount of a line's unearned passenger revenue is a justifiable means of determining its ability to perform and, therefore, the amount of security necessary to ensure against nonperformance. The Commission's basis for drawing a distinction based on a company's size has been that many of the lines that have failed in the past have been small companies. While Crystal Cruises is a small company, it is a financially sound company. We are small by choice. We have created a luxury niche market.

As a small company, however, we are much impacted by cost increases. Such increases would add only nominal additional protection for passenger deposits while having a negative impact on our company. An increase could negatively impact the consumer if such increases were passed on to them in the cost of their cruise ticket. The timing of any increase in the cap would be harmful as well, putting more pressure on an industry that is beginning to turn around from the effect of the economic downturn.

While I do not want to repeat what CLIA is testifying to today, I would like to make a few comments on some of the points that CLIA makes. First of all, passengers are afforded protections today that were not in place when the financial responsibility requirements were first passed by Congress. At that time, there were no credit card purchases, and, therefore, no protection of deposits under the Fair Credit Billing Act. The very use of credit cards as a customary form of payment has grown significantly since then and accounts for over 90% of Crystal Cruises' business. This fact alone has added additional merchant fee transaction costs of 2-3% of cruise sales. Today, certain cruise tickets purchased with a credit card may be reimbursed to the purchaser by the credit card issuer. In addition, the Bankruptcy Code gives priority to cruise passengers up to \$2425. These are very real means of protection for the cruising public and provide additional layers of coverage in the unlikely event of nonperformance by a cruise line.

While the current regulatory regime may not be ideal for Crystal Cruises, we are able to operate within its parameters. Furthermore, the Commission's existing financial responsibility requirements are serving their intended purpose - that is, ensuring adequate protection of passenger deposits while limiting the negative impact on the industry.

We appreciate that the Commission has a statutory responsibility to ensure that cruise lines embarking passengers in the United States file evidence of financial responsibility to indemnify passengers for nonperformance. We also understand that you have the discretion to determine the adequacy of that evidence. You have determined, based on your agency's experience and expertise, how best to meet those statutory obligations and it has worked. To our knowledge, no passenger has ever lost his or her deposit due to nonperformance of a cruise



line. We respectfully request that you do not take any action that could disrupt this balance by increasing our cost of compliance or reduce our competitiveness.

Thank you for the opportunity to appear before you today on behalf of Crystal Cruises. I am happy to answer any questions you may have for me.