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To: The Honorable David Y. Ige, Chair
and Members of the Senate Committee on Ways and Means

Date: Wednesday, January 30, 2013
Time: 9:00 a.m.
Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. No. 1193 Relating to Section 237-24.3, Hawaii Revised Statutes

The Department of Taxation (Department) strongly supports S.B. 1196 and provides the following information and comments for your consideration.

S.B. 1193 repeals the general excise tax (GET) exemption for liquor, cigarettes, tobacco products, and agricultural, meat or fish products sold to common carriers under Hawaii Revised Statutes section 237-24.3(2).

The intent of General Excise Tax exemptions in section 237-24.3(2) was to benefit Hawaii agriculture by creating a tax incentive for common carriers to purchase foodstuffs from local agricultural producers. However, all reference to locally grown agricultural products were removed in 2003, pursuant to the Hawaii Supreme Court's determination that such an exemption was unconstitutional as a violation of the Commerce Clause of the United States Constitution.

The Department supports repeal of this exemption because its present form does not serve the original legislative intent to incentivize the purchase of agricultural products from local sources. Instead, this exemption provides a broad industry-wide exemption for all common carriers and catering companies serving those common carriers.

Thank you for the opportunity to provide comments.

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NORTH WEST & CANADA CRUISE ASSOCIATION

LATE

January 29, 2013

Testimony to the Senate Committee on Ways & Means
in OPPOSITION to
SB1193 "Relating to Section 237-24.3, Hawaii Revised Statutes"

Aloha Chair Ige, Vice Chair Kidani, and members of the Committee.

Thank you for this opportunity to testify on SB 1193.

I am Greg Wirtz, President of the North West and Canada Cruise Association (NWCCA), a trade association of eleven major cruise lines operating in Hawaii, the Pacific Northwest, Canada and Alaska. Our member lines include the following companies: Carnival Cruise Lines, Celebrity Cruises, Crystal Cruises, Disney Cruises, Holland America Line, Norwegian Cruise Line (incl. NCL-America), Oceania Cruises, Princess Cruises, Regent Seven Seas Cruises, Royal Caribbean Cruise Line, and Silversea Cruises.

Our member lines bring hundreds of thousands of cruise visitors to Hawaii every year, support thousands of local jobs, and per the State's own cruise industry study contribute an estimated $475 million annually to the state's economy.

Today we are here to provide testimony in opposition to SB 1193, which would repeal the GET exemptions for liquor, tobacco, and food sold to common carriers effective July 1, 2013.

For the cruise industry, this would dramatically increase the cost for these items which our member lines, especially NCL-America which is home-ported in Honolulu and cruises the state year-round, procure on a regular basis. We are very concerned as to the impact these additional costs may have on cruise tourism in Hawaii.

Our major concerns are as follows:

1. Like other segments of the travel and tourism industry, the cruise sector is extremely price sensitive.

To a degree never seen before, consumers are considering the total cost of a vacation when making their travel decisions including not only the cost of the cruise, but other costs such as transportation to embarkation ports, shore tours and government taxes and fees.

It has been illustrated in other markets that fee increases can have an impact on cruise traffic. For example, another long-distance destination, Alaska, was dramatically impacted by the introduction of new fees and taxes imposed by the state. Traffic there in 2009/2010 declined by 15% as a result.

Given these difficult economic times, a looming fiscal cliff, and the importance of tourism to Hawaii, now is not the time to levy taxes and increase costs.

2. Our industry has already been assessed large fee increases by the Dept. of Transportation for projects that will be of no direct benefit to us, and more increases are forthcoming.

Our DOT harbor fees increased significantly across the board in 2010 in order to help finance the Harbors Modernization Plan (HMP). None of the HMP projects are of direct benefit to the cruise industry in the form of new piers, passenger facilities, or even repairs on existing cruise facilities. Our passenger fees increased dramatically in July of 2011 and will go up annually in large increments thru 2016. For NCL-America, the primary cruise operator in the state, that first increase was on the order of 140% of the previous fee structure.

What should also be kept in mind is that Hawaii is a very small piece of the global cruise market, barely 1.5% in terms of passenger count. NCL-America has the only large US-flagged cruise ship in the country and has to deal with the associated costs. With respect to international ships, a voyage from the west coast and back requires nine days at sea for four days in the state. These are niche cruises that appeal to a very small segment of the cruising population.

With fuel costs rising again due to the Emission Control Area (ECA) regulations that went into effect last year, and state passenger fees about to rise significantly again this July, we are very concerned that further taxes on our industry could result in Hawaii becoming a less attractive cruise destination and lose market share to other destinations that offer shorter, less expensive itineraries and are more easily accessible.

Thank you for this opportunity to present testimony before your committee.

Regards,

Greg Wirtz,
President