

The Hawaii Boat Industry 2003 –A Survey and Economic Description

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Abstract

The Hawaii tour boat industry generates approximately \$200 million in revenue annually and employs more than 2000 people. Most of the companies that make up the industry are small businesses. They have created badly needed jobs on the Neighbor Islands. Many of these jobs are management positions that pay far above the minimum wage.

The tour boat businesses make their living by providing safe access to some of Hawaii's most beautiful and remote ocean and river areas. Their customers include visitors from around the globe.

Most people lack the expertise or the ocean going vessels needed to visit coral reefs or to see whales in their offshore habitat. The tour boat industry enables taxpayers to see the natural resources they own and pay to maintain. The positive experiences of these visits helps nurture the political will needed to maintain ocean resource management programs in Hawaii and throughout the United States.

What makes much of this possible is day use-moorings. Day-use moorings are stainless steel eyebolts drilled into the coral or rock substrate beneath the sea and set with epoxy. They cause no environmental harm. In time, coral grows over the metal parts and the day-use moorings become a part of the coral substrate. In highly visited Marine Life Conservation Districts (MLCD's) tour boats tie their boats to the day-use moorings and take visitors on snorkel and dive tours of the coral reefs. These trips generally take three or four hours on site. When they are done, they untie their vessels and leave. The moorings enable the tour boats at popular MLCD's such as Molokini Crater and Kealahou Bay to do business.

Prior to the installation of the day-use moorings at Molokini Crater twenty years ago, tour boats were anchored there. Mindful that the steel anchors chipped and damaged the coral, the small business owners within the tour boat industry worked together with State officials from the Hawaii State Department of Land and Natural Resources (DLNR) to outlaw anchoring at Molokini and to install the day-use moorings.

As part of this process, DLNR made the decision, after public meetings with stakeholders, to formally outlaw anchoring. Under the permit system established by the State all those who were in the Molokini trade, at the time the moorings were installed and applied for permits received one. These permits conveyed certain rights to moor that were renewed automatically each year if all fees and taxes were paid. The companies involved were also expected to be in compliance with all DLNR Division of Boating and Ocean Recreation (DOBOR) rules in addition to all state and federal regulations.

With these mooring permits in hand and the reasonable expectation of renewal, the companies were able to obtain financing from banks and to grow their businesses. The rules that Hawaii was establishing at that time were not unique. They followed the same guidelines used in the management of tour boat permits taking visitors to scenic natural resource areas in at least five other states, including Alaska, Colorado, California, New York and Massachusetts.

Over the last twenty years the permits to use these moorings have become essential to the business plans and survival of the companies involved.

Current discussions by the Hawaii State Department of Land and Natural Resources (DLNR) now suggest that the mooring permits at Molokini Crater, Kealakekua Bay and other popular tourist destinations frequented by the tour boat businesses will no longer be renewed automatically. According to DLNR spokesmen, they are to be designated on some other, as yet undetermined basis.

An abrupt policy change of this magnitude on an industry that has been working under the same access to mooring protocols for the last 20 years creates a very unfriendly business environment and threatens serious financial harm. Many of the companies in this industry have high fixed costs. As a consequence, the impacts of these potential DLNR policy changes are already being felt by the industry in the areas of financing and business investment. It threatens the financial stability of hundreds of people and affects home mortgages, tuition payments, retirements and health benefits. It has created a climate of fear.

Cover photo courtesy of Fair Wind Cruises. The image is of the vessel Fair Wind II taken at Kealakekua Bay on the Island of Hawaii.

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Introduction

The beauty of Hawaii's spectacular and unique marine environment attracts visitors from all over the world. There are few places on earth where one can witness live whales in their natural habitat, vibrant coral reefs just beneath the surface of the sea and submerged volcanic craters all within the space of an afternoon. It is the desire to see and experience these rare natural wonders that draws visitors to the Hawaii tour boat industry.

These small boating companies play a vital role in the vacation experiences of millions of visitors to Hawaii, because they provide most of the ocean activities that visitors seek. Tourists want to be active. They want to see and do things. In Hawaii, this important niche is partly filled by tour boat companies that offer visitors safe access to the wonders of the ocean. As the captains and crews of these vessels introduce the ocean and responsible stewardship of the environment to their guests, they help create the special memories that draw many of these same visitors back to the islands time after time.

This industry has grown more than 300% in the last twenty years. In 1984 the value of the Hawaii tour boat industry was estimated at \$50 million.¹ Today, the Hawaii tour boat industry enjoys gross revenues that exceed \$183.5 million and employs more than 2000 people (see Chart 1).

There are approximately 419 tour boat and charter fishing boat permit holders in DOBOR and 65 in the Department Transportation Harbors Division Harbors. Each of the 484 permits represents a vessel that is used either from a harbor or on a ramp for a commercial tourist purpose.¹ At least four are kayak permits and eight of the vessels moored at Manele Small Boat Harbor on Lanai are also moored at Lahaina. Therefore, it can be estimated that statewide there are approximately 472 boats in the commercial tour boat and charter fishing boat trades.

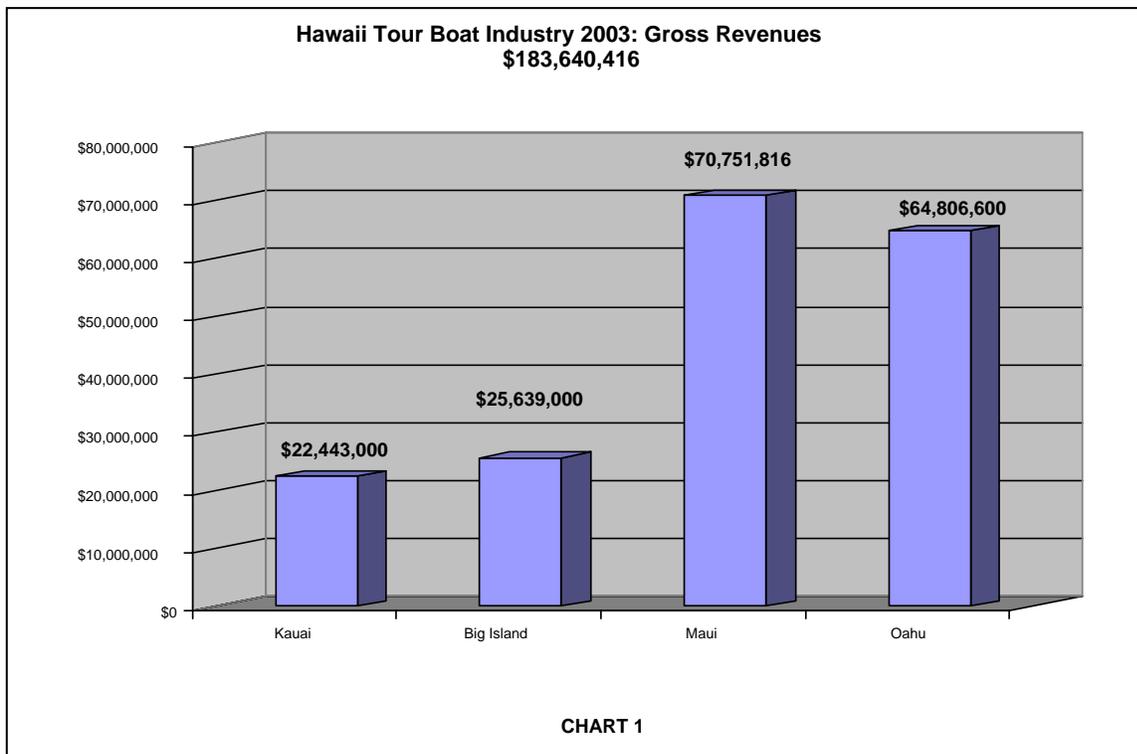
For the purpose of this report tour boats are defined as commercial vessels that take visitors on sightseeing excursions above or below the water. They often use moorings to hold their vessels in place while they take visitors on tours. The boats are as small as six passenger scuba diving rafts and as large as dinner cruise vessels that hold more 1500 people.

The tour boat business includes those who own charter fishing boats which take visitors sightseeing and fishing. They generally use slips rather than moorings. There are approximately 150 charter fishing boats in operation state wide. Both classes of vessels are used in the visitor entertainment business and make use of small boat harbors.

¹ Markrich, Michael, Economic Profile of Hawaii's Tour Boat Industry, 1984, University of Hawaii Sea Grant College Program. Publication # ME8402
Department of Planning and Economic Development State of Hawaii Ocean Resources Office Contribution No. 13

Values for 235 companies were calculated on the basis of information from individual companies, public records and estimates. The total gross revenue numbers were estimated to be \$183,640,416.³ There were 359 business entities identified.

The companies involved were able to develop, plan and conduct their businesses over more than thirty years. For the last twenty years, the State Department of Boating and Ocean Recreation (DOBOR) and its predecessor DOT-Harbors have chosen to renew mooring and slip rights each year as long as applications were in order and all rules and regulations were followed. This is similar to the permit renewal system used in other locales where tour boat companies play an important role in tourism such as on the Colorado River and at Niagara Falls.⁴



³ Survey data 2003

⁴ Conversations with David Gillis, Niagara Parks Commission Property Manager and with Keith Kahler, Colorado State Parks Colorado River Commercial Permit manager.

Methodology

This report is an update of a previous study on the tour boat industry published by the University of Hawaii Sea Grant College Program in 1984. The previous study was limited only to tour boats that took visitors for dinner or adventure experiences. This survey broadens the scope to include all commercial permit holders in public and private harbors throughout the State. For the purposes of this paper, the Hawaii tour boat industry involves any individuals in commercial business that took visitors on the ocean from a public or private harbor or from a boat ramp. These include vessels moored in two Hawaii State Department of Transportation (DOT) Harbors Division facilities as well as the 21 harbors administered by the Hawaii State Department of Land and Natural Resources (DLNR) Division of Boating and Ocean Recreation (DOBOR). The industry also includes vessels moored in two private boat harbors. This report does not include beach concession stands, surf schools, kayak shops, dive shops or dive tours that take visitors into the ocean without boats. It does not generally assess the ocean tourism industry. It does not include revenues from cruise ships. Cruise ships are large sea going vessels that generally take passengers for more than one day.

The study takes into account many variations of tour boat activities. The owners of these commercial activities include parasail companies, submarines, snorkel cruises, scuba diving shops that own or contract dive boats, charter fishing boats, beach catamarans, sightseeing boats, jet-ski rentals, glass bottom boats and dinner cruises. In addition, estimates of two companies on Kauai that take visitors up the Wailua River were obtained from public records.

Where companies chose not to participate, their rights were respected and the numbers left blank. However, public sources were accessed in order to estimate average totals where such data was available particularly on the charter fishing boats and the Wailua River barges.

As in 1984, this economic survey was conducted by telephone and in person. The survey took place from February 1 - March 9, 2004. Tour boats were ridden on Oahu and Maui. Company owners and representatives were asked to provide gross revenues, number of people employed, payroll numbers, charitable donations per year, amount spent on fuel, the amount invested in the business and the amount the business owners plan to spend over the next five years. Over a five-week period 359 separate business identities were identified, calls were made to 121 different businesses and revenues of 114 companies were either estimated from government sources or from direct calls. Actual or estimated data based on interviews or government averages were identified for 235 vessels or companies in Hawaii. In some cases several businesses were owned by the same individual or business entity.

The degree of error was calculated as approximately 4.6%.⁵ Once obtained, the numbers were contrasted to the gross revenue numbers reported by DOBOR and the Harbors for the same year, where the numbers were available.

⁵ Based on 114 samples with 95 % confidence interval.

Charter Fishing Boat dynamics

Approximations were used where it was difficult to get responses from boat operators such as members of the charter fishing boat fleet. The charter fishing boats are significant because they make up a large percentage of the commercial permit holders. This is especially true in Honokohau Harbor on the Big Island where there are 120 commercial permits, 80 of which are in name of the owners of commercial fishing charter boats.

However not all vessels are active. Some just sit at their moorings. The active charter boat fleet is represented by 65 active vessels on the Big Island, 23 active vessels on Maui, 19 active vessels on Kauai and 30 active vessels on Oahu. Due to the difficulty of getting in touch with most of the charter boat operators, as well as their disproportionate numbers in the harbors, a general approximation was used for those boats counted in the survey.

To check average returns, DOBOR workers at each harbor were requested to provide average estimated gross revenues of total charter boat spending based on the information reported to them. It was calculated that the most productive charter fishing boat vessels on the Big Island carried 1000 people per year and worked 200 days per year for \$600 per day. However, most vessels, according to a rough estimate by harbor personnel, worked half-day charters and earned an average of \$3,000 per month.⁶ Other vessels rarely worked at all and paid the minimum for mooring fees.

On Oahu, a combination of survey methods was used. There are twenty charter fishing boat vessels moored at Kewalo Basin and an estimated other 10 moored in different harbors around the island. The surveyor walked from harbor ticket booth to ticket booth requesting information and followed up with phone calls to individual operators.

Approximately ten of the vessels are active with some earning as much or more than top vessels on the Big Island. Others are moored without being used. In these cases, the estimated value of the boat was put into the study; however, no labor was included.

On Maui and Kauai, telephone calls were made to boat operators as well as to DOBOR personnel. Maui and Kauai charter boat numbers are both higher than the Big Island. One Kauai operator estimated that at least half of the 19 working charter boats take fishing charters out at least 200 days per year. It is likely that the Maui numbers are also skewed slightly higher, because they have the most active and profitable charter fishing fleet in the state.⁷

Calculating the impact of Waikiki

⁶ Honokohau Harbor Agent Daniel Mersburgh statement, March 2004.

⁷ Based on interviews with charter fishing boat owners on Maui and the Big Island.

For purposes of calculating the value of the tour boat industry in Waikiki, four of seven operators of beach catamarans were interviewed. Approximations were made in an effort to get a general idea of the number of people carried and the aggregate value of the effort. Interviews indicated that two vessels carried an average of 80 passengers per day, and four carried 70. It was calculated that over 340 days per year the seven operators collectively carried 500 visitors per day. The 340 per day number was based on what the operators estimated as the average number of days they operated per year.

Calculating the economic impact of whale watching

For purposes of calculating the value of the whale watch sector, interviews were conducted with the principal tour boat companies on each island.

Calculations were based on what some members of the industry stated that they did. Since it was not possible to interview everyone, some estimates, such as the number of whale watch visitors, were based on interviews with the leading tour boat companies on each island. Average numbers of whale watch trips were multiplied by estimated number of trips during the 120 day season from December 15 to April 15.

The average number of trips varied from island to island. On the Big Island, for example, most of the snorkel companies went three days a week during the whale watch season. On Kauai only one or two companies do exclusive whale charters. On Oahu, large dinner cruise vessels take whale watch vessels every day. On Maui, large vessels go out several times a day selling 149 seats per trip. The total number of whale watch trips for Hawaii based on all of the information provided by the tour boat industry indicated that an estimated 300,000 people took whale watch trips in 2003.

The value of the Hawaii whale watching industry is based on the following assumptions: 150,000 people took trips on Maui at an average of \$22; whale watch trips are sold for higher prices in the rest of the state; most customers paid at least \$40 per seat. Based on these postulations the estimated total value of the whale watching industry in Hawaii is approximately \$9.3 million.⁸

This is below other estimates which put the number of people who whale watch at 370,000 per annum with direct revenues of at least \$11.3 million.⁹ The estimate used in

⁹ Utech, Dan, Valuing Hawaii's Humpback Whales: The Economic Impact of Humpbacks on Hawaii's Ocean Tour Boat Industry, Marine Sanctuaries Conservation Series MSD-00-2, The Economic

this paper was based on information provided by industry informants on ticket sales of whale watch trips.

Calculating the economic impact of Molokini

For Molokini Crater off the island of Maui, the list of vessels with permits was obtained from the Hawaii State Division of Aquatic Resources. The owners of the companies of the vessels were surveyed in an effort to obtain the total number of visitors and the gross revenues involved.

Calculating the economic impact of the Wailua River.

In order to obtain the number of visitors on the Wailua River. Publicly available records were accessed and the gross revenue numbers were divided by the present average ticket price of \$15 to obtain the number of visitors.

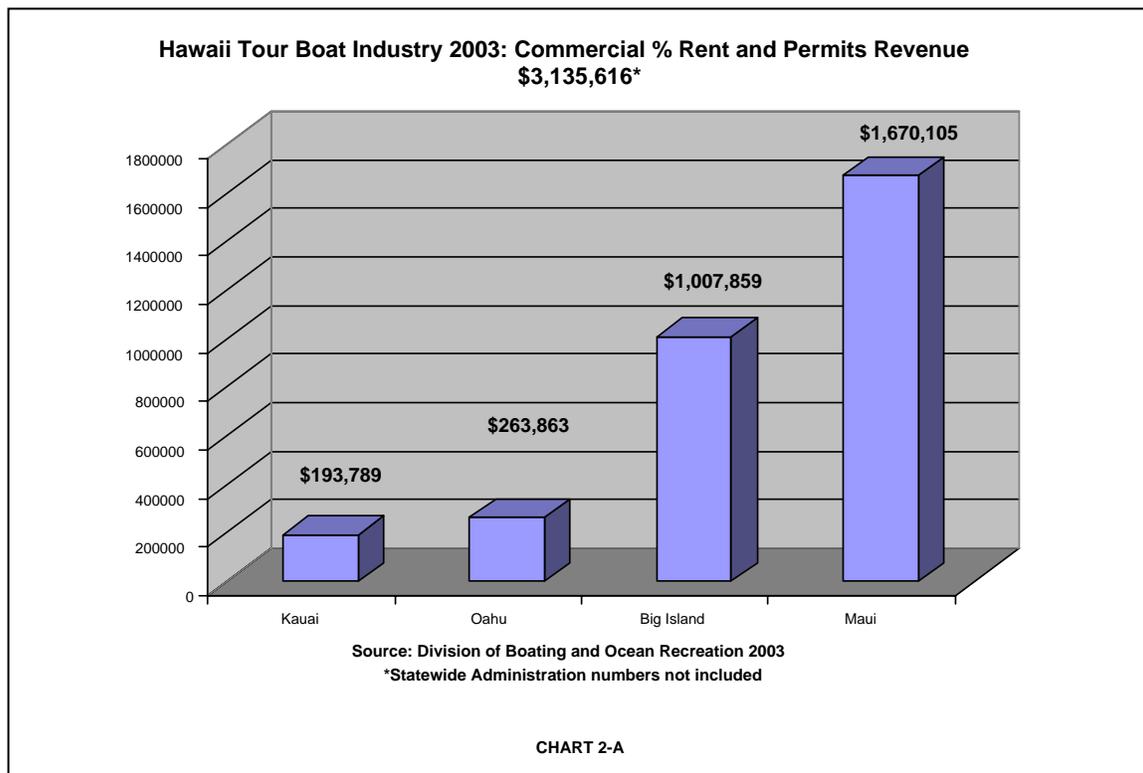
Calculating the value of the Na Pali Coast Visitor tours.

A survey was conducted of the Na Pali Coast Tour boat industry in order to determine the number of visitors to the Na Pali Coast. The numbers they provided were used to estimate the number of visitors and boats making those trips.

DOBOR Estimates

Contribution of Whale Watching, Perspectives From Two National Sanctuaries, US Department of Commerce, NOAA, NOS, Office of Ocean and Coastal Resource Management, Marine Sanctuaries

Division, July 2000



The numbers obtained from the 2004 survey of tour boat operators in all harbors for 2003 differ from those kept by the Hawaii State Division of Boating and Ocean Recreation (DOBOR) for the same period. The reason for the differences is that DOBOR numbers come from the following sources:

- 1) DOBOR charges a flat rate per foot based on the location of the piers within their 21 harbors, as well as commercial ramp fees.
- 2) DOBOR harbors have both commercial and recreational moorings within each harbor. The number of such slips varies from as few as ten percent to fifty percent of the number of slips. In most of the DOBOR harbors where there are commercial slips, commercial vessel revenues must pay a base commercial rent based on the length per foot of the vessel which is set two times higher than the recreational boater, or two percent of their monthly gross receipts, whichever is greater. Every month, companies examine their records and determine if two percent of their gross receipts exceeds their mooring fee.

Assuming that most of the commercial vessels in excess of six seats exceed their double mooring fee (base rent), estimated gross revenues can be calculated by multiplying the amount they pay by fifty to determine the size of the industry. Using this formula, the estimated revenues would amount to \$156,780,800. This number is incomplete because many of the most financially successful tour boat vessels are moored in State Department of Transportation Harbors Division harbors, and are not included in the DOBOR calculations.

It would have been logical to simply combine DOBOR and Harbors Division revenues for 2003. However, complete fiscal data from the Harbors Division was not available prior to publication. For this reason it was deemed most accurate to use the data obtained from the 2004 survey.

3) It may seem unusual that on the DOBOR chart, Oahu numbers are below those of the Big Island. However, since Oahu numbers do not include the 59 vessels moored in Kewalo Basin and Honolulu Harbor the numbers only include the relatively small amounts of business done at small boat harbors in Waianae, Haleiwa and He'eia Kea. As a result most of the charter fishing boats, catamarans, dive boats, dinner cruises, parasail boats, the submarine and excursion boats on Oahu are not included

4) These numbers do show the disproportionate importance of Maui tour boat operators in providing revenue for the DOBOR system. More than 50% of the revenues generated from commercial permits in the DOBOR system come from Maui.

5) Commercial tour boats make up only 3% of total number of boats in the DOBOR system, but they generate 26% of DOBOR's revenues. They help subsidize recreational boats – which account for most of the remaining 97% of the boats in the DOBOR system – which generate 36% of DOBOR's revenues. According to DOBOR statistics, the remaining 38% of DOBOR's \$11,936,006 in revenues comes from other sources including federal aid, liquid fuel tax, investment pool interest, property rental revenue, parking meters, vessel registration, security deposits and miscellaneous revenue. See Chart 2-B and Chart 2-C.

Chart 2-B

Commercial Tour Boats and Recreational Boats
Using DOBOR Harbors and Ramps

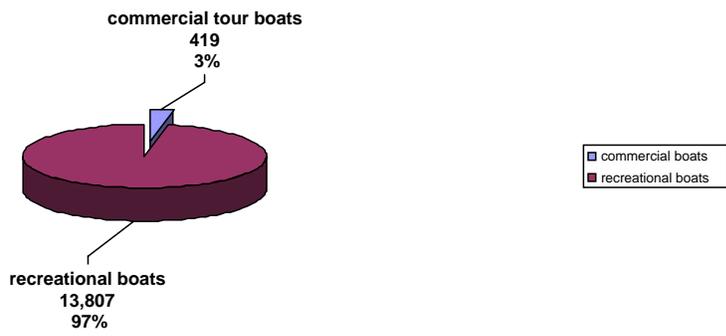
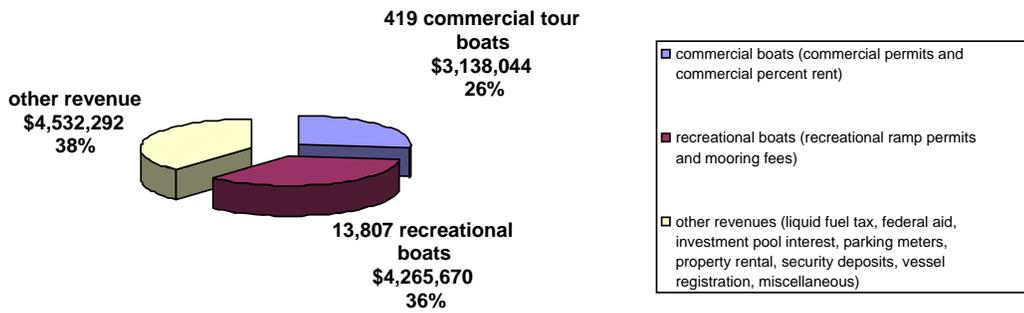


Chart 2-C

DOBOR Fiscal Year 2003 Revenues
\$11,936,006



A Survey of the Hawaii Tour Boat Industry 2003

The survey results indicated that the gross revenue of the state tour boat industry is approximately \$183,500,000. Using standard state multipliers from the State Input-Output model, it is possible to estimate the total economic impact on the state's economy.¹⁰

Multipliers were used to estimate the ripple effect of the industry on the complex linkages that exist between operators and their suppliers of material, food, insurance and professional services. The industry is a distinct hybrid of two very different parts of the economy. The restaurants or galleys on board many of the vessels order food from food and beverage wholesalers, while the maintenance of these vessels depends heavily on purchases made from engine and marine supply stores.

The multipliers used are 1.95 for eating and drinking establishments and 1.96 for ocean transportation. These multipliers mean that for each dollar spent by a visitor on a tour boat, an additional .95 or .96 cents of spending will be generated elsewhere in the economy.¹¹ Assuming that the different sectors of this industry are approximately equal in terms of economic impact, the total direct level of spending was divided by two: \$91,750,000 was multiplied by 1.95 to establish the impact of spending on the food and beverage industry and \$91,750,000 was multiplied by 1.96 for multiplier effect of spending on the ocean transportation industry.

Based on the revenue numbers it can be estimated that the total economic impact on the economy from the state tour boat industry is \$358,742,500.

Tax Revenues

Tax impact can be estimated by using the Type Two State Tax Multiplier from the 1997 State I-O model. According to the I-O model, the state tax multipliers for this industry are 10.2 percent for sightseeing transportation and 10.3 percent for eating and drinking places. Rounding to ten percent, it can be estimated that based on the \$183,500,000 total final demand change, the total amount of taxes paid by the industry each year amounts to \$18 million.¹²

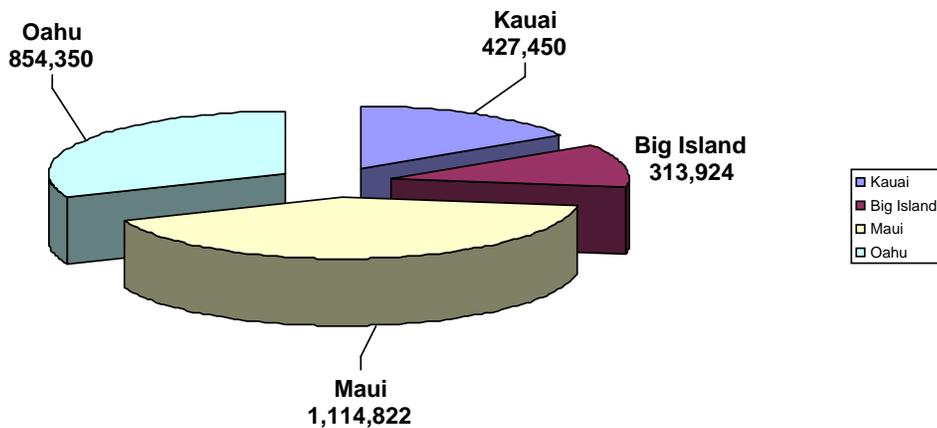
¹⁰ Based on the DBEDT I-O model

¹¹ Ibid

¹² Ibid

Chart 3

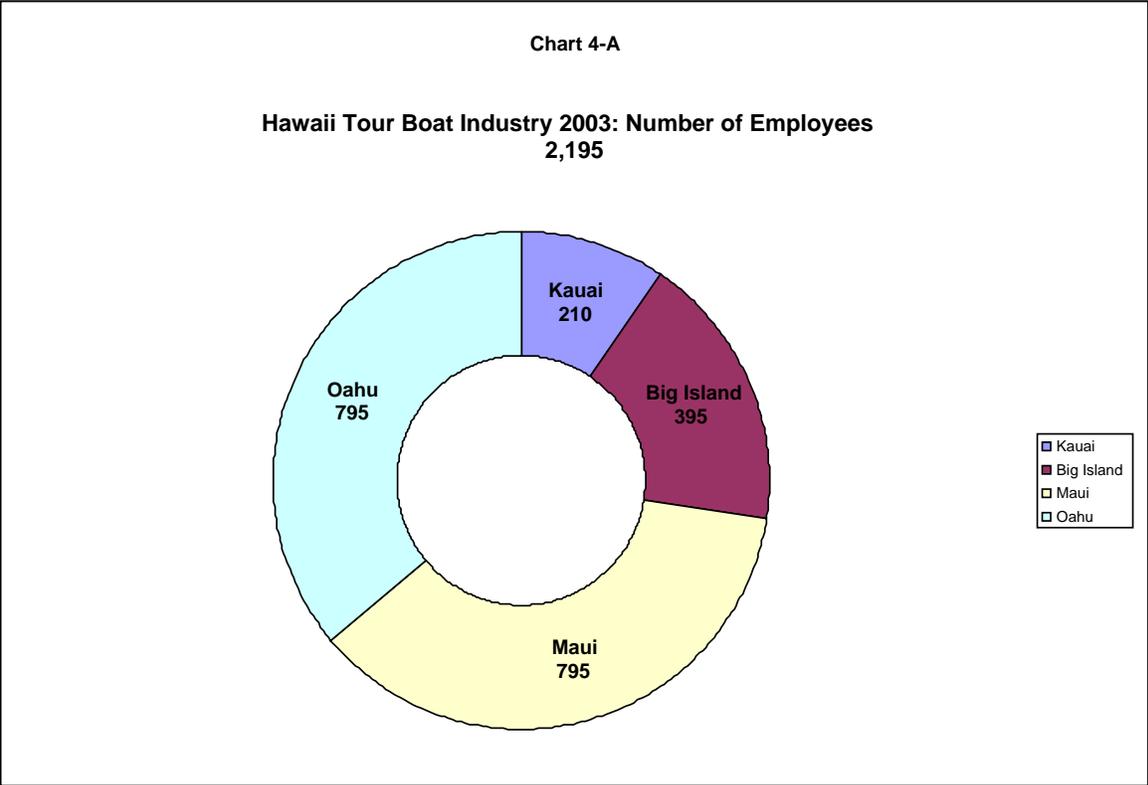
Hawaii Tour Boat Industry 2003: Annual Passengers
2,710,546



Visitors

The tour boat industry carried more than two million seven hundred thousand visitors in 2003 - approximately forty percent of the number of 6,345,209 visitors to Hawaii recorded that year.¹³ Maui and Oahu have the largest share, followed by Kauai and the Big Island. Each of the islands has different characteristics. Maui has three significant destinations: Molokini Crater, Lanai and Molokai. It also leads the state in whale watching, having the highest concentration of humpback whales in its near shore waters. On Oahu, the visitors take part in large dinner cruises, scuba diving trips and beach catamaran rides. On the Big Island the visitors take charter boats and go out on scuba diving and catamaran excursions. On Kauai the visitors go on Na Pali Coast rides, Wailua River rides and on scuba and fishing charters.

¹³ DBEDT 2003 Preliminary arrival data.

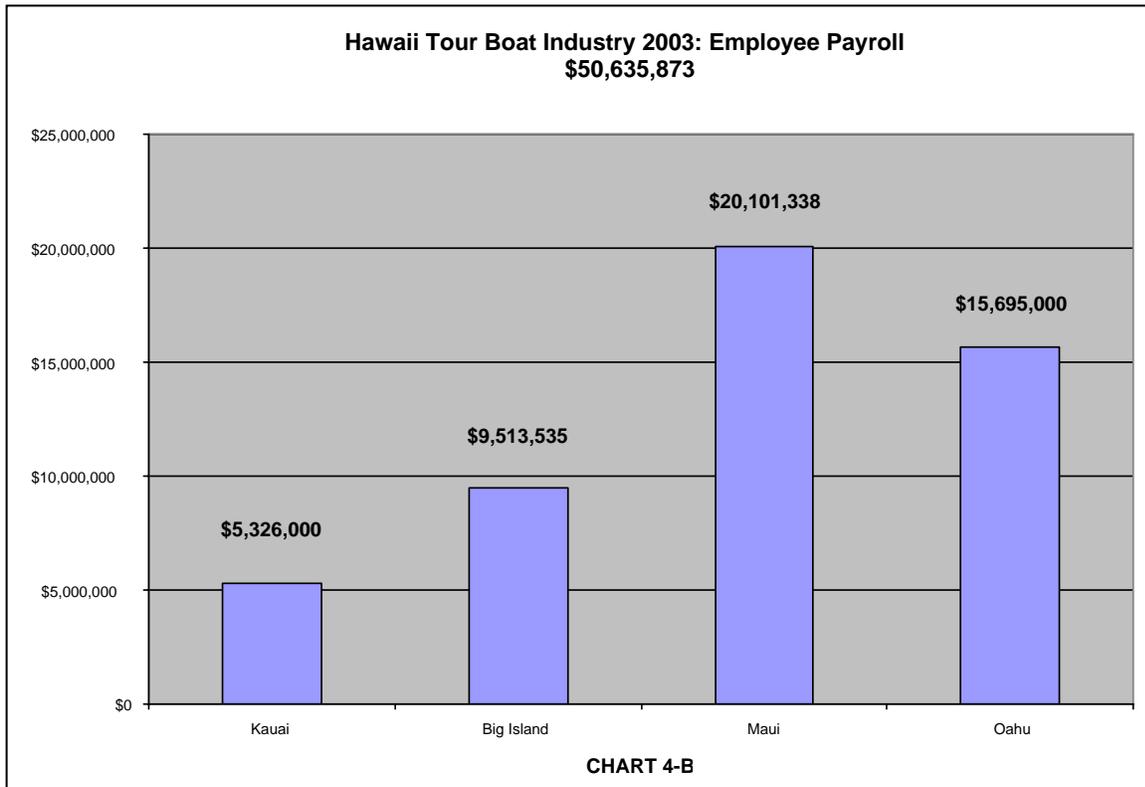


Employment

The state tour boat industry employed 2,195 individuals, most of who work on Maui and Oahu (see Chart 4-A). The Island of Hawaii has the third largest number of workers. However, many of these workers are part-time members who work under contract for their employers. This is particularly true of the charter fishing boat industry and impacts the number of workers on Oahu and the Big Island. A significant number of the tour boat and dive shop employees who take tourist on dive tours are also on contract.

The payroll for the State tour boat industry was approximately \$50 million. See Chart 4-B. The payrolls varied from Island to Island. They were particularly significant

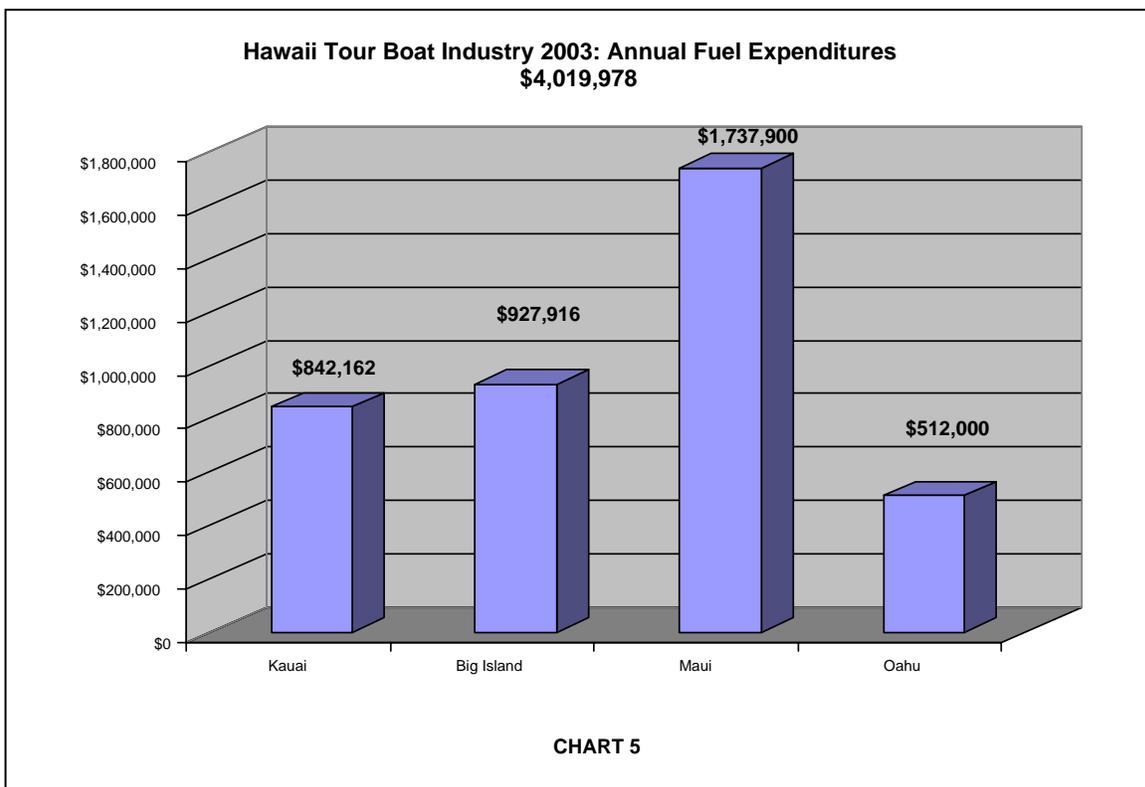
on Maui, Oahu and the Big Island. These are jobs that require special skills and the high wages they bring are hard to replicate on the Neighbor Islands. Because the sample is incomplete and some key members of the industry did not participate, the totals for Oahu, Kauai and the Big Island are likely underrepresented. The payroll statistics for Oahu are likely much greater than depicted in Chart 4-B.



Fuel

The Hawaii tour boat vessels spend more than four million dollars per year on fuel. The Maui vessels travel back and forth to Molokini Crater and Lanai on a regular basis. Whale watching trips from December to May are particularly fuel intensive.

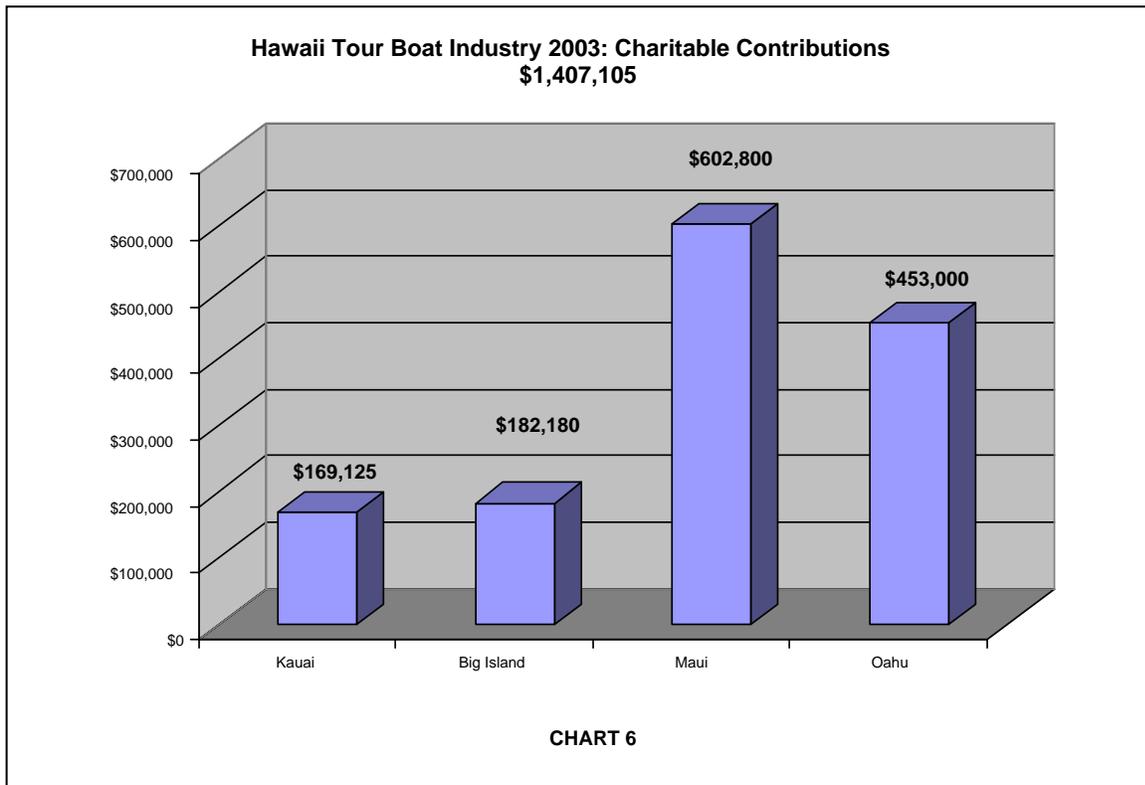
Maui and the Big Island expend the greatest amount of money partly explained by the



high cost of fuel on the Neighbor Islands. The Big Island fuel use is largely due to the charter fishing boats taking visitors fishing off Kona.

Kauai tour boats used significant amounts of fuel because they motor up and down the Na Pali Coast. Kauai is likely underrepresented because no data on fuel use was made available for the river tours.

Charitable Contributions



Many of the tour boat companies donate to charities. They donate tickets for outings on their boats as prizes for charity auctions and sometimes they give money directly to

charity. The islands representing the greatest amount of charity contributions from tour boat companies were Maui and Oahu.

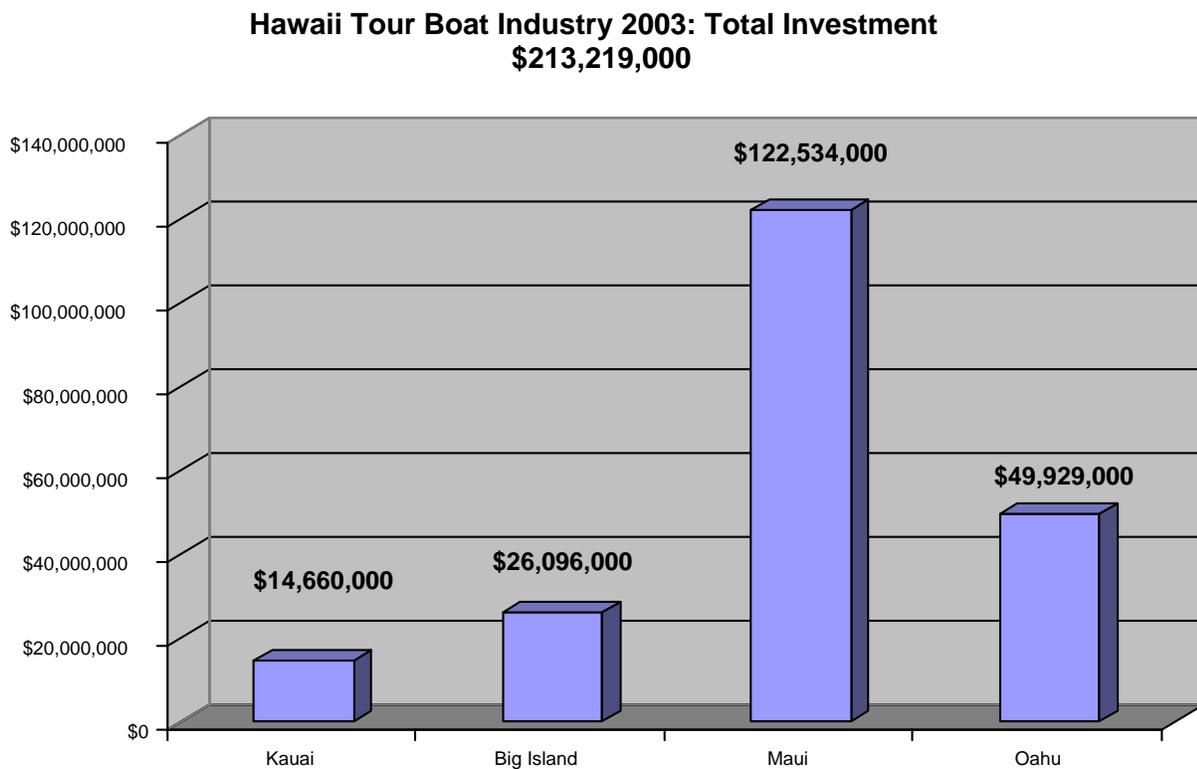
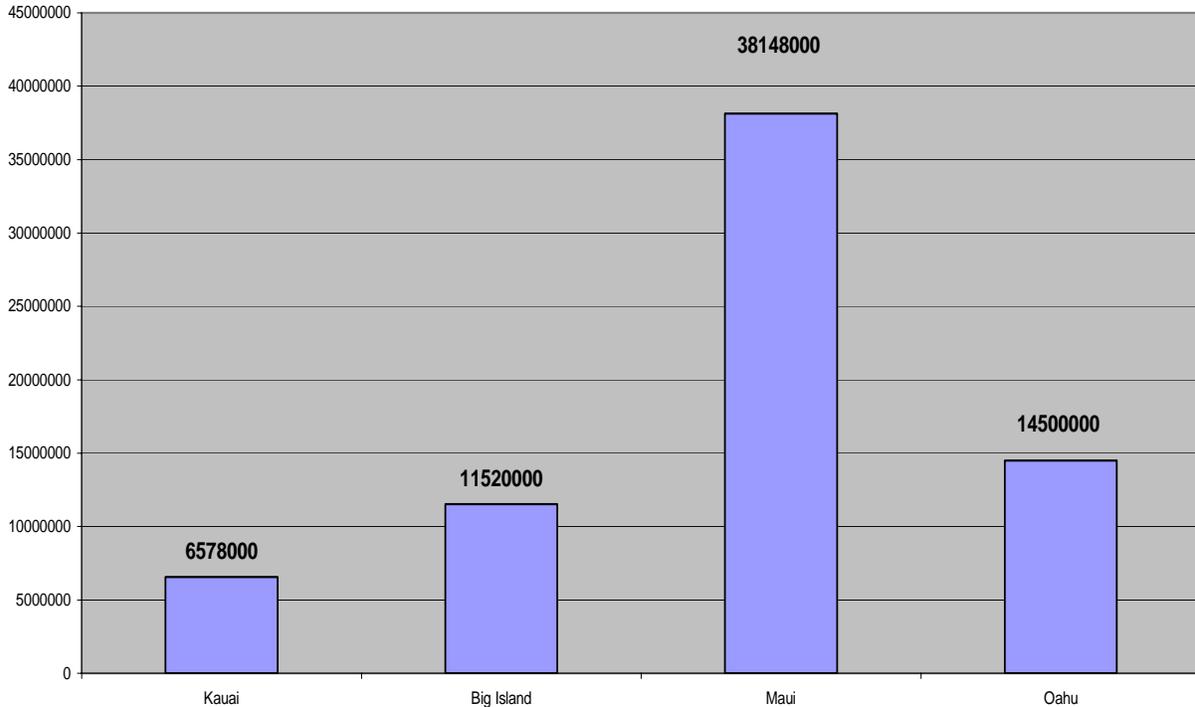


CHART 7

Total Investment

The highest levels of investment were on Maui and Oahu. The high level of investment on Maui is largely due to the need of tour boat operators to constantly have to upgrade or buy new vessels. On Oahu, the high level of investment is due to demand for new dinner cruise vessels, and the increasing investment in new scuba diving and eco-tour boats.

Hawaii Tour Boat Industry 2003: Five-Year Investment
Total \$70,746,000



Anticipated Investment

Companies were asked about the level of investment they anticipate over the next five years. The highest level is on Maui because of the need to constantly reinvest in new vessels as well as the industry possible expansion of the industry there. The second highest were on Oahu because of the rapid growth of the dinner cruise market. The third greatest growth is anticipated on the Big Island due to the growth of the scuba diving and eco-tour market. On Kauai the growth was linked to the Na Pali Coast tours.

DLNR/DOT Permit Process

The State of Hawaii made a decision early on to use a waiting list seniority method to award slips and permits in small boat harbors (HAR Chapter 231).

Every private slip holder and every commercial slip and permit holder can trace their slip/permit privilege to a specific event when an application for a slip was made and they were put on a waiting list. They paid an application fee, and every year when they renewed their application, paid an additional fee. Out-of-state applicants pay significantly more than Hawaii residents. Finally, after waiting many years, a slip/permit may become available. The vessel owner has 120 days to put an appropriate vessel in that slip or he or she will lose the opportunity. (This is a major hurdle October through March if boats had to be sailed over from the mainland).

According to Section 13-231-5 Hawaii Administrative Rules a use permit for a slip or mooring or any of the other categories of use may be issued for a period up to but not exceeding one year. Each year the boaters of this state, both private and commercial, reapply for their use permit with the reasonable expectation that it will be renewed, regardless of category. DLNR/DOBOR looks at the application and determines that it represents the same entity that originally was on the waiting list. There is a reasonable expectation that this will happen as long as all fees and have been paid, all paperwork has been completed in the proper manner, no convictions of any Federal, State, or County law are recorded against this entity and there is no risk to public health and safety.

Because this is a statewide system of registry and a matter of public record there is little room to defraud the process. Each applicant should know where he is on the waiting list. Those interested in applying for a slip or starting a tour boat business in Hawaii have several options.

First, in the expectation that a slip can open through attrition, they can fill out an application, which must be renewed each year. Their name will be put on the waiting list.

Secondly, they can find a business that is for sale and purchase the stock in that company and pay the State its business transfer fee. This insures that the State is awarded whatever excess value the permit and slip would be worth above and beyond the business assets; it also insures that the State will be paid in full for whatever fees it is due, even if the company that sold had gone into bankruptcy. The business doesn't have to start over, but continues to grow with new capital and new energy and the State continues to get its percent of the gross fee, participating in that business growth and keeping the revenue stream to the harbors division. The employees who helped to build the corporation to its

saleable condition are usually retained to continue those successful operations, as they are employees of the corporation, not the individual who sold out.

Thirdly, many of the people that want to get into the Ocean Tourism Business are already employed in this industry. An increasingly common way new people get into the business is through Employee Stock Ownership Plans (ESOP's), or passing the business on to the next generation of family members working in the enterprise.

Because so many people have invested so many years of their lives in the expectation that this system will continue, an abrupt change in the way moorings are designated will disenfranchise all those who made their business (and life) plans based on the existing law. To change the system at this time, without compensation, is both unreasonable and unfair.

Day use moorings such as Molokini were developed to protect and preserve the resource while not adversely affecting business. It would be patently unfair to take away the mooring privilege from the original vessels and redistribute them to a new set of commercial users who had not been on the waiting lists or who had chosen not to apply for a Molokini permit when they were issued.

In addition, by allowing access to state owned limited day-use moorings in certain Marine Life Conservation Districts (MLCD), such as Molokini and Kealakekua Bay, state policy encouraged the creation of numerous small businesses in the snorkel/dive industry. These businesses, in turn, support many more small businesses than would be possible without the present policy.

Concerns of Tour Boat Operators

One of the most significant concerns of the tour boat industry is that the Division of Boating and Ocean Recreation (DOBOR) will start taking away some of the succession rights under which most business operates, or access rights upon which their particular business was developed and their current livelihood depends. The Ma'alaea boaters are particularly concerned that their Molokini boating privileges will be changed or managed in a manner that will put them out of business.

This also applies to operators in the Big Island that go to Kealakekua Bay. Some of these companies have either just purchased new vessels, or are in that process. All are servicing debt that would bankrupt them if the rules were changed and for any reason they lost their mooring privileges. If moorings were put out to public bid, they fear they could not compete with large companies, which may or may not be part of the local community.

The tour boat industry is capital intensive and operates on thin profit margins. It is particularly vulnerable to abrupt changes in state policy that could impact day-to-day operations.

Changing Tour Boat Market Sectors

Tour boat industry participants report changes in tastes and market conditions among the different groups that come to Hawaii. Increasing interest in conserving marine life has led to new interest in marine education, whale watching and activity tours on all of the islands. This market has been led by families traveling with children who seek activities that can be done together. As marine education tours have increased in popularity, virtually all the sectors in the tour boat and marine tourism industry have changed with it.

Scuba diving, for example, twenty years ago was primarily a retail trade in which local stores sold introductory diving experiences and equipment. Today, as a result of many other opportunities for people to buy retail gear on the internet and from big box discount stores, there is often less profit in the sale of equipment and more in organizing diving excursions. The Diving Equipment Manufacturers Association (DEMA) has reported that the number of new certifications has been down since 2001.¹⁴

However this decline is offset by an increase in the overall number of people who go diving. According to Leisure Trends, a market research firm with offices in California and Colorado, the number of scuba divers nationwide has increased five percent since 1998 from 26 to 30 million people.¹⁵ The number of certified divers who seek another diving experience has also increased.

This means that tourist divers tend to be older than they were in the past. Several shop owners reported that their divers were primarily in their mid thirties and forties with some as old as seventy. One shop owner on Maui reported that he virtually never saw anyone in their twenties enter the store. The important thing about the older divers is that these individuals tend to have higher disposable income. The increased numbers of certified divers has increased demand for dive boat trips on all the islands.

To meet the demand, new dive shops have opened and existing dive shops either lease or charter dive boats to take divers on trips. The market for these kinds of trips is so large that to capture some of it, tour boat catamarans, which once offered primarily snorkeling, now offer scuba diving and SNUBA (the use of tethered air hoses for which no scuba certificate is required).

Seeking New Entrants

The tour boat industry is in a constant state of change as operators offer ever new and different kinds of activities to visitors.

¹⁴ www.dema.org

The aging of the scuba diving market has caused dive shop owners to experiment to find new ways to expand their businesses. As a consequence a number of scuba diving shops now offer snorkel tours. Other incentives to attract new business include the offering of discounts for children and invitations to join scuba dive club social events.

The eco-tour market remains the largest single sector of the tour boat industry encompassing everything from snorkel trips to whale watching. This part of the marketplace is heavily involved in eco-tourism and marine education. Large 149 passenger vessels shuttle tourists on back to back whale watch tours during the peak season and every seat is sold at Molokini Crater during the summer months. The scale of growth of the industry over the last ten years can be readily seen on Kauai, where Na Pali Coast trips that were once small scale on rafts are now done primarily on large oceangoing catamarans that take thousands of visitors up the coast each year.

Whale watching continues to grow in popularity on each island. There are an estimated 300,000 people who take whale watch tours in the state each year. This is a growing sector of the tour boat industry that is starting to make up for the loss of the popular Pearl Harbor tours.

However, the most significant changes in this market are to be found in the new steel shark cage shark viewing experience. These new kinds of offerings, which are part-education and part- thrill seeking entertainment, are the newest form of marine tourism. They appeal to a new generation of tourists looking for an extreme experience.

Market segmentation has caused other changes. Charter fishing boats now offer visitors opportunities to fish by sharing a boat for \$42. This is a large discount over the \$150 a head usually charged by fishermen. Instead of marlin fishing, special night shark fishing excursions are offered.

Discounting is a problem that causes many in the industry to worry. Tour boat operators pay high commissions to activity to desks in exchange for customers. In order to make up the difference in lost revenue they depend on visitors being willing to pay the full price for the trips. Two trends are working against this. Firstly, timeshare salesmen and saleswomen provide free or heavily discounted trips to visitors causing downward pressure on prices. As tour boats struggle for market share, the willingness of some tour boat owners to charge ever lower fares causes prices and profits to fall, even as expenses go up.

Another future problem is that many of the repeat visitors to Hawaii live in timeshare condos. As they are repeat visitors they expect to pay kama'aina rates. The more prices are cut, the more difficult it is for the companies to make a profit and survive.¹⁶ In order to survive, tour boats must rediscover a customer base willing to pay full fare so that they have a large enough margin of profit to prosper.

¹⁶ Captain Jim Coon, Trilogy Charters, Personal Communication 2004

Oahu

Number of people employed in the industry: 795

Employee payroll: \$15,695,000

Gross Revenues according to survey: \$64,806,600

Number of tour boat passengers carried in 2003: 848,350

(This represents approximately 20% of the 4,339,853 annual visitors to Oahu.)

Charitable donations: \$453,000.

Fuel expenditures: \$512,000.

Total investment in the industry: \$49,929,000

Approximate planned spending over next five years: \$14,500,000.

These estimates are based on 52 of the 85 companies identified participating in the survey from both private and public harbors. This includes 30 charter fishing boats.

The Oahu tour boat industry is unique in that the largest part of the industry on the island deals with dinner cruises rather than nature tours. These vessels are shoreline rather than ocean destination oriented. Visitors are offered a wonderful dinner and an evening of local entertainment while watching a Hawaiian sunset. There is no other venue in urban Honolulu that provides the multi-sensory stimulation of an offshore floating restaurant. The dinner cruise boats make it possible to view the island shoreline from the sea much as the original arrivals did a thousand years ago and then watch the lights come on as evening falls.

Because the dinner cruise boats are so large most operate from Department of Transportation Harbors Division harbors rather than from DOBOR or privately owned harbors.

The Oahu tour boat industry had its origins in the 19th century when the first high-end visitors came to Hawaii on extended vacations and took rides in small boats off Waikiki. Later, small sailboats, rowboats and surfboards, were made available at popular local hotels.

Guests were taken into Honolulu to view and sometimes shoot the many sharks that circulated around the garbage scow in the harbor. After World War II, enterprising entrepreneurs used Hawaii's few small boat harbors to offer glass bottom boat rides and fishing charters. In 1957, Tommy Akana started offering day trips to Pearl Harbor as Paradise Cruise, Ltd.¹⁷ Many of the visitors to Hawaii during the Fifties were veterans of World War II, and largely because of their interest, the trips were a great success.

While this was taking place, Woody Brown, was bringing his catamaran sailboat ashore at Waikiki. Beachside visitors began asking for rides and without an organized business plan Brown started operating a beach catamaran business. He was joined by several competitors who obtained permits from the Department of Transportation.

As Hawaii tourism developed during the 1950's and 60's there were relatively few shore activities for tourists. In addition to the beach catamaran rides, glass bottom boat trips were successfully introduced at Kewalo Basin, along with charter fishing boat trips. The Hawaii tour boats were so visible and popular at that time they became the inspiration for the 1960's CBS television program "Gilligan's Island," which was based on a mythical three hour tour boat cruise.

During the 1960's, catamarans were developed and sunset sails offered off Waikiki. In 1980, a businessman associated with Windjammer Cruises, one of the first large tourism dinner cruise companies brought the 1000 passenger dinner cruise vessel "Rella Mae" to Hawaii from the U.S. mainland. It was soon joined by the Ali'ii Kai owned by Roberts Hawaii. Soon after, dinner cruises in the calm waters off Waikiki became popular visitor attractions. These cruises were expanded by Aikane Catamaran, one of the pioneers of the dinner cruise business. The popularity of the sailing crew Hokulea in the late 1970s created a demand for Polynesian Canoe style dinner crews and shows.

Most of the companies were based out of Kewalo Basin which is the closest small boat harbor to Waikiki. Buses would come and go each evening from the Waikiki hotels to Kewalo Basin. 1984 estimates indicated that nearly half of the more than 1.5 million visitors who took tour boats on Oahu went on dinner cruises. The six companies then in the dinner boat trade did more than \$15 million in business. The only activity that rivaled the dinner boat trade during that period was the Pearl Harbor tour which was estimated to attract nearly 400,000 people annually.

In addition to tour boats, Kewalo Basin was a popular spot for charter boat fishing, glass bottom boat rides and dive tours.

There was also recognition that, in order to survive in the marketplace, a new quality product had to be developed. "Booze cruises" were phased out and new offerings created for the visitor market. In 1983 Paradise Cruise came out with their "Deluxe Class" dinner cruise featuring table service, improved cuisine and entertainment. When Navatek introduced the modern SWATH (acronym for "Small Waterplane Area Twin Hull") Vessel along with a dinner cruise in 1991, it offered upscale fine dining that rivaled the best Honolulu restaurants.

As competition increased rival cruise companies continued to upgrade their cuisine and service so as to appeal to a more sophisticated customer base. By 1992, "two star" became "five star" ratings. They were making similar changes realizing that if they were not able to offer fine dining, they would not be able to attract and retain the Japanese customers on which so much of the trade depended.¹⁸

Those companies that were able to find financing and upgrade both their ships and services survived. In 1984, there were eight companies in the business. Today, there are only four companies still in this trade and they operate much larger

¹⁸ Ibid

vessels. One of the vessels – Star of Honolulu – can accommodate up to 1000 people at a time. Paradise Cruises, Roberts Hawaii, Atlantis and American Dream Cruises are the companies involved in the dinner cruise business. The vessels operate from Kewalo Basin and Aloha Tower. Both of these harbors are administered by the Hawaii State Department of Transportation Harbors Division.

These companies are fiercely competitive on price, service and availability. In the face of a maturing and aging tourism market on Oahu, demand for dinner cruises has remained steady. Dinner vessels had gross receipts of \$27,000,000 in 2003.¹⁹

It is interesting to note that the success of some of these businesses is partly tied to a decision made by Governor Benjamin Cayetano during the in 1998 to allow the Star of Honolulu to move from Kewalo Basin and to operate from the piers at Aloha Tower Market Place²⁰ This created a valuable synergy between the shopping plaza and the dinner cruise vessels. It joined Windjammer’s 1000 passenger “RELLA MAE” which came to Honolulu Harbor in 1980 , Roberts 1000 passenger “ALII KAI” and the Navatek

Other Attractions

The other tour boat businesses on Oahu are those that offer ocean adventure experiences to visitors. There are presently seven Waikiki Beach catamarans that work from the beach and work closely with Waikiki hotels. They are the Nahoku, Kepoikai, Outrigger Catamaran, Manukai, Manakai, Maitai and Lehua. Estimated average fare for the tour boats was \$15 per head or less, however, two companies charged \$30. Beach operators complained of tight competition and individual companies undercutting one another in a desperate effort to get business. Based on the availability of good weather, it is possible for most operators to work approximately 340 days per year.

Assuming that 500 visitors take tour boats per day over 340 days, it can be estimated that 170,000 people take tour boats off Waikiki each year. The beach catamaran companies charge between \$6 and \$30 for a ride. The low price for the tour boat rides and the willingness of visitors to negotiate beachfront prices had many operators worried about the long-term feasibility of their businesses. Some worried that they would not be able to survive as their costs kept going up and there was ever-downward pressure on ticket prices.

The once popular Pearl Harbor tours ended after September 11th, due to changes in U.S. Navy security requirements. This effectively ended 400,000 people per year walking through Kewalo Basin on their way to and from the trip.²² The abrupt cancellation of the Pearl Harbor Cruises forced members of the Oahu tour boat industry

²⁰ White

²¹ Ibid

²² Ibid

to develop new tours such as whale watch and Hawaiian culture trips. However, the decline in walk-through of so many people has impacted other businesses such as charter fishing boats, parasail operators and excursion and dive boats that once partly depended on their traffic to attract customers. Some feel that Kewalo Basin is being “bypassed” in favor of small rural harbors on Oahu and the Neighbor Islands.²³ However, some charter fishing boats at Kewalo Basin continue to do a strong business. The owners of these companies offer different kinds of excursions priced for the Waikiki market, some sell individual slots on the vessels, some night shark fishing, some offer group fishing at party boats, so that the cost per person is lower than a regular charter. The successful businesses no longer have the benefit of the walk through they once had but they continue to adapt to changing circumstances. Charter fishing boats also work out of Haleiwa and Waianae small boat harbors.

It is interesting to note that since the last study was done twenty years ago, the overall number of visitors taking tour boats on Oahu has dropped from 1.5 million annually to 850,000. This is likely partly due to the halt of the Pearl Harbor tours, but it is also representative of the fact that there are so many other things to do on Oahu.

To some extent the tour boat industry has compensated for less participants by creating attractions for which people are willing to pay a higher price. Up scale dining on tour boats is a growth industry. A submarine off Waikiki is a popular attraction as are whale watching, parasailing, scuba diving and new high end eco-tourism charters. Much of the growth in the industry has taken place in small harbors in rural Oahu.

Whale watching is increasingly popular on Oahu with trips taking place between December 15 and the middle of April. An estimated 100,000 people take whale watch trips on Oahu each year. The biggest carriers of whale watch passengers are the large dinner boats in Honolulu Harbor that supplement their revenues by carrying whale watch tourists every day during the 120 day season. However, at least six other smaller vessels take visitors on whale watch trips. The number of whale watch tourists on Oahu is steadily increasing as more operators of small boats enter this market.

The growth of the industry can readily be seen in Haleiwa, on Oahu’s North Shore, which now supports two boats that offer whale watching during the season. Several years ago there were several empty commercial permit slots in the harbor; at the present time all the slots are filled.

Waianae in particular has benefited from the interest in eco-tours. It has become a popular center for both scuba diving and educational ocean wildlife tours. The tours leave from both Waianae Small Boat Harbor as well as from the private boat harbor at Ko Olina Resort.

Estimates indicate that there are now more than sixty visitors per day going scuba diving from boats launched at Waianae Boat Harbort; this represents approximately

22,000 people annually.²⁴ Some believe this number to be approximately one half the total number of divers per year on Oahu, with the balance going diving out of Hawaii Kai, Waimanalo and Waikiki.²⁵

The increased scuba diving and whale watching activity has had positive impacts in areas such as Waianae, in that many of the scuba diver tourists patronize the restaurants and other businesses in the community. However, problems have developed over the tendency of some tour boat and dive boat operators, to drive their boats rapidly down the coast through akule schooling areas on the way to dive sites, bringing objections from local fishermen. In order to mediate this problem, the harbor master has worked with tour boat industry members to develop boat driving protocols to enable the dive and eco-tour operators to get to the most popular tourist areas without disrupting fishing.

In Kaneohe Bay, Jet Ski operators continue to offer young Japanese the opportunity to ride jet skis and other personal watercraft. However, as a result of community complaints, they are restricted from operating on Sundays and holidays. There has been increased competition in this sector, with some operators dropping out or going into other markets, such as marine wildlife education tours. One operator said that the business on Oahu, primarily driven by young Japanese tourists, has not recovered since September 11th.²⁶ Jet Ski operations currently exist at Kaneohe Bay, Haleiwa, Hawaii Kai and Kewalo Basin.

The strong demand for dinner cruises in Honolulu Harbor has resulted in an order for at least two new vessels in that sector. Oahu tour boat activity in the small boat harbors administered by DOBOR is still small-scale relative to Maui or the Big Island. This may be because Oahu has not been marketed as an ocean recreation destination. However, if current patterns continue, particularly in rural harbors such as Waianae and Haleiwa where eco-tourism is popular, Oahu should see continued growth.

²⁴ William Aila, Waianae Harbor Master Personal Communication

²⁵ Aarons Dive Shop

²⁶ Anonymous jet ski operator in Kaneohe Bay

Maui

Number of people employed in the industry: 795

Employee payroll: \$20,101,338

Gross Revenues according to survey: \$70,751,816

Number of tour boat passengers carried in 2003: 1,114,822

(This is approximately half of the 2,131,904 visitors who arrive on Maui annually.)

Charitable contributions: \$602,800

Maui is the most important center of tour boat business in Hawaii. The Maui survey involved responses or estimates from 71 of the 114 businesses surveyed.

There are ten main commercial ocean activities on Maui, the Molokini Crater snorkel tour, whale watching, scuba diving tours, commercially packaged visitor tours to Lanai and Molokai, the Inter-island ferry, parasailing, submarine tours, charter fishing, dinner cruises and beach catamaran snorkel sails. These activities take place from two harbors and two launch ramps as well as from Kaanapali Beach.

The owners of the companies surveyed said that they had \$122,534,000 invested in the companies, and anticipate spending \$38,148,000 over the next five years. This is the largest investment and anticipated spending of any island. It reflects the continued growth of Maui's visitor industry under present conditions.

Origins

The Maui tour boat operators have their origins in the activities of a number of small boat operators who began offering catamaran and scuba tours off Maui in the early 1970s. At that time, Maui drew a relatively small numbers of tourists and the tour boat trade consisted mainly of catamarans, glass bottom boats, whale watch tours and a few companies offering day trips to Lanai, Molokai and Molokini. In 1982, 21 tour boat companies reported earnings of approximately \$9.4 million. Glass bottom boat rides were among the most popular activities.²⁷

Unfortunately the rapid growth of ocean tourism created structural problems for state regulators and big hurdles for the ocean tourism industry. The small boat harbors were designated by statute for the purposes of "recreation and landing of fish."²⁸ The entire emphasis of harbor management was on commercial fishing. No provision had been made for accommodating the special needs of running commercial tour boats, such as the need for bathroom facilities that could handle hundreds of people per day.

For this reason there were no special fees assessed against the commercial tour boat operators. There was no mechanism for perpetuating a business. Nor was there a

²⁷ Markrich 1984 report

²⁸ Board of Harbor Commissioners Section 112-21, Revised Laws of Hawaii 1955

means to incorporate existing businesses with the corresponding business rights normally enjoyed by other sectors of the business community.

The harbor slips were normally held in the names of individuals, who could keep the slip for their lifetime; when an individual that held the slip died, the business automatically died with that person. The business lost its slip and commercial permit rights, which were then passed to the next person on the DOBOR/DOT waiting list. Only by changing the law so that boats could be registered as an entity, such as a corporation, could tour boat businesses be perpetuated. The law was changed so that as long as the corporate entity continued to “live” the business could renew its permit just as is done with recreational boat slips. Even though the permit was only for one year at a time, the slip/permit holders were assured that as long as they were not in violation of any DLNR boating laws, had paid all fees and were not in violation of any other state, county or federal laws, they could reasonably expect to have their slips/permits renewed. Also, it should be noted that, if there is a stock transfer, the DLNR/DOBOR administrators must be notified immediately and be paid a “Transfer fee.”

Another important problem to be solved was unlimited commercial growth. The state allocated a certain percentage of space in each harbor for commercial boats. At Ma’alaea and Lahaina this percentage was set at 30%.

These changes made it possible for the owners of small family owned tour boat companies to obtain business financing. From that point on, the Maui tour boat industry really began to show healthy growth. It was during this period that additional operators began making half day trips to Molokini Crater, which is approximately ten miles from Ma’alaea Harbor.

A History of the Molokini Crater Snorkel Business

In 1974, a group of three businessmen consisting of Bob Chambers, Mike Salzer, and Dave Padgett had started a company called Ocean Activities Center and were operating a beach concession from the Mana Kai Hotel in Kihei. They were teaching scuba from the beach and taking their classes out on Dave Padgett’s boat from Ma’alaea Harbor. They were looking for some kind of activity to do in the afternoon when the trade winds came up and the diving was not as good, so they bought a six passenger catamaran and started offering catamaran rides.

The first catamaran rides were short trips around Molokini Crater and then back to the shore at the Mana Kai Hotel. Customers enjoyed the unique geological formation and very shortly asked if they could stop in side the crater and spend some time. At this time, next to no one was utilizing Molokini Crater except for fisherman and black coral divers, but the request was granted. The businessman realized that more people would be able to snorkel than could dive, and thus an industry was born. At this time, Molokini Crater had a very sparse population fish, so each day the catamaran would bring along extra bread to feed the fish and bring them closer to the boat so that people could more easily see them.

Over the years, several other tour boat operators joined in the Molokini Crater experience and eventually a booming industry was developed with tour boats departing from Ma'alaea Harbor, Kihei Small Boat Ramp and Lahaina Harbor. In 1982, "Hurricane Iwa" came through the islands, sank many of the vessels and significantly damaged the coral structure in Molokini Crater, by stripping coral from the walls far below the water level. Slowly, the charter boat companies rebuilt and the industry continued to grow.

Fish-feeding became common place, and Molokini had fish everywhere and tourist loved the unique formation, the clear water, and the abundance of fish. Molokini became one of Hawaii's most popular attractions.

Then, in 1984, the U.S. Navy determined that unexploded bombs in the ocean off Molokini constituted a danger to the public. The Navy decided to remove the unexploded ordinance by dragging the bombs into deeper water or exploding them in place. This action devastated the fish population and caused severe damage to the coral structure. However, after this incident the ocean waters at Molokini recovered and so did the public's interest. The uniqueness of Molokini Crater's geological formation and its superb clarity of water continued to intrigue visitors.

Molokini Crater's popularity continued to grow, and the fish populations recovered. More and more people were visiting Maui's geological wonder when ten years later it was dealt yet another blow. In 1992, "Hurricane Iniki" swept through the islands and again caused significant damage to the coral structure. Coral was stripped down the walls to sixty to eighty feet deep from the severe wave action and the visibility took almost a month to return to normal. Despite the damage, the public was still fascinated with the unique formation and the abundant fish life.

In 1994, the DLNR-Aquatic Resources office determined that it was necessary to limit the carrying capacity of Molokini Crater. A public process was established and the existing commercial operators were given one year of notice to prove that they used Molokini a minimum of eight times during the previous year. Some new businesses were formed at this time, and these and the existing business were all given permits. Other businesses determined that although they had been in business prior to this time, Molokini was not in their plans and they did not apply for a permit. The maximum number of authorizations allowed was capped at forty-two permits, with only forty-one currently issued.

During the same time period, an effort was made to preserve the remaining coral structure by reducing the anchoring and creating a permanent mooring system. The State Division of Aquatic Resources installed a Manta system; twenty-five commercial moorings and two public moorings were permanently installed. The DLNR passed Title 13 Chapter 31 (HAR); the Hawaii Administrative Rules for Molokini Shoal Marine Life Conservation District for Maui were passed to further protect the resource. These administrative rules prohibited fish-feeding, fishing and the ability to take, possess or remove marine life from the area.

Today, there are markedly less fish. However, Molokini Crater continues to be extremely popular with people because of its unique geological formation, clarity of water and the introduction of a bird sanctuary and an underwater Marine Conservation District. Commercial operators have continued to strive to protect and preserve the resource through the maintenance of the existing mooring system and by eliminating anchoring inside Molokini Crater.

Economic Impact

The DLNR Division of Aquatic Resources (DAR) currently administers 25 moorings at Molokini designed to protect the coral reef from damage by anchors. In 2004, the DAR issued 41 permits to tour boat companies. Each permit represents one boat. The moorings are used up to three times per day.

The vessels vary from small six person capacity inflatable boats to large catamarans certified by the US Coast Guard (USCG) to carry 149 people. It is rare for the larger capacity vessels to operate at full licensed capacity. If one adds all the USCG approved seats available daily it totals 2,180 seats. Some companies send their vessels to Molokini twice per day and others only once. Industry professionals estimate that each day in good weather at least 30 vessels are on site at Molokini.

Ticket prices vary between \$33 and \$95. The fact that some vessels stop at Molokini and go on to other sites doesn't diminish its value. This is because Maui tourists associate a trip to Molokini with a unique ocean destination.

When the gross revenues for all of the 41 vessels, which include scuba diving, snorkeling and excursion boats visiting Molokini Crater, are summed based on the information available from the survey the amount is approximately \$36 million. Assuming an average fare of \$70 per head it can be estimated that 514,000 people visit Molokini Crater annually. Assuming 340 days of good weather per year (each year 25 days or so are lost to rain or extreme wind) this works out to approximately 1500 people per day.

Another method to estimate the total is to look at occupancy rates on Maui. Assuming a 75% to 90% hotel occupancy rate, tour boat industry leaders estimate that in high tourist season, this proportion of visitors can be applied to the approximately 2000 seats available to go to Molokini on any given day. Assuming that between 1500 and 1,800 people per day visit Molokini.²⁹ it can be estimated that over 340 days per year between 510,000 and 612,000 people visit Molokini. Based on the \$70 ticket price, it can be estimated that the total value of the Molokini tourism experience is in a range of between \$35,750,000 and \$42,840,000 per annum.

The vast majority of vessels operating from Ma'alaea Harbor go to Molokini. Molokini Marine Life Conservation District has become "bigger than life" because of all the promotion it has received over the years. Tourists want to go there. It gives them

²⁹ Jeff Strahn, Maui Dive Shop

“bragging rights” and is considered a “must see” for the Maui Visitor. During rough weather periods, tour boats do not go to Molokini and owners lose significant income.

This destination is so important that if an average tour boat company were to lose access to Molokini, it would go bankrupt, according to the opinion held by most Maui ocean operators.³⁰ There are just not enough viable options open to them from Ma’alaea Harbor.

Environmental Impact on Molokini

The Environmental impact of Molokini is not considered significant. Molokini typically has twenty hours rest and four hours use each day. During stormy times there may be no boat access for days on end. Activities at the Molokini Marine Life Conservation District take place mostly in the early morning, because trade winds regularly sweep into Molokini crater by noon. These factors makes the use of the crater quite short and intense and many times impossible. Visitor demand for Molokini has become so strong, that on days when access is impossible or unlikely, many people request a refund for the cost of the trip or cancel. Because there are more vessels than there are moorings, many of the vessels already spend as short a time as possible in Molokini. They quickly sail to a second destination along the Maui coast which allows the additional vessels access to the crater before the trade winds fill in.

After more than twenty years of continuous daily trips to Molokini Crater, each individual tour company has staked out a mooring from which they can safely exercise their trade. These moorings are all on a first-come–first-serve basis, but the commercial fleet follows an unspoken protocol and normally respects the traditional mooring place of each vessel. The tourists enter the ocean to snorkel for up to an hour and then generally return to their boats for an early lunch. Most snorkel traffic to Molokini ends by noon because the ocean becomes rough in the afternoon.

Impact on the environment is said to be limited because there is no setting foot on Molokini, no fish-feeding, no touching coral and no consumptive use at all. Most visitors simply float around on the top of the ocean swells and then come back on to the boats to eat a barbecue lunch. It is significant that after the lunch, few of the visitors choose to re-enter the waters. Instead they prepare for a return to Ma’alaea where they will be able to see whales (in season) or turtles along the way. Sometimes the boats stop just off the Maui shore for a brief shore dive and snorkel.

Whale Watching

The other important trade is in supplying whale watching experiences. The designation of Maui as a part of the Hawaiian Humpback Whale National Marine Sanctuary played a key role in developing the demand for whale watch and marine mammal tours there. As a result of these programs, not only are visitors drawn to see whales in their natural environment between December and April, but many even feel

³⁰ Capt Jim Coon

that they are helping in the conservation of the species by taking their vacations on Maui. It is noteworthy that the largest commercial operator is a non-profit environmental foundation.

The second most significant trade are whale watch tours, which take place during whale watch season and extend from mid December to early April. The tours are based out of Lahaina and Ma'alaea harbors, and Ka'anapali Beach as well as from boat ramps from Kihel and Mala Wharf. The price has varied little in twenty years with most whale watch trips costing between \$19 and \$40. This is largely because the trade, which was once made up largely by small boats, is today dominated by large vessels with 49 to 149 people aboard that take people out every two hours. These trips are so popular that virtually every operator offers these trips during the short whale watch season.

It has been estimated that approximately 150,000 people whale watch during the five month season. Out of this amount an estimated 40% comes out of Maalaea Harbor and the balance from Lahaina. Assuming that the average prices of a whale watch is \$22, it can be estimated that whale watch gross revenues on Maui total \$3,300,000. Another significant tour boat trade is the Ka'anapali Catamaran market. The Ka'anapali beach catamaran trade is directly linked to Maui's luxury hotel market. These vessels do sunset cocktail, luxury dinner cruises, whale watches, snorkel, scuba and private luxury charters. Ka'anapali tourists who once drove to Lahaina for whale watch cruises now set off on whale watch charters that leave directly from the beach fronting their hotels.

Owners of vessels report the need to constantly upgrade their vessels so as to be able to meet the demands of wealthy visitors who expect high standards of luxury and safety. Tour boat operators at Ka'anapali who hold one of the ten beach mooring loading rights find, that in order to stay in the business and keep getting referrals from hotels, they have to buy new boats every few years. In the past, tour boat operators in this market would be able to keep the same vessel in service for decades. The reality of the business today is quite different. Instead of being able to pay off their vessels and make a profit they essentially find themselves in the situation of being in perpetual debt, continually having to service debt on new boats. As a consequence, many operators with large gross revenues operate on thin margins of profitability. Those owners who cannot afford the cost of continually upgrading their vessels risk being forced out of the market.

Lanai and Molokai

The other important profit center for the tour boat trade is the packaged tour business to Lanai and Molokai. Twenty years ago this business was limited to small day trips to Club Lanai on the windward side of Lanai and Manele Bay located on the leeward side. Today it is estimated that nearly as many people travel to Lanai to snorkel off its protected coastline as go snorkeling at Molokini.

Twenty years ago, there was also a small boat that ran to Kaunakakai Harbor on Molokai. Today, both Molokai and Lanai have daily ferry service. The Lanai Ferry completes five round trips each day and is the primary link for Lanai residents to access

Maui. It is the major venue for guests of the luxury hotels as well as Maui residents to access the Island of Lanai.

The Lanai Company, which owns the entire island, allows limited access to bring guests for activities such as golf, swimming, scuba diving, horseback riding and day trips around the island and to use Hulopoe Beach Park. The day trips, which take place on the ferry and on passenger vessels from Lahaina, have become a major part of the tour boat experience.

Some tour boats also provide day ocean activities for the guests of the two luxury hotels on Lanai. It is estimated that more people access Lanai by boat via the Manele Small Boat Harbor each month than fly into Lanai's airport. The Maui Molokai Ferry also takes visitors on day trips to Molokai.

Other significant tour boat businesses on Maui are dinner cruises, parasailing, submarine rides, a lone glass bottom boat and 23 active charter fishing boats. The dinner cruise business on the island is small compared to Honolulu, but growing in significance.

The Maui tour boat businesses reported high levels of customer satisfaction with many customers coming back year after year. One operator reported that he had taken the same couple for both their 25th and 50th wedding anniversary.

Tour boats play a vital role both in the success of the Maui's visitor industry and in the local economy as a whole.

Concerns of Maui Tour Boat Operators

The greatest concern expressed by tour boat operators is for the long-term viability for their business. There is the political uncertainty of either user fees that are so high as to make business survival impossible, or taking away their basic business rights and mooring privileges. Banks are already telling these businesses that they are worried about extending large amounts of credit until these issues are cleared up.

If the exclusive, permitted, day-use mooring rights for Molokini were auctioned to the highest bidder, those companies presently operating in this trade, would likely find most of their businesses gone and the value of their company assets diminished. It should not go unnoted that the companies that operate these vessels generate substantial revenues for the harbors.

Secondly, despite the state's official commitment to upgrade the state's small boat harbors, little or nothing has been done to improve the quality of bathrooms, docks or other harbor infrastructure at Mala'aea or Lahaina.³² There is only one restroom at

³² Gary Kubota, "Ma'alea Harbor boaters frustrated at facility upkeep," Honolulu Star Bulletin 11-09-03.

Ma'alaea available and no pump-out facility for a harbor that handles well over one thousand people nearly every day. This is in spite of the fact that more than fifty percent of the commercial revenues brought into DOBOR from 21 harbors originates in Maui.

Additionally, there is no adequate haul-out facility on Maui to service the large tour boat fleet. This necessitates the vessels and crews crossing very dangerous channels to the Big Island or Honolulu to haul-out their boats. This is both very expensive and very dangerous.

The other obstacle facing the tour boat industry on Maui is high commissions to activity desks to attract tourist customers greatly abate tour boat profit. Some companies reportedly pay as much as forty percent commission for each customer. Only those companies that are able to book most of their customers themselves are able to make profit. Some fear that as activity desks become more influential, the business will be consolidated in a few hands and only those companies able to take most of their own bookings will remain independent.

In the recent past, most Maui visitors stayed in hotels and the amount they spent on activities was often reflected by the standards of their hotel accommodation. Those who stayed in luxury hotels purchased the most expensive activities while those who stayed in more downscale accommodations chose activities that fit their budgets better. This insured that there was always a large number of people at the high-end willing to pay for the more profitable excursions and helped businesses maintain their bottom lines. Today, as increasing numbers of visitors are staying in timeshares, some in the industry fear this equation may be changing.

Those who stay in timeshares are generally repeat visitors. They often demand reduced kama'aina rates as if they were local residents. Tour boat operators worry that as the percentage of timeshare visitors grow, the tour boat companies will be caught between diminishing price points and ever increasing commission rates and costs. Under these circumstances there will be less profit in the future. To survive, the companies will have to re-invent their products so they have enough perceived value for visitors to pay full fare.³³

³³ Jeff Strahn, Maui Dive Shop

Big Island

Number of people employed in the industry: 395

Employee payroll: \$9,513,535

Gross Revenues according to survey: \$25,639,000

Number of tour boat passengers carried in 2003: 313,924

(This represents approximately 30% of the 1,085,818 annual visitors to the Big Island.)

Charitable contributions: \$182,180

This survey was based on 84 responses from 109 companies called supplemented by an estimate of the entire charter fishing boat sector of eighty boats. Out of eighty fishing charter boats at Honokohau and approximately 65 regularly working charter fishing boats in Honokohau. In addition, there are several charter fishing boats moored at Kawaihae and Keahou. One company does whale watching only.

Revenues for the 65 vessels were estimated based on average revenues provided by the Division of Boating and Ocean Recreation at Honokohau. The numbers they provided -an estimate of \$1,000 to \$5,000 per year - were cross-checked by means of calls to seven different charter fishing boat companies. Neither of the dinner cruises chose to participate and a number of the dive companies refused as well.

Origins

Located within a large calm ocean area protected by high volcanic mountain ranges, Kona has long been an international center for big game fishing. Honokohau Harbor is where the fishing and commercial tour boats are moored.

In 1953, a company called Hawaiian Cruises was formed and started taking visitors on snorkeling trips to Kealakekua Bay. Later, in 1971, they were joined by Fair Wind Cruises. Together, the two companies helped build awareness among visitors of the historical value at Kealakekua which also became known as one of the premier snorkeling sites in Hawaii. To keep their boats secure they built and maintained, at their own expense, their own moorings in the Bay.

Over time, the Fair Wind Cruise company and Hawaiian Cruises faced many challenges. In 1998 both companies went through a Hawaii State Department of Land and Natural Resources permit process in order to gain Board of Land and Natural Resources approval for commercial permits in Kealakekua Bay. They were informed by the Board that they would be expected to pay an additional .5% of their gross income over and above the 2% of their gross income, they were already paying for their slip fees at DOBOR harbors, for the use of their own maintained moorings in the Bay. The funds and the paperwork went through the Division of State Parks at that time.³⁴

³⁴ Mendy Dant, 2004

In 1992, only two years after they had been ordered to pay the additional fee, winds from Hurricane Iniki damaged their catamaran and nearly destroyed their business. In 1995, a storm put the Hawaiian Cruises vessel on the Kailua shore. Eventually they sold their mooring rights to the Fair Winds Cruises. In the meantime, many other rafting companies entered the tourism market on the Big Island to offer similar diving and snorkeling experiences at Kealahou Bay.

Based on their past performance, and their willingness to put up their own home for collateral, the owners of the Fair Winds were able to get financing from lending institutions. Today, after 33 years in business, the owners of Fair Wind Cruises find that their future is in jeopardy. The proposed call for the auctioning of long term mooring rights at Kealahou by DLNR changes the status quo and creates a climate of uncertainty.³⁵

Demographic Changes

It is interesting to note that while the market for the dive and snorkel tours has continued to grow, that of the 65 active charter fishing boats in Honokohau Harbor has remained static. Although fishing tournaments grow in size and prize money, the number of outside visitors seeking exclusive fishing charters has not kept pace with other changes in the ocean tourism industry. Most of the charter fishing boats offer half day charters in an effort to fill their boats with tourists, who are more likely to pay for a half day of fishing instead of a full day.

The consolidation is due largely to a change in the type of visitor coming to Kona. Over the last twenty years Kona tourism has attracted an increasingly high-end clientele. Many of the individuals and families who began to come to Kona during the mid-90's were drawn to diving, snorkeling, whale watching experiences and eco-adventure tours.

The steady growth of Kona as a prime scuba diving destination has encouraged many business people to enter this market.

Whale watching is also popular in Kona. However, because there are relatively few boats in Kona to take visitors out on the more lucrative snorkel sails, exclusive whale watch trips are limited to three times per week during an eighty day whale watch season. For most companies in Kona, the exclusive whale watch programs end at the beginning of April because that is when their most intense tourist season begins. However, one company offers whale watch trips year round from Honokohau harbor. Approximately 40,000-50,000 visitors take whale watch trips on the Big Island.³⁶

³⁵ Ibid

Concerns of Kona Tour Boat Businesses

The decision by DOBOR to ask for the public auction of the one mooring buoy at Kealakekua Bay developed by the Fair Wind Cruises companies has reverberated through the entire tour boat industry. The auction will force the owners of the company to bid for their right to stay in business. They fear that if they lose their permit, they will lose their investment and their livelihood because there will be no comparable snorkel destination spot for them to moor and operate their vessel. Like others in the industry, Fair Wind Cruises is a family business in its second generation with hopes for the third generation. If they are forced to bid against a large multinational corporation for the right to operate at their mooring they may be forced to close and 47 people will lose their jobs.³⁷

Their anxieties are shared by the owners of other Kona scuba shops and eco-tour companies throughout the state who fear that increasing costs and regulations will cause them to lose their businesses. There is fear in the tour boat industry that once this precedent is set, all small businesses will be vulnerable to auction and company owners will no longer be able to count on long-term financing from banks. At the present time, more than \$26,000,000 is invested in the Kona Tour boat industry with another \$11.5 million dollars is planned for investment over the next five years. This reflects the rapid growth of the scuba diving resort market there. A number of individuals said that if the moorings at Kealakekua and Molokini are reallocated on a purely monetary basis they will not invest further in their businesses because they cannot see a future.

³⁷ Mendy Dant, personal communication.

Kauai

Number of people employed in the industry: 210

Employee payroll: \$5,326,000

Gross Revenues according to survey: \$22,443,000

Number of tour boat passengers carried in 2003: 427,450

(This represents nearly 50% of the 1,059,796 annual visitors to Kauai.)

Charitable Contributions: \$169,125

Fuel Consumption: \$842,162

Kauai tour boat companies have invested more than \$14.6 million in their vessels and have plans to invest \$6.5 million more over the next five years.

28 out of 51 inquiries received responses. These responses were from companies that took passengers to the Na Pali Coast, as well as water-skiing and scuba diving. There were 19 active charter fishing boats identified on Kauai. For purposes of the survey, it was assumed that half employed two people and that they worked 200 days a year at \$600 per day. Their earnings were added to the total.

Kauai's charter boat industry has been divided into three sections: a tour boat industry based around the Na Pali Coast tours; Wailua River tours; 19 charter fishing boats; and commercial water-skiing and kayaking on the Wailua River. Whales are so commonly seen (in season) on the Na Pali excursions that only one or two companies presently put on exclusive whale watch charters. It was estimated that between 5,000 and 10,000 people go on whale watch charters on Kauai each year.

The demands of taking visitors to the Na Pali Coast require yearly upgrades of engines, large amounts of fuel, and constant maintenance. Those surveyed had invested \$14,660,000 in their vessels and had plans for spending of \$6,578,000 over the next five years. These are conservative estimates.

The Kauai tour boat industry originated during World War II when barges began taking visitors up the Wailua River to the Fern Grotto. This became a famous site to get married and over the years has attracted many thousands of people from all over the world. Information from DOBOR and the State Parks Division, on the basis of public documents, asserts that each year approximately three million dollars is generated in gross revenues. At fifteen dollars per head this works out to approximately 200,000 people visiting the area each year. No accurate headcount currently exists of the number of riders. This estimate is thought to be down from previous years.

It is interesting to note that in the 1984 survey approximately half a million dollars was generated by the tour boat industry on Kauai in total. 75% of the revenue came from the Wailua River boat tours. Today it is likely only 16% of the total comes from this source. There are a number of reasons given for the decline of this popular

destination which has enthralled generations of visitors. Part of the attraction of the Fern Grotto was the rich green jungle like setting full of lush green ferns, and flowering plants. During Hurricane Iniki, trees fell and the forest canopy above the grotto was ripped open by wind and rain. The direct sun light caused many of the beautiful ferns and other plants to dry up and die. The problem was exacerbated by the closing of Lihue Plantation which developed the reservoir directly above the Grotto. After the hurricane, successive state administrations failed to provide funds to help bring the attraction. Walkways rusted. The gardens dried up and little was done to “re-invent” the attraction with new information or music. As interest in other areas of Kauai developed, boats began to run empty up to the Fern Grotto.

However, after many years of decline things are looking better. The State Parks Division has obtained funding to fix the walkways in the Grotto and new sources of water have been found for the resevoir.³⁸

Leases with the Wailua River are based on current assessed value and have varied with payments as high as 9% annually. The payments are currently 5 percent. The permit of one operator is currently coming up for renewal.

In 2004, the tour boat business on Kauai generated estimated gross revenues of \$19,443,00 million and employed 210 individuals. Because of the lack of participation of the Wailua River tours in the survey, the number of employees is lower than the actual number.

Kauai differs from the other islands in that it has suffered from the most significant amount of tour boat industry litigation. The Na Pali Coast tour boats which now leave from Port Allen and the Hanalei River have generated controversy for more than twenty years. There were initially only three companies involved in this business which started in the early 1970’s. These companies were given permission to load and unload passengers along the Na Pali Coast by the DLNR’s State Parks Division. In 1984, in response to criticism that only a few boat companies were able to operate out of the Hanalei River and were able to dominate a lucrative market, DLNR opened the permit process to the general public. Consequently more than forty prospective tour boat company operators received permits. This would eventually result in controversy over the commercial use of public space in Hanalei Bay and charges of environmental damage. After many years of lawsuits and counter lawsuits, in 1998 Governor Benjamin Cayetano ordered DLNR to stop the boats from operating from the Hanalei River.

Three companies were closed as a result of this change and an estimated 150 to 240 jobs were lost.³⁹ Some of the companies relocated their operations to Port Allen but others were forced out of business and had to sell or lease their existing permits to companies operating out of Port Allen. Major losses were incurred by the companies involved. At the time of the governor’s order in 1998, DLNR would not make their facilities available to Na Pali coast operators (even though their rules would allow the

³⁸ Kauai State Parks Division Superintendent Wayne Souza

³⁹ Ted Myers, personal communication

use). Operators soon found the DOT harbors division much easier to work with and relocated operations to the unused commercial pier in Port Allen. There are presently six large vessels moored at the Harbors Division pier which take visitors up to the Na Pali Coast. An estimated 200,000 people visit the Na Pali Coast each year on more than fifteen vessels.

For a time the DLNR required those operators working from the Port Allen Harbors Division pier to pay an additional two percent of the gross revenue to DLNR for the “privilege of operating commercially on the waters of the state.” A federal court soon declared this requirement unconstitutional. As a result, the majority of the boating revenue generated on Kauai has been diverted to the Hawaii State Department of Transportation.

In addition to this change, successful federal litigation brought by three boating companies has resulted in three companies operating from Hanalei Bay pursuant to a permanent federal injunction: Captain Sundown, Na Pali Catamaran and Hanalei Sportfishing & Tours.

It has been suggested that future landing right permits on the North Shore of Kauai might be apportioned on a lottery or a bid basis. The owners of the companies that presently hold landing permits have stated publicly that they are small businesses and could not possibly win a state auction against larger private companies. The future of the tour boat business on Kauai remains uncertain.

Recommendations

1. Allow the present system of day-use mooring rights to continue. This is the most equitable means of allocating use of these resources. These kinds of procedures are found in multiple other jurisdictions throughout the United States.

- 2 Transfer the Division of Boating and Ocean Recreation back to the Hawaii State department of Transportation Harbors Division. This will cut costs, eliminate the duplication of services, end the confusion caused by conflicting administrative rules and lower management costs. It will consolidate fiscal offices, enable managers to keep one set of books and create uniform guidelines for everyone in the tour boat industry to follow.

3. Recognize what a significant contribution the Ocean Tourism Industry makes:
 - Facilitating access for the public to access their public resources,
 - Enhancing the visitor experience for the tourist industry
 - Employing thousands of island residents
 - Educating the public on resource management issues
 - Providing reduced fare access to Kama'aina and school children
 - Promoting Hawaii's unique marine beauty with the media
 - Protecting the environment through proactive involvement and support in resource management issues
 - Creating a venue for the emerging cruise ship industry
 - Training island young people for a meaningful profession in this industry so they can stay in Hawaii
 - Helping their communities through charitable giving
 - Supporting a multitude of other small businesses which depend on this industry to survive

Sharing Aloha with millions of visitors to Hawaii and being an integral part of their decision to come back to Hawaii again

Summary

The success of the Hawaii tour boat business over the last thirty years has largely been the result of a benign government policy that facilitated the growth of the industry. Because the State of Hawaii limited the number of tour boat permits with access to day use moorings at areas such as Kealahou Bay and Molokini Crater and at the same time banned anchoring it ensured that most of the participating companies could charge enough money in ticket prices to cover their costs and make a profit. It enabled many entrepreneurs with limited capital to enter the ocean tourism industry and prosper. Visitors to Hawaii want excursions on the ocean. The Tour boat industry provides this important service.

Over the past twenty years, the number of vessels has been strictly limited by the state but the number of passengers carried on each vessel has grown substantially. In this fiercely competitive business, providing a quality experience has become the key to survival for many tour boat operators. The most successful companies educate as well as entertain their guests. All are committed to marine conservation.

Contemplated rule changes for the industry have placed the industry into a period of uncertainty. These actions will likely impact every operator with a long-standing commitment to service from a single location and may result in the closing of businesses and the loss of jobs.

With government policy in a state of flux, few in the industry are confident or able to predict what the future will bring. There is a real fear they will be unable to keep their businesses alive and maintain their companies, attract outside partners or capital, or pass them on to the next generation. Banks are already starting to tighten up on lending.

Many operators have been in business twenty years or more and have been grooming their replacements in their respective businesses, be it sons and daughters or loyal employees. Many of these young people came into these enterprises with the hope that they would have a lifetime career in that particular company. Many of these companies have pension plans, and other mechanisms to benefit the long-term survival of, not only the business, but also the employees that helped make it a success. Present policy places these pension plans in jeopardy.

The tour operators expressed the opinion that if they are forced out of business by changes in state policy towards tour boats the loss will not only be theirs. Hawaii must compete with other resort destinations for high end visitors. If there is no consistent commitment to quality by the operators of ocean activities, a major draw to Hawaii will be gone. The entire visitor industry will suffer.

Appendix

Table of Permits⁴⁰

ISLAND	Harbors Division	DOBOR*	TOTAL PERMITS
Oahu	59	41	100
Maui (includes Lanai/Molokai)	0	129	129
Big Island	0	196	196
Kauai	6	53	59

*includes commercial permit slips, ramps, and vessel moored elsewhere (VME) status

** Normally one commercial permit signifies one vessel however under VME the eight vessels with this status moored in Manele Small Boat Harbor are similarly classified in Lahaina. For this reason, there should be eight less vessels counted in Maui.

*** Not all the vessels are working vessels. Some sit unused at their moorings.

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⁴⁰ Based on interviews with DOT Harbors Division and DOBOR attendants on each island.

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