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Panel on Economic Services Meeting on 27 November 2006

Background brief on the development of new cruise terminal facilities in Hong Kong

Purpose

This paper sets out the background to the development of new cruise terminal facilities in Hong Kong, briefs on the latest progress of the development, and summarizes Members' concerns about the related issues.

Need for additional cruise terminal facilities in Hong Kong

2. The development of a new cruise terminal in Hong Kong was first mooted in 1999. The Tourism Commission and the Hong Kong Tourism Board (HKTB) have in recent years commissioned consultancy studies to track cruise market development trend and examine the need for cruise terminal facilities in Hong Kong (the Studies). The Studies indicate that the cruise industry is one of the fastest growing segments of the worldwide travel and leisure industry, and with its world-class infrastructure and tourism facilities, Hong Kong is well placed to become a regional cruise hub¹. At present, the Ocean Terminal is the only cruise terminal in Hong Kong. However, the existing berthing facilities at the Ocean Terminal are inadequate to meet the market demand², in particular during peak seasons and in accommodating mega cruise vessels. As a result, some cruise vessels had to berth mid-stream and at container terminals. Such arrangements were far from satisfactory and may cause some vessel operators to choose not to include Hong Kong on their itineraries. The Studies conclude that Hong Kong

¹ A survey conducted by HKTB in 2004 indicated that more than 50% of Mainland visitors expressed interest in joining a cruise vacation in future. Of these, more than 80% would join conventional cruises from Hong Kong.

² The annual berth utilization rate of Ocean Terminal rose to 76% in 2005 from 71% in 2003. Between 2001 and 2005, some 11 cruise vessels had to berth mid-stream and at container terminals because the Ocean Terminal could not meet market demand.

will require an additional berth between 2009 and 2015, and one to two further berths beyond 2015 to sustain its development as a regional cruise hub.

The Expressions of Interest (EOI) exercise to develop new cruise terminal facilities in Hong Kong

3. The Government originally incorporated a finger pier at the southern end of the former runway in the Kai Tak (South) Outline Zoning Plan approved in 2002 for the development of new cruise terminal facilities as it is the only site within the Victoria Harbour with the capability to provide two or more berths. However, construction of a finger pier would constitute reclamation within the Harbour, which should only proceed if the overriding public need test, pursuant to the judgment of the Court of Final Appeal made in January 2004 on the application of the Protection of the Harbour Ordinance (Cap. 531), is satisfied. The Government hence conducted planning and engineering review for the Kai Tak Development. It is envisaged that the entire planning review process and the statutory procedures for commencing works for a cruise terminal could only be completed in 2008.

4. To meet the medium-term needs for cruise terminal facilities in a more timely manner, the Government conducted an Expressions of Interest (EOI) exercise in November 2005 to gauge market feedback on whether there were feasible locations other than the Kai Tak Development for earlier development of new cruise terminal facilities. The Government has clearly stated in the EOI invitation document that if no alternative location could meet the requirements, it would proceed with the development of a new cruise terminal at the Kai Tak Development, and see how the development process could be expedited.

5. The Government received six suggestions by close of the EOI exercise in December 2005. An Interdepartmental Core Group on the Development of New Cruise Terminal Facilities has carefully examined all suggestions and concluded that none of them could fully meet the requirements. Separately, in December 2005, the Government has received a proposal from Wharf to develop a new cruise terminal at the Kowloon Permanent Pier No. 7 adjacent to the Ocean Terminal. In May 2006, Wharf further indicated to the Government its intention to strengthen the structure of the Ocean Terminal to enable the berthing of mega cruise vessels. The Administration has assessed both proposals and held the view that they should not be considered further. The findings of the EOI exercise and the assessment of the Wharf's proposals are summarized in **Appendix I**.

New cruise terminal facilities to be developed at the Kai Tak Development

6. On 24 October 2006, the Government announced its plan for developing new cruise terminal facilities on the 7.6 hectares of land earmarked at the southern end of the former runway at the Kai Tak Development. The Government will adopt an incremental approach in developing the new cruise terminal facilities. Phase 1 will focus on the new cruise terminal with facilities, including berthing facilities (e.g. two alongside berths, passenger gangways and baggage supplies) and supporting facilities (e.g. ticketing offices, waiting areas, customs, immigration and health quarantine facilities). The Government would offer the site to the market through open land tender. The successful bidder will, at his own cost, form the site as well as design, build, and operate the cruise terminal facilities. The bidder will own the land and facilities thereon for 50 years and will determine berthing fees and charges. Flexibility will also be allowed for the bidder in developing the commercial area inside the cruise terminal building within a fixed period. Depending on the implementation programme of the successful bidder, the first berth at Kai Tak is expected to be completed in 2012. Adjacent to the cruise terminal is a site of about 6 hectares earmarked as a tourism node to provide hotels, commercial, retail and entertainment facilities. The Government would offer the land for such development in subsequent phases as the Kai Tak Development evolves.

7. To incorporate market views into the development parameters of the tender and to allow more time for potential bidders to prepare their submissions, the Administration will conduct a pre-tender consultation with the tourism industry, in particular the cruise market, in the first half of 2007 in parallel with the statutory procedures for the Kai Tak Development. This will help expedite the subsequent tender exercise.

8. The Government will seek funding approval from the Legislative Council³ in late 2006 for advance studies necessary for developing the former runway at Kai Tak. This would facilitate the early formulation of technical requirements for the cruise terminal for inviting tender, and subsequent assessment of bids. The Administration also plans to create in the Tourism Commission from April 2007 one supernumerary Directorate (D2 level) post for two years to oversee the preliminary preparation work for the pre-tender consultation, preparation of the tender documents and coordination of tender assessment.

³ The Administration has submitted the relevant proposal to the Public Works Subcommittee of the Finance Committee and obtained its endorsement on 22 November 2006.

Major views and concerns expressed by Members

9. Members are keen to ensure early development of new cruise facilities in Hong Kong to enhance its competitiveness in the fast growing world cruise market and develop Hong Kong as a regional cruise hub. Members have been keeping track of concerned development through raising questions on areas, such as suitable sites, modes of development and operation of the new cruise terminal, facilities to be included and the timetable for the development at Council meetings in the 2004-05 and 2005-06 sessions. The details are hyperlinked in **Appendix II**. On the location for the new cruise terminal, there have been alternative suggestions to Kai Tak including, inter alia, the West Kowloon Cultural District, Hung Hom, North Point, and East Tsim Sha Tsui. As regards the development mode, approaches including open tender and "public-private partnership" have been suggested.

10. The Administration briefed the Panel on Economic Services on the latest thinking on the development of the new cruise terminal and the proposal to conduct the EOI exercise at the meeting on 28 June 2004. While members expressed support for taking forward the development of the new cruise terminal, concerns were raised on a number of areas. On the development approach to be adopted, there was suggestion that the Government should consider taking up the project instead of leaving it to the private sector so as to better ensure the regulation of berthing fees and charges in future. The Administration explained that it was the Government's intention to encourage private investment on tourism projects. Besides, development and operation of the new cruise terminal facilities by the private sector could maximize market efficiency. Given keen competition in the market, the Administration believed that berth fees and charges would be kept at a reasonable level. As far as the disposal of land was concerned, there was suggestion for the Government to model on the application system for the land sale programme in tendering the land required for the development. Moreover, the Government should avoid granting more than necessary lands to the operator for the development of complementary facilities to the cruise terminal.

11. The Panel on Planning, Lands and Works discussed the revised Preliminary Outline Development Plan (PODP) for Kai Tak Development at the meeting on 24 October 2006 and met deputations for views on PODP at the special meeting on 14 November 2006. There were views that as the former runway was the best location in Kai Tak, it should be designated for uses frequented by the general public instead of for the development of the new cruise terminal. Concern was also raised about whether the proposed 50-year land grant for the new cruise terminal, which would probably extend beyond 30 June 2047, was in conformity with the Basic Law. While some deputations have indicated support for developing the new cruise terminal at Kai Tak, some deputations have

expressed reservations on the location due to concern about remoteness from other tourist destinations. Deputations have stressed the need to provide adequate transportation networks in Kai Tak to enhance its connectivity with other districts and facilitate cruise passengers.

Latest development

12. The Administration will brief Members on the Government's plan in developing new cruise terminal facilities in Hong Kong at the meeting of the Panel on Economic Services on 27 November 2006.

References

13. A list of the relevant papers is in **Appendix II**.

Council Business Division 1
Legislative Council Secretariat
23 November 2006

**Summary of the findings of the Expressions of Interest exercise
for the development of new cruise terminal in Hong Kong**

Suggestions received in the Expressions of Interest exercise

By close of the Expressions of Interest (EOI) exercise in December 2005, the Government received six suggestions¹: one suggestion at the Kai Tak Development, one without detailed information on the location, two suggestions at Hung Hom Bay, and the remaining two at China Ferry Terminal and East Tsim Sha Tsui respectively.

2. An Interdepartmental Core Group on the Development of New Cruise Terminal Facilities (the Core Group) has carefully examined the suggestions received in accordance with the EOI requirements. The findings of the Core Group are summarized below -

- (a) the Kai Tak Development suggestion was not considered since it failed to meet the EOI requirement that only sites other than the Kai Tak Development would be considered;
- (b) the suggestion without detailed information on the location could not be further considered as it merely expressed interest to develop new cruise terminal facilities at any site designated by the Government; and
- (c) for the other four suggestions, the Core Group had identified major difficulties that made them unable to meet Government's requirements in full -
 - (i) their proposed works and relocation of existing ferry piers might constitute reclamation in the Victoria Harbour. The proposed use of pontoons might contravene the statutory principle of protection and preservation of the Victoria Harbour under PHO. The proponents could not or did not provide sufficient information to demonstrate the overriding public need for reclamation to implement their suggestions;

¹ The suggestions were made by: Dragages Hong Kong Ltd., Henderson Land Development Co. Ltd., Asia Pacific International Enterprises Ltd., Ocean Style Ltd., Proteam Services Ltd. (renamed Cruise City (Hong Kong) Ltd.), and Singapore Cruise Centre Private Ltd.

- (ii) technical difficulties including adverse transport as well as environmental impacts, and inadequate water supplies and sewerage infrastructure, render early implementation of the suggestions not feasible; and
- (iii) it would be highly unlikely that any of the suggestions could be implemented with certainty earlier than 2011 as set out in the EOI document even through an exceptional fast-track programme.

The Core Group therefore concluded that none of the suggestions received from the EOI exercise should be considered further.

Wharf's Proposal

3. Separately, the Government received in December 2005 a proposal from Wharf. While Wharf indicated that they were not responding to the EOI exercise, its proposal is to develop a new cruise terminal at the Kowloon Permanent Pier No. 7² adjacent to the OT. The site is currently leased to Wharf under a short term tenancy for use as a carpark. The Government considered that the proposal submitted by Wharf should not be considered on grounds of the stated policy in the EOI document for the development of a cruise terminal, as follows –

- (a) that the site for the development of cruise terminal facilities should be disposed of through an open and competitive bidding process, but Wharf indicated that a competitive bidding process was not a viable option for its proposal; and
- (b) that if a site could not be identified through the EOI exercise, the Government would not consider other sites and would proceed with the Kai Tak Development.

² The site for the Kowloon Permanent Pier No. 7 is surrounded by Wharf's properties. It has no right of access by land except through Wharf's properties. In view of the site access constraints, Wharf considers it not viable to dispose of the site through competitive bidding.

4. Furthermore, Wharf indicated to the Government in May 2006, inter alia, its intention to strengthen the structure of OT to enable the berthing of mega cruise vessels of up to 80 000 displacement tonnes (the Suggestion). The Government has received from Wharf a brief on the broad concept regarding the Suggestion. It is not aware of any formal applications made by Wharf to the relevant authorities for the purpose of implementing the Suggestion. The preliminary assessment is that the Suggestion would not increase the total number of berths available at OT (i.e. two) to meet the demand of the cruise industry in peak seasons. Hong Kong would still need a new cruise terminal to meet its needs.

(Source: Extracts from LegCo Brief ref: EDB CR 5/7/2091/04(06) pt 4. issued by the Economic Development and Labour Bureau on 24 October 2006.)

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List of relevant papers

Panel/Committee	Date	Paper
Panel on Economic Services Panel (ES Panel)	28 June 2004	Information paper provided by the Administration on Development of a new cruise terminal facility in Hong Kong (LC Paper No. CB(1)2198/03-04(01)) http://www.legco.gov.hk/yr03-04/english/panels/es/papers/es0628cb1-2198-1e.pdf Minutes http://www.legco.gov.hk/yr03-04/english/panels/es/minutes/es040628.pdf
Council Meeting	6 April 2005	LegCo question: WKCD site not suitable for cruise terminal (P. 62) http://www.legco.gov.hk/yr04-05/english/counmtg/hansard/cm0406ti-translate-e.pdf
--	3 November 2005	Invitation for Expressions of Interest: Suggestions for Development of New Cruise Terminal in Hong Kong issued by Tourism Commission and Economic Development and Labour Bureau http://www.tourism.gov.hk/resources/english/paperreport_doc/consultancy/2005-11-03/Invitation_for_EOI_(FINAL).pdf
Press Release	3 November 2005	Invitation for Expressions of Interest on development of new cruise terminal http://www.info.gov.hk/gia/general/200511/03/P200511030095.htm
Council Meeting	23 November 2005	LegCo question: Development of cruise terminal (P. 72) http://www.legco.gov.hk/yr05-06/english/counmtg/hansard/cm1123ti-translate-e.pdf

Panel/Committee	Date	Paper
Press Release	31 December 2005	Press Release: Suggestions for Development of New Cruise Terminal in Hong Kong http://www.info.gov.hk/gia/general/200512/31/P200512310126.htm
Council Meeting	22 March 2006	LegCo question: Development of the new cruise terminal (P. 26) http://www.legco.gov.hk/yr05-06/english/counmtg/hansard/cm0322ti-translate-e.pdf
Council Meeting	21 June 2006	LegCo question: Cruise terminal development (P. 72) http://www.legco.gov.hk/yr05-06/chinese/counmtg/floor/cm0621ti-confirm-c.pdf
Council Meeting	5 July 2006	LegCo question: Cruise terminal facilities (P. 73) http://www.legco.gov.hk/yr05-06/chinese/counmtg/floor/cm0705ti-confirm-c.pdf
Panel on Planning, Lands and Works (PLW Panel)	24 October 2006	Information paper provided by the Administration on Kai Tak Planning Review (LC Paper No. CB(1)89/06-07(01)) http://www.legco.gov.hk/yr06-07/english/panels/plw/papers/plw1024cb1-89-1-e.pdf Background Brief on Kai Tak Planning Review (LC Paper No. CB(1)89/06-07(04)) http://www.legco.gov.hk/yr06-07/english/panels/plw/papers/plw1024cb1-89-4-e.pdf Minutes
Press Release	24 October 2006	Press Release: Development of new cruise terminal facilities in Hong Kong http://www.info.gov.hk/gia/general/200610/24/P200610240216.htm
PLW Panel	14 November 2006	Submissions by deputations on Kai Tak Planning Review - Revised Preliminary Outline Development Plan http://www.legco.gov.hk/yr06-07/english/panels/plw/agenda/plag1114.htm