

**For Discussion
on 24 October 2008**

Legislative Council Panel on Economic Development

Update on the Development of a New Cruise Terminal at Kai Tak

Introduction

This note informs Members of the Government's plan to fund, design and build a new cruise terminal at Kai Tak for leasing to a cruise terminal operator, and seeks Members' views on a proposal to extend the supernumerary Administrative Officer Staff Grade C (AOSGC) (D2) post to implement the cruise terminal project.

Background

2. As a result of the last unsuccessful land tender, we informed Members via paper CB(1)2141/07-08(01) of our plan to re-tender the cruise terminal project with the Government funding the works for site formation and Government Facilities subject to approval by the Legislative Council (LegCo). We also indicated that should the re-tender fail, the Government would proceed to design and build the new cruise terminal for leasing to a cruise terminal operator.

Latest Development

3. We have since then engaged relevant stakeholders including the cruise industry and travel trade, as well as the property and construction industry, on the re-tender approach. We have also been tracking closely the latest market development. In view of the uncertainty in the trend of construction cost, turbulence in the financial market and latest trade feedback, the Government has decided to proceed to fund, design and build the new cruise terminal and lease it to a cruise terminal operator after completion. This will allow greater certainty in commencing operation of the first berth in mid 2013, as compared with another land

tender. Details are set out in the LegCo Brief issued on 30 September 2008 at **Annex I**.

4. To expedite the development of the cruise terminal, we plan to extend an existing supernumerary AOSGC post to end 2014 to coordinate and oversee the implementation of the project, as the existing supernumerary post will expire on 31 March 2009. Details of the proposal are set out at **Annex II**. Subject to Members' views, we shall submit the staffing proposal to the Establishment Subcommittee of the Finance Committee for consideration on 26 November 2008.

Advice Sought

5. Members are invited to note the Government's plan as set out at **Annex I** and comment on the staffing proposal at **Annex II**.

Tourism Commission
Commerce and Economic Development Bureau
17 October 2008

LEGISLATIVE COUNCIL BRIEF

UPDATE ON THE DEVELOPMENT OF A NEW CRUISE TERMINAL AT KAI TAK

INTRODUCTION

This note informs Members of the Government's plan to design and build the new cruise terminal at Kai Tak for leasing to a cruise terminal operator (the Government Design, Build and Lease (DBL) approach), in view of the recent escalation of construction cost and latest market feedback.

LATEST ASSESSMENT OF THE RE-TENDER APPROACH

2. We last informed Members in July 2008 of our plan to re-tender the cruise terminal project with the Government funding the works for the site formation and Government Facilities⁽¹⁾ subject to approval by the Legislative Council (LegCo); and that should re-tender fail, the Government would proceed with the DBL approach. We have since then engaged relevant stakeholders including the cruise and travel trade, as well as the property and construction industry, on the re-tender approach. We have also updated the construction costs for the project. Taking into account the recent developments as set out in paragraphs 3 to 6 below, our assessment is that it is highly unlikely that a re-tender would meet the objective of developing a new cruise terminal as soon as possible.

Unpredictable escalation of construction cost

3. The construction cost in general has surged significantly. The May 2008 material indices for galvanized mild steel, sand and steel reinforcement have risen by 60%, 104% and 137% respectively as compared to those in January 2007. In the first five months of 2008 alone, these material indices have risen by 25%, 42% and 41% respectively. In addition, diesel fuel prices are expected to remain volatile. Coupled with the increased volume in building construction works, the tender price

Note⁽¹⁾ Government Facilities include Customs, Immigration, Health Quarantine and Police Facilities, a Government radar tower, support area for cross boundary heliport passengers and a Landscaped Deck.

index⁽²⁾ for Government building works for the first quarter in 2008 has risen by 36% over the past 12 months and 12% over the fourth quarter in 2007. These recent developments in the local construction sector would give rise to considerable risks in cost estimates and hence dampen market interest in the re-tender for the cruise terminal.

4. Taking into account the latest cost increase, the overall construction cost of the new cruise terminal (excluding the commercial Gross Floor Area (GFA) of 50 000 m² which forms part of the tender) is now estimated to be \$5.6 billion at September 2008 price. This estimate is based on the assumption that the private sector will only be required to adopt the minimum standards that can be enforced by the Government and are necessary to meet statutory requirements and functional needs. Members were last informed that the Government would seek to fund the works for the site formation and Government Facilities should we decide to proceed with a re-tender. The estimated cost for these works then was about \$1.8 billion - \$2 billion at September 2007 price. The updated cost estimate has escalated to \$3 billion at September 2008 price.

5. When we last reported to Members, our intention was for the Government to seek approval from the Finance Committee (FC) to entrust the works for the site formation and Government Facilities to the successful tenderer. The cost of these entrusted infrastructure works would be reimbursed to the tenderer subject to a project estimate cap as approved by FC. Given the uncertainty in construction cost, there is a possibility that the actual construction cost to be shouldered by the tenderer may be much higher than the approved cap. This would in turn increase the risks of private sector involvement in the project. Also we are concerned that the latest financial market turbulence might add further uncertainty to the financing costs and resulting in no conforming tenderer for the project. Another abortive tender would discourage cruise operators from deploying cruise vessels to Hong Kong and dampen cruise market development.

Market feedback

6. Since announcement of the Government's plan to re-tender on 9 July 2008, we have been engaging the market on the proposed re-tender. The cruise industry and travel trade would like to see the earliest commissioning of the terminal and have questioned why the Government does not develop the terminal itself. There was indication from the market, especially the property development and construction sector, that even with the proposed Government funding support, the market might not respond positively due to remote access of the cruise terminal site, the long time required for the Kai Tak Development to mature, and

Note⁽²⁾ The tender price index is compiled by the Architectural Services Department (ArchSD) based on cost data from accepted tenders and on a quarterly basis.

the prospect of operating the terminal at a loss in the initial years.

THE DBL APPROACH

7. In view of the uncertainty and the time required in pursuing the re-tender approach, the Government now proposes to proceed with the DBL approach, keeping the target of commencing the operation of the first berth in mid 2013, as under the re-tender option.

8. Under the DBL approach, the Government would proceed to develop the new cruise terminal with two parallel contracts, i.e. a site formation works contract and a cruise terminal building works contract. The new cruise terminal would be leased to a cruise terminal operator. As a tenant, the cruise terminal operator would pay the Government a rental for the right to operate the cruise terminal. The Government intends to –

- (a) expedite the construction process by conducting the site formation works⁽³⁾ and the cruise terminal building works through two parallel tracks; and
- (b) commence operation of the first berth for cruise vessels with temporary facilities⁽⁴⁾ in mid 2013, pending the completion of the full-fledged cruise terminal building in 2014/15.

9. Drawing reference from the ancillary commercial facilities in other cruise terminals overseas, we intend to scale back the commercial GFA from a maximum of 50,000 m² to about 10,600 m². The displaced 39,400 m² of commercial GFA will be redistributed to other sites earmarked for commercial development in the Kai Tak Development. The design of the Landscaped Deck would have to be adjusted accordingly to ensure it is proportional to a smaller commercial area.

10. A comparison of the facilities to be developed on the cruise terminal site under the re-tender and the fast-tracked DBL approach is at Annex A. The capital cost of the new cruise terminal under the DBL approach is estimated to be about \$ 7.2 billion (at September 2008 price). The estimate has taken into account the necessary allowance for price fluctuation payment and contingencies, and the necessary compliance

Notes ⁽³⁾ Site formation works include setting-back of seawall to avoid triggering the Protection of the Harbour Ordinance, dredging of sea-bed to accommodate vessels with deep draft, and provision of piled quay deck including mooring and fender systems for berthing of cruise vessels.

⁽⁴⁾ These temporary facilities will include essential road access, parking area, transport loading and unloading facilities, etc.

with Government standards and provisions for projects undertaken by the Government.

Earlier commissioning with temporary facilities

11. When we last reported to Members, we estimated that the first berth and the supporting facilities would be ready for operation in 2014/15 according to an all-in-one DBL programme (i.e. a tender exercise covering the works of both the site formation and cruise terminal building). We have since then critically reviewed the development programme with a view to compressing the timetable. We believe that it would be feasible to proceed with the works for the site formation and the cruise terminal building through two parallel tracks. The site formation works can therefore commence earlier, by early 2010. Leasing of the terminal facilities could proceed in advance, for the facilities to be operated by the lessee as early as in mid 2013.

12. As soon as the site formation and the quay deck are ready, the first berth would be able to receive cruise vessels with temporary facilities. The works for the full-fledged cruise terminal building will continue while the first berth is in temporary operation. The temporary facilities would be similar to those at the Container Terminals and China Merchants Wharf at Kennedy Town, which the cruise industry has been using for cruise vessels unable to berth at Ocean Terminal due to their large sizes or conflict of schedules. The use of such facilities for berthing cruise vessels is also not uncommon in overseas ports. While the temporary facilities would not be fully satisfactory, the industry in general is prepared to accept such interim arrangements, which are better than mid stream berthing. This fast-tracked DBL approach would enable us to commence the operation of the first berth in mid 2013.

THE NEXT STEP

13. We intend to proceed in accordance with the following timetable –

Key tasks	Date
Brief the LegCo Panel on Economic Development	24 October 2008

Key tasks	Date
Seek LegCo funding approval for the extension of a supernumerary directorate post to head a designated Cruise Terminal Task Force in the Tourism Commission (See Annex B)	2008/ 2009
Seek LegCo funding approval for the site formation works upon finalisation of tender documents, and commence the site formation works thereafter	2009
Seek LegCo funding approval for the cruise terminal building works upon finalisation of design and build tender documents and prequalification of tenderers, and commence the building works thereafter	Early 2011
Commence leasing work of the cruise terminal	2011/12
Commission the first berth by using temporary facilities	Mid 2013
Commission the new cruise terminal	2014/15

IMPLICATIONS OF THE PROPOSAL

14. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. Other implications are set out in Annex B.

PUBLICITY

15. We shall brief the LegCo Panel on Economic Development. A press release will be issued. A spokesman will be available to handle enquiries. A list of Frequently Asked Questions will be uploaded to Tourism Commission's website. We shall also update the relevant professional and trade bodies, and engage the local and international cruise industry and the travel trade.

BACKGROUND

16. We last issued a LegCo Brief on the development of a new cruise terminal at Kai Tak on 9 July 2008. We informed Members of the Government's plan to re-tender the cruise terminal project with Government funding for site formation and Government Facilities. Should the re-tender fail, the Government would proceed with the DBL approach.

ENQUIRIES

17. Enquiries on this Brief can be addressed to Miss Patricia So, Assistant Commissioner for Tourism (Tel: 2810 3137).

Commerce and Economic Development Bureau
30 September 2008

Comparison of the Key Components under Re-tender and Government Design, Build and Lease (DBL) Approach

Approach Component	Re-tender	DBL approach
Berthing facilities such as fender system	✓	✓
Apron facilities such as passenger gangways	✓	✓
Customs, immigration and health quarantine clearance	✓	✓
Commercial Area	50,000 m ²	10,600 m ²
Landscaped Deck	22,000 m ²	Adjusted scale
Access Road (from Cheung Yip Street at Kowloon Bay)	✓	✓

IMPLICATIONS OF THE PROPOSAL

Financial and Civil Service Implications

1. To proceed with the DBL approach, the Administration will require capital expenditure of about \$ 7.2 billion (at September 2008 price), including the capital cost for site formation works, cruise terminal building works, 10,600 m² Gross Floor Area for ancillary commercial purposes, and the costs for temporary facilities for the berthing of cruise vessels such as road access, parking area and transport loading and unloading facilities, etc. We shall secure the necessary capital and recurrent funding through established resource allocation procedures.

2. We have created in the Tourism Commission (TC) from April 2007 one supernumerary Directorate (D2 level) post for two years. Under the DBL approach, we consider that this post would have to be extended until end 2014 to oversee the completion of the construction works, leasing of the cruise terminal and the commencement of operation of the cruise terminal. We shall seek approval for extension of the supernumerary directorate post until end 2014 according to the established mechanism.

3. TC will also establish a dedicated Cruise Terminal Task Force to oversee the DBL approach, ensure strict adherence to the compressed timetable, and conduct the subsequent enforcement and monitoring of the lease. It will be charged with the overall co-ordination of the project, resolving inter-departmental and interface issues, preparing and overseeing the lease agreement, and continuously engaging the cruise industry to ensure that the end product would meet the market need. Apart from redeployment of existing resources, TC will seek additional staff resources through established mechanism. The other relevant bureaux/departments would also apply for additional time-limited staff resources to take up the extra workload arising from the implementation of the DBL approach, and recurrent staff resources for the provision of Government services including Customs, Immigration, Health Quarantine and Police services and management of the Landscaped Deck after the new cruise terminal commences operation.

Productivity Implications

4. The Administration's plan to implement the DBL approach in lieu of re-tender will unlikely have any productivity implications.

Economic Implications

5. According to the cruise market consultancy studies commissioned earlier by TC, Hong Kong would require an additional berth between 2009 and 2015, and one to two further berths beyond 2015. The timely development of new cruise terminal facilities is critical for developing Hong Kong into a regional cruise hub in Asia. This will also have positive impact on land premiums of the Tourism Node nearby and of the commercial area in the vicinity to be developed in phases, as well as favourable spill-over effects on the whole South East Kowloon where higher land value will be fetched. For the economy as a whole, more cruise vessels visiting Hong Kong will boost our tourism industry, which in turn will add impetus to the overall economic growth and create additional employment opportunities. Based on updated assumptions, with the availability of new cruise terminal facilities and appropriate market strategies, it is estimated that the economic benefits brought by the cruise industry may range from \$1.5 billion to \$2.6 billion per annum and the additional jobs generated may be around 5 300 to 8 900 by 2023, depending on different growth scenarios. The DBL approach will provide greater certainty on the timing of the development of the new cruise terminal and achieving the related economic benefits.

Environmental Implications

6. The dredging works associated with the cruise terminal are a designated project under Schedule 2 of the Environmental Impact Assessment (EIA) Ordinance. The Civil Engineering and Development Department had completed the EIA study report which was approved in December 2007 by the Director of Environmental Protection. Based on the approved Schedule 2 EIA report, an Environmental Permit can be applied for carrying out the concerned works.

Sustainability Implications

7. A sustainability assessment report has been conducted, which shows that the cruise terminal would bring in a range of benefits, particularly direct economic benefits in terms of port charges and passengers spending,

and employment opportunities in related industries. It would also help establish Hong Kong as a regional cruise hub and boost our tourism industry. Nonetheless, there are potential impacts in the environmental and natural resources aspects. In particular, dredging of seabed and setback of existing seawall would generate substantial solid waste and cause marine water pollution, noise and ecological damage. There would be vehicle exhaust emission along the proposed new roads and cruise emissions, as well as potential odour emission generated from the sewage pumping station. Mitigation measures and operation control have to be implemented to minimize the adverse environmental impact during the construction and operation stages.

Development of a New Cruise Terminal at Kai Tak

**Proposal to extend
a supernumerary Administrative Officer Staff Grade C post**

Purpose

This paper seeks Members' views on a proposal to extend a supernumerary Administrative Officer Staff Grade C (AOSGC) (D2) post to implement the cruise terminal project until end 2014.

Justifications

2. A dedicated team, headed by a supernumerary AOSGC, was established in the Tourism Commission (TC) in 2007 for overseeing the open land tender and monitoring progress of the construction of the cruise terminal. The Finance Committee approved the creation of the supernumerary AOSGC post for a period of two years with effect from 1 April 2007 at its meeting on 9 February 2007.

3. After the last unsuccessful land tender and having reviewed the latest market situation, the Government has decided to finance the new cruise terminal project by taking up the design and construction of the cruise terminal for leasing to a cruise terminal operator.

4. To expedite the construction of the cruise terminal with a view to commencing operation of the first berth in 2013, we plan to invite open tender for two contracts and have embarked on the preparatory work in parallel. The first is the site formation works contract, involving the construction of berthing facilities of the cruise terminal. The second is the cruise terminal building contract, including the construction of customs, immigration and health quarantine facilities and other supporting facilities. Also, we shall engage cruise terminal consultants with international experience to draw up specific

requirements for the design and build tender of the cruise terminal building through a consultancy contract.

5. We propose that the existing supernumerary AOSGC should coordinate and oversee the implementation of the project until end 2014 (the existing post will expire on 31 March 2009).

6. From now to 2010, the dedicated team will coordinate the works of some 20 bureaux and departments which are involved in the project, resolve interface and inter-departmental issues, and facilitate the strict adherence of all activities to the compressed timetable. The dedicated team will also provide support to a steering committee chaired by the Financial Secretary and its working groups to monitor the overall progress of the project.

7. To ensure that the future operation of the cruise terminal would meet international standard and to enhance the position of Hong Kong as a regional cruise hub, starting from early 2009, the dedicated team will prepare for the lease document after detailed consultation with local and international markets, and taking into account international experience. Our aim is to lease the cruise terminal to an operator through a competitive tender in 2011-12. The dedicated team will also work closely with the cruise industry and relevant parties in ensuring that the interim berthing arrangements and the new cruise terminal facilities would meet market needs.

8. During the construction stage from 2010 to 2014-15, the dedicated team will coordinate, monitor and oversee the work of various parties to facilitate timely commissioning of the first berth in 2013 and the cruise terminal building in 2014-15.

9. On the software side, the dedicated team will continue to work with the Hong Kong Tourism Board and the Advisory Committee on Cruise Industry in developing strategies to enhance the position of Hong Kong as a regional cruise hub, facilitating the interim berthing arrangements, liaising with the neighbouring provinces on joint promotion and itinerary development, and facilitating manpower

development for the cruise market and the related tourism sector in Hong Kong. The dedicated team will also monitor the performance of the operator for compliance with the lease requirements.

10. In view of the complexity and importance of the tasks referred to above, as well as the tight timeframe of the cruise terminal project, we consider it essential to extend the existing supernumerary AOSGC post to lead the dedicated team and engage the tourism industry and other relevant stakeholders during this critical period for 5 years and 9 months until end 2014. The proposed term ties in with the scheduled completion of the major construction work for the cruise terminal facilities.

11. The job description for the supernumerary directorate post is set out in Enclosure A. Depending on the need of the cruise terminal project, we will seek additional manpower for the dedicated team by bidding of new resources under the established procedures or through redeployment of existing resources.

Financial Implications

12. The proposed extension of the supernumerary directorate post will bring about an additional notional annual salary cost at mid-point of \$1,518,000. The additional full annual average staff cost, including salaries and staff on-cost is \$2,038,000.

13. We will include the necessary provision in the draft 2009-10 Estimates to meet the cost of the proposed extension of the supernumerary directorate post.

Alternatives considered

14. We have critically examined the existing directorate staffing in TC to identify spare capacity to take on the duties of the proposed supernumerary AOSGC posts. The Commissioner for Tourism is at present supported at directorate level by one Administrative Officer Staff Grade B, two AOSGCs, a supernumerary AOSGC for the Disney Project

expiring in February 2009 (we shall seek the views of the Panel in November 2008 for extending this post) and one Senior Principal Executive Officer. An organisation chart is at Enclosure B. The officers are responsible for formulating tourism policies and strategies, overseeing the Ocean Park Redevelopment Plan and the proposed hotel development projects, co-ordinating MICE (Meetings, Incentive, Conventions, Exhibitions) tourism initiatives, implementing new tourism projects (e.g. the Aberdeen Tourism Project, development of a piazza in Tsim Sha Tsui, the Lei Yue Mun Waterfront Enhancement Project, etc.), monitoring existing tourism attractions (e.g. Ngong Ping 360, Hong Kong Wetland Park), steering and co-ordinating the development and promotion of green, heritage and cultural tourism, housekeeping the Hong Kong Tourism Board, and overseeing the operation of the Travel Agents Registry. They also work closely with the tourism trade and the Mainland authorities on initiatives in tourism promotion and development (e.g. implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement, Golden Week Crowd Management, etc.), as well as promoting the service quality of the tourism industry. In addition, they need to liaise with international and regional tourism organisations including the United Nations World Tourism Organization to keep Hong Kong abreast of world trends in tourism and enhance Hong Kong's profile in the international arena. As they are already fully engaged with their own portfolios, it is not possible for them to absorb the duties for the proposed supernumerary AOSGC post without compromising their existing responsibilities. This is particularly so when the workload and responsibilities of the proposed post will be the heaviest during the construction, leasing and initial commencement of cruise terminal operation.

Way Forward

15. Subject to Members' comments, we plan to submit the proposal of extending the supernumerary directorate post to the Establishment Subcommittee of the Finance Committee for consideration on 26 November 2008.

Tourism Commission
Commerce and Economic Development Bureau
17 October 2008

Job Description
Assistant Commissioner for Tourism (4)

Post title : Assistant Commissioner for Tourism (4)

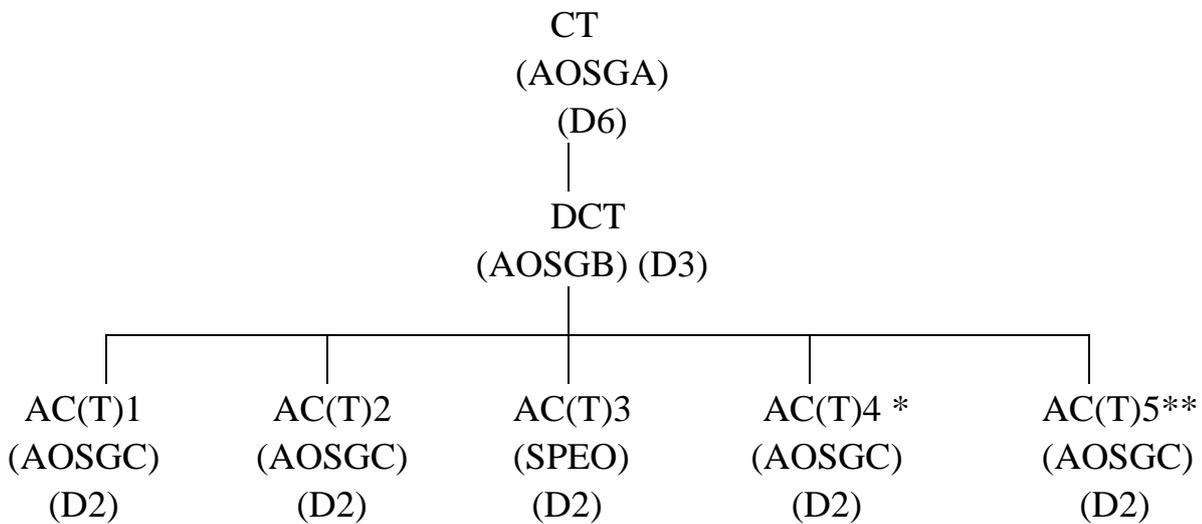
Rank : Administrative Officer Staff Grade C (D2)

Responsible to : Deputy Commissioner for Tourism

Main Duties and Responsibilities –

1. To lead a dedicated multi-discipline team within the Tourism Commission of the Commerce and Economic Development Bureau to oversee and co-ordinate the development of new cruise terminal by-
 - a) supporting a high level steering committee and its working groups to monitor the overall progress of the new cruise terminal;
 - b) co-ordinating and liaising with various bureaux and departments for timely preparation of the tender documents for the works of site formation and the cruise terminal building;
 - c) liaising with relevant bureaux and departments to monitor the construction works to facilitate timely completion of the first berth and the cruise terminal building in accordance with the programme;
 - d) liaising with relevant bureaux and departments and engaging the cruise market and travel trade for preparation of lease document for leasing the cruise terminal facilities to a cruise terminal operator and launching the tender for the lease; and
 - e) monitoring the operation of the cruise terminal operator during the initial period of the lease.
2. In consultation with Hong Kong Tourism Board and the Advisory Committee on Cruise Industry, to -
 - a) develop strategies to enhance the position of Hong Kong as a regional cruise hub;
 - b) facilitate the cruise industry in making alternative berthing arrangements as and when necessary before the commissioning of the new cruise terminal;
 - c) liaise with neighboring provinces in joint-promotion and itinerary development; and
 - d) facilitate manpower development for the cruise market and related tourism sector in Hong Kong.

Proposed Organisation Chart of Tourism Commission



Legend

CT	Commissioner for Tourism
DCT	Deputy Commissioner for Tourism
AC(T)	Assistant Commissioner for Tourism
AOSGA	Administrative Officer Staff Grade A
AOSGB	Administrative Officer Staff Grade B
AOSGC	Administrative Officer Staff Grade C
SPEO	Senior Principal Executive Officer

* Supernumerary post proposed to be extended from 1 April 2009 to 31 December 2014 for 5 years and 9 months

** Supernumerary post will expire in February 2009 (we shall seek the views of the Panel in November 2008 for extending this post)