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**Panel on Economic Development
Meeting on 24 October 2008**

**Updated 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, and summarizes the latest progress of the development and Members' concerns on related issues.

Need for additional cruise terminal facilities in Hong Kong and the Expression of Interest exercise

2. The Tourism Commission (TC) and the Hong Kong Tourism Board (HKTB) have in recent years commissioned consultancy studies to 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, its existing berthing facilities are inadequate to meet the market demand², in particular during peak seasons and in accommodating mega cruise vessels. The Studies conclude that Hong Kong will require an additional berth between 2009 and 2015, and one to two further berths beyond 2015 to sustain its

¹ The Studies conducted by the Tourism Commission and HKTB has shown that between 1999 and 2005, the Asia Pacific region accounted for 5% to 8.6% of the cruise passenger level of worldwide market. The potential conventional cruise passenger level in the region will continue to grow from 0.7 million in 2005 to between 1 million and 2.1 million by 2020. A survey conducted by HKTB in 2004 also 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.

development as a regional cruise hub.

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. Based on a no-reclamation scenario, the Government conducted a planning review for the Kai Tak Development in July 2004³. It was envisaged that the entire planning review process and the statutory procedures for commencing works for the new cruise terminal facilities 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 also received a proposal from Wharf in December 2005 for developing a new cruise terminal at the Kowloon Permanent Pier No. 7 adjacent to the Ocean Terminal. Having regard to the limitations of the suggestions and proposal received, which included adverse environmental and transport impacts, uncertainty in the development timeframe, and inadequate facilities meeting future market demand, the Administration concluded that they should not be considered further.

New cruise terminal facilities to be developed at Kai Tak

5. 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 through an 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 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. According to consultant, the estimated development cost of the terminal facilities is about \$2.4 billion (at second quarter 2006 price level), including site formation works, and construction of berthing and supporting facilities.

³ The Kai Tak Outline Zoning Plan was subsequently approved in November 2007. Apart from the Planning Review, an Engineering Review in relation to the cruise terminal is being conducted to facilitate, inter alia, satisfactory completion of relevant statutory procedures for marine works.

Open Tender Exercise for the Kai Tak Cruise Terminal Project

6. After the announcement of the new cruise terminal project, TC engaged the tourism industry, the cruise market operators and relevant professional bodies, to seek their views on the development parameters of the project. The following key parameters for the project were drawn up based on the feedback from the market engagement process and advice from cruise experts and engineering experts:

- (a) The new cruise terminal would comprise about 30 000 square metres (m²) cruise terminal facilities (including baggage handling area, passenger waiting/queuing area, customs, immigration, health quarantine area and accommodation for other Government departments), not more than 50 000 m² in the cruise terminal building for commercial purpose (including retail, offices, shops and eating places), and not less than 22 000 m² for a landscaped deck for public use;
- (b) To facilitate monitoring of the operation of the new cruise terminal, the successful tenderer would be required to enter into a Service Agreement (SA) with the Government. The SA would incorporate the successful tenderer's proposals and service pledges for the operation and management of the new cruise terminal;
- (c) The tenderer is required to commission the first berth in February 2012; and
- (d) A two-envelope approach would be adopted for the assessment of the tender bids, under which 70% weighting was given to the quality aspects and 30% to the premium aspects.

7. On 9 November 2007, the Administration invited tender for the development of the new cruise terminal at Kai Tak. The tender closed on 7 March 2008 and two tender submissions were received. According to the Administration in July 2008, one of the tenderers requested to develop one more commercial site while the other tender submission proposed to sell individual hotel rooms which would be in breach of the alienation restrictions provided in the Conditions of Sale. Both tender submissions indicated that they could not make a business case under the conditions of the tender. As none of the tender submissions fully conformed with the requirements laid down in the tender document, the Government decided to reject both submissions.

8. The Government considered that the requirement for the successful tenderer to undertake the site formation works for the cruise terminal, and provide

the Government facilities⁴, and the landscaped deck, which estimated to cost about \$1.8 to \$2 billion in September 2007 prices, had undermined the business viability of the project. In order to enhance the market attractiveness of the project, the Government considered it justified for the Administration to fund these works. Subject to Legislative Council (LegCo)'s approval of the funding application for these works, the Government planned to re-tender the cruise terminal project by end 2008. Under the re-tendering timetable, the first berth is expected to commence operation in the second quarter of 2013. The Government also pointed out that if the re-tender failed to select a successful tenderer, it would be prepared to adopt a "Government Design, Build and Lease Approach" (DBL approach) to develop the cruise terminal for leasing to a cruise terminal operator. Under this approach, the Government estimated that the first berth would be delivered in 2014/2015 the earliest.

Discussions by the Council and Panels

9. Members have been 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 raised questions on the new cruise terminal at Council meetings in the last term, including its location, modes of development and operation, facilities, timetable for the development and tendering matters. The details are hyperlinked in the **Appendix**.

10. The Administration briefed the former Panel on Economic Services⁵ (ES Panel) 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 the development approach whereby 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. There was also a 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 land to the operator for the development of complementary facilities to the cruise terminal.

⁴ Facilities like customs, immigration, health quarantine and Police facilities, support area for cross boundary heliport passengers, and Government radar tower.

⁵ The Panel on Economic Services was renamed as the Panel on Economic Development from the 2007-2008 session.

11. The Panel on Planning, Lands and Works⁶ 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. Deputations stressed the need to provide adequate transportation networks in Kai Tak to enhance its connectivity with other districts and facilitate cruise passengers.

12. ES Panel was briefed by the Administration on the project on 27 November 2006. There was strong support from members for the early commissioning of the new berthing facilities. Members were also supportive of the design-build-operate approach, but they considered it important to pay attention to the development details in disposing the 7.6 hectares of land. They also stressed the need for greater transparency in the land grant process as well as the need for the Administration to assume a coordinating role in the project. The Panel further supported the proposal to create a dedicated team in the Tourism Commission, to be led by a supernumerary Directorate (D2 level) Officer to take forward the project⁷.

13. In view of Hong Kong's limited experience in the development of cruise terminal facilities, ES Panel undertook a study on the development of cruise terminal facilities and conducted a duty visit to major overseas cruise ports, including Dubai of United Arab Emirates, Barcelona of Spain, Long Beach and Los Angeles of the United States of America from 21 August to 1 September 2007. The Report on the Study of the Development of Cruise Terminal Facilities in Hong Kong (the Report) was submitted to the House Committee on 30 November 2007. The Report is hyperlinked in the **Appendix**.

14. The Administration briefed the Panel on Economic Development (EDEV Panel) on the progress of the open tender exercise and exchange views with members on the Report at the meeting on 21 December 2007. At the meeting, members highlighted the importance of maintaining a level-playing field in the tender exercise and promoting fair competition among potential tenderers. As tenderers would need to meet the requirement of a minimum three years' immediate experience in operating cruise terminal(s), there was a concern that

⁶ The Panel on Planning, Lands and Works was renamed as the Panel on Development from the 2007-2008 session.

⁷ The Establishment Subcommittee endorsed and the Finance Committee approved at their meetings on 17 January 2007 and 9 February 2007 respectively of the creation of the supernumerary D2 level post from April 2007 for two years.

some interested parties might thus be excluded from the tender exercise, leading to unfair competition indirectly.

15. Regarding members' concern about area requirement in the cruise terminal building for commercial and retail purposes, the Administration considered that the successful bidder should be given the flexibility to decide the types of commercial facilities and the respective area to be developed in view of the long duration of the land lease of 50 years. Members cautioned that the Administration should prevent operator of the new cruise terminal from selling the commercial facilities under the cruise terminal project or mortgaging the operating right of the commercial facilities with banks. They also raised concern about the mechanism for monitoring the performance of the operator of the new cruise terminal, and stressed the need to develop performance requirements or standards for compliance by the operator. So that in case of non-compliance, the operator would be required to make improvement or the Administration could terminate the land lease.

Latest development

16. The Administration announced on 30 September 2008 its decision to adopt the DBL approach and finance the development of the cruise terminal due to significant surge in construction cost and concern that the re-tender approach would be abortive in view of the recent financial market tsunami. The capital cost of the new cruise terminal is estimated to be about \$7.2 billion (at September 2008 price). The Government considered that DBL approach would enable the commission of the first berth for cruise vessels with temporary facilities in mid 2013, with the completion of the full-fledged cruise terminal building in 2014/2015. Under DBL approach, the Government would retain the ownership of the site and the cruise terminal facilities. The initial plan is to lease the cruise terminal to an operator with a tenancy agreement of about seven to ten years.

17. The Administration will brief EDEV Panel on the latest development of the development of the new cruise terminal facilities and the way forward at the meeting to be held on 24 October 2008. It will seek the funding approval from the Finance Committee of LegCo for undertaking the project at a later stage.

References

18. A list of the relevant papers is in the **Appendix**.

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List of relevant papers

Panel/Committee	Date	Paper
Panel on Economic Services (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 (English version only) 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
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

Panel/Committee	Date	Paper
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. 96) http://www.legco.gov.hk/yr05-06/english/counmtg/hansard/cm0621-translate-e.pdf
Council Meeting	5 July 2006	LegCo question: Cruise terminal facilities (P. 94) http://www.legco.gov.hk/yr05-06/english/counmtg/hansard/cm0705-translate-e.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 http://www.legco.gov.hk/yr06-07/english/panels/plw/minutes/pl061024.pdf
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
ES Panel	8 November 2006	Administration's paper on "Update on the development of a new cruise terminal at Kai Tak" (LC Paper No. CB(1)225/07-08(01)) http://www.legco.gov.hk/yr06-07/english/panels/es/papers/edev1127cb1-225-1-e.pdf Administration's paper on "Update on the development of a new cruise terminal at Kai Tak" (press release) (LC Paper No. CB(1)225/07-08(02))

Panel/Committee	Date	Paper
		http://www.legco.gov.hk/yr06-07/english/panels/es/papers/edev1127cb1-225-2-e.pdf
ES Panel	27 November 2006	<p>Administration's paper on development of new cruise terminal facilities in Hong Kong (including findings of the EOI exercise and assessment of the Wharf's proposals (LC Paper No. CB(1)161/06-07(01)) http://www.legco.gov.hk/yr06-07/english/panels/es/papers/es1127cb1-161-1-e.pdf</p> <p>Administration's supplementary note on development of new cruise terminal facilities in Hong Kong (LC Paper No. CB(1)344/06-07(08)) http://www.legco.gov.hk/yr06-07/english/panels/es/papers/es1127cb1-344-8-e.pdf</p> <p>Background brief on the development of new cruise terminal facilities in Hong Kong prepared by the Legislative Council Secretariat(LC Paper No. CB(1)344/06-07(09)) http://www.legco.gov.hk/yr06-07/english/panels/es/papers/es1127cb1-344-9-e.pdf</p> <p>Issues raised by Kowloon City District Council members at the meeting with Legislative Council Members on 9 November 2006 on "Development of new cruise terminal facilities in Hong Kong" (LC Paper No. CB(1)1050/06-07(01)) http://www.legco.gov.hk/yr06-07/english/panels/es/papers/es1127cb1-1050-1-e.pdf</p> <p>Minutes (LC Paper No. CB(1)705/06-07) http://www.legco.gov.hk/yr06-07/english/panels/es/minutes/es061127.pdf</p>
Establishment Subcommittee	17 January 2007	<p>Proposed creation of one supernumerary post of Administrative Officer Staff Grade C (D2) in the Tourism Commission under the Economic Development Branch of Economic Development and Labour Bureau of Government Secretariat for a period of two years with effect from 1 April 2007 to head a dedicated team to take forward the cruise terminal project (LC Paper No. EC(2006-07)12) http://www.legco.gov.hk/yr06-07/english/fc/esc/papers/e06-12e.pdf</p> <p>Minutes (LC Paper No. ESC13/06-07) http://www.legco.gov.hk/yr06-07/english/fc/esc/minutes/es070117.pdf</p>

Panel/Committee	Date	Paper
Finance Committee	9 February 2007	Minutes (LC Paper No. FC69/06-07) http://www.legco.gov.hk/yr06-07/english/fc/fc/minutes/fc070209.pdf
LegCo Research & Library Services Division	21 June 2007	Fact Sheet on "Cruise terminals in selected places" (English version only) (LC Paper No. CB(1)1966/06-07(02)) http://www.legco.gov.hk/yr06-07/english/panels/es/papers/es0625cb1-1966-2-e.pdf
ES Panel	August 2007	Administration's information paper on "Market Feedback on the Development of a New Cruise Terminal at Kai Tak" (LC Paper No. CB(1)2261/06-07(01)) http://www.legco.gov.hk/yr06-07/english/panels/es/papers/escb1-2261-1-e.pdf
Panel on Economic Development (EDEV Panel)	October 2007	Administration's information paper on "Proposed Framework for a Service Agreement on Operation and Management Aspects" in respect of the development of a new cruise terminal at Kai Tak (English version only) (LC Paper No. CB(1)2456/06-07(01)) http://www.legco.gov.hk/yr06-07/english/panels/es/papers/escb1-2456-1-e.pdf
EDEV Panel	November 2007	Report on the Study of the Development of Cruise Terminal Facilities in Hong Kong (LC Paper No. CB(1)333/07-08) http://www.legco.gov.hk/yr07-08/english/hc/papers/hc1130cb1-333-e.pdf
EDEV Panel	21 December 2007	Administration's information paper on update on the development of a new cruise terminal (LC Paper No. CB(1)457/07-08(03)) http://www.legco.gov.hk/yr07-08/english/panels/es/papers/edev1221cb1-457-3-e.pdf Administration's responses on the Report on the Study of the Development of Cruise Terminal Facilities in Hong Kong (LC Paper No. CB(1)457/07-08(04)) http://www.legco.gov.hk/yr07-08/english/panels/es/papers/edev1221cb1-457-4-e.pdf Administration's paper on update on the development of a new cruise terminal at Kai Tak (powerpoint presentation materials) (LC Paper No. CB(1)457/07-08(09)) http://www.legco.gov.hk/yr07-08/chinese/panels/es/papers/edev1221cb1-457-9-ec.pdf

Panel/Committee	Date	Paper
		<p>Submission from the Chairman of Hong Kong and Kowloon Trades Union Council (English version only) (LC Paper No. CB(1)485/07-08(01)) http://www.legco.gov.hk/yr07-08/english/panels/es/papers/eDEV1221cb1-485-1-e.pdf</p> <p>Administration's supplementary information on development of a new cruise terminal at Kai Tak (Follow-up paper) (LC Paper No. CB(1)619/07-08(01)) http://www.legco.gov.hk/yr07-08/english/panels/es/papers/eDEV1221cb1-619-1-e.pdf</p> <p>Administration's paper on mortgage arrangement for the operating right of the commercial facilities in the new cruise terminal building (Follow-up paper) (LC Paper No. CB(1)814/07-08(01)) http://www.legco.gov.hk/yr07-08/english/panels/es/papers/eDEV1221cb1-814-1-e.pdf</p> <p>Minutes (LC Paper No. CB(1)847/07-08) http://www.legco.gov.hk/yr07-08/english/panels/es/minutes/ev071221.pdf</p>
Council Meeting	30 January 2008	<p>LegCo question: Assessment of bids for development of new cruise terminal at Kai Tak (Hansard P. 65) http://www.legco.gov.hk/yr07-08/chinese/counmtg/floor/cm0130-confirm-ec.pdf</p>
EDEV Panel	9 July 2008	<p>Administration's paper on Development of a new cruise terminal at Kai Tak (LC Paper No. CB(1)2141/07-08(01)) http://www.legco.gov.hk/yr07-08/english/panels/es/papers/eDEVcb1-2141-1-e.pdf</p> <p>Legislative Council Brief on Development of a new cruise terminal at Kai Tak (File Ref.: TC5/2091/04(06) Pt. 6) issued by Commerce and Economic Development Bureau http://www.tourism.gov.hk/resources/english/paperreport_doc/legco/2008-07-09/LegCo_Brief_CT_e.pdf</p>

Panel/Committee	Date	Paper
Legislative Council Brief	30 September 2008	Legislative Council Brief on Update on the development of a new cruise terminal at Kai Tak (File Ref: TC5/2091/04(06) Pt. 6) issued by Commerce and Economic Development Bureau http://www.tourism.gov.hk/resources/english/paperreport_doc/legco/2008-09-30/Leg_Co_Brief_Eng.pdf