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Panel on Economic Development
Meeting on 29 March 2010

**Updated background brief on the development of
new cruise terminal facilities at Kai Tak**

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.

Background

Need for additional cruise terminal facilities in Hong Kong

2. Since early 2000s, the Tourism Commission (TC) and the Hong Kong Tourism Board (HKTB) commissioned consultancy studies (the Studies) to examine the need for new cruise terminal facilities in Hong Kong. The Studies indicated positive growth trends in cruise passenger volumes¹. With its world-class infrastructure and tourism facilities, Hong Kong is well placed to benefit from the growth and become a regional cruise hub². At present, the Ocean Terminal is the only cruise terminal in Hong Kong. However, its existing berthing facilities are inadequate to meet the market demand³, especially during peak seasons and in accommodating mega cruise vessels. The Studies concluded that Hong Kong would require an additional berth between 2009 and 2015, and one to two further

¹ The Studies showed that between 1999 and 2005, worldwide cruise passenger level has expanded three-folds from 4.4 million to 13.9 million. The level is expected to grow to 31.5 million by 2020. Between 1997 to 2001, the growth in passengers in the Asia Pacific cruise industry was 133%. The potential conventional cruise passenger level in the Asia Pacific 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 Being a cruise hub means operating as a principal homeport in the region to serve as the operation base from which cruises begin or end.

³ 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. The number of times cruise vessels berth at container terminals has increased from six in 2008 to an estimated 10 in 2009.

berths beyond 2015 to sustain its development as a regional cruise hub.

Open Tender Exercise for the development of new cruise terminal facilities

3. The Kai Tak (South) Outline Zoning Plan approved in 2002 had incorporated a finger pier at the southern end of the former runway for the development of new cruise terminal facilities. Based on a no-reclamation scenario, the Government conducted a planning review for the Kai Tak Development in July 2004⁴.

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

5. The following key parameters for the new cruise terminal project were drawn up in August 2007 based on the feedback from the market engagement process as well as 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 Gross Floor Area (GFA) in the cruise terminal building for commercial purpose (including retail, offices, shops and eating places), and not less than 22 000 m² GFA 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.

6. On 9 November 2007, the Government invited tender for the development of the new cruise terminal at Kai Tak. The successful tenderer was expected to

⁴ 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.

design, build and operate (DBO) the new cruise terminal for 50 years and begin operating the first berth in February 2012. As none of the two tender submissions received fully conformed with the requirements laid down in the tender document, the Government decided to reject both submissions.

7. To ensure timely implementation of the tender exercise and effective co-ordination among various bureaux and departments, a supernumerary Administrative Officer Staff Grade C (AOSGC) (D2) was created in TC for a period of two years with effect from 1 April 2007 to head a dedicated team to take forward the cruise terminal project. Approval was subsequently given for the post to extend for a period of five years and nine months until the end of 2014. To review the need for retaining the post further, the Administration was requested to provide regular reports to the Panel on Economic Development (the Panel)⁵ on a half-yearly basis.

The "Government Design, Build and Lease Approach"

8. The Government originally planned to re-tender the cruise terminal project by the end of 2008 under which the first berth would commence operation in the second quarter of 2013. As the requirement for the successful tenderer to fund the site formation works for the cruise terminal, the Government facilities⁶ 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, the Government considered it justified for it to fund these works.

9. In view of the uncertainty in the trend of construction cost, turbulence in the financial market and latest trade feedback, the Government decided in October 2008 to proceed to fund, design and build the new cruise terminal and lease it to a cruise terminal operator after completion (the Government Design, Build and Lease (DBL) approach). Under this approach, the capital cost of the new cruise terminal was estimated to be about \$7.2 billion in September 2008 prices. The Government would develop the new cruise terminal with two parallel contracts, i.e. a site formation works contract and a cruise terminal building works contract.

10. Drawing reference from cruise terminals overseas in the provision of ancillary commercial facilities, the Administration intended 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 would be redistributed to other sites earmarked for commercial development in the Kai Tak Development. The design of the landscaped deck would be adjusted accordingly to ensure it was proportional to a smaller commercial area.

11. The Government invited prequalification for the design and build tenders for the cruise terminal building in March 2009. To ensure that the new cruise

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

⁶ Facilities like customs, immigration, health quarantine and Police facilities, support area for cross boundary heliport passengers, and Government radar tower.

terminal is able to meet market needs, TC engaged a cruise consultant with international experience to draw up a draft layout plan and user requirements, and consulted the relevant industries.

12. The site formation works for the new cruise terminal at an estimated cost of \$2,303.9 million in money-of-the-day prices was approved by LegCo in November 2009. The works was scheduled for completion by the end of 2015, with the target of commissioning the first berth to receive cruise vessels in mid-2013. According to the Administration, the second berth, which can accommodate medium-sized cruise vessels, will commence operation in 2014⁷.

13. The Administration will lease the cruise terminal to a cruise terminal operator who will be responsible for operating the berths, the embarking and disembarking of cruise passengers, and managing the cruise terminal. The Administration intended to conduct a prequalification exercise for the tenancy agreement in 2010, and invite tender in 2011, so that the lessee can start accepting advance bookings for berthing slots after the commencement of the operation of the first berth in mid-2013.

Software development

14. An Advisory Committee on Cruise Industry⁸ (ACCI) was established in January 2008 to advise the Government on measures to enhance the development of Hong Kong as a regional cruise hub. TC is working with ACCI to formulate measures to facilitate cruise itinerary development, strengthen cooperation with neighbouring coastal provinces in the Mainland, promote cruise tourism in Hong Kong and the region, facilitate interim berthing arrangements, and encourage supply of talents for the cruise market and related industries. HKTB provides support to ACCI to promote Hong Kong as a "must-see" cruise destination in the region⁹.

Concerns expressed by Members in previous discussions

LegCo questions

15. LegCo Members had 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 various questions at the Council meetings on the development of new cruise terminal facilities, including its location, modes of development and operation, facilities, development timetable and tendering matters as well as interim berthing arrangements. The details of these questions are in the hyperlink shown in the

⁷ Dredging works will be carried out after relocation of submarine gas mains by the Hong Kong and China Gas Company, to enable the second berth to accommodate mega cruise vessels in 2015-2016.

⁸ Members of ACCI include key players in the cruise market, tourism industry and HKTB.

⁹ A "Cruise South China" website was launched by HKTB in early January 2009 to provide information on port facilities and tourism resources of Hong Kong and neighbouring provinces.

references.

Panel discussions

16. When the Administration briefed and updated the Panel on the development of new cruise terminal facilities in Hong Kong at the meetings on 28 June 2004 and 27 November 2006, there was strong support for the early commissioning of the new berthing facilities. To enable Members to obtain first-hand information about the development of cruise terminal facilities, the Panel 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 from 21 August to 1 September 2007.

17. Panel members in general supported the DBL approach when the Administration briefed them about it at the meeting on 24 October 2008. However, they expressed concern about the upsurge in the estimated cost of the cruise terminal, from \$2.4 billion under the DBO approach to \$7.2 billion under the DBL approach¹⁰. There was also concern about the proposed scaling back of the commercial GFA as it might reduce the appeal of the cruise terminal. At the meeting, Panel members highlighted the need to develop both hardware and software aspects in taking forward the cruise terminal project, including berthing facilities, access roads, cruise itineraries and berthing arrangements, as well as cultural programmes for the appreciation of cruise passengers.

18. The Administration updated the Panel at the meeting on 25 May 2009 on the progress of the new cruise terminal project, and sought members' support on the funding proposal for the site formation works of the new cruise terminal. While Panel members had no objection to the funding proposal, some of them raised concern about the inconvenience that might be brought to the cruise passengers during construction as there was a time gap between the commissioning of the first berth in mid-2013 and the completion of the terminal building in 2014-2015. Members considered it crucial to provide adequate road infrastructures to tie in with the commissioning of the first berth, in particular to enhance the connectivity of the new cruise terminal with the neighbouring districts as well as the Hong Kong International Airport. There was also a view that the Administration should invite tender for the tenancy agreement for the operation of the cruise terminal before 2011 as scheduled to allow the lessee to provide input in the design of the cruise terminal so as to achieve better interface between construction and operation/management of the cruise terminal, as well as to arrange advance bookings for berthing slots. On the development of cruise itineraries, members urged the Government to partner with neighbouring ports in the Asia-Pacific region, while maintaining Hong Kong's competitiveness. It should also capture the opportunity to develop Hong Kong into a homeport particularly for Mainland tour groups travelling to Taiwan from Hong Kong¹¹.

¹⁰ The Administration's explanation on the difference in the project estimates was given in LC Paper No. CB(1)151/08-09(01).

¹¹ The Central People's Government announced on 18 April 2009 that Mainland tour groups could travel to Taiwan from Hong Kong by taking cruise vessels homeporting at Hong Kong. About 20 sailings from Hong Kong to Taiwan, with a total capacity of some 30 000 passengers, will be launched in 2010.

19. At the meeting on 23 July 2009, the Panel discussed alternative berthing arrangements for cruise vessels at container or cargo terminals, including the safety of cruise passengers, outlook and facilities of these terminals, and measures to facilitate embarkation and disembarkation of cruise passengers at the alternative berthing locations. There was concern about the impact on the nearby traffic conditions if too many cruise vessels were to be berthed at these terminals.

Latest development

20. The Administration have invited tenders for the design-and-build contract for the cruise terminal building from 30 July to 30 October 2009, and tender assessment is in progress. The Administration will consult the Panel at the meeting on 29 March 2010 on the funding proposal for the cruise terminal building works with a view to awarding the contract in mid-2010.

References

21. A list of the relevant papers with their hyperlinks is in http://www.legco.gov.hk/database/english/data_es/es-cruise-terminal.htm.

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