

**For discussion  
on 24 January 2011**

**Legislative Council Panel on Economic Development**

**Leasing Arrangements for the New Cruise Terminal at Kai Tak**

**Purpose**

This paper sets out the key terms of the proposed leasing arrangements for the new cruise terminal at Kai Tak, and updates Members on the latest position of the project.

**Background**

2. In September 2008, the Administration announced its decision to design and build the new cruise terminal at Kai Tak and to lease it to an operator for operation by open tender. The terminal building and the first berth are expected to be completed and handed over to the operator in mid-2013 to commence operation. The second berth will be completed in 2014 and both berths will be able to accommodate mega cruises in 2015 after the relevant dredging works at the seabed are completed. We have discussed with the cruise industry possible terms of the leasing arrangements for the terminal. Having regard to the industry's feedback and international experience, we have drawn up the key terms of the lease, which are set out in the following paragraphs.

**Proposed Leasing Arrangements**

3. In considering the leasing arrangements for the new cruise terminal, we need to strike a balance between safeguarding the Government's interest and providing sufficient commercial incentive for the potential operator which will help establish the status of the terminal in the Asia Pacific region. As the terminal will be completed by phases between 2013 and 2015, we need to have regard to the limitation on the

operation of the terminal, especially in the early years. We should also be mindful that time is required for the major developments in Kai Tak to come into place so as to create a more favourable operating environment for the cruise terminal.

#### Term of Tenancy

4. We propose that the tenancy will have a term of 10 years, with an option for the Government to offer a 5-year extension subject to the operator's satisfactory performance. Taking into account the feedback from the industry, we consider that a 10-year contract will provide a reasonable degree of certainty for the operator to work out a longer term business strategy and secure bookings from the cruise lines. The option for extension will also encourage the operator to upkeep and improve its performance throughout the 10-year term.

#### Rental Mechanism

5. The rent to be paid by the operator to the Government will consist of two components – a fixed rent and a variable rent. We will not prescribe the minimum fixed rent, but the proposed fixed rent should be escalated by year. For the variable rent, we will adopt a sliding scale in sharing the gross receipt with the operator each year, under which the percentage of gross receipt to be paid to the Government will increase as the gross receipt increases. Sharing the operator's gross receipt, instead of net revenue, has the advantage of encouraging the operator to control operating cost in a prudent manner, and provides certainty to the Government in collecting the variable rent. Such a mechanism will allow the Government to capture the upside of the business while avoiding unreasonably passing on business risks to the operator. To secure the best possible offer from the market, we intend to ask the bidders to propose both the fixed and the variable rents, which will be assessed in the tender process as one of the criteria.

## Berthing Fees

6. The operator will be given the flexibility to determine the berthing fees having regard to the prevailing market situation and in response to market changes. To ensure the competitiveness of the new cruise terminal, we will encourage the operator to impose the fees at a reasonable level. We intend to ask the bidders to propose the berthing fees, which will be assessed in the tender process as one of the criteria. If the bid is accepted, we also intend to bind the bidder so that the actual fees to be imposed would be capped at the levels proposed in its tender proposal.

7. In assessing the tender proposals, apart from the rent paid by the operator and the berthing fees, we will also consider the operator's knowledge of the cruise market, experience in managing cruise terminal, proposals for operating the new terminal at Kai Tak, promotional strategies, etc.

## Performance Monitoring

8. The appointed operator will be required to draw up a set of service pledges and performance indicators for major areas (e.g. satisfaction of cruise passengers, embarkation and disembarkation arrangements, baggage handling process, etc.) to the satisfaction of the Government, taking into account the actual operating environment of the cruise terminal, requirements of respective cruise lines, etc. The operator will also need to submit an annual operation and maintenance report to the Government on various aspects, including its business performance, fulfillment of the service pledges, etc. The Government will appoint a management committee, consisting of representatives from the Government, the operator and the industry as well as other persons, to oversee and monitor the operation of the cruise terminal. The Government will reserve its right to terminate the tenancy for any breach or non-performance of the tenancy.

### Mid-term Review

9. We will put in place a mid-term review mechanism when the tenancy has commenced for 5 years to determine whether any adjustment to the rent level and berthing fees is necessary, taking into account the operator's performance. This will enable the Government to review the cruise terminal operation and seek ways to adjust the rent payment and berthing fees in the light of actual business performance of the operator.

### Berthing Arrangements

10. To ensure maximum utilization of the berthing facilities, the tenancy will require the operator to allocate the berthing slots to all cruise lines on an impartial basis. Generally speaking, berthing priority will be given to vessels homeporting in Hong Kong. The operator may also enter into long term contracts with cruise lines after the second berth comes into full operation.

### Operational Plans

11. Security is an important component of the operation of a world-class cruise terminal. In this regard, the operator will be required to formulate a port facility security plan for Government's approval, and to co-operate with relevant Government departments in ensuring the security of the cruise terminal. The operator will also be required to submit a traffic management plan for Government's approval to ensure seamless flow for the departure and arrival of cruise passengers through different means of transportation.

### Promotion and Industry Engagement

12. We expect the operator to keep close liaison with the cruise industry. We will require the operator to participate in international and regional cruise conferences to keep abreast with the latest market developments and promote the cruise terminal. We will also require the

operator to set up a market consultation forum on a regular basis to engage the cruise industry stakeholders and gather their feedback for the purpose of improving the operation of the cruise terminal.

### **Latest Position of the Project**

13. The Government is taking forward the cruise terminal project in full swing. Site formation works and the cruise terminal building works started in November 2009 and May 2010 respectively. Our plan is to launch an open tender for the leasing arrangements in the first half of 2011 and to appoint the operator within 2011. This will allow sufficient lead time for the selected operator to accept advance bookings for the terminal before it comes into operation in mid-2013.

### **Advice sought**

14. Members are invited to note the leasing arrangements and latest position of the new cruise terminal project and to provide comments.

**Tourism Commission  
Commerce and Economic Development Bureau  
January 2011**