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Panel on Economic Development
Meeting on 23 April 2012

**Background brief on the development of
new cruise terminal project at Kai Tak**

Purpose

This paper sets out the background to the development of the new cruise terminal project at Kai Tak and summarizes the latest progress of the development and Members' concerns on related issues.

Background

2. 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 ("KTD") through an open land tender. The estimated development cost of the terminal facilities was about \$2.4 billion (at second quarter 2006 price level).

3. 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 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.

The "Government Design, Build and Lease Approach"

4. On the ground that the requirement for the successful tenderer to fund

the site formation works for the cruise terminal, the Government facilities¹ 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 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) or \$7.512 billion (in September 2009 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.

5. In November 2009, the Legislative Council ("LegCo") approved the site formation works for the new cruise terminal at an estimated cost of \$2,303.9 million² in money-of-the-day ("MOD") prices. The works started in November 2009 and was scheduled for completion by the end of 2015, with the target of commissioning the first and second berths at around mid-2013 and 2014 respectively. LegCo further approved the construction of the cruise terminal building and ancillary facilities for the Kai Tak cruise terminal development at an estimated cost of \$5,852.1 million in MOD prices in April 2010. Construction works has commenced in May 2010. To synchronize with the opening of the first berth around mid-2013, the completion time of the terminal building will be advanced from 2014-2015 to within 2013.

Tender for the tenancy

6. From 25 March to 24 June 2011, the Administration invited tender for the tenancy of operating and managing the new terminal. According to the terms of tenancy, apart from arranging the berthing of cruise vessels as well as embarkation and disembarkation of passengers, the successful bidder would also be responsible for the operation and management of the cruise terminal, such as traffic arrangements within the transportation area, security arrangements, tenancy of the ancillary commercial area and promotion of the cruise terminal.

7. The tenancy of the cruise terminal would have a term of 10 years, with an option to extend for five years after which another open tender for the leasing arrangements would be held. The operator would need to submit an

¹ These facilities include customs, immigration, health quarantine and Police facilities, support area for cross boundary heliport passengers, and Government radar tower.

² The total estimated project cost of the site formation works together with the cruise terminal building and ancillary facilities works was \$8,156 million in MOD prices or \$7,408.3 million in September 2009 prices, which was within the original estimated project cost of \$7.512 billion (in September 2009 prices).

annual operation and maintenance report to the Government on various aspects, including its business performance, fulfilment of the service pledges, etc. On the rental mechanism for the cruise terminal building, the operator would pay the Government a fixed rent that was expected to escalate by year, and a variable rent based on a sliding scale linked to the operator's gross receipt.

Concerns expressed by Members in previous discussions

LegCo questions

8. 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 cruise tourism as well as new cruise terminal facilities, including its location, modes of development and operation, facilities, transport networks, development timetable and tendering matters as well as interim berthing arrangements. The details of these questions are in the hyperlink shown in the references (paragraph 16).

Panel discussions

9. When the Administration briefed and updated the Panel on Economic Development³ ("the Panel") on the development of new cruise terminal facilities in Hong Kong 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, and Long Beach and Los Angeles of the United States from 21 August to 1 September 2007.

10. Panel members in general supported the DBL approach when it was discussed 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 approach⁴. There was also concern about the proposed scaling back of the commercial Gloss Floor Area

³ The Panel on Economic Development was known as the Panel on Economic Services prior to the 2007-2008 session.

⁴ The Administration's explanation on the difference in the project estimates was given in LC Paper No. CB(1)151/08-09(01).

as it might reduce the appeal of the cruise terminal. 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.

11. The Administration updated the Panel on 25 May 2009 and 29 March 2010 on the progress of the new cruise terminal project, and sought members' support on the funding proposals for the site formation works and cruise terminal building works of the new cruise terminal. Panel members had no objection to the funding proposals and appreciated the Administration's effort in advancing the completion of the cruise terminal building to mid-2013 to synchronize with the opening of the first berth. Panel members considered it crucial to provide adequate road infrastructures to tie in with the commissioning of the first berth, in particular the connectivity of the new cruise terminal with the neighbouring districts as well as the Hong Kong International Airport. They also urged the Administration to achieve better interface of the different works at KTD to minimize inconvenience and nuisances to cruise passengers and cruise terminal visitors, while providing them the necessary support such as provision of barrier-free and gender-specific facilities at the cruise terminal building and sufficient parking spaces at KTD.

12. In addition, there was 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 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 Kong⁵.

13. On 24 January 2011, the Administration briefed the Panel on the leasing arrangements for the new cruise terminal. The Panel noted that the operator would pay the Government a fixed rent that was expected to escalate by year, and a variable rent based on a sliding scale linked to the operator's gross receipt. Some members considered the leasing terms very stringent if the berthing fees were capped at the levels proposed in the respective tender proposal, and they expressed concern that the new terminal might not be able

⁵ 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, were launched in 2010.

to compete with cruise terminals in neighbouring ports. The Administration advised that the proposed arrangements would strike a balance between adhering to the market-driven principles and protecting the return of the Government's huge investment. The rental received would provide a stable source of income for meeting the recurrent expenditure of the cruise terminal estimated at \$220 million a year.

Recent development

14. The Administration announced on 8 March 2012 that the tenancy for operating and managing the new cruise terminal at Kai Tak had been awarded to Worldwide Cruise Terminals Consortium ("WCT"), which was a joint venture of three companies, namely Worldwide Flight Services, Royal Caribbean Cruises Ltd and Neo Crown Ltd. WCT was required to pay to the Government a fixed rent and a variable rent. The fixed rent for the 10-year operation was approximately \$13 million. The Government would receive a percentage of the gross receipts of the operator as the variable rent, and the percentage of the gross receipts to be shared with the Government would increase as the gross receipts went up. The percentages of gross receipts that WCT would share with the Government ranged from 7.3% to 34%. The Administration also advised that construction works for the new cruise terminal were progressing smoothly. The terminal building and the first berth were expected to come into operation in mid-2013 as scheduled.

Latest position

15. At the meeting on 23 April 2012, the Administration will update the Panel on the latest progress of the new cruise terminal project at Kai Tak.

References

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