

ITEM FOR FINANCE COMMITTEE

**HEAD 55 – GOVERNMENT SECRETARIAT :
COMMERCE, INDUSTRY AND TECHNOLOGY BUREAU
(COMMUNICATIONS AND TECHNOLOGY BRANCH)**

**Subhead 700 General non-recurrent
New item “ITU TELECOM WORLD 2006”**

Members are invited to approve the creation of a new commitment of \$87.4 million under Head 55 Government Secretariat: Commerce, Industry and Technology Bureau (Communications and Technology Branch) Subhead 700 General non-recurrent to meet the costs for Hong Kong¹ to host the International Telecommunication Union TELECOM WORLD 2006.

PROBLEM

The International Telecommunication Union (ITU) has selected Hong Kong to host the next ITU TELECOM WORLD 2006 (World 2006) event in December 2006. The Communications and Technology Branch of the Commerce, Industry and Technology Bureau needs funding to meet the expenses for hosting the event.

PROPOSAL

2. The Secretary for Commerce, Industry and Technology proposes to create a new commitment of \$87.4 million under Head 55 Government Secretariat: Commerce, Industry and Technology Bureau (Communications and Technology Branch) Subhead 700 General non-recurrent to meet the estimated expenditure (excluding items sponsored by the private sector and provision of salary for civil service staff) of hosting the nine-day World 2006.

/JUSTIFICATION

¹ Hong Kong is not a member of the International Telecommunication Union and participates under the membership of China.

JUSTIFICATION

Hosting of World 2006 in Hong Kong

3. At its meeting held on 19 December 2003, the Finance Committee (FC), *vide* FCR(2003-04)47, noted the likely benefits for Hong Kong to host World 2006, and accepted in principle the financial implications of the estimated expenditure at \$70 million. We undertook to make a separate submission to Members for approval of the actual financial commitment required when the details are finalised.

4. The ITU TELECOM Board, which is a committee to advise the Secretary General of ITU on, inter alia, the selection of host city of TELECOM events, met on 30 March 2004 to consider the proposals of the five bidding cities (Geneva, Milan, Istanbul, Algiers and Hong Kong). The Board considered the offers from Geneva and Hong Kong to be the leading ones, and recommended final negotiations with Hong Kong first with a view to obtaining the most favourable terms and conditions. We negotiated with the ITU in April and improved Hong Kong's offer on 22 April 2004 within the ceiling of \$70 million accepted in principle by the FC.

5. The ITU subsequently advised us that the Board accepted a request from the Geneva authorities to be given an opportunity to submit a revised offer, and invited Hong Kong to do the same by 28 May 2004. We assessed that Geneva would vastly improve their offer in a last-ditch effort to retain the event, which has hitherto been held there, and decided to substantially improve Hong Kong's offer to maintain Hong Kong's prospect of hosting the event. In making this decision, we took into account the fact that the financial commitment arising from the improved offer would be far less than the economic benefits at \$1.2 billion to be gained through hosting the event. We were also confident that we would be able to seek commercial sponsorships from the private sector to free up resources for re-deployment to other areas to help improve Hong Kong's offer to the ITU. In the event, we have succeeded in obtaining, to date, commercial sponsorship amounting to \$26.9 million.

6. The \$1.2 billion economic benefits is premised upon our estimate that there will be 100 000 overseas visitors who would generate \$865 million of direct economic benefits². With 66 000 square metres of exhibition space being offered by the AsiaWorld-Expo (the venue we proposed to the ITU for holding the event and formerly known as the International Exhibition Centre), spending by exhibitors is estimated to being \$353 million of direct economic benefits³. The event will generate substantial business for the tourism and hospitality industries such as hotels and restaurants. Moreover, exhibitors will engage supporting professional services, such as construction of exhibition booths, design, marketing, advertising and event management.

7. Apart from the tangible economic benefits, hosting World 2006 in Hong Kong will bring intangible benefits in strengthening our status as a regional telecommunications hub and an events capital for exhibitions and conventions. The event has taken place nine times in Geneva, where the ITU headquarters are based, for the past 30 years. Previous attempts by a number of countries such as France, Germany, Italy and the United States of America to secure the hosting right for the events in the past have not been successful. Hong Kong's success in our bid for the 2006 event buttresses Hong Kong's position as a leading telecommunications city. It boosts and elevates our international image, showcasing our infrastructural achievements in communications, hospitality and transportation. An event of such scale, if held with unprecedented success, will attract other mega-events to Hong Kong.

8. Hong Kong's bid has the full support of the Central People's Government which has mobilised both diplomatic channels and the Ministry of Information Industry to lobby telecommunications corporations and bodies all over the world to support Hong Kong's bid. It is expected that there would be a tremendous turnout of Mainland telecommunications companies at the event. Their presence would epitomise Hong Kong's position as a gateway and window to the huge Mainland market.

Main Cost Components

9. The estimated expenditure of items requiring government funding for the hosting of World 2006 is \$93 million, comprising \$87.4 million to be sought through the proposed commitment and another \$5.6 million for civil service salary to be funded from CITB's operational expenses when the need arises. The more significant cost items are highlighted below -

/(a)

² Estimated on the basis of the results of interview surveys conducted by the Hong Kong Tourism Board with exhibition visitors of selected large-scale trade shows in Hong Kong in 2002.

³ Based on estimated exhibition spending in ITU TELECOM ASIA 2000.

(a) *Hong Kong, China Secretariat*

It is a requirement on the host government to set up a Secretariat to liaise with and assist the ITU on the organisation of the event. With a view to freeing up resources to improve the final offer to the ITU, we will reduce the size of the Secretariat from the originally-proposed 39 to 24 full-time staff (comprising seven civil servants and 17 non-civil servants) required for periods ranging from nine to 30 months. To cope with the anticipated surge in workload in the run-up to the event, we will redeploy existing staff in Commerce, Industry and Technology Bureau (CITB) and Office of the Telecommunications Authority to support the Secretariat as necessary.

We intend to create in 2005, a supernumerary D2 level civil service post for 15 months to head the Secretariat when the anticipated quantity of workload justifies the need for this post on a full-time basis. We will seek the support of the Establishment Sub-committee and the approval of the FC in due course. For the initial phases of planning for the event and before the Head of Secretariat post is created, the duties will be absorbed by an existing Principal Assistant Secretary (ranked at AOSGC (D2)) in CITB.

We estimate that a total staff cost of \$12.9 million for the Secretariat would be required. This is a reduction of around \$2 million from the original estimate of \$15 million when we obtained the FC's acceptance-in-principle on 19 December 2003. Of this amount, a provision of \$5.6 million is for the salary for civil service staff and will be funded from Subhead 000 Operational expenses of Head 55 when the need arises.

(b) *Social receptions*

The ITU has imposed requirements on the host country to organise an opening reception for 6 000 persons, a VIP dinner for 2 500 persons, a farewell reception for 2 000 persons and a press luncheon for 2 500 persons. The original estimated expenditure is \$14 million. We have been able to obtain \$11.5 million in commercial sponsorships covering many of the expenditure items for such receptions. The balance of the funding requirement from the Government would be reduced to \$2.5 million, covering venue decoration, interpretation services, event management services, etc.

/(c)

(c) *Publicity, advertising and promotion*

We will mount a proactive promotion campaign to attract Mainland and international exhibitors and trade fair visitors to participate in the event. This will include pre-event publicity, industry briefing, promotion at trade shows, outdoor advertising and direct marketing, etc. Our Hong Kong Economic and Trade Offices will also help promote the event in their areas. In addition, publicity would be mounted in Hong Kong to raise the awareness of the telecommunications industry and the local community about the event.

The Ministry of Information Industry of the Central People's Government has kindly offered to assist in encouraging Mainland and overseas telecommunications industry players to take part in the event. With such assistance, we estimate that we could somewhat reduce the efforts to promote the event in the Mainland. The reduced estimate of expenditure is \$7 million, or \$5 million less than the original estimate of \$12 million.

(d) *Hospitality services*

The event will include a World Youth Forum where some 380 talented university students selected from the ITU's member states will be given the chance to have interactive dialogue with leaders of the information and communications technology (ICT) sector. We have offered to provide \$3 million sponsorship to the ITU for this item, which is in line with our original estimate.

Moreover, the Government will organise a range of social programmes for the VIPs and their spouses and arrange gifts and souvenirs. The original estimated expenditure is \$4 million. We have been able to obtain commercial sponsorships of \$2.4 million to cover expenditure for gifts and souvenirs and also a social programme. With such sponsorships, we estimate that the items requiring government funding will be reduced from \$4 million to \$1.6 million.

The revised estimate for World Youth Forum and other social programmes is therefore \$4.6 million instead of the original estimate of \$7 million.

/(e)

(e) *Transportation*

We will provide ground transportation for the estimated 110 visiting Ministers, VIPs and senior officials of the ITU during the event as well as ITU staff during their stay in Hong Kong to prepare for the event. We also intend to provide shuttle bus service for the visitors of the event. With \$0.8 million commercial sponsorship obtained for this item, we estimate that the balance of expenditure requiring government funding will be reduced to \$2.2 million.

(f) *Security*

The host city is required to provide security for the officiating national leader, attending VIPs and the visitors. In view of the level of representation at this prestigious event, we need to engage additional security personnel, procure and install security equipment, such as accreditation systems and security archways, etc. to screen visitors entering the exhibition venue. We estimate that \$5 million is required. The security equipment will also be passed to the Police after the event for future use if feasible.

(g) *Technology support and services*

We need to provide adequate ICT facilities and services for use by the ITU and the event participants. Such facilities and services include the provision of Internet access service within the venue and the ITU office, renting of international leased circuits to enable the IT facilities to be set up by the ITU in Hong Kong to link up with the ITU's network in its headquarters in Geneva, and other telecommunications services required by the ITU whilst in Hong Kong.

Among other services for the event, we need to provide office accommodation for the Hong Kong, China Secretariat. Space has been identified in CITB to accommodate up to eight members of the Secretariat. For the remaining 16 members of the Secretariat, we will need to find nearby office accommodations. We will strive to identify spare office accommodation in Government premises. If this is not successful, we will need to rent accommodation in commercial buildings from mid 2005 to end 2006.

Taking into account the smaller size of the Secretariat, we have revised the estimated expenditure from \$5.5 million to \$4.6 million. We have also obtained \$3 million in commercial sponsorship for these obligations. As such, the estimated funding requirement from the Government would be reduced to \$1.6 million.

/(h)

(h) Sponsorship to ITU Secretariat

In order to reduce ITU's administration costs in hosting World 2006 outside Geneva, we will sponsor office accommodation for the ITU Secretariat in Hong Kong, air tickets and accommodation for up to 80 ITU staff and provide the press centre. To further reduce the ITU's relocation costs, we have offered to provide a subsistence allowance to ITU staff to contribute towards their incidental expenses while they are in Hong Kong. Taking into account the additional cost required and the commercial sponsorship of \$1 million obtained for the rental costs for the press centre, the estimate of expenditure requiring government funding is reduced from \$3.5 million to \$2.8 million.

(i) Exhibition venue

The ITU has accepted our proposal to hold the event in Phase I of the AsiaWorld-Expo next to the Hong Kong International Airport. As described in our last submission in FCR(2003-04)47, our intention had been not to be involved in the renting of exhibition venue, leaving it to the ITU and exhibition venue operator to negotiate on the terms and conditions of rental. We have maintained our stance of not getting involved in the rental matter up to the negotiations phase with the ITU in end April 2004.

However, with the ITU accepting the request of the Geneva authorities to submit a revised offer on 5 May 2004, we assessed that we would need to substantially improve Hong Kong's offer to maintain our prospect of hosting the event. The most significant item that Geneva could offer substantial reduction in would be the exhibition venue charges. This is also the cost item of great concern to the ITU. Indeed, we understood that for ITU TELECOM ASIA 2004, the two shortlisted bidding cities both offered the exhibition venue free of charge to the ITU. We assessed that Geneva might do the same in order to preserve the tradition and the economic benefits of hosting World 2006 in that city. Having regard to likely commercial sponsorships available to reduce expenditure for other items, we decided to offer to the ITU to sponsor the rental of the exhibition venue up to the amount of space the ITU would be able to rent out to individual exhibitors. The rental would cover not only the period when the event is held, but also a build-up and breakdown period of several weeks to allow exhibitors to construct and dismantle the exhibitions stands. On the assumption that the entire exhibition venue was rented out, the expenditure to be borne by Hong Kong would be \$50.3 million.

/Commercial

Commercial Sponsorships for the ITU

10. We have so far obtained commercial sponsorship amounting to \$26.9 million. In addition to those itemised in paragraph 9 above (i.e. \$11.5 million for social reception, \$2.4 million for hospitality services, \$0.8 million for transportation, \$3 million for technology support and services, and \$1 million for sponsorship to ITU), we have also obtained \$8.2 million in commercial sponsorships for the ITU to cover the rental of venue for the opening ceremony at the Hong Kong Convention and Exhibition Centre and conference/meeting facilities, transportation for equipment and documents between Geneva and Hong Kong and further sponsorship for the World Youth Forum. With these sponsorships, we have been able to improve the attractiveness of our offer to the ITU to relocate Telecom World 2006 to Hong Kong.

FINANCIAL IMPLICATIONS

11. A summary of the funding sought is as follows –

	\$ million
(a) Hong Kong, China Secretariat (excluding civil service staff costs)	7.3
(b) Social receptions	2.5
(c) Publicity, advertising and promotion	7.0
(d) Hospitality services	4.6
(e) Transportation	2.2
(f) Security	5.0
(g) Technology support and services	1.6
(h) Sponsorship to ITU Secretariat	2.8
(i) Exhibition venue	50.3
<i>Sub-total</i>	83.3
Contingency (5%)	4.1
Total	87.4

The cashflow requirement is estimated to be \$12.4 million in 2004-05, \$13.9 million in 2005-06 and \$61.1 million in 2006-07. Provision of \$5.6 million for salary for civil service staff will be included under Head 55 Subhead 000 Operational expenses when the need arises.

12. We will continue to seek commercial sponsorship with a view to lowering the overall level of government expenditure. This is one of the major tasks of the marketing team to be set up in the Hong Kong, China Secretariat.

BACKGROUND INFORMATION

13. We consulted the Legislative Council Panel on Information Technology and Broadcasting on 23 October 2003 at which Members generally supported Hong Kong's bid to host the World 2006 and noted the likely range of financial commitment. We informed the Panel of the outcome of our bid and the revised budget by way of an information paper on 23 June 2004.

Commerce, Industry and Technology Bureau
June 2004