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Fallacies about Cyberport

If there is one project that has attracted continued attack from selected sectors of the community, it is **Cyberport**. Six years after the Government launched the project, criticism and cynicism persist.

Critics allege that Government bypassed the legislature to transfer benefits to PCCW. Some even cite Cyberport as the prime example of "collusion between Government and business". Is there any truth to these outrageous allegations? I would like to set the record straight and let the people of Hong Kong make a judgement based on facts, not slogans.

The Cyberport Project was conceived in the hype of the dot.com boom when many of our regional neighbours had already built or were in the process of building their own infrastructure to foster and support the development of information technology (IT).

Against this background in mid-1998, the Pacific Century Group (PCG), now called PCCW, presented to Government the Cyberport concept, suggesting the Government should construct Cyberport as a public works project with PCG as one of the anchor tenants. Naturally, without any upfront commitment from leading IT companies that they would move into Cyberport, the Government was unwilling to commit from public coffers the substantial capital cost necessary to develop the project. Also, it has always been the Government's intention to have the private sector take a lead in the development of projects of this nature.

Later in 1998, PCG put forward a revised proposal that included an ancillary residential development to provide revenue to finance the project. PCG would also be responsible for constructing the Cyberport portion, which comprised offices and supporting facilities, and would hand them over to Government upon completion. In other words, the Government would be the sole owner of the Cyberport portion, in addition to sharing the surplus sales proceeds from the residential portion.

To ascertain the benefits of Cyberport to Hong Kong, the Government engaged an international consultant to conduct a strategic assessment of the proposal. The consultant concluded that a development like Cyberport would be an important element of Hong Kong's economic infrastructure, that it could assist IT companies by providing state-of-the-art facilities at shared cost, and that it could give Hong Kong an international marketing advantage in enhancing its image and competitiveness as an international information services centre. The Government's decision to proceed with the Cyberport project was thus in line with the global trend of creating IT clusters and nurturing professional talent in strategic information infrastructure.

Further studies by the consultant confirmed that there was across-the-board support from the local IT sector for the Cyberport concept. By end-2001, more than 70 applications for office tenancy had been received, but the subsequent burst of the dot.com bubble shattered many dreams. By the time the Cyberport portion was completed in mid-2004, more than one-third of the first batch of applicant companies had disappeared and others had dramatically altered their business plans.

Public criticism has all along focused on the way the Government awarded PCCW the development rights at Cyberport. The Government's decision to enter into partnership with PCCW to build Cyberport was made in view of the special nature, circumstances and requirements of the project, including:

(a) the need to complete Cyberport within the shortest possible timeframe to sustain Hong Kong's competitiveness in the region;

(b) the need for heavy upfront investment in Cyberport (estimated to be around $5 billion on top of the costs of providing essential infrastructure facilities); and

(c) the benefits of a public-private partnership (PPP) model that could enable the Government to bring forward completion of Cyberport by a couple of years, reduce its capital contribution and transfer the public risk to the private sector partner.

At that time, other than the specific offer PCG had made to build Cyberport for the Government, the real estate sector had also put forward a proposal that suggested the excision of the residential portion from the project and the open tendering of the land to provide Government with the necessary funds to construct the Cyberport portion. This was actually considered and rejected by the Legislative Council (Legco). It is interesting to note that this proposal is strikingly similar to the one some developers have suggested for the handling of the West Kowloon Cultural District.

The financial analyses of the two proposals were submitted by Government to Legco's Planning, Land and Works (PLW) Panel in April 1999. Under the developers' proposal, it was assumed that the land for the residential portion could fetch around $8 billion if it were put out to tender. Deducting from it the $5 billion construction costs for the Cyberport portion, the Government would get $3 billion up-front cash. As usual, the profits, if any, through sales of the residential units, would be reaped by the developers.

On the other hand, under the PPP model, in addition to full ownership of the Cyberport portion, the Government would be able to share the surplus sales proceeds from the residential portion with PCCW; and it was estimated that Government could get $4.2 billion[1] cash (compared with $3 billion cash under the alternative proposal), if the residential units were sold at a conservatively estimated average price of $4,000 per square foot (psf). This was one of the scenarios set out in the Panel paper. In retrospect, we note that the sale price went on a roller coaster ride from then until the actual sale dates. But the fact remains that when we compare the two proposals, the PPP model would yield a higher return and, at the same time, result in lower risk for the Government.

Based on these analyses, the Government concluded that the PPP model would ensure that the Cyberport portion could be completed in the shortest possible time and that Government would receive a reasonable return while its risks involved in the project development would be minimised. This was clearly the preferred option and the logical public policy decision.

Following the announcement of the Cyberport project in the 1999-2000 Budget, we briefed the Information Technology and Broadcasting (ITB) Panel on March 8, 1999. Further consultations with the ITB Panel on the financial terms and analyses of the project and with the PLW Panel on the infrastructure works were held on April 29 and May 4, 1999 respectively. After reaching consensus with PCCW on the Project Agreement for the Cyberport Project in May 2000, the Government briefed Legco on the main terms of the Agreement and the granting of the development rights to PCCW in June 2000. The Public Works Sub-Committee and the Finance Committee were also consulted a number of times between May 1999 and December 2000 on the funding applications for a total of $1.1 billion to construct the essential infrastructure such as roads and water supplies; and the funding applications were approved by the Finance Committee.

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[1] In the paper, the Government's receipts had been adjusted by discounting the future stream of its share of surplus sales proceeds to a present value by the Government's cost of fund at 6.5%.

All in all, the Government actively consulted relevant Legco committees and panels on more than 20 occasions from March 1999 to January 2005. The legislature was fully aware of the different aspects of the project as well as the responsibilities and benefits that the Cyberport project could bring to Government and PCCW. Legco members have, indeed, been vigilant in monitoring not only the progress made, but also the extent to which Cyberport has achieved its objectives. There is absolutely no truth to the allegation that Legco has been bypassed or hoodwinked.