立法會
Legislative Council

LC Paper No. CB(1)1668/09-10
(These minutes have been seen by the Administration)

Ref : CB1/PL/EDEV/1

Panel on Economic Development

Minutes of meeting held on
Monday, 29 March 2010, at 10:00 am
in the Chamber of the Legislative Council Building

Members present :
Hon Jeffrey LAM Kin-fung, SBS, JP (Chairman)
Hon Paul TSE Wai-chun (Deputy Chairman)
Hon Albert HO Chun-yan
Dr Hon David LI Kwok-po, GBM, GBS, JP
Hon Fred LI Wah-ming, SBS, JP
Hon CHAN Kam-lam, SBS, JP
Hon Miriam LAU Kin-yee, GBS, JP
Hon Emily LAU Wai-hing, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon Vincent FANG Kang, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon WONG Ting-kwong, BBS, JP
Hon Starry LEE Wai-king
Hon Paul CHAN Mo-po, MH, JP
Dr Hon LEUNG Ka-lau
Hon IP Wai-ming, MH
Dr Hon Samson TAM Wai-ho, JP

Members attending :
Hon Tommy CHEUNG Yu-yan, SBS, JP
Hon WONG Kwok-hing, MH
Dr Hon LAM Tai-fai, BBS, JP

Members absent :
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
Hon Mrs Regina IP LAU Suk-yee, GBS, JP

Public officers attending : Agenda Item IV

Mr Edward YAU, JP
Secretary for the Environment

Mr Roy TANG, JP
Deputy Secretary for the Environment

Ms Vyora YAU
Principal Assistant Secretary for the Environment (Financial Monitoring)

Agenda Item V

Mrs Laura ARON
Assistant Commissioner for Tourism

Mr Francis CHENG
Principal Assistant Secretary for Transport and Housing (Transport)

Mr Stephen KWOK, JP
Assistant Director-General of Civil Aviation (Air Services)

Agenda Item VI

Mr Esmond LEE, JP
Deputy Secretary for Transport and Housing (Transport)4

Mr Francis CHENG
Principal Assistant Secretary for Transport and Housing (Transport)9

Mr Stephen KWOK, JP
Assistant Director-General of Civil Aviation (Air Services)

Agenda Item VII

Mrs Rita LAU, JP
Secretary for Commerce and Economic Development

Mr MAK Chai-kwong, JP
Permanent Secretary for Development (Works)

Mr Philip YUNG, JP
Commissioner for Tourism

Mrs Marigold LAU, JP
Director of Architectural Services

Miss Patricia SO
Acting Deputy Commissioner for Tourism

Attendance by invitation :

Agenda Item IV

The Hong Kong and China Gas Company Limited

Mr Alfred W K CHAN
Managing Director

Mr James Y C KWAN
Executive Director & Chief Operating Officer

Mr John H M HO
Chief Financial Officer & Company Secretary

Agenda Item V

Travel Industry Council of Hong Kong

Mr Michael WU
Chairman

Mr Tommy TAM
Director & Ticketing Committee Convenor

Society of IATA Passenger Agents Ltd

Mr Francis BAGAMAN
Chairman

Clerk in attendance :

Ms Debbie YAU
Chief Council Secretary (1)6

Staff in attendance :

Mr Timothy TSO
Assistant Legal Adviser 2

Ms Angel SHEK
Senior Council Secretary (1)1

Ms Michelle NIEN
Legislative Assistant (1)9

Action

I Confirmation of minutes and matters arising

(LC Paper No. CB(1)1435/09-10 - Minutes of meeting held on 22 February 2010)

The minutes of the meeting held on 22 February 2010 were confirmed.

II Information paper issued since last meeting

(LC Paper No. CB(1)1281/09-10(01) - Tables and graphs showing the import and retail prices of major oil products from February 2008 to January 2010 furnished by the Census and Statistics Department)

2. Members noted the above information paper issued since the last regular meeting.

III Items for discussion at the next meeting

(LC Paper No. CB(1)1439/09-10(01) - List of outstanding items for discussion

LC Paper No. CB(1)1439/09-10(02) - List of follow-up actions)

3. Members noted that the Administration had not proposed any item for discussion at the next meeting to be held on 26 April 2010.

4. Mr Paul TSE noted that the Travel Industry Council of Hong Kong (TIC) had issued a directive on 23 March 2010 advising that package tours bound for Bangkok would depart as normal which ran contrary to the Red Outbound Travel Alert (OTA) issued by the Security Bureau. As the package tour participants might not have insurance cover if they travelled to places where the Red OTA was in force, he suggested that TIC and the Administration should be invited to brief the Panel on the relevant policy.

5. The Chairman considered it more appropriate to discuss the issue in the context of the review of the operation of TIC as the Panel should not seek to micro-manage a particular industry or deal with a specific subject of the industry. Mr Andrew LEUNG agreed.

6. Mr CHAN Kam-lam agreed that the matter was related to TIC's policy and it had aroused general concern, in particular the situation in Bangkok could get worse at any time. He considered that the subject could be discussed separately at the next Panel meeting. Sharing the view, Mr IP Wai-ming expressed concern that the travelling public paying visits to places where OTA was in force should be informed of the possible risks to personal safety involved and assistance available when there was an incident. He said that representatives from the Security Bureau should be invited to join the discussion of the item.

7. The Chairman indicated that he would discuss the matter with the Administration before drawing up the agenda for the next meeting.

(*Post-meeting note*: The Administration has subsequently confirmed to discuss TIC's policy on package tours bound for places where the OTA alert is in force at the regular meeting on 26 April 2010. At the request of the Administration and with the concurrence of the Chairman, an additional item on the Sea-going Training Incentive Scheme is also included in the agenda of the meeting.)

IV Tariff adjustment of the Hong Kong and China Gas Company Ltd

(LC Paper No. CB(1)1413/09-10(01)	-	Administration's paper on tariff adjustment of the Hong Kong and China Gas Company Ltd
LC Paper No. CB(1)1198/08-09(01)	-	Administration's paper on Information and Consultation Agreement with The Hong Kong and China Gas Company Ltd
LC Paper No. CB(1)1116/05-06(03)	-	Administration's paper on information and consultation agreement with the Hong Kong and China Gas Company Limited
LC Paper No. CB(1)1464/09-10(01)	-	Extract of minutes of Panel meeting on 27 March 2006
LC Paper No. CB(1)1505/09-10(01) *(tabled at the meeting and subsequently issued via email on 29 March 2010)*	-	Presentation materials provided by the Hong Kong and China Gas Company Limited (power-point presentation materials)

LC Paper No. CB(1)1558/09-10(01) *(tabled at the meeting and subsequently issued via email on 7 April 2010)*	Speaking note of Mr Alfred W K CHAN, Managing Director of the Hong Kong and China Gas Company Limited (Chinese version only))

Presentation by the Hong Kong and China Gas Company Limited

8. At the invitation of the Chairman, Mr Alfred W K CHAN, Managing Director of the Hong Kong and China Gas Company Limited (Towngas) briefed members on the plan of Towngas to raise its basic tariff by 0.6 cents per megajoule (MJ) with effect from 1 April 2010, and outlined the reasons for tariff adjustment and the impact on its customers as set out in his speaking note (LC Paper No. CB(1)1558/09-10(01)). He highlighted that Towngas had raised its basic tariff modestly by 1.4% in 2008 after maintaining a tariff freeze for ten years, whereas the present increase, equivalent to 2.8% of the basic tariff, had already taken public affordability into account.

9. With the aid of power-point presentation (LC Paper No. CB(1)1505/09-10(01)), Mr James Y C KWAN, Executive Director & Chief Operating Officer of Towngas briefed members on the details of the present tariff adjustment in respect of the Company's rising operating costs, renewable energy sources for town gas production, productivity gain, infrastructure investment and savings in customers' fuel cost. He said that although Towngas had, over the years, introduced a range of cost saving measures, such initiatives could no longer offset additional costs and a tariff adjustment was necessary. The basic tariff increase of 0.6 cent per MJ was equivalent to 2.8% of the basic tariff, or 2.6% of the effective tariff in 2009 which was lower than the 2005 level. The tariff adjustment was considered moderate, as over 90% of residential customers would just pay less than $8.5 per month extra, while concession schemes would continue to be in place for 80 000 elderly, people with disabilities and single parent families and they would not be affected in this tariff adjustment. He assured members that Towngas would continue to provide safe and reliable gas supply and efficient services in future.

Discussion

10. Dr David LI declared that he was an independent non-executive director of the Board of Towngas.

Tariff adjustment

11. Mr IP Wai-ming, Mr CHAN Kam-lam and Mr Albert HO expressed concern about the impact of the tariff increase on the public as it would be a second one implemented by Towngas within three years since 2008, and the cumulative effect arising from concurrent tariff/fare increases in other public utilities and transport services. Noting that the town gas price after adjustment was still 8.8%

lower than the 2005 level, Mr IP was worried that Towngas would plan further tariff increase in the near future. He suggested the Administration coordinate the price adjustment made by different utility operators so as to alleviate inflationary pressure and financial burden on the public.

12. Mr Alfred W K CHAN of Towngas said that the Company had implemented measures to lower the operating costs, enhance productivity and hence relieve the pressure for tariff adjustment in the decade since 1998, in spite of the rising material cost of steel and polyethylene following the international price fluctuation. The tariff increase by 1.4% in 2008 after a 10-year tariff freeze was indeed a very mild adjustment, in comparison to the prevailing inflation rate of about 4.3% in the year. He confirmed that Towngas had no plan to level up its tariff to the 2005 gas price level in the near future.

13. The Deputy Secretary for the Environment (DSEN) said that Towngas had entered voluntarily into an Information and Consultation Agreement (ICA) with the Government since 1997, which was subject to extension every three years. The objective of the ICA was to increase transparency in gas tariff setting mechanism, and to provide justification thereof, in the event of tariff adjustments and major system additions (e.g. addition to infrastructure). Pursuant to the ICA, Towngas needed to consult the Government three months in advance on tariff adjustment, and 12 months in advance on major system additions. The Government would critically examine the justifications provided, and discussed with the Company to see whether the tariff increase or capital investment could possibly be reduced or delayed.

14. Given that there was a 2% average annual growth in the Company's customer to employee ratio from 2005 to 2009, Mr CHAN Kam-lam considered that the productivity gain over the period should enable Towngas to offset the salary increase in the operating costs. Besides, raw materials did not require frequent procurement and should not lead to rising operating costs. As such, he requested Towngas to justify the need to increase tariff. He also enquired whether the new tariff would be maintained for some years before another adjustment.

15. Mr Alfred W K CHAN of Towngas explained that the growth in customer number did not imply a corresponding growth in the demand for town gas, as most of the new customers were existing users relocated from households under current accounts. In fact, the sales of town gas had fallen by 1.1% in 2009. The productivity gain under an increased customer to employee ratio which was achieved through enhanced efficiency in undertaking regular safety inspection, maintenance and repairs could not therefore offset the increase in staff cost. Mr CHAN sought members' understanding that while the rise in operating costs was not within the Company's control, Towngas would keep a close watch of the international price movement of raw materials and make suitable procurement accordingly. It would exercise due prudence in considering tariff adjustment only when necessary. Under the current planning, Towngas would not contemplate another tariff increase within two years after the current adjustment.

16. Mr CHAN Kam-lam considered the drop in the sales of town gas might be resulted from more customers switching to the use of electricity. He urged Towngas to improve its operation to enhance its competitiveness in the energy market and boost its sales with a view to relieving the pressure for increasing tariff. Mr Alfred W K CHAN of Towngas responded that Towngas had been facing increasing competition in the past years as a result of the convenience and improved technology in electrical and non-flame cooking appliances. Nevertheless, he assured members that Towngas had been operating at a competitive price level, while at the same time striving to improve its technology and services.

17. Ms Emily LAU commented that Towngas was a socially responsible corporate and it had maintained good relationship with the community. She shared the concerns of some Towngas customers about the "sudden" tariff increase, despite it had been making profits over the years. Ms LAU elaborated that the Company's profit after taxation was as much as $5.1 billion in 2009. However, according to a survey conducted by the Census and Statistics Department, the average salary of Hong Kong employees, after taking into account the inflation factor, had dropped by 0.8% in 2009. She opined that the tariff increase would only exacerbate the polarization of the rich and the poor. She strongly urged Towngas to exercise its corporate social responsibility and give regard to public affordability before considering tariff increase. Mr Albert HO shared similar concerns.

18. Mr Alfred W K CHAN of Towngas said that the Company's business had become multi-faceted and diversified over the years. The profit of $5.175 billion in 2009 came from investment in real estates, finances and Mainland business, some of which were one-off profits. The annual profits from town gas sales in Hong Kong, which had shown signs of decline, shared less than 50% of the Company's total profit. Ms Emily LAU considered that the profit from town gas sales at around $2.5 billion (i.e. 50% of $5.175 billion) was still substantial. She requested Towngas to present the annual profits from local town gas sales separately in future, so that Panel members and the public could better assess the justification for tariff increase. Mr CHAN advised that members could make reference to the details of the Company's financial performance in respect of individual businesses in the annual reports on its website.

19. Ms Starry LEE observed that the annual profit of Towngas in 2009 had achieved a year-on-year rise by $872.5 million, or a 20% growth compared to that in 2008. As it appeared that Towngas had no financial pressure to increase its tariff, she requested the Company to defer the planned increase, or consider maintaining the new tariff for three years instead of two. Dr LAM Tai-fai agreed that the Company should freeze the tariff for a number of years after the said increase in 2010. He shared members' concerns about the Company's plan to increase tariff when the economy was still recovering whereas Towngas was making profits in the recent years. He requested Towngas to provide value-added services for the customers along with the tariff increase. Dr LAM opined that Towngas should review its measures to control the operating costs instead of

shifting the burden onto the customers when it failed to contain the costs. Noting that Prof POON Chung-kwong, who practiced Buddhism, had been newly appointed to the Board of Towngas, he urged Towngas to fulfill its social responsibility to care for the community.

20. Mr Tommy CHEUNG pointed out that the existing fuel cost adjustment mechanism, whereby the fuel cost variation charge would be adjusted in tandem with the price fluctuation of naphtha or natural gas as feedstock for production of town gas, should have helped the Company to withstand part of the impact of rising operating cost.

21. Mr Alfred W K CHAN of Towngas said that while the Company could commit not to increase its tariff in the next two years after the present adjustment, it could not predict the situation over a longer term. Nevertheless, Towngas had all along strived to achieve cost savings, and the cumulative fuel cost savings of $3.7 billion for customers since the introduction of natural gas in October 2006 (equivalent to an average annual saving of $380 per domestic customer) was a case in point. After the introduction of natural gas, the effective tariff had been brought down by 18%. The Company would continue to explore ways to achieve more savings for customers in the direction.

22. Mr Paul CHAN considered that the impact of tariff increase on commercial customers should also be assessed given the quasi-monopolistic nature of the services. He urged Towngas to provide information on the impact on commercial customers, especially the small and medium enterprises. Mr CHAN also requested for information on the financial statements of the Company for the years 2005-2006, 2007-2008 and 2008-2009, in particular in respect of the items leading to rising operating costs, with detailed breakdown for each of the items. Mr Alfred W K CHAN of Towngas undertook to provide the requested information after the meeting.

Towngas

Towngas

Concession schemes

23. Ms Emily LAU considered that while Towngas was offering concession schemes for 80 000 elderly, people with disabilities and single parent families, the concession had not covered all the needy, especially those receiving Comprehensive Social Security Assistance (CSSA). In view that different public utilities and transport operators had applied for tariff/fare increase one after another, she requested Towngas to offer concessions to more needy customers. Ms Starry LEE said that given the Company's business had taken roots and it had established its brand in Hong Kong, and in view of the profits it had yielded over the years, Towngas should provide assistance to needy customers in Hong Kong by extending the concessionary tariff to low-income families and CSSA recipients.

24. Mr Alfred W K CHAN of Towngas said that the concession schemes offered a 50% discount for the first 500 MJ per month of town gas consumption to the 80 000 beneficiaries that accounted for 5% of the Company's total number of customers. He said that in the light of members' suggestions Towngas would study

how concessions could be fairly offered to more needy customers in future. Ms Starry LEE requested Towngas to set a timeframe for completing the study in question and report the outcome to the Panel before implementing the tariff increase. Mr CHAN responded that the study on extending the concession schemes was independent of the implementation of the new tariff rate. Towngas would discuss with the Government the outcome of study, having regard to the need to avoid offering double financial assistance to the customers. He estimated that

Towngas the study would take three to six months to complete.

25. Mr Tommy CHEUNG urged that Towngas should also consider offering concessions to the small establishments in catering. Unlike domestic customers, these commercial customers could not easily change their choice of energy supply in running business, as the initial capital investment involved would be substantial. As such, he urged Towngas to give due regard to these long-term business partners by offering them discounts. Mr CHEUNG also requested Towngas to invest more in technology research with a view to helping the catering industry to save fuel cost. Mr Alfred CHAN of Towngas said that it would be difficult to identify the type of commercial customers who should be offered concessions given the diverse mode of their operations. He informed members that Towngas had always strived to introduce new products and appliances to suit the needs of different industries and to help them save energy consumption, such as the latest gas food steamers for caterers and restaurateurs. Towngas had also provided one-stop advisory service and assessment to help commercial customers utilize town gas profitably while reducing emissions.

Tariff review mechanism and consultation

26. Mr WONG Kwok-hing expressed grave concern that the Government had not consulted the Panel at all on the proposed increase, and failed to monitor the Company's tariff adjustment, in particular this was the second tariff increase in three years since 2008. It appeared to him that the Government had not taken any action in the last three months after Towngas had consulted it about the plan, and the tariff adjustment was implemented hastily. As such, Mr WONG requested the Government to review the tariff review mechanism of town gas, and to brief the Panel three months before tariff adjustments. Mr Tommy CHEUNG also expressed dissatisfaction about the short notice of implementing the tariff increase, and considered that the Government should have briefed the Panel earlier.

27. Mr Fred LI said that unlike the Scheme of Control Agreements entered between the Government and the two power companies whereby sales surplus in excess of the permitted return would be accumulated in the tariff stabilization fund, Towngas was not subject to any profit cap or economic regulation. He considered that the Government should take the opportunity to review whether it should be subject to price and/or profit regulation by the Government, highlighting that the Democratic Party had advocated the same for a number of years. Noting that the Company's share in domestic water heating and cooking fuel market was around 60% in 2006, Mr LI sought information on the current market share of Towngas in the same market.

28. The Secretary for the Environment (SEN) advised that unlike the two power companies, Towngas was currently not subject to any price or profit regulation by the Government. The Company's market share in domestic water heating and cooking fuel market had remained relatively stable at around 60%, whereas that for electricity and other energy sources such as liquefied petroleum gas were 25% and 15% respectively. As such, Towngas was operating in a competitive energy market. Under the ICA framework, the Government would look into the justifications provided by Towngas for tariff adjustments, including the Company's operating costs and capital expenditure. In considering the current tariff increase, the Government had provided advice to Towngas where appropriate, including the impact of a tariff adjustment and the anticipated public response. He advised that Towngas had moderated the increase after the discussion. As for the review of the current framework of economic monitoring of the Company, SEN said that the Panel would be consulted when the current ICA was due for extension. Mr WONG Kwok-hing urged the Government to seek the Panel's advice well in
Admin advance before the expiry of the current ICA.

Use of natural gas and landfill gas

29. Ms Miriam LAU noted that landfill gas currently generated from the Shuen Wan Landfill and the Northeast New Territories Landfill had been used for town gas production. She observed that when extension of South East New Territories (SENT) Landfill in Tseung Kwan O (TKO) was completed by 2012, the landfill gas generated therefrom would largely be utilized for production of town gas, which would constitute around 5% of the total town gas produced and obviate the use of as much as 43 000 tonnes of naphtha. She believed that this would save much of the Company's fuel cost which had accounted for 57% of its yearly expenditures. According to a rough estimation, the annual savings to be achieved could reach as much as $240 million, equivalent to a rebate of around $100 for each of the 1.6 million Towngas customers. Given this outlook, Ms LAU enquired how the Government would ensure that the use of landfill gas, a public resource, for town gas production and the fuel cost savings thus achieved would ultimately benefit town gas customers, either in the form of rebates or offsetting tariff increases.

30. Mr Alfred W K CHAN of Towngas said that the benefits of utilizing landfill gas were mainly environmental rather than financial, given the variability in the composition of municipal solid waste deposited at the landfills each year and the low cost-effectiveness in using the landfill gas for town gas production. He also highlighted that the production of around 5% of the total town gas by using the landfill gas in the extended SENT Landfill at TKO would only be achieved progressively after its commissioning. Nevertheless, Mr CHAN assured members that Towngas would not shift the cost burden in environmental investment to its customers.

31. SEN said that it was Government's policy to encourage the recovery and beneficial use of landfill gas to reduce greenhouse gas emissions and the use of the landfill gas for town gas production would be conducive to environmental

protection for the whole community. In promoting the initiative, the Government would assess carefully whether related infrastructure investment made by Towngas for the purpose was appropriate and desirable, and examine the relevant contracts between Towngas and the landfill operator.

Maintenance of gas pipes

32. Mr Albert HO enquired whether Towngas would take over the maintenance of all the existing gas pipes in the long run as Towngas had come to agreement with some owners' incorporations to take back the ownership of these pipes previously under the latter's management. Mr Alfred W K CHAN of Towngas explained that underground gas supply network were assets under the Company's management and maintenance, whereas gas risers, service pipes and installation pipes at-grade and within the estate would be taken care of by the owners' incorporations concerned. There were only several special cases that some of the above-ground gas pipes would be maintained by Towngas. For instance, the use of erosive agent for external wall cleaning in the earlier years had caused the nearby gas pipes to rust, and Towngas had assumed the management and maintenance of such pipes on safety grounds in those cases only.

Motion

33. Mr Fred LI proposed to move the following motion which was seconded by Mr Albert HO:

> "本事務委員會強烈要求香港中華煤氣有限公司凍結今年的收費。"

(Translation)

> "That this Panel strongly requests the Hong Kong and China Gas Company Ltd to freeze its tariffs this year."

34. The Chairman put the motion to vote. As most of the members present voted for the motion, the Chairman declared that Mr Fred LI's motion was passed.

Conclusion

35. In conclusion, the Chairman recapped members' concerns about town gas tariff increase in the midst of economic recovery and the impact on the livelihood of local residents and commercial customers, and their urge for Towngas to freeze the tariff level or defer the tariff increase. The Government was also requested to review the framework of economic monitoring for town gas upon the expiry of the existing ICA with Towngas.

36. Mr Alfred W K CHAN of Towngas reiterated that Towngas had exercised prudence in implementing the tariff increase and it was only the second increase in

12 years since 1998. The tariff increase was also relatively low compared to the adjustment made by other public utilities for the concurrent period. In making the adjustment, Mr CHAN further stressed that Towngas had duly and thoroughly consulted the Government on the plan and considered related issues, including public affordability, in accordance with the ICA requirements and procedures.

V Reduction in commission for travel agents by airlines

(LC Paper No. CB(1)1439/09-10(03)	-	Administration's paper on reduction in commission for travel agents by airlines
LC Paper No. CB(1)1439/09-10(04)	-	Legislative Council question raised by Hon Paul TSE Wai-chun on reduction in commission for travel agents by airlines at the Council meeting on 4 November 2009 (press release)
LC Paper No. CB(1)1439/09-10(05)	-	Hon Paul TSE Wai-chun's letter on zero commission for travel agents dated 17 March 2010 (English version only)
LC Paper No. CB(1)1439/09-10(06)	-	Hon Paul TSE Wai-chun's letter to Director-General of Civil Aviation dated 22 March 2010 (Chinese version only)
LC Paper No. CB(1)1505/09-10(02) *(tabled at the meeting and subsequently issued via email on 29 March 2010)*	-	Submission from the Travel Industry Council of Hong Kong on reduction in commission for travel agents by airlines
LC Paper No. CB(1)1505/09-10(03) *(tabled at the meeting and subsequently issued via email on 29 March 2010)*	-	Submission from the Society of IATA Passenger Agents Ltd on reduction in commission for travel agents by airlines)

Briefing by the Administration

37. At the invitation of the Chairman, the Assistant Commissioner for Tourism (AC for Tourism) briefed members on the Government's position on the concerns about the impact of the reduction in commission by airlines on travel agents and the possible implication on consumers' interest as set out in the Administration's paper (LC Paper No. CB(1)1439/09-10(03)). She said the impact of reduction in commission by airlines on travel agents and consumers depended on whether the airlines would alter the modes of distributing and selling air tickets, travel agents'

responses to the change, channels for consumers to buy air tickets as well as the choices of airlines and flight routes available to consumers. AC for Tourism further advised that it was a commercial decision of individual travel agents as to whether they would impose a service charge on consumers following the reduction in the commission, and the rate of service charge, if any, would be up to the travel agents and the market force to determine. Consumers could choose to purchase air tickets through travel agents or other channels. She stressed that Administration had liaised with the travel agent trade to encourage them to find ways to improve operation and stay competitive under the ever-changing business environment.

Presentation of views by deputations

38. The Chairman welcomed the deputations and invited them to present their views.

39. Mr Francis BAGAMAN, Chairman of Society of IATA Passenger Agents Ltd (SIPA) presented SIPA's views as set out in its submission (LC Paper No. CB(1)1505/09-10(03)). He pointed out that Clause 9 of the Passenger Sales Agency Agreement (the Agency Agreement), which the International Air Transport Association (IATA) had entered into with individual travel agents on behalf of its member airlines, had stipulated that "for the sale of air transportation and ancillary services by the agent under this Agreement, the Carrier shall remunerate the agent in a manner and amount as may be stated from time to time and communicated to the agent by the Carrier. Such remuneration shall constitute full compensation for the services rendered to the Carrier". As such, SIPA considered the implementation of zero commission by Air France (AF) and KLM Royal Dutch Airlines (KLM) a breach of the Agency Agreement. As the travel agents had not been consulted on the reduction in commission at all, he queried about the criteria considered by CAD in giving the approval, and urged it to require the two airlines to abolish the zero commission. He added that despite the recent protest staged by the Travel Industry Council of Hong Kong (TIC) to air grievances about the arrangement, the two airlines had not taken actions to address travel agents' concerns.

40. Mr Tommy TAM, Director & Ticketing Committee Convener of TIC said that TIC shared SIPA's views and concerns, and that reduction of the agency commission to zero had blatantly infringed Clause 9 of the Agency Agreement. He considered that CAD, in approving applications from AF and KLM for the reduction in commission, had ignored the interests of travel agents and consumers. Despite several meetings had been held between the two airlines and TIC's Ticketing Committee, the issues remained unresolved. Without any remuneration from the airlines for the services rendered in the sales of air tickets, travel agents would have no choice but to levy service charges from the travellers. Mr TAM estimated that as many as 20% of the ticketing agents would patronize defaults if other airlines would follow suit in paying zero commission to them.

Discussion

41. The Chairman declared that he was a shareholder and non-executive director of a travel agency. Mr Paul TSE also declared that he was a shareholder of a travel agency.

Reduction of commission for travel agents

42. Mr CHAN Kam-lam said that while he sympathized with the travel agents about the reduction of commission to 0% by the two airlines, he considered the remuneration arrangements concerning the sale of air tickets a commercial deal between the airlines and travel agents under the Agency Agreement, and any disputes arising therefrom should be addressed by negotiation between the contracting parties, failing which travel agents could consider collecting service charges to compensate for their services and/or taking legal action. While the Government should monitor the situation under the existing legislative framework, he considered that it might not be appropriate for the Legislative Council (LegCo) to discuss the matter and intervene the operation of the air services market. He hoped that the airlines and the travel agents could settle the disputes among themselves, including establishing an agreed mechanism to deal with the remuneration arrangements in the long run.

43. Mr Michael WU, Chairman of TIC said that TIC understood very well that the issue was essentially a commercial deal, and it had been trying to resolve the difference with the two airlines through negotiation. As the two airlines had refused to revoke their decision, TIC was seeking legal advice on further course of actions. Mr WU also said that TIC and all its member travel agents had issued a statement through TIC's website to severely censure AF and KLM and demand that they immediately revoke their highly unreasonable decision, with a view to making it clear to the public that the zero commission arrangement by AF and KLM would compel travel agents to charge service fees for the sale of air tickets.

44. Mr Paul TSE pointed out that according to section 3(e) of an operating permit granted by CAD tabled at the meeting, "the commissions to be paid by the carrier to any agent in respect of tickets sold or of air waybills completed by that agent for carriage between that country and Hong Kong on any service operated under the permit shall be such commissions which have been approved by the Director of Civil Aviation and the aeronautical authorities of that country". As such, he considered that the matter was not purely a commercial dispute between the airlines and travel agents since CAD played a role in approving the commission rate. However, it appeared to him that the Administration did not attach much importance to the interest of the travel industry as reflected by the ranking of the government officials joining the discussion of the item.

45. Mr WONG Ting-kwong agreed that the commission arrangement was not purely a commercial matter since the Government played a role in approving the commission rate. Hence, he considered it appropriate to bring up the matter for discussion by the Panel. Mr IP Wai-ming opined that if the commission rate was

just a commercial arrangement, it should not be subject to CAD's approval.

46. Ms Miriam LAU opined that the interest of the individual industries would not normally be discussed by the Panel unless public interests were involved. Highlighting the important contribution of the travel industry to the local economy and the many employees involved in the sector, she considered that the subject under consideration was related to the interest of the public at large.

Mechanism of approving commissions

47. Highlighting the Government's role in the remuneration arrangement in the sale of air tickets, Mr Fred LI asked about the criteria considered by CAD in approving the commission rate. The Assistant Director-General of Civil Aviation (Air Services) (ADG(AS)/CAD) advised that scheduled air services operated by airlines between Hong Kong and other places were governed by the bilateral Air Services Agreements (ASAs) that the Government had entered into with its aviation partners. Generally speaking, according to the ASAs, the tariffs to be charged by the airlines for carriage on scheduled air services, including airfares, cargo rates, charges and conditions for services ancillary to such carriage, the rate of commission paid to travel agents in respect of air tickets sold etc, should be those approved by the aeronautical authorities of both contracting parties. CAD approved airlines' tariff applications in accordance with ASAs, having regard to all relevant factors, including the airlines' operating costs and the interests of passengers. As regards the mechanism for selling tickets and arrangements for commission, they were commercial matters to be decided between airlines and travel agents.

48. Ms Miriam LAU said that she did not see how CAD had taken into account public interests in terms of travel agents' business viability in the decision-making process. As collection of fuel surcharge levied by airlines for passenger carriage did not go down as promptly as when it was raised, it seemed to her that CAD had sided with the airlines' interests in approving applications concerning air tariffs.

49. On the issue of fuel surcharge, Mr Francis BAGAMAN of SIPA said that travel agents were not remunerated at all as the surcharge had not been incorporated into the airfare thus depriving travel agents of related commission. Mr Tommy TAM of TIC also expressed concern about the lack of regulation over the collection and rebate of fuel surcharge, and refund of air passenger departure tax upon cancellation of trips.

50. ADG(AS)/CAD assured members that CAD had fully taken into consideration the operating costs of airlines, passengers' interests and the views of the travel industry before granting approval for the tariff adjustments. The reduction in commission did not affect the channels and choices available in the market for consumers to buy air tickets. He added that the fuel surcharge was approved by CAD taking into account changes in aviation fuel prices.

51. Mr Tommy TAM of TIC referred to CAD's letter dated 24 March 2010

which informed TIC that the laws of Hong Kong did not require airlines to include an agency commission in their tariffs. He queried the role of CAD in approving reduction in commission. ADG(AS)/CAD stressed that while CAD was endowed with the role to approve applications concerning commission rates in accordance with the ASAs, it was not in a position to mediate or arbitrate between airlines and travel agents when it came to such commercial commissions.

52. The Principal Assistant Secretary for Transport and Housing (Transport) (PAS/TH) said that although CAD was responsible for approving the commission rate in question, the sale of air tickets would be subject to market conditions such as choices of airlines and flight routes available to consumers. He reiterated that in approving the commission rate, CAD's main consideration under the ASAs was to prevent airlines of either contracting party from adopting such practices as dumping and discriminatory or predatory pricing, which would distort normal market operations and affect air services.

53. Mr WONG Ting-kwong commented that the Administration appeared to defend the interests of the airlines under the pretext of market conditions. He considered that the Administration should provide more concrete information to justify its approval of a 0% commission rate. Otherwise, he did not see the need for CAD to continue the role of approving the commission rate.

54. Mr IP Wai-ming enquired whether there were similar cases among overseas aeronautical authorities in approving airlines' application for a reduction in commission to 0% for travel agents. As the ASAs were reciprocal in nature, Mr IP asked about the measures to be taken by CAD if the aeronautical authority of the civil aviation partners concerned turned down similar applications from Hong Kong airlines. ADG(AS)/CAD advised that the zero commission arrangement had been practised in the United States, countries in Europe and other places for some time already.

55. ADG(AS)/CAD reiterated that individual airlines would set their tariffs, including the rate of commission for travel agents, based on their own circumstances. Whether other airlines would follow the steps of AF and KLM to reduce the rate of commission to 0% would be a matter for the airlines to decide. PAS/TH added that CAD considered airlines' applications on commission rate strictly in accordance with the requirements of the respective ASAs. Generally speaking, airlines were required to file their tariff applications with the relevant aeronautical authorities not less than 60 days before the proposed effective date of the new tariffs, and the proposed tariffs would be deemed to have been approved unless, within 30 days after the date of filing, the aeronautical authorities of either Contracting Party raised objection.

56. Mr Paul TSE requested for the disclosure of the operating permits for the two airlines in question. ADG(AS)/CAD said that as operating permits contained commercially sensitive information, CAD could not disclose their full contents but had released the relevant parts relating to tariff matters to TIC upon their request.

57. Mr IP Wai-ming asked what advice the Tourism Commission (TC) had provided to CAD in the latter's approval for the reduction in commission rate. AC for Tourism said that while TC was responsible for formulating tourism policies and was concerned about issues related to the development of the travel industry, it had not taken part in the approval process for the reduction in commission rate in question.

Impact on consumers and the travel industry

58. Responding to members' enquiries, ADG(AS)/CAD said that commission was part of airlines' operating costs which had to be ultimately recovered through ticket fares. As the reduction in commission would help airlines lower their operating costs, it should not affect passengers.

59. Mr Fred LI queried whether the passengers would be genuinely benefited given that the commission reduction would probably drive travel agents to impose a service charge on their customers to compensate for the loss in commission, and that it was uncertain whether the airlines would indeed lower the ticket fares after reducing the commission for travel agents. Mr IP Wai-ming considered that the Administration should provide more supporting data to show that the approved reduction would really lead to lower airfares. Mr Tommy TAM of TIC said that according to some sources, the two airlines in question would collect a service charge from travellers who bought air tickets directly from them after the reduction in commission had taken effect, which ran contrary to the Administration's claim that the reduced commission would ultimately benefit consumers.

60. Mr WONG Ting-kwong said that he would not object to the reduction in commission if consumers could really benefit from the arrangement. However, he was concerned how CAD could keep track of the changes in the airfares of the two airlines concerned in the long run. He was worried that the reduction in commission would lead to a lose-lose situation for both consumers and the travel industry.

61. Mr Paul TSE said that CAD should not only be concerned itself with dumping and other malpractices that distorted normal market operations in approving the reduction in commission. He emphasized that the zero commission arrangement would be detrimental to passengers' interests as affected travel agents would impose a service charge on their customers to cover the loss of the justified commission. While the Administration claimed that passengers could still choose to buy air tickets via other channels, it should be noted that most of the sale of single items of air tickets was currently conducted through travel agents, and not the airlines' websites. Mr TSE urged CAD to uphold accountability to the interests of the public and the travel sector in reviewing its decision to approve the reduction in commission for travel agents by the two airlines. The Administration should make reference to the order issued by the Directorate General of Civil Aviation of India dated 5 March 2010 pursuant to the order of the Kerala High Court in WP(C)16551 of 2009(L), and likewise give due consideration to the impact of the zero commission arrangement on the consumers and the travel

industry, in particular as the relevant agreement between IATA and the Indian travel agents was identical to the corresponding agreement for Hong Kong. He pointed out that a substantial number of local and overseas airlines were still paying the commission. As some airlines were paying a 9% commission for inter-airline ticketing, he saw no reason for a double standard to travel agents.

62. Ms Miriam LAU also urged the Administration to make reference to the order of the Directorate General of Civil Aviation of India, citing the latter's judgment on the detrimental effects of the zero commission system on the consumer interest that "since the zero commission system was loaded with a transaction fee, the consumer has to pay extra money in the form of transaction fee". Besides, "an unscrupulous agent can charge an exorbitant amount as transaction fee from the customer", and the system "is giving rise to market dominance by some big agents who are paid hefty amounts by the airlines in the name of productivity". She agreed to the conclusion of the judgment that the zero commission coupled with transaction fee was "devoid of merit from the consumer point of view". Ms LAU requested the Administration to shoulder its responsibility to protect consumer interests and provide convincing justifications for approving reduction in commission for similar applications in future, and where possible, review its current decision for the two airlines' applications.

63. ADG(AS)/CAD said that it would be up to individual travel agents to decide whether they would impose a service charge on passengers following the reduction in the commission rate by the two airlines. Nevertheless, passengers might choose to purchase air tickets through travel agents or other channels (such as websites of the airlines) as they saw fit. While in the short run ticket fares were subject to supply and demand in the low and peak seasons, competition in the market, etc., in the long run changes in the operating costs of airlines (which included the commission paid by them) would be reflected in the ticket fares. The Administration was aware of the decision of the Directorate General of Civil Aviation of India but he was not in a position to comment on overseas legislation and regulations in this regard. ADG(AS)/CAD also pointed out that as the Passenger Sales Agency Agreement was a commercial agreement between airlines and travel agents, any disputes arising therefrom should be settled between the parties concerned.

64. PAS/TH advised that while the reduction in commission might not be immediately reflected in a downward adjustment of airfares as other factors would come into play, a lowered operating cost as a result of the reduced commission would relieve the pressure on airlines to increase airfares. PAS/TH further said that the current policy of liberalization of air services was considered the best means to protect consumer interests by offering more choices of services. Since the return of Hong Kong to China in 1997, the Government had been implementing a progressive liberalization policy on air services, as witnessed by the significant increase in the number of ASAs signed with aviation partners, leading to a total of 61 ASAs so far. Most of the ASAs allowed more than one airline providing the same scheduled air services having regard to the increasing demand for air services.

65. Mr IP Wai-ming expressed concern about the adverse impact of the reduction in commission on the existing employment opportunities in the travel sectors. Ms Miriam LAU opined that CAD's approval on the reduction in commission by AF and KLM might adversely affect the sustainability of ticketing agents, in particular if other airlines would follow suit.

66. AC for Tourism said that travel agents' financial situation (which might impact on employment opportunities for staff) was one of the aspects under close monitoring by the Travel Agents Registry which was responsible for licensing of travel agents and was under TC's purview. The relevant monitoring work would continue. The TIC was also looking at ways to encourage the trade to find ways to improve operations, provide more value-added services and explore new sources of income to maintain or enhance their competitiveness amidst the challenging business environment.

Consultation with the travel industry

67. The Chairman did not agree that the approval had struck a balance of interests of different stakeholders, especially as CAD was approving the commission rate proposed by individual airlines on a case- by-case basis without taking into account the views of other airlines, their current commission arrangements, and the travel industry at large.

68. Mr Tommy TAM of TIC remarked that CAD had not consulted the travel trade before approving the reduction in commission. Mr Paul TSE expressed grave dissatisfaction that it was irresponsible for CAD not to consult the public and the travel industry before granting approval. He was disappointed to note that the Transport and Housing Bureau, and Commerce and Economic Development Bureau were indifferent to these issues.

69. ADG(AS)/CAD said that TIC had already conveyed the views of their member travel agents in their submissions to the Administration. PAS/TH added that the Administration was aware of the concerns of the travel agents about the reduction in commission, and had responded to the oral question raised by Hon Paul TSE on the subject at the Council meeting in November 2009. He stressed that in granting the approval for the reduction in commission, CAD had duly considered all relevant factors including the operating costs of the airlines concerned, passengers' interests and the views of the travel agents. Noting the Administration's response, the Chairman maintained his view that the Administration had not balanced the interests of all relevant stakeholders.

Travel Industry Compensation Fund

70. Mr Fred LI expressed concern that currently the Travel Industry Compensation Fund (TICF) did not provide protection against losses of travellers who purchased air tickets as single items in case of airline default. Highlighting the negative impact the incidents of the Oasis Hong Kong Airlines Limited and Viva Macau had brought to air passengers, Mr LI requested TC to consider extending

Action

TICF's scope of protection to cover purchase of single item of air tickets, and discuss with TIC in this regard. AC for Tourism said that while TICF did not cover protection for purchase of single item of air tickets, the Administration had been exercising regulatory control on the airlines under the relevant framework. As for the suggestion of extending TICF's scope of protection, there were many issues involved such as the extent of enhanced protection and the impact on the levy rate, given the substantial amount of funds that would be involved. The Chairman requested the Administration to look into the suggestion and report the outcome to the Panel in future. AC for Tourism took note of the request.

Admin

Motion

71. Mr Paul TSE proposed to move the following motion which was seconded by Mr Fred LI:

> "鑒於印度民航署於2010年3月5日頒令禁止16間航空公司實施"零佣金"措施，本事務委員會要求香港民航署馬上覆檢批准法國航空及荷蘭皇家航空於2010年4月16日實施"零佣金"決定，審慎考慮旅行社業界及廣大消費者合理權益，並檢討其審批程序及完全缺乏諮詢過程的做法。"

(Translation)

> "That, in view of the order issued by the Directorate General of Civil Aviation of India on 5 March 2010 to prohibit 16 airlines from implementing the "zero commission" measure, this Panel requests that the Civil Aviation Department review expeditiously its decision that Air France and KLM Royal Dutch Airlines be granted approval to implement the "zero commission" on 16 April 2010, consider prudently the reasonable interests of the travel agent industry and consumers at large, and review its approving procedures as well as its practice which completely lacks any process of consultation."

72. The Chairman put the motion to vote. As all the six members present voted for the motion, the Chairman declared that Mr Paul TSE's motion was passed.

Conclusion

73. The Chairman summarized members' concerns about the lack of consultation with the travel industry before CAD approved the reduction to zero commission, and the impact of the reduced commission on the operation of travel agents and related job opportunities. He urged the Administration to conduct more thorough consultation in future when considering similar applications from other airlines. He also requested the Administration to provide relevant information on whether the reduction in commission would indeed benefit consumers in the airfares.

Admin

VI Proposals arising from review of Air Transport (Licensing of Air Services) Regulations (Cap. 448 sub. leg. A)

(LC Paper No. CB(1)1439/09-10(07) - Administration's paper on proposals arising from review of Air Transport (Licensing of Air Services) Regulations (Cap. 448 sub. leg. A)

LC Paper No. CB(1)1249/09-10(01) Consultation paper on proposals arising from review of Air Transport (Licensing of Air Services) Regulations (Cap. 448 sub. leg. A)

LC Paper No. CB(1)1439/09-10(08) - Paper on issues relating to the Air Transport (Licensing of Air Services) Regulations prepared by the Legislative Council Secretariat (background brief))

Briefing by the Administration

74. At the invitation of the Chairman, the Deputy Secretary for Transport and Housing (Transport)4 (DS(T)4) advised that the Air Transport Licensing Authority (ATLA), established under the Air Transport (Licensing of Air Services) Regulations (Cap. 448 sub. leg. A) (the Regulations), was responsible for granting licences to local airlines to operate scheduled air services between Hong Kong and any point in the world. Its existing regulatory regime emphasized coordination of air services and made it an object of ensuring, among other things, the avoidance of uneconomical overlapping of air services. It did not distinguish first-time applications and renewal applications for licences, nor impose notification requirements on licence holders, nor did it provide the power for ATLA to intervene when there were signs of any licence holder getting into financial difficulty. To better regulate local airlines, it was thus considered necessary to improve ATLA's regulatory regime in the said areas. He highlighted the proposals arising from a review of the Regulations in respect of ATLA's general policy and powers, requirements for first-time applicants and renewal of licences, notification requirements, and other matters such as penalties for contravention of the provisions of the Regulations, the hiring of consultants or advisors, as set out in the Administration's paper (LC Paper No. CB(1)1439/09-10(07)). DS(T)4 further said that a consultation paper had been issued to the relevant stakeholders in late February 2010 to seek their comments on the proposals. Subject to the outcome of such consultation, the Administration aimed to submit the relevant legislative amendments to the Legislative Council in the fourth quarter of 2010.

Discussion

General policy

75. Mr IP Wai-ming noted that ATLA's general policy would be updated under the current proposals so that ATLA no longer needed to concern itself with the coordination of air services nor with uneconomic overlapping, as these matters should be addressed through market competition. He expressed concern whether the proposed policy change would viciously exacerbate the already intense competition in the air services market, and undermine the development of the industry.

76. DS(T)4 advised that the existing reference in ATLA's general policy to the coordination of air services and the need to avoid uneconomical overlapping was not in line with the global liberalization of air services in recent years, nor with Hong Kong's progressive liberalization policy on air services. Hong Kong's progressive liberalization policy would encourage entry of more operators into the market, enhance competition and provide more consumer choices. Notwithstanding this, there was a need to improve the regulatory regime while liberalizing the market, and the current proposals sought to achieve this.

Licensing requirements

77. Mr CHAN Kam-lam expressed support for the proposals. He highlighted the fierce competition among airlines and expressed concern about the adverse impact on air passengers if airlines failed to meet their obligations due to financial difficulties, such as the case of a recent incident arising from the financial crisis of Viva Macau and its suspension of scheduled flights. Given the difficult operating environment, he observed that airlines might start and build up their business by operating air services at marginal gain or no profit at all. Noting that under the proposals, each applicant should be required to submit a business plan for at least the first two years of operation, Mr CHAN enquired about ATLA's criteria in granting licences or otherwise to the applicants having regard to the business viability of their operation of air services.

78. DS(T)4 said that under the proposals, first-time applicants would be required to demonstrate to ATLA's reasonable satisfaction that it could meet at any time its actual and potential obligations, established under realistic assumptions, for a period of 24 months from the start of operations, and that it could meet its fixed and operational costs incurred from operations according to its business plan and established under realistic assumptions, for a period of three months from the start of operations, without taking into account any income from its operations. In proposing these requirements, reference had been made to the prevailing practice in the United Kingdom. As for existing ATLA licence holders, their continuing capability would be assessed through notification to ATLA of specific events, in particular, the changes in capital structure, and provision of the audited financial statements and a business plan every year. The licence holder should also be

required to inform ATLA in the first instance of its financial difficulties or intention to cease operation or such cessation.

79. Mr IP Wai-ming noted that under the proposals, ATLA would not need to require an endorsement from the Civil Aviation Department (CAD), as at present, certifying that, inter alia, the adequacy and competence of the staff to be employed by the applicant were satisfactory. He was concerned how ATLA could exercise oversight in this regard as the applicant was not required to provide the relevant staff information in the application for a licence.

80. DS(T)4 advised that the granting and validity at any time of a licence should depend on the possession of a valid Air Operator's Certificate (AOC) granted under Article 6(2) of the Air Navigation (Hong Kong) Order 1995 (Cap. 448 sub. leg. C). The applicant should be allowed to apply for a licence from ATLA and an AOC from CAD in parallel. DS(T)4 further advised that the current proposals did not entail amendment to Regulation 11(h) of Cap. 448 sub. leg. A which required ATLA to have regard to, inter alia, the remuneration and general conditions of employment of aircrew and other personnel employed by the applicant when considering to grant or refuse a licence.

Conclusion

81. The Chairman concluded that members had no objection in principle to the proposals arising from the review of the Regulations. Mr IP Wai-ming stated his reservation on the proposals at this stage, and said that he had to consult the Hong Kong Federation of Trade Unions before taking a position.

VII Cruise terminal building works of the new cruise terminal

(LC Paper No. CB(1)1439/09-10(09) - Administration's paper on cruise terminal building works of the new cruise terminal

LC Paper No. CB(1)1439/09-10(10) - Paper on the development of new cruise terminal facilities at Kai Tak prepared by the Legislative Council Secretariat (updated background brief))

Briefing by the Administration

82. At the invitation of the Chairman, the Secretary for Commerce and Economic Development (SCED) briefed members on the funding proposal for carrying out the cruise terminal building works, as set out in the Administration's paper (LC Paper No. CB(1)1439/09-10(09)). She highlighted that the winning bid from the tender exercise could meet the design standards for an iconic building, as well as the technical requirements for a highly functional cruise terminal. Subject to the funding approval of the Finance Committee (FC) in April 2010, the

design-and-build contract would commence in May 2010. The completion of the terminal building would be advanced from the originally planned 2014-2015 to within 2013, with the target to synchronize with the opening of the first berth around mid-2013. She also informed members that the latest estimated total project cost of $7.4083 billion in September 2009 prices was within the cost estimation for the project as reported to the Panel on 24 October 2008.

Discussion

Estimated project cost

83. Ms Emily LAU sought clarification about the change in the estimates. The Chairman expressed support for the proposal and enquired whether the latest project estimates had taken into account the inflation trend in the recent period.

84. The Permanent Secretary for Development (Works) (PS(W), DEVB) clarified that the overall estimated cost of the cruise terminal project of about $7.2 billion reported to the Panel in October 2008 was based on a preliminary concept which included $2.4 billion for site formation works and $4.8 billion for the cruise terminal building, and the cost was in September 2008 prices. The latest estimated project cost of $8.156 billion was expressed in money-of-the-day prices (MOD). When comparing like with like, the latest project cost was $7.4083 billion in September 2009 prices, and was within the original project estimation of $7.512 billion also in September 2009 prices, brought up from $7.2 billion in September 2008 prices, after taking into account price fluctuation. He explained that the difference in face values was due mainly to calculation in MOD prices, together with some minor adjustments to individual items for the site formation works and terminal building project. The present estimates in MOD prices had taken into account the fluctuation of labour and material prices in the relevant period, and provisions were made for contingencies and price adjustment. Ms LAU requested the
Admin Administration to state these details clearly in the submissions to the Public Works Subcommittee (PWSC) and FC. The Administration took note of the request.

Facilities and interface with other projects

85. Mr CHAN Kam-lam expressed support for the advanced completion of the cruise terminal building to synchronize with the opening of the first berth around mid 2013. He urged that the Administration should monitor the conduct of other works at the Kai Tak Development (KTD) to minimize inconvenience to cruise passengers when they passed by the construction sites.

86. Mr WONG Ting-kwong said that Members belonging to the Democratic Alliance for the Betterment and Progress of Hong Kong supported the proposal and looked forward to the early completion of the cruise terminal building works. He urged the Commerce and Economic Development Bureau to coordinate closely with other relevant bureaux/departments to achieve better interface of the different works in the area, in particular the provision of catering and other ancillary facilities for cruise passengers.

87. PS(W), DEVB said that the KTD projects had been grouped into three packages for completion by 2013, 2016 and 2021, and new road infrastructures and supporting facilities would be built and put in place by 2013. SCED assured members that the KTD project was being monitored by a high-level committee, and the Administration would strive to ensure that the contractors would complete the works according to schedule, so as to minimize adverse impact on cruise passengers.

88. Referring to the lack of public car park facilities at the Ocean Terminal, Mr CHAN Kam-lam enquired about the number of parking spaces to be provided at the new cruise terminal to cope with the anticipated demand of the facilities by both cruise passengers and local visitors. Mr WONG Ting-kwong stressed the importance of providing adequate parking spaces to facilitate speedy embarkation/disembarkation of cruise passengers. He observed that it only took some 40 to 45 minutes to disembark all the passengers from a cruise vessel at Barcelona of Spain during the Panel's duty visit to major overseas cruise ports in 2007.

89. The Director of Architectural Services (D Arch S) advised that the three-storey terminal building would provide about 200 parking spaces/queuing spaces, including 120 and 30 for private cars and coaches respectively, as well as some 100 pick-up/drop-off bays. PS(W), DEVB said that as local visitors would be encouraged to access the cruise terminal by public transport, and cruise passengers would normally be transported by coaches, the number of parking spaces for private cars were considered sufficient. Additional parking lots would also be available in other facilities at KTD.

90. Ms Emily LAU supported the various energy conservation and environmental protection measures under the project and requested the Administration to implement them accordingly. She urged the Administration to give due consideration to the needs of the elderly and persons with disabilities in the design of facilities and provision of barrier-free access at the cruise terminal, as this might form part of the upcoming report to the United Nations, following the entry into force of the Convention on the Rights of Persons with Disabilities for the Hong Kong Special Administrative Region. Ms LAU also suggested the Administration take into account gender needs in the design of public facilities, in particular the provision of adequate cubicles for the female toilets, in line with the implementation of gender mainstreaming.

91. PS(W), DEVB and D Arch S responded that the Architectural Services Department would address these concerns in accordance with the prescribed standards and requirements for the provision of barrier-free access and aforesaid facilities in public works projects. D Arch S assured members that the Administration would make reference to gender mainstreaming concept in designing gender-related facilities, such as breast-feeding facilities and female toilet cubicles. SCED added that the facilities of the cruise terminal would also be designed to cater to the needs of elderly and female visitors. Ms Emily LAU

Admin requested the Administration to set out the details in the submissions to PWSC and FC for Members' reference. The Administration took note of the request.

92. The Chairman enquired about the measures to mitigate emission of obnoxious odour from the Kai Tak approach channel near the new cruise terminal. PS(W), DEVB advised that the Administration had adopted a multi-pronged approach to deal with the odour problem, including improving the drainage and sewerage systems in the hinterland of KTD to intercept polluted discharges at source, and in-situ bioremediation treatment on sediments to oxidize smelly substances. He observed that the water quality and the odour problem in the vicinity of the approach channel had already been improved. The Administration would continue to collect water samples and monitor the progress in this regard.

Software development

93. Mr WONG Ting-kwong was concerned about the readiness of the necessary software to tie in with the development of the new cruise terminal, and urged the Administration to work on local itineraries as well as short-haul multi-destination trips covering neighbouring ports and cities in the region for cruise passengers. SCED advised that an Advisory Committee on Cruise Industry (ACCI) which comprised representatives from the travel industry had been established in January 2008. The Tourism Commission was working closely with ACCI to formulate measures to facilitate cruise itinerary development and manpower training for the cruise markets and related industries, etc. Under the current planning, the new cruise terminal operator would be given at least 18 months' lead time to accept cruise bookings in the run-up to the commissioning of the first berth.

Employment opportunities

94. Mr IP Wai-ming welcomed the Administration's plan for the early opening of the cruise terminal building by mid-2013 in view of the benefits to tourism. He enquired about the manpower demand arising from the project in the construction sector, and requested the Administration to ensure that local workers would be given priority in employment.

95. PS(W), DEVB said that the proposed works would create about 3 000 jobs for the local workers while certain positions requiring special expertise might be taken up by local or non-local professionals. SCED added that after the commissioning of the new terminal, the cruise industry was expected to provide some 5 000 to 9 000 jobs annually for different sectors in the long run, and the economic benefits could reach $1.5 billion to $2.6 billion per annum. Mr IP Wai-ming considered that the Administration should facilitate the transfer of knowledge and expertise relating to the cruise terminal works so as to enable more local workers to benefit from the employment opportunities so generated. He

Admin requested the Administration to state in the funding proposal to PWSC and FC its commitment in giving priority to local employment under the project. The Administration took note of the request.

Other issues

96. Mr Paul TSE expressed support for the proposal. Noting that the assessment of the tender submissions for the design-and-build contract for the cruise terminal building had already been completed, he sought information on the successful bidder. PS(W), DEVB advised that it was the current established practice to announce the winning bidder after FC approved the funding proposal.

Conclusion

97. The Chairman concluded that members supported in principle the funding proposal for the cruise terminal building works of the new cruise terminal.

VIII Any other business

98. There being no other business, the meeting ended at 1:05 pm.

Council Business Division 1
Legislative Council Secretariat
23 April 2010