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Panel on Economic Development
Meeting on 22 April 2013

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

Purpose

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

Background

2. On 24 October 2006, the Government announced its plan for developing new cruise terminal facilities on the 7.6 hectares of land earmarked at the southern end of the former runway at the Kai Tak Development ("KTD") through an open land tender.

3. On 9 November 2007, the Government invited tender for the development of the new cruise terminal at Kai Tak. The successful tenderer was expected to design, build and operate ("DBO") the new cruise terminal for 50 years and begin operating the first berth in February 2012. As none of the two tender submissions received fully conformed with the requirements laid down in the tender document, the Government decided to reject both submissions.

The "Government Design, Build and Lease Approach"

4. On the ground that the requirement for the successful tenderer to fund the site formation works for the cruise terminal, the Government facilities¹ and the landscaped deck (which estimated to cost about \$1.8 to \$2 billion in September 2007 prices) had undermined the business viability of the project, the Government decided in October 2008 to proceed to fund, design and build the new cruise terminal and lease it to a cruise terminal operator after completion (the Government Design, Build and Lease ("DBL") approach). Under this approach, the capital cost of the new cruise terminal was estimated to be about \$7.2 billion (in September 2008 prices) or \$7.512 billion (in September 2009 prices). The Government would develop the new cruise terminal with two parallel contracts, i.e. a site formation works contract and a cruise terminal building works contract.

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

Tender for the tenancy

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

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

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

7. The tenancy of the cruise terminal would have a term of 10 years, with an option to extend for five years after which another open tender for the leasing arrangements would be held. The operator would need to submit an annual operation and maintenance report to the Government on various aspects, including its business performance, fulfilment of the service pledges, etc. On the rental mechanism for the cruise terminal building, the operator would pay the Government a fixed rent that was expected to escalate by year, and a variable rent based on a sliding scale linked to the operator's gross receipt.

Leasing arrangements

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

Concerns expressed by Members in previous discussions

9. LegCo Members had been keen to ensure early development of new cruise facilities in Hong Kong to enhance its competitiveness in the fast growing world cruise market and develop Hong Kong as a regional cruise hub. Members raised various questions at the Council meetings on the development of cruise tourism as well as new cruise terminal facilities, including its location, modes of development and operation, facilities, transport networks, development timetable and tendering matters as well as interim berthing arrangements. The Administration briefed and updated the Panel on Economic Development³ ("the Panel") on the development of new cruise terminal at Kai Tak on 28 June 2004, 27 November 2006, 24 October 2008, 25 May 2009, 29 March 2010, 24 January 2011 and 23 April 2012.

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

Leasing and operational matters

10. Panel members in general supported the DBL approach when it was discussed on 24 October 2008. However, they expressed concern about the upsurge in the estimated cost of the cruise terminal, from \$2.4 billion under the DBO approach to \$7.2 billion under the DBL approach⁴. There was also concern about the proposed scaling back of the commercial Gloss Floor Area as it might reduce the appeal of the cruise terminal. Panel members highlighted the need to develop both hardware and software aspects in taking forward the cruise terminal project, including berthing facilities, access roads, cruise itineraries and berthing arrangements, as well as cultural programmes for the appreciation of cruise passengers.

11. On 24 January 2011, the Administration briefed the Panel on the leasing arrangements for the new cruise terminal. The Panel noted that the operator would pay the Government a fixed rent that was expected to escalate by year, and a variable rent based on a sliding scale linked to the operator's gross receipt. Some members considered the leasing terms very stringent if the berthing fees were capped at the levels proposed in the respective tender proposal, and they expressed concern that the new terminal might not be able to compete with cruise terminals in neighbouring ports. The Administration advised that the proposed arrangements would strike a balance between adhering to the market-driven principles and protecting the return of the Government's huge investment. The rental received would provide a stable source of income for meeting the recurrent expenditure of the cruise terminal estimated at \$220 million a year.

12. When the Administration briefed the Panel on the progress of the new cruise terminal on 23 April 2012, a member opined that the agreement with WCT was too generous as WCT was only required to pay a fixed rent of about \$100,000 a month and the amount of variable rent would hinge on WCT's gross receipts. The Administration advised that the rent levels were the result of the open tender.

13. In relation to members' enquiries regarding the mechanism for monitoring the performance of the WCT, the Administration advised that a mid-term review of the agreement would be undertaken after five years of operation, and the Government would monitor the operation of the terminal through a set of service pledges and performance indicators, such as the time taken for embarkation and disembarkation of passengers. A management committee comprising representatives from WCT and the relevant sectors

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

would be formed to give operation advice to WCT and monitor WCT's performance. In response to members' concern about favouritism in allocation of berthing slots as the Royal Caribbean Cruises Limited was one of the three companies forming the WCT, the Administration advised that WCT would draw up guidelines on how berthing slots would be allocated and the Government would ensure that the arrangements would be transparent and fair.

14. Noting that the third floor of the cruise terminal would be used for Meeting, Incentive, Convention and Exhibition purpose during low seasons, members requested that the Government and WCT should brief the Panel on the details of the arrangements and charges in due course.

Transport facilities

15. In response to questions raised by a Member at the Council meeting on 24 October 2012 regarding the provision of transport facilities for the new cruise terminal at Kai Tak and the traffic impact on the nearby roads, the Administration advised that when a cruise vessel berthed at the terminal, a shipping agent or a shore excursion operator engaged by the cruise operator would arrange coaches to carry the visitors between the cruise terminal and tourist spots. The traffic impact assessment indicated that upon the completion of the new road between the cruise terminal and Kowloon Bay and the modification works of some of the road junctions in Kowloon Bay, the road network should be able to cope with the traffic flow brought by the new cruise terminal. To facilitate public access to the cruise terminal, green minibus services would be provided between the MTR Kowloon Bay station and the cruise terminal. Visitors might also use taxis to access and depart from the cruise terminal. The Government would review the traffic situation after the commissioning of the cruise terminal. While KTD had not made any provision for a ferry pier near the cruise terminal or water taxi services, the Administration advised that the cruise terminal operator intended to look into the feasibility of providing a pier near to the terminal to complement the cruise operation. The Government would consider the detailed proposal upon receipt of the same from the cruise terminal operator.

16. In relation to a Member's question concerning the provision of large coach parking spaces at the cruise terminal at the Council meeting on 9 January 2013, the Administration replied that there were 40 pick-up and drop-off parking spaces and 30 queuing spaces in the cruise terminal for coaches transporting passengers to and from the terminal, which should be able to meet the demand of the largest cruise liners.

Connection with neighbouring districts

17. At Panel meetings on 25 May 2009 and 29 March 2010, members considered it crucial to provide adequate road infrastructure to tie in with the commissioning of the first berth, in particular the connectivity of the new cruise terminal with the neighbouring districts as well as the Hong Kong International Airport. They also urged the Administration to achieve better interface of the different works at KTD to minimize inconvenience and nuisances to cruise passengers and cruise terminal visitors, while providing them the necessary support such as provision of barrier-free and gender-specific facilities at the cruise terminal building and sufficient parking spaces at KTD.

18. At the Panel meeting on 23 April 2012, members urged the Administration to ensure that the building of the cluster of tourism facilities, such as hotels, commercial premises, entertainment facilities, in the vicinity of the cruise terminal should as far as possible tie in with the development of the terminal in order to minimize any nuisance to the passengers. With regard to the concern about road network linking the cruise terminal with other districts, members noted that initially a dual two-lane road pleasantly landscaped on both sides would be constructed to link up the cruise terminal with Kowloon Bay. A convenient road network would be provided when the KTD was completed in 2021. Some members urged the Government and WCT to consider using ferries for transferring of passengers.

Other views

19. On the development of cruise itineraries, members urged the Government to partner with neighbouring ports in the Asia-Pacific region, while maintaining Hong Kong's competitiveness. It should also capture the opportunity to develop Hong Kong into a homeport particularly for Mainland tour groups travelling to Taiwan from Hong Kong⁵.

20. At the Panel meetings on 28 January 2013 and 25 March 2013, members expressed concern about the provision of shore power at the cruise terminal and requested the Administration to brief the Panel on the issue when the Panel discussed about the development of the cruise terminal at the next meeting.

⁵ The Central People's Government announced on 18 April 2009 that Mainland tour groups could travel to Taiwan from Hong Kong by taking cruise vessels homeporting at Hong Kong. About 20 sailings from Hong Kong to Taiwan, with a total capacity of some 30 000 passengers, were launched in 2010.

Latest position

21. For the first time a cruise vessel berthed at the new cruise terminal between 16 and 18 March 2013. At the site visit and the Panel meeting to be held on 22 April 2013, the Administration will update the Panel on the latest progress of the new cruise terminal project at Kai Tak.

References

22. The relevant papers are available at the following links:

Background brief on the development of new cruise terminal project at Kai Tak dated 17 April 2012 (LC Paper No. CB(1)1600/11-12(06))

<http://www.legco.gov.hk/yr11-12/english/panels/eDEV/papers/eDEV0423cb1-1600-6-e.pdf>

Paper on the development of new cruise terminal project at Kai Tak (LC Paper No. CB(1)1600/11-12(05))

<http://www.legco.gov.hk/yr11-12/english/panels/eDEV/papers/eDEV0423cb1-1600-5-e.pdf>

Minutes of meeting of the Panel on 23 April 2012

<http://www.legco.gov.hk/yr11-12/english/panels/eDEV/minutes/eDEV20120423.pdf>

Press releases of the Government dated 24 October 2012 and 9 January 2013

<http://www.info.gov.hk/gia/general/201210/24/P201210240300.htm>

<http://www.info.gov.hk/gia/general/201301/09/P201301090250.htm>

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