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Panel on Economic Development Meeting on 22 July 2013

Background brief on the development of the Kai Tak Cruise Terminal

Purpose

This paper sets out the background on the development of the Kai Tak Cruise Terminal and summarizes 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. 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 million¹ in money-of-the-day ("MOD") prices. The works started in November 2009, 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.

3. 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"). The tenancy of the cruise terminal would have a term of 10 years, with an option to extend for

¹ 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).

five years after which another open tender for the leasing arrangements would be held. According to the terms of tenancy, 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 new cruise terminal development was officially named Kai Tak Cruise Terminal in October 2012.

4. Upon completion of construction works, the terminal building and the first berth were handed over to WCT on 1 June 2013. The cruise terminal received the first cruise liner, *Mariner of the Seas*, on 12 June 2013.

Concerns expressed by Members in previous discussions

5. LegCo Members have been closely monitoring the development and operation of the Kai Tak Cruise Terminal, with a view to enhancing Hong Kong's competitiveness in the fast-growing world cruise market and developing 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 Development² ("the Panel") on the development of the Kai Tak Cruise Terminal on 24 October 2008, 25 May 2009, 29 March 2010, 24 January 2011, 23 April 2012 and 22 April 2013. Panel members paid a visit to the new cruise terminal on 22 April 2013.

Leasing and operational matters

6. 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

² The Panel on Economic Development was known as the Panel on Economic Services prior to the 2007-2008 session.

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.

7. 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. Some members also expressed similar concern at the Panel meeting on 22 April 2013. The Administration advised that the rent levels were the result of the open tender.

8. 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 would be formed to give operation advice to WCT and monitor WCT's performance.

Use of the facilities in the cruise terminal

9. 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.

10. 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.

11. In response to a member's enquiry at the Panel meeting on 22 April 2013 regarding the future operation of the cruise terminal at Kai Tak and the Ocean Terminal, the Administration advised that the cruise terminal at Kai Tak was designed to accommodate the largest cruise liners which could not be berthed at the Ocean Terminal. The Government would ensure that the two

cruise terminals would operate on a level-playing field.

12. In reply to Members' questions at the Council meeting on 26 June 2013, the Administration advised that the design of the cruise terminal at Kai Tak enabled the terminal to be used for conferences, exhibitions and banquets during the non-peak season.

Traffic and transport facilities

13. In response to questions raised by a Member at the Council meeting on 24 October 2012 and by members of the Panel at the meeting on 22 April 2013 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.

14. According to the traffic impact assessment commissioned by the Administration, 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. The dual two-way carriageway leading to the cruise terminal at Kai Tak should be adequate to meet the demand of motorists visiting the cruise terminal at Kai Tak.

15. 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. At the Panel meeting on 22 April 2013, a member requested that public transport facilities should be provided at the cruise terminal at Kai Tak to facilitate access to the terminal by people with disabilities. Members also requested that the Government should give consideration to providing facilities for visitors to access the cruise terminal at Kai Tak on foot.

Carparking spaces

17. 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. In response to members of the Panel's concern regarding the provision of parking spaces for private vehicles, the Administration advised that there were 126 parking spaces for private vehicles at the cruise terminal at Kai Tak and parking facilities would also be provided in other facilities to be developed in KTD.

Connection with neighbouring districts

18. 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.

19. 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.

20. In response to a Member's question raised at the Council meeting on 26 June 2013, the Administration advised that the Development Bureau had engaged a consultant to conduct a preliminary feasibility study on provision of an Environmentally Friendly Linkage System (EFLS) at the KTD, and would conduct a second stage public consultation exercise in the second half of 2013. The tentative commissioning date of the EFLS would not be earlier than 2023.

As regards the provision of water taxis and ferries to link up the cruise terminal with other districts, the Government would consider the various issues involved and the inclinations of the ferry trade.

Promotion of cruise tourism

21. 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, Japan and Korea en route Hong Kong³. The Administration also advised at the Panel meeting on 22 April 2013 that the Hong Kong Tourism Board had set up a co-op marketing fund with the cruise lines to promote Hong Kong as a homeport for cruise travels, to encourage cruise lines to include Hong Kong in their itineraries and stimulate demand for cruise travel.

22. To complement the Central People's Government's new policy announced in June 2012 to allow Mainland tour groups taking cruises from Hong Kong to visit Japan and/or Korea after visiting Taiwan, the Hong Kong Tourism Board had stepped up promotion in the Mainland to encourage more Mainland visitors to join cruise journeys from Hong Kong.

On-shore power facilities

23. At the Panel meetings on 28 January 2013, 25 March 2013 and 22 April 2013, members expressed concern about the provision of on-shore power facilities at the cruise terminal. The Administration advised that the Chief Executive had stated in his Policy Address for 2013-2014 that on-shore power facilities would be provided at the cruise terminal at Kai Tak. The broad international standard on provision of on-shore power facilities was formulated only in 2012, and details of the standard had yet to be worked out. The Environment Bureau had commissioned the Electrical and Mechanical Services to conduct a feasibility study for the provision of on-shore power facilities at the cruise terminal at Kai Tak, and a proposal would be presented to the Legislative Council for approval in due course.

Fuels for vessels

24. In reply to Members' questions at the Council meeting on 26 June 2013, the Administration advised that the Environment Protection Department

³ 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.

had launched in September 2012 a 3-year incentive scheme in which ocean-going vessels (including cruise vessels) that switch to low sulphur fuel while berthing in Hong Kong waters would enjoy 50 per cent reduction in port facilities and light dues. The environment Protection Department was planning to mandate that all ocean-going vessels should switch to low sulphur fuels while berthing in Hong Kong and would brief the Panel on Environmental Affairs on the issue at its meeting in July 2013.

Latest position

25. The Administration will update the Panel at the meeting on 22 July 2013 on the latest development regarding the operation and regulation of the Kai Tak Cruise Terminal.

References

26. 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>

Background Brief on the development of new cruise terminal project at Kai Tak dated 17 April 2013 (LC Paper No. CB(1)859/12-13(04))

<http://www.legco.gov.hk/yr12-13/english/panels/eDEV/papers/eDEV0422cb1-859-4-e.pdf>

Paper on the development of new cruise terminal project at Kai Tak
(LC Paper No. CB(1)859/12-13(03))

<http://www.legco.gov.hk/yr12-13/english/panels/e/dev/papers/e/dev0422cb1-859-3-e.pdf>

Government's press release dated 26 June 2013 regarding provision of ancillary facilities at the Kai Tak Cruise Terminal

<http://www.info.gov.hk/gia/general/201306/26/P201306260537.htm>

Government's press release dated 26 June 2013 regarding business promotion for the Kai Tak Cruise Terminal

<http://www.info.gov.hk/gia/general/201306/26/P201306260267.htm>

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