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Panel on Economic Development
Meeting on 16 February 2015

Background brief on the
Work plan of Hong Kong Tourism Board

Purpose

This paper provides background information on the establishment and funding arrangements for the Hong Kong Tourism Board ("HKTB"). It also summarizes the views and concerns expressed by members about the work of HKTB when relevant issues were discussed at the Panel of Economic Development ("the Panel").

Tourism

2. The tourism industry, including both inbound and outbound tourism¹, is the smallest of the four pillar industries in Hong Kong but it outperformed the others in terms of real GDP growth of 161% (i.e. from 2.9% in 2002 to 4.7% in 2012) and increased employment of 76% (or 108 700 more headcount) between 2002 and 2012. Looking ahead, the tourism industry in Hong Kong is likely to face a number of challenges in the short to medium term. First, there are heightened concerns about Hong Kong's tourism handling capacity in the local community as the number of Mainland visitors increased by about 38 million or 5.5 times since the implementation of Individual Visit Scheme ("IVS") in 2003. Secondly, per capita spending from the Mainland visitors has exhibited decelerated growth in recent years, along with reduced spending on luxury items and shorter period of stay in Hong Kong. Thirdly, incremental growth impact as well as spillover effect of tourism on the entire economy is rather limited.²

¹ Inbound tourism comprises retail trade, accommodation services like hotels, food and beverage services and cross-boundary passenger transport services. In 2012, inbound tourism accounted for 84% of the GDP contribution of the tourism industry and outbound tourism the remaining 16%.

² Source: Legislative Council Research Brief - Four pillars and Six Industries in Hong Kong: review and outlook (LC Paper No. RB03/14-15)

Establishment of HKTB

3. HKTB is a statutory body established on 1 April 2001 under the HKTB Ordinance (Cap. 302). It was reconstituted from and replaced the Hong Kong Tourists Association ("HKTA")³. According to the HKTB Ordinance, the objects of HKTB are to –

- (a) endeavour to increase the contribution of tourism to Hong Kong;
- (b) promote Hong Kong globally as a leading international city in Asia and a world class tourist destination;
- (c) promote the improvement of facilities for visitors;
- (d) support the Government in promoting to the community the importance of tourism;
- (e) support, as appropriate, the activities of persons providing services for visitors to Hong Kong; and
- (f) make recommendations to and advise the Chief Executive of the Hong Kong Special Administrative Region ("CE") in relation to any measures which may be taken to further any of the foregoing matters.

4. To achieve these statutory objects, HKTB's funding is mainly for marketing and promoting Hong Kong globally as a leading international city in Asia and a world class tourist destination. The detailed plans and programmes of HKTB are implemented by various functional units in the Head Office in Hong Kong as well as HKTB's 22 Worldwide Offices ("WWOs")⁴. HKTB maintains a close watch on global tourism trends, keeps track of competitors' activities, conducts extensive market research and analyses, and develops and implements the Board's marketing, business development and product development strategies.

³ HKTA was set up as a membership organization in 1957. Consequent upon the completion of the Strategic Organisation Review in late 1999, the Board of Management of HKTA decided to abolish the membership system of HKTA and reconstitute it into HKTB. The HKTB Ordinance was enacted in March 2001 to effect these changes. While HKTA was an association of members, HKTB has no affiliation to any specific sector or organization within the industry.

⁴ HKTB has a worldwide network of 16 offices (including Beijing, Shanghai, Guangzhou, Chengdu, Tokyo, Osaka, Seoul, Singapore, Taipei, London, Paris, Frankfurt, Los Angeles, New York, Toronto and Sydney) and has representatives in 6 places (including New Delhi, Bangkok, Manila, Jakarta, Moscow and Dubai) which handle travel trade, media and consumer enquiries.

5. The governing body of HKTB is the Board⁵ which consists of 20 members. There are five committees established under the Board, namely, Audit Committee, Staff and Finance Committee, Marketing and Business Development Committee, Product and Event Committee, and Quality Tourism Services Committee. In 2014-2015⁶, the headcount of HKTB in its Head Office and WWOs would be 377.

6. The Tourism Commission, a functional unit within the Commerce and Economic Development Bureau and led by the Commissioner for Tourism, works closely with HKTB and some other organizations to promote the development of tourism in Hong Kong. The Government has appointed the Commissioner as a member of the HKTB Board since its establishment and the Commissioner is also a member of all the five Committees under the Board.

Funding arrangements for HKTB

7. HKTB's activities are primarily funded by the Government having regard to the needs of HKTB as presented in its work plan and annual budget⁷. The subvention for HKTB forms part of the Appropriation Bill, the passage of which is subject to approval by the Legislative Council ("LegCo"). The Government may provide non-recurrent funding to support HKTB in implementing specific promotional activities. For the years from 2008-2009 to 2013-2014, the Government has earmarked around \$30 million every year to HKTB to provide one-stop support for meetings, incentives, conventions and exhibitions ("MICE") events, assist in bidding for prestigious MICE events, generate attendance and promote cross-selling of tourism products. The amount of Government subvention and marketing budget of HKTB since 2008-2009 are set out below-

⁵ The authority for the CE to appoint members of the Board and approve HKTB's Business Plan and Budget was delegated to the Financial Secretary in April 2001. The latter authority was further delegated to the former Secretary for Economic Development and Labour in July 2004 and then to the Secretary for Commerce and Economic Development with effect from 1 July 2007.

⁶ The financial year of HKTB is from April to March (ending on 31st March of each year).

⁷ The HKTB's budgetary cycle dovetails with the Government's annual budgetary process. Under section 17B(1) of the HKTB Ordinance, HKTB is required to forward a programme of its proposed activities and estimates for the next financial year to the Government before the appointed date.

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Government Subvention (HK\$Mn)	459.9	501.5	501	521.5	555.2	570.2	655.7 (Estimated)
Marketing budget (HK\$Mn)	323.7	378.0	362.5	351.8	358.1	356.3	330.6 (Proposed)

8. HKTB may collect fees for its services to achieve cost recovery as appropriate, solicit sponsorship for funding its events, activities and communication materials, and generate revenue by accepting advertisements in its publications and website, as well as in the venue of HKTB's mega events. HKTB aimed to generate over \$45.5 million in commercial sponsorship income in 2014-2015.

Monitoring mechanisms

9. According to HKTB, there is an established mechanism of financial monitoring and internal audit to ensure cost-effectiveness of its promotional activities. Its work plan, budget, programmes, financial procedures, guidelines and progress of marketing are required to be vetted and monitored by the relevant committees established under the Board.

10. To track the effectiveness of the promotional programmes and activities, HKTB has established four objective Key Performance Indicators ("KPIs"), viz. visitor arrivals, length of stay, satisfaction level and spending of visitors. KPIs from 2008 onwards are set out below-

	2008	2009	2010	2011	2012	2013	2014*
Total Visitor Arrivals ('000)	29 507	29 591	36 030	41 921	48 615	54 299	58 964
Overall Satisfaction Rating (max: 10 pt)	8.2	8.3	8.3	8.3	8.3	8.3	8.3
Overnight Visitor Average Length of Stay (nights)	3.3	3.2	3.6	3.6	3.5	3.4	3.4
Overnight Visitor Per Capita Spending (HK\$)	5,439	5,770	6,728	7,470	7,818	8,233*	8,597

*Projection made in December 2013

11. In 2009-2010, HKTB introduced a new performance measurement framework. In addition to the four KPIs, HKTB brought in a set of about 50 corporate performance indicators to measure the effectiveness and performance of the HKTB's marketing programmes and activities by strategic focuses.

12. Under section 18 of the HKTB Ordinance, the annual financial statement of HKTB has to be audited by an external auditor appointed by the Government. A copy of the statement of the audited accounts together with the auditor's report on statement/accounts shall be laid before LegCo as soon as possible. Section 19 of the Ordinance provides that HKTB has to submit an annual report of activities to the CE, and Secretary for Commerce and Economic Development ("SCED") shall lay the report on the table of LegCo. In addition, HKTB is included in the list of "public bodies" under the Prevention of Bribery Ordinance, and is subject to the scrutiny of the Director of Audit.

Work plans of HKTB

13. Under section 17B of the HKTB Ordinance, HKTB has to submit its annual work plans to SCED for approval. In drawing up the work plans, HKTB conducts extensive consultation with various tourism stakeholders, including travel agents, airlines, retailers, restaurants, attractions, as well as the academia.

Initiatives under 2015 Policy Address to support the work of HKTB

14. In connection with the 2015 Policy Address, SCED has briefed the Panel at its meeting held on 2 February 2015 of the initiatives to be undertaken by the Administration to support the work of HKTB -

- (a) to maintain a diverse visitor portfolio, HKTB will invest over 75% of its resources in the international markets. The remaining will be allocated to the Mainland market, with the bulk going to the non-Guangdong provinces. HKTB will also strengthen promotion in short-haul markets with growth potential and continue to carry out promotion in various new markets;
- (b) in terms of MICE tourism, the Meetings and Exhibitions Hong Kong ("MEHK") office under HKTB will continue its efforts to promote Hong Kong as the preferred MICE destination in the region and bid for more high-profile MICE events and activities. As for corporate meetings and incentive travels, MEHK's focus

will be put on driving various markets with high growth potential, such as the Mainland, India and Indonesia. An annual provision of \$30 million will be allocated to HKTB for its MICE promotion work; and

- (c) the Government has earmarked an additional time-limited annual provision of \$15 million to HKTB from 2014-2015 onwards for three years (i.e. until 2016-2017) to increase Hong Kong's competitiveness in bidding for international MICE events.

Panel members' views and concerns on HKTB's work plans

15. The Panel had all along expressed views and concerns over a range of issues regarding HKTB. The following issues were raised by members when they deliberated on HKTB's work plans for 2011-2012 and 2012-2013 -

- (a) promote Hong Kong as a tourist destination in long-haul markets;
- (b) tackle on undesirable trade practices in some shops selling products to tourists;
- (c) step up measures to reduce the long waiting time of visitors at immigration control points;
- (d) host more appealing events during the non-peak seasons so as to draw more visitors;
- (e) encourage Mainland visitors who normally travelled on one-day journey to stay longer in Hong Kong; and
- (f) streamline the operation of HKTB's offices and utilize more of the Internet services to promote Hong Kong.

16. However, Panel members expressed grave concerns on Hong Kong's tourist reception capacity when they examined HKTB's workplan for 2013-2014 and urged the Administration to review Hong Kong's capacity to receive tourists including the arrangement of IVS and the multiple entry permit arrangement, and improve the support facilities and services for tourists so as to avoid competing with local residents for public transport services. They considered that efforts should also be made to formulate policy on home-stay lodgings and ease the shortage of hotel rooms.

17. The most recent discussion of the Panel was at the meeting on 24 February 2014 regarding HKTB's work plan for 2014-2015. Members' main concerns and comments are summarized in the paragraphs below.

Hong Kong's tourist reception capacity

18. Many members expressed grave concern about the tourist reception capacity of Hong Kong. There was a strong voice in the community that Hong Kong was overwhelmed by tourists. The number of tourists was increasing at an alarming rate and had grown to an extent that was beyond Hong Kong's capacity to handle without degrading the standard of living of local people. Members urged the Government to admit this sentiment and address the problems in a candid manner. Some members commented that the Administration had no concrete proposals on diverting visitors from congested hot spots to other districts.

19. In reply, the Administration advised that it would try to strike a balance between developing tourism and reducing the impact of increasing visitor arrivals on the community. The Administration would continue to implement measures to enhance Hong Kong's capacity to receive tourists, including increasing the supply of hotel rooms, developing new tourist attractions and strengthening promotion of tourism offerings like local specialties and living culture of various districts to alleviate congestion at traditionally popular tourist areas.

20. Some members commented that hotel and other facilities would certainly not meet the demand if the number of incoming tourists were allowed to grow indefinitely without restraint. Certain members commented that HKTB's projected increase of 2 200 hotel rooms in 2014 was much lower than the average annual growth of hotel room occupation rate, and, if this trend persisted, the target supply of 84 000 hotel rooms by 2017 might not meet the rising demand. The Administration advised that many new hotel development projects were underway and some had already received planning permission.

21. As regards to the proposal of developing a shopping centre in Lok Ma Chau, given the majority of the proposed area was private land, the Administration considered that it would be more efficient for the land owners to co-ordinate with other market players in pursuing the shopping centre proposal. The Administration would be willing to co-ordinate efforts amongst departments concerned to provide necessary information and assistance to the project proponent.

Conflict between Mainland visitors and local residents

22. Members expressed grave concern about the intensifying conflict between Mainland visitors and the local population as reflected in the mass demonstration in Canton Road against Mainland tourists. Members noted that many Mainland visitors came to Hong Kong to shop for daily necessities rather than luxury products, and in doing so, created conflicts with local residents. Members also opined that demonstrations against Mainland visitors would defeat the Government and HKTB's tourism promotion efforts and asked what public education measures would be implemented to foster a culture of hospitality in the community.

23. The Administration advised that it was aware of the issues and the public concern. The increasing tension between Hong Kong people and Mainland visitors had to be tackled from a pragmatic perspective so as to minimize the impact of growing tourism industry on peoples' livelihood. Efforts would be made to enhance professional standard of tourism practitioners and step up publicity in promoting culture of hospitality.

24. Some members opined that the large number of Mainland visitors to Hong Kong under IVS was affecting the normal daily routine of Hong Kong people, and had deepened the conflict between the people of Hong Kong and the Mainland. The Administration advised that the Government had completed the Assessment Report on Hong Kong's Capacity to Receive Tourists⁸ (LC Paper No. CB(1)765/13-14 LC issued on 27 January 2014) and understood the concerns of individual districts in this respect. Also, the number of Mainland cities eligible for IVS and the scope of multiple-entry Individual Visit Endorsements would not be expanded for the time being so as to slow down the growth of visitor arrivals.

Visitor sources and market prioritization

25. Members pointed out that the Administration should focus on attracting more high-spending tourists from new markets such as Russia, Indian and the Gulf Co-operation Council countries. Certain members enquired about the reason for the stagnation in the growth of visitors from the US, Australia and European markets. The Administration advised that the number of non-Mainland tourists to Hong Kong remained stable at around 14 million each year. There had been significant growth in the number of visitors from new

⁸ On the basis that projected visitor arrivals would be over 70 million in 2017, the Assessment Report on Hong Kong's Capacity to Receive Tourists suggested that Hong Kong would generally be able to receive the visitor arrivals in 2017. Hotel rooms, however, would continue to be in tight supply. The Administration would continue to increase the supply of hotel rooms through a multi-pronged approach.

markets such as Russia and India. Due to economic factors, the number of visitors from traditional markets such as the US, Europe and Japan had decreased.

26. Members noted that tourists of multi-destination itineraries experienced inconvenience in applying for visas and going through time-consuming immigration formalities as they visited each of the destinations. They asked if the Administration would work with the neighbouring authorities to streamline the arrangements. HKTb said that joint overseas promotion efforts were being made with Macao and the Guangdong Province to attract foreign visitors to visit these places through Hong Kong on multi-destination itineraries using the "144-hour facilitation visa" measure. International visitor groups that were already in Hong Kong or Macao could enter ten cities in Guangdong for not more than 144 hours (six days). However, this arrangement was not yet available to overseas visitors already in Guangdong who wished to visit Hong Kong. The Administration would explore how such measure could be implemented.

27. Members requested the Administration to provide statistical breakdown of the 23 million same-day visitors from the Mainland to Hong Kong in 2013, including the number of visitors in transit, short-haul visitors from the Pearl River Delta who did not stay overnight, and parallel traders. HKTb advised that the aforementioned 23 million same-day visitors did not include transit visitors and HKTb did not have information about parallel traders. Among these same-day visitors, 85% were from the Mainland, and among them 75% were from the Guangdong Province. In 2013, about 12 million Shenzhen visitors came to Hong Kong. HKTb would put more promotion and publicity resources in areas outside Guangdong Province with the objective of attracting more inbound tourists to stay overnight in Hong Kong.

Development of new tourism attractions

28. Members expressed concern about the new tourist attractions that would be developed. The Administration advised that new facilities would be developed in Kai Tak and on Lantau Island. In response to members' concern, the Administration advised that the number of international cruise liners calling at Hong Kong (both as a home-port, for disembarkation or in transit) would increase by 50% in 2014 compared to 2013. The Administration would maintain efforts in promoting cruise tourism.

29. Members enquired about how the Administration would leverage on the development of the high-speed rail project and the commissioning of the Hong Kong-Zhuhai-Macao Bridge in 2016 in promoting tourism. The

Administration advised that the two infrastructure projects would provide new opportunities and complement the CE's plan to develop tourism on Lantau Island.

30. Members commented that Hong Kong lacked large scale conference facilities that could accommodate two to three thousand participants at a time. In response, the Administration advised that it had commissioned a consultancy study on the long-term demand for conference facilities in Hong Kong, which would provide important indicators for facility planning and development. The Administration had plans to expand and integrate existing facilities on Lantau Island to support MICE development in Hong Kong.

Council questions

31. At the Council meetings on 6 February, 9 October, 11 December 2013, 9 April, 14 May and 20 November 2014, Hon Abraham SHEK, Hon WONG Ting-kwong, Hon Cyd HO, Hon WONG Kwok-kin, Hon YIU Si-wing, Hon CHAN Yuen-han and Hon TANG Ka-piu, raised questions, among others, on contribution and competitiveness of tourism industry, development of new tourism resources and revitalization of derelict mines/mine caves to become tourist attractions. Hyperlinks to the relevant written replies from the Administration are provided in the **Appendix I**.

32. In respect of the question raised by Hon Cyd HO on 14 May 2014, the Administration was requested to provide relevant figures regarding contribution of the tourism industry to the economy of Hong Kong. Relevant figures provided by the Census and Statistics Department in respect of inbound and outbound tourism in 2012 are set out in the **Appendix II**. The Government will release the corresponding figures of 2013 in early 2015.

Latest development

33. At the Panel meeting on 9 October 2014, members expressed grave concern on the impacts of the assemblies and occupation of roads arising from these assemblies on the tourism trade and on the number of tourists. The Administration has provided a paper on visitor arrival statistics from 29 September to 16 October 2014 which has been circulated to members vide LC Paper No. CB(4)62/14-15(01) on 21 October 2014. During this period, the total number of visitor arrivals increased by 11.4% in terms of year-on-year change. However, according to the paper on the policy initiatives of the Commerce and Economic Development Bureau under 2015 Policy Address

(LC Paper No. CB(4)363/14-15(04)) issued on 16 January 2015), the number of non-Mainland visitors to Hong Kong in October, November and during the period from 1 to 15 December 2014 has decreased by 3.5%, 7.4% and 6.7% respectively as compared with those of the same period in 2013.

34. The Panel will discuss the work plan of HKTB for 2015-2016, the overview of Hong Kong tourism industry in 2014 and the outlook for 2015 at its meeting on 16 February 2015.

Relevant papers

35. A list of relevant papers which are available on the LegCo Website (<http://www.legco.gov.hk>) is in the **Appendix II**.

Council Business Division 4
Legislative Council Secretariat
9 February 2015

Appendix I

List of relevant papers

Issued by	Meeting date/ Issue date	Paper
Panel on Economic Development	25 February 2013	Agenda Minutes Background brief Information paper issued by the Administration Follow-up paper issued by the Administration
	27 January 2014	The Assessment Report on Hong Kong's Capacity to Receive Tourists
	24 February 2014	Agenda Minutes Background brief Information paper issued by the Administration Follow-up paper issued by the Administration
	9 and 27 October 2014	Information paper issued by the Administration
	2 February 2015	Agenda Policy Initiatives of the Commerce, Industry and Tourism Branch, Commerce and Economic Development Bureau
Council Meeting	6 February 2013	Written reply by the Secretary for Commerce and Economic Development to a question on "Competitiveness of Hong Kong's travel and tourism industry" raised by the Hon Abraham SHEK

Issued by	Meeting date/ Issue date	Paper
	9 October 2013	<u>Written reply by the Secretary for Commerce and Economic Development to a question on "Promotion of cycling tourism" raised by the Hon YIU Si-wing</u>
	11 December 2013	<u>Written reply by the Secretary for Commerce and Economic Development to a question on "Development of new tourism resources" raised by the Hon YIU Si-wing</u>
	9 April 2014	<u>Written reply by the Secretary for Commerce and Economic Development to a question on "Ancillary facilities for cycling and promotion of cycling tourism" raised by the Hon CHAN Yuen-han</u>
	14 May 2014	<u>Written reply by the Secretary for Commerce and Economic Development to a question on "Development of Kowloon East into a tourism and core commercial district" raised by the Hon WONG Kwok-kin</u> <u>Written reply by the Secretary for Commerce and Economic Development to a question on "Contribution of tourism industry to economy of Hong Kong" raised by the Hon Cyd HO</u>

Issued by	Meeting date/ Issue date	Paper
		<u>Written reply by the Secretary for Commerce and Economic Development to a question on "Revitalization of derelict mines/mine caves to become tourist attractions" raised by the Hon TANG Ka-piu</u>
	20 November 2014	<u>Written reply by the Secretary for Commerce and Economic Development to a question on "Impact of Occupy Central movement on staging of events and tourism industry" raised by the Hon Wong Ting-kwong</u>

Appendix II

Contribution of tourism industry to economy of Hong Kong in 2012

	Value added (HK\$bn)	Percentage share of value added in GDP (%)	Number of employees for inbound and outbound tourism	Percentage share of the number of employees in Hong Kong's total employment (%)
(a) Inbound tourism				
Retail trade	26.4	1.3%	100 200	2.7%
Accommodation services	25	1.2%	39 400	1.1%
Food and beverage services	9.1	0.5%	45 900	1.3%
Cross-boundary passenger transport services	10	0.5%	13 600	0.4%
Others*	8.6	0.4%	19 700	0.5%
(b) Outbound tourism				
Travel agency, reservation services and related activities	6	0.3%	19 800	0.5%
Cross-boundary passenger transport services	9.5	0.5%	12 200	0.3%

**"Others" include cultural and amusement services industry, travel agency, reservation service and related activities industry, as well as convention and trade show organizing services industry.*