

Legislative Council Panel on Economic Services

STUDY ON THE CRUISE MARKET OF HONG KONG

PURPOSE

This paper introduces to Members the “Study on the Cruise Market of Hong Kong” (the Study) undertaken by the Hong Kong Tourist Association (HKTA), and its key findings and recommendations.

BACKGROUND

2. The Study was part of an exercise to examine the feasibility of a number of projects recommended in the Visitor and Tourism Study Strategy Report of the HKTA. The objective of these initiatives was to enhance Hong Kong’s attractiveness and competitiveness as a major tourism destination by facilitating the development of new tourist attractions and facilities, and improving existing ones.

3. The Study was completed in June 1998. In the light of recent public interests in the matter, the HKTA has been asked to present to Members major findings and recommendations of the Study. A paper prepared by HKTA is attached at the Annex.

Tourism Commission
Economic Services Bureau
June 1999

Study on the Cruise Market of Hong Kong

Background

1. The development of Hong Kong as a cruise hub was one of the recommendations of the Strategy Report of the *Visitor and Tourism Study for Hong Kong* (VISTOUR) completed in 1995 by the Hong Kong Tourist Association (HKTA). The VISTOUR report provides directions for the future development of Hong Kong's tourism attractions and facilities.
2. *The Study on the Cruise Market of Hong Kong* (the Cruise Market Study) was commissioned by the HKTA in June 1997 to assess the world and regional cruise scene with a view to understanding the underlying trends, growth prospects and development of new emerging markets, as well as their impact on positioning Hong Kong as a major cruise hub. The Cruise Market Study was undertaken based on data and information available as at the end of 1997. It was completed in June 1998.
3. The Cruise Market Study is primarily a market study. The primary objective was “to carry out an in-depth assessment of the cruise ship markets in the world and Asia Pacific region, and in particular the future development potential of the cruise sector in Hong Kong”. The Study also looked at terminal facility options in view of market trends and demand, broadly examined the need for a new cruise facility, and carried out pre-feasibility assessment of various possible locations.

4. The Cruise Market Study was an assessment of industry trends and market situation. It was not a project specific feasibility study for a new cruise terminal facility. A separate assessment would have to be undertaken when concrete proposals emerge.

World and Asia Cruise Market Trends

5. The Cruise Market Study covered an assessment of the world and Asian Cruise Markets. Cruise travel has been one of the fastest growing tourism sectors in the world. The cruise market, as are other tourism infrastructure projects, has long been considered to be supply-driven. For without the ships and the facilities to support the servicing of the vessels, the demand cannot manifest itself. In addition, the present industry trend is towards larger size of cruise vessels i.e. the mega-ships which are over 70,000 gross tons, and with a capacity of 2,000 to 3,000 passengers.
6. The two major cruising areas within Asia are Southeast Asia and North Asia. According to the Cruise Line Industry Association, about 85,000 North American cruise passengers visited Asia each year. The size of the 1996 conventional cruise market in Hong Kong, Singapore and Port Klang (Malaysia) was estimated at approximately 800,000 passengers, accounting for the majority share of the Asian market. Although Asian's share of the total conventional cruise market was still very small, this share was growing as the leading cruise liners increasingly looked further afield for more interesting itineraries.

Existing Hong Kong Cruise Market - Overseas Visitors and Local Residents

7. Hong Kong was widely perceived by western cruise line operators as a “must call” on their Far East and world cruise itineraries. A very broad estimate of Hong Kong’s share of the world market was 2% to 4%. The Cruise Market Study identified that the number of international ship calls by western cruise operators had been relatively constant over the last decade, with 62 calls recorded in 1997. However, in terms of passenger throughputs, there had been significant growth between 1992 and 1997. The measurement of throughput would directly reflect the need for dedicated facilities such as baggage handling, immigration control, custom and passenger flow area of a cruise terminal. Berthing capacity is only one of the different factors considered when assessing the adequacy of a cruise terminal.
8. Based on the arrival and departure statistics directly supplied by the Immigration Department, the growth of both local and overseas cruise throughputs were analyzed. In terms of growth in overseas cruise passenger throughput, it averaged just over 13% p.a. over the period 1992 (70 000) to 1997 (130 000). These included overseas passengers on international cruise liners and also those who participated in Hong Kong-based cruises (Figure 1).
9. Over the same period, the throughputs of Hong Kong residents taking conventional cruises increased from 4 600 in 1992 to 425 000 in 1997, while those on cruise-to-nowhere showed an increase from 122 000 (in 1992) to 271 000 (in 1997) (Figure 2). The total Hong Kong resident cruise throughputs had increased therefore from 126 600 to 696 000. The total

cruise throughputs in Hong Kong, including both overseas passengers and Hong Kong residents, had grown to 826 000 in 1997.

10. Excluding the cruise-to-nowhere market, there had been a significant growth of the total cruise passenger throughputs of both overseas and local residents from 69 500 in 1992 to 528 000 in 1997 (Figure 3). The total throughputs of both the residents and the overseas visitors represented the actual demand on cruise facilities in Hong Kong.
11. Excluding cruise-to-nowhere, the compounded annual growth rate for the overseas passenger throughput from 1992 to 1997 was 9.49% and that for the Hong Kong residents was 147.3%. There was a clear trend for growth in total demand for cruise travel by overseas visitors at Hong Kong and by the local residents.

Need for Appropriate Cruise Terminal Facilities

12. As part of the Cruise Market Study, industry consultations were carried out. There were suggestions that the Ocean Terminal did not provide the dedicated cruise facilities to meet the mega-ships of the future.
13. The Cruise Market Study pointed out that Hong Kong should provide the appropriate cruise terminal facilities in order to capitalize in the short to medium term the potential for growth in the market for cruising in Asia. This calls for the provision of a modern terminal with the required range of facilities and amenities to attract the new generation of mega-ships that are coming on-stream in the next few years to use Hong Kong as their home port.

14. The Cruise Market Study estimated that the incremental spending resulting from the building of a new cruise terminal could range from HK\$125 million to HK\$315 million per annum (at 1997 prices). If there is no appropriate facility, then Hong Kong may lose the opportunity to develop further its cruise sector, and hence the chance to reinforce generally its development of tourism. Furthermore, the development of new cruise terminal facilities could introduce industry competition and encourage private sector investment.

Ocean Terminal

15. The Ocean Terminal was regarded by the Study as the best location for dedicated cruise facilities. The Cruise Market Study acknowledged the comments made by the industry during consultations, and recommended that comprehensive enhancement and improvements should be undertaken in order that the facility could meet the need of the future mega-ships and passengers.

Cruise Terminal at Kowloon Point

16. Alternative options to provide new cruise terminal facilities were examined. These include the Kowloon Point Development and 10 other possible sites.
17. The Cruise Market Study examined the then Kowloon Point Development (KPD) proposals of the Government. KPD is located west of Tsim Sha Tsui. The potential site for the building of a new cruise terminal was at KPD if the Government decided to re-provide a terminal in lieu of the Ocean Terminal. The timing for the then Government proposal for a new

cruise centre at KPD was mid 2011. The proposed time frame was however too far in the future to accord a practical solution for Hong Kong to position itself to tap the anticipated growth in additional regional cruise traffic. It was also uncertain at the time of the Cruise Market Study whether the KPD Reclamation will ever be implemented.

Possible Alternative Sites for a New Cruise Terminal

18. Given the uncertainty associated with whether KPD would actually be implemented, there was a need to locate alternative possibilities, with KPD remaining the long-term option. Besides KPD, a total of 10 other potential cruise terminal locations were examined in broadbrush terms (Figure 4) against selected locational criteria. Nevertheless, it was beyond the scope of the Cruise Market Study to examine the specific suitability of any one site.
19. The results of the preliminary locational comparison indicated that North Point, Hung Hom and Central Wanchai Reclamation were possible alternative sites. These 3 sites were identified amongst Government land which might be available in short to medium terms for disposal.
20. The Cruise Market Study made it clear that the suitability of any one site was however subject to detailed technical studies on the traffic, marine, environmental and land use impacts of the development. It was recommended that further studies should be carried out by the Government on these possible sites. As a market study, the HKTA Cruise Market Study did not recommend a specific site and examined detailed site-specific impacts of any development proposals.

21. While there might be possible alternative sites for the development of a new cruise terminal, the Cruise Market Study suggested that the key aspect to implementation was the availability of specific proposals from the private sector. It pointed out that only if there was private sector interest in making the investment, would a new terminal be developed. The Cruise Market Study therefore also recommended that the Government should facilitate private sector initiatives to develop a new terminal for Hong Kong.
22. The HKTA Cruise Market Study was completed in June 1998. Recommendations of the Study would only provide a reference for the Government in considering specific project proposals. A copy of the Executive Summary of the Study is attached at the Enclosure.

Prepared by

Hong Kong Tourist Association

June 1999

Attachment

- Figure 1 International Visitors Throughputs by Types of Cruises
- Figure 2 Total Cruise Passenger Throughputs
- Figure 3 Total Cruise Passenger Throughputs (exclude cruises-to-nowhere)
- Figure 4 Possible Alternative Cruise Terminal Locations

Enclosure

Study on the Cruise Market of Hong Kong - Executive Summary

International Visitors Throughputs by Type of Cruises

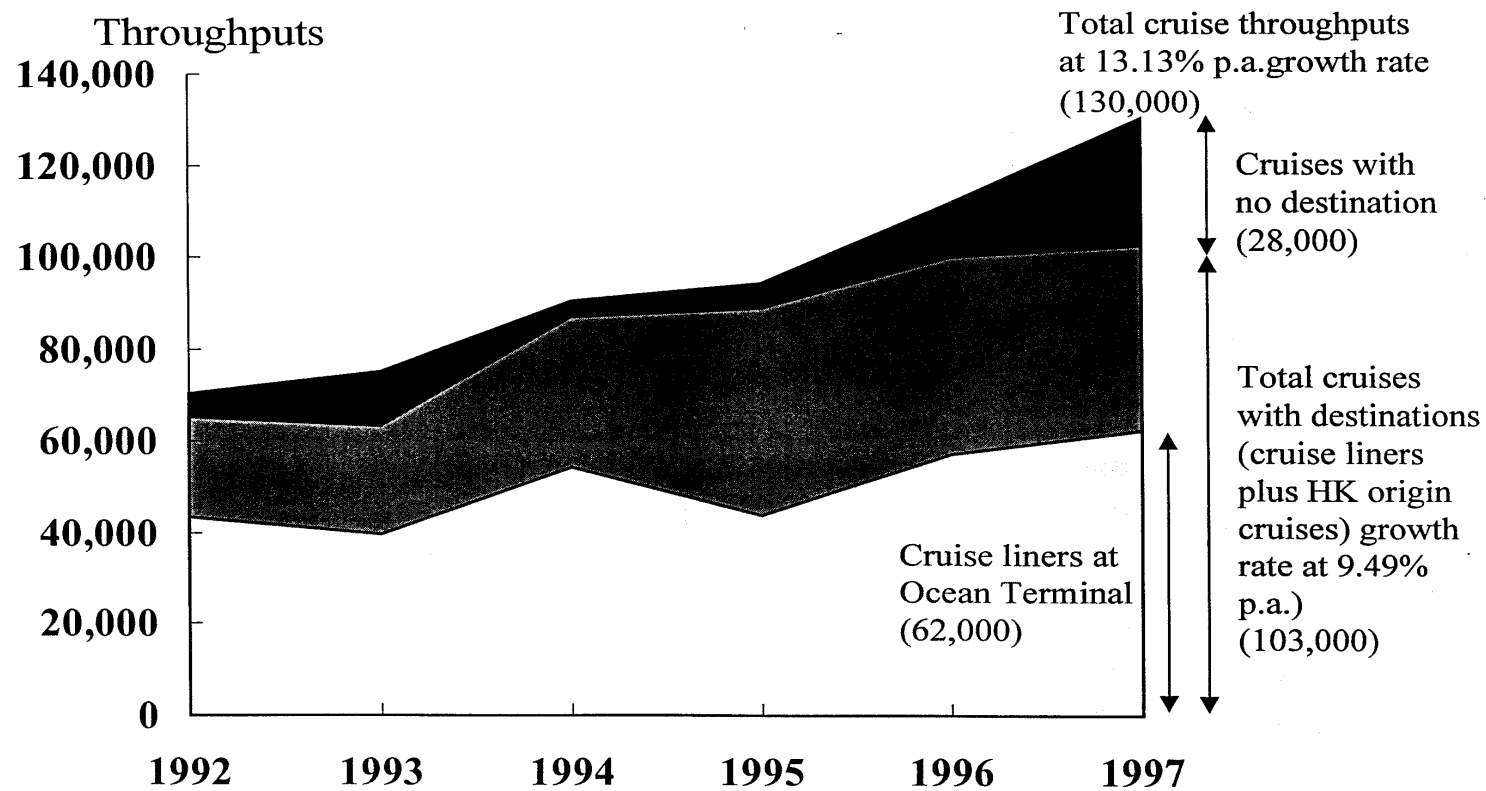


Figure 1 (Total cruise throughputs in 1998 were 110,000)

Total Cruise Passenger Throughputs

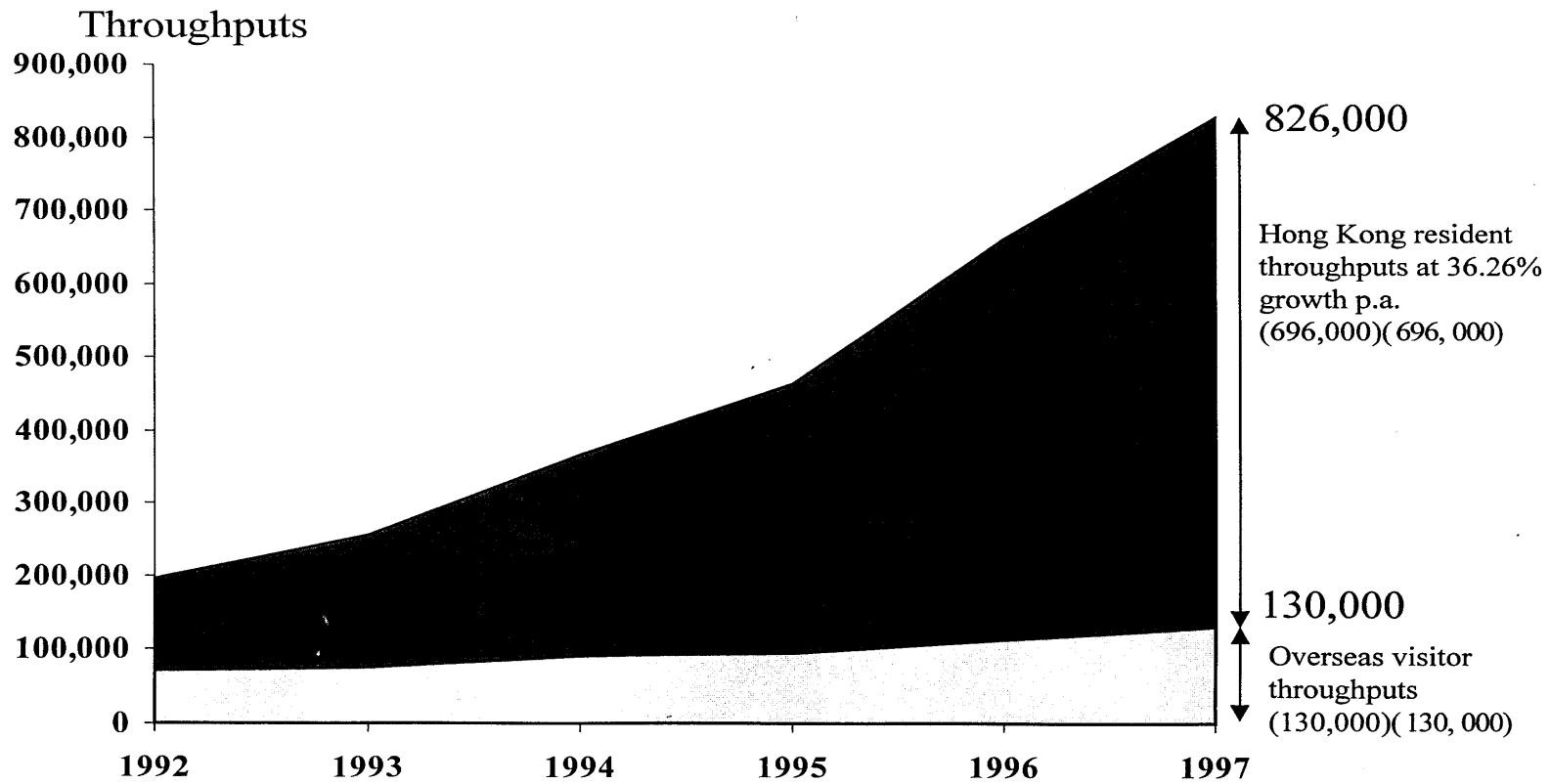


Figure 2 (Total cruise passenger throughputs in 1998 were 1,055,000)

Total Cruise Passenger Throughputs (exclude cruises-to-nowhere)

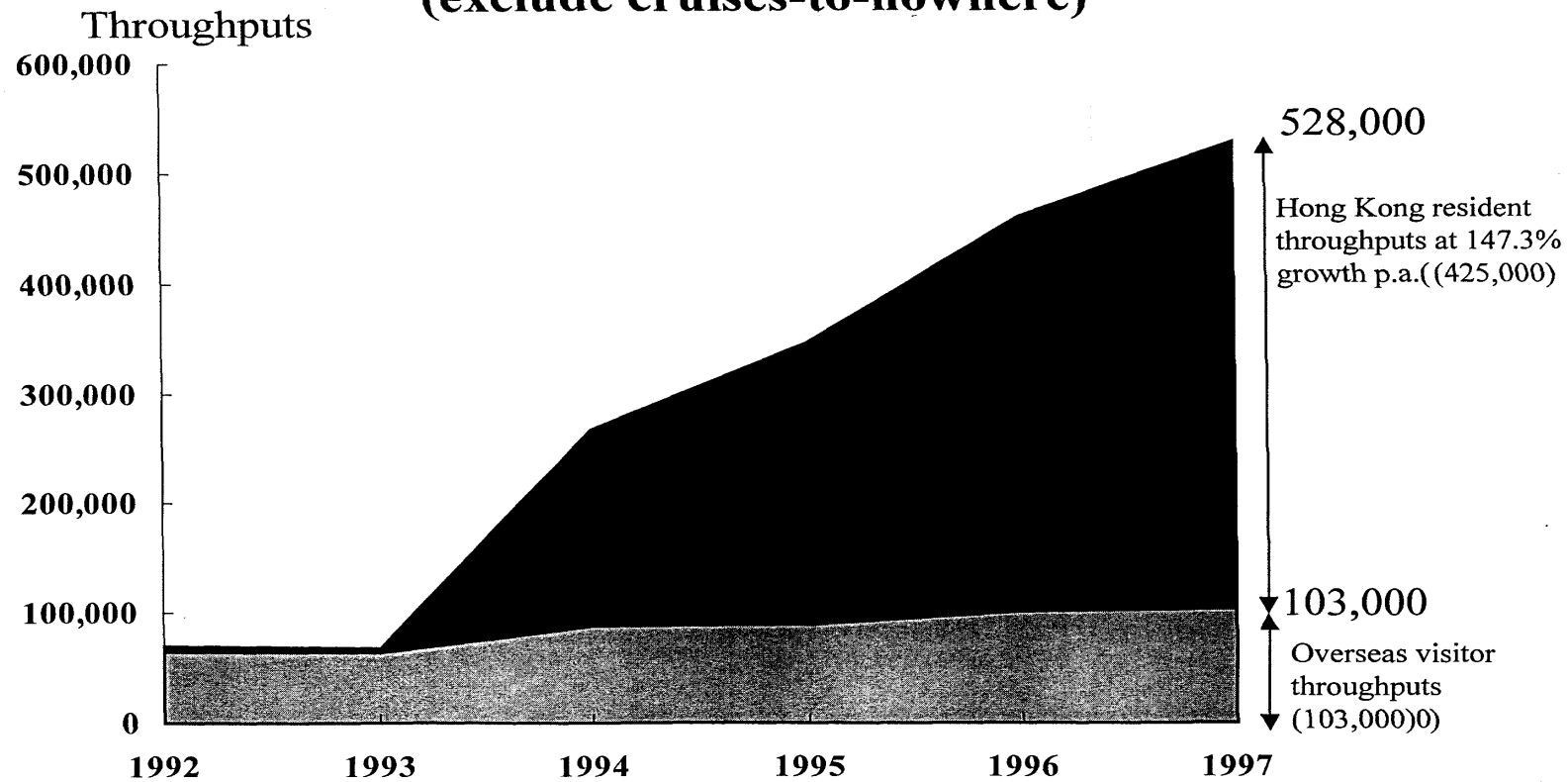
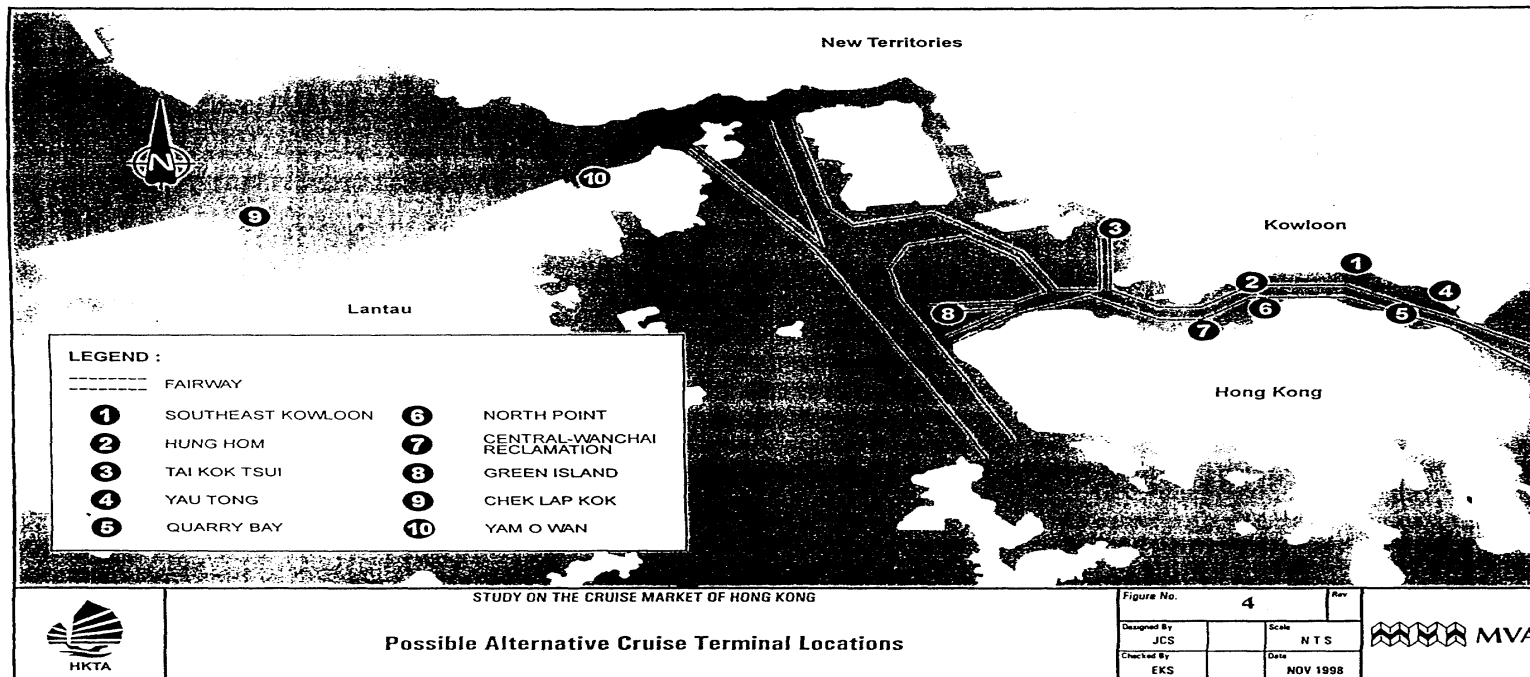


Figure 3 (Total cruise passenger throughputs in 1998 were 648,000)



TOP LINE HONG KONG 香港

Enclosure

STUDY ON THE CRUISE MARKET OF HONG KONG

EXECUTIVE SUMMARY



Hong Kong Tourist Association



11 June 1999

TO WHOM IT MAY CONCERN

1. The *Study on the Cruise Market of Hong Kong* was undertaken by consultants on behalf of the Hong Kong Tourist Association (HKTA). The consultancy team includes MVA Asia Ltd as the lead consultant, and was supported by KPMG, Terry Farrell & Partners, Scott Wilson, Ede Charlton and Larry Tam & Associates.
2. The Study was completed in June 1998. The analysis within the Study has been undertaken having regard to information and cruise data available as at the end of 1997. Two reports (*the Executive Summary and the Final Report*) were prepared.
3. In a letter dated 2 July 1998, the Territory Development Department (TDD) of the HKSAR Government has requested that the two reports be classified confidential to reflect the sensitivity of the Kowloon Point Development proposals illustrated within the reports.
4. As a result of this request, the HKTA has then proceeded to prepare a *Summary of Findings Report* and this was subsequently released in October 1998.
5. More recently on 10 June 1999, at the request of the HKTA, the TDD has confirmed that the two Reports (*the Executive Summary and the Final Report*) could be released if all the figures and drawings showing the Kowloon Point Development be removed from the Reports. Accordingly, figures and drawings relating to the Kowloon Point Development have now been removed from the attached *Final Report* and *Executive Summary*.

Hong Kong Tourist Association

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Introduction

The Study on the Cruise Market of Hong Kong (the Study) was commissioned by the Hong Kong Tourist Association (HKTA) in June 1997 to assess the world and regional cruise scene with a view to better understanding the underlying trends, growth prospects and development of new emerging markets and their impacts on positioning Hong Kong as a major cruise hub.



City of Hong Kong

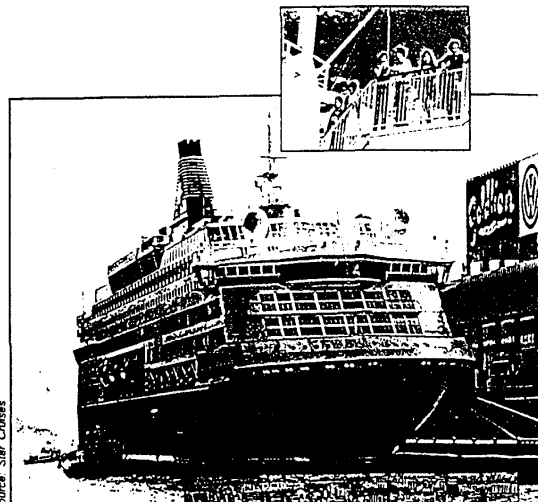
The development of Hong Kong as a cruise hub is one of the recommendations of the Strategy Report of the Visitor and Tourism Study (VISTOUR), which was completed in 1995 and sets out the HKTA's blueprint for the future development of Hong Kong's tourism attractions and facilities.

This report summarises the main findings and conclusions of the Study, a full account of which is given in the Final Report.

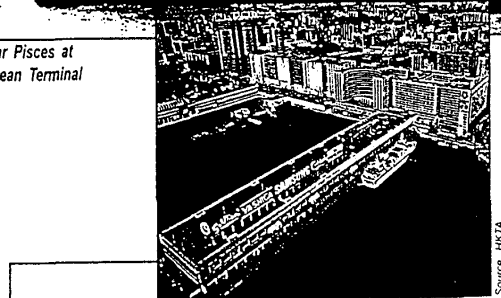
Study Objectives

The Study Brief called for the examination of the case for a "...new or improved cruise terminal facility for Hong Kong...". The main thrust of the Study was therefore four-fold: first, to carry out an in-depth assessment of the cruise ship markets in the world and the Asia Pacific

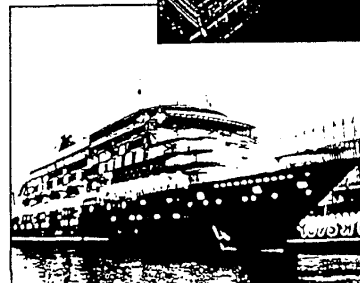
region, and in particular the future development potential of the cruise sector in Hong Kong; secondly, to formulate practical terminal facility options to position Hong Kong as a cruise hub in view of market trends and demand; thirdly, after having established the case for a new dedicated terminal for Hong Kong, to broadly examine the current Government proposal for a new cruise facility at Kowloon Point Development; and lastly, to carry out a pre-feasibility assessment of other possible alternative cruise terminal locations.



Star Pisces at Ocean Terminal



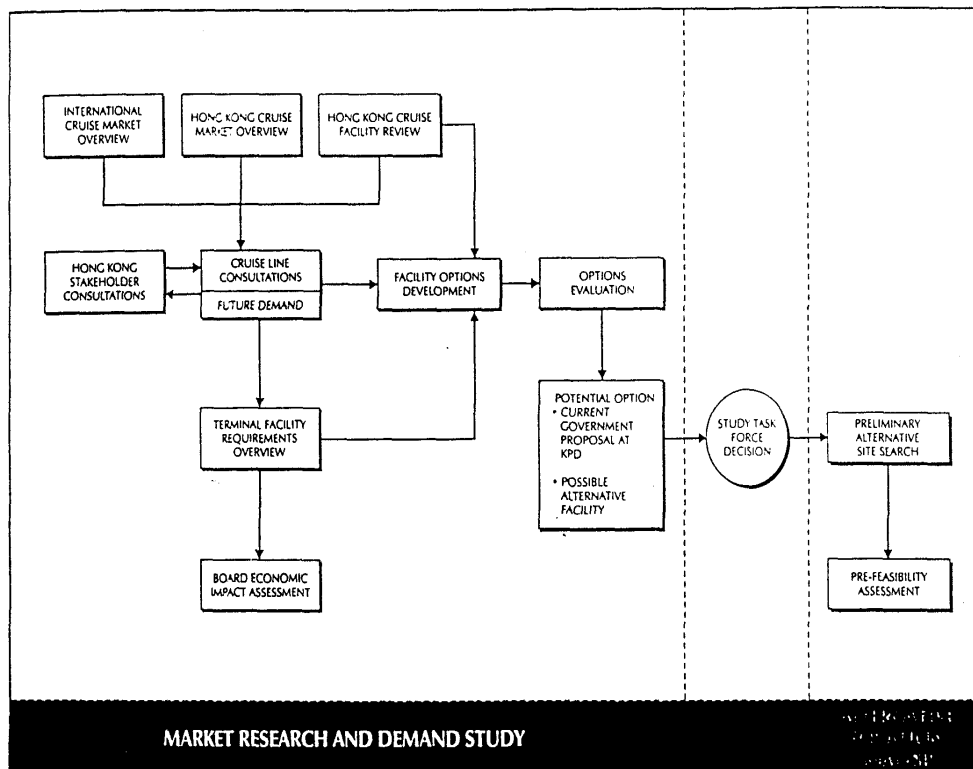
Ocean Terminal



Royal Viking Sun

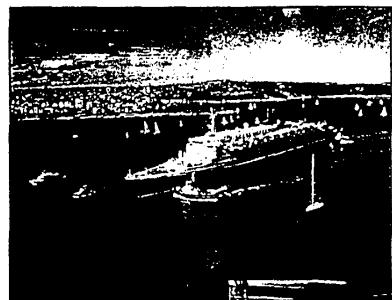
Study Approach

The Study methodology was developed around 5 main activities: desk research, industry consultations, discussions with cruise terminal operators, discussions with relevant government agencies and analysis of findings. These activities formed the basis of the adopted Study process.



World Cruise Market

Cruising has been the fastest growing sector of the world-wide tourist industry in the 1990s, doubling in size in the 1980s and growing on average by some 8% per annum between 1980 and 1997. It is still only a small part of the international travel market, in the region of 1%. The United States, Canada and Europe account for more than 80% of the world demand for cruising, and the Caribbean is expected to remain the world's prime cruise destination (50% market share) due to its proximity to the large North American market. The other leading cruise destinations are the Trans-Panama Canal, the Mexican Riviera, Alaska and the Mediterranean.

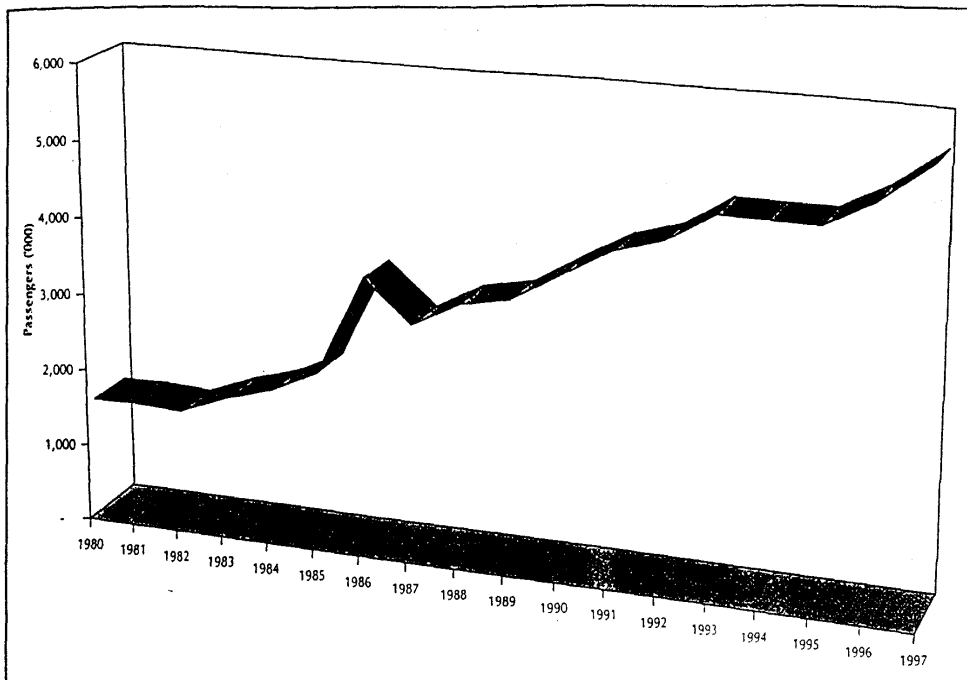


QE2



Source: PLO

Mini suite

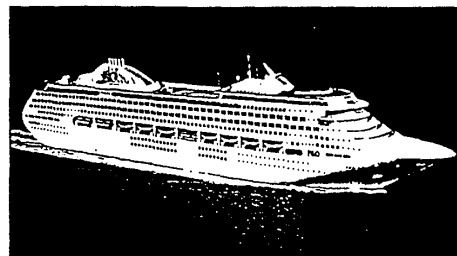


US/UK Cruise Passenger Growth 1980-1997

The world's major cruise lines have reportedly committed to investing US\$ 7 billion on 27 new ships between 1997 and 1999, more than the industry's annual worldwide revenues. The majority of the committed investment is by the three leading cruise lines - Carnival, Royal Caribbean and P&O (incorporating P&O Cruises and Princess Cruises) - which together account for over 60% of the top ten's berth capacity. At the time of preparing this report, it has been reported that a group of investors with Carnival as the majority partner has purchased Cunard, the owner of QE2 and one of the world's top ten cruise liners by berth capacity.

One key feature of the industry, which will become significant as time goes by, is that the size of cruise vessels is becoming larger, in part to augment capacity and the other to replace older vessels with high operating cost. This trend is evident in the committed ship deliveries to the major western cruise lines over the period 1996 to 2002, the majority of which is in

excess of 70,000 gross tons. Star Cruises, the major Asian cruise operator, is also taking delivery of 2 new mega-ships⁽¹⁾ over the next two years, with SuperStar Leo expected to enter service in October 1998 and SuperStar Virgo in September 1999 and with the recent signing of a Letter of Intent, a further two mega vessels planned for delivery in 2000 and 2002. The lead time between ordering a new ship and delivery generally averages between 18 and 24 months.



Sun Princess

Source: P&O

⁽¹⁾ the new generation of large ocean-going cruise vessels displacing 70,000 to 100,000 gross tons with length overall of up to 295m and capacity of 2,000 to 3,000 passengers

New Ship Deliveries 1990-2002

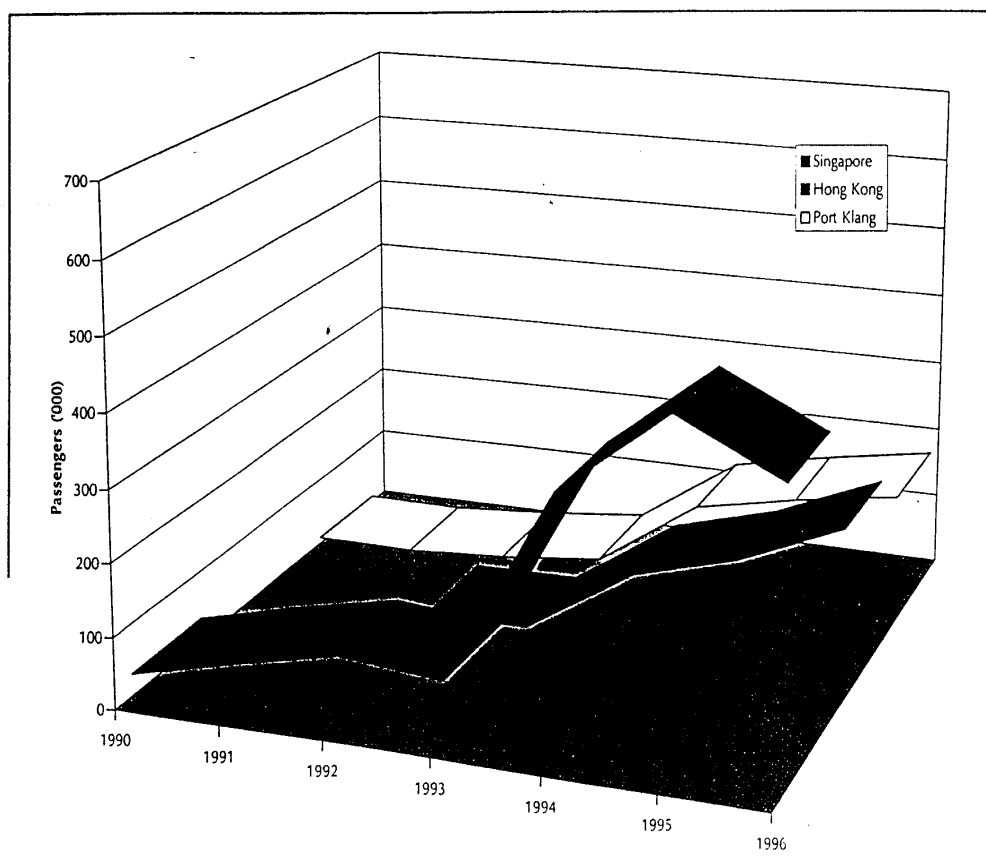
Cruise Line / Brand		Vessel Size		
		<70K Gross Tons	70K-85K Gross Tons	>85K Gross Tons
1990-1992	Club Med	2		
	Carnival	1	1	
	Celebrity	2		
	Princess Cruises	2		
	Costa	2		
	Majesty Cruise Line	1		
	Norwegian Cruise Line	1		
	Royal Caribbean			2
	Others	23		
		(92%)	(3%)	(5%)
1993-1995	Holland America	3		
	Norwegian Cruise line	1		
	Costa	1		
	P&O	1		
	Royal Caribbean	1		
	Celebrity Crusies	1		
	Princess Cruises	1		
	Carnival		3	
	Others	8		
		(85%)	(15%)	(0%)
1996-1997	Holland America	2		
	DSR	1		
	Conti Reederei/Hapag-Lloyd	1		
	Radisson Seven Seas	1		
	Carnival		1	1
	Royal Caribbean		4	
	Costa		1	
	Celebrity		2	
	Princess Cruises		1	
		(33%)	(60%)	(7%)
1998	Deilmann	1		
	Renaissance	2		
	Carnival		1	1
	Disney		1	
	Star Cruises		1	
	Royal Caribbean		1	
	Princess Cruises		1	1
		(30%)	(50%)	(20%)
1999-2002	Silversea	2		
	Renaissance	4		
	Holland America	2		
	Radisson Seven Seas	1		
	Festival Cruises	1		
	Royal Olympic	2		
	Princess		1	2
	Celebrity		2	
	Carnival		1	1
	Royal Caribbean		1	3
	Star Cruises		3	
	Disney		1	
	Norwegian Cruise		1	
	Costa		1	
	P&O Cruises		1	
		(40%)	(40%)	(20%)

Source : Adapted from Travel & Tourism Intelligence (The World Cruise Ship Industry to 2000) and recent press releases

Asian Cruise Market

The two major cruising grounds within Asia are Southeast Asia and North Asia. About 85,000 North American cruise passengers visit Asia each year. The size of the 1996 conventional cruise⁽²⁾ market in Hong Kong, Singapore and Port Klang (Malaysia) has been estimated at approximately 800,000 passengers, accounting for the majority share of the Asian market. The Asian share of the total conventional cruise market is still very small, although this share is growing as the leading cruise lines are increasingly looking further afield for more interesting itineraries.

The Asian cruise market, being a relatively new development, is highly segmented. Many of the features which characterised the early development of the industry in the United States are noted in the region today. Asian tends to express a strong preference for short cruises (less than 24 hours to 2/3 days), ranging from cruise-to-nowhere⁽³⁾ to single to two-destination cruises with family activity-filled holidays and good food high on their list of priorities. In time, as Asians become more familiar with cruising as a vacation experience, as has been the case elsewhere, there will be a shift towards longer average cruising period and a gradual acceptance of the ships themselves as the "destinations" (as opposed to the present commonly



Leading Asian Ports Passenger Growth 1990-1996

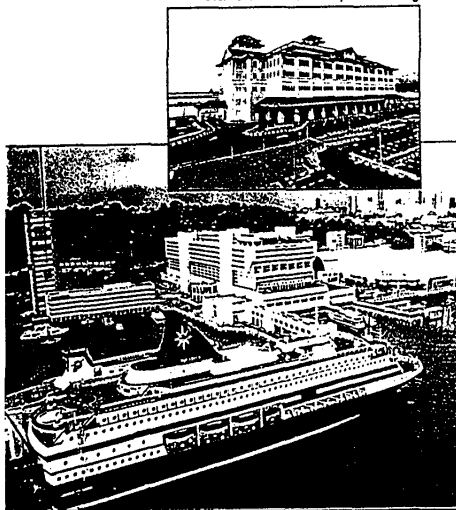
destination cruises including short single destination programme and longer cruises as part of fly-cruise packages or segments of world cruises

⁽³⁾ a programme involving a cruise in international waters and returning to the point of departure without making landfall in any other port, typically for gaming

old view that the ship merely serves as a means of transportation).

The longer 7- to 14-day cruises in Asia tend to be part of fly-cruise packages offered to North Americans and Europeans by western cruise line operators. These are either segments of world cruises or offered on ships based permanently or seasonally in the Asia region. In this segment of the market, which is not expected to change much in the short to medium term, both Hong Kong and Singapore are the key turnaround ports⁽⁴⁾ in the region on account of their popularity as destinations in themselves and the availability of significant air-lift capacity.

Star Cruises Terminal, Port Klang



Singapore Cruise Centre

Star Cruises, ranked amongst the world's top ten by berth capacity, is at present the only major Asia-based cruise line operator. As noted earlier, Star, like its counterparts in the west, is taking delivery of several new mega-ships over the next few years. It is thus vital for major Asian turnaround ports, including Hong Kong, to offer terminal facilities which can cater to the requirements of these mega-ships not only in physical capacity terms, but also operationally.

⁽⁴⁾ a port at which a major portion or all the passenger complement disembarks to be replaced by another set of passengers on their outward journey

The two major modern cruise terminals in Asia are:

- Singapore Cruise Centre (SCC), which opened in end 1991, is public sector funded and operated by PSA Corporation (formerly, the Port Authority of Singapore). It is being upgraded and expanded to handle the new generation of mega-ships. According to a recent discussion between HKTA and Marine and Port Authority (MPA) of Singapore, it is understood that a feasibility study may be undertaken to determine the scale, location and strategic positioning of a potential new cruise centre for Singapore; and
- West Port in Port Klang, Malaysia, which is recently fully operational, has been developed as a joint venture between Star Cruises and the local authority. The Star Cruise Terminal is capable of servicing the new mega-ships.

Existing Hong Kong Cruise Market

Hong Kong is widely perceived by the western cruise line operators as a "must call" on their Far East and world cruise itineraries. The number of ship calls by western operators has been relatively constant over the last decade, with 62 calls recorded in 1997. About 50% of the vessels stayed for less than 24 hours while the remainder berthed for 2 to 3 days. The international cruise ship calls conform to a highly seasonal pattern, with high demand in early spring (February/March), low during the hot and humid summer / typhoon season and moderate demand in the autumn. In terms of growth in foreign cruise passenger throughput⁽⁵⁾, it averaged just over 13% p.a. over the period 1992 (70,000) to 1997 (130,000).

Over the same period, the throughputs of Hong Kong residents taking conventional cruises increased from 4,600 in 1992 to 425,000 in 1997, while those on cruise-to-nowhere showed an increase from 122,000 (1992) to 271,000 (1997). The Hong Kong resident

⁽⁵⁾ the aggregate of disembarking & embarking passengers

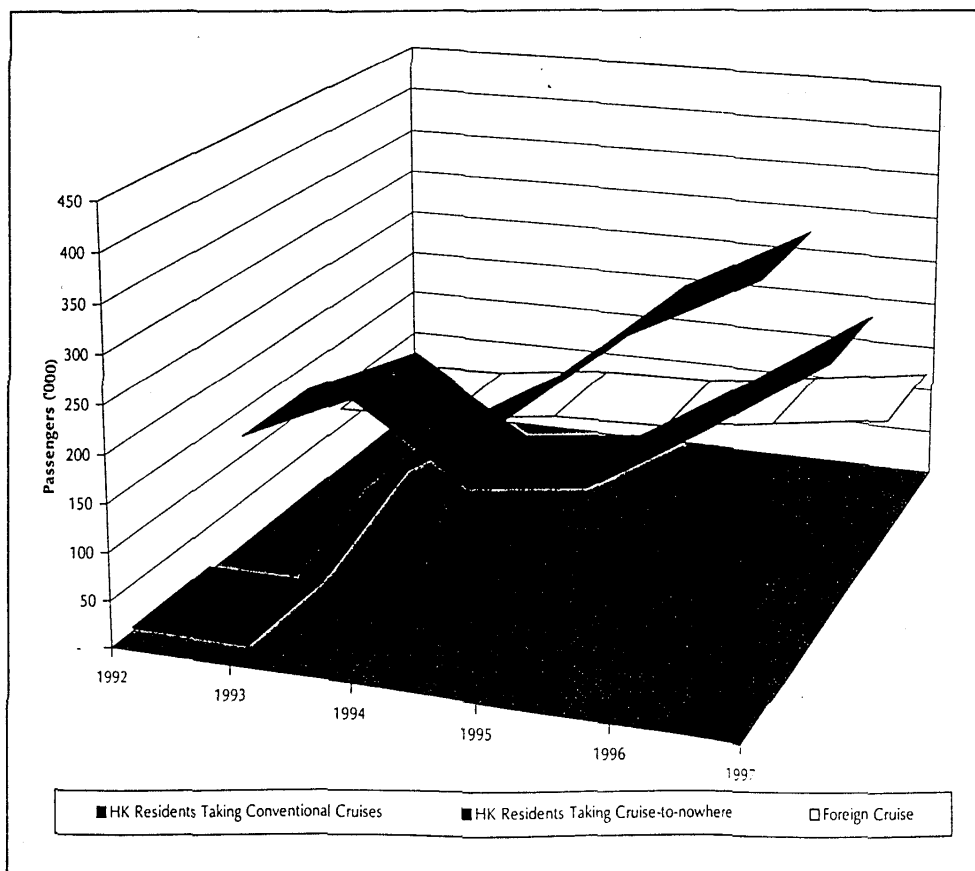
combined throughput averaged 41% p.a. over the 5-year period. In terms of shore-based throughput (including foreign cruise passengers and Hong Kong residents on conventional cruise), this amounted to about 555,000 in 1997, with a total of 320 ship calls.

Excluding the cruise-to-nowhere, nearly all the Hong Kong residents trips were taken on board Star Cruises' Star Pisces, the only ship currently operating out of Hong Kong year-round.

A very broad estimate of Hong Kong's share of the world market is in the order of 2% to 4%. In Asian terms however, Hong Kong's share is quite significant, representing some 30% of the 1996 total cruise passenger throughput for Singapore (50%), Port Klang (20%) and Hong Kong, the three largest cruise ports in the region.

A HKTA survey in 1996 indicated a cruise passenger spent daily on average HK\$ 1,170 per visit, compared against HK\$ 1,900 for all visitors to Hong Kong (including leisure and business travellers).

This lower level of expenditure reflects that the price of hotel accommodation is usually either included in the cruise package cost or is paid for prior to departure from the passenger's country of origin. If average expenditure is adjusted to exclude hotel accommodation, the difference narrows to just over 10%, with cruise passenger expenditure comparing favourably with all visitors which include the higher spending business travellers.



Growth in Passenger Throughput Hong Kong 1992-1997

The existing major terminal facility servicing the requirements of the commercial cruise ship sector is limited to Ocean Terminal (OT), which is operated by Kowloon Wharf Terminal & Warehouse Limited. It is centrally located, considered to be amongst the best terminal location by the majority of cruise line operators, with convenient access to public transport (Star Ferry and MTR).

OT comprises a finger pier of some 380m in length and 5m wide, capable of berthing two large cruise ships simultaneously. The 1-way system around the pier permits trucks to drive right up to the ships for provisioning. In terms of passenger facilities, the allotted floor area within the terminal building amounts to a tiny proportion of the total floor space, which is mainly devoted to upmarket retail and food & beverage outlets - 740m² of cruise facilities compared against 10,000m² of retail space.

Future Demand Potential

The potential for future growth in cruising to and from Hong Kong has been estimated to year 2006 based on:

- historical growth in shore-based passenger throughput;
- world's leading cruise companies' current and planned operations in Asia assuming no major change in their marketing programme (- cruise lines tend to operate on 2-year development time frame in terms of itinerary conception); and

stakeholders' perspectives (ground handlers, outbound travel agents & shipping agents) on Hong Kong's potential as a cruise port and the current facilities available in servicing the requirements of the cruise sector.

Two pragmatic growth scenarios, which are relatively conservative, have been prepared:

- "No New Terminal" Scenario - no change is made to the existing terminal facilities available in Hong Kong, and no new terminal is built; and
- "New Terminal" Scenario - new terminal facilities are built or made available with three options presented to highlight the possible range of outcomes based on assumed future ship deployments in the post-2000 period.

The development of a cruise hub depends on the availability of appropriate and adequate facilities for, and the provision of high level of services to, both cruise lines and passengers. Experience in other cruising areas shows that the existence of a cruise terminal that meets the requirements of cruise line operators plays a major role in the development of the cruise sector on that locality. Such a facility would be instrumental in inducing additional demand in not only in its use as a port-of-call, but more importantly as a home-port / turnaround port. The generally high level of cruising activity associated with a home-port with major turnaround of passengers, would demand very high standards of supporting services and a comprehensive range of ship provisioning and passenger processing facilities.

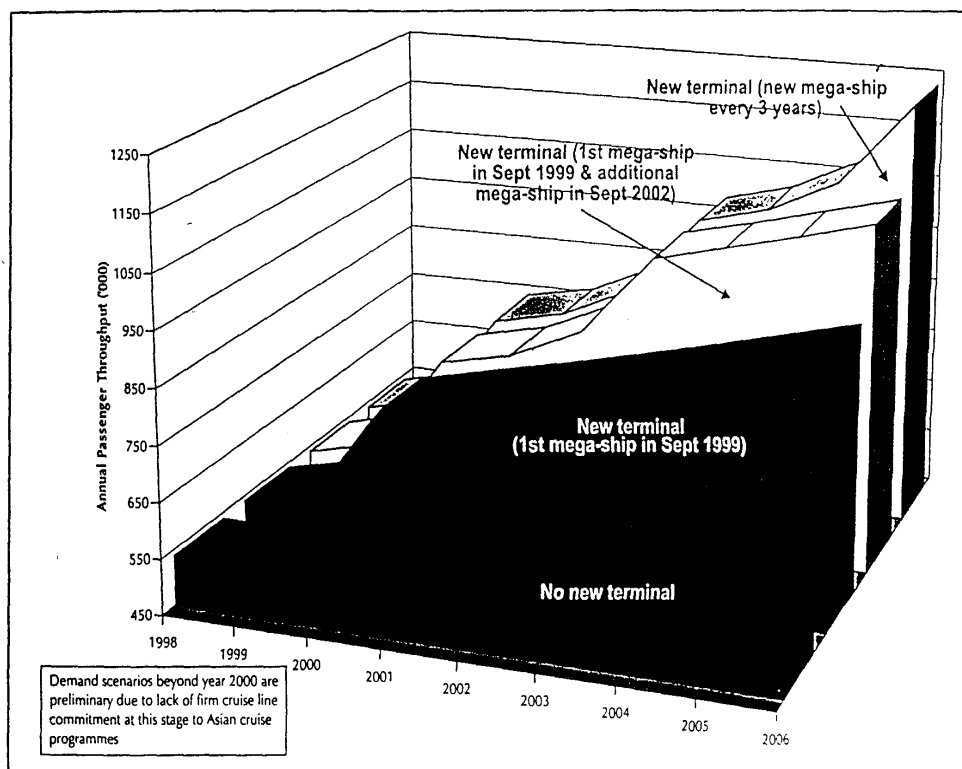
Assuming that the appropriate terminal facilities to meet the cruise lines' requirements for ever larger and more sophisticated facilities to service the mega-ships are available in Hong Kong, future demand in shore-based cruising in Hong Kong has been estimated at about 370 ship calls by the year 2006. This generates a shore-based passenger throughput of about 933,000 assuming only one mega-ship uses Hong Kong as its home-port⁽⁶⁾. Star Cruises has indicated that it plans to home-port in Hong Kong SuperStar Virgo, its 75,000 gross ton mega-ship due for delivery in September 1999, if there are adequate facilities to meet the requirements of the vessel.

⁽⁶⁾ the "home" base of the vessel & where the major exchange of its passenger-complement occurs

On the assumption that the underlying demand justifies a mega-ship deployment every 3 years from 1999 and that there are suitable cruise terminal facilities to accommodate such ships, as many as 470 ship calls could potentially be made in Hong Kong and resulting in a possible throughput of 1.2 million by 2006 or some 2.2 times the shore-based throughput in 1997.

If Hong Kong cannot provide the type of facilities and services required by the new generation of mega-ships, demand is unlikely to exceed 320 ship calls per year, generating a passenger throughput in the region of 769,000 by the year 2006 with average growth of just under 4% per annum from the shore-based throughput of about 555,000 in 1997.

The above estimated shore-based throughputs under the different demand scenarios are summarised below:



Likely Future Demand Growth to 2006

Scenario	Passenger Throughput		Growth over 9-Year Period	Average Annual Growth (1997-2006)
	1997	2006		
1. No new terminal	555,000	769,000	38%	4%
2. New terminal				
(a) with 1 mega-ship home-ported	555,000	933,000	68%	6%
(b) with 1 mega-ship home-ported every 3 years	555,000	1,233,000	122%	9%

Economic Benefits

There will be positive economic benefits to Hong Kong if the potential growth under the “New Terminal” scenario is realised. For illustration purposes, the incremental spending resulting from the building of the new cruise terminal over the period 2000 to 2006 could range from HK\$ 125 million to HK\$ 315 million per annum (at 1997 prices) depending on the assumed demand scenario. In addition, the total incremental income flowing into the Hong Kong economy is broadly estimated to potentially create between 950 and 5,800 jobs, again depending on the demand scenario applied to the income flows.

For a 25-year operating period, the “New Terminal” scenario could potentially generate economic contributions⁽⁷⁾ in present value terms (end 1997) in the region of HK\$ 1.1 to HK\$ 3.4 billion assuming a real discount rate of 4% per annum or HK\$ 560 million to HK\$ 1.6 billion with a real annual discount rate of 10% per annum. Such economic benefits and employment generation would be foregone if the “New Terminal” scenario is not achieved.

In addition, with the provision of appropriate terminal facilities, there are also other intangible but no less important benefits to the local cruise industry and the community at large.

The development of a new cruise terminal could provide such intangible and social benefits as:

- a positive signal to the tourism industry as the development will reinforce the current efforts towards providing world class tourism facilities to position and market Hong Kong as the leading destination in Asia. The development of Hong Kong as a cruise hub could serve as a stimulus for additional tourism, in line with the current campaign of promoting Hong Kong as a City of Life on both land and sea;

including direct, indirect and induced income changes on a value added basis

- an important catalyst to raise the general awareness of cruising, and further induce the interest of regional visitors and local residents in Hong Kong to participate in cruise travel;
- access to the waterfront area in and around the terminal site to maximise the amenities of the unique and captivating harbour of Hong Kong to the public at large;
- an additional choice in family recreation as the development of a new terminal will spur growth in cruising activities which in turn will provide more varied itineraries tailored to Asian preferences (- as noted earlier, the Asian market prefers short cruises with the family, with activity filled holidays and good food high on their list of priorities);
- more local job opportunities through the anticipated development of the Hong Kong cruise sector amidst the restructuring of the local economy; and
- an enhanced visual image of the Hong Kong harbour front through the development of the terminal as an attractive architectural landmark.

The market research underlying the above estimates was largely completed in the third quarter of 1997, and it reflects the industry and economic outlook prevailing at the time. In the period leading to the finalisation of the Study and at the time of preparing this report, there has been an overall downturn in travel and tourism in Asia due to the economic situation affecting the region as a whole.

Whilst the extent of continuation of this trend cannot be gauged with certainty, the impact on the range of demand estimates presented in this Study is likely to be insignificant. This is on account of several factors - the supply led nature of the cruise industry, the generally long lead time in itinerary planning, the on-going commitments of the cruise line operators in ship delivery (with no down scaling noted amongst the major players in particular the Asian operators), and the generally conservative scenario-based approach adopted.

Principal Findings of the Market Study

The principal findings are summarised below:

The cruise market, as are other infrastructure projects aimed predominantly at the tourism sector, has long been considered to be supply driven, for without the ships and the facilities to support the servicing of the vessels, the demand cannot manifest itself.

- The industry trend is towards larger size of cruise vessels i.e. the mega-ships, which are in excess of 70,000 gross tons and have a capacity of 2,000 to 3,000 passengers.
- Medium to longer term increases in passenger throughput for cruising in the Asian region in general, and especially in North Asia, are expected to be driven primarily by growth in Asian economies.
- The estimated demand to 2006 has indicated a potential for growth in the market for cruising in Hong Kong.
- The “wild card” from a demand generator perspective is Mainland China, given Hong Kong’s proximity to this massive source market. The growth will be in short cruises initially, and longer, more diversified itineraries in the longer term. Any significant uptake of this could be beneficial through the strong likelihood that the Mainland tourists will also spend some time in Hong Kong.
- The future of Hong Kong as a cruise destination and turnaround / home port could benefit from the development of other ports-of-call in the region. However, Hong Kong’s position will likely continue to be affected by the strong seasonality of conventional medium and long cruise itineraries in the North Asian cruising ground and the stronger

position of Southeast Asian ports as a gateway to a greater variety of “tropical” cruising destinations. These limit the potential for any significant growth contribution from western cruise ship calls to Hong Kong.

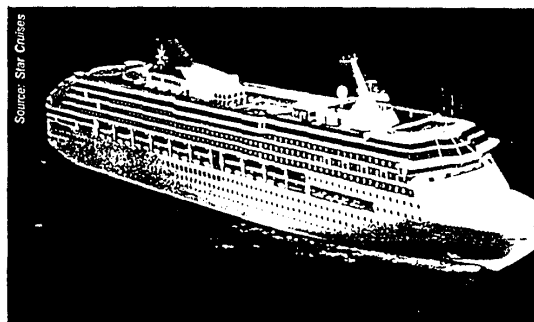
- Notwithstanding the above, the provision of adequate facilities to attract the mega-ships to use Hong Kong as its home port would be strategically important to the local cruise industry through the development of new itineraries which are sensitive to the seasonal effects and take advantage of Hong Kong’s position as a gateway to North Asia.
- Hong Kong should strategically pursue its use as a cruise home-port involving major embarkation and disembarkation of passengers. Vessels home-ported in Hong Kong will commence and finish their itineraries in Hong Kong. With cruises home-ported in Hong Kong, the port will serve as a major turnaround facility and it also allows greater flexibility in itinerary planning, thereby increasing the variety of cruises that a vessel could offer out from its home base. All these will allow Hong Kong to be better positioned as a major cruise hub, and facilitate more direct and greater promotion of tourism and economic contribution to Hong Kong, compared to its use as merely a port-of-call. In addition, the generally high level of cruising activity associated with a home-port with major turnaround of passengers, would demand very high standards of supporting services and a comprehensive range of ship provisioning and passenger processing facilities. These are some of the critical considerations to the cruise line operators in selecting their choice of home-ports and developing their itineraries.
- The availability of appropriate facilities will play a major role in the development of the cruise sector in its locality. For example, the Consultants’ research demonstrated that the construction of the Singapore Cruise Centre has been instrumental in enabling Singapore to effectively target the cruise

sector. This has resulted in significant growth in cruising activities at the port through its use as a home-port / turnaround port.

Suggested Terminal Facility Requirements for Mega-ships

Pier	
Minimum number of berths	2
Total quay length	640 m (to handle 2 ships, each up to 295 m)
Minimum depth alongside	11 m
Terminal	
Departure hall footprint	2,000m ² (including check-in)
Arrival hall footprint	4,000m ² (including baggage claim)
Ship servicing	1-way 10m zone

As the majority of growth, at least for the foreseeable future, is likely to be generated by Asian operators, the issue for Hong Kong is how to position itself to attract such additional regional cruise traffic. Star Cruises, the major Asian operator with several mega-ships either in construction or on order, has indicated that it plans to home-port SuperStar Virgo in Hong Kong if adequate facilities are provided by the time the mega-ship is operational which is expected in late 1999 or early 2000.



SuperStar Leo



Cruising into the sunset

THE ISSUE FOR HONG KONG

- how to position itself to attract the additional regional cruise traffic
- a critical element is the extent of adequacy of Hong Kong's existing cruise facilities to attract use as a home-port

RESTRAINING FORCES

- seasonality of conventional medium and long cruises
- greater variety of cruising destinations of Southeast Asian ports

EXISTING DEMAND

POTENTIAL DEMAND

DRIVING FORCES

- supply driven
- trend towards the mega-ships
- new experience in Hong Kong & Asia
 - potential for growth
- development of regional ports-of-call

Implications of Potential Cruise Demand Growth for Hong Kong

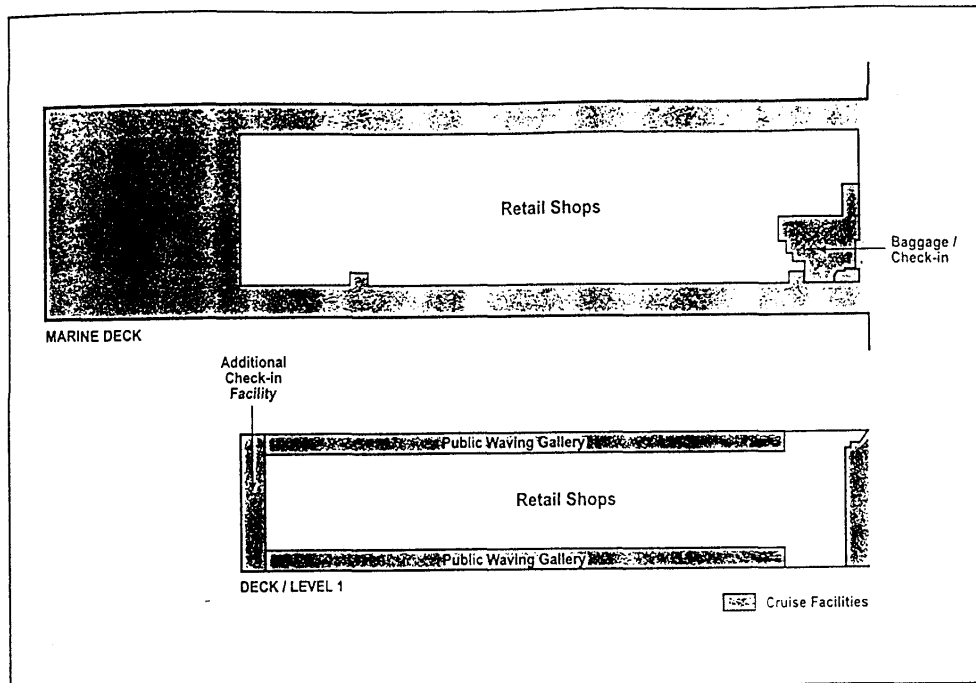
Whilst a review of the theoretical capacity of Ocean Terminal (OT) indicates that it can meet the anticipated demand purely in quantitative terms of the number of ship calls, the critical issue is the adequacy of its existing cruise terminal facilities in servicing the ships and their passengers. An assessment was carried out against the requirements for the provision of suitable berthing and terminal facilities to accommodate the mega-ships. The results are summarised in the table below.

The deficiencies identified in the diagnostic review are consistent with the findings of the recently completed

Kowloon Point Development Feasibility Study commissioned by the Territory Development Department. The current facilities at OT are not adequate in terms of the standard and range of passenger and ship servicing necessary to attract the new generation of mega-ships in the next few years to use OT as their home-port. As the world's cruise line fleets are progressively modernised, Hong Kong will increasingly lose out on the potential growth, in particular the additional regional traffic if no dedicated facilities exist to handle the mega-ships.

Summary of Diagnostic Review of OT's Berthing & Terminal Facilities

Facility / Function	Mega-ship Home-port Requirements	Evaluation of OT's Facilities
Pier length	Two 320m berth	Able to berth on either side of finger pier, although inner (North) berth would require dredging
Ship reprovisioning	Secured 1-way 10m servicing zone segregated from other public vehicular movements	10m space available but it also caters to vehicular movements for retail servicing, leading to frequent congestion especially if more than one vessel is berthed, and causing inadequate quayside space to utilise the mega-ship's baggage conveyor system
Check-in	Departure terminal footprint of 2,000m ² , with dedicated modern check-in facilities including baggage conveyor & security scan (about 1,000m ² , capable of processing 500 passengers with baggage per hour) & entrance hall	Lacks dedicated facilities to check-in passengers with baggage & is too small for large passenger volume. Current baggage room (200m ²) also doubles as check-in, and has no baggage conveyor system nor security check for baggage. There is another check-in facility (400m ²) at western end of terminal building but is too far from drop-off point for passengers with baggage
Baggage claim	Arrival terminal footprint of 4,000m ² , with dedicated baggage claim (min 2,500m ² capable of handling 1,500 bags per hr), custom facilities and greeters hall	Existing baggage handling area (200m ²) is only adequate for small baggage volume. Custom formalities are handled in the same area, and is also used for check-in. There is no arrival hall nor related passenger facilities after baggage claim
Other embarkation / disembarkation process	Facilities for immigration, security check & lounge capable of accommodating 2,000 passengers, with facilities for handicapped passengers	No dedicated & direct connection between check-in/baggage handling area and waving gallery for passengers to board vessels; share access routes with the general public - via internal service stairs & the main retail concourse (which can get very crowded on weekends). Generally poor handicap facilities and no security check stations provided by OT. No departure nor arrival lounge facilities. Other than for Star Cruises' outbound passengers, there are no provision for immigration facilities within OT
Drop-off / pick-up	Front door drop-off & pick-up, and adequate space for taxi & coach parking, loading & unloading	Coach staging area is far from check-in/baggage claim, and there are limited taxi bays available

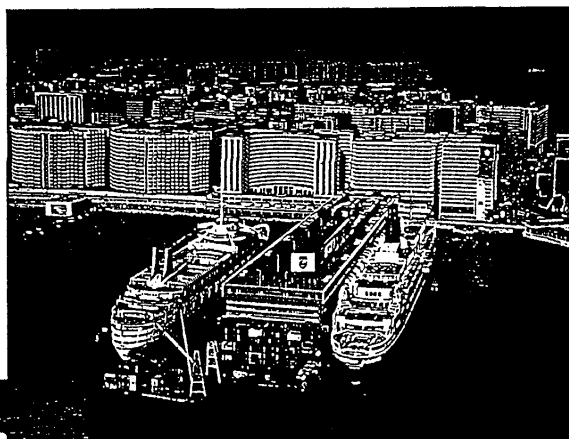


Small area devoted for cruise operations at Ocean Terminal

Development & Appraisal of Options

In view of the future industry trend, the potential demand and the findings on the adequacy of the existing cruise facilities, there are strategically two basic terminal facility options :

- enhance the facilities at OT to meet the requirements of the mega-ships; or
- build a new dedicated terminal facility.



Ocean Terminal

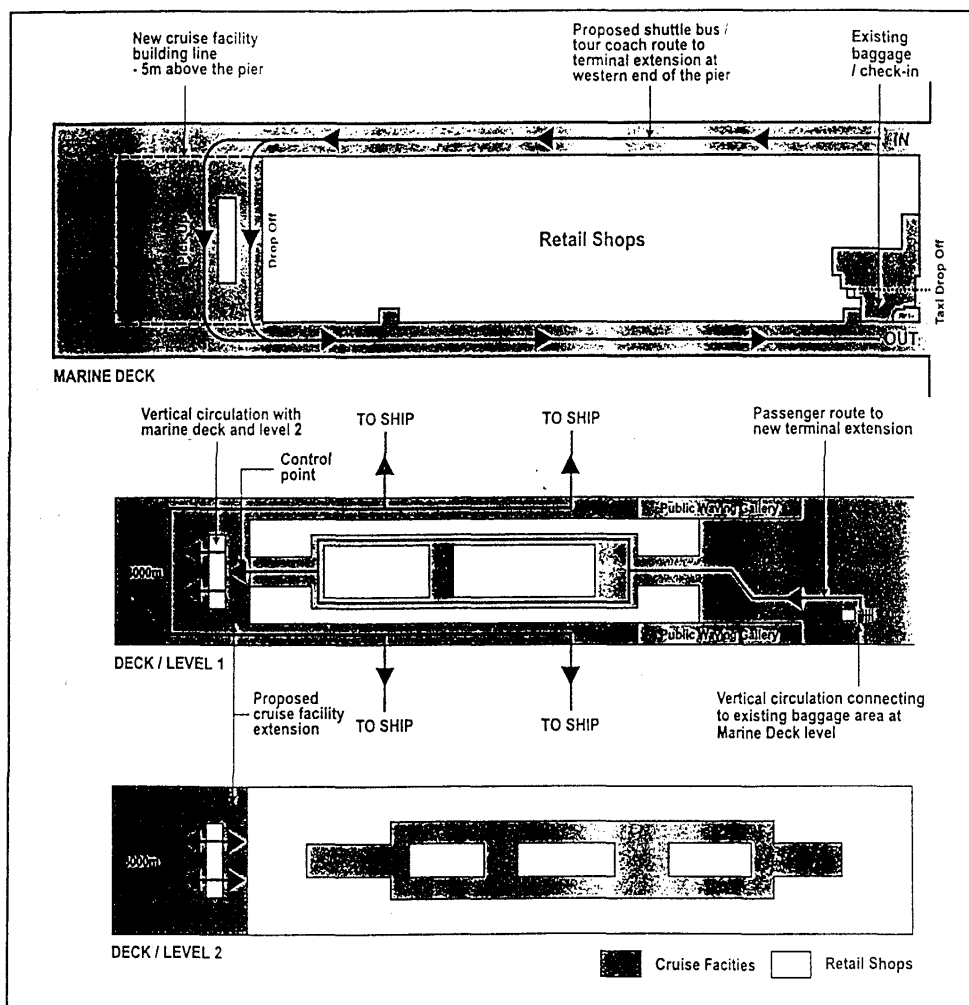


"Cruising" on the dance floor

2 major OT enhancement alternatives were examined:

Option a

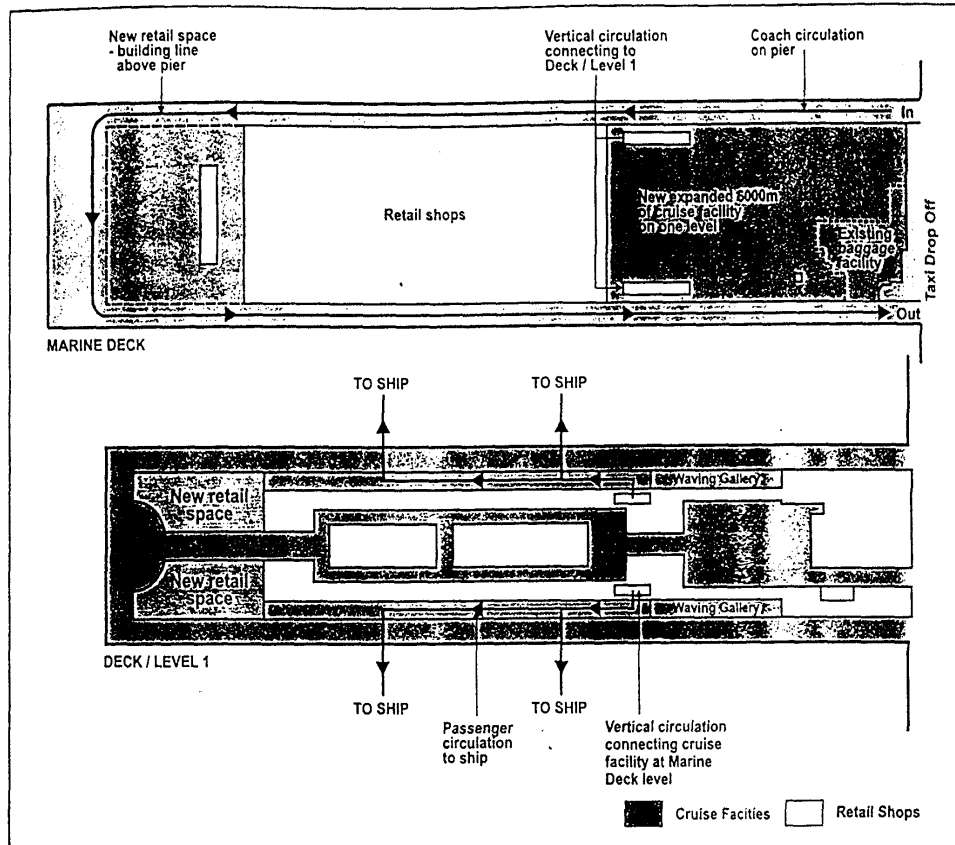
- Use new dedicated baggage check-in facilities (on two floors) in a new building to be located on the western end of the apron; and



Option a - new additional cruise facility on western end of apron

Option b

- Expand current baggage facility (at pier level) into existing adjoining retail space to create a new dedicated baggage/check-in facility, & relocate the displaced retail spaces to a new building to be built on the western end of the apron.



Option b - new additional cruise facility on Marine Deck

Summary of Evaluation of Alternatives

Criteria	OT Enhancement Alternatives	
	Option a	Option b
Ability to meet home-port environment for mega-ships	Low to medium ability	Medium ability
Ability to process large volume of passengers with baggage in a timely & efficient manner	Low to medium ability	Medium ability
Impact on land use procedures	Low impact	Low impact
Impact on internal vehicular circulation	Further deterioration from current mixed pax & service vehicular movements	No change from current mixed vehicle traffic
Impact on existing retail operations & likely acceptability of the enhancement option to OT	No impact on retail; Likely acceptability - fair	Adverse impact on retail; Likely acceptability - low

The results of the evaluation, carried out against a set of performance criteria, have indicated that each of the two alternatives provides only a partial solution in terms of creating an attractive home-port environment for the new generation of mega-ships. In addition, the practicality of implementing the alternatives from a commercial perspective further undermines their usefulness. From the perspectives of the specific characteristics of the cruise sector and trends in the development of the cruise market towards larger vessels, the premise that an enhanced OT can accord an interim solution is unlikely to be feasible.

This leaves remaining the option of building a new dedicated cruise facility for Hong Kong in addition to the continuing operation of OT. In this regard it is to be noted that under the Land Grant for OT (Clause 9), the Government is not permitted “to build or financially assist” in constructing another cruise terminal within the “harbour limits”. However, there is no commitment undertaken by the Government to not allow competition. This in essence means the development of a new terminal within the harbour limits rests primarily with the private sector.

Kowloon Point Development (KPD) Feasibility Study Cruise Centre Proposal

The formulation of the potential facility option has been based upon the established need for Hong Kong to build a new dedicated terminal.

As part of this process, a review has been carried out of the existing proposal under the KPD Study, which was commissioned by the Territory Development Department and completed in December 1997, for the reprovisioning of an upgraded cruise terminal facility. The KPD is proposed to be implemented in 3 phases over a 9-year period, and is envisaged to play four important roles - as a new commercial centre in West Kowloon to relieve pressure on the Central Business District; to provide land for the enhancement of the tourist area of West

Kowloon; to provide land for road and rail links for West Kowloon; and to facilitate the extension of waterfront open spaces from Tsim Sha Tsui.

Under the KPD proposal, the proposed Cruise Centre and the Integrated Transport Interchange Terminus (ITIT - which serves as the transport hub for the entire KPD) are both programmed for completion in mid 2011, with work on the Cruise Centre commencing in mid 2007. This programme assumes the KPD works will commence in January 1998.

The proposed Cruise Centre, in the form of a finger pier with two berths, is to be located to the west of the existing OT with the same alignment as present. Passenger pick-up and drop-off facilities are not provided within the Cruise Centre but in the ITIT, which is some distance away to the east of the Cruise Centre. The ITIT is connected to the Cruise Centre via a dedicated high-level pedestrian bridge. The roof of the proposed Cruise Centre will form part of the Festival Market Place, a new tourist spot with multi-level focus of activities such as entertainment, retail, food & beverage, cultural, etc. The Cruise Centre also contains 19,800m² of retail GFA.

The KPD Study, in line with its strategic focus, only provides an outline of a possible Cruise Centre development and does not therefore set out any detailed requirements for a reprovisioned cruise terminal. The comments on the KPD Cruise Centre proposal presented below should be interpreted in this light.

KPD Cruise Centre Proposal - Summary of Comments

Key observations on the KPD cruise centre proposal are summarised below:

- The site commands an excellent downtown location with good access to public transport.
- Of the 2 berths planned, only the outer berth is 320m in length whereas the inner one is shorter at 270m

due to the siting of the reprovisioned fire boat berth. This will in effect restrict the potential usage of the mega-ships to only the outer berth and undermine its ability to fully support the servicing of mega-ships.

- The pier width of the Cruise Centre of about 58m, as inferred from the total quay area proposed, would probably be sufficient to cater for the construction of a terminal building. However, it appears only a 8m clearance on either side of the terminal building (from the edge of the marine deck to the wall of the terminal building) has been provided. This is probably not sufficient for vessel servicing and maintenance of emergency vehicle access traffic lanes around the pier structure.
- The notion of combining the Cruise Centre with an ITIT located some distance away from the Cruise Centre itself (e.g. taxi stand at 320m away) and involving significant changes in level (e.g. taxi facilities are at ground level (+5 mPD) while the pedestrian bridge is at +13.5 mPD), would appear to be inconvenient from the perspective of passenger processing and control. While this design concept may not pose a major constraint for very short cruises, it is not “user friendly” for medium length conventional and world cruises where passengers are expected to travel with luggage. In addition, the older age profile of international cruise passengers will further compound the problem.
- In view of the above, locating a large proportion of key passenger processing facilities at pier level, including passenger pick-up & drop-off, check-in and baggage claim, would appear to accord a better solution than the present proposal. If such facilities are incorporated within the area of the pier structure itself, the pier would need to be widened to some 90m to 100m.
- None of the floor levels of the Cruise Centre appears to be compatible with the main passenger reception ports of the new mega ships.

The results of the review exercise have indicated the suitability of the KPD site for the building of a dedicated cruise terminal. The physical, functional and operational requirements of the dedicated terminal facility at KPD however need to be examined and specified in greater detail to ensure they are in accordance to the requirements of a modern dedicated terminal.

Further detailed work for this option is broadly recommended as follows:

- Terminal planning - a practical and workable conceptual layout of passenger processing and ship reprovisioning needs to be developed for the proposed Cruise Centre to a sufficient standard to meet the requirements of the new generation of mega-ships.
- Passenger transportation planning - the feasibility of integrating the Cruise Centre with the ITIT needs to be re-examined within the context of the specific characteristics and operational requirements of the cruising industry, including the adequacy and practicality of the proposed pedestrian links.
- Berth configuration - whilst the length of the pier has been clearly established, the sizing of the pier has to be re-examined within the context of the overall terminal concept for the cruise operation. Also, the shape of the berth has also to be specified and the impacts of housing a fire boat berth adjacent to a cruise vessel berth need to be re-examined to ensure safety of operation.
- Ancillary support - the proposed provision of ancillary retail facilities and its use as part of the Festival Market Place need to be examined to facilitate an effective integration within the overall framework of the primary function of the Cruise Centre (which is for cruise operation), and to ensure such introductions do not compromise or disrupt the security and effective and efficient running of the cruise operation.

Commercial viability - a preliminary review carried out as part of this Study has indicated that the financial viability of a cruise terminal as a standalone investment may be difficult to achieve. This is consistent with the findings of the KPD Study, which indicated that the financial viability of a cruise terminal development “without retail support is questionable” and that “the implications of the retail element in the Cruise Centre be studied further prior to implementation”. In this regard, the investigation should be extended to encompass other complementary alternative uses to which accommodation within the cruise facility could be dedicated to. The Government should therefore consider means to enhance its viability, for example, by including retail and other complementary uses into a single cruise terminal development package.

It is recommended that before the KPD land use plan is formally gazetted in the form of a statutory Outline Zoning Plan, the above tasks should be undertaken to finalise the land use and the physical size and configuration of the cruise terminal.

KPD Cruise Centre Option

On the basis of the foregoing, the potential facility option of this Study is for the building of a new dedicated cruise terminal for Hong Kong to be located at the future KPD site. However, there is one key issue which needs to be addressed.

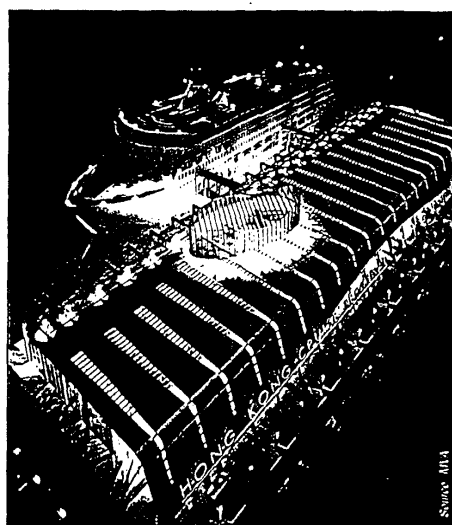
Whilst the site meets the locational criteria for a cruise terminal, the current timing for its completion is too far in the future to accord a practical solution. The Cruise Centre in KPD is programmed for completion at the earliest only in mid 2011, and this completion date could be further delayed. Thus it remains only a possible long term solution.

There is thus an urgent need for Government to investigate the possibility of fast tracking the building of a dedicated terminal at KPD in order for Hong Kong to capitalise in the shorter to medium term the potential for growth in the market for cruising in Asia. There is a critical need to sustain the present interest of the cruise

ines in viewing Hong Kong as a major cruise destination in Asia. This momentum must be sustained, and the provision of a modern dedicated cruise terminal with the required range of facilities and amenities to service the new generation of mega-ships that are coming on-stream in the next few years is essential to creating the necessary environment to not only attract the calling of such ships, but to make Hong Kong their home port. If the current opportunity is foregone, then Hong Kong stands to lose the opportunity to develop further its cruise sector, and hence the chance to reinforce generally the development of tourism in Hong Kong.

Given the size of the reclamation (40ha) associated with the whole KPD, there is a possibility that it may not be practical to bring forward the building of the cruise terminal. If this is the case, the KPD site could only provide a long term solution for the proposed new cruise terminal. With this timing uncertainty in the possibility of bringing forward the KPD option, there are two related issues:

- Firstly, with the building of a new facility in mid 2011 or later, the need for a longer term solution at KPD would need to be re-evaluated within the context of the then prevailing supply and demand and the wider development of the cruise market. For example, there could be demand for more than two mega-ship berths by that time.
- Secondly, Hong Kong needs to provide an appropriate investment climate now to sustain private sector interest in developing the Hong Kong cruise market, or runs the risk of diverting the investments to other major ports in Asia.



Possible cruise terminal (artist's impression)

An alternative option is therefore to locate on an urgent basis another site which meets the critical timing criterion in addition to generally satisfying the other locational criteria.

The building of a new terminal is a major investment, and any private sector interest in this supply-led industry should be encouraged as this investment would provide positive economic benefits to Hong Kong even with OT still in operation.

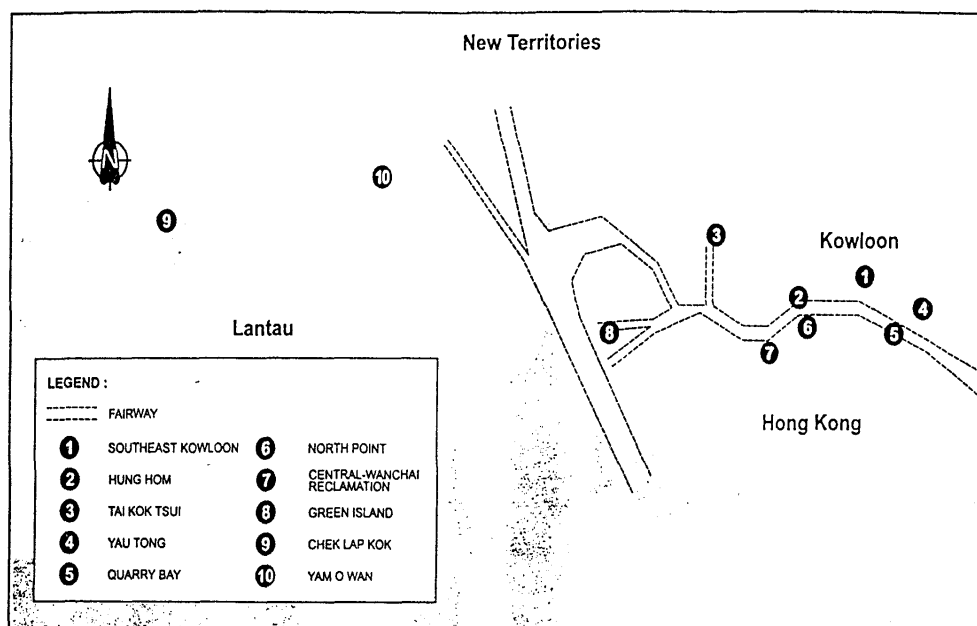
In addition, the land use planning process could be expedited by zoning an alternative site specifically for a cruise terminal development. The development proposal could then be disposed of by public tender or private treaty grant.

In formulating the new terminal development package, the Government should consider identifying uses either within, or in close proximity of, the cruise terminal. Such uses should not only be consistent with the development of a dedicated cruise terminal, but which also promote overall tourism in Hong Kong as a properly planned cruise terminal is itself a tourist attraction activity node. In addition, the feasibility of developing the cruise terminal in conjunction with other tourist attractions should be explored. For example, the current KPD proposal for a part of its proposed cruise centre to be integrated into its planned Festival Market Place, accords such a possibility.

In addition, the "wild card" demand generator potential of mainland China should be explored further from the perspectives of short to longer term opportunities.

Possible Alternative Cruise Terminal Locations

Whilst the proposed cruise terminal at KPD is the potential option put forward by this Study, a preliminary search of possible alternative sites, should the KPD option not materialise on time, has been undertaken as part of the present Study. Besides KPD, a total of 10 potential cruise terminal locations were examined against 5 locational criteria.



Potential cruise terminal locations

The results of the preliminary site search are summarised below:

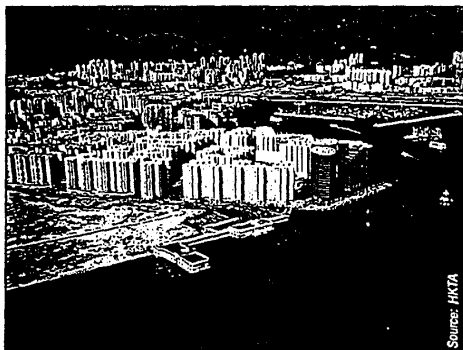
Preliminary Locational Criteria for Cruise Terminal

(a) berth length	- a minimum of 2 berths of 320m each
(b) minimum depth alongside	- 11m
(c) location & access	<ul style="list-style-type: none"> - good location, preferably in a downtown area - close to MTR Station - close to compatible attractions/facilities - service road access - accessible from designated fairways
(d) possible ancillary uses	- shopping podium with hotel above
(e) timing of availability	- short to medium term

Summary of Alternative Site Search

South East Kowloon has many conflicts with the land use and development proposals (as suggested by the South East Kowloon Development Feasibility Study commissioned by TDD) in the short and long term, and includes a major reprovisioning exercise of a number of existing facilities - 3 cargo working areas and 2 typhoon shelters. Timing is also a critical issue with associated marine works for the typhoon shelter and cargo working area not completed until 2010.

Hung Hom meets the preliminary criteria, but may be liable to objections on gazettal. It would also require modifications / restrictions to its pier layout to stand any chance of overcoming concerns of its proximity to the fairway. In any case, in the longer term, the final shoreline of the Southeast Kowloon Reclamation could pose a significant restriction on the turning of ships. Probable termination of inner harbour ferry services in 1999 may make more space available.



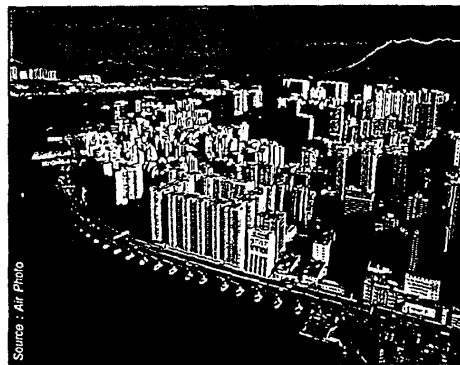
Hung Hom

Tai Kok Tsui would be unlikely to be acceptable from a marine perspective (high volume of marine traffic in the area, underwater installations, inadequate water depth, etc.) and does not meet all the criteria.

Yau Tong presents conflicts in the short term, particularly with regard to construction (reclamation has not yet begun). The location is also too off-centre and remote. There is concern arising from its proximity to the narrow Lei Yue Mun Pass and the constraints of the potential Lei Yue Mun highway bridge to sea access.

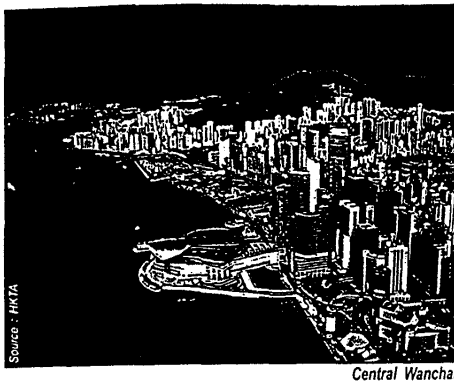
Quarry Bay does not generally meet the locational criteria and would probably be liable to objections on gazettal. There are also likely to be other objections - proximity to fairway, difficulty in turning of vessels, and closeness to Shau Kei Wan typhoon shelter.

North Point meets the preliminary locational criteria. Cruise line operators may not however necessarily fully favour this location inasmuch that it is not as centrally located as OT. It offers a potential to site a modern terminal in a short to medium term time frame. There may also be concerns from local residents. Subject to detailed investigation, there may be a need to reprovision the existing mooring buoy(s) depending on the ultimate location of the cruise terminal.



North Point

Central Wanchai Reclamation, although a premium location, it poses a major rethink of the current urban and civil designs should a cruise terminal be sited there. The availability of a site based on a reduced reclamation plan is uncertain at this stage. At the time of finalisation of this report, the initial stage of the reclamation (between the Airport Railway Hong Kong Station and the Hong Kong Convention and Exhibition Centre [HKCEC]) has been gazetted and released for 2 months of public consultation. However, the final form of the rest of the reclamation to the east of HKCEC has not yet received formal approval, and if redesign is possible with a reduced scale of reclamation, then the construction of a cruise terminal to the east of HKCEC may be achievable. However, the decision rests with the Government on how to proceed with the reclamation plan.



Central Wanchai

Green Island will likely raise concern from a marine perspective (- close to a busy fairway making ship turning difficult) and a cruise centre at this location would require adjustments to the Outline Master Development Plan.

Chek Lap Kok has problems of dredging and height restriction requirements, amongst other issues.

Yam O Wan presents conflicts with other shipping needs. It does not meet most of the criteria and is markedly off-centre to core downtown area. The timing is uncertain and there could be navigational problems with mega-ships passing the Tsing Ma Bridge and the proposed Sham Tseng Link.

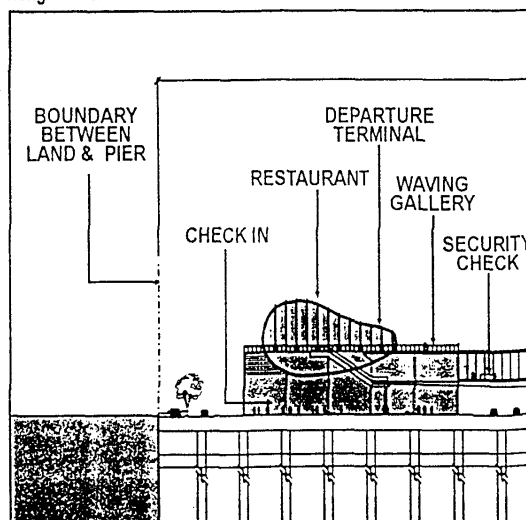
The results of the locational comparison have indicated that there may be possible alternative sites (to the KPD option), which appear to generally meet all the criteria for a cruise terminal to be developed. North Point, Hung Hom and Central Wanchai Reclamation are such possible alternative sites. Their suitability are however subject to detailed technical studies on the traffic, marine, environmental and land use impacts of the development. It is recommended that, should the KPD option be not achievable in a shorter time frame, further studies should be carried out by the Government on these possible sites.

Initial Conceptual Plan of a Possible Cruise Terminal

Indicative Cost & Programme

Pier	
Construction costs (@ 1997 prices)	HK\$ 470 to HK\$ 520 million
Construction period	18 months
Terminal Building	
Construction costs (@ 1997 prices)	HK\$ 55 million
Construction & start-up	18 months (including some overlap with pier construction)
Overall Programme	30 months

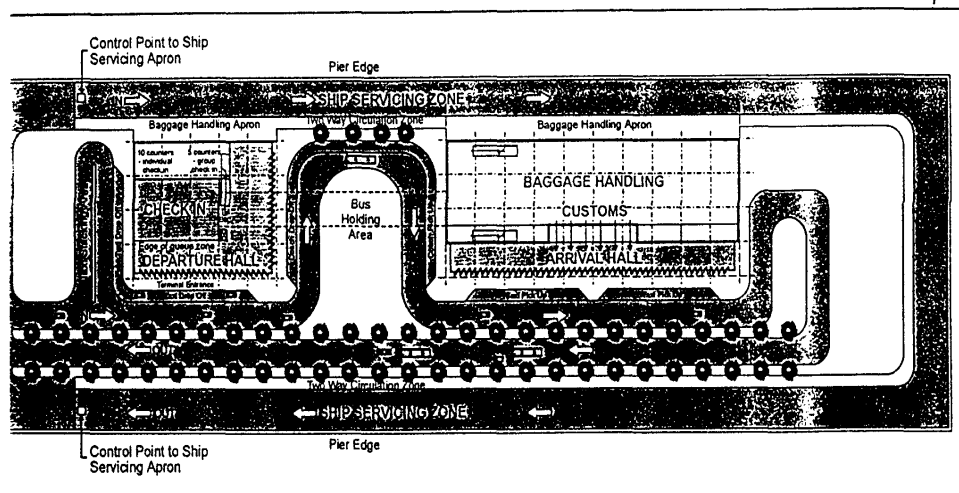
Long section



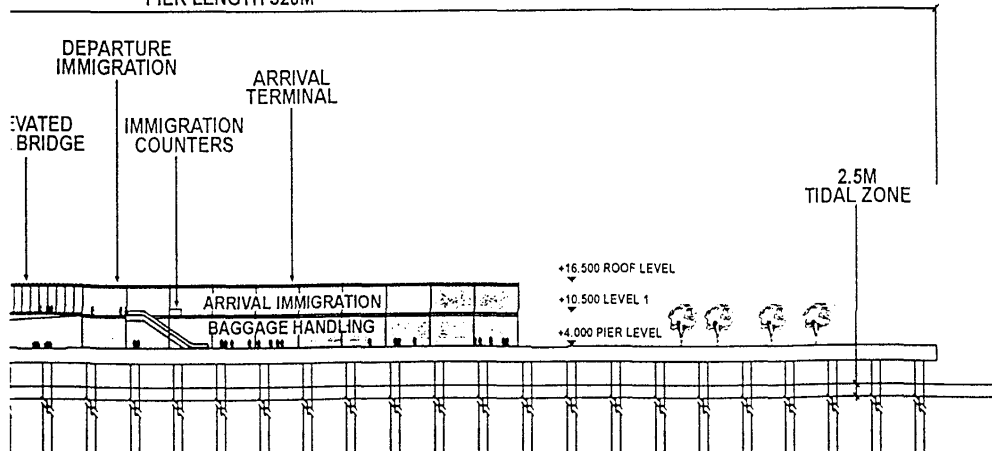
Proposed Berth Configuration & Terminal Layout

Pier	
Minimum number of berths	2
Quay length	320m x 2
Pier Width	85m to 100m
Minimum depth alongside	11 m
Terminal	
Departure hall footprint	2,000m ² (including check-in)
Arrival hall footprint	4,000m ² (including baggage claim)
Ship servicing	1-way 10m zone

Pier level plan

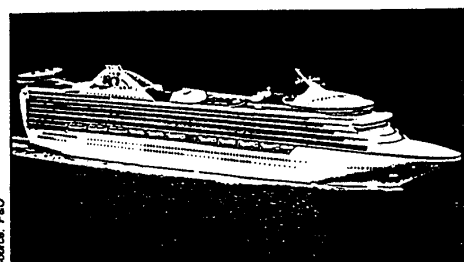


PIER LENGTH 320M



Conclusions & Recommendations

The major conclusions and recommendations made in the Final Report of the Study on the Cruise Market of Hong Kong are summarised below :



Source: PLO

Grand Princess

The cruise market is supply driven and the trend is towards the use of mega-ships

The cruise market, as are other tourism infrastructure projects, has long been considered to be supply driven. For without the ships and the facilities to support the servicing of the vessels, the demand cannot manifest itself. In addition, the present industry trend is towards larger size of cruise vessels i.e. the mega-ships which are over 70,000 gross tons and with a capacity of 2,000 to 3,000 passengers.

There is potential for growth in the market for cruising to and from Hong Kong

The estimated demand to year 2006 has indicated a clear potential for growth of the Hong Kong cruise



Sun tan on a cruise



Source: HKTA

sector as part of the overall growth in the cruise market in Asia. The development of other ports-of-call in the region is expected to be beneficial to Hong Kong, further reinforcing its future as a cruise destination and turnaround / home-port. Whilst Hong Kong's position is likely to continue to be affected by seasonality of cruising itineraries in the North Asian cruising ground, the provision of adequate facilities to attract the mega-ships to use Hong Kong as its home port would be an important strategic issue to the local cruise industry. The development of new itineraries which are sensitive to the seasonal effects and take advantage of Hong Kong's position as a gateway to North Asia, will support the growth of the industry.

A new dedicated cruise terminal is to be built as soon as possible to attract the anticipated growth in additional regional cruise traffic



Dinning at sea

Source: Star Cruises

Source: HKTA

The potential option for Hong Kong is to provide on an urgent basis the appropriate cruise terminal facilities in order to capitalise in the short to medium term the potential for growth in the market for cruising in Asia.

As the majority of growth, at least in the foreseeable future, is likely to be generated by the Asian operators, there is a need for Hong Kong to sustain the present interest of the cruise lines. This calls for the provision of a modern terminal with the required range of facilities and amenities to attract the new generation of mega-

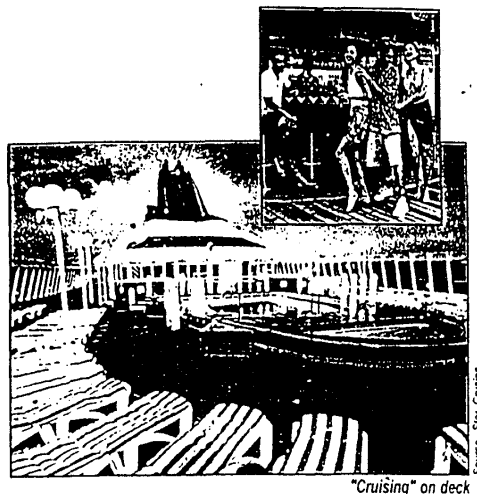
ships that are coming on-stream in the next few years to use Hong Kong as their home port.

In this regard, the existing Ocean Terminal (OT) is not adequate in meeting such needs. This evaluation has been further confirmed by the Territory Development Department Study on Kowloon Point Development (KPD). The situation is also further undermined by the lack of practical and feasible enhancement options at OT.

If the current opportunity is foregone, then Hong Kong stands to lose the opportunity to develop further its cruise sector, and hence the chance to reinforce generally its development of tourism.

KPD is the potential site for a new terminal only if its development could be significantly brought forward

The potential site for the building of a new cruise terminal is at KPD if the timing for the current Government proposal for a new cruise centre at KPD could be significantly brought forward from the present earliest planned completion in mid 2011. The present proposed time frame is however too far in the future to accord a practical solution for Hong Kong to position itself to tap the anticipated growth in additional regional cruise traffic.



"Cruising" on deck

Source: Star Cruises

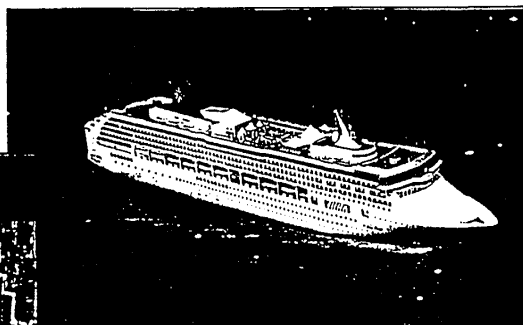
Government should further conceptualise its KPD cruise centre proposal as soon as possible.

Government should endeavour to examine the possibility of bringing forward the development time frame of its cruise centre proposal at KPD. If fast tracking of KPD is ultimately found to be not feasible, the site still accords a long term solution. There is thus a need for the Government to examine in greater detail, and as soon as possible, the physical, functional and operational aspects of its current proposal to ensure it meets the requirement for a new dedicated cruise terminal and provides an adequate strategic fit within the larger development framework of the KPD.



Hong Kong

Source: HKT



SuperStar Virgo

Private sector investment in building the new terminal is to be strongly encouraged and actively pursued

The building of a new terminal is a major investment. Any private sector interest in this supply-led industry should be encouraged as this investment would provide positive economic benefits to Hong Kong even with OT still in operation. Any impetus from the private sector towards the development of a new terminal should be strongly supported, as Government is not permitted under the Land Grant for OT "to build or financially assist" in constructing another cruise terminal within the "harbour limits". There is no restriction however for Government to allow for competition.



Possible alternative sites after KPD are at North Point, Hung Hom and Central Wanchai Reclamation

If fast tracking of the cruise centre proposal of KPD is not feasible, and further adding the uncertainty associated with whether KPD will actually be implemented, there is a need to locate an alternative site on an urgent basis, with KPD remaining the long term option. Subject to further site search and detailed technical investigations, possible alternative sites, which generally meet the locational, traffic and marine criteria, could be North Point, Hung Hom and Central Wanchai Reclamation.

At the time of writing this report, the Consultants understand that there is a private sector initiative requesting for an amendment to the North Point Outline Zoning Plan to incorporate a cruise centre adjacent to redevelopment of Inland Lot IL 7106sA west of Oil Street.

If the alternative site option is pursued, the need for another new enhanced cruise centre as part of the longer term KPD proposal would need to be re-evaluated in due course within the context of the then prevailing supply and demand and the wider development of the cruise market. As a long term option, there may still be a need for the KPD site to meet the growth in the future. The provision of a new terminal in the short to medium term could well spur demand for additional mega-ship berths in the longer term as the cruise market expands.

While there may be alternative possible sites for a new cruise terminal, the key aspect for implementation is the availability of specific proposal from the private sector. Only if there is private sector interest to invest, a new terminal will be built. As a result, it is recommended that the Government should encourage and facilitate private sector initiatives to develop a new terminal for Hong Kong.



QE2

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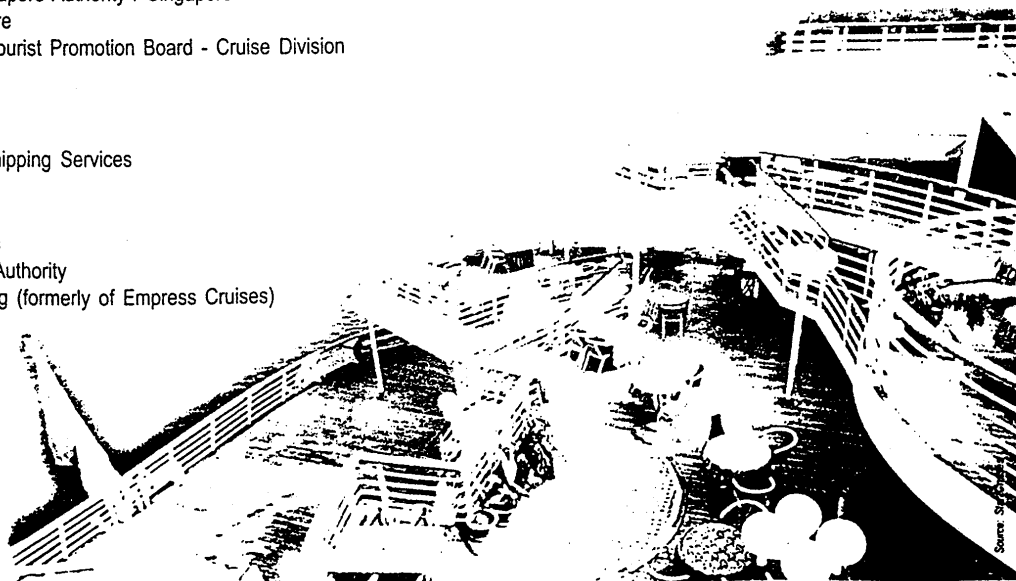
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Territory Development Department
Financial Services Bureau (Economic Analysis Division)
Immigration Department (Harbour Control)
Customs & Excise Department
Kowloon Wharf Terminal & Warehouse (Ocean Terminal)
Travel Agencies
Wholesale Shipping
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Others

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