Legislative Council

Panel on Economic Services

Minutes of special meeting held on
Monday, 15 November 1999, at 9:00 am
in Conference Room A of the Legislative Council Building

Members present : Hon James TIEN Pei-chun, JP (Chairman)
Hon Kenneth TING Woo-shou, JP
Hon David CHU Yu-lin
Hon CHEUNG Man-kwong
Hon Ambrose CHEUNG Wing-sum, JP
Hon HUI Cheung-ching
Hon Christine LOH
Hon CHAN Kam-lam
Hon SIN Chung-kai
Dr Hon Philip WONG Yu-hong
Hon Howard YOUNG, JP
Hon LAU Chin-shhek, JP
Hon Mrs Miriam LAU Kin-yee, JP

Members attending : Hon Cyd HO Sau-lan
Hon NG Leung-sing
Hon Margaret NG
Hon Mrs Selina CHOW LIANG Shuk-yee, JP
Hon Emily LAU Wai-hing, JP

Members absent : Hon Fred LI Wah-ming, JP (Deputy Chairman)
Hon LEE Wing-tat
Hon Eric LI Ka-cheung, JP
Dr Hon David LI Kwok-po, JP
Dr Hon LUI Ming-wah, JP
Hon MA Fung-kwok
Hon WONG Yung-kan
Hon FUNG Chi-kin
Public officers Attending : For Agenda Item I

Mr Stephen S K IP, JP
Secretary for Economic Services

Mr S S LEE, JP
Secretary for Works

Miss Denise YUE, JP
Secretary for the Treasury

Mr Martin GLASS
Deputy Secretary for the Treasury

Mr Mike ROWSE, JP
Commissioner for Tourism

Mr K A SALKELD
Deputy Secretary for Planning, Environment and Lands

Mr Rob LAW, JP
Director of Environmental Protection

Mr Elvis AU
Assistant Director of Environmental Protection

Mr R D POPE, JP
Director of Lands

Mr K Y TANG
Government Economist

Mr Bosco FUNG, JP
Director of Planning

Mr Kevin HO
Deputy Secretary for Transport

Mr LO Yiu-ching
Director of Civil Engineering

Mr W K TAM
Deputy Director of Civil Engineering (Special Duties)

Clerk in attendance : Mr Andy LAU
Chief Assistant Secretary (1)
I. Meeting with the Administration

(LC Paper No. CB(1) 321/99-00(01) — Financing and Financial Benefits of Hong Kong Disneyland
LC Paper No. CB(1) 321/99-00(02) — Impact of Hong Kong Disneyland on Government Budget
LC Paper No. CB(1) 321/99-00(03) — Hong Kong Disneyland : Third Party Investors
LC Paper No. CB(1) 321/99-00(04) — A briefing paper on “Economic Assessment of the Hong Kong Disneyland Project” together with a copy of the full assessment paper
LC Paper No. CB(1)342/99-00(01) — Hong Kong Disneyland : Paris/HK Comparison
LC Paper No. CB(1)342/99-00(02) — Environmental Impact Assessment for the Hong Kong Disneyland in Penny's Bay and the Associated Facilities
LC Paper No. CB(1) 371/99-00(01) — List of questions raised by the academics, deputations and Members at the special meeting of the Panel on 11 November 1999
LC Paper No. CB(1) 371/99-00(02) — The Administration’s response to the list of questions raised by the academics, deputations and Members at the special meeting of the Panel on 11 November 1999)

Economic assessment of the Hong Kong Disneyland (HKD) project
Financial arrangement

Mr SIN Chung-kai enquired whether a break-even analysis had been carried out by the Administration and Walt Disney Company (WD) to project at which level of attendance the operation of the HKD would break-even from a financial point of view. In response, the Secretary for the Treasury (S for Tsy) advised that a number of projections and assumptions including the level and composition of attendance, spending of attendees, construction and operating costs of the project etc. had to be made for conducting the economic assessment of the HKD project. As such, it would not be meaningful to single out one variable, i.e. the number of attendees, in conducting a break-even analysis. Instead, the Administration had conducted a
sensitivity analysis on the financial viability of Phase I development of HKD by scaling down by 20% the projected revenue adopted in the Base Case scenario. The result of the sensitivity analysis was that the HKD would still remain financially viable. The rate of return on capital employed would still be higher than return on Government's fiscal reserve in the Exchange Fund. The Commissioner for Tourism (CT) reiterated that the number of attendees would also be affected by other variables such as the number and pace of new attractions to be built in HKD. He emphasized that the result of an economic assessment of the project by singling out the impact of one variable could be misleading.

2. Some members opined that the break-even analysis was a common tool used in the commercial sector in assessing the economic viability of projects. The analysis needed not single out the impact of one variable on the economic viability of the project, but on the basis of a set of assumptions and calculated the number of attendees at which the HKD could operate at break-even level. S for Tsy and CT responded that different variables were interacting with each other, for example, the number of attendee might have decreased but the spending per attendee could rise or vice versa. They emphasized that the Administration's economic assessment on the HKD project had covered different variables and different scenarios, from the Base Case Scenario A to the most conservative Scenario F, as set out in the Briefing Paper on Economic Assessment of the Hong Kong Disneyland Project (LC Paper No. CB(1)321/99-00(04)). As requested by members, the Administration agreed to provide the result of a break-even analysis on the HKD project indicating at which level of attendance the operation of the HKD would break-even from a financial point of view, assuming all other variables remained constant.

3. Mr CHEUNG Man-kwong noted that the Administration mentioned in the information paper that "in the event that project revenues appear insufficient to repay the loan in a severe downside, Walt Disney have agreed to a predetermined mechanism to bring equity support to the project to allow repayment by final maturity" and he asked the Administration to elaborate on details of the "predetermined mechanism". In response, the Deputy Secretary for the Treasury (DS/Tsy) and CT advised that the purpose of the mechanism was to ensure the full repayment of the Government loan to the Hong Kong International Theme Parks Limited (HKITP) with interest. However, details of the mechanism were commercially sensitive and could not therefore be divulged. S for Tsy added that as the Government was in a joint-venture project with WD which was a commercial organization, the Government had a duty not to disclose commercially sensitive information that might prejudice possible future discussion between WD and other potential theme park investors.

4. The Chairman remarked that that the serious cost-overrun in the Paris Disneyland project had been one of the difficulties faced by the theme park operator during the initial period of operation. CT agreed that the Paris Disneyland project was a guiding case for both WD and the Government. As regards cost overrun, CT advised that the Government and WD were conscious of the importance to ensure that HKD would be built within the capital budget and the HKITP Board would closely monitor the situation when construction of the HKD was in progress.
5. Addressing members’ concern about the preventive measures taken in the HKD project to avoid a repeat of the Paris Disneyland project which experienced deficits in its first few years’ operation, CT advised that a number of policies different from those adopted in the Paris Disneyland were applied in the HKD project in order to guide the HKD project to a successful start. Firstly, the HKD would be developed in phases and future expansion would be dependent upon the performance of Phase I of HKD. This arrangement would avoid excessive capital up-front at the initial development of the HKD project. Secondly, the financing structure between the two projects were different in that the debt to equity ratio for HKD project and the Paris Disneyland project was three to two and three to one respectively. This approach would lessen the interest burden on HKITP and enable the company to operate in a healthy financial condition even if the number of attendees were less than estimated. Thirdly, both WD and the Government were conscious of the need and had put in place mechanism to prevent cost-overrun during the construction of the theme park. Fourthly, both WD and the Government had adopted a prudent approach in assessing the economic viability of the project. CT added that although the Paris Disneyland had a rocky start, its attendance had increased and it was currently the most popular tourist destination in Europe, the operation was so successful that the operator of the Paris Disneyland was about to built a second theme park there.

6. Comparing the various factors affecting the operation of the Paris Disneyland and those which would affect HKD, including weather condition, cost of operation and potentials of attracting tourists from neighboring markets, Mr Ambrose CHEUNG Wing-sum opined that HKD had a higher potential to achieve success right from the beginning.

7. Mr NG Leung-sing noted that the Administration had calculated that the average interest rate over the life of the Government loan to HKITP was around 7.5%. He pointed out that Hong Kong’s interest rate would be affected by many factors and wondered about the basis on which the Administration estimated the level of interest rate for the whole life of the loan covering 25 years. In response, DS/Tsy advised that the Government loan would attract different interest rate during different periods. In order to support the project cashflow in its early years, the rate of interest would be Prime minus 1.75% from drawdown to the first eight years after park opening, rising to Prime minus 0.875% for the next eight years, and to Prime for the remaining nine years. According to the Administration’s calculation, the average rate over the life of the loan would be around 7.5%. As regards repayment of principal, DS/Tsy advised that the repayment of the Government loan would begin 10 years after HKD opened when the commercial loan had been paid off.

8. Mr Ambrose CHEUNG Wing-sum pointed out that the arrangement that the land cost of the HKD project would be paid by HKITP by issuing $4 billion of subordinated equity to Government would greatly reduce the operation costs of HKITP because there would be no rental payable by HKITP. S for Tsy advised that although HKITP had no rental cost, it would still be required to pay rates and Government rent for the land occupied by HKITP. DS/Tsy supplemented that this
arrangement was to ensure that HKD could achieve a reasonable return in the Base Case scenario.

Forecast number of attendees

9. Some members pointed out that in estimating the number of attendees to HKD, the Administration had assumed that the number of tourists visiting Hong Kong would increase every year. They queried whether this assumption was realistic bearing in mind that the number of tourists visiting Hong Kong dropped by 8% in 1998. They also asked the Administration to elaborate on the basis in calculating the forecast number of attendees to HKD. In response, the Secretary for Economic Services (SES) advised that the Administration had in fact used a conservative approach in forecasting the number of tourists visiting Hong Kong. He said that the number of tourists visiting Hong Kong increased by about 7% to 8% annually in the last 20 years but an annual growth rate of 3% - 5% was adopted in the economic assessment of the HKD project. He further advised that the number of tourists visiting Hong Kong had increased by 11% in the first ten months in 1999, after falling by 8% in 1998 due to the adverse impact of the Asian financial crisis. SES added that at the Panel meeting on 11 November 1999, some representatives of the travel industry had indicated that the Government’s projection of tourists visiting Hong Kong was conservative.

10. As regards the methodology adopted in projecting the number of tourists visiting Hong Kong, the Government Economist (GE) advised that the growth rate of 3.3% to 5.0% included in Government’s economic assessment had reflected the assumption that the growth rate in the coming years would be less than those in the 1980s and 1990s. He pointed out that this was a conservative approach given that Hong Kong’s neighboring economies were all developing countries which should have a greater growth potential particularly in terms of demand for travelling. He also noted that the travel industry in the Mainland had grown substantially in recent years and it was believed that the number of Mainland tourists visiting HK would continue to increase in the coming years.

11. Mr HUI Cheung-ching noted that the majority of visitors to the Paris Disneyland and the Tokyo Disneyland were mainly Europeans and Japanese respectively. He doubted if there was a corresponding policy to relax the quota system on the number of Mainland tourists to Hong Kong. SES advised that the target attendees of the HKD originated not only from local people, but more importantly from the Mainland and neighboring countries. In this regard, he noted that the estimated 5.2 million attendees to the HKD during the first year of operation was not unrealistic bearing in mind that the annual attendance to the Ocean Park was currently about 3 million. As regards policy to promote Mainland tourists to Hong Kong, SES said that there was a mechanism between relevant authorities in the Mainland and Hong Kong to review the immigration policy and procedures for Mainland tourists visiting Hong Kong. He believed that the relevant policy could be relaxed nearer the time. GE supplemented that as the income of Mainland people had continued to increase, it would be more affordable for them to visit HKD in year 2005.
Moreover, in estimating the number of attendees to HKD, the Government had assumed that no business visitors would visit HKD and if some of the business visitors did visit HKD, the number of attendees would be higher.

12. On measures to promote Mainland tourists visiting Hong Kong, SES advised that the number of designated travel agencies under the Group Tour Scheme operated by Mainland authorities had increased from three to four last year. He agreed that further liberalization of the market could lead to reduced price and attract more tourists from the Mainland. He advised that the Administration would further pursue with the Mainland authorities in this regard.

13. Mr Howard YOUNG opined that speaking from a very broad sense, the catchment area of HKD could be any place within 5-hour flight distance from Hong Kong and this implied that there would be a very large market potential for HKD.

14. As regards measures to achieve sustained growth of tourists to Hong Kong, SES advised that the Administration in joint effort with the Hong Kong Tourist Association would continue to develop new tourist attractions in Hong Kong and to streamline immigration procedures to facilitate tourists.

Environmental issues

15. In the absence of a specific Environmental Impact Assessment (EIA) study for the HKD project, Ms Emily LAU Wai-hing queried whether it was premature for the Administration to put forward the related funding proposals to Finance Committee and its Subcommittees for consideration. She remarked that the Administration's move was indeed creating a precedent of waiving the requirement of conducting EIA study for projects before approval was given. In response, the Director of Environmental Protection (DEP) said that some development feasibility studies for North-East Lantau had been carried out over the past years. In particular, the feasibility of a container port development on reclaimed land at Penny's Bay had been examined with detailed assessment on its traffic and environmental impacts. Pursuant to the new plan for the HKD development on the same location, the Administration had completed an environmental review on the environmental impacts of the reclamation works, and the review results had been presented to the Advisory Council on Environment (ACE) in September 1999. The review concluded that the environmental impacts of the reclamation works for the HKD development would be less than those arising from the container port development, mainly due to the reduction in the scale of reclamation and the elimination of the needs for a breakwater and an approach channel. Notwithstanding these review results, a detailed EIA study would be carried out specifically for the HKD development to address potential environmental issues that might arise during the construction and operation stages. DEP further advised that the Penny's Bay area was not an area of significance to dolphins. The said conclusion of the EIA was supported by recent surveys on dolphin and monitoring work at various seawater locations around Lantau by dolphin experts. During the monitoring period, there were only five sightings of dolphins at Penny's Bay. DEP assured members that all the statutory EIA procedures would be
followed and complied with and no construction works for the project would be carried out without the relevant Environmental Permit issued by Environmental Protection Department.

16. Noting that compliance with the usual EIA procedures in this case would only cause a delay of some four to five months, some members were of the view that they should not be asked to rush through and endorse the present proposal without waiting for a few more months. In response, CT explained that members' approval were being sought for the relevant funding proposals urgently in order that the Government could enter into formal contract with WD before the end of the year. Given the benefits the project could bring to Hong Kong and that the deal was reasonable and fair, he considered it advisable to confirm it early. He also stressed that waiting for four to five months might affect the progress in meeting HKD's target opening date. As the returns from the project had been estimated on the basis of the target opening date, they might not be valid if the date was missed and as a result renegotiations on the deal's financial terms might be necessary.

17. Noting that the on-going Study on Sustainable Development for the 21st Century had proposed a computer-based tool, called CASET (Computer-Aided Sustainability Evaluation Tool), to help the undertaking of Sustainability Impact Assessments (SIAs), Miss Christine LOH enquired whether the Government would make use of CASET to conduct a SIA for the HKD project. In response, the Deputy Secretary for Planning, Environment and Lands advised that CASET would provide a structured and more consistent means of examining the range of economic, social and environmental issues associated with major development proposals. Data generated from CASET would eventually have to be examined by policy-makers who made the final decisions. The main purpose was to ensure that the economic benefits of a project should not be achieved at the expense of social and environmental costs. In evaluating the merits of the HKD project, the Administration had already examined the economic, social and environmental issues. Moreover, CASET was being developed by the consultants and was not yet ready for application. The Director of Planning (D of P) supplemented that the findings of the Study on Sustainable Development for the 21st Century which included the conceptual design of CASET were currently undergoing public consultation. He reiterated that the Administration had taken economic, social and environmental factors into account in planning any major projects including the HKD project.

18. Miss Christine LOH noted that ACE's endorsement of the EIA study for a container port development in Penny's Bay was subject to seven conditions. She requested the Administration to elaborate on the seven conditions concerned. DEP replied that the seven conditions and the latest position relating to each condition were:

(a) ACE was concerned whether the source of fill for the reclamation would come from land-borrow areas. The current position was that filling of the theme park area would be from an approved marine-borrow area.

(b) ACE was concerned that sewage effluents from the Discovery Bay area,
including the new container port, should be diverted to a sewage treatment plant in Siu Ho Wan. The current position was that diversion of sewage from Discovery Bay to Siu Ho Wan would likely be completed in early year 2000.

(c) Monitoring of white dolphins should be continued during the construction stage. Work permit to be issued for the reclamation work for the theme park would include such a condition.

(d) ACE recommended that an independent office should be set up to monitor the impact on the environment arising from reclamation and construction works. The independent office would be set up in due course.

(e) Further EIA study should be conducted if additional reclamation was required. This condition would be observed by the Administration.

(f) As regards off-site compensation programmes for the loss of the spawning ground, the Government's position was that off-site compensation was part and parcel of the Government's overall policy on environmental protection. The artificial reef project contemplated by the Agriculture and Fisheries Department (AFD) could be viewed as an off-site compensation programme.

(g) ACE recommended that consideration should be given to the extension of the North Lantau country park. The current position was that extension of the North Lantau country park had been included in the Southwest New Territories Development Strategy Review.

19. In response to Miss LOH's question on whether the construction of a theme park in Penny's Bay would have adverse impact on the area as a fish spawning ground, DEP advised that the fishery issue had been addressed at the relevant meeting of ACE. There would be some form of compensation for the loss of the spawning ground with the construction of artificial reef.

20. As to whether the Environmental Protection Department (EPD) would hold an independent view in assessing the results of the EIA study on the HKD project since the Government was a partner in the HKD project, DEP emphasized that EPD would examine any EIA study independently and professionally.

21. Miss Emily LAU enquired about the Government's response to the Friends of Earth and the Conservancy Association's proposal for setting up a compensation and donation plan to compensate the ecological, environmental and social loss arising from the HKD project. DEP reiterated that the Government's position was that any ecological compensation was included in the overall environmental protection measures which covered inter alia, the extension of the North Lantau country park. CT supplemented that the situation in HKD project differed from the Orlando
Disneyland project in that the former would buy just enough land to build the theme park whereas the latter bought a very large piece of land and donated part of the land for a green project. CT added that the Government's decision to build an International Wetland Park in Mai Po could be viewed as a compensation to the environment.

Other aspects

22. Mr CHAN Kam-lam enquired about the overall transport planning for HKD and whether the opening hours of the cross-border control points would be extended. On transport planning for HKD, D of P said that HKD would be a major recreation location in Lantau and transport links between the theme park and various locations of Hong Kong, including the airport, urban areas and cross-border points had been considered. There would be a rail link between the theme park and the proposed MTR station at Yam O; and a road link between the theme park and the main highway system extending to urban areas and cross-border points. The Deputy Secretary for Transport (DS/T) supplemented that in view that the majority of visitors to the theme park would move in the same direction at about the same time, i.e. going towards the theme park in the morning and leaving the theme park in the evening, a rail link to the theme park was considered the most efficient way to cater for the transportation needs of the visitors. On road links between the theme park and other locations in the territory, DS/T advised that the Chok Ko Wan Link Road linking the theme park to the Tsing Ma Bridge and the North Lantau Highway would be completed in 2005. The completion of Route 10 which would link up Tsuen Mun Highway and Shenzhen Western Corridor in 2007-2008 would further facilitate cross-border transportation. Moreover, the construction of the rail link between Sheung Shui Station and Lok Ma Chau would double the capacity of the rail-based cross-border traffic.

23. As regards the extension of opening hours of cross-border control points, DS/T advised that the relevant authorities of the Mainland and Hong Kong Special Administrative Region Government would keep the issue under review and the opening hours could be extended if justified.

24. On whether there would be any plan to build a ferry terminal to service the HKD, the Administration advised that there was a reserved area in Yam O for building a ferry terminal which could serve Mainland tourists coming to HKD by ferry. However, it was envisaged that waterborne transport would only be a part of the overall transport network for HKD. The main transport link for HKD would be by rail and by road.

25. In reply to the Chairman’s question on whether a change of land use of the land occupied by the theme park was possible in future, the Director of Lands said that the private treaty grant of the land for building HKD was subject to the condition that the land had to be used for building a theme park. The land use could not be changed without Government's approval. D of P added that any change of land use would require amendment to the statutory outline zoning plan and would be subject to public scrutiny under the Town Planning Ordinance.
26. On the currency unit to be used in the contracts between the Government and WD, CT confirmed that the Hong Kong dollar was the currency unit used in the contracts.

27. As requested by Miss Cyd HO Sau-lan, the Administration agreed to provide further information on the termination and liquidated damage provisions in the agreement between WD and the Government.

(Post-meeting note: Further information on termination and liquidated damage provisions provided by the Administration has been circulated to members vide LC Papers No. CB(1)384/99-00, 400/99-00 and 456/99-00)

28. In reply to some members' question on whether the Government needed to pay compensation to WD if the project was suspended for some unforeseen reasons after the contracts were signed, CT advised that the contracts had included provisions for either party to terminate the contract without compensation under specified circumstances, such as the reclamation work in Penny's Bay could not proceed for some reasons.

29. As regards intellectual property rights on Disney figures designed specifically for HKD, CT advised that all intellectual property rights of Disney figures were owned by Disney Enterprise Inc. However, companies in the region could become licencees for production of the Disney figures.

30. Referring to the employment creation of the HKD project, Mrs Selina CHOW enquired what proportion of employees would be employed by HKITP and WD; and the operational relationship between WD and HKITP. CT advised that HKITP, which was jointly owned by the Government and WD would be the main vehicle which would build and operate the theme park. WD would set up a wholly owned subsidy company in Hong Kong which would provide management service for the HKD. A fee would be payable by HKITP to the management company. CT further advised that the management company would initially employ about 40 management staff who would be Disney's executives from overseas. The management company agreed that some 35 of those 40 positions would be eventually filled up by Hong Kong recruits after sufficient training. As such, in the long run, not more than 5 management staff of HKD would be overseas recruits. All other staff working for the theme park would be employed by HKITP.

31. As regards the difference between direct employment on-site, direct employment off-site and indirect employment, GE explained that direct employment on-site referred to jobs created in the theme park; direct employment off-site refer to jobs created in organizations not situated inside the theme park but creation of such jobs were directly related to the theme park; indirect employment refer to job creation in all sectors of the economy as a result of the theme park. GE added that the job creation figures quoted in the Administration's information paper (LC Paper No. CB(1)371/99-00(02)) had been prepared in consultation with WD.
32. Some members were of the view that HKITP should pay particular attention to the language ability of its reception staff since attendees of HKD would speak many languages with the three most important languages being Cantonese, Putonhua and English. SES and CT agreed and remarked that HKITP would recruit people with suitable language skill in filling the receptionist posts. Mr Ambrose CHEUNG opined that this should not be a major problem as many hotel employees in Hong Kong were required to speak the three languages.

The way forward

33. Members deliberated on Miss Margaret NG's suggestion to form a subcommittee under the House Committee to follow up on the monitoring and implementation of the HKD project. Members present at the meeting, including both the Panel and non-Panel members were generally in favour of the Economic Services Panel taking the lead in monitoring the HKD project, having regard to the experience of the monitoring of the Cyberport project by the Panel on Information Technology and Broadcasting.

II Any other business

34. There being no other business, the meeting ended at 12:15 pm.