

**For Discussion  
on 27 November 2006**

**Legislative Council Panel on Economic Services**

**Development of New Cruise Terminal Facilities in Hong Kong**

**Introduction**

This paper informs Members of the Government's plan in developing new cruise terminal facilities in Hong Kong.

**Background**

2. The Government is committed to developing new cruise terminal facilities in Hong Kong, in order to capture the growth of the cruise industry in the Asia Pacific Region, and sustain its development as a regional cruise hub. It has been our intention to develop new cruise terminal facilities at the former runway at Kai Tak. One of the key considerations is that it is the only site within the Victoria Harbour with the capability to provide two or more alongside berths without reclamation. We originally incorporated a finger pier at the southern end of the former runway in the Kai Tak (South) Outline Zoning Plan approved in 2002. However, the timetable of the development of cruise terminal facilities at Kai Tak has been affected by the judgment of the Court of Final Appeal made in January 2004 on the application of the Protection of Harbour Ordinance.

3. We last updated Members on the thinking of the Government on this subject in June 2004.

**Latest Development**

4. The Government has decided to develop new cruise terminal facilities on a site earmarked at the southern end of the former runway through

an open tender. Details are set out at the Legislative Council Brief issued on 24 October 2006, at **Annex**. Members are invited to note and comment on the Government's plan.

Economic Development and Labour Bureau  
24 October 2006

## **LEGISLATIVE COUNCIL BRIEF**

### **DEVELOPMENT OF NEW CRUISE TERMINAL**

#### **FACILITIES IN HONG KONG**

##### **INTRODUCTION**

At the meeting of the Executive Council on 17 October 2006, the Council ADVISED and the Chief Executive ORDERED that the Administration should proceed with the development of new cruise terminal facilities on the 7.6 hectares of land earmarked at the southern end of the former runway at the Kai Tak Development (the Site) as follows –

- (a) to adopt an incremental approach in developing new cruise terminal facilities at the Site and other tourism-related facilities adjacent to these facilities (the Tourism Node). Phase 1 will focus on the new cruise terminal facilities and subsequent phase(s) on the Tourism Node; and
- (b) for Phase 1, the Government should offer the Site to the market through open land tender. The successful bidder will, at his own cost, form the Site as well as design, build, and operate the following facilities in and adjacent to the cruise terminal building –
  - (i) two alongside berths and ancillary facilities for berthing as well as loading and unloading passengers, baggage and other supplies for cruise vessels, etc. (Berthing Facilities);
  - (ii) ancillary facilities like ticketing offices, waiting areas, etc. essential for cruise operation as well as customs, immigration and health quarantine (CIQ) facilities which would be vested with the Government to provide CIQ services (Supporting Facilities); and

- (iii) a total non-domestic gross floor area of 50 000 m<sup>2</sup> for commercial/office/retail facilities (Commercial Area).

The successful bidder will form the Site, and complete the Berthing and Supporting Facilities first, and have the flexibility to develop the Commercial Area as part of the cruise terminal building within a fixed period; and

- (c) in parallel with the statutory procedures for the Kai Tak Development, the Government should start to engage the tourism industry, in particular the cruise market, to prepare for the tender exercise to develop the new cruise terminal facilities referred to in (b) above.

Members of the Executive Council also noted the results of the Expressions of Interest (EOI) exercise and the two approaches made by Wharf (Holdings) Limited (Wharf) regarding the development of new cruise terminal facilities.

## **JUSTIFICATIONS**

### **Cruise Market Outlook**

2. The Tourism Commission and the Hong Kong Tourism Board (HKTB) have in recent years commissioned consultancy studies to track cruise market development trend and examine the need for cruise terminal facilities in Hong Kong (the Studies). The Studies indicate that –

- (a) the cruise industry is one of the fastest growing segments of the worldwide travel and leisure industry;
- (b) the growth is dependent on the deployment of vessels by cruise operators, which in turn determines the supply of passenger capacity of the cruise industry;
- (c) the growth of cruise industry in the Asia Pacific Region will benefit from the growth of the worldwide cruise industry and the increase in Mainland Chinese tourists;

- (d) Hong Kong, because of its location and ties with the Mainland, enjoys comparative advantages over other potential homeports<sup>(1)</sup> in the Region; and
- (e) with its world-class infrastructure and tourism facilities, Hong Kong is well placed to become a regional cruise hub.

3. International cruise lines are considering stepping up their operations in the Asia market, which is considered to be the next major cruise market<sup>(2)</sup>. The demand for berthing facilities in the Asia Pacific Region is expected to grow. Various ports in the Region, including Singapore and Shanghai, are ambitious in luring cruise lines to increase their presence in their jurisdictions. Hong Kong is facing keen competition. The key findings of the Studies are set out at **Annex A**.

**A**

#### **Need for Additional Facilities**

4. The existing berthing facilities at the Ocean Terminal (OT) are inadequate to meet market demand. During recent peak seasons, cruise vessels have had to make use of alternative berthing arrangements, such as berthing mid-stream and at the container terminals, due to conflicting schedules at OT. In addition, some of the new mega cruise vessels<sup>(3)</sup> are simply too big to be berthed at OT due to OT's limited structural capacity to handle vessels only up to 50 000 displacement tonnes. Such vessels were berthed at the Kwai Chung Container Terminal on four occasions in 2005. These arrangements are far from satisfactory, and will deter some cruise operators from including Hong Kong in their itineraries. In view of

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**Notes**<sup>(1)</sup> In the cruise market, there are two types of destinations: homeport and port-of-call. A home port is where a marine facility of a destination city serves as the base for operations from which the cruise begins and/or terminates. A port-of-call is one of the several destinations visited as part of the cruise itinerary.

<sup>(2)</sup> For instance, Costa Crociere S.p.A, one of the brands under Carnival Corporation & plc (the largest cruise operator in the world), has just announced its plan to homeport a cruise vessel in Hong Kong starting November 2006. The Star Cruises (the key cruise operator in the Asia Pacific Region and the third largest in the world) has announced its plan to add a cruise vessel to homeport in Hong Kong starting spring 2007. The Royal Caribbean International, one of the brands under Royal Caribbean Cruises Limited (the second largest cruise operator in the world) has recently announced placing a cruise vessel with more than 2000 passenger capacity in the Asia Pacific Region from end 2007, with itineraries originating from Singapore, Hong Kong and Shanghai.

<sup>(3)</sup> Mega cruise vessels are the new generation of cruise vessels with displacement tonnes over 50 000, which cannot be berthed at OT due to its structural capacity.

the international trend to build more mega cruise vessels, it is clear that without a new cruise terminal, cruise operators will have to rely on alternative berthing facilities in future if they still wish to make Hong Kong part of their itineraries or they may simply bypass Hong Kong altogether.

5. Taking into account different growth scenarios, the Studies conclude that Hong Kong will require an additional berth between 2009 and 2015, and one to two further berths beyond 2015 to sustain its development as a regional cruise hub. If we do not proceed with the development of new cruise terminal facilities, Hong Kong will not be able to benefit from the expected growth in the Asia Pacific Region cruise market and will lose out to our competitors. With the availability of new cruise terminal facilities and appropriate marketing strategies, the Studies estimate that the economic benefits, depending on the growth scenarios, may reach \$1.4 billion to \$2.2 billion per annum by 2020. It may also support some 6 900 to 10 900 employment opportunities by 2020.

### **Obstacles for Timely Development at Kai Tak**

6. It has been the Government's intention to develop new cruise terminal facilities at the southern end of the former runway at the Kai Tak Development. One of the key considerations is that it is the only site within the Victoria Harbour with the capability to provide two or more berths. We originally incorporated a finger pier at the southern end of the former runway in the Kai Tak (South) Outline Zoning Plan approved in 2002. However, construction of a finger pier would constitute reclamation for the purposes of the Protection of the Harbour Ordinance (PHO). Such reclamation should only proceed if the overriding public need test, pursuant to the judgment of the Court of Final Appeal made in January 2004 on the application of the PHO, is satisfied. The Government is therefore conducting a Planning Review, to be followed by an Engineering Review, to revise the development plan of the Kai Tak Development (the Comprehensive Review). According to the latest programme of the Comprehensive Review, the statutory procedures<sup>(4)</sup> necessary for commencing works for a cruise terminal could only be completed in 2008.

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**Note** <sup>(4)</sup> These are authorisations/approvals required under the Town Planning Ordinance, Environmental Impact Assessment Ordinance, and Foreshore and Seabed (Reclamation) Ordinance.

7. Against this background, the Government conducted an EOI exercise in November 2005 to gauge market feedback on whether there were feasible locations other than the Kai Tak Development<sup>(5)</sup> for earlier development of new cruise terminal facilities. We clearly stated in the EOI invitation document that if no alternative location could meet the requirements, the Government would proceed with the development of a cruise terminal at the Kai Tak Development, and see how the development process could be expedited.

### **FINDINGS OF THE EOI EXERCISE**

8. By close of the EOI exercise in December 2005, the Government received six suggestions<sup>(6)</sup>: one suggestion at the Kai Tak Development, one without detailed information on the location, two suggestions at Hung Hom Bay, and the remaining two at China Ferry Terminal and East Tsim Sha Tsui respectively.

9. An Interdepartmental Core Group on the Development of New Cruise Terminal Facilities (the Core Group) has carefully examined the suggestions received in accordance with the EOI requirements. The findings of the Core Group are summarized below -

- (a) the Kai Tak Development suggestion was not considered since it failed to meet the EOI requirement that only sites other than the Kai Tak Development would be considered;
- (b) the suggestion without detailed information on the location could not be further considered as it merely expressed interest to develop new cruise terminal facilities at any site designated by the Government; and
- (c) for the other four suggestions, the Core Group had identified major difficulties that made them unable to meet Government's requirements in full -

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**Notes**<sup>(5)</sup> The West Kowloon Cultural District was also excluded in light of the parameters formulated for that Development Area.

<sup>(6)</sup> The suggestions were made by: Dragages Hong Kong Ltd., Henderson Land Development Co. Ltd., Asia Pacific International Enterprises Ltd., Ocean Style Ltd., Proteam Services Ltd. (renamed Cruise City (Hong Kong) Ltd.), and Singapore Cruise Centre Private Ltd.

- (i) their proposed works and relocation of existing ferry piers might constitute reclamation in the Victoria Harbour. The proposed use of pontoons might contravene the statutory principle of protection and preservation of the Victoria Harbour under PHO. The proponents could not or did not provide sufficient information to demonstrate the overriding public need for reclamation to implement their suggestions;
- (ii) technical difficulties including adverse transport as well as environmental impacts, and inadequate water supplies and sewerage infrastructure, render early implementation of the suggestions not feasible; and
- (iii) it would be highly unlikely that any of the suggestions could be implemented with certainty earlier than 2011 as set out in the EOI document even through an exceptional fast-track programme.

The Core Group therefore concluded that none of the suggestions received from the EOI exercise should be considered further.

### **Wharf's Proposal**

10. Separately, the Government received in December 2005 a proposal from Wharf. While Wharf indicated that they were not responding to the EOI exercise, its proposal is to develop a new cruise terminal at the Kowloon Permanent Pier No. 7<sup>(7)</sup> adjacent to the OT. The site is currently leased to Wharf under a short term tenancy for use as a carpark. The Government considered that the proposal submitted by Wharf should not be considered on grounds of the stated policy in the EOI document for the development of a cruise terminal, as follows –

- (a) that the site for the development of cruise terminal facilities should be disposed of through an open and competitive bidding process, but Wharf indicated that a competitive bidding process was not a viable option for its proposal; and
- (b) that if a site could not be identified through the EOI exercise, the Government would not consider other sites and would proceed with the Kai Tak Development.

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**Note** <sup>(7)</sup> The site for the Kowloon Permanent Pier No. 7 is surrounded by Wharf's properties. It has no right of access by land except through Wharf's properties. In view of the site access constraints, Wharf considers it not viable to dispose of the site through competitive bidding.



11. Furthermore, Wharf indicated to the Government in May 2006, inter alia, its intention to strengthen the structure of OT to enable the berthing of mega cruise vessels of up to 80 000 displacement tonnes (the Suggestion). We have received from Wharf a brief on the broad concept regarding the Suggestion. We are not aware of any formal applications made by Wharf to the relevant authorities for the purpose of implementing the Suggestion. Our preliminary assessment is that the Suggestion would not increase the total number of berths available at OT (i.e. two) to meet the demand of the cruise industry in peak seasons. We would still need a new cruise terminal to meet Hong Kong's needs.

### **PROPOSED WAY FORWARD**

12. As no EOI suggestion could fully meet our requirements, we shall proceed with developing new cruise terminal facilities at the Kai Tak Development. We are guided by a number of key policy considerations in plotting the way forward as set out in the ensuing paragraphs.

13. According to the Studies, Hong Kong would require an additional berth between 2009 and 2015, and one to two further berths beyond 2015, to sustain its development as a regional cruise hub. Early completion of the cruise terminal facilities is critical for Hong Kong to compete with our regional competitors for the status of a regional cruise hub.

14. The Site for the development of new cruise terminal facilities (Cruise Terminal) shown in the latest Preliminary Outline Development Plan for the Kai Tak Development (Kai Tak PODP) issued by the Planning Department on 23 October 2006, is earmarked to provide –

(a) **Berthing Facilities** adjacent to the cruise terminal building : these include an apron area, a fender system, and passenger gangways which allow for the berthing of mega cruise vessels and the loading and unloading of passengers, baggage, supplies etc. for cruise vessels, for two alongside berths (see diagram at **Annex B**);

(b) **Supporting Facilities** essential for cruise operation : these are located mainly inside the cruise terminal building such as CIQ counters/offices, baggage handling, ticketing offices, waiting area, coach parking, coach loading and unloading area, etc.; and

- (c) **Commercial Area** inside the cruise terminal building : a maximum non-domestic gross floor area (GFA) of 50 000 m<sup>2</sup> inside the cruise terminal building comprising, for planning purposes, 36 000 m<sup>2</sup> for commercial/retail facilities catering for tourists and locals, as well as 14 000 m<sup>2</sup> for offices for cruise operators, travel agents, etc.

15. Adjacent to the Cruise Terminal is a site of about 6 hectares earmarked as a Tourism Node with a maximum non-domestic GFA of 190 000 m<sup>2</sup> to provide hotels, commercial, retail and entertainment facilities. It will also include a landmark building with a public observation gallery. The Kai Tak PODP showing the location of the Cruise Terminal is at **Annex C**.

C

16. To enable cruise vessels to berth at the Cruise Terminal, the basic requirements are the availability of the Berthing Facilities and Supporting Facilities. Feedback from the cruise market is that the Government should facilitate early development of these facilities as a priority to meet the market's urgent need; and pending the completion of the permanent facilities, the Government should consider asking the successful bidder to provide the Supporting Facilities in a temporary structure.

17. While the Commercial Area and the Tourism Node will make the Cruise Terminal more attractive and vibrant, we recognize that they are not essential for the operation of the cruise terminal facilities. To meet the urgent need of the cruise industry, we recommend that an incremental approach should be adopted to develop the cruise terminal facilities and the Tourism Node at the southern end of the former runway in the Kai Tak Development in phases. Phase 1 will focus on the site formation work, and the Cruise Terminal, in particular the Berthing and Supporting Facilities. Flexibility should be built into the timeframe for developing the Commercial Area in the cruise terminal building. In the subsequent phase(s), the Tourism Node adjacent to the Cruise Terminal may be disposed of separately, in pace with the developments in the vicinity under the overall land disposal programme and procedures.

18. According to the consultant, the estimated development cost of the cruise terminal facilities is about \$2.4 billion (at second quarter/2006 price level) comprising -

- (a) about \$1.3 billion for site formation which includes reconstruction of the existing seawall and construction of a quay deck for berthing cruise vessels;
- (b) about \$0.3 billion for the construction of Berthing Facilities; and
- (c) about \$0.8 billion for the construction of Supporting Facilities.

19. Hong Kong's needs for cruise terminal facilities have been met by a privately-run cruise terminal in the past. In line with the small Government approach, our intention is for the Cruise Terminal at the Kai Tak Development to be operated also by the private sector.

20. We therefore recommend adopting a Market-driven Approach to develop the Cruise Terminal. Under this approach, the Site would be disposed of through open tender, and the successful bidder would be awarded the tender to develop and operate a Cruise Terminal upon the completion of the necessary statutory procedures for the Cruise Terminal. The successful bidder will need to form the Site as well as design, build, and operate the Cruise Terminal (including the Berthing Facilities, the Supporting Facilities, and the Commercial Area). The bidder will own the land and facilities thereon for 50 years and will determine berthing fees and charges to cater for changing market situations. We believe this approach would bring a number of advantages including -

- (a) Ensuring a level-playing field : This would be an open, competitive land tender which provides certainty, transparency and a level-playing field;
- (b) Maximising market efficiency : Given that the private sector enjoys greater flexibility than the Government, the successful bidder could be more responsive to cruise market needs in its design and able to complete the construction in a shorter timeframe; and
- (c) Minimising interface issues : As the successful bidder would also operate the Cruise Terminal in future, it would design and build the facilities in accordance with its operational requirements and should be able to minimize any interface problems.

21. As the Kai Tak Development may take time to mature, the Government will allow the successful bidder the flexibility to develop the Commercial Area in phases to tie in with other developments in the vicinity.

22. Our intention is to develop a world-class facility which can capitalise on the trend of the global cruise industry in building mega cruise vessels as well as providing quality services to passengers. It is important that apart from the land premium offered, the quality of the bid including the technical and operational aspects should also be assessed and given sufficient weighting. We have in mind a two-envelope tender scheme with bids assessed on the basis of highest aggregated score on financial criteria and non-financial criteria, and due consideration will be given to both the financial and qualitative aspects with the aim to develop a world-class Cruise Terminal.

23. To enable the Government to gauge market response to proposed terms of the tender and allow sufficient time for potential bidders to prepare their submissions, we propose to conduct a pre-tender consultation with the tourism industry and the cruise market in the first half 2007 in parallel with the statutory procedures for the Kai Tak Development (paragraph 6 above). This would help expedite the subsequent tender exercise. Subject to the progress of the statutory procedures and implementation programme of the successful bidder, the first berth at the Kai Tak Development would be completed in 2012. The successful bidder will also be required, under the lease, to build and operate the second berth. The exact timing will be subject to agreement between the Government and the successful bidder. This would be beyond 2015, subject to the diversion of existing submarine gas mains near the second berth and in light of market demand.

#### **DEVELOPMENT TIMEFRAME**

24. We shall endeavour to adhere to the following development timeframe –

Gazette the Outline Zoning Plan for Kai Tak Development	Fourth quarter/2006
Conduct pre-tender consultation with the tourism industry and the cruise market	First half/2007

Approval of Outline Zoning Plan and invite Tender	Fourth quarter/2007
Close Tender upon completion of the necessary statutory procedures under relevant Ordinances	First quarter/2008
Award Tender	Second quarter/2008
Commission the first Berth	2012

### **IMPLICATIONS OF THE PROPOSAL**

25. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. Other implications are set out in **Annex D**.

**D**

### **PUBLIC CONSULTATION**

26. We consulted the Economic Services (ES) Panel, the former Economic and Employment Council, the Cruise Forum (comprising leading players of the cruise industry) and Harbour-front Enhancement Committee (HEC) earlier on the development of cruise terminal facilities in Hong Kong. They in general supported the timely development of additional cruise terminal facilities through an open and transparent exercise. During the public consultations on the Kai Tak PODP, there is general support for the early implementation of the Cruise Terminal.

27. We shall brief relevant fora including the ES Panel, Town Planning Board and HEC. We shall also update the tourism industry, in particular the cruise market, and consult them on the technical and operational parameters for the new Cruise Terminal to prepare for the tender exercise.

### **PUBLICITY**

28. A briefing will be arranged for the media on the way forward on 24 October 2006. A spokesman will be available to handle enquiries.

## **BACKGROUND**

29. The Government is committed to developing Hong Kong into a regional cruise hub to capture the opportunities brought by the growth of the cruise market in the Asia Pacific Region. According to the Studies, for Hong Kong to meet the projected growth in the market, an additional berth would be required for the medium term (2009 to 2015) and another one to two for the long term (beyond 2015).

## **ENQUIRIES**

30. Enquiries on this brief should be addressed to Miss Patricia So, Assistant Commissioner for Tourism (Tel : 2810 3137).

Economic Development and Labour Bureau  
24 October 2006

## **LEGISLATIVE COUNCIL BRIEF**

### **DEVELOPMENT OF NEW CRUISE TERMINAL FACILITIES IN HONG KONG: ANNEXES**

- Annex A - Hong Kong's Cruise Market
- Annex B - Schematic Arrangement for a Cruise Terminal with Two Alongside Berths
- Annex C - Kai Tak Preliminary Outline Development Plan
- Annex D - Implications of the Proposal

## HONG KONG'S CRUISE MARKET

### Overview

1. The Tourism Commission (TC) and the Hong Kong Tourism Board (HKTb) have, in recent years, commissioned consultancy studies to track cruise market development trend and examine the need for cruise terminal facilities in Hong Kong (the Studies). The Studies indicate that the cruise industry has emerged as one of the fastest growing and popular segments of the worldwide travel and leisure industry. Between 1990 and 2005, passenger levels for conventional cruises<sup>(1)</sup> have expanded three-folds from about 4.4 million to 13.9 million. During the same period, the Asia Pacific Region accounted for between 3.7 % and 8.6 % of the worldwide market.

2. According to the Studies, Hong Kong's typical rate of capture of the Asia Pacific conventional cruise market ranged from 16% to 30%. The total cruise passenger throughput in Hong Kong including local residents and international passengers travelling on conventional cruises and cruises-to-nowhere has increased from 1.38 million in 1999 to 2.15 million in 2005<sup>(2)</sup>. The number of cruise vessel calls has increased from 409 calls to 1 051 calls over the same period.

### Growth in Worldwide Cruise Market

3. According to the Studies, the worldwide cruise passenger level is expected to grow from 13.9 million in 2005 to between 23.8 million and

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**Notes** <sup>(1)</sup> The cruise industry comprises broadly two segments: (a) conventional cruises for leisure oriented voyages on ocean going vessels of two or more nights to various destinations, offered by regional and international cruise operators to different consumer sectors and nationalities; and (b) cruises-to-nowhere that focus around on-board gaming, food, entertainment, etc, and offer voyages with no destination which are generally geared toward local consumer market.

<sup>(2)</sup> The throughput of international passengers travelling on conventional cruises and cruises-to-nowhere has increased by about 144% from about 132 900 in 1999 to about 324 800 in 2005. For Hong Kong residents, the passenger throughput for conventional cruises has dropped by about 96% from about 560 200 in 1999 to about 22 600 in 2005. The drop is attributed solely to the departure of the Superstar Leo in 2004. The same cruise operator has recently announced that it would deploy another vessel, the Superstar Aquarius, to homeport in Hong Kong from spring 2007. Over the same period, the throughput of local passengers for cruises-to-nowhere has increased by about 161% from about 690 000 in 1999 to about 1 802 900 in 2005.



31.5 million by 2020. This growth would depend on the deployment of vessels by the cruise operators, which would in turn determine the supply of passenger capacity of the cruise industry. According to the Studies, the number of new cruise vessels ordered for delivery between 2006 and 2010 has increased from 15 in December 2002 to 31 in July 2006. Six new cruise vessels have been commissioned in 2006 including the Freedom of the Seas with a capacity of accommodating more than 3 600 passengers, the highest in the cruise industry. The cruise industry expected that by 2009, a new class of cruise vessels that could each accommodate more than 5 000 passengers would be commissioned.

### **Development of Asia Pacific Region**

4. The Studies confirm that the development in the Asia Pacific Region will remain positive in the long term and the potential conventional cruise passenger level in the Region will continue to grow from 0.7 million in 2005 to between 1 million and 2.1 million by 2020. Hong Kong is well placed to benefit from this growth, as many international cruise operators consider Hong Kong as a “must” for their Asia Pacific itineraries.

5. In 2005, more than 31 million Chinese from the Mainland travelled abroad. The number is expected to rise by 12.5% annually over the next 15 years. Reports by the United Nations World Tourism Organisation suggested that China could yield up to 100 million outbound tourists by 2020, making China the fourth largest tourist generating market. Visitors from the Mainland to Hong Kong have increased fourfold from about 3.2 million in 1999 to 12.5 million in 2005. Over the same period, the number of Mainland cruise passengers have increased from 29 600 to 201 103. This market is left largely untapped. Capturing the growth in the Region, the three largest cruise operators in the world<sup>(3)</sup> have announced plans, or are considering plans, to deploy cruise vessels to homeport in Hong Kong starting from November this year.

### **Feedback from Cruise Operators**

6. In July 2006, the consultant for updating the cruise market development trend conducted interviews and surveys with key cruise operators on the cruise market in Hong Kong. Costa Crociere S.p.A., one

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**Note** <sup>(3)</sup> The World’s top three cruise operators are -  
1<sup>st</sup> Carnival Corporation & plc - 47% of the industry’s cruise passenger capacity;  
2<sup>nd</sup> Royal Caribbean Cruises Ltd. - 22% of the industry’s cruise passenger capacity;  
3<sup>rd</sup> Star Cruises - 11% of the industry’s cruise passenger capacity.

of the brands under Carnival Corporation & plc announced its plan to homeport in Hong Kong starting November 2006, a cruise vessel that could accommodate more than 1 000 passengers. The Star Cruises (Star) announced its plan to add a cruise vessel with a capacity to accommodate more than 2 000 passengers to homeport in Hong Kong starting in spring 2007. The Royal Caribbean International, one of the brands under Royal Caribbean Cruises Limited (the second largest cruise operator in the world) has recently announced placing a cruise vessel with more than 2 000 passenger capacity in the Asia Pacific Region from end 2007, with itineraries originating from Singapore, Hong Kong and Shanghai.

### **Comparative Advantages of Hong Kong**

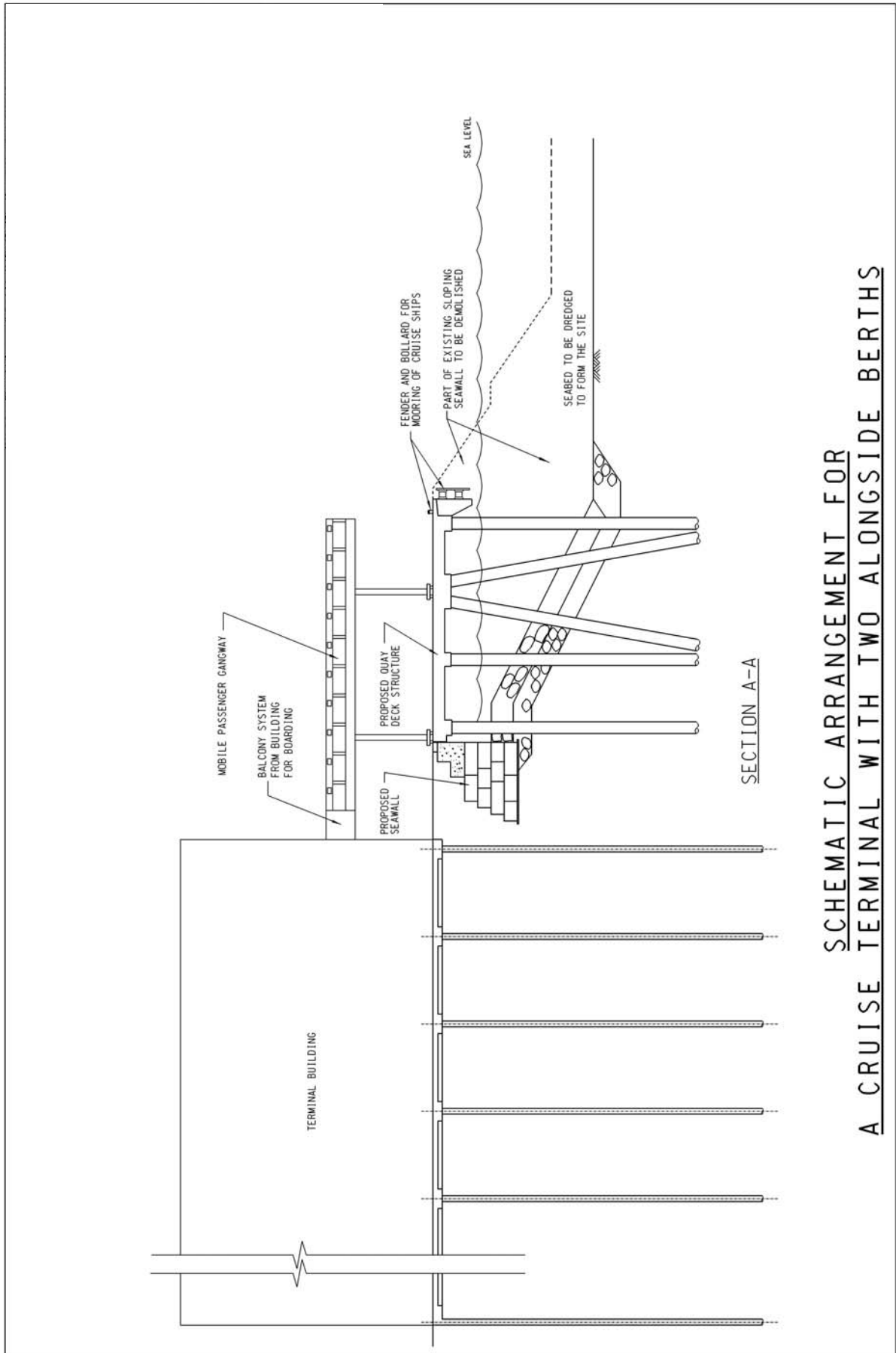
7. Hong Kong enjoys comparative advantages over other potential homeports in the Region. Consumer awareness of Hong Kong as an appealing travel and leisure destination is high with most cruise lines. We are well positioned in the increasing affluent Pearl River Delta, and our air connections to regional markets provide superior consumer access. In terms of total visitation, Hong Kong welcomed more than 23 million visitors in 2005, of whom 12.5 million (more than 50%) came from the Mainland. According to a survey conducted by HKTB in 2004, more than 50% of the Mainland visitors expressed interest in joining cruise vacation in future. Of these, more than 80% would join conventional cruise from Hong Kong. More importantly, Hong Kong continues to dedicate significant resources to new tourism projects and destination marketing. Besides, the Victoria Harbour, with adequate channel widths and depths and no air draft limitation, is capable of accommodating most current and planned cruise vessels.

### **Competitors' Growth**

8. According to the Studies, Hong Kong's key competitors are Shanghai and Singapore. The Singapore Cruise Centre (SCC) is the primary homeport supporting cruise operation in Southeast Asia. The SCC offers two cruise berths that could handle large cruise vessels. The Government of Singapore is considering relocating the cruise activities to a new facility with up to eight cruise berths mostly for mega cruise vessels to overcome existing development constraints. In July 2006, Shanghai officially commissioned the Shanghai Port International Cruise Terminal. The facility will be able to berth three large cruise vessels of up to 80 000 displacement tonnes each. A major limitation of the development is the 49.5 m air draft restriction of the Huangpu Bridge which excludes some of the mega cruise vessels including the Queen Mary 2 to use the facility. Shanghai is also exploring developing additional facilities in an area with no air draft restriction. Hong Kong is thus facing keen competition.

**Looking Ahead**

9. The growth of Hong Kong as a regional cruise hub will be driven by the supply of passenger carrying capacities through the deployment of cruise vessels by cruise operators. If there are no new cruise terminal facilities, the cruise market of Hong Kong would be constrained at the current level. If new cruise terminal facilities are developed, there is strong potential for Hong Kong to become a major cruise hub in the Asia Pacific Region. A major cruise operator has already indicated its interest in developing itineraries that would feature Hong Kong in light of the growing Chinese market and our strategic link to and tourism ties with the Mainland.



SCHEMATIC ARRANGEMENT FOR  
A CRUISE TERMINAL WITH TWO ALONGSIDE BERTHS



## IMPLICATIONS OF THE PROPOSAL

### Financial and Civil Service Implications

1. Under the market-driven approach, the successful bidder for the Cruise Terminal will be responsible for funding the design, construction, operation, management and maintenance of the terminal facilities. The Government will conduct, as part of the Engineering Review in the Comprehensive Review for the Kai Tak Development, preliminary preparation work to facilitate the early formulation of technical requirements for the development such as structural strength of the berths and maintenance programme, and its associated marine works for preparation of tender document and tender assessment.

2. A designated team (headed by the Tourism Commission (TC) with supporting staff in Civil Engineering and Development Department (CEDD) and Lands Department) is required for overseeing the preliminary preparation work as well as for conducting the pre-tender consultation, preparing tender documents and coordinating tender assessment under a very fast track programme. We plan to create in TC from April 2007 one supernumerary Directorate (D2 level) post for two years in accordance with established procedures. Lands Department and CEDD will seek for additional recurrent resources/supporting staff, if necessary, in accordance with the established resource allocation procedures. Apart from the designated team, additional workload arising from the delivery of the Cruise Terminal project will be absorbed by the relevant bureaux and departments.

3. The successful bidder for the Cruise Terminal shall at his cost, design and construct the accommodation for customs, immigration and health quarantine (CIQ) facilities which will be vested with the Government upon satisfactory completion. Additional capital and recurrent resources for providing CIQ services when the terminal is completed will be required, and will be sought according to established RAE procedures. Capital and recurrent resources are also required for advancing the implementation of certain infrastructure, such as roads and drainage, which is necessary anyway as part of the Kai Tak Development, to serve developments on the former runway including the Cruise Terminal. We will follow the established procedures to seek necessary funding under the RAE.

### **Productivity Implications**

4. The implementation of the development will unlikely has productivity implications.

### **Economic Implications**

5. The development of Hong Kong as a regional cruise hub will bring direct economic benefits in respect of revenue from a number of areas including port charges, expenditures for supplies and support services, crew and passengers spending, etc. It will also create employment opportunities in related industries (e.g. supplies, hotel, and retail). According to the Studies, which have taken into account different growth scenarios, Hong Kong would require an additional berth between 2009 and 2015, and one to two further berths beyond 2015, to sustain its development as a regional cruise hub. The Studies estimate that the economic benefits, in terms of value added contribution, from the cruise industry in 2005 would reach about \$150 million. Without new cruise terminal facilities, the economic benefits from the cruise industry can only grow to some \$400 million per annum by 2020 at most. With the availability of new cruise terminal facilities and appropriate marketing strategies, the Studies estimate that the economic benefits, depending on the growth scenarios, can reach \$1.4 billion to \$2.2 billion per annum by 2020. It may also support some 6 900 to 10 900 employment opportunities in 2020.

6. The timely development of the Cruise Terminal is critical for establishing Hong Kong as a cruise hub in Asia which will bring wider economic benefits to Hong Kong. This will also have positive impact on land premiums of the Tourism Node nearby and of the commercial area in the vicinity to be developed in phases. There will be a positive spill over effect in the whole South East Kowloon and higher land value will then be fetched. For the economy as a whole, more mega cruise vessels visiting Hong Kong will boost our tourism industry. Gross Domestic Product will rise and employment opportunities will increase.

### **Environmental Implications**

7. The engineering feasibility study for the Kai Tak Development is a designated project under Schedule 3 of the Environmental Impact Assessment (EIA) Ordinance. CEDD will undertake an EIA study to establish the environmental feasibility of the proposed land uses. Some individual project such as the dredging work associated with the Cruise Terminal is a designated project under Schedule 2 of the EIA Ordinance. Project Proponents including CEDD will also follow the EIA process under the EIA Ordinance for carrying out the necessary studies for such works.

**Sustainability Implications**

8. A preliminary sustainability assessment has been conducted for the on-going Comprehensive Review for the Kai Tak Development in which one of the components is the Cruise Terminal. The Cruise Terminal will bring direct economic benefits in terms of port charges and passengers spending, and create employment opportunities in related industries. It would also help establish Hong Kong as a regional cruise hub and boost our tourism industry. Nonetheless, there will be some environmental issues arising from marine works and construction of the Cruise Terminal. A more detailed sustainability assessment for the Cruise Terminal will need to be carried out to study these issues when more details of the proposal have been worked out.