

LEGISLATIVE COUNCIL BRIEF

DEVELOPMENT OF A NEW CRUISE TERMINAL AT KAI TAK

INTRODUCTION

This note informs Members of the outcome of a tender for the new cruise terminal project at Kai Tak issued in November 2007; and our plan to re-tender the site with Government funding the site formation works, the Government Accommodation and the Landscaped Deck subject to approval by the Legislative Council (“LegCo”).

LAST TENDER

2. The Administration issued an open land tender for the new cruise terminal project in November 2007 and closed the tender in March 2008. We received two tender submissions.

3. One of the tenderers requested to develop one more commercial site. The other tender submission proposed to sell individual hotel rooms, and this will be in breach of the alienation restrictions provided in the Conditions of Sale. Both tender submissions indicated that they could not make a business case under the conditions of the tender.

4. As neither of the tender submissions received fully conformed with the requirements laid down in the tender document, we decided to reject both tender submissions and cancel the tender.

PLAN TO RE-TENDER

5. We plan to re-tender the cruise terminal project by end 2008, subject to LegCo's approval of the funding application. We would adopt similar terms and conditions as in the last tender, except that we are prepared to fund -

- (a) the site formation works including dredging of seabed, setback and strengthening of the existing seawall, as well as construction of a quay deck for berthing cruise vessels;
- (b) Government Accommodation like the customs, immigration, health quarantine and Police facilities, support area for cross boundary heliport passengers, and Government radar tower; and
- (c) the Landscaped Deck,

in order to enhance the market attractiveness of the project (see paragraphs 10-13).

6. Based on the experience from the last tender, we would also take the opportunity to update and elaborate some requirements to enhance commercial flexibility, add clarity to certain requirements, and track latest market trends. A gist of these adjustments to requirements is at **Annex A**.

CONSIDERATIONS

(a) High Construction Cost

7. Unlike conventional commercial development, the cruise terminal project requires extensive site formation works to make the site suitable for berthing mega cruise vessels, as well as the construction of facilities essential for cruise terminal operation, including the berthing and supporting facilities.

(b) Poor Market Response to the November 2007 Tender

8. Through the last tender, the market has been tested and the response demonstrated that the project with the current terms and conditions is not attractive to the market. In this regard, we noted that some cruise terminals overseas are developed with Government financial assistance.

(c) Increasing need for a new cruise terminal

9. Since 2006, development of cruise market in the region has gathered momentum. The world's top three cruise operators have been expanding their presence in the region, and together redeployed an addition of three new vessels for homeporting in Hong Kong. The number of calls of international cruise vessels visiting Hong Kong as port of call has also increased by 10% (from 44 in 2006 to 49 in 2007). The number of calls of cruise vessels which could not berth at Ocean Terminal ("OT") due to conflicting schedules or OT's structural limits has increased drastically (from three in 2006 to 15 in 2007). In view of 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.

PROPOSED GOVERNMENT FUNDING SUPPORT

10. In order for Hong Kong to capitalize on the cruise market growth opportunities and in view of the substantial economic benefits the development would bring to Hong Kong (see **Annex B**), there are merits for the Government to re-tender the land with the Government funding certain elements of the cruise terminal project which could be regarded as basic infrastructure or Government facilities. These elements include the site formation works, the Government Accommodation and the Landscaped Deck. Such funding support would generally help enhance the market attractiveness of the project. The Government Accommodation would be assigned to the Government and the facilities therein would be operated by relevant Government

departments upon completion. The Landscaped Deck, which would also be assigned to the Government, could be operated by the Leisure and Cultural Services Department. Alternatively the Government may consider entrusting the management of the Landscaped Deck to the successful tenderer on terms to be agreed, to ensure seamless interface between the operation of the cruise terminal and the Landscaped Deck.

11. In taking forward comprehensive development area projects, it is not uncommon for the successful tenderer to be required in the land lease conditions to design and construct specified Government or public facilities. This approach has the advantages of making more efficient use of the land resources, minimizing interface issues and ensuring an integral design. In the case of developing the cruise terminal, the requirement for the successful tenderer to form the site, and provide the Government Accommodation as well as the Landscaped Deck has undermined the business viability of the project. To remove such an impediment, and given the significance of the new cruise terminal as an essential economic infrastructure contributing to Hong Kong's tourism development, we consider it justified for the Government to fund these works, as the last tender has indicated that the project is not attractive enough to the market.

12. The site formation for, as well as the Government Accommodation and the Landscaped Deck in, the cruise terminal would cost about \$1.8 billion to \$2 billion in September 2007 prices. We are working out the detailed cost estimate for preparing the application to LegCo.

13. We shall seek necessary funding approval under the Resource Allocation Exercise and then from the Finance Committee of LegCo after its new term commences in October 2008. The funding commitment will be calculated on the basis of what it would cost the Government if it were to undertake the site formation works, and provide Government Accommodation as well as the Landscaped Deck. The land sales conditions will state the ceiling sum that the Government is prepared to pay the successful tenderer for these works, and include mechanisms to ensure their timely and satisfactory completion before payment is made. The specifications of these works would be clearly set out in the

tender documents. The Government Accommodation and the Landscaped Deck will thereafter be assigned to the Government.

14. We intend to adhere to the two-envelope tender scheme adopted in the last tender, with tender submissions assessed on the basis of the highest total score on premium aspect (30%) and quality aspects (70%), to achieve our objective of developing a world-class cruise terminal that can provide quality, efficient and effective services to cruise operators and cruise passengers.

THE NEXT STEP

15. We intend to proceed in accordance with the following timetable -

Date	Key tasks
July - October 2008	<ul style="list-style-type: none"> To engage the cruise industry and other relevant stakeholders in the run up to the re-tender, in particular the new approach and adjustments to requirements
Fourth quarter 2008	<ul style="list-style-type: none"> To seek LegCo funding support
By end 2008	<ul style="list-style-type: none"> Subject to LegCo funding approval, to gazette invitation for tenders
Second quarter 2009	<ul style="list-style-type: none"> To close tender
Third quarter 2009	<ul style="list-style-type: none"> To award tender
Second quarter 2013	<ul style="list-style-type: none"> First berth to commence operation (allowing 46 months for construction)

16. If the re-tender fails to select a successful tenderer, the Government would be prepared to develop the cruise terminal for leasing to a cruise terminal operator (“the Government Design, Build and Lease Approach”). Under this Approach, the tenant would pay the Government a rental for leasing the cruise terminal, and be able to set its own fees and charges for use of cruise terminal facilities. The Government would follow established procedures to seek LegCo funding.

Concerned departments are undertaking the preparatory work in parallel. This Approach may however be more time-consuming and costly. Our latest estimation is that the Government may be able to deliver the first berth in 2014/15 the earliest.

IMPLICATIONS OF THE PROPOSAL

17. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. The implications of the proposal are set out in **Annex B**.

PUBLICITY

18. We shall offer to brief the LegCo Panel on Economic Development. A press release on the tender results and the way forward will be issued. A spokesman will be available to handle enquiries. A list of Frequently Asked Questions will be uploaded to Tourism Commission's website.

BACKGROUND

19. We last issued a LegCo Brief on the development of a new cruise terminal at Kai Tak in October 2006, and briefed the LegCo Panel on Economic Development in December 2007 on the tender for the new cruise terminal project. In between we also engaged the delegation of LegCo Panel on Economic Development to visit overseas cruise terminals in August and October 2007.

20. Upon the announcement of the way forward in October 2006, the Administration conducted a market engagement exercise in the run up to the invitation for tenders in November 2007, and consulted the tourism industry, the cruise market and relevant professional and trade bodies on the development parameters for the new cruise terminal. After studying the financial viability, we saw merits in tendering the project to the market with a maximum of 50 000 m² commercial Gross Floor Area. The market did not raise any doubts about the financial viability of the development parameters during the engagement process.

ENQUIRIES

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

Commerce and Economic Development Bureau
9 July 2008

PROPOSED ADJUSTMENTS TO TENDER REQUIREMENTS

	Major updated items	Tender requirements in 2007	Proposed tender requirements for the re-tender	Remarks
(a)	Government funding support	No Government funding support was provided.	Government funding support would be provided for project elements that could generally be regarded as basic infrastructure or Government facilities e.g. site formation works, Government Accommodation and Landscaped Deck.	To help enhance the market attractiveness of the cruise terminal project.
(b)	Mandatory requirements	Tenderers must propose project teams with a minimum of three full-time members who have each been employed in one or more specified functional divisions/areas in respect of cruise terminal(s) at a port with a minimum total annual throughput of 200 000 embarking and disembarking homeport passengers in 2004, 2005 and 2006.	Tenderers would be required to propose project teams with a minimum of three full-time members who have been employed in one or more specified functional divisions/areas in respect of cruise terminal(s) at a port with a minimum total annual throughput of 300 000 embarking and disembarking passengers for any 36 months from 2003 up to 2008. In respect of the functional area of marketing, the	This should provide more flexibility to the potential tenderers in identifying suitable project team members in meeting the mandatory requirements. The number of port authorities, cruise terminal operators and cruise operators operating in ports fulfilling the requirements would increase from about

	Major updated items	Tender requirements in 2007	Proposed tender requirements for the re-tender	Remarks
			experience of project team members employed by cruise operators would also count.	40 to over 60.
(c)	Basement car park	Tenderers were required to propose the location of car park.	Tenderers would be required to locate the car park and other related facilities for use by the cruise terminal at the basement of the cruise terminal building.	By locating the cruise terminal car park at the basement, more space can be spared to improve the flow of passengers in the cruise terminal building, which will facilitate the customs, immigration and health quarantine ("CIQ") process, as well as embarkation and disembarkation procedures.
(d)	Date of commissioning of the first berth	The latest date of commissioning the first berth was 29 February 2012.	The latest date of commissioning the first berth would be 46 months after the award of tender.	In view of the lead time for the re-tender, it is necessary to adjust the latest date of commissioning the first berth.

	Major updated items	Tender requirements in 2007	Proposed tender requirements for the re-tender	Remarks
(e)	Passenger gangways	Tenderers were required to propose the number of gangways according to the dimensions of cruise vessels to be berthed.	Tenderers would be required to provide the fourth gangway when the second berth of the terminal is commissioned.	To clearly set out Government's expectation for the number of gangways at the cruise terminal.
(f)	Night lighting plan*	Tenderers were not required to submit night lighting plans.	Tenderers would be required to submit night lighting plans.	A night lighting plan as part of the architectural design would enhance the iconic outlook of the cruise terminal building.
(g)	Participation in "Symphony of Lights"*	Required the successful tenderer to install a public announcement system at the Landscaped Deck of the cruise terminal building for broadcasting music for "Symphony of Lights".	Would require the successful tenderer to install sound and lighting systems for participation in "Symphony of Lights", or other sound and light shows staged by the Government in the harbour.	The successful tenderer participating in "Symphony of Lights" would be conducive to promoting tourism.

* All requirements are subject to energy-saving measures, the effectiveness of which will be an assessable element in the tender.

	Major updated items	Tender requirements in 2007	Proposed tender requirements for the re-tender	Remarks
(h)	Assist to promote Hong Kong as a regional cruise hub	Required the successful tenderer to organize a Market Consultation Forum, to gauge continuously opinions from the cruise market and the tourism industry.	Specify the topics that must be discussed in the Market Consultation Forum prior to the commissioning of the first berth, including the operation plan of the cruise terminal, as well as the minimum number of meetings to be held in each year, in particular the number of meetings to be held prior to the commissioning of the first berth.	Specifying the relevant requirement can enable the Market Consultation Forum to operate more effectively, and facilitate the Members of the Forum in advising the successful tenderer on the operation and management of the cruise terminal.
(i)	Arrangement for heliport passengers	Tenderers were required to propose segregated passageways for the arrival and departure of the helicopter passengers at the heliport within the cruise terminal.	As an alternative to providing segregated passageways, tenderers might co-locate a portion of the CIQ area near to the Civil Aviation Department's accommodation which would be located within the cruise terminal building and adjacent to the heliport.	Allow for flexibility in the design of the cruise terminal.

OTHER IMPLICATIONS OF THE PROPOSAL

Financial and Civil Service Implications

Under the re-tender the Government intends to fund certain works of the cruise terminal project, subject to the Resources Allocation Exercise. We shall work out the details of the works to be funded, which would include the site formation works and construction of Government Accommodation used by the Government departments to house facilities to provide, among others, customs, immigration, health quarantine and Police (“CIQP”) services, and the Landscaped Deck. These are estimated to be about \$1.8 billion to \$2 billion in September 2007 prices. We shall secure the necessary capital funding for the site formation works and the construction costs for Government Accommodation and the Landscaped Deck of the cruise terminal, and capital and recurrent funding for providing Government facilities housed in the Government Accommodation through established resource allocation procedures. Apart from provision of CIQP services and the operation of the Landscaped Deck, recurrent resources will not be involved as the new cruise terminal will be operated by the successful tenderer at its own costs over the 50-year land lease.

2. We shall seek relevant approvals from the Finance Committee of the Legislative Council as the new term commences in October 2008.

3. A designated team was established for overseeing the last tender, including the preparation of reference design, arranging pre-tender consultation, preparing tender documents, and tender assessment under a very fast track programme. We have created in the Tourism Commission (“TC”) from April 2007 one supernumerary Directorate (D2 level) post for two years and one non-directorate post in accordance with established procedures. The supernumerary post would have to be extended for two years until end March 2011 to oversee the completion of the re-tender and the implementation of the cruise terminal project through the land lease and the Service Agreement in its initial years. We shall seek approval for extension of the supernumerary directorate post according to the established mechanism. The other relevant departments have absorbed the additional workload arising from the delivery of the project by existing resources. We shall rely on the

same designated team in TC and other departments in conducting the re-tender.

Productivity Implications

4. The cancellation of the tender and the Administration's plan to re-tender will unlikely have any productivity implications.

Economic Implications

5. According to the cruise market consultancy studies commissioned earlier by TC, Hong Kong would require an additional berth between 2009 and 2015, and one to two further berths beyond 2015. The timely development of new cruise terminal facilities is critical for developing Hong Kong into a regional cruise hub in Asia. 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, as well as favourable spill-over effects on the whole South East Kowloon where higher land value will be fetched. For the economy as a whole, more cruise vessels visiting Hong Kong will boost our tourism industry, which in turn will add impetus to the overall economic growth and create additional employment opportunities. Based on certain assumptions, the consultant estimated that the economic benefits might range from \$1.4 billion to \$2.2 billion per annum and the additional jobs generated might be around 6 900 to 10 900 by 2020, depending on different growth scenarios.

Environmental Implications

6. The dredging works associated with the cruise terminal are a designated project under Schedule 2 of the Environmental Impact Assessment ("EIA") Ordinance. The Civil Engineering and Development Department had completed the EIA study report which was approved in December 2007 by the Director of Environmental Protection. Based on the approved Schedule 2 EIA report, an Environmental Permit can be applied for carrying out the concerned works.

Sustainability Implications

7. A sustainability assessment report has been conducted, which shows that the cruise terminal would bring in a range of benefits, particularly direct economic benefits in terms of port charges and passengers spending, and employment opportunities in related industries. It would also help establish Hong Kong as a regional cruise hub and boost our tourism industry. Nonetheless, there are potential impacts in the environmental and natural resources aspects. In particular, dredging of seabed and setback of existing seawall would generate substantial solid waste and cause marine water pollution, noise and ecological damage. There would be vehicle exhaust emission along the proposed new roads and cruise emissions, as well as potential odour emission generated from the sewage pumping station. Mitigation measures and operation control have to be implemented to minimize the adverse environmental impact during the construction and operation stages.