

香 港 酒 店 業 主 聯 會
The Federation of Hong Kong Hotel Owners Limited

Our Ref: 094/ 04/ ML

November 11, 2004

Mr. Donald TSANG, GBM, JP
Chief Secretary of Administration
Chief Secretary for Administration's Private Office
Central Government Offices
Lower Albert Road
Central
Hong Kong

Dear Donald,

I am sure the government is aware that the hotel industry as one of the big contributors to the GDP (3-5%) plays a significant role in HK's economy and employment. Under the current functional constituency election model, regardless how large a company is, each company can only have one vote in the Tourism sector. It is unfair that a travel agent having two or three employees has one vote, while a hotel employs over hundreds of staff and with millions dollar investment also has one vote. The travel agents who have over 1,300 votes versus about 150 votes from owners and hotels dominate the Tourism Functional Constituency Election.

This is not the first time the hotel industry made the request to have a separate seat in the legislature. The industry made such recommendations in March 1997 before the election of the first LegCo. Since then, Hong Kong has gone through many changes, particularly after the financial turmoil in the Region in October 1997 and its subsequent impact on our economy. The severe drop in overseas visitors and the resulting decline in tourism receipts by 14.7% from \$84.5 billion in 1996 to \$72.1 billion in 1997 have clearly illustrated the value of the industry to Hong Kong's economy, and how vital it is to boost the industry in Hong Kong's long term interest.

No other industry like the hotel industry in Hong Kong has achieved such strong and consistent growth. The importance of that is even more significant when one takes into account the number of people employed directly and indirectly and the heavy investment required to support such growth. The current market value of existing 40,000 hotel rooms is estimated over \$80 billion. Over the next 2 to 3 years further investment will increase at least by another \$20 to \$30 billion. These have not taken into account the huge investments hotel owners have made overseas. There are at present 100 hotels with about 40,000 rooms, employing some 28,000 people directly and 200,000 indirectly.

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香 港 酒 店 業 主 聯 會
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On the other hand, we witnessed a very high demand (for instance, over 60 students competing for one place in the Hong Kong Polytechnic University) for hotel training programmes/courses in local institutions/centres and this reflects the growing importance of the hotel industry in Hong Kong. Over the next few years, there will be an additional 10,000 rooms with a forecast increase of overseas visitors to 20 million in 2005 to serve the increasing demand from the China market especially the individual travels and the MICE markets. On top of the new supply, there will be another 10,000 new hotel rooms coming on stream over the next 4 to 5 years with a total investment of over \$20 billion.

Strategically, the hotel industry not only makes an important contribution to the economy. It also helps to promote Hong Kong's international status and image as a leading city in the Region. Hotels in Hong Kong are members of major international groups and such link have also strengthened Hong Kong's status internationally. Hotels are not just for accommodation, which is different from the real estate business. They serve as business meetings and contacts, conferences, and a great variety of customers, who come from different countries with different cultures, languages, religions and habits. They have to meet with high international standards to serve international clients and therefore require professionalism and expertise.

The existing seat in LegCo for tourism is therefore not able to understand fully or give enough attention to the industry's need, nor could the industry interests be adequately and ably reflected and represented. The industry trusts that a separate LegCo seat for the hotel industry in the 2008 LegCo Election is well established.

The discussion on constitutional reform in 2008 will have profound impact on the future development of Hong Kong. I hope that the government would consider a separate seat in the Legco for the hotel industry. I would be delighted to discuss on this subject with you.

Yours sincerely,

(Signed)

Dr. LUI Che Woo, JP
Chairman

Enclosed: A position paper by the Federation of HK Hotel Owners,
"A Quantum Leap in Tourism"

A Quantum Leap in Tourism

By

The Federation of Hong Kong Hotel owners

November 2004

Introduction

Over the last few years, Hong Kong (HK) has experienced impressive growth in visitor arrivals each year. Hong Kong Tourism Board (HKTB) estimates that visitor-arrivals will pass 20 million at the end of 2004. Despite of these encouraging figures, we have much to be concerned about and these include:

- (a) Hotel occupancy has not grown at the same rapid pace.
- (b) Average hotel room rates continue to experience downward pressures as more rooms are added to the lower end.
- (c) Approximately 6,000 to 10,000 additional rooms will be added over the next few years. Moreover many hotels to be built are expected to cater to the lower-rated market.

The Federation of Hong Kong Hotel Owners (The Federation) fully understands that the tourism industry is facing unprecedented challenges, and is committed to promoting the industry and will work closely in partnership with the Government and all the stakeholders. Apart from the ongoing initiatives to strengthen Hong Kong's competitiveness, the Federation tries with a macro approach to help the tourism industry to regain its ground by this short but condensed paper. There are two main parts to elaborate our points.

Part I Market Driven Strategy—Quality & Quantity

Part II Tourism Infrastructure and Policy

Part I Market Driven Strategy---Quality & Quantity

To echo the above points (a), (b) & (c) in the introduction, hotel investors of course hope for that hotel occupancy and room rates grow at the same pace with the growth of visitor arrivals. Hence this part would focus on two areas, i.e. quality and quantity by exploring the cause and effects regarding points (a), (b) & (c).

(1) The Mainland Market

For years, HK has been a magnet for visitors from all over the world. In recent years, it seems to be attractive mainly to Mainland China. Mainland visitors to HK have been growing at an annual rate of 17% and will soon be over 60% of total arrivals. Although the growth rate is very impressive, hotels make very limited benefits from this. Studies show that 26% of Individual Visit Scheme tourists, comparing to 40% of non- Individual Visit Scheme tourists, would choose commercial accommodations respectively during their stay in HK.

The Government and the travel trade always insist upon that hotel accommodation for lower-rated market is under supply. A government proposal in 2003 of converting House Ownership Scheme (HOS) flats into budget guesthouses is a good example. However, the Federation strongly believes that market regulation is the best to keep a balance of supply and demand in all categories of hotel rooms. Excessive encouragement from the Government to building low category hotels or converting HOS flats into budget guesthouses would upset the free market mechanism.

HK should maintain its leading position in providing superb services in areas of fire and buildings safety, facilities and service standards for different markets including the Mainland irrespective of what kind of accommodations they belong to including those converted and/or adapted properties. Meanwhile, Mainland business visitors are also expecting better hotel products. The quality of Mainland accommodation has been improving fast. Therefore, the HK Government should not oversight the necessity to maintain quality of higher end accommodation available in the market.

To sustain the growth and success of tourism in HK, it requires more new hotels in the right categories and with adequate facilities to cater for different markets. It also needs quality tailor-made programmes and promotional strategies to blend well with the demands of different source markets which include the Mainland China as well as other long-haul markets. It is important that HK as Asia's world-class city remains its cosmopolitan mix of visitors from all over the world.

香 港 酒 店 業 主 聯 會
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(2) High Yield Business—MICE Market

Meeting & incentive, Convention & Exhibition (MICE) business is booming. HK enjoys an extremely prestigious position in the MICE market. We should be proud of our superb services and location. However, now and then we hear the HK has turned down so many exhibitors due to the limits of our exhibition facilities. We hope after the opening of the *AsiaExpo* and the extension of the Wanchai Convention Centre, situation would improve.

The MICE market encounters keen competitions in recent years. Whether Hong Kong Tourism Board (HKTB) and even Trade Development Council could win over other destinations in attracting international exhibitions and conferences to HK, it really depends on the facilities, promotions and publicity overseas.

On the other hand, Government's attitude in supporting MICE market is very crucial. It is suggested that Government should be more courteous in bridging the relationship for the HKTB to win international conference.

(3) Develop New Markets

Other than the high yield market, the hotel industry always recommends that HKTB should explore and develop more new markets. It is encouraging that HKTB has successfully drawn visitors from new markets like India, Russia and Turkey. Long-haul markets would directly benefit the hotel industry because they stay longer and most likely stay in hotels. More resources and efforts should be allocated to develop new source markets.

Part II Tourism Infrastructure and Policy

As mentioned in Part I, good tourism infrastructure is the key to encourage visitors to stay longer and to spend more in HK. Hence the Federation recommends the followings.

(1) Diversified Tourism Infrastructure

While people are preparing for the opening of Disneyland in 2005, other proposed tourism facilities such as Aberdeen Fisherman Wharf, world class museum facilities to host major exhibition of art and private collections, world class venue for international sports and performing arts etc. are still under endless study and consultation.

HK should consider a variety of entertainment and performing arts infrastructures so as to keep itself as an international city in Asia. Facilities big or small should be complemented to each other, instead of duplicating or competing with each other.

(2) Speed-up New Cruise Terminal

Cruise tourism, which is growing rapidly, is no doubt a worldwide trend. Cruise passengers from around the world are high spenders. Lacking berthing facilities will result in cruise liners by-passing Hong Kong.

The new cruise terminal earmarked for development at the tip of the former Kai Tak Airport runway has been discussed for years. It is planned to be completed by the end of 2010-2011, but from the Federation's point of view, it is too late to capitalize the business. HK should speed up the construction of a new cruise terminal.

(3) Local Culture Events and Festivals Committee

Some local festivals such as the Dragon Boat Festival and Cheung Chau Bun Festival, Mid-Autumn Festival and Chinese New Year etc. are popular overseas and can draw the attention of foreign visitors. We suggest forming a high ranking government committee comprising relevant bureaux, departments and tourism representatives.

The Committee's functions include assessment and screening of local cultural events and festivals which have the potential of attracting overseas visitors to come to HK, policy assistance, processing funding to local event organiser or applicant. The Committee should develop a calendar of events and festivals to ensure better co-ordination rather than competition in the community.

A study report on "How attractive is the Cheung Chau Bun Festival to visitors?" will be disclosed at a later stage. The report is conducted by the HK PolyU with the assistance of the Bun Festival Organisation Committee 2004.

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(4) Green Tourism

HK Wetland Park will open in 2005. HK should prepare to focus more on green tourism as there are beautiful scenic views in our country parks like Sai Kung and on the outer islands. This market has great potential especially to the Japanese visitors.

(5) Aviation Policy and Travel Hub

Neighbouring cities of HK have aggressively restructured their tourism facilities and are now direct competitors to HK for business and leisure travellers. Shanghai, Beijing and Guangzhou have attracted many multinational firms to set up their offices there. International direct flights to these cities are increasing and bypassing HK, which used to enjoy its niche role as the "gateway to China".

For example, the recent Sino-American Civil Aviation Agreement will allow carriers of both countries to be increased from 4 to 9 with the flight numbers be increased to 4 folds over the next 6 years. Guangzhou Baiyu Airport will be a key competitor of HK. These are the alarming signals for HK's tourism industry.

The Government should fast track the negotiation of air service agreements to allow more airlines to operate more flights and links to other international cities including the Mainland. The travel industry considers that HK should position itself as the dominant aviation hub for the region. It should expand air routes and frequencies and maintain a reasonable and competitive policy on aviation charges.

HK should consider making itself as a travel hub, like London in Europe, for all visitors and tours. They will come and stay in HK and plan their itineraries and business trips before departing to other Asian destinations including the Mainland. The industry expects the role of HK as an international and a domestic tourism destination. It is inevitable that HK would integrate into the Pearl River Delta as the economy of the Mainland China opens and develops rapidly. We believe that the influx of Mainland visitors and business travelers will continue and HK would be a must go domestic destination for them.

This would only be achieved if HK remains as an aviation hub with a local airline connecting all the major cities in the Mainland as well as a major port for cruise liners from the world. It is therefore important to make HK as the most accessible international and domestic tourism destination in Asia.

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(6) Creating Better Business Environment

We hope the government may understand the negative effects on the business environment by bureaucracy and rigid licensing requirements. It is important for the government to review and eliminate those outdated and unnecessary government regulations and procedures for the tourism and hotel industry. However, the exercise of updating rules and laws is not an easy task, the hotel industry alone could hardly accomplish in identifying all those redundant regulations and red-tapes. We urge the government to be more open, accountable and responsive to the hotel industry when there are voices raised from the sector on outdated rules and regulation.

On the other hand, the government should take strict enforcement actions against those bogus short term and illegal accommodations so as to protect the lawful interest of bona-fide hotel owners and operators.

Conclusion

The above points are not total solutions for HK tourism industry, but for brain storming only. Repositioning HK is an extremely urgent agenda. In the foreseeable future within the coming decade, HK will be surpassed by other Asian destinations if we could not sustain our competitiveness.

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