



**The British  
Chamber of Commerce  
in Hong Kong**

香港英商會

15 August 2011

Ms. Eva Cheng JP  
Secretary for Transportation & Housing  
Transport & Housing Bureau  
16/F Murray Building  
Garden Road  
Central, Hong Kong

Dear Eva

**British Chamber of Commerce in Hong Kong**  
**Response to the Third Runway Consultation**

Please find attached the response of the British Chamber of Commerce to the consultation on the need for a 'Third Runway for Hong Kong International Airport'. This follows on from the paper which I sent to you in May setting out our views on the future of the Air Freight Industry in Hong Kong.

Yours sincerely

Brigadier Christopher Hammerbeck CB.CBE.  
Executive Director

Cc: Kevin Taylor – Chairman  
Paul Brough – Vice Chairman  
Nick Sallnow – Smith – Vice Chairman  
Mark Millar – Chairman Logistics Committee  
Christopher Pratt – Chairman Cathay Pacific Limited  
Hong Kong International Airport Authority

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**THE BRITISH CHAMBER OF COMMERCE**  
**RESPONSE TO THE AIRPORT EXPANSION CONSULTATION**

## **Executive Summary**

This paper sets out the views of the British Chamber on the Airport Expansion plans and proposals for Hong Kong International Airport HKIA

Hong Kong International Airport (HKIA) continues to set new records for air freight and in 2010 became the world's largest cargo airport, handling over 4.1 million tonnes of air cargo. In line with this significant growth, the overall aircraft volume surged by 8.8% - resulting in over 302,500 aircraft movements during 2010.

As the world's largest airport for International Cargo for the last fifteen years, HKIA attracts business from a full range of global, regional, multi-national and local companies. In the air freight business, Hong Kong is also seen as the preeminent and preferred air cargo gateway and hub for the Pearl River Delta.

World class infrastructure, operational excellence, extensive network connections and ease of doing business are key factors that have enabled Hong Kong to sustain its global leadership in international air freight and logistics.

However, with ongoing developments at airports within South China and across the Asia Pacific region, the question remains as to how long Hong Kong can sustain its position as the world's leading air cargo hub and gateway?

The Chamber firmly believes that Hong Kong must continue to build on the outstanding success of Hong Kong International Airport (HKIA), which enjoys industry leadership as a major global aviation hub, whilst being a key enabler for our Tourism and Trade & Logistics sectors – two of our key pillar industries which combined account for 29.3% of GDP and 29.5% of employment.

**The British Chamber therefore calls for urgent approval to proceed with option 2 of the HKIA Master Plan 2030 – including sustainably building the third runway.**

### **1. Hong Kong International Airport – Gateway and Hub**

Hong Kong International Airport (HKIA) is the largest air cargo hub in the world with throughput<sup>1</sup> of 4.1 million tonnes in 2010. For international air freight, the airport has equal significance as a 'Hub' and as a 'Gateway'.

As a Hub, HKIA is able to offer connections to 117 international destinations and 40 mainland cities. It is served by 98 airlines operating scheduled services. In addition to this extensive network connectivity to the HKIA hub, Hong Kong's valuable 'free-port' status, combined with world class infrastructure and ease of doing business,

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<sup>1</sup> Throughput is calculated as imports, exports and international transshipments (counted twice)

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also allows HKIA to serve the Pearl River Delta (PRD) as the key Gateway airport for the region.

Both roles are of critical importance for HKIA and for the local economy - as a Hub, HKIA serves multiple origins and destinations throughout Asia and across the world, and as a Gateway, HKIA serves the critical production base of South China.

Air-to-air transshipment cargo represents 20% of the overall cargo throughput, whilst non-transshipment export cargo (Air Waybill is cut in Hong Kong) represents 55% with imports making up the remaining 25%.

As the key gateway airport for the region, HKIA competes with a number of airports across South China, notably Guangzhou and Shenzhen. HKIA has successfully defended its position as the airport of choice for the airfreight and logistics industry. However, as airfreight demand proceeds to outstrip capacity at HKIA, our leadership position will be threatened. Development and investment at rival airports have 'closed the gap' in service between HKIA and the competition.

## **2. Future Cargo Growth at HKIA**

Whilst there is some debate over the level of expected growth in global airfreight, there is consensus that airfreight volumes will grow and continue growing for the foreseeable future. Airfreight volumes have already recovered from the dip associated with the 2009 global economic slowdown.

Furthermore, developments in the PRD including investments in more hi-tech manufacturing, which lends itself towards airfreight, imply that HKIA will be a critical constituent part of the growth of international airfreight within the region.

In March 2011, the International Air Transport Association (IATA) forecast that Hong Kong will be the world's fastest-growing air cargo market - "growing 12.2 per cent annually over the next two years" such that cargo volumes will increase to 5.3 million tonnes in 2014.

HKIA currently enjoys a 'preferred' status among freight forwarders, agents, logistics service providers and airlines. It has earned its preferred status and position as the world's largest international cargo airport by ensuring that it remains competitive in terms of world class cargo handling facilities and capabilities, international best practices in ease-of-doing-business and continuing investment in infrastructure.

The private sector invests significant financial support in the development and maintenance of HKIA as the region's premium air cargo hub. In 2010 the private sector invested over HKD \$8 billion in new and existing facilities at HKIA, representing a huge commitment to the future of the industry. Not only is there substantial monetary commitment but facilities such as HACTL have been supported and managed by local shareholders for decades - which has resulted in several global awards in recognition of outstanding management and world class performance.

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Cathay Pacific's investment in a dedicated cargo handling terminal, due to open in 2013, will provide new facilities and increase total cargo handling capability at HKIA to 7.4m tonnes per year, increasing healthy competition for the private sector and benefiting airport users with more choice.

Continued private sector industry expansion in the Pearl River Delta together with public sector infrastructure investments such as the Hong Kong–Zhuhai–Macau Bridge, will all contribute to further cement the significance and importance of Hong Kong in the global air cargo sector.

However, whilst cargo handling capabilities are increasing, it is widely agreed that within five years the current runway capacity will be insufficient to meet demand. Since HKIA was opened in 1998, the number of aircraft takeoffs and landings has increased by 82%. HKIA is currently managing 60 runway movements per hour – very close to the maximum on a 2-runway system of 68 movements per hour within current airspace capacity constraints. Integrating regional airspace and reducing aircraft separation regulations would make some small increases possible in allowable aircraft movements.

### **3. Urgent Need to Proceed with Third Runway**

However, the current growth projections - including IATA's recent forecast that Hong Kong will be the world's fastest growing air cargo market for the next two years – show that even with the current 2 runways operating at optimum utilisation, HKIA will be at full capacity and unable to grow further by year 2015.

Therefore, for HKIA to continue to be the world's largest cargo airport and to maintain its enviable worldwide reputation and industry leadership - as both a global hub and as China's gateway - will undoubtedly require the building of a third runway.

The third runway, together with improved integration of airspace within the Pearl River Delta, would increase capacity to over 100 aircraft movements per hour.

It is the considered view of this Committee that approval for investment in a third runway is required immediately. Any further delay in investment in the third runway will result in HKIA running at full capacity and being unable to meet demand. In which case, continuing growth in air cargo volumes will be forced to redeploy to other gateway and hub airports, for example Shenzhen and Guangzhou in South China, and from a regional basis Singapore's Changi airport - all of whom would welcome any opportunity to take business away from HKIA.

Once re-directed to alternative regional hubs, cargo is unlikely to ever return back to Hong Kong, thereby impacting not just the air cargo business, but the wider aviation sector and the local economy.

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Without a third runway, the likelihood is that within four years, Hong Kong will be gifting future air traffic growth away to Shenzhen and Guangzhou. It would be economically and socially unsustainable for Hong Kong to permit such a situation to eventuate, given the importance of the direct and indirect employment and revenues generated by HKIA.

As recently confirmed by the Transport & Housing Bureau, out of Hong Kong's four economic pillars, "Trade and Logistics" is the largest, accounting for 26% of GDP and 24% of employment – over 830,000 jobs.

Within Logistics, Air Freight is the premium service offering, thus reinforcing Hong Kong International Airport's position as a very important part of the local economy - over 30% of Hong Kong's total exports move by air freight, representing around USD\$100 million of products. A record 50 million passengers passed through the airport in 2010 and the Aviation sector as a whole represents 8% of GDP and employs over 250,000 people in Hong Kong.

Contrast this with Tourism – another one of Hong Kong's economic pillars – which accounts for just 3.3% of GDP and employs 5.5% of total workers in Hong Kong.

In the 2011 budget address, the government confirmed its commitment to the sector, saying that 'we must ensure that Hong Kong International Airport can cope with air traffic growth'. Proceeding with the third runway is now an essential – and urgent - step in this process.

The substantial level of private sector participation in the local air cargo sector – through financial commitment, keen competition and contribution of management competence - would be badly blunted if not supported by an immediate commitment to a third runway.