

**THE BRITISH CHAMBER OF COMMERCE POSITION PAPER**  
**ON THE AIR FREIGHT INDUSTRY IN HONG KONG**

**Executive Summary**

This paper sets out the views of the British Chamber on Hong Kong's Air Freight sector - for consideration by the Hong Kong government. The paper which has been prepared by its Logistics Committee has had wide circulation and comment within the Chamber.

The aim of the Chamber's Logistics Committee is to promote the collective interests of its members and the Chamber in Hong Kong's shipping, transport, distribution and logistics sectors.

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's Logistics Committee has identified three key recommendations where the government must support the airfreight industry in order to cement Hong Kong's number one position:

1. Support for immediate approval for construction of the third runway at HKIA
2. Improvement of Hong Kong's transshipment capability by reviewing the extent of current Air Cargo Transshipment (Facilitation) Ordinance import and export permit / license exemptions
3. Government involvement and support for further adoption of e-commerce in the air cargo sector

The British Chamber is one of Hong Kong's largest business organisations, comprising major multi-national companies and institutions, as well as a substantial number of SMEs.

The Logistics Committee of the Chamber focuses on issues impacting Hong Kong's logistics industry. It enjoys representation from a wide range of industry experts across many companies and fields of experience.

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**1. Pressing Need for Third Runway at HKIA**

**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, 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.

**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

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

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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.

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.

**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.

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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.

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.

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**2. Improve HKIA's Transshipment Capability**

The Carrier Liaison Group (CLG) estimates that approximately 85% of cargo throughput at HKIA is transhipped, either air to air or inter-modal. There is no definition of 'transshipment cargo' in the Import and Export Ordinance. It is defined as "import" and "re-export" and subject to regulations governing import and export as defined in the Import and Export Ordinance.

The majority of air to air transshipment cargo is processed within the airport confines. The Air Cargo Transshipment (Facilitation) Ordinance relaxes the import and export control permit/licence requirements for a range of non-sensitive air transshipment cargoes imported and exported by aircraft under a through Airway Bill and remaining at all times during transshipment within the restricted areas of HKIA.

However there are circumstances in which forwarders move air to air transshipment cargo to their own warehouses for consolidation. The process of consolidation optimises the effective use of available aircraft capacity and the huge volumes processed at HKIA and the efficiency with which the forwarding community consolidate cargo creates an important competitive advantage for the Hong Kong hub. Transshipment cargo resides in Hong Kong for as short a period as possible, is not subject to any value-adding activity and yet it does not qualify for the same exemptions provided by the Air Cargo Transshipment (Facilitation) Ordinance when it leaves the restricted areas of HKIA. It is therefore treated as an import cargo first and later as a separate export cargo and this incurs additional administration and costs.

Given the increased competition from quality hub airports in the region Hong Kong needs to find a solution to ensure that the movement of genuine transshipment cargo is cheap, efficient and allows consolidation activity to take place.

Although Hong Kong enjoys 'free port' status there are currently various categories of goods that require a license to be transhipped through HKIA. Transshipment cargo is regulated by a multitude of ordinances which are complex and therefore difficult to understand. Rival hubs have less restrictive practices, overseas forwarders and shippers have options, and rather than apply and pay for the requisite licenses the reality is that these categories of cargo by pass Hong Kong as a result.

The Carrier Liaison Group (CLG) and the Hong Kong Association of Freight Forwarders (HAFFA) have previously submitted proposals to this end and the Chamber actively supports these and any other joint initiatives that resolve this issue.

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### **3. Development of E-Commerce**

Whilst E-commerce and E-Business models have been incorporated for well over 20 years, it is only in recent times that the full value of E-commerce can be seen in the industry. The Aviation industry is facing need to modify business processes through streamlined solutions.

Airline adoption of Electronic Airway Bills (EAWB), to improve their overall business processes has assisted in speeding up the process of Ecommerce development. The concept of E-commerce within Aviation and the airports does, however remain piecemeal. This does allow the opportunity, however, for HKIA to exceed international body programmes on E-Technology.

Within the global logistics sector for Air and Ocean freight, over 850,000 Bookings and Electronic Airway and Ocean Bills are handled weekly. This successfully reduces manual workflow, increases efficiencies and reduces errors, also saving approximately 60 million USD in paper costs per year. However, this figure represents only 10% of the total volume. As such, the opportunity for greater efficiencies remains extremely high.

#### **3.1 How E-commerce can assist HKIA in line with supply chain trends**

E-commerce is becoming a strong enabler to improve efficiencies, reduce costs and improve visibility and services to clients through real live data. With Hong Kong's leading global role as a transshipment hub.

This process in itself would improve the speed of trans-shipment clearances in Hong Kong through the following means:

- Visibility to all documents to multiple parties to check accuracy and information
- Reduce errors which delay shipments moving from HK across the border
- Reduce the number of process steps in place and increase efficiencies
- Reduce Environmental impact
- Reduce manual labour on data checking and documentation management through real live visibility via E-commerce channels.
- Improve speed of movement both inbound and outbound from HKIA
- Reduce cost of operations whilst enhancing throughput

Through market leading E-commerce mapping and processes can lead to a preference to use the hub over its competitors.

#### **3.2 The role of Legislation**

Whilst the incorporation of the US Automated Manifest System (AMS) enforced the shipping industry to move from manual to E-commerce processes to meet legislative requirements, so too the aviation industry and airports in particular are expected to face increasing pressures on security and advanced clearance and information systems. E-commerce as a means of automating security processes is an essential customs clearance and advanced process for checking of cargo for security purposes.

International bodies such as IATA are further venturing into detailed E-Freight programmes so improve overall industry efficiency which could lead to a direct influence on airlines and airports such as HKIA alike.

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The inevitable changes and legislative requirements to handle airfreight and for airports to meet requirements will shape the importance of E-commerce strategies accordingly. Increasing security and international standards will result in data integrity becoming increasingly important.

### **3.3 The Roadmap for E-commerce and HKIA**

The requirements for developing effective E-commerce roadmaps are complex, but have the ability to significantly improve communication, business processes, accuracy, and cost and data visibility. All of these elements are essential towards HKIA maintaining a long term leadership position in the region. HKIA is however already making positive strides in electronic efficiencies.

HKIA has already successfully passed many of the IATA standards by passing the High Level Assessment (HLA) and also detailed level assessments (DLA) within E-commerce. E Freight operational procedures (E-Fop) are also in place as is Governmental support to incorporate a modernization of E-commerce development strategies as part of the IATA assessment. These are all positive steps for HKIA.

HKIA has incorporated a strong framework within IATA but in line with its leading status as the world's largest airfreight hub, HKIA needs to continue to strive to reach higher levels of freight efficiency in E-commerce through the drive for leading standards in E-commerce and market leadership on a regional and global stage.

HKIA should continue to strive towards maintenance of a market leadership status by innovating consistently higher levels of automation for purposes of transshipment, security and efficiency. This can be done through continued collaboration with airlines, customs, security bodies, aviation portals and forwarders to reach and exceed the increasing levels of standardization set by governing bodies such as IATA as well as the industry as a whole.

HKIA has the opportunity to create a global leading E-commerce strategy which will continue to enhance the position of HKIA as a premier hub for global airfreight. To do so the following areas will be essential parts of the E-commerce strategy:

- Reaching and exceeding IATA based measurements and scorecards
- Significant collaboration within the airline, forwarder, shipper business to improve standards of E-commerce data
- Usage of E-commerce to improve and manage security process and legislation
- Usage of E solutions to speed up and manage transshipment flow in line with increasing long term volumes.

As airlines, technology developers and portals improve their scope in both E-commerce standards and product offerings; the HK Government and HKIA, in association with governing bodies such as IATA have the opportunity to collaborate with all relevant parties to create optimized solutions based on a long term roadmap for E-commerce innovation.

Through these processes, HKIA can strive to consistently lead in E-commerce excellence on a global perspective.

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