

**For discussion on
28 May 2007**

Legislative Council Panel on Economic Services

Development of Key Aviation Support Services at HKIA

Introduction

Since commencing operation in July 1998, the Hong Kong International Airport (HKIA) has consistently been ranked as the world's fifth busiest airport in terms of international travellers and has been the busiest international cargo airport. It has also seen sustained and substantial growth in terms of aircraft movements, destinations served and choices of airlines. This paper seeks to update Members on recent developments in key aviation support services at HKIA, which have made significant contribution to all the above areas.

Background

2. In 2006, HKIA handled a record 44.45 million passengers and 3.58 million tonnes of cargo. Aircraft movements reached 280,000, 1.7 times over the level of 1997. A comparison of key aviation indicators of 1997 and 2006 is at Annex. There are now 86 airlines operating at HKIA, linking Hong Kong to 150 destinations worldwide, including some 40 Mainland cities. HKIA plays a significant role in the Hong Kong economy. In 2006, goods shipped by air accounted for 34.5% of the Total External Trade Value of Hong Kong; 34% of our visitors came by air.

A. Air Cargo and Logistics Service

3. To enhance Hong Kong's position as a regional logistics hub and cargo gateway for the Mainland, the Airport Authority (AA) is committed to continuous improvement in air cargo services and infrastructural facilities, and to maintain a fair and competitive environment for air cargo operators, such that capacity would be available in time to meet forecast demand and operators can develop innovative, value-added logistics services to meet customer needs.

4. AA has invested significantly in infrastructure to improve HKIA's cargo handling capability. At present, there are 24 freighter parking bays, an addition of 12 bays since airport opening. With an investment of \$305 million, AA is constructing ten additional freighter bays, making a total of 34 by end 2007 to meet anticipated growth.

Air Cargo Terminals

5. In respect of air cargo terminals, the \$1.75 billion state-of-the-art Terminal 2 of Asia Airfreight Terminal (AAT) commenced operation in December 2006, demonstrating AAT's confidence in Hong Kong as the preferred air cargo hub for the region. The new facility together with the revamp of Terminal 1 has increased the handling capacity of AAT by two times to 1.5M tonnes per annum and will create 1,000 new jobs.

6. To support further growth of the air cargo industry and to enhance Hong Kong air logistics competitiveness, AA has initiated the tendering process for an additional cargo terminal, to be commissioned in 2011.

Express Cargo Facilities

7. Taking advantage of HKIA's strong cargo base, DHL has invested \$880 million in expanding its Central Asia SuperHub. Upon completion in 2007, the expanded facility would be able to handle 35,000 parcels per hour and create 400 new jobs. It would further strengthen the logistics portfolio of HKIA as an express cargo hub of the region.

Marine Cargo Terminal

8. HKIA is probably the world's first international airport to provide cross-boundary air-sea inter-modal cargo services. The Marine Cargo Terminal (MCT), initially launched as a pilot project, is now an integral part of the inter-modal logistics capability at HKIA, providing an effective and alternative link for air cargo transiting between HKIA and 17 ports in the Pearl River Delta. With a compound annual growth rate of 31.5% since 2002, MCT handled 201,000 tonnes of cargo in 2006. To meet the robust growth in traffic, AA is in active discussion with the MCT operator to further expand the terminal's handling capacity.

Precious Metal Depository

9. Consistent with the Government's policy to enhance Hong Kong's position as a financial and logistics centre, a Precious Metal Depository is being developed at HKIA to tap into opportunities provided by the growing demand for gold in the region. The project is facilitated by the Government's decision to exempt the import and export of gold bars from trade declaration charge with effect from 9 February 2007. The Precious Metal Depository will provide a central and secure storage facility for traders, institutional investors, gold producers and refineries, and serve as a physical settlement platform for trades made in the Chinese Gold and Silver Exchange Society and other Asian markets. The tender exercise is in progress and the facility would be ready by the end of 2007.

B. Aircraft Base Maintenance Service

10. Aircraft base maintenance service refers to heavy maintenance, modification, repair and overhaul of commercial aircraft and their components. In 2006, 1.85M man-hours of base maintenance services were provided at HKIA by a single operator -- the Hong Kong Aircraft Engineering Company Limited (HAECO), representing a compound annual growth of 7.6% since 2002. HAECO's \$430 million second hangar at HKIA commenced operation in December 2006. This new facility provides two additional maintenance bays for wide-body aircraft, representing a 50% increase of aircraft base maintenance capacity at HKIA. About 900 new jobs were created. HAECO has further entered into agreement with AA to develop its third hangar, to be completed in two phases by 2009 and 2015 respectively. Each phase would provide handling capacity for two wide-body aircraft. At a total investment of \$800 million, the 3rd hangar would generate 500 new jobs.

11. To further expand aircraft base maintenance capacity at HKIA and to introduce competition, China Aircraft Services Limited (CASL) is building a \$300 million hangar which can serve one wide-body and one narrow-body aircraft at the same time. Scheduled to be opened by mid 2008, the new hangar would create 600 new jobs. Upon completion of these new facilities of HAECO and CASL, HKIA would have capacity to provide base maintenance services to 13 aircraft at the same time, compared with five before 2006.

12. To facilitate the operation of the new base maintenance facilities, AA has invested \$190 million to build a new taxi-lane, and an apron area.

C. Business Aviation

13. Business aviation is the up-market service segment and is one of the fastest growing businesses of HKIA. In 2006, there were over 2,800 business aviation aircraft movements at HKIA, representing a compound annual growth of 17.5% in the past 5 years.

14. As a major financial and business centre, Hong Kong needs to expand facilities for business aviation to meet market demand. A new business aviation hangar is being constructed at HKIA. To be completed in the 3rd quarter of 2007, this \$100 million new hangar will double HKIA's handling capacity for business aviation and will be able to accommodate the largest business aircraft including the Boeing Business Jet. AA is also investing \$80 million to expand the business aviation apron, to be completed in 2 phases in 2007 and 2008 respectively.

D. Air Traffic Management Service

15. Safe and efficient air traffic management is essential for the effective operation of HKIA. To facilitate the long-term development of the civil aviation industry, the Government has earmarked about \$3.1 billion to replace the existing air traffic control (ATC) system and build a new headquarters for the Civil Aviation Department (CAD) on the Airport Island by end 2012. We have already briefed the Legislative Council (LegCo) Panel on Economic Services on the proposal to replace the ATC system in February 2007 and obtained funding approval from LegCo for the same in May 2007. Submission to seek funding approval for the development of CAD's new headquarters on the Airport Island would be made in 2007/08.

16. With much enhanced data transmission, processing and display power, the new system can provide up to twice the handling capacity of the existing system and will be able to support 490,000 aircraft movements in 2025 as forecast by AA. Not only can this strengthen our ability in providing better services to the public and the business community, it can also enhance Hong Kong's competitiveness in maintaining its status as an international and regional aviation hub.

17. Before the commissioning of the new ATC system, CAD will continue to enhance its ATC capacity and efficiency through –

- (a) in collaboration with AA, commissioning an overseas expert to study and propose options to improve the existing infrastructure of HKIA, ATC and flight operations;
- (b) recruiting around 20 controllers every year in the coming five years to support the enhancement of ATC capacity and upgrading the Radar Data Processing and Display System to accommodate more control positions by end 2008;
- (c) encouraging aircraft to leave the runway swiftly after landing to facilitate the reduction of the nominal inter-arrival spacing with a view to enhancing the runway capacity;
- (d) considering the use of both runways for landing during peak arrival periods; and
- (e) in conjunction with AA, implementing airfield improvements by constructing new rapid exit taxiways and an additional runway holding point for the South Runway.

18. With the above enhancement measures in place, the runway capacity of HKIA will be able to increase gradually from the existing 54 movements/hour to 58 movements/hour in 2009, which will amount to a potential increase of 420 weekly movements during the peak hours¹, or about 21,000 movements every year.

19. Meanwhile, CAD will continue to liaise with civil aviation authorities of the Mainland and Macao with a view to improving the use of airspace and the co-ordination of air traffic management in the Pearl River Delta (PRD) region. Through the efforts of a tripartite working group, an additional handover point and a corresponding air route between the Guangzhou and the Hong Kong Flight Information Regions were established in December 2006 to cater for flights overflying Hong Kong and landing in Guangzhou.

¹ from 9:00am to 0:00 midnight

20. The three parties also endorsed an Initial Proposal on the Planning and Implementation of Air Traffic Management in the PRD Region in February 2007. Based on the principle of “joint airspace planning, use of common standards and harmonized flight procedures design”, the Initial Proposal has mapped out the future development in various aspects of ATC operations, including airspace structure, ATC and flight procedures, in the PRD region. The working group is studying the technical issues involved for the early implementation of the Initial Proposal which is expected to bring about further improvements to the use of airspace and enhancement of runway capacity at HKIA in the coming years.

Airport Authority Hong Kong
Civil Aviation Department

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Annex**Comparison of Key Aviation Indicators in 1997 and 2006**

	1997	2006	Increase
Passenger throughput Total	28.3 millions	44.45 millions	57%
Between HK and the Mainland	486 millions	8.45 millions*	1.7 times
Cargo throughput Total (tonnes) (HKD)	1.79 millions 655 billions	3.58 millions 1 745 billions	2 times 2.7 time
Between HK and the Mainland (tonnes)	61 000	350 000*	5.7 times
No. of annual aircraft movements	165 154	280 508	1.7 times
No. of airlines providing scheduled services in HK	67	85	27%
No. of scheduled destinations			
Total	120	156	30%
Destinations in the Mainland	17 (and 25 non- scheduled destinations)	40	
Average no. of scheduled flights in a week	3 000	5 600	
Average no. of non- scheduled flights in a week	400	29	66%
No. of Air Services Agreements signed	21	58	2.8 times

* figures of 2005