



**Legislative Council Panel on Economic Development**

**Meeting on 19 July 2011**

**Hong Kong International Airport Master Plan 2030**

The Airport Authority of Hong Kong (AAHK) released its Hong Kong International Airport Master Plan 2030 in early June for a three-month public consultation on plans to expand Hong Kong International Airport (HKIA) to cope with future needs. Option 1 is to upgrade the existing T1 and T2 terminal buildings, further expand the current plans for the Midfield development with a second concourse, aprons, passenger and baggage handling facilities, the APM and other transport infrastructure at a cost of about HK\$42.5 billion (adjusted for inflation). Option 2 calls for building of a third, parallel runway north of the existing two runways together with a new passenger concourse and associated infrastructure at a cost of about HK\$136.2 billion.

Maintaining Hong Kong's status as a regional transport hub is of course important to the aviation and logistics industries, as this brings business to them for receiving and servicing aircraft, hosting transfer passengers and working the transshipment of freight. However, it is even more important that Hong Kong attracts new businesses, tourism, cultural activities, trade events and new investment by being a destination and not just a hub. The free flow of people, goods, capital and information into and out of Hong Kong is the key to the continuing success of our economy. If the Hong Kong International Airport (HKIA) continues to operate with the existing two runways, according to AAHK, it will reach full capacity by 2020 and consequently would have to be selective about the business it handles in the future. Logically it will target to have proportionately more of the higher added-value business, necessarily leaving other airports in the region to cope with any excess of demand over supply for transshipment and transfer passengers to and from the mainland. The alternative is to construct a third runway and new passenger concourse to handle all the traffic, competing head-on with other airports in the region as well as the High Speed Railway network, which by that date will have been operating in and out of Hong Kong for five years.

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According to AAHK, it could take 20 years to complete the third runway from initial planning and design through construction to completion. Some would like to see the construction of the third runway to start by 2013 or 2014. HKCA considers that this is unrealistic, given the procedures that need to be completed and the preparatory work necessary.

The purpose of this consultation process is to set the direction for the development of HKIA. The choice is essentially between treating the airport as either a commercial venture and to “sweat the assets” to maximize the returns on investment, or as strategic infrastructure to secure Hong Kong’s future role as an aviation hub as well as an international business centre, a commercial centre and a tourist destination.

The consultation document reveals the third runway (Option 2) would yield a Net Present Value of HK\$912 billion over the next 50 years to 2061 on an investment of HK\$136.2 billion. Option 1 would require an investment of HK\$42.5 billion and would yield a Net Present Value HK\$432 billion over the same period. The true measure of the economic performance of any capital investment when funding is limited is the ratio of Net Present Value to Cost (NPV/C); the higher the ratio, the better the return on investment. Using the AAHK figures, NPV/C for the third runway option is 6.7, whereas the Option 1 is 10.2. In addition, the HKIA Master Plan 2030 does not reveal if or when additional investment is required at the airport to cater for the projected growth in air traffic from 2030 to 2061, which is the time period assumed for the NPV calculation. There is speculation that to handle the volume of air traffic beyond 2030 will require a fourth runway, which is not included in the cost projections. This would certainly make the NPV/C for the third runway lower again. Therefore, on a pure business case, investment in the third runway is not the better of the two options being offered by AAHK.

On the other hand, we have looked at the airport development as an investment in the future of Hong Kong. Public infrastructure cannot always be justified easily by cost-benefit analysis alone. Some infrastructure has to be provided just to make Hong Kong work, and without it the city simply could not survive let alone



flourish. Good examples are investment in water supply, drainage and sewage treatment, waste disposal, schools, hospitals. Such investment must be made according to the predicted demand for that additional infrastructure to minimize the risk of either spending more than is necessary, or doing too little to meet these basic needs. That requires a thorough and wide-ranging assessment of both future supply and future demand.

HKCA believes that Hong Kong will need to have a third runway to secure its future as a destination, as a centre for business, commerce, tourism and culture. We also understand that there is bound to be uncertainty about the demand for air transport in the future for Hong Kong. For this reason, HKCA would like AAHK to undertake investigations specifically into whether or not the objective of sustaining HKIA as an aviation hub (transfer passengers and transshipment of cargo) generates sufficient added value to justify the cost of the third runway, or whether the third runway can have a more robust NPV if Hong Kong is a “destination” first and the “hub” activities are allowed to decline after 2030 as capacity is consumed by ever-increasing “destination” traffic. We would also like AAHK to calculate the sensitivity of the NPV calculations to discount rate, as the selection of 4% is much lower than the discount rate that private sector enterprises would use to determine investment decisions and priorities. We would like AAHK reveal further details on the assumptions made in the growth rate from 2030 to 2061 upon which the NPV is based, and any further investment needed to cope with that increased demand beyond 2030. We would like details about assumptions on future passenger aircraft capacities, with the ever-increasing capacities of new-generation aircraft such as the enlarged Boeing 747-8 and the Airbus 380. We would like AAHK to elaborate on its claim made on page 68 of the Master Plan 2030 saying that “relying on other airports to meet HKIA’s demand would ..... adversely affect Hong Kong’s overall competitiveness as a world city”. We would like to see the Master Plan for the airport set within the broader context of existing and proposed infrastructure and attractions, including but not limited to the Hong Kong-Zuhai-Macau Bridge, the Tuen Mun Link, Hong Kong to Shenzhen Airports Link, HK Disney, AsiaWorld-Expo, the Cable Car 360 and West Kowloon Cultural District.



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In summary, we support the development of HKIA, and we support Option 2 for the third runway. Whilst we are not all persuaded on the merits of preserving in the longer term HKIA's status as a hub and would prefer to see Hong Kong promoted as a destination in its own right. However, that decision is only necessary now if the third runway is not constructed. If the third runway is constructed, that decision can and should be deferred until any further expansion is required to cope with expansion of demand beyond 2030. By that time the true impact of the HSR and the current expansion plans for other airports in the region will be well known. In the meantime, HKCA and our members would welcome involvement at the earliest possible stage to work with AAHK to develop more innovative ideas to reduce the construction costs and to address the environmental risks of the implementing of the Master Plan 2030.

The Hong Kong Construction Association, Ltd.

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