

Cathay Pacific Airways
Submission to Legislative Council Panel on Economic Development
on Hong Kong International Airport Master Plan 2030

Cathay Pacific firmly supports Option 2 of the Hong Kong International Airport (HKIA) Master Plan 2030 (MP2030), i.e. the building of a third runway. The airline believes that a third runway is the only viable way to ensure the long-term competitiveness of Hong Kong as an important international financial, trading and logistics, tourism, and professional services centre. A third runway is important not only for Cathay Pacific and for the aviation industry, but for the long-term stability, sustainability and development of the economy of Hong Kong. Connectivity with the rest of the world has made Hong Kong what it is today so we must be clear on how we can maintain and grow these linkages for tomorrow.

HKIA is one of the world's leading international aviation hubs and it has undoubtedly driven Hong Kong's economic growth since it opened in 1998. But the airport is now approaching its maximum runway capacity and, if a third runway is not built, then Hong Kong would lose its competitive edge as traffic would instead go to competitor airports with increasing connectivity.

As Option 2 requires a construction lead time of 10 years, Cathay Pacific believes that Hong Kong needs to move quickly on the need to build a third runway if the city is to benefit from the rapid economic development forecast in the Greater China Region. Cathay Pacific looks forward to a constructive community debate about the environmental, engineering and value-for-money issues involved.

Economic benefits of a third runway

The symbiotic and dynamic relationship between an aviation hub and a business hub plays a large part in driving Hong Kong's success. Aviation certainly makes a significant contribution to the local economy. It is estimated that the industry supports about 268,200 direct, indirect and induced jobs, equivalent to some 7.7% of the total working population. In overall terms, it accounts for some 8.2% of Hong Kong's GDP. Business receipts from aviation have tripled over a decade, from HK\$48 billion in 1999 to HK\$112 billion in 2008.

A Chinese University study estimates that a fully utilised third runway would create an annual economic contribution of HK\$37 billion to Hong Kong, with each additional flight mounted generating HK\$375,000 to the Hong Kong economy.

HKAA estimates that a third runway would increase direct employment on the airport island to 141,000 by 2030, compared with the current 65,000.

A headquarters economy

Professional services are one of the pillars of Hong Kong's economy, and the international connectivity provided by our aviation hub plays an important part in attracting foreign businesses and local jobs to establish or relocate their businesses in the SAR.

According to official figures, Hong Kong is home to some 3,500 regional headquarters and offices of multinational companies. The regional headquarters operations alone employ more than 140,000 people. Most have cited Hong Kong's transport infrastructure as a significant factor in choosing the SAR as their location of regional choice.

Our convenient, efficient, award-winning airport which is home to 95 airlines serving 160 destinations provides such quick and easy access to all the parts of the region or, indeed, the rest of the world that any multinational may wish to reach. More than half of the regional headquarters based here engage in trade or wholesale or retail businesses. A quarter of them are involved in professional, business and education services and finance and banking.

Growing competition

Since HKIA opened, the aviation industry within the region has seen a dramatic change. There are now more airlines providing a greater number of flights from a growing number of airports. Hong Kong faces growing competition from other rapidly developing hubs.

In Bangkok, a third runway is expected to be built at Suvarnabhumi by 2016. In Singapore, authorities have planned for the future expansion and development of Changi Airport infrastructure. In Taipei, Taoyuan airport authorities plan to renovate its 30-year-old Terminal One and are planning to add a third terminal. In Seoul, Incheon International Airport will have its second passenger terminal by 2015 together with its expanded cargo terminal. It will have five runways by 2020. In Mainland China, airports in Guangzhou, Shanghai and Shenzhen are planning third, fourth and even fifth runways.

The growing competition from other hubs and the runway capacity constraints at HKIA make investment in a third runway an urgent requirement if HKIA is to retain its pre-eminent hub status.

Current constraints

HKIA is a victim of its own success. The current two runways at the airport will be saturated within the next seven to nine years – 15-20 years ahead of its original blueprint forecast of 2040. The airport already faces a fundamental challenge regarding runway capacity. The existing runways are already so heavily used through most of the operating day that finding take off and landing slots for additional flights is increasingly difficult.

Cathay Pacific is encouraged that runway movements at HKIA would be gradually increased to 68 per hour by 2015. However, when set against the 7% annual growth rate at HKIA over the last decade to 2007, and taking into account the sharp reversal experienced as a result of the current global recession, HKIA would be fully slot constrained throughout the day by 2018 according to the Chinese University study. The airport would reach its capacity before a third runway could be built and commissioned.

Maintaining the existing two-runway system is not a viable alternative to a third runway

HKIA is approaching its practical maximum runway capacity. The airport handled 306,500 total flight movements in 2010, compared to its runway design capacity of 360,000. HKAA expects air traffic demand to reach 602,000 flight movements per year by 2030. Such demand is beyond the runway capacity of the airport's two-runway system.

Option 1 of the HKIA Master Plan 2030 requires further investment in terminal and apron facilities. This would enable the airport to handle a practical maximum capacity of 420,000 flight movements per year. But this would only meet the estimated demand for air services in the medium term.

In short, Option 1 is at best an expensive stop-gap solution that would only provide short-term relief but with a longer-term impact that would result in the Hong Kong economy losing its competitive edge to its regional rivals and stifle long-term growth opportunities.

On the other hand, a third runway would be able to handle a practical maximum capacity of 620,000 flight movements per year. This would meet and go beyond the traffic demand forecast of 602,000 in 2030.

Cathay Pacific agrees with the HKIA Master Plan's assessment that adopting Option 1, then reverting to Option 2 would be wasteful as part of the infrastructure built under Option 1 would have to be taken down under Option 2. Furthermore, any delay in implementing Option 2 would mean that the HKIA capacity would be exhausted before the third runway is built.

HK-Shenzhen airport rail link not a viable alternative to a third runway

Cathay Pacific welcomes the commitment by the Hong Kong Government to cooperate further with neighbouring cities in the PRD and the urgency it places on the need for various major cross-boundary infrastructure projects, including the HK-Zhuhai-Macau Bridge and the Guangzhou-Shenzhen-HK Express Rail Link.

The airport rail link to Shenzhen can, however, never provide an effective substitute for the operation of passenger services to primary and secondary points on the mainland from HKIA itself. Passengers to such points will always travel via an air hub which can offer such connections – thus it is vital that they are provided from HKIA.

Shenzhen airport will have its second runway in operation by the second half of 2011, but according to its own passenger demand forecasts it will be experiencing capacity constraints by 2019, around the same time as HKIA. Relying on Shenzhen airport instead of building a third runway at HKIA is not a viable option. Having additional runways in both Hong Kong and Shenzhen will not be a duplication of infrastructure if the latter does not have the capacity to act as an alternate airport to HKIA.

A rapid rail connection between HKIA and Shenzhen airports would best serve the passengers destined for tertiary points on the mainland which are not linked by air to either Hong Kong or, vitally, to the other regional hubs. This equally applies to mainland passengers from tertiary cities wishing to fly to international destinations via the HKIA hub. This is its inter-airport cooperative value – although of even greater value is its provision of easy access through intermediate stops for passengers traveling between HKIA and the PRD area. The rail link would thus provide some transport benefits but would not remove the urgent need to plan for a third runway at HKIA.

Equally, a rapid rail link cannot provide a suitable cargo link. The value of Hong Kong as a cargo hub is in the consolidation of cargo that relies on a single inbound and outbound hub combined with free port status. Splitting cargo operations would add complexity and cost, and result in the fast erosion of Hong Kong's current status as the world's number-one air-cargo hub.

Directing traffic to other PRD airports is not a viable alternative to a third runway

It has been suggested that Hong Kong collaborate with one or more of the other four airports in the PRD to obviate the need for a third runway at HKIA. There is one major complication in developing such a link: Hong Kong and Shenzhen are not part of the same administrative region. They have separate governments; separate administrative systems (including different currencies); separate border controls; different immigration requirements; different air services agreements; different airport operators/stakeholders; and different designated and operating airlines. None of these things can be simply “traded” across the legally defined boundary – in fact, the Hong Kong SAR Basic Law defines this separation very clearly.

Even if the Basic Law was not a complicating factor, other attempts to link airports elsewhere in the world – even linking two airports within the same metropolitan area – have not proved successful. In London, for example, Heathrow and Gatwick do not operate as one airport and transfer traffic between the two is almost non-existent. In Montreal, the attempt to link Mirabel and Dorval also failed. The former is now a white elephant. In the US, both New York and San Francisco have been unable to generate transfer traffic between the major airports in each city.

Even if the challenges outlined above could somehow be resolved, there’s no reason to think that the other PRD airport hubs would surrender their runway capacity to Hong Kong. All of the PRD airports are in competition and this is good for passengers and other users.

Cooperation with other PRD airports

The competition among PRD airports mentioned above does not necessarily exclude cooperation on many fronts. Cathay Pacific supports the Hong Kong Government, CAD and HKAA in working closely with mainland authorities to increase the capacity and efficiency of the PRD airspace through better coordination. A coordinated approach to airspace and air traffic management is crucial if HKIA is to operate efficiently as a hub.

However, directing traffic to other airports in the PRD region can never be a practical substitute for a third runway. As an international financial centre, logistics hub and prime travel destination, Hong Kong needs to have its own airport with sufficient capacity to provide for the city’s economic growth. Even with better coordination among PRD airports, runway capacity is still very much an urgent issue that needs to be addressed.

Strengthening the HK hub

To be an effective hub, HKIA needs to accommodate both large aircraft and smaller feeder aircraft. A mix of narrow-bodied feeder aircraft allows access to a broader choice of onward destinations. Without such options, passengers would travel via other regional hubs instead and the Hong Kong hub would wither. The world’s great hub airports - London Heathrow, Frankfurt, New York JFK and so on - all have extensive feeder operations at the same airport.

Summary

To serve Hong Kong’s best interests, a third runway at HKIA needs to be built – and it’s important that all stakeholders, including airlines, should be deeply involved in the process. HKIA should not allow its strategic strength to be undermined by a failure to provide the necessary runway infrastructure.

Suggestions that the existing two-runway system could be enhanced; or that the problem could be solved by better coordination in moving passengers between the five PRD airports, are not workable solutions as shown in other cities around the world, even where there is no border to cross when transferring between airports.

The economic and social benefits of the third runway need to be carefully balanced with environmental, engineering and funding considerations. Cathay Pacific welcomes HKAA's approach in consulting the Hong Kong community widely on the two options it has put forward in its Master Plan 2030.

Cathay Pacific believes a third runway at HKIA is critical to sustaining Hong Kong as an international aviation hub and maintaining the city's long-term economic growth and development.

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