

## HONG KONG SHIPPERS' COUNCIL

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**Position Statement in Support of the Third Runway Option**

The success of the Hong Kong International Airport today makes the message clear and simple—Hong Kong needs a third runway so that shippers' activities can align with world trade for continuous expansion and prosperity.

Air cargo traffic is expected to grow at an average of 5.6% per annum over the next 20 years, according to the 2010-2011 Boeing World Cargo Forecast. The world's air cargo fleet will grow annually by 3.5%, doubling from 1,760 airplanes in 2010 to 3,500 in 2030.

Airport Authority Hong Kong (AAHK) Master Plan 2030 gives two options to meet future expansion. The first option for a dual runway will reach its maximum runway capacity sometime around 2020, after which no additional flights could be added and airlines cannot introduce new destinations, nor add frequency to existing routes. The third runway option will enable HKIA to meet forecast traffic demand and maintain its extensive air network and connectivity up to and possibly beyond 2030.

In addition to traditional trade routes on the transAtlantic and transPacific, air traffic growth will be driven by travel to, from and within the Asia Pacific region. Traffic within the region in the next 20 years, according to Boeing's study, will grow even faster. Air cargo growth will total 6.3% annually during the next 20 years, and intra-Asia cargo today is expected

to be one of the drivers of world trade.

Hong Kong stands at an important crossroads in the Asia Pacific region, being strategically positioned to serve the Mainland as well as the other rising economies like Vietnam, Laos, Cambodia, and so forth. Hong Kong started as a trading post and today continues to thrive as an international trading centre. It is part of the economic dynamism of Asia Pacific and, what's more, it is a major conduit to the China market.

Logistics lies at the heart of this Mainland connection, not to mention the connections to the so-called 'Greater China' area that includes nearby Macau and Taiwan. Trade and the related industry of logistics that links the supply chain between Hong Kong, the Mainland and the rest of the world, is composed of so many jobs and the livelihood of people and their families. If we are unable to sustain the function of an international trading port, the damage will spill over to industries up and down the stream which include tourism, finance, legal services, insurance, QC, design, innovation, food and beverages, etc.

Nowadays, we cannot look at a single industry alone because there is an entire value chain connected to it, interlocking with other industries. International trade is at the core of Hong Kong and that which has made Hong Kong a leading financial centre. This economic powerhouse of only 7 million people ranks among the major cities of the world like London, Paris, New York. Hence, maintaining its core function—international trade—is just as important as maintaining the other parts of its economic development. International trade is made up of both products and services and while Hong Kong thrives in both, we have to see to it that there will be ample

space and facilities to accommodate this growth not only in the coming decade or so, but beyond.

The proportion of import and export goods carried by air is increasing at a rapid rate. In 2010, although in terms of volume, only 1.37% of Hong Kong's import and exports goods were carried by air, in terms of value, the figure was as high as 35.8%. This proportion would definitely continue to rise. It is a primary strategy for overseas importers and retailers to minimize inventory in order to mitigate market risks and lower inventory costs. More manufacturers have resorted to "Zero Inventory" or the "Just-in-time" concept in their supply chain management. In response to rapid market changes and shorter product lifecycles, air freight clearly has the distinct advantage. Air freight has triumphed over all other modes of transportation as the supply chain has become more sophisticated. The experts tell us that to please consumers, one must get the products to them immediately or they would lose interest. And with today's Internet, that demand happens at the mere touch of a button or a keyboard key!

Hong Kong's logistics industry serves the Pearl River Delta. The Mainland government is determined to raise the profile of the manufacturing activities there. We are seeing the proportion of high value, hi-tech industries increasing and the region's production and processing industries moving up the value scale. This could be seen as a natural progression as major cost items such as labor, energy, land, etc continue to rise.

High value goods require air shipments because speedy access to market is crucial to the products survival. Logistics reliability is important as marketing programmes, sales commitment, etc, count on it.

Among the five PRD airports, Hong Kong has been maintaining its edge because of its excellent facilities and related services that is the value of Hong Kong as a logistics hub. Even while the smaller hubs in southern China continue to invest in improving the infrastructure and facilities such as Customs and other trade related services, it is difficult to see them at a par with Hong Kong's free port status and international financial centre offerings.

Hong Kong's free port status allows a lot of logistics activities like cargo consolidation, regional distribution, cargo repacking and reprocessing, etc to be carried out here. Successful cargo consolidation carried out in Hong Kong is also an important factor for competitive freight rates.

To highlight another crucial factor in airfreight, cargo in Asia is usually via passenger aircraft or belly freight. Over 40% of cargo through Hong Kong is carried this way. Passenger flights are highly sensitive to arrival and departure windows and naturally, airlines operating these flights carrying freight always want more windows during the peak or golden hours. This is why the capacity of an airport becomes crucial. We cannot only look at the average number of flights per hour. If airlines are unable to obtain the suitable windows for their flights, agents will be forced to seek alternatives. For similar reasons, if clients, buyers and merchandisers, are forced to fly elsewhere, if they can't come to Hong Kong on the flights they want, the attractiveness of Hong Kong will be impaired.

Maintaining Hong Kong's high standards and competitive air cargo services is just as important, or even more so, as maintaining Hong Kong's status as a maritime hub. They are what make Hong Kong an international

trade and finance centre. And while we already have reached this status, it is not only the future 20 years from now that we have to worry about but the sooner the airport expansion can be started, the better.

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