

HONG KONG RETAIL MANAGEMENT ASSOCIATION

Submission on the Third-Runway Project at Hong Kong International Airport

8 September 2014

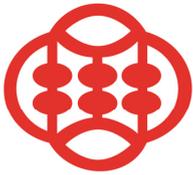
The Hong Kong Retail Management Association (“the Association”) is firmly in support of the construction of a third runway at Hong Kong International Airport (“HKIA”) without further delay. Our views are set out in the following deliberations:

1. Sharpening Hong Kong’s Competitiveness

Global aviation connectivity is of paramount importance to Hong Kong’s role as a regional and an international business hub. The HKIA plays an indispensable part in upholding this role that supports our major economic pillars, namely financial services, trading and logistics, tourism and retailing, as well as producer and professional services,.

However, HKIA is fast approaching maximum capacity. In 2013, HKIA’s three traffic categories registered new annual records, namely with passenger traffic grew 6.1% to 59.9 million; flight movements increased by 5.8% to 372,040; and cargo rose 2.4% to 4.12 million tonnes. Due to faster-than-forecast growth in air traffic volumes, HKIA’s existing two runways will reach their full capacity in a few years’ time.

According to the Government’s latest traffic forecasts, the annual air traffic demand for Hong Kong will reach 102.3 million passengers, 607,000 flight movements, and cargo at 8.9 million tonnes by 2030. In the wake of China’s continued robust development and the accelerated economic growth in the region, the mere enhancement of the existing two runways cannot meet the expanding demands in terms of passenger volumes, flight and cargo traffic in the years ahead.



The timely construction of the third runway is crucial to maintain Hong Kong's competitiveness. With expanded aviation capacity, Hong Kong's position as a world-class city and an international aviation hub would be reinforced as greater flows of goods and people from around the globe are made possible.

At the same time, Hong Kong will be strategically positioned to reap benefits from the fast growing private jets market and to attract more budget airlines choosing Hong Kong as a key destination.

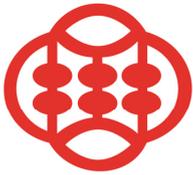
The further delay of the construction work will not only result in skyrocketing costs but also lead to undesired degradation of our city in its connectivity and competitiveness when other cities in the region are moving much faster ahead of us.

2. Fending off Fierce Competition

Hong Kong is facing fierce competition from airports in the Asia Pacific region and China in light of either their committed or expansion plans in the pipeline. This ever intensified competition is shown by expansion plans of some major airports as follows:

Asia Pacific Region

- Bangkok Suvarnabhumi Airport is working on its second-phase development project, including a main terminal extension and enhancement works on people mover system and parking bays. In 2012, the construction of a third runway was approved in principle, which is scheduled to complete by 2018.
- Singapore Changi Airport has already rolled out the construction of their Terminal 4, which will be completed by 2017.
- Incheon International Airport has embarked on its third-phase expansion project including a second passenger terminal, a fifth runway and an airport city, which will



be completed by 2018.

- Taipei Taoyuan Airport is now renovating its runways and taxiways to accommodate larger aircrafts, while construction of Terminal 3 and a third runway will be completed by 2020. To support the new development, an enhanced transport system surrounding the airport will commence in 2016.

Mainland

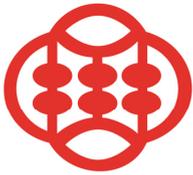
- Guangzhou Baiyun International Airport is constructing a third runway and a second terminal, which are expected to commence operation in 2014 and 2016 respectively.
- Shanghai's two airports at Hongqiao and Pudong are expanding their terminal buildings which will complete in 2014 and 2015 respectively. At the same time, the Pudong Airport will have its fourth and fifth runway to be in operation by 2015.

The above are just some of the many airport expansion projects in the region. In actual fact, a lot of countries in the world are now giving top priority to uplift their aviation connectivity due to rapid globalization and new economic order in the international arena.

It is apparent that without the construction of a third runway, HKIA's attractiveness will soon erode, and it will be unable to fend off fierce competitions from rival airports which are now either enjoying greater throughput in both passenger and cargo traffic, or having solid expansion plans to uplift their likewise capacity.

3. Creating Impetus to Economic Growth

In building the third runway, we believe it will create further growth impetus to Hong Kong and boost its much needed economic diversification. As Hong Kong is enviably located at the centre of Asia, it allows passengers to reach half of the world's population in just five hours' flying time, and travel to and from major Mainland cities within same



day flight. We should capitalize on this strategic position in order to facilitate a much greater flows of people, capital, goods, and information – all are essential elements of sustaining growth – that Hong Kong’s future development is greatly rested on.

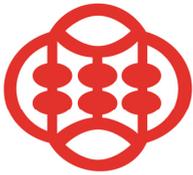
As China will remain a key driver for growth, many multinational corporations prefer to cluster in the best connected hubs that provide greatest convenience in people and goods movements. Enjoying a unique advantage of geographical proximity to the Mainland especially the prospering Greater Pearl River Delta region, HKIA should strengthen its competitive edge in the aviation business, and strives to be the leader amongst various Mainland airports.

On a macro level, the building of a third runway, alongside a number of cross-boundary infrastructure projects such as the Hong Kong Zhuhai-Macao Bridge, and the Guangzhou-Shenzhen-Hong Kong Express Rail Link, will be an integral move for Hong Kong to capture the enormous opportunities in China’s rapid economic and social transformation. More importantly, it will help prevent Hong Kong from being marginalized by other Mainland cities in the long run.

In essence, we are positive that the construction of the third runway will bring substantial tangible benefits to a wide spectrum of sectors such as logistics, tourism, retail, catering, hotel, convention and exhibition and more, which in turn will create multiplier effects on the economy. At the same time, it will strengthen Hong Kong’s status as an aviation and logistics hub, and help drive constantly our productivity, efficiency and economic growth.

4. Spearheading Retail & Tourism Development

HKIA plays a pivotal role in supporting Hong Kong’s tourism and retail industry. Altogether, the two industries contributed 8.6% of our GDP, and employed 520,000 persons in 2012. Since the implementation of Individual Visit Scheme (IVS) in 2003, inbound tourist spending has been taking up a much larger proportion of Hong Kong’s total retail sales. In 2004, the shopping expenditure of visitors only made up of 20.3%



of the total retail sales (HK\$38.9 billion out of HK\$191.6 billion), while it has surged to 38.3% in 2013 (HK\$189.4 billion out of HK\$494.5 billion).

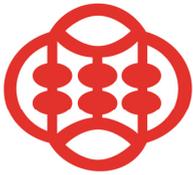
Visitor arrivals by air transport also registered impressive growth over the past few years, and such a trend is expected to grow at a much faster pace in the years ahead. In 2013, total visitor arrivals to Hong Kong increased 11.7% to 54.3 million, while visitor arrivals by air transport grew 6.7% to 12.3 million, which constituted 22.7% of total visitor arrivals (2012: grew 4.8% to 11.6 million, representing 24% of 48.6 million total visitors). For the first seven months of 2014, visitor arrivals by air already reached 7.4 million, which accounted for 22% of 33.9 million total visitor arrivals.

Despite Hong Kong remains as a single place receiving the highest number of Chinese visitors, we are facing slower tourist growth and spending, as well as cut-throat competitions in the region. In 2013, we registered 40.7 million mainland tourists at a growth rate of 16.7%, which however was much slower than the 2012 rate of 24.2%.

In contrary, many of our rival destinations have liberalized their visa policies and uplifted tourist facilities in a forceful manner. As a result, they have experienced impressive growth in China visitors. For example, South Korea registered a 52.5% growth in China visitors to 4.3 million in 2013; while Thailand a 70.2% to 4.7 million Chinese visitors. Both of them turned out to be the top performers in achieving highest growth rate in mainland tourists in 2013.

With this irrevocable trend of immense regional competition, Hong Kong needs to step up our efforts to expand tourist facilities and enhance their experience, otherwise, we will be losing our long-claimed attractiveness, especially our appeals to the burgeoning high-spending visitors travelling via air traffic in the years to come. In addition, it is a known fact that HKIA has been experiencing heightening pressure on its capacity and service quality due to the accelerated growth of international and regional tourism in recent decade.

We believe in building a third runway, it will help sustain HKIA's status as the world's leading 5-star airport, more importantly, it will drive tourist growth and increase retail



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sales receipts, leading to greater employment opportunities and stronger economic growth for Hong Kong.

5. Environmental Impact

The Association welcomes the completion of the environmental impact assessment (EIA) study. We trust that the EIA process is well-established and comprehensive in assessing the environmental aspects of building the third runway, covering aircraft noise, air quality, marine ecology and the Chinese White Dolphins habitat.

In order to arrive at a public consensus for the third runway project promptly, we view that HKIA may have to further step up its engagement exercise with different stakeholders on the EIA through a comprehensive communication and engagement plan.

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About Hong Kong Retail Management Association

The Hong Kong Retail Management Association (HKRMA) was founded in 1983 by a group of visionary retailers with a long-term mission to promote Hong Kong's retail industry and to present a unified voice on issues that affect all retailers. Established for 31 years, the Association has been playing a vital role in representing the trade, and raising the status and professionalism of retailing through awards, education and training.

Today, HKRMA is the leading retail association in Hong Kong with membership covering more than 7,800 retail outlets and employing over half of the local retail workforce. HKRMA is one of the founding members of the Federation of Asia-Pacific Retailers Associations (FAPRA) and is the only representing organization from Hong Kong. FAPRA members cover 17 Asian Pacific countries and regions.