

**立法會**  
**Legislative Council**

LC Paper No. CB(4)304/17-18  
(These minutes have been seen  
by the Administration and  
Airport Authority Hong Kong)

Ref: CB4/HS/2/16

**Subcommittee to Follow Up Issues Relating to the Three-runway System at  
the Hong Kong International Airport**

**Minutes of the seventh meeting held on  
Friday, 29 September 2017, at 10:45 am  
in Conference Room 3 of the Legislative Council Complex**

**Members present** : Hon WONG Ting-kwong, GBS, JP (Chairman)  
Hon Jeremy TAM Man-ho (Deputy Chairman)  
Hon CHAN Kin-por, GBS, JP  
Hon Paul TSE Wai-chun, JP  
Hon Michael TIEN Puk-sun, BBS, JP  
Hon Steven HO Chun-yin, BBS  
Hon Frankie YICK Chi-ming, SBS, JP  
Hon YIU Si-wing, BBS  
Dr Hon KWOK Ka-ki  
Dr Hon Elizabeth QUAT, BBS, JP  
Ir Dr Hon LO Wai-kwok, SBS, MH, JP  
Hon Holden CHOW Ho-ding  
Hon Wilson OR Chong-shing, MH  
Hon Tanya CHAN  
Hon LUK Chung-hung

**Members absent** : Hon Abraham SHEK Lai-him, GBS, JP  
Hon Jeffrey LAM Kin-fung, GBS, JP  
Hon Dennis KWOK Wing-hang  
Hon CHU Hoi-dick  
Hon HUI Chi-fung  
Hon LAU Kwok-fan, MH  
Dr Hon CHENG Chung-tai

**Public Officers  
attending**

: Agenda item I

Transport and Housing Bureau

Mr Frank CHAN, JP  
Secretary for Transport and Housing

Mr Andy YAU, JP  
Head (Airport Expansion Project Coordination Office)

Mr Wallace LAU, JP  
Deputy Secretary for Transport and Housing  
(Transport) 4

Airport Authority Hong Kong

Mr Fred LAM, JP  
Chief Executive Officer

Mr Wilson FUNG  
Executive Director, Corporate Development

Mr William LO  
Executive Director, Finance

**Clerk in attendance** : Ms Shirley CHAN  
Chief Council Secretary (4)5

**Staff in attendance** : Ms Shirley TAM  
Senior Council Secretary (4)5

Ms Lauren LI  
Council Secretary (4)5

Ms Zoe TONG  
Legislative Assistant (4)5

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- I. Detailed funding plan for the three-runway system**  
[LC Paper No. CB(4)1620/16-17(01)]

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Declaration of interest

Mr Frankie YICK and Mr Steven HO declared that they were members of the Board of the Airport Authority Hong Kong ("AAHK"). The Deputy Chairman declared that he was an employee of an airline.

Discussion

2. The Subcommittee deliberated (index of proceedings attached at **Annex**).

**II. Any other business**

Letters from the Deputy Chairman and Mr LUK Chung-hung

[LC Paper Nos. CB(4)1611/16-17(01), CB(4)1619/16-17(01) and CB(4)1629/16-17(01)]

3. Members noted the above two letters. On the Deputy Chairman's concern about an incident of a fireboat being stranded in the three-runway system ("3RS") works area that took place on 30 August 2017 and the marine works safety of the 3RS, the Administration advised that relevant government departments together with AAHK were following up on the incident and reviewing the emergency communication mechanism of the 3RS marine works. A written response would be provided in due course to report the situation.

*(Post-meeting note: The Administration's response was issued to members vide LC Paper No. CB(4)58/17-18(01) on 18 October 2017.)*

Consideration of the need to extend the period of work of the Subcommittee

[LC Paper No. CB(4)1629/16-17(02)]

4. The Chairman referred members to the above letter and invited members' views on the Deputy Chairman's proposal for extending the period of work of the Subcommittee.
5. Ms Tanya CHAN supported the proposal whereas Ir Dr LO Wai-kwok, Dr Elizabeth QUAT, Mr Holden CHOW, Mr Steven HO and Mr YIU Si-wing disagreed to extend the period of work of the Subcommittee. They considered that issues relating to the 3RS project could be followed up by relevant Panels and that the Subcommittee should wrap up its work for the activation of another subcommittee on the waiting list.
6. Mr LUK Chung-hung considered that the Subcommittee's previous discussion on manpower plan and development in relation to the 3RS project did not fully

Action

address the concerns of relevant stakeholders. The Subcommittee agreed to hold its last meeting to discuss issues relating to the manpower plan of the Hong Kong International Airport.

*(Post-meeting note: The last meeting of the Subcommittee was held on 18 October 2017 to discuss the 2017 Hong Kong International Airport Workforce Survey. A notice of meeting was issued to members vide LC Paper No. CB(4)1653/16-17(01) on 10 October 2017.)*

7. There being no other business, the meeting ended at 12:42 pm.

Council Business Division 4  
Legislative Council Secretariat  
29 November 2017

**Proceedings of the seventh meeting of  
the Subcommittee to Follow Up Issues Relating to the Three-runway System at  
the Hong Kong International Airport  
on Friday, 29 September 2017, at 10:45 am  
in Conference Room 3 of the Legislative Council Complex**

Time marker	Speaker	Subject(s)	Action required
<b>Agenda item I – Detailed funding plan for the three-runway system</b>			
000654 – 000858	Chairman	Opening remarks	
000859 – 001304	Chairman Administration	Introductory remarks by the Administration on the detailed funding plan for the three-runway system ("3RS")	
001305 – 002951	Chairman Airport Authority Hong Kong ("AAHK")	Briefing by AAHK on the detailed funding plan for 3RS with the aid of powerpoint presentation [LC Paper No. CB(4)1630/16-17(01)]	
002952 – 003444	Chairman Mr YIU Si-wing AAHK	<p>Mr YIU Si-wing expressed concern that as the Airport Construction Fee ("ACF") was included in the price of air tickets issued by airlines, travel agencies would have to bear the costs relating to credit card payments in collecting ACF on behalf of airlines. He was of the view that AAHK should assume a role in mediating between the travel agencies and the airlines regarding the collection of ACF.</p> <p>In response, AAHK advised that it was inappropriate for it to intervene in the commercial relations between travel agencies and airlines. However, AAHK would relay the travel agencies' concern on collecting ACF to airlines.</p> <p>Mr YIU also enquired if AAHK would stop collecting ACF once the \$26 billion had been raised earlier than expected. AAHK replied that the levying of ACF would be effective until all 3RS-related borrowings had been repaid.</p>	
003445 – 004059	Chairman Ms Tanya CHAN AAHK Administration	Ms Tanya CHAN noted that in the consultancy study on the financial arrangement for 3RS conducted in 2015 ("the 2015 report"), the peak debt level was estimated to reach \$77 billion in 2023-2024. However, the highest debt level was estimated to reach \$78 billion in 2024-2025 in the 3RS detailed funding plan study completed in 2017 ("the 2017 report"). In this connection, Ms CHAN enquired if the peak debt levels and the times to reach such debt levels were comparable in the two reports, which were both conducted by AAHK's financial advisor, the Hongkong and Shanghai Banking Corporation Limited ("HSBC").	

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		<p>AAHK advised that –</p> <ul style="list-style-type: none"> <li>(a) it was AAHK's target to raise an incremental debt of \$69 billion for the 3RS project, which was the same in both the 2015 report and the 2017 report;</li> <li>(b) the \$77 billion of total debt mentioned in the 2015 report was the sum of the incremental debt of \$69 billion for the 3RS project and AAHK's estimated recurring debt level for existing operation which were \$8 billion; and</li> <li>(c) the \$78 billion mentioned in the 2017 report was the higher end of the sum of each debt instrument as outlined in the indicative range of cumulative incremental debt balance.</li> </ul>	
004100 – 004555	Chairman Mr Frankie YICK Mr YIU Si-wing AAHK	<p>Declaration of interest</p> <p>Mr Frankie YICK expressed concern about whether AAHK was able to raise additional debt to meet the funding shortfall in case of cost overrun.</p> <p>Mr YICK noted that travel agencies had to bear the costs relating to credit card payments when they collected ACF on behalf of airlines. Mr YICK considered the travel agencies were at a disadvantaged position in negotiation with the airlines. In this connection, he urged AAHK to offer assistance to the travel agencies as appropriate.</p> <p>In response, AAHK advised that –</p> <ul style="list-style-type: none"> <li>(a) in the 2015 report, it was confirmed that AAHK would be able to raise additional debt to fund the consequential funding shortfall in the event of cost overrun under certain downside scenarios assessed by AAHK's financial advisor; and</li> <li>(b) the commercial relations between airlines and travel agencies were complicated. AAHK would bring the travel agencies' concern to the attention of airlines.</li> </ul>	
004556 – 005522	Chairman Dr KWOK Ka-ki AAHK Administration	<p>Taking into account that AAHK was wholly-owned by the Government, Dr KWOK Ka-ki was of the view that the Government would ultimately have to bear the extra cost of the 3RS project if there was cost overrun.</p> <p>Upon Dr KWOK's enquiry about the cost of borrowing for the \$69 billion loan, AAHK advised that the cost of borrowing was estimated to be \$17 billion over an eight year period at an assumed interest rate of 5% per annum throughout the whole period, according to the 2015 report.</p>	

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		<p>The Administration advised that it had been monitoring the implementation of the 3RS project to minimize the risk of cost overrun.</p>	
005523 – 010114	<p>Chairman Deputy Chairman AAHK</p>	<p>Declaration of interest</p> <p>Discussion on collection of ACF by travel agencies on behalf of airlines</p> <p>The Deputy Chairman enquired about –</p> <p>(a) the impact of different combinations of various financial instruments on the cost of borrowing, and if any relevant sensitivity tests had been conducted; and</p> <p>(b) the estimated credit rating of AAHK when it came to the medium term funding activities, which were anticipated to take place from 2020-2021 to the completion of 3RS as outlined in the 2017 report.</p> <p>In response, AAHK advised that –</p> <p>(a) among all other assumptions used in the relevant sensitivity tests, HSBC deemed the recommended detailed funding plan issued in the 2017 report the most optimal option; and</p> <p>(b) it was confirmed in the 2015 report that under the working case assumptions, AAHK was able to maintain an excellent credit rating when AAHK reached its peak debt level.</p>	
010115 – 010708	<p>Chairman Mr CHAN Kin-por AAHK Administration</p>	<p>Mr CHAN Kin-por urged AAHK to consider increasing the size of the retail bond offering. He also suggested that AAHK should lengthen the tenor of the retail bonds from three years to five years.</p> <p>Considering that issuing retail bonds could bring financial gains to the Hong Kong investing public, the Chairman urged AAHK to consider allocating a larger portion of its borrowings for funding the 3RS project in the form of retail bonds.</p> <p>In response, AAHK advised that it might consider adjusting the tenor and size of the retail bond offering to take into account the situation when the bonds were issued.</p> <p>Mr CHAN urged AAHK and the Administration to address the concern of travel agencies in respect of ACF collection.</p>	

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010709 – 011323	Chairman Mr YIU Si-wing Administration AAHK	<p>Mr YIU Si-wing expressed concern that AAHK would continue to levy ACF beyond 2030 in case loans relating to 3RS could not be fully repaid by that time. He was worried that travel agencies concerned would continue to suffer the financial burden resulting from the collection of ACF.</p> <p>AAHK advised that ACF collection would remain in effect until all borrowings related to the 3RS project were fully repaid, which was expected to be in the financial year 2030-2031. AAHK added that the current charging levels of ACF would be maintained throughout the collection period.</p> <p>Mr YIU reiterated his request that AAHK should assume a role in mediating between the travel agencies and the airlines regarding the collection of ACF. AAHK advised that it was inappropriate for it to intervene in the commercial relations between travel agencies and airlines. The Administration considered that the two stakeholders should seek to reach a consensus through communication.</p>	
011324 – 011915	Chairman Ms Tanya CHAN AAHK Administration	<p>Ms Tanya CHAN expressed reservations about increasing the size of the retail bond offering, given the estimated higher cost of borrowing.</p> <p>Ms CHAN enquired about –</p> <p>(a) the reasons for the different peak debt level and estimated time, i.e. from \$77 billion to \$78 billion, and from 2023-2024 to 2024-2025, in the 2015 report and the 2017 report; and</p> <p>(b) under what situations refinancing would be required.</p> <p>AAHK advised that –</p> <p>(a) the \$77 billion total debt mentioned in the 2015 report was the sum of AAHK's estimated recurring debt of \$8 billion for existing operation and an incremental debt of \$69 billion for the 3RS project. The \$78 billion mentioned in the 2017 report was only the summation of the highest range of each debt instrument type. All in all, AAHK targeted to raise an incremental debt of \$69 billion for the 3RS project; and</p> <p>(b) several measures would be adopted by AAHK to minimize the risks of refinancing. These measures included issuing bonds or raising loans with maturity beyond the completion of 3RS.</p>	

Time marker	Speaker	Subject(s)	Action required
		<p>By maintaining the revolving credit facilities, AAHK would be able to meet potential unexpected liquidity requirements and manage the overall financing cost.</p>	
011916 – 012331	<p>Chairman Dr Elizabeth QUAT AAHK</p>	<p>Dr Elizabeth QUAT suggested AAHK should issue more green bonds in funding the 3RS project for the positive environmental and/or climate benefits associated with such issuance.</p> <p>AAHK advised that –</p> <ul style="list-style-type: none"> <li>(a) the administrative fees for issuing green bonds would be higher than other bonds since issuance of green bonds required certification upfront and every subsequent year. However, as the green bond market had grown rapidly in recent years, AAHK would explore the feasibility to offer green bonds in the market to showcase its green credentials and appeal to investors who were increasingly focused on environmental issues; and</li> <li>(b) the Third Runway Passenger Building of the 3RS project would probably be eligible for green bond financing. AAHK would conduct further feasibility study to see if other assets of the 3RS project were also eligible for green bond financing.</li> </ul>	
012332 – 012936	<p>Chairman Dr KWOK Ka-ki Administration AAHK</p>	<p>Dr KWOK Ka-ki enquired whether the downgrading of Hong Kong's credit rating by Standard &amp; Poor's would have bearings on AAHK's cost of borrowing.</p> <p>In response, AAHK advised that –</p> <ul style="list-style-type: none"> <li>(a) a cost of borrowing of 5% per annum throughout the entire construction period had been built into the financial model to test the financial robustness of the 3RS project in the 2015 report. HSBC was of the view that the financial arrangement of the 3RS project would still be considered viable and robust even if the interest rate rose to 7% per annum in future; and</li> <li>(b) the market had remained calm regarding the recent downgrading of Hong Kong's and AAHK's credit rating by Standard and Poor's.</li> </ul> <p>Discussion on runway capacity of 3RS</p>	

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012937 – 013318	Chairman Ir Dr LO Wai-kwok	Ir Dr LO Wai-kwok was optimistic about AAHK's ability to raise debts from the market leveraging on its financial capability. He looked forward to seeing the completed 3RS to play its part in making Hong Kong an important transportation hub.	
013319 – 013751	Chairman Deputy Chairman AAHK Administration	<p>Upon the enquiry of the Deputy Chairman, AAHK confirmed that the revolving credit facilities estimated to be \$10 billion did not form part of the incremental debt of \$69 billion.</p> <p>The Deputy Chairman referred to section 20(2)(a)(ii) of the Airport Authority Ordinance (Cap. 483) ("AAO") which read "... in the Authority's being unable to pay (either wholly or partly) a debt ... the Government shall pay to the Authority an amount equal to such expenditure (including any loss) as has been reasonably incurred by the Authority ...", and asked if the Government would inject funds into the 3RS project by virtue of the above-mentioned provision if cost overrun occurred.</p> <p>The Administration answered in the negative. It added that the Government would only provide financial backing to AAHK when the loss was incurred due to some decisions of the Government and when public interest was involved. Since the 3RS project was not initiated by the Government, section 20(2)(a)(ii) of AAO would not be applicable in this case.</p>	
<b>Agenda item II – Any other business</b>			
013752 – 014415	Chairman Administration Deputy Chairman Ir Dr LO Wai-kwok Ms Tanya CHAN	Discussion on the letters from the Deputy Chairman and Mr LUK Chung-hung [LC Paper Nos. CB(4)1611/16-17(01) and CB(4)1619/16-17(01)]	
014414 – 020058	Chairman Ms Tanya CHAN Ir Dr LO Wai-kwok Dr Elizabeth QUAT Mr Holden CHOW Deputy Chairman Mr YIU Si-wing Mr Steven HO Mr LUK Chung-hung	<p>Declaration of interest</p> <p>Discussion on the letter from the Deputy Chairman proposing to extend the period of work of the Subcommittee to Follow Up Issues Relating to the Three-runway System at the Hong Kong International Airport [LC Paper No. CB(4)1629/16-17(02)]</p> <p>Arrangement of the last meeting</p>	