

立法會
Legislative Council

LC Paper No. CB(4)1221/18-19
(These minutes have been seen by
the Administration)

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Panel on Economic Development

Minutes of meeting
held on Monday, 29 April 2019, at 10:45 am
in Conference Room 1 of the Legislative Council Complex

Members present : Hon CHUNG Kwok-pan (Chairman)
Hon WU Chi-wai, MH (Deputy Chairman)
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon WONG Ting-kwong, GBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon WONG Kwok-kin, SBS, JP
Hon Paul TSE Wai-chun, JP
Hon Claudia MO
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
Hon Charles Peter MOK, JP
Hon Kenneth LEUNG
Hon Alice MAK Mei-kuen, BBS, JP
Hon Dennis KWOK Wing-hang
Dr Hon Elizabeth QUAT, BBS, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon Alvin YEUNG
Hon Andrew WAN Siu-kin
Hon CHU Hoi-dick
Hon Jimmy NG Wing-ka, JP
Dr Hon Junius HO Kwan-yiu, JP
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai
Hon CHAN Chun-ying, JP

Hon LUK Chung-hung, JP
Hon Jeremy TAM Man-ho

Member attending : Hon KWONG Chun-yu

Member absent : Hon James TO Kun-sun

Public Officers attending : Agenda item III

Commerce and Economic Development Bureau

Ms Leona LAW
Principal Assistant Secretary for Commerce and
Economic Development (Commerce and Industry) 2

Agenda item IV

Transport and Housing Bureau

Dr Raymond SO, BBS, JP
Under Secretary for Transport and Housing

Mr Raymond CHENG
Head (Airport Expansion Project Coordination Office),
Transport and Housing Bureau

Ms Alice YEUNG
Principal Assistant Secretary (Airport Expansion Project
Coordination Office), Transport and Housing Bureau

Airport Authority Hong Kong

Mr Kevin POOLE
Executive Director, Third Runway

Mr William LO
Executive Director, Finance

Mr Peter LEE
General Manager, Environment, Third Runway

**Related :
organization**

Agenda item III

Competition Commission

Mr Brent SNYDER
Chief Executive Officer

Mr Rasul BUTT
Senior Executive Director

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

Miss Mandy LUI
Legislative Assistant (4)5 (Acting)

Action

I. Information papers issued since the last meeting

(LC Paper No. CB(4)698/18-19(01) — Administration's paper on tables and graphs showing the import and retail prices of major oil products from March 2017 to February 2019

LC Paper No. CB(4)739/18-19(01) — Administration's response to the letter from Hon LUK Chung-hung dated 13 March 2019 regarding the aviation safety in connection with the prohibition of B737 MAX aircraft operations by the Civil Aviation Department as set out in LC Paper No. CB(4)653/18-19(01)

- LC Paper No. CB(4)748/18-19(01) — Administration's response to the letter from Hon Jeremy TAM Man-ho dated 12 March 2019 regarding the subletting of private vessel moorings as set out in LC Paper No. CB(4)649/18-19(01)
- LC Paper No. CB(4)763/18-19(01) — Administration's consolidated response to the letter from Hon Jeremy TAM Man-ho dated 26 February 2019 and the email from Hon CHU Hoi-dick dated 1 March 2019 regarding the land formation works for the construction of the three-runway system as set out in LC Paper Nos. CB(4)609/18-19(01) and CB(4)621/18-19(01) respectively
- LC Paper No. CB(4)765/18-19(01) — Referral from the Public Complaints Office of the Legislative Council Secretariat on landlords of sub-divided flat units overcharging their tenants on the use of electricity (Restricted to members only)

Members noted the above papers issued since the last regular meeting.

II. Items for discussion at the next meeting

(LC Paper No. CB(4)775/18-19(01) — List of outstanding items for discussion

LC Paper No. CB(4)775/18-19(02) — List of follow-up actions)

2. Members agreed to discuss the following items at the next regular

meeting scheduled for Monday, 27 May 2019 at 10:45 am –

- (a) Enhancement of the services of the Hong Kong Shipping Registry;
and
- (b) Proposed legislative amendments relating to the carriage of dangerous goods by air.

III. Report on the work of the Competition Commission

(LC Paper No. CB(4)775/18-19(03) — Competition Commission's report on its work

LC Paper No. CB(4)775/18-19(04) — Paper on the work of the Competition Commission prepared by the Legislative Council Secretariat (updated background brief))

Presentation by the Competition Commission

3. At the invitation of the Chairman, Mr Brent SNYDER, Chief Executive Officer of the Competition Commission ("the Commission"), and Mr Rasul BUTT, Senior Executive Director of the Commission, briefed members on various aspects of the Commission's work since the last report made to the Panel in March 2018 and provided an outlook for the coming year. Following the report by Mr SNYDER focusing on the Commission's enforcement work, Mr BUTT reported on the Commission's work on policy advisory and advocacy in the past year. Details of the briefing were set out in the paper provided by the Commission (LC Paper No. CB(4)775/18-19(03)).

Discussion

Law enforcement

4. Mr YIU Si-wing noted that the Commission had received and processed over 3 500 complaints and enquiries since December 2015, among which around 200 complaints had been escalated to the initial assessment phase. He enquired about the mechanism for processing those cases and whether priority would be accorded to certain cases involving issues of wide public concerns.

5. Mr Brent SNYDER of the Commission replied that generally there

were sequence and procedures that the Commission followed when handling complaints and enquiries. While most of the cases received by the Commission, especially those of enquiry nature, required no further actions, issues related to potential contravention of the Competition Ordinance (Cap.619) ("the Ordinance") would be escalated to the initial assessment phase which required resources to gather more information. If the information and evidence obtained suggested that there was a reasonable cause to suspect a contravention had occurred, the case would be escalated further for formal investigation which would involve the use of the Commission's formal investigative powers such as the ability to execute search warrants and compel the production of documents or information. There was no hard and fast rule to decide which case should be handled first but cases in relation to public interest would be handled with priority.

6. Noting the increasing number of complaints, Mr Holden CHOW raised concern whether the Commission had sufficient manpower resources to handle the investigation work, particularly if the cases were complex in nature and relevant investigations might take a long time.

7. Mr Rasul BUTT of the Commission said that there were 62 employees in the Commission and about half of them were responsible for investigation and law enforcement. The manpower resources were considered sufficient having regard to the current workload.

8. Mr CHAN Chun-ying noted that a dedicated funding of some \$200 million had been reserved by the Government to support the Commission's litigation work since 2018-2019. He enquired how long the funding could sustain the operation of the Commission having regard to the anticipated increase in the number of litigation cases.

9. Mr Rasul BUTT of the Commission appreciated the Government's financial support for the Commission's litigation work. While it was expected that the funding was enough to support the Commission for several years, it was hard to predict the exact timeframe which largely depended on the number of cases processed each year, complexity of cases, as well as outcomes of lawsuits.

10. Mr Holden CHOW reiterated his request for providing the right for private action in the Ordinance so as to give the public an additional channel to seek justice, apart from approaching the Commission. He called on the Administration to review this request.

11. Principal Assistant Secretary for Commerce and Economic Development (Commerce and Industry)2 ("PAS(CI)2") explained that

the Competition Bill introduced by the Government into the Legislative Council ("LegCo") in 2010 contained provisions which allowed stand-alone private actions, to the effect that any person who had suffered loss or damage as a result of a contravention of a conduct rule might bring legal action in the Tribunal. However, during the scrutiny of the Bill, small and medium enterprises ("SMEs") expressed concern that stand-alone private actions might be abused by large enterprise to oppress SMEs. In view of such concern, the Government removed the relevant provisions. After more experience had been gained in the operation of the Ordinance, the Administration would review the need to provide for stand-alone private actions.

Auto-fuel market of Hong Kong

12. Mr Frankie YICK expressed grave concern that the auto-fuel prices were extremely high in Hong Kong while they were quick to go up and slow to go down. Stressing members' disappointment with the Environment Bureau ("ENB")'s responses to the recommendations made by the Commission in its Report on Study into Hong Kong's Auto-fuel Market ("Report"), he was dissatisfied that the current market system allowed local oil companies to earn an unreasonably high profit especially for diesel which was tax free. In order to facilitate the formulation of suitable measures to foster a business-friendly environment of Hong Kong, he considered that the auto-fuel policy should fall under the policy portfolio of the Commerce and Economic Development Bureau ("CEDB"), rather than ENB.

13. Mr SHIU Ka-fai said that one of the major reasons on which the public and LegCo Members supported the establishment of the Commission was to curb the prices of auto-fuel. Sharing the views of Mr Frankie YICK, he cast doubt if ENB had taken any effective means to tackle the problem of high auto-fuel prices and urged CEDB to take over the related policy so as to implement suitable measures from the economic perspective. He also considered that the power of the Commission should be enhanced to address the problem as appropriate.

14. The Chairman pointed out that the public had been suffering from high auto-fuel prices for a long time. They had high hopes that the Report might bring certain changes to the auto-fuel market and the Government would take appropriate follow-up actions in response to the Report. Unfortunately the problem remained unsolved.

15. PAS(CI)2 replied that ENB, as the policy bureau concerned, had reported to and discussed with the Panel the Government's response to the Commission's recommendations. ENB had agreed to certain

recommendations such as improving the display of fuel price information. Generally speaking, in formulating policies, bureaux and departments would take into account all relevant factors, including economic impact, in their assessment. She noted that ENB's analysis of the Commission's recommendations had covered the impact on auto-fuel prices.

16. Mr Frankie YICK was not convinced of the Administration's explanation and considered the Government not addressing the interests of the public. To resolve the matter, he urged the Government to reconsider the suggestion of introducing into the market a pricing formula under which the award of petrol filling station tender should be primarily based on the lowest fuel prices offered to customers instead of the highest land premium offered to the Government.

17. Mr Jeremy TAM said that the local auto-fuel prices were currently at record high levels which were not in line with the international oil price movements. It was also unusual that those prices and their movements were absolutely the same across oil companies in Hong Kong. Suspecting the possible existence of anti-competitive conduct among local oil companies, he urged the Commission to look into this matter and the Government to formulate concrete and effective measures to resolve the problem.

18. Mr Holden CHOW pointed out the public perception that there were price-fixing activities among local oil companies in respect of the auto-fuel prices, although the Commission did not support this standpoint in the Report. To enhance competition in the market so as to lower the auto-fuel prices, he urged the Government to take forward the recommendations made by the Commission in its Report.

19. Mr Rasul BUTT of the Commission conveyed the Commission's view in the Report that the features of high and similar auto-fuel prices across local oil companies could not be taken as hard evidence of anti-competitive conduct. One possible cause of such scenarios might be parallel pricing under which oil companies followed closely with their competitors on pricing. In considering auto-fuel price levels, it was also necessary to take into account the various discounts provided by oil companies.

20. Mr Kenneth LEUNG considered the explanation not convincing and argued that each individual local oil company should have its own cost structure of the business affecting the selling prices of auto-fuel. Hence, the phenomenon of identical pump prices across companies might have suggested the existence of cartel behaviour among the companies instead of parallel pricing. He urged the Commission to launch an in-depth and

comprehensive study on this matter.

21. Mr Brent SNYDER of the Commission said that the Commission noted public concerns about auto-fuel prices and it would conduct a formal investigation into the auto-fuel market if it had reasonable cause to suspect a contravention of a competition rule. Regarding the Report, he explained that it was not conducted as part of an investigation and therefore, when conducting the study, the Commission did not have the power to compel related parties to provide information and eventually had to rely on the parties' willingness in providing information.

22. Referring to the Commission's recommendations made in the Report, Mr Holden CHOW enquired about the progress of providing in Hong Kong more auto-fuel choices like 95 RON petrol in addition to the existing 98 RON petrol so as to curb the auto-fuel prices.

23. Mr Rasul BUTT of the Commission said that the Commission noted that only one octane number of petrol, i.e. 98 RON was currently available in Hong Kong. Although 95 RON petrol was cheaper than 98 RON petrol by over 10% in Singapore and was commonly available overseas, it had been withdrawn from the local market for a long time. The Commission was of the view that reintroducing 95 RON petrol would provide more options to drivers as well as would possibly lead to lower auto-fuel prices in overall terms.

24. Pointing out that local oil companies had taken no action as regards the reintroduction of 95 RON petrol, Mr LUK Chung-hung asked about the further action to be taken by the Commission to drive competition of the auto-fuel market. He also considered that oil companies should diversify their sources of auto-fuel from different refineries such as those in Vietnam and Taiwan, apart from sourcing from Singapore. In response, Mr Rasul BUTT of the Commission said that oil companies in Hong Kong imported most of their refined petrol fuels from Singapore because four of the oil companies had their own refineries there.

Competition concerns involving other sectors

25. Mr LUK Chung-hung enquired about the measures to enhance competition regarding the supply of centralized liquefied petroleum gas ("LPG") to public rental housing ("PRH") estates. He also suggested that in selecting LPG suppliers during tender assessments, more considerations should be given to the benefits brought to users. Referring to the Commission's recommendations provided to the Hong Kong Housing Authority ("HA") on

LPG supply arrangements for PRH estates, Ms Alice MAK enquired about the progress of implementing those recommendations so as to enhance competition in the matter.

26. Mr Rasul BUTT of the Commission replied that the Commission provided recommendations to HA in September 2016 on the policy of renewing the centralized LPG supply contracts with existing suppliers upon contract expiry. In gist, the Commission recommended that among other things, HA should consider introducing a competitive process to determine the award of subsequent contracts. It was noted that HA had decided to arrange tenders for awarding new contracts upon expiry of existing contracts for the supply of centralized LPG to PRH estates.

27. In view of public concerns over the work of public bodies, especially those involved in the management of PRH estates and public markets, Mr Andrew WAN enquired whether the Commission would take the initiative to formulate tailor-made education and advisory programmes for related statutory bodies and public organizations.

28. Mr Rasul BUTT of the Commission responded that statutory bodies were exempted from the competition rules under the Ordinance. Despite the exemption, they should still adhere to the competition principles. The Commission was also tasked to advise the Government on competition matters in Hong Kong and outside Hong Kong. It had maintained a close liaison with the Government and various statutory bodies, including HA and the Housing Department. In fact, there were a growing number of Government departments and statutory bodies seeking the Commission's advice on possible competition implications of their new policies and programmes.

29. Ms Alice MAK was concerned about the lack of competition in certain public markets in Hong Kong. She pointed out that for example, the one in Yat Tung Estate was dominated by a private enterprise which owned various stalls as well as corresponding supply chains for selling different kinds of meat. She considered that this kind of domination would affect competition and thereby limiting consumers' choice. She called on the Commission to look into the matter.

30. Mr Brent SNYDER of the Commission responded that the Commission noted public concerns about the operations of certain wet markets. Although he could not confirm whether any investigation was underway, he reiterated that the Commission would conduct an investigation if it had reasonable cause to suspect that there was a contravention of the Ordinance by operators of wet

markets.

31. Referring to the Cathay Pacific's acquisition of the Hong Kong Express ("HKE"), Mr Andrew WAN was concerned that the merger rule under the Ordinance only applied to the telecommunications industry but did not prohibit mergers between businesses of other sectors which might substantially lessen competition in Hong Kong. He called on the Administration to expand the scope of the merger rule to cover other sectors.

32. Mr LUK Chung-hung was worried that the Cathay Pacific's acquisition of HKE might enable the company to monopolize the market by providing both full-service and low-cost carrier services, leaving the public with fewer options. He enquired if the Administration would consider expanding the scope of the merger rule under the Ordinance.

33. Mr Rasul BUTT of the Commission advised that according to the then available information in the public domain, the Cathay Pacific's acquisition deal was not confirmed at that moment. Although the merger rule stipulated under the Ordinance did not apply to the relevant sector, the Commission was actively engaging with the Government to encourage an assessment of the acquisition to the extent permissible within the relevant regulatory and licensing ambit.

34. On Mr YIU Si-wing's concern about the practice of some airlines of the same association in announcing airfare adjustments, Mr Brent SNYDER of the Commission advised that the Commission adopted the same standpoint to deal with cases suspected of contravening the competition rules in relation to trade associations of different market sectors including the aviation industry. For each case, taking into account the facts and issues raised, the Commission would conduct an investigation if there was a reasonable cause to suspect that a contravention had occurred.

35. Referring to the application for decision from the banking sector concerning the Code of Banking Practice ("the Code"), Mr CHAN Chun-ying welcomed the Commission's decision that although the Code was not excluded from the First Conduct Rule by the legal requirements exclusion in the Ordinance, the Commission had no intention to pursue further investigative or enforcement action in respect of the present version of the Code as it recognized that the Code was intended to promote good banking practices that might benefit service users in particular ways. He sought further information about similar applications made from other sectors and asked about the number of complaints and enquiries involving the financial sector that the Commission had received.

36. Mr Brent SNYDER of the Commission said that apart from the application from the banking sector, the Commission also received an application for a Block Exemption Order from the Hong Kong Liner Shipping Association in 2016 and issued the decision in 2017. In addition, the Commission received in January 2019 an application for decision from the Hong Kong Association of the Pharmaceutical Industry and expected to release the decision later on in 2019. Mr SNYDER added that he could not disclose details of cases involving the financial sector due to confidentiality considerations.

37. Ms Claudia MO appreciated the Commission's efforts in sustaining a competitive environment in Hong Kong and advising the Government on competition-related issues including the Administration's proposal to introduce the franchised taxi services. She relayed the complaints from the business sector that Hong Kong economy was inundated with massive capital from the Mainland, upsetting the fair competition in bidding for properties and business expansion in Hong Kong. She asked about the Commission's view and whether it would take any action in this regard.

38. Mr Brent SNYDER of the Commission stressed that the focus of the Commission was to combat any contravention of the competition rules under the Ordinance. While the Commission could not disclose the details of the cases being handled, it would conduct investigations into any conduct related to financial arrangement if there was a reasonable cause to suspect that a contravention had occurred.

39. The Deputy Chairman referred to the case established in January 2019 in relation to the formation of the Hong Kong Seaport Alliance ("HKSA") by some container terminal operators which altogether controlled some 95% of the market share of the container berths in Hong Kong. While the matter was being investigated by the Commission, he enquired if a cooperative agreement among businesses which sought to raise service efficiency and lower the price was subject to the competition rules.

40. Mr Brent SNYDER of the Commission replied that the Commission had an open investigation into the matter. In particular, the Commission was investigating whether the agreement might constitute a contravention of the First Conduct Rule of the Ordinance by preventing, restricting or distorting competition in Hong Kong. Whether the formation of HKSA would bring benefits to relevant customers would also be examined during the investigation. The Commission was carrying out this investigation as a matter of priority. It was expected that the investigation would be concluded by the first quarter of

2020.

Motion

41. Mr Jeremy TAM moved the following motion –

"本人現根據《內務守則》第 22(p)條動議下列議案：

國際油價已由高位回落不少，但本地燃油零售價卻屢創新高，所以本港油公司不時被批評油價"加多減少"。

本地燃油零售市場出現以下懷疑反競爭行為：

(一)其他市場的油價每日均有所變動，但本港油價可以整個月也維持不變；

(二)當原油成本下跌時，油公司亦不會降低零售價；及

(三)各油公司燃油零售價異常接近，甚至長期將價格訂於同一水平；消費者苦無選擇，被迫"捱貴油"。

本委員會促請競爭事務委員會立刻就此事展開正式調查，以保障本港消費者權益。"

(Translation)

"I hereby move the following motion under Rule 22(p) of the House Rules:

While international oil prices have tumbled from the peak levels, local retail fuel prices have hit record highs time and again. Hence, oil companies in Hong Kong are often being criticized for the situation of "more going up, less coming down" in respect of oil prices.

The following suspected anti-competitive conducts are identified in the local fuel retail market:

- (1) while oil prices in other markets change every day, local oil prices can remain unchanged for a whole month;
- (2) oil companies will not reduce their retail prices even though the crude oil price has dropped; and

- (3) fuel retail prices of various oil companies are exceptionally close to each other and even set at the same level for a long period of time. Having no other choices, consumers are forced to pay more for fuel.

This Panel urges the Competition Commission to commence a formal investigation into the matter so as to protect the interests of consumers in Hong Kong."

42. The Chairman ruled that the motion was directly related to the agenda item and members agreed that the motion should be dealt with at the meeting.

43. The Chairman put the motion to vote. All members took part in the voting voted for the motion. The Chairman declared that the motion was carried.

(Post-meeting note: The Administration's response to the motion was issued to members vide LC Paper No. CB(4)966/18-19(01) on 3 June 2019.)

IV. Update on the development of the three-runway system at the Hong Kong International Airport

(LC Paper No. CB(4)775/18-19(05) — Airport Authority Hong Kong's paper on update on the development of the three-runway system at the Hong Kong International Airport

LC Paper No. CB(4)775/18-19(06) — Paper on the development of the three-runway system at the Hong Kong International Airport prepared by the Legislative Council Secretariat (updated background brief))

Other papers

(LC Paper No. CB(4)609/18-19(01) — Letter from Hon Jeremy TAM Man-ho dated 26 February

2019 regarding the land formation works for the construction of the three-runway system (Chinese version only)

LC Paper No. CB(4)621/18-19(01) — Email from Hon CHU Hoi-dick dated 1 March 2019 regarding the land formation works for the construction of the three-runway system (Chinese version only)

LC Paper No. CB(4)763/18-19(01) — Administration's consolidated response to the letter from Hon Jeremy TAM Man-ho dated 26 February 2019 and the email from Hon CHU Hoi-dick dated 1 March 2019 regarding the land formation works for the construction of the three-runway system as set out in LC Paper Nos. CB(4)609/18-19(01) and CB(4)621/18-19(01) respectively)

Presentation by the Administration and the Airport Authority Hong Kong

44. At the invitation of the Chairman, Under Secretary for Transport and Housing ("USTH") gave an introductory remark on an update on the developments of the three-runway system ("3RS") at the Hong Kong International Airport ("HKIA"). With the aid of the powerpoint presentation materials, Mr Kevin POOLE, Executive Director, Third Runway, Airport Authority Hong Kong ("AAHK"), Mr Peter LEE, General Manager, Environment, Third Runway, AAHK, and Mr William LO, Executive Director, Finance, AAHK, briefed the Panel further on the updates of the 3RS project in respect of construction progress, labour supply, construction safety, environmental-related issues and financial arrangement plan. Details of the briefing were set out in AAHK's paper (LC Paper No. CB(4)775/18-19(05)).

(Post-meeting note: The powerpoint presentation materials provided by AAHK were issued to members vide LC Paper No. CB(4)822/18-19(01) on 30 April 2019.)

Discussion

Fill materials for reclamation works of 3RS

45. Noting that the problems with the supply of fill materials and the inclement weather conditions in the previous months had caused a slippage of 18 weeks in the schedule of reclamation filling of 3RS, Mr KWONG Chun-yu enquired if such a slippage would lead to any cost overrun and affect the scheduled completion date of the 3RS project.

46. Mr Jeremy TAM said that originally 100 million cubic metres ("m³") of marine sand was expected to be required for the reclamation works of the 3RS project, and that such marine sand should be sourced from the Mainland and be delivered in mid-2018. He enquired about the progress in respect of the delivery of the marine sand mentioned.

47. Mr CHU Hoi-dick sought AAHK's response to the earlier media reports that the original budget of \$9.2 billion set aside for sourcing fill materials for the 3RS project would be insufficient to cover the reclamation works due to a lack of marine sand supply. He also expressed concern about the slow progress in the release of the HKIA Master Plan 2035 by AAHK. He considered that the Plan was crucial in revealing to the public the future development of HKIA and might have cost implication on the 3RS project.

48. Mr CHAN Chun-ying noted that in order to increase the supply of fill materials, the main reclamation contractor of the 3RS project was procuring sand fill from the Philippines and Malaysia, and that the construction and demolition materials generated from the reconfiguration works of Terminal 2 would be reused as far as practicable. He asked about the details of the above two measures, including the proportion of fill supply from non-Mainland sources, the 3RS works where construction and demolition materials could be reused, and the related cost implication.

49. Mr Kevin POOLE of AAHK advised that the main reclamation contractor was responsible for the supply, delivery and placing of all fill materials in accordance with the contractual requirements. The prices associated with any single source did not reflect the overall cost of the materials as it had always been the intention of the main reclamation contractor to acquire fill materials from multiple sources. Apart from manufactured sand from Guangdong and Fujian provinces, AAHK was committed to maximizing the use of public fill in the 3RS reclamation works. The main reclamation contractor was also pursuing fill materials from other overseas and Mainland

sources. It was anticipated that marine sand supply from Guangxi would commence by mid-2019. AAHK would continue to work with the main reclamation contractor to secure the supply of fill materials. Notwithstanding the delay in the schedule of reclamation filling, AAHK would catch up the work progress by re-phasing/re-prioritizing the reclamation works to match with the site handover schedule for the runway construction. AAHK was confident to commission the new third runway by 2022 and the entire 3RS by 2024 and within the budget of \$141.5 billion (at MOD prices), with the cost of the additional Deep Cement Mixing ("DCM") works having been taken into account.

50. Mr Jeremy TAM noted that due to a short supply of fill materials, AAHK had optimized the reclamation design by reducing sand fill and by increasing the use of DCM works in certain areas. He enquired about the additional cost incurred for such increased use of DCM, and whether AAHK would lodge a claim against the main reclamation contractor for the additional costs incurred by the increased use of DCM and the slippage of the filling operation.

51. Mr Michael TIEN queried if the suspension of fill production and deliveries from the Mainland in the first half of February 2019 as mentioned in the discussion paper had been deliberately concealed as the relevant information was not divulged in the press release issued by AAHK in late February 2019. He also enquired about the reasons why the slippage in reclamation was as long as 18 weeks, given that the suspension of fill supply from Guangdong had shortly resumed after the Chinese New Year holidays, and whether AAHK would lodge a claim against the relevant parties for the suspension of fill supply.

52. Mr Kevin POOLE of AAHK replied that AAHK did not intend to conceal any facts, and that the overall programme of the reclamation works had not changed. The manufactured sand supply had only been suspended during the Chinese New Year period and had already resumed afterwards. Where appropriate and necessary, AAHK would handle the matters in accordance with the provisions of the contract entered into with the main reclamation contractor. As requested by Mr Jeremy TAM, he agreed to provide further information on the increased use of DCM in the reclamation works of 3RS. Head (Airport Expansion Project Coordination Office), Transport and Housing Bureau added that the slippage in reclamation reported in the information paper of November 2018 had extended to 18 weeks owing to limited fill supply.

53. The Deputy Chairman noted that AAHK and the main reclamation contractor had tried to maximize the utilization of public fill for appropriate use

in the 3RS project. To facilitate members' monitoring of the progress, he sought information on the respective amount of the different fill materials used in the reclamation works of 3RS, including public fill, manufactured sand, marine sand and DCM. He also requested AAHK to provide information on the costs and expenses in relation to the works of the 3RS project, with a list of the major construction milestones as well as the costs and expenses involved in every milestone. He deemed that such information was essential for members to better scrutinize the 3RS project. Raising a similar enquiry, Mr CHU Hoi-dick requested AAHK to provide also the details of the fill materials which had already been used in the reclamation works of 3RS.

(Post-meeting note: The supplementary information from the Administration and AAHK was issued to members vide LC Paper No. CB(4)1062/18-19(01) on 26 June 2019.)

54. Mr Kevin POOLE of AAHK advised that the main reclamation contractor was setting up a total of four sorting facilities at Tseung Kwan O Fill Bank and Tuen Mun Fill Bank to maximize the use of public fill. The original intention was to use public fill above sea level. However, in an effort to use more public fill, materials were sorted more precisely by these facilities so that they could also be used below sea level. AAHK would continue to push the main reclamation contractor to use as much public fill as possible, with a target of using a total of over 15 million tonnes public fill from the fill banks. Furthermore, the original design required 100 million m³ of fill materials to be used in the reclamation works. Through various reclamation design optimizations (including the use of additional DCM works), the quantity of fill materials required was reduced by about 20%. Mr Peter LEE of AAHK supplemented that the use of public fill was estimated to take up around some 10% of the total fill materials required for the reclamation works under the 3RS project.

55. Ir Dr LO Wai-kwok said that the delay in the supply of fill materials was understandable in light of market changes. However, to ensure that the overall programme of the 3RS project would not be affected and that the current situation would not get worse, the Administration and AAHK should take all necessary project management measures to expeditiously solve the problems relating to fill material supply.

Financial arrangements of 3RS

56. Mr CHAN Chun-ying noted that AAHK was planning to issue a 3-year HKD5 billion retail bond to retail investors in 2019-2020, and sought information on the annual interest rate AAHK planned to set for the retail bond as well as the arrangement for the use of standby revolving facility.

57. Mr William LO of AAHK advised that generally speaking, retail investors would be more vulnerable to investment risks than institutional investors. Therefore, the interest rate of retail bond would usually be set at a higher level than institutional bond. Setting of interest rate for the retail bond would need further discussion with the joint lead managers and also take into account interest rate trend and other market conditions, and that it was too early to have any decision at this stage. He further advised that AAHK currently had a standby revolving facility of HKD5 billion, and that it was planned to be expanded to HKD10 billion when needs arose.

58. Mr YIU Si-wing noted that AAHK was undertaking certain infrastructure projects in parallel with the 3RS project, including the SKYCITY project, developing the Inter-modal Transfer Terminal, the Phase Two development of the AsiaWorld-Expo, and the development at the Hong Kong Boundary Crossing Facilities ("HKBCF"). He enquired if the implementation of such projects would have any impact on the planning and operation of 3RS after its commissioning. He also requested the Administration/AAHK to provide a written response on the financial situation and the relevant figures relating to the retention of AAHK's operating surplus and the collection of Airport Construction Fee levied on departing passengers to fund the 3RS project.

(Post-meeting note: The supplementary information from the Administration and AAHK was issued to members vide LC Paper No. CB(4)1062/18-19(01) on 26 June 2019.)

59. Mr William LO of AAHK advised that the costs of some infrastructure projects such as Terminal 1 enhancements and Carpark 4 expansion, Sky Bridge, etc. had been taken into account in the financial model of the 3RS project, and that the financing plan to raise a maximum of additional \$69 billion external borrowings from the market to fund the 3RS project had already considered such costs. Mr Kevin POOLE of AAHK reiterated that notwithstanding the slippage of the reclamation filling, other works remained on schedule, and that AAHK was confident in proceeding with the plan to commission the new third runway by 2022 and the entire 3RS by 2024.

Issues relating to labour and transport connectivity of Lantau

60. As the 3RS project was one of the major large scale infrastructural projects in Hong Kong which would create direct employment of more than 100 000 jobs, Mr Holden CHOW urged AAHK to take all necessary cost control measures to ensure that the project would be delivered within budget. To cater for the need of the huge working population in Tung Chung in future,

he considered it necessary to extend the Tung Chung Line to connect Tung Chung and HKIA.

61. USTH advised that the Government had earlier invited AAHK to submit a proposal for the topside development of the HKBCF Island. The Government would review the need and the facilities required in relation to the transport connection among North Lantau, the airport island and HKBCF after receiving AAHK's proposal.

62. Mr LUK Chung-hung relayed the concern of local construction workers over the importation of skilled workers under the Supplementary Labour Scheme and urged the relevant authorities to devise measures to accord priority to filling available job vacancies arising from the 3RS project with local workers. To attract more people to work at 3RS sites, he suggested that training of the specialist skills required by the 3RS project could be provided to local workers through on-the-job training and that workers working in 3RS construction sites should be offered higher salary to cover the transportation costs.

63. Principal Assistant Secretary (Airport Expansion Project Coordination Office), Transport and Housing Bureau ("PAS(AEPCO")) advised that AAHK and the main reclamation contractor were committed to according priority to filling available job vacancies with local workers wherever possible. Efforts had been made by the main reclamation contractor to recruit the skilled workers required for marine works locally. However, such works required very specialized skills which were not readily available in the local labour market. After conducting open recruitment in the local labour market but to no avail, the reclamation contractor resorted to importing some skilled workers under the Supplementary Labour Scheme in 2018 after the Labour Department's approval. She further advised that in order to accord priority to employing local workers, AAHK had adopted the "first-hire-then-train" approach and provided relevant training to local workers concerned.

64. In view of the situation that the air traffic capacity of HKIA had been saturated which would hamper the economic development of Hong Kong and reduce Hong Kong's competitiveness with other regions, Mr SHIU Ka-fai urged the Administration and AAHK to take appropriate measures to ensure that the 3RS project would be delivered on time. He did not object to the importation of skilled workers if such measure could expedite the works in relation to the commissioning of 3RS.

65. On Mr LUK Chung-hung's concern about airspace arrangements within the Guangdong-Hong Kong-Macao Greater Bay Area ("the Greater Bay Area"),

PAS(AEPCO) advised that the Tripartite Working Group ("TWG"), which was set up by the Civil Aviation Administration of China, the Civil Aviation Department and the Civil Aviation Authority of Macao in 2004, would continue to formulate and implement measures to optimize airspace and air traffic management in the Pearl River Delta region, with a view to progressively achieving the ultimate target runway capacity of 102 air traffic movements per hour under the 3RS at HKIA. TWG was currently undertaking fast time simulation work of modeling and simulation of the airspace and air traffic in the Greater Bay Area. It would formulate specific measures to further optimize airspace and air traffic management based on the results of the assessment and analysis. The fast time simulation work was expected to be completed within 2019.

V. Any other business

66. There being no other business, the meeting ended at 12:59 pm.

Council Business Division 4
Legislative Council Secretariat
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