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Panel on Economic Development
Meeting on 29 April 2019

**Updated background brief on the development of
the three-runway system at the Hong Kong International Airport**

Purpose

This paper provides background information on the development of the three-runway system ("3RS") at the Hong Kong International Airport ("HKIA"), and summarizes the major views and concerns expressed by Members on the subject in previous discussions.

Background

2. In March 2012, the Government approved in principle that the option of expanding into a 3RS be adopted as the future development option for HKIA for planning purpose. The Airport Authority Hong Kong ("AAHK") was asked to proceed with the related planning work, which includes specifically the statutory environmental impact assessment ("EIA"), the associated design details, and the financial arrangement of the project. The Executive Council affirmed the need for the 3RS project at HKIA on 17 March 2015. Thereafter, AAHK has been actively taking forward the project, including carrying out detailed design, planning of reclamation works, and implementation of financial arrangement plan and a series of environmental mitigation measures committed in the EIA report and in compliance with the conditions of the environmental permit.

3. The 3RS construction works commenced in August 2016. According to AAHK, the construction works will take around eight years to complete. The commissioning of the third runway is scheduled for end 2022, after which the existing North Runway will be closed for reconfiguration. The full commissioning of 3RS is targeted in end 2024.

4. Based on AAHK's estimates, the 3RS project is expected to cost around HK\$141.5 billion in money-of-the-day prices. AAHK will fund the project through retaining AAHK's operating surplus (HK\$47 billion); levying an Airport Construction Fee (HK\$26 billion); and borrowing/raising funds from the market (HK\$69 billion). In September 2017, AAHK released the report on the detailed funding study for the 3RS project submitted by The Hongkong and Shanghai Banking Corporation Limited, AAHK's financial adviser. The detailed funding plan has been uploaded onto the website of AAHK.¹

5. In gist, the detailed funding plan can be divided into three parts, namely preparatory work (through to the end of the first half of 2018-2019 financial year), near-term funding activities (from the second half of 2018-2019 financial year to 2019-2020 financial year) and medium-term funding activities (from 2020-2021 financial year to the completion of the 3RS project). Financial instruments include commercial bank loans (HK\$20 billion to HK\$30 billion), institutional bonds (HK\$23 billion to HK\$33 billion United States Dollar institutional bonds (including green bonds), HK\$7 billion to HK\$10 billion Hong Kong Dollar institutional bonds) and retail bonds (HK\$5 billion). AAHK has also signed a revolving credit facility to provide liquidity and loans to be drawn on a temporary basis. AAHK will continue to assess the financial risks and take mitigation measures when necessary. The financial consultant has reiterated in this detailed funding plan that AAHK does not require any form of financial backing or guarantee from the Government in the financing of the 3RS project.

Previous discussions

Subcommittees under the House Committee

6. In view of the wide public concern about 3RS and as the issues involved various policy areas, the House Committee ("HC") of the Fifth Legislative Council ("LegCo") and the Sixth LegCo respectively formed a subcommittee to study issues relating to 3RS at HKIA. The two Subcommittees completed their work and submitted a report to HC on 17 June 2016 (LC Paper No. CB(4)1123/15-16) and 10 November 2017 (LC Paper No. CB(4)205/17-18) respectively.

7. To continue monitoring the progress of the 3RS project, the Subcommittee formed under HC of the Sixth LegCo recommended, among

¹ <https://www.threerunwaysystem.com/media/1754/3rs-detailed-funding-plan-report.pdf>

others, that issues relating to the 3RS project should continue to be followed up by relevant Panels of LegCo. The Administration/AAHK should provide the progress update of the 3RS project to the Panel on Economic Development ("the Panel") on a half-yearly basis. The last progress report provided by AAHK was issued to members vide LC Paper No. CB(4)274/18-19(01) on 30 November 2018.

The Panel on Economic Development

8. On 23 April 2018, the Administration/AAHK briefed the Panel on the latest major developments of the 3RS project. At the meetings on 27 November 2017 and 28 May 2018, members also touched upon relevant matters when they deliberated on the related staffing and resources proposals to support the implementation of 3RS at HKIA. Major views and concerns expressed by members at the meetings are summarized in the ensuing paragraphs.

9. Members were in general concerned about the construction progress and project expenditure of the 3RS project. They urged the Administration to ensure that the delivery of the project could be completed in time and within budget. The Panel was assured that the Administration had adopted a multi-pronged approach in monitoring the work of AAHK in the implementation of the 3RS project. The high-level Steering Committee on Three-Runway System and North Commercial District chaired by the Financial Secretary and the Aviation Development and Three-Runway System Advisory Committee chaired by the Secretary for Transport and Housing had provided effective platforms for the Government and members from various sectors to offer advice which would facilitate the implementation of 3RS and the development of the aviation industry. In addition, the Government kept a close watch on the construction progress of the 3RS project through scrutinizing progress reports provided by AAHK, regular meetings with AAHK and routine site visits.

10. In the progress update provided by AAHK in November 2018, AAHK advised that inclement weather conditions and the supply of fill materials had posed challenges to the progress of the reclamation works and caused a slight slippage in the schedule of reclamation filling in the region of a few weeks. However, it had no significant impact on the overall programme to commission the new third runway by 2022 and the entire 3RS by the end of 2024, and within the budget of \$141.5 billion. Overall, the implementation of the major components of the 3RS project was progressing according to plan and within budget.

11. Regarding the progress of reclamation works of 3RS, AAHK advised

on 25 February 2019² that the reclamation contractor was responsible for the procurement, transportation and laying of filling materials in accordance with the contractual requirements. The sources identified by the contractor so far were able to supply sufficient fill materials for the reclamation of the 3RS project. The main reclamation contractor had been using predominantly manufactured sand from the Mainland, supplemented by public fill generated locally as well as fill materials imported from other regions, including Malaysia and the Philippines. In the meantime, the contractor was arranging to import fill materials from different provinces in the Mainland, including Guangxi and Guangdong. AAHK would continue to work with the main contractor to secure the supply of fill materials. The contractor was also adding production lines of manufactured sand, identifying potential new quarries and increasing sorting facilities of public fill.

12. Some members expressed concern about the viability of AAHK's financial arrangement proposal for the 3RS project and enquired whether there were any changes to the indicative implementation timeline of the detailed funding plan for the 3RS project as announced by AAHK in September 2017. The Administration advised that there was no change to the implementation timeline. The exact issuance size and timing of each financing instrument for the near-term and medium-term stages would be subject to the prevailing market conditions, expenditure and debt requirements at the time. In the progress update provided by AAHK to the Panel in November 2018, AAHK further advised that according to the funding plan, from the second half of 2018-2019 to 2019-2020, AAHK would issue a 10-year USD500 million bond or approximately HK\$4 billion equivalent to institutional investors under the Medium Term Note programme; issue a 3-year HK\$5 billion retail bond to retail investors; and increase the size of AAHK's existing HK\$5 billion standby revolving bank facility or arrange multiple facilities, up to HK\$10 billion.

13. As to whether there was any cost overrun for the 3RS project so far, the Administration advised that AAHK had awarded 14 main construction works contracts for the 3RS project as at 8 February 2018 and AAHK had confirmed that the total value of the construction contracts was within the estimated budget. At the Panel's request, AAHK provided details of the 14 main construction works contracts in LC Paper No. CB(4)1126/17-18(01).

14. Some members expressed concern that runway capacity might soon be saturated after the commissioning of 3RS due to the rapid increase in air traffic demand. Concerns over whether the target maximum capacity of 102 air traffic movements ("ATMs") per hour could be achieved under 3RS,

² See press release: https://www.hongkongairport.com/en/media-centre/press-release/2019/pr_1326

and if the airspace arrangement between Hong Kong and Shenzhen would affect HKIA's runway capacity were expressed. The Administration advised that according to the "Pearl River Delta Region Air Traffic Management Planning and Implementation Plan (Version 2.0)" drawn up in 2007, the long-term target maximum runway capacity was 102 ATMs per hour under the 3RS operation, and that this target had remained unchanged. AAHK advised that the Authority and the Civil Aviation Department had kept in view the latest developments in aviation and air traffic management technologies with a view to exploring ways to enhance runway capacity at HKIA.

Council questions

15. At the Council meetings of 4 February, 15 and 22 April 2015, 7 December 2016 and 17 May 2017, questions relating to the development and funding proposal of 3RS and fill materials used in 3RS' reclamation works were raised by Members. Hyperlinks to the relevant written replies from the Administration are provided in the **Appendix**.

Latest development

16. At the meeting on 29 April 2019, AAHK will provide the Panel an update on the developments of the 3RS project.

Relevant papers

17. A list of relevant papers available on the LegCo Website (<http://www.legco.gov.hk>) is in the **Appendix**.

Council Business Division 4
Legislative Council Secretariat
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List of relevant papers

Issued by	Meeting date/ Issue date	Paper
House Committee	17 June 2016 (Item VI (g))	<u>Report of the Subcommittee to Follow Up Issues Relating to the Three-runway System at the Hong Kong International Airport</u>
	17 November 2017 (Item V (b))	<u>Report of the Subcommittee to Follow Up Issues Relating to the Three-runway System at the Hong Kong International Airport</u>
Panel on Economic Development	27 November 2017 (Item IV)	<u>Administration's paper</u> <u>Administration's follow-up paper</u> <u>Minutes</u>
	23 April 2018 (Item IV)	<u>Airport Authority Hong Kong's paper</u> <u>Administration's follow-up paper</u> <u>Background brief</u> <u>Minutes</u>
	28 May 2018 (Items IV and V)	<u>Administration's paper on resources proposals</u> <u>Administration's paper on staffing proposal</u> <u>Administration's follow-up paper</u> <u>Background brief</u> <u>Minutes</u>

Issued by	Meeting date/ Issue date	Paper
	30 November 2018	<u>Airport Authority Hong Kong's paper</u>
Council Meeting	4 February 2015	<u>Council question on "Expansion of the Hong Kong International Airport into a three-runway system" raised by Hon Gary FAN</u>
	15 April 2015	<u>Council question on "Expansion of the Hong Kong International Airport into a three-runway system" raised by Dr Hon KWOK Ka-ki</u>
	22 April 2015	<u>Council question on "Funding proposal for the project to expand the Hong Kong International Airport into a three-runway system" raised by Hon Mrs Regina IP</u>
	7 December 2016	<u>Council question on "The project to expand the Hong Kong International Airport into a three-runway system" raised by Hon CHU Hoi-dick</u>
	17 May 2017	<u>Council question on "Reclamation works under the project of the expansion of the Hong Kong International Airport into a Three-Runway System" raised by Dr Hon YIU Chung-yim</u>