

立法會
Legislative Council

LC Paper No.CB(4)830/20-21(04)

Ref : CB4/PL/EDEV

Panel on Economic Development
Meeting on 26 April 2021

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 the statutory environmental impact assessment, 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.

3. The construction of 3RS, which commenced in August 2016, comprises different components, including formation of about 650 hectares of land; construction of the Third Runway, taxiways and aprons, and the Third Runway Passenger Building; expansion of the existing Terminal 2; provisions of a new automated people mover system and a high-speed baggage handling system; modification of the existing North Runway; and construction of airport support infrastructure, utilities and facilities. 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 ("ACF") (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

Previous discussions

Subcommittees under the House Committee

5. 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.

6. To continue monitoring the progress of the 3RS project, the Subcommittee formed under HC of the Sixth LegCo recommended, among 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 Panel on Economic Development

7. The Panel was last briefed by the Administration/AAHK on the developments of the 3RS project at its meeting on 22 June 2020. In December 2020, AAHK provided an information paper to update members on the developments of the 3RS project (LC Paper No. CB(4)333/20-21(01)). Major views and concerns expressed by members in previous discussion are summarized in the ensuing paragraphs.

Project progress

8. Members had all along been concerned about the progress of reclamation works of the 3RS project. At the Panel meeting in June 2020, members noted with concern that the outbreak of the Coronavirus Disease 2019 ("COVID-19") had impacted significantly on the reclamation

¹ <https://www.threerunwaysystem.com/media/1766/3rs-detailed-funding-plan-report.pdf>

programme in terms of the delayed/lockdown of fill material supply, and also the delayed resumption of work for workers entering Hong Kong who needed to undergo the 14-day mandatory quarantine requirement. They urged AAHK to implement contingency measures to catch up the delay and avoid cost overrun of the project.

9. According to AAHK's paper provided in December 2020, the slippage of the reclamation related critical works was approximately eight weeks, as compared to six weeks as reported in the update in June 2020, mainly as a result of the continuing impact of COVID-19. To mitigate the impact of COVID-19 and maintain project progress, AAHK would continue to implement various alternative and contingency plans for the reclamation works, including re-sequencing of works to provide timely access for follow-on contractors to commence works in the critical areas, and optimizing the reclamation design to identify more suitable areas for receiving public fill. With the implementation of these measures, the 3RS construction works were anticipated to proceed according to the planned schedule, which would support the project programme to commission the Third Runway in 2022 and 3RS in 2024.

10. AAHK also advised that to align with the expected slower passenger growth in the wake of COVID-19 pandemic, AAHK had been considering a possible flexible phasing plan for the commissioning of some portions of the 3RS passenger facilities from 2024 onwards. While all the building and infrastructural works for the 3RS would proceed and complete as planned, the possible phased commencement of the 3RS passenger facilities was being considered in light of the passenger demand, which was assessed and updated on a continuous basis.

Fill materials

11. At the Panel meeting in June 2020, members were briefed on the challenges associated with the project programme due to the strained supply of fill materials for reclamation. Some members were concerned that the increased use of deep cement mixing works resulted from an inadequate supply of marine sand supply from Guangdong might push up the actual expenditure on the reclamation works. A member sought clarification from AAHK on the media reports alleging that sand barges from Mainland China had stolen sand from Taiwan waters.

12. AAHK advised that it had strict requirements for its 3RS contractors and suppliers on compliance with the Hong Kong laws and local regulations where the materials were sourced and that relevant documentary proof must be obtained. According to the main reclamation contractor, fill materials

from Taiwan were a by-product from a navigation channel dredging project. The fill materials were then exported to Hong Kong as processed "dredged materials", as declared in the Export Declaration Form in Taiwan. From the documents provided by the main reclamation contractor, relevant certificate had been obtained from Taiwan's authorities for the port clearance of the processed "dredged materials".

13. AAHK further advised in December 2020 that the main reclamation contractor had been using customized manufactured sand from Guangdong, dredged material from Taiwan, marine sand from Guangxi and Guangdong, and public fill from sorting facilities at Tseung Kwan O fill bank and Tuen Mun fill bank as the main sources of fill materials, supplemented by the surplus materials from other local projects and the spoil materials generated from the foundation/ground improvement works on the reclaimed land. With the above fill supply, substantial progress on filling operations had been achieved. As at November 2020, approximately 424 hectares of about 650 hectares of reclamation area had reached the required handover level, out of which about 295 hectares had been handed over to the follow-on contractors for the construction of the Third Runway, taxiways, foundation and substructure of the Third Runway Passenger Building, automated people mover/baggage handling system tunnels works, and the establishment of construction support facilities.

14. Regarding the project expenditure, AAHK advised that it would continue to manage the project expenditure within budget. The total value of the major contracts awarded as at November 2020 was within the estimated budget. It remained AAHK's target to deliver the 3RS project within the budget of HKD141.5 billion.

Financial arrangement

15. At the Panel meeting in June 2020, some members expressed grave concern about the financial situation of AAHK, given the impact of the COVID-19 pandemic on HKIA traffic and thus to AAHK's income, as well as the huge expenses of AAHK. Although the 3RS project would be funded through three sources as mentioned in paragraph 4 above, some members were worried that eventually AAHK might need to seek the Government's financial assistance for the 3RS project. The Administration advised that currently, no fund allocation, capital injection or loan guarantee from the Government was required in respect of the 3RS project.

16. AAHK further advised in December 2020 that as a result of the significant impact of COVID-19 to HKIA traffic, AAHK had revisited and updated the 3RS financing plan. The drop in operating surplus and the

collection of ACF due to traffic slump could reduce their contributions to finance the 3RS project for the next few years. As such, AAHK's total incremental debt was projected to increase from HKD69 billion under the original funding plan to HKD88 billion to finance the construction, whereas the operating surplus was projected to decrease from the original funding plan's HKD47 billion to HKD27 billion. The ACF collection was estimated to be around HKD26 billion. It remained AAHK's plan to maintain the same level of ACF charges throughout the collection period and cease collecting ACF when all 3RS-related debts were fully repaid. The indicative implementation timeline of the updated 3RS financing plan is set out in **Appendix I**.

17. As advised by AAHK in December 2020, AAHK arranged and completed five-year HKD35 billion loan facilities with 21 local and international banks in June 2020. The facilities comprised a term loan tranche of HKD17.5 billion and a revolving credit facility tranche of HKD17.5 billion. Apart from this loan financing, up to November 2020, AAHK have issued HKD8.2 billion of bonds with tenors ranging from 5 to 10 years through private placements to institutional investors under AAHK's Medium Term Note ("MTN") Programme.

18. To meet the funding needs, AAHK planned to use the following instruments in 2021-2022: (i) USD Perpetual Bond to raise up to USD1.5 billion from the institutional investors. There was no legal maturity of the bond under the bond structure, while AAHK as the issuer, would have the option to redeem the bond on a call date designated by AAHK; (ii) USD Institutional Bond to raise up to USD2 billion from institutional investors. AAHK intended to issue a dual-tranche USD bond with a 10-year and 15-year or longer maturity, and targeted to issue an institutional USD Bond in Green format in the latter part of 2021-2022 under the Sustainable Finance Framework; (iii) HKD Retail Bond, which was initially planned for issuance in February 2020 but was deferred due to the COVID-19 outbreak; and (iv) HKD private placement bonds up to HKD10 billion with tenors up to 10-year through the MTN Programme.

19. Although the above financing plan is for 2021-2022, as the market environment was conducive, AAHK had issued a dual-tranche perpetual bonds with USD750 million non-call 5.5-year and USD750 million non-call 7.5 year in early December 2020. The funding exercise would be followed by a dated USD Bond for institutional investors in the first half of 2021. If the market situation allowed, AAHK planned to issue the HKD Retail Bond in second half of 2021, and then to prepare for issuance of the Green Bond. The private placements under the MTN Programme may be issued throughout the year if AAHK observed any need for the funding. The

actual timing of the financings would depend on the cash flow position after considering the operation and capital expenditure and the market condition.

Council questions

20. At the Council meetings of 7 December 2016, 17 May 2017, 23 October 2019 and 24 February 2021, questions relating to the development and funding proposal of 3RS, fill materials used in 3RS's reclamation works and smart technologies compatible with 3RS were raised by Members. Hyperlinks to the relevant written replies from the Administration are provided in **Appendix II**.

Latest development

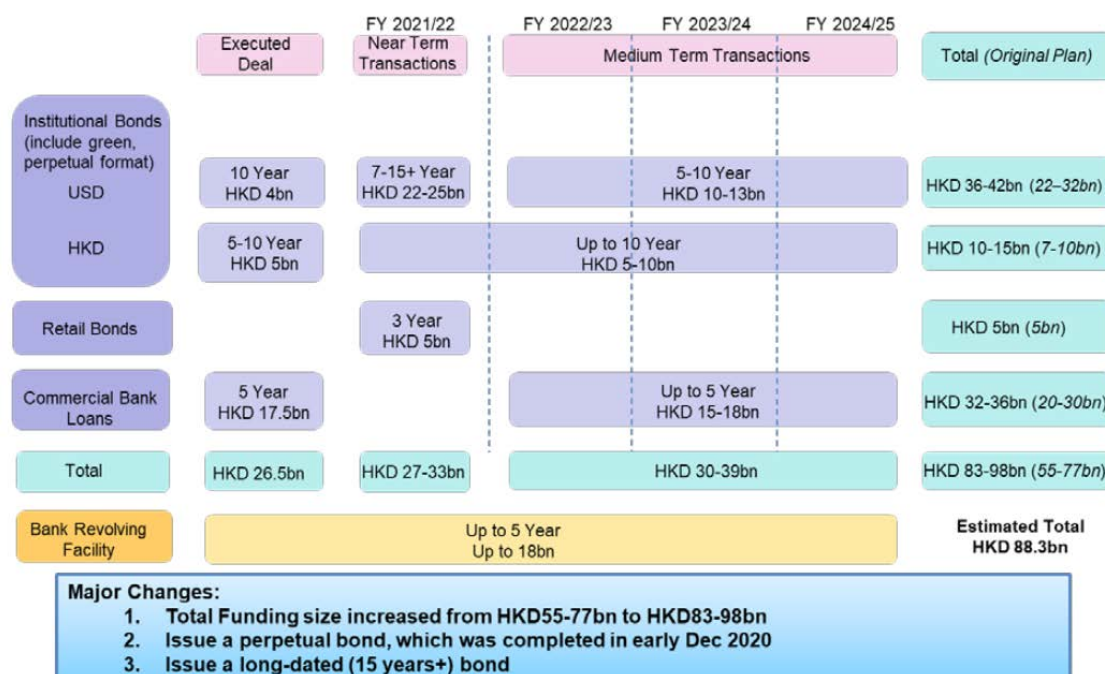
21. At the meeting on 26 April 2021, AAHK will provide the Panel an update on the developments of the 3RS project.

Relevant papers

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

Council Business Division 4
Legislative Council Secretariat
22 April 2021

**Indicative Implementation Timeline of Updated 3RS Financing Plan
(as at November 2020)**



Source: Annex D of LC Paper No. CB(4)333/20-21(01)

List of relevant papers

Issued by	Meeting date/ Issue date	Paper
House Committee	17 June 2016 (Item VI (g))	Report of the Subcommittee to Follow Up Issues Relating to the Three-runway System at the Hong Kong International Airport
	17 November 2017 (Item V (b))	Report of the Subcommittee to Follow Up Issues Relating to the Three-runway System at the Hong Kong International Airport
Panel on Economic Development	22 June 2020 (Item II)	Airport Authority Hong Kong's paper Airport Authority Hong Kong's follow-up paper Background brief Minutes
	31 December 2020	Airport Authority Hong Kong's paper
Council Meeting	7 December 2016	Council question on "The project to expand the Hong Kong International Airport into a three-runway system" raised by Hon CHU Hoi-dick
	17 May 2017	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

Issued by	Meeting date/ Issue date	Paper
	23 October 2019	<u>Council question on "The Hong Kong International Airport" raised by Hon YIU Si-wing</u>
	24 February 2021	<u>Council question on "Three-runway system" raised by Hon Michael TIEN</u>