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To: <airportcomments@edlb.gov.hk>
cc:
Subject: Consultation on Partial privatisation of the Airport Authority
 Urgent Return Receipt

21/01/2005 08:44

Please see attached response to the above consultation document.

Margaret Brooke
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Response re AIRPORT AUTHORITY Privatisation.doc

CONSULTATION ON PARTIAL PRIVATISATION OF THE AIRPORT AUTHORITY

Response by Nicholas and Margaret Brooke, Professional Property Services Limited

By E-mail: airportcomments@edlb.gov.hk

1. As usual, the Government has put the cart before the horse. It appears that a decision was taken by Government in August 2003, to commence work in preparation for the proposed privatisation of the Airport. Was there any public consultation on the principle involved? We think not – the “stakeholders” mentioned in the Consultation Document are not specified and the community is not mentioned. Was this just another proposal to try to cover the financial deficit? Probably. Are there overwhelming reasons to privatize the Airport, even partially, at this moment in time? Probably not.

2. As with the Link REIT and the single developer for West Kowloon Cultural District, if Government secured agreement in principle from the community (not just so-called stakeholders, where there is the risk of vested interest) before embarking on policies which impact on and involve public assets, then matters may run rather more smoothly as they would know that they had a mandate for the direction proposed and it was simply the implementation that needed to be worked out to everyone’s satisfaction.

3. The rationale for the proposed partial privatisation seems to be that this would help to strengthen AA’s market discipline in the running of the airport for greater efficiency and more commercial opportunities. However, the AA’s management appears to be running the airport very efficiently as it is and taking full advantage of viable commercial opportunities as they present themselves. The additional benefit cited of raising funds for the Government seems more likely to be the true driver as the people of Hong Kong already “own” the asset and we have plenty of other stocks available to our financial market.

4. The partial privatisation of the Airport is clearly not straightforward, particularly in view of the obligations imposed by the Basic Law and other international treaties relating to civil aviation. Whilst a corporate structure such as that suggested in the Consultation Document is probably advisable in order to permit more flexibility in the AA’s business operations, we do not see that it is imperative that this should also involve an IPO. While local and regional aviation facilities are still in state of rapid development and while relationships and connectivities could change, it may be advisable to delay any private investment in Chek Lap Kok, especially as there appear to be issues as regards its valuation and the opportunities for future growth, and therefore profitability and future returns. It would be detrimental to the long term interests of Hong Kong to launch an IPO exercise only to find it was not attractive to investors or that the basis of valuation was questioned.

5. The suggestion that it is acceptable to increase airport charges simply to increase the revenues and so the attractiveness of any return to investors (whether the Government,

the Hong Kong tax payer or the private sector) is not practical or realistic – charges are a function of market demand and if AA’s charges are too high, airlines will go elsewhere – and they now have plenty of choice in the surrounding area – and the value of the asset will still be diminished. While we would generally agree with the principle of user pays, this may not be appropriate when preservation of the value of a relatively new public asset could be put at risk.

6. The logic in the two queries posed in respect of airport charges is flawed and they are not “either or” alternatives. As stated above, it may not be commercially possible to increase charges to such an extent as to preserve the current value of tax payers investment – airlines may go elsewhere and the reduced business and revenues would lead to just such a devaluation. On the other hand keeping charges to a reasonable level, may encourage more airlines to use Chek Lap Kok as a hub and increase business to an extent that the value is maintained.

7. Levels of charges are also relevant in respect of the freight now carried through Chek Lap Kok but which, if charges are not competitive, could just as easily pass through Shenzhen or Guangzhou – a lesson which should have been learned by observing the decline of throughput at our port facilities and a risk of which potential investors will be well aware. Higher charges and less flexibility as regards “consolidation” flights from other Chinese airports will inexorably lead to a similar decline at Chek Lap Kok.

8. Transparency is imperative in the operation of all public institutions, whether they are structured as corporations or Government agencies and any economic regulatory mechanism should ensure the greatest degree of transparency possible.

9. As regards land use, competition and scope of business, it is only sensible to ensure that, whatever structure is adopted, the AA is not so constrained that it cannot operate successfully in a commercial environment. Whilst it is important to guard against unfair competition, there is a need for the scope of business to be sufficiently broad to enable growth to take place, especially as the airport nears capacity in the future and as competition from neighbouring airports increases.

10. However, there is a need to be careful as to how any land on the airport island is used so as to ensure that there is no unfair competition with private land owners or businesses on Lantau Island – for instance, a golf course is hardly an essential extension of the requirements of an Airport.

11. The existing restrictions on the range of airport related activities that the AA may conduct outside the airport island should be retained and there should be provision whereby statutory action can be taken if the AA oversteps the mark; however, if the AA is in future to be run on commercial lines, the level of any investment in an authorised activity should not be subject to any control.

12. We are in agreement with the view that privatisation per se should not lead to adverse impact on the interests of companies operating at the airport or on airport staff assuming that the AA is already operating under prudent commercial principles as stated.

13. Overall, while in favour of the AA being restructured on more commercial lines, we see no necessity for an IPO at this particular juncture as the stated objectives can be achieved without the market risks that would appear to be of concern. We also consider that some of the arguments put forward within the document are flawed.