

The Economic Development and Labour Bureau
2/F, Main Wing
Central Government Offices
Lower Albert Road
Central
Hong Kong

26th January 2005

Dear Sir,

I am in support of your proposal on partial privatization of the Hong Kong Airport Authority and my reasons are as follows:

1. "Small Government, Big Market" – Privatization of state owned enterprises (SOE) is a world trend. All the key PRC airports, i.e. Beijing, Shanghai, and Guangzhou and other 190 major airports in the world are privatized. Privatization helps institutionalize market discipline, promote efficiency, enhance service standard and encourage ample capacity for growth.
2. Privatization will make the Hong Kong International Airport (HKIA) more competitive, as it will institutionalize market discipline, promote efficiency, enhance service standard and encourage ample capacity for growth. This is important in light of the emergency of the new Guangzhou airport.
3. To stay competitive, The Airport Authority (AA) will benchmark with neighbouring airports such as Guangzhou, Shanghai, Singapore, Bangkok, Incheon and Tokyo on pricing, efficiency and service standard.

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4. AA is confident that
 - it will achieve a reasonable rate of return through robust traffic growth, cost control and increase in non-aeronautical revenues. In fact, AA will likely be able to achieve a 5-6% return on equity this financial year.
 - The target valuation (\$30.7 billion) can be achieved without substantial increase in airport charges, taking into account of traffic growth projected in the next few years.
5. However, non aeronautical, commercial activities should not be regulated, as AA has little pricing power over these activities. There will be no incentive for the AA to develop these activities if it is subject to a regulated return.
6. AA will only use its land for airport operation, support and related purposes. New land project is subject to stringent governmental approval process as stipulated in the Land Grant which only allows land for airport related usage.
7. Also, airport island is small compared to neighbouring airports (HKIA 1,255 hectares; Guangzhou 1,456 hectares; Shanghai Pudong 4,000 hectares, Singapore 1,663 hectares, and Incheon 5,617 hectares) and all the land will be needed for supporting the HKIA's operation and AA can not and will not compete with land developer in their business.
8. In respect of AA's employers, AA will not reduce staff size because of privatization or
9. Alter employment condition because the market is expanding.

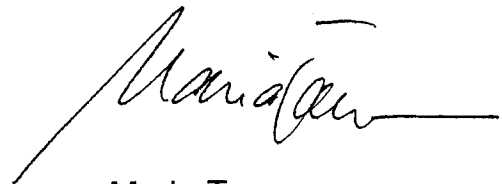
10. AA can ensure stringent supervision of contract out-sourcing:

- Bidders selected on experience and service quality instead of price alone
- Separate submissions of technical and financial specifications
- Management fees payable to the contractors are separate from salary expenses for employees

HKIA has been generating new employment. As a result of increased economic activities due to traffic growth, over 6,000 direct and indirect jobs will have been generated for the two years to March 2005 and it is expected a further 19,000 direct and indirect jobs will be created based on our forecast traffic for the next five years.

I believe that partial privatization of HKIA will also give an opportunity of the Hong Kong public to share the fruit of Hong Kong's success.

Yours sincerely



Maria Tam

