



## THE HONG KONG SHIPPERS' COUNCIL

Mr. Stephen Ip  
 Secretary for Economic Development and Labour  
 Hong Kong SAR Government

Copy: Ms. Sandra Lee  
 Permanent Secretary for Economy Development and Labour

18<sup>th</sup> May 2005

Dear Stephen,

Reference is made to the Government's consultation paper on the proposed privatization of Airport Authority Hong Kong (AAHK). The Council would like to express the extreme concerns of Hong Kong shippers over the proposal. We must state that the Council would be unable to support the proposed privatization unless these concerns are properly addressed.

### **Hong Kong Shippers need a low cost environment**

Hong Kong shippers, more than ever, need a low cost environment to maintain their competitiveness. Hong Kong exporters are facing much more intensified competition from exporters in the mainland and other places in Asia. While Hong Kong shippers are more inclined to use the seaport and airport of Hong Kong for export, if there is, however, no improvement in the current high operation cost situation, Hong Kong shippers may have to go for lower cost options to ensure that they would not be out competed. The Hong Kong airport handles more than 30% of Hong Kong exports in terms of value. Hence, its operation cost is important to Hong Kong shippers.

### **Privatization will contribute to higher cost of using the Hong Kong airport**

It is clearly stated in the consultation paper that the purpose of privation of AAHK is to seek better return for its investment. This objective could only be achieved by increase in charges for the operators in the airport, and other airport facility users. Since the business of most operators, which I could fairly name the cargo terminals, catering, aircraft engineering, express centre and other logistics facilities, need to be attached to the airport. These operators really have no choice but to accept the increase. The cost is likely to be passed onto travelers and shippers, the final users of airport facilities. Travelers and shippers are usually not involved in the process of negotiating these charges. Very often they become the victims and bear all the charges.

**Timing is also an important consideration**

We should not underestimate the threat from the Baiyun Airport. Although its current throughput is small, several dedicated freighter companies have already commenced their services in November. The number of passenger flights is expected to surge in the future and carry in their bally their share of international cargoes. The Baiyun Airport would not be just another Shenzhen Airport or Zhuhai Airport. The location is different, the scale is different and the support that it receives form the Central and GuangDong Government would be different. In addition, the Hong Kong economy has just shown initial signs of recovery. There are still fundamental weaknesses in the economy that we have to overcome to guarantee future success. An important challenge is to narrow the cost gap between Hong Kong and the Pearl River Delta. We have to be very cautious with any measures that would push up operating costs in Hong Kong.

Thank you very much for your attention.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Willy Lin', written over a horizontal line.

Willy Lin  
Chairman

**There is no reason why only commercial enterprises could run efficiently and effectively**

Trimming headcount, streamlining workflow, simplifying administration, improving productivity, etc of AAHK will surely contribute to achieving the goal of better return of investment. However, these measures would be far insufficient to generate the desired result of a significant improvement. In addition, there is no reason why all these measures could only be carried out in a privatized enterprise. Public organization could also be run effectively and efficiently. Indeed, after privatization, besides the information that are required to be disclosed as a listed company, there is no further information that it is required to provide. Outside parties simply would have no chance to make subjective assessment of the performance of AAHK. Remaining a public organization, there allows more room for public scrutiny.

**There is a conflict of interest between maximization of profit for shareholders and for the public**

The fundamental objective of a private commercial enterprise is to maximize profit for its shareholders. Its directors and employees are obliged to devote their best efforts to achieve this goal. However, maximizing profit for AAHK may not be in the best interests of the Hong Kong economy as a whole. During the past few years, we can see that the SAR Government has taken a lot of initiatives in providing relieve to the general public. The government has waived rates, lowered charges, refunded taxes, among others. However, many public utilities companies have done little in this respect. Without lowering their charges, many of these companies have reported huge profits and their management and staff are awarded with extra bonus. Their practices, however, are not necessary in the best interests of the whole society. Nevertheless, they are beyond Government's control because they are private or partially private companies. AAHK is in a similarly monopolistic situation and it has no competitor. Hong Kong is a cosmopolitan city and many businesses are linked closely to the airport. Its charges affect many sectors and industries in Hong Kong.

**The market would give pressure to AAHK to seek more profit**

After privatization, AAHK will have to face pressure from shareholders, fund managers and rating institutions to provide good results. Even if there is a need for AAHK to lower its charges for the benefit of the public, it would be unable to do so because of the fear of adverse response form the capital market. For the same reason, AAHK may be forced to pay more attention to short term results. Airport is part of the core infrastructure for Hong Kong. When we evaluate an infrastructure project, we look at its economic benefits to the whole society, and not as an independent investment project that aims to maximize return.