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To: howardlee
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Subject: APRC Press Conf on AA Privatization 19 May 2005

19/05/2005 14:46

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Dear Mr. Lee,

Greetings from Aviation Policy and Research Center!

The Center has held a press conference on AA Privatization today. Here attaches the documents being distributed. Please have a look.

Thank you for your attention.

Regards,

Winnie Lo

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中大航空政策專家回應 政府「機場管理局部份私營化」的諮詢

赤鱗角機場是香港最大型及最具價值的基建項目，而整體航空業對香港經濟貢獻已接近本地生產總值的百份之十。香港機場管理局的管治架構、決策過程及營運管理方面的變更必須予以審慎的評估及處理。

中大航空政策研究中心一直致力研究香港的航空政策，中心主任羅文鈺教授、副主任馮嘉耀教授及羅祥國博士，就是次諮詢文件的每項內容，發表了非常詳細的意見，他們對於政府提出機場部份私營化的諮詢文件，有以下的見解。

政府認為機場管理局部份私營化的主要目的，是提高機場的營運效率及帶來更大的商業效益；但是，中大航空政策研究中心認為，政府在提出私營化之前，應該嘗試採取較直接及較少干擾性的措施，來改善機管局管理層的效率。此外，無疑上市可增加機管局的集資選擇，但機管局的財政表現具有很大的發展潛力，必定有更好的方法來應付未來的資金需要。

雖然特區政府認為將機管局上市可提高香港股票市場的多元化，並給予市民機會去投資優良管理企業的股票。可是本港現時股票市場已頗具規模，一間新公司的加入對於促進本地財金市場的多元化，並沒有顯著的影響；此外，由於原則上每位香港市民都可說是擁有機管局，並早已分享其成，故政府認為機場私有化可以為香港市民提供參與投資機管局的機會，這說法難以令人信服。私有化的建議早在前財政司司長任內提出，然而本港早已經歷不少變化，隨著經濟情況的改善，如中央政府推出 CEPA 及自由行等政策，政府短期至中期的財政已有所紓緩，私有化的收益未必產生很大的效用。

中大航空政策研究中心認為社會人士應詳細分析機管局私營化的可能成本及影響。除上市安排開支及維持上市要求的財務成本外，私營化的機管局將要在整體香港經濟利益及股東財務利益間維持平衡。事實上，上述複雜利益沖突問題並不存在簡單解決方法；可是若該問題不能妥善處理，機管局私營化可能對香港經濟造成長期負面影響。除此以外，機管局私營化將可能引起有關法律及政治爭議。

當考慮上述因素，而特區政府在短期至中期來亦沒有龐大財赤壓力，中大航空政策研究中心認為特區政府並不需要現在或在可見的將來推行機管局私營化。

如將機管局私營化，新公司定必繼續秉承香港國際機場的使命，追求不斷的進步。中大航空政策研究中心提出三項目標：首先，總體的服務質素，特別是航空服務的質素，不應比私有化前為差；其次總體的收費，也不應比私有化前為高；最後機場的總體表現，亦不應比私有化前為差。

中大航空政策研究中心主任羅文鈺教授表示：「我們提倡延遲將機管局部份私營化，並提議改善企業管治及採取其他有效的措施；繼續預測未來市場的需要、評估及計

劃最經濟的方法來支援未來的資金所需；設立適當的監管機制，以確保機場及機管局不斷改善其表現。」

~ 完 ~

傳媒查詢，請聯絡香港中文大學航空政策研究中心盧慧玲或香港中文大學工商管理學院林鳳儀

For immediate release

May 19, 2005

CUHK Aviation Policy Experts Commented on the Partial Privatization of the Airport Authority Hong Kong

The Chek Lap Kok Airport is the most valuable and strategic infrastructure project ever built in Hong Kong. Recent estimates show that the aviation industry and other derived services contribute to 10% of Hong Kong's GDP. Any changes in its governance structure, decision-making process and operational features should be undertaken with extreme care and supported by detailed assessment.

The Aviation Policy and Research Center (APRC) at The Chinese University of Hong Kong has been studying the aviation policy in Hong Kong. The Center's Director, Professor Japhet Law and the Associate Directors, Professor Michael Fung and Dr. Law Cheung-kwok have proposed recommendations in view of the various aspects of the consultation paper.

In listing the reasons in support of the privatization proposal, the Government considers that the exercise can strengthen market discipline in the running of the airport for greater efficiency and more commercial opportunities. However, members of the Center suggest that less disruptive and more direct approaches should be explored to improve efficiency by the board and management of the Airport Authority before resorting to using privatization as the means. There is no doubt that a listing on the Hong Kong Stock Exchange will provide additional access to the capital market. However, given the high potential for improvement in the Airport Authority's financial position in the years to come, there is good likelihood that superior alternatives will be available to satisfy the future capital needs.

The other reasons such as adding diversity to the local financial markets, and providing a chance for Hong Kong people to take part in the success of a well-managed company by this privatization exercise are considered "not convincing" by the Center. It should be noted that the original proposal of the privatization may have been motivated by a need for balancing our budget amid financial difficult times in previous years. However, the Central Government's recent CEPA initiative and the introduction of individual travel schemes has significantly brightened the economic outlook for Hong Kong, thus minimizing the need for immediate or medium term financial needs for the Government.

Other than the above, the Center considers it more important to bring the concept of cost-benefit into this deliberation. There are obviously costs involved in the privatization exercise, both in terms of monetary and other resources. The cost of continuing to maintain a listed company, and continuously finding a balance between the public good for all of Hong Kong and the financial benefits of the minority shareholders in the new Company are all significant costs that cannot be ignored. A glance at the list of issues contained in the Government's consultation paper indicates that many of them are not amendable to simple or easy solutions, while others are of the nature that if a less-than-optimal choice is being selected, the long term repercussion can be tremendous in terms of the overall cost to Hong Kong's economy. This list of issues is a clear reflection of the totality of the "costs" involved

in this proposed exercise, not to mention the political and legal issues that may arise.

When the cost-side is being brought into the picture, together with the lack of strength in the justifications for the privatization exercise and the significantly diminished need for short to medium term fixes to the financial position of the Government, the Center concludes that the case for the partial privatization of AA is not there at this time or in the foreseeable future.

If the privatization is launched, the Center suggests that the new company should pursue continuous improvement towards the established mission of the Hong Kong International Airport (HKIA), and that (1) the overall service quality, particularly the service quality of the aeronautical services will not fall below the service quality level of the HKIA before the privatization, (2) The overall level of charges will also not be higher than that before the privatization; and (3) the overall performance of HKIA will not be worse than that before the privatization.

Professor Japhet Law, Director of the Center said, “We advocate that the partial privatization of the Airport Authority be postponed and we suggest adopting improved governance and other effective practices; to continue to project future capital needs and evaluate and plan for the most cost effective means to support future funding needs; and to continue to study and implement appropriate regulatory frameworks to ensure the Hong Kong International Airport and the Airport Authority to continue to improve and remain a center of international and regional aviation”

~ End ~

For media enquiries, please contact Ms Winnie Lo, Aviation Policy and Research Center or Ms Jenny Lam, Faculty of Business Administration

Privatization of the Airport Authority

Aviation Policy & Research Center

The Chinese University of Hong Kong

19 May 2005



Agenda

- I. The Case for AA Privatization**
- II. Guiding Principles for the Privatized New Company**
- III. Public Consultation for AA Privatization**
- IV. In Pursuit of Continuous Improvement**



The Case for Partial Privatization of AA

1. Strengthen market discipline in the running of the airport for greater efficiency and more commercial opportunities

Use less disruptive and more direct approaches, as usual benefits of privatization exercise probably won't apply here



The Case for Partial Privatization of AA

2. Enhance AA's access to the capital market

No doubt will provide additional avenues of capital market access

Probably more effective and efficient access through the debt market or other means



The Case for Partial Privatization of AA

- 3. Introduce an additional quality stock to add diversity to the local financial markets**
- 4. Offer an opportunity for Hong Kong people to participate in the success of a well-managed company with strong growth potential**



The Case for Partial Privatization of AA

5. Proceeds from privatization will help strengthen Government finance in the short to medium term

Much improved economic outlook for Hong Kong



The Case for Partial Privatization of AA

- Lack of strength in the justifications for the privatization exercise;
 - Significantly diminished need for short to medium term fixes to the financial position of the HKSAR Government;
 - Cost considerations
- **The case for the partial privatization of AA is NOT there at this time or in the foreseeable future !**



Guiding Principles for the Privatized New Company

- The New Company will pursue continuous improvement towards the established mission of HKIA – to maintain the status of Hong Kong as a center of international and regional aviation.



Guiding Principles for the Privatized New Company

- The overall service quality, particularly the service quality of the aeronautical services, will not fall below the service quality level of the HKIA before the privatization;
- The overall level of charges (in relation to overall prices in Hong Kong and other relevant factors), particularly the level of charges applicable to the aeronautical services, will not be higher than that before the privatization; and
- The overall performance of HKIA, as measured by relevant comparative studies, will not be worse than that before the privatization.



Comments on the Consultation Document on AA Privatization

- ii. It is prudent for the Government to **always retain control of the majority of voting rights in the new Company** - role of Government as shareholder, commercial versus public interest.



Comments on the Consultation Document on AA Privatization

- iii. At least half of the **board members** of the new Company should be **Permanent Residents ordinarily residing in Hong Kong**, and the **Chairman** should be a Hong Kong Permanent Resident with **Chinese Nationality** instead of a foreign national.

Comments on the Consultation Document on AA Privatization

- iv. We support limiting the voting rights by any single shareholder (including associates) other than the Government to 10% **only if the Government retains control of majority voting rights in the new Company.**



Comments on the Consultation Document on AA Privatization

xi. and xii. **The establishment of airport charges should not simply be driven by the desire of the Government to obtain better valuation of its shares.** Airport charges should be reasonable (with cost-based reference) and is broadly competitive to comparable airports, and **inelasticity should not be used as support for increasing airport charges.**

Comments on the Consultation Document on AA Privatization

- xiii. We are not opposed to the adoption of the **user pays principle** in general. However, it would have been a much superior proposition if the above principle is **made subordinate to the over-riding principle that AA will operate for the overall benefit of Hong Kong's economy.**



Comments on the Consultation Document on AA Privatization

xiv. The issue of **single till versus dual till** involves the fundamental issue of a possible trade-off between Hong Kong's overall public interest versus the commercial interest of a privatized AA.

While dual till approach will likely lead to higher airport charges for the aeronautic side of the equation, we have no strong position towards either of the approaches at the current level of proposal detail.



Comments on the Consultation Document on AA Privatization

- xv. Should the Government's proposal in (xiv.) is adopted, we do **support the consideration of a risk premium concept in the determination of the target return for aeronautical activities.**




Comments on the Consultation Document on AA Privatization

xvi. We expect **broad parameters** on bilateral negotiation mechanism between the new Company and airlines for airport charges would include the setting and permission of a **reasonable rate of return, defining a price-cap mechanism** based on some kind of (CPI-X%) formula, and **establishing high safety, service quality, and competitive positioning standards** relative to comparable airports relevant to HKIA.



Comments on the Consultation Document on AA Privatization

xvii. We are in support of the **appointment of an independent panel** empowered to adjudicate on the reasonable level of airport charges in case both parties cannot come to a final agreement.



In Pursuit of Continuous Improvement

- Adopting improved governance and other practices envisioned in the privatization exercise;
- Continuing to project future capital needs and evaluate and plan for the most cost effective means to support the future funding needs;
- Putting in place appropriate regulatory frameworks and processes to ensure that the performance of HKIA/AA is on a continuous improvement curve.



Thank you