



**Winnifred Yoong**

31/05/2005 11:12  
Please respond to wyoong

To: airportcomments@edlb.gov.hk  
cc: Radiah Osman  
Andrew Herdman  
Subject: Partial Privatization of the Airport Authority (Submission by AAPA)  
 Urgent  Return Receipt

Dear Sir/Mdm:

The Association of Asia Pacific Airlines (AAPA) wishes to submit its comments to the Consultation Document on the proposed partial privatization of the Hong Kong Airport Authority.

The original copy of this document is being sent to you by registered mail.

Please do not hesitate to contact us if you require more information.

Regards,  
Ms. Winnifred Yoong (Winni)  
Manager - Industry Affairs  
ASSOCIATION OF ASIA PACIFIC AIRLINES

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**Partial Privatization of the Airport Authority**

Attention:

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Communications with respect to this document should be sent to:

Mr. Andrew Herdman  
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Ms. Winnifred Yoong  
Manager – Industry Affairs  
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Dated: 31 May 2005

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## COMMENTS OF

### THE ASSOCIATION OF ASIA PACIFIC AIRLINES ("AAPA")

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The AAPA files these comments on the consultation document on Partial Privatization of the Airport Authority (AA) published to seek views on the regulatory and institutional framework pertinent to the proposed partial privatization.

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#### THE ASSOCIATION OF ASIA PACIFIC AIRLINES

The AAPA is the trade association of the major scheduled international air carriers based in the Asia Pacific region.<sup>1</sup> Collectively, the seventeen AAPA member airlines operate over 970 weekly flights, excluding codeshare flights, to Hong Kong. In 2004, AAPA member airlines' passengers represented almost 50% of the total traffic that passed through Hong Kong International Airport (HKIA).

HKIA is an important hub airport for member airlines of the AAPA and is also the home base of two AAPA member airlines namely Cathay Pacific Airways and DragonAir.

Therefore AAPA is in favour of any development that will bring genuine benefits to Hong Kong and its people as well as the travelling public.

#### **Partial Privatization and its Benefits**

AAPA agrees with IATA in stating that privatization must bring benefits to all stakeholders: the people of Hong Kong, the government AND the airport customers - travellers, shippers and airlines.

AAPA therefore questions whether privatization of AA is the right thing to do at this stage of growth and development for HKIA. There is substantial uncertainty as to what, if any, real benefits would accrue from a privatization, and there are cogent concerns that a hasty sale would lead to higher charges imposed in the name of higher returns for investors, to the detriment of Hong Kong's overall interests.

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<sup>1</sup> AAPA's members: Air New Zealand \* All Nippon Airways \* Asiana Airlines \* Cathay Pacific Airways \* China Airlines \* Dragonair \* EVA Air \* Garuda Indonesia \* Japan Airlines \* Korean Air \* Malaysia Airlines \* Philippine Airlines \* Qantas Airways \* Royal Brunei Airlines \* Singapore Airlines \* Thai Airways International \* Vietnam Airlines

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Several factors must be recognised:

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1. Maturity - HKIA is not a mature asset, considering that it is only seven years old when airports typically have a life expectancy of more than seventy-five years.

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Capacity - HKIA is only operating at less than half its designed capacity of 87 million passengers per annum (mppa). In 2004 HKIA handled 37.0 mppa as compared to 27.4 mppa in 2003 and 34.3 mppa in 2002.

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2. The AAPA feels that the airport ought to focus more on building up the traffic for HKIA rather than proceeding with plans that may negatively affect traffic growth.
3. Timing of privatisation – AA should take into account the realistic valuation of the airport and a reasonable tenure for investment returns.

The AAPA believes that the overriding priority of AA should be to generate maximum long-term economic benefit for Hong Kong and China (i.e. public interest), and heed against possible short-term profit maximization in pursuit of a targeted return, at the expense of Hong Kong's overall economic development and prosperity.

### **HKIA Status as Hub in the Region**

To airlines, HKIA is already a comparatively expensive airport in the region, along with other high cost airports in Japan and Mainland China. Any increase in airport charges following privatization will undermine HKIA's competitiveness as a global aviation hub vis-à-vis neighbouring airports, which offer services at more competitive rates.

Although the consultation paper claimed that HKIA's current airport charges are "comparable to the level in Singapore and lower than those in Seoul, Bangkok, Taipei and the mainland China", we refer to IATA's submission which demonstrates that charges in Hong Kong are actually 33% higher than Seoul, 45% more than Taipei, 59% more than Bangkok, 123% more than Singapore and a staggering 352% higher than charges at Kuala Lumpur.

Hong Kong is known worldwide not only to business travellers as a leading international business and financial centre, but also to leisure travellers for its other attractions including cultural diversity, creative shopping and culinary experiences. AAPA will not deny the fact that airlines will fly to airports when passenger loads and yields warrant it, but increases in already high airport charges will impact on airlines' operating patterns and traffic flows, particularly for budget-conscious travellers and transit passengers with a wide choice of hub airports.

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The growing competitive threats to HKIA from alternative airports such as the nearby Macau and others in the southern part of Mainland China should also not be under-estimated. Airports in this region are highly competitive and any move by AA to increase charges would encourage diversion to rival airports, at the expense of HKIA and Hong Kong.

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Past success should not lead to complacency. Not too long ago, Singapore Changi Airport, another extremely successful aviation hub airport, decided to take drastic actions to review its charges to be more cost effective in order to maintain its hub status in the face of new competitive threats. It further assisted operating carriers by issuing a third ground-handling licence to introduce more choices and competition, and thereby lowering ground handling expenses for the airlines.

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### **Single-till versus Dual-till**

AAPA member airlines oppose the adoption of the "dual till" model for setting airport charges. Airport charges account for 45% of AA's total revenue and if the two-till system were to be adopted, this could entail a doubling of the airport charges, further placing the hub competitiveness of Hong Kong at stake.

In our view, the "single till" concept, based on the symbiotic relationship between the airport operator, tenants, service providers and the airlines, which has been hitherto successful, should be continued. Even in cases where a dual-till approach has been considered, it has always been recognised that the airlines' contribution in delivering passengers is the key to the success of the airports' non-aeronautical retail and other activities. It is only logical and fair that such revenues generated be taken into account when determining aeronautical charges to be paid by airlines.

### **Expecting High Returns**

AAPA believes that an international airport should be considered a long-term infrastructural development. Attendant benefits from increased tourism, trade and other economic activities accrue to the entire Hong Kong economy. The Return on Equity (ROE) as a measure of the performance of the AA fails to take into account all these other benefits to the wider economy.

Secondly, HKIA is already a profitable airport. A HK\$520-million profit in FY 2002-2003 is impressive during a period that saw the air transport industry going through several crises such as SARS and economic downturn. In FY 2004-2005, HKIA is expected to turn a profit of HK\$1 billion. With expected growth of 5% to 6%, the potential contribution to Hong Kong's economy is enormous. But whether the true long term value of that investment can be realised in a privatisation of HKIA at the current time remains highly doubtful.

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The AA has argued that airport charges represent only 4% of the airlines' operating costs, but this loses sight of the pressure that airlines are under given constant yield erosion. Under such circumstances, further increases in airport charges are simply not acceptable to airlines or their passengers.

Airport authorities, such as AA, must recognise the demands placed upon the industry by the customers, and strengthen its commitment towards improving efficiency and reducing costs, whilst maintaining high levels of service quality.

## **Service Quality**

The AAPA is also concerned about the post-privatization level of efficiency at HKIA. Although one of the motives for the privatization exercise is the desire to improve airport efficiency, there are risks that the post-privatisation company may be tempted to compromise on service to save costs to maximise short run returns for the investors.

To ensure HKIA continues to be one of the best airports in the world, the AAPA fully supports the requirement for the new management (if AA were to proceed with partial privatization) to commit to a service charter that sets out the general performance principles, criteria and measures to be adopted, as a form of protection against any deterioration of service standards.

## **CONCLUSION**

Whilst AAPA members are not, in principle, against the idea of privatization, we are particularly concerned about the high possibility of increased airport charges and lower service standards as a result of this privatization. A successful privatization must generate efficiencies to allow for reduced costs and AAPA would like to see a well-defined regulatory framework, and a precise and fair mechanism for airport charges in place before rushing into privatisation purely for its own sake.

AAPA, on behalf of our member airlines, would like to see proper oversight and regulation of airport charges to ensure that the AA does not exploit its monopolistic position to impose excessive charges on the airlines. We refer to 'Doc 9082/6 - ICAO Policy on Charges for Airports and Air Navigational Services' that provides further guidance on necessary requirements for the successful regulation of a privatised airport.

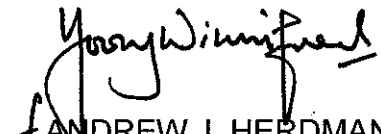
A new economic regulatory regime is necessary to ensure that the interests of all stakeholders will be properly protected. The system must be built upon the basis that there will be channels through which the new airport company discuss and reach consensus with the airline community and airport users on the level of charges. It must also include an appeal mechanism in case consensus cannot be achieved, chaired by an independent party that can make a final judgement

**A** - most likely the government itself - although the potential conflicts of interest again point towards the need for an independent regulatory body and framework.

**A** Transparency, efficiency, and benefits to all stakeholders ought to be the guiding principles for AA. Privatization itself must not be used as a reason to increase airport charges. In the absence of clear and overriding evidence of the benefits of privatization, AAPA is of the view that any attempt to privatize HKIA should be delayed until the actual growth in traffic has demonstrated the true value of the airport to Hong Kong. A premature privatization, particularly if it was directed towards unduly increasing the level of charges at what is already an expensive airport, would serve no one's long term interests, least of all Hong Kong.

Thank you.

Yours faithfully,

  
ANDREW J. HERDMAN  
Director General