



"Tandy PY Chu"

03/06/2005 12:01

To: airportcomments@edlb.gov.hk
cc:
Subject: AA Privatization Public Consultation
 Urgent Return Receipt

Dear Mr Ip

With reference to the subject heading, pls find below comments from Dragonair for your record.

(See attached file: letter.pdf)

Tks & Brgds
Stanley Hui
CEO / KA

DRAGONAIR



Ref.: RC-498/05



DRAGONAIR
港龍航空

31st May 2005

Mr Stephen Ip
Secretary for Economic Development
and Labour (Economic Development)
Central Government Offices
Lower Albert Road
Hong Kong

Dear *Stephen,*

As a Hong Kong based airline, Dragonair is naturally very concerned with the Partial Privatization of the Airport Authority and have previously submitted our comments on 8th December 2003 and have subsequently actively participated in the joint consultation between Hong Kong Airport Authority and the airlines (BAR/IATA), which ended on 31st May 2005.

We endorse all the submissions made individually or jointly by BAR and IATA subsequent to the BAR/IATA/AA consultative meetings. In addition we would also like to contribute our own views on some specific issues outlined in the Consultation Document issued by EDLB in November 2004 or as a result arising from the joint BAR/IATA/AA discussions as follows:



DRAGONAIR

港龍航空

1. No charges increase

As an airline, we would like to express strongly our view that there is no justification for increase of airport charges due to the partial privatization.

2. **The timing of the Partial Privatization** is not considered right for launching the IPO at such an early stage. In our view, we see that putting forth an IPO at this stage is equivalent to an offer to the member of the public a very young company, whose full business potential has yet to be exploited. The business history of the airport until now is too short to provide adequate historical information in terms of business performance, return on equity, etc., for all stakeholders to arrive at a fully considered investment position on such an important matter of partially privatizing one of the most important assets of Hong Kong. This situation we consider could well be better handled at a later stage. If the launch were to be considered at a later stage, there would be more business performance data for the benefits of all parties.

3. Making a return on the land

We have in particular strong views on the HK\$ 30.7 billion investment, which includes the cost for the creation of an airport island of about 1255 hectares. The island is going to be an asset for Hong Kong forever much more than its worth in its cost of creation within the HK\$ 30.7 billion. We have no problem of the proposition on how to regulate and restrict the use of the airport land but we have major concern on seemingly duplicating the cost burden on the airlines that on the one hand Hong Kong have an airport island added to its



YEARS OF THE DRAGON



DRAGONAIR

港龍航空

account and on the other hand the Airport Authority, through charging system, recover the full creation costs and at the same time make an additional return.

From a strategic perspective, in order for Hong Kong to have an airport, she must as a pre-requisite come up with a piece of land to start with. It is a matter of infrastructure for Hong Kong similar to the roads and harbour. It is not merely a matter of investment.

Even in an isolated context of making a return on investment, nothing would have demonstrated our point more than the example of Kai Tak. The land made available after the removal of the airport to Chek Lap Kok has subsequently generated extremely huge benefits for the taxpayers.

4. Regulated Till vs Single Till

Enough debates have been held on this question Single Till versus Regulated Till. However, we believe trying to use an economic regulatory framework on airport charges is artificial and complex especially so when the till is too narrow. The joint BAR/IATA/AA discussion illustrated very well that, while there are still a lot of details to be worked out by the parties to create a viable regulated till model along with the proposition in the Consultation Paper, a lot of the apportionments and allocations in the regulated till are arbitrary. It would be a remiss not to point out that even within the framework of a regulated till, the reality of a single till, whether we like it or not, to a large degree is still truly reflected in all the discussions of cost allocations on the whole. Thus the use of a single till would in many ways provide a simpler and more pragmatic approach and is therefore our preference.





DRAGONAIR
港龍航空

5. User Pays

We believe in this principle if it is well applied. We strongly advocate that all users including the passengers should pay a direct fee for using the airport.

6. Strategic Value and National Benefits

Strategic value and national benefits must be taken into consideration in terms of arriving at a reasonable rate of return as well as in the apportionment of assets and costs. In particular, the airlines should not be required to take on all the security costs. It follows that the security assets should not yield a return.

We believe that yielding a better valuation of the shares offering is not the only consideration. Keeping Hong Kong Airport competitive and maintaining her strategic position as an international and regional aviation centre is vital. Factoring these values and benefits in the overall cost of the airport will certainly help reinforce the Hong Kong position.

7. Regulating Government Charges included in the Regulated Till as a “Pass On”

We believe that the economic regulation should also be applied to some of the major Government charges and not be considered as a straight “pass on” to the airline. At the very least, airlines and Airport Authority must be given full disclosure of the components of the costs so that appropriate benchmarking can be implemented or capping of the costs with an efficiency index could be performed.



YEARS OF THE DRAGON



DRAGONAIR
港龍航空

Conclusion

We are of the opinion that if all the above views and those expressed by BAR and IATA could be incorporated into the entire consideration of the proposed partial privatization, and establish a regulatory and institutional framework to ensure that airport charges will stay competitive, when the time is right, when the airport business is more mature, a successful IPO could then be supported. It is also our opinion that the regulatory and institutional framework pertinent to partial privatization should be supported not just basing on creating commercial valuation but at the same time should also take into context of the strategic importance of the Hong Kong Airport.

Yours sincerely
Hong Kong Dragon Airlines Ltd.

Stanley Hui
Chief Executive Officer

SH/RC/tc

20
YEARS OF THE DRAGON