



Hong Kong General Chamber of Commerce
香港總商會 1861

3 June 2005

Ms Sandra Lee,
Permanent Secretary for Economic Development
and Labour (Economic Development)
Economic Development and Labour Bureau
2/F, Main Wing, Central Government Offices
Lower Albert Road, Central
Hong Kong

Dear Sandra,

Public Consultation on Partial Privatization of the Airport Authority

The Hong Kong General Chamber of Commerce is pleased to submit its views on the partial privatization of Hong Kong International Airport. As you know, the business community in general, and the Chamber in particular has long argued for greater reliance on public-private partnerships and privatization. It is therefore only with the greatest reluctance and after considerable debate that we find ourselves unable to support this particular project at this time.

As a general comment, we believe it appropriate that the government should develop a comprehensive overall framework for privatization. Without a definition of the objectives of privatization, no articulation of the criteria used for selecting specific privatization targets, and no long-term road map for future projects, success is unlikely. And such efforts will be totally susceptible to political manipulation by opponents. Absent these basic factors, we believe this consultation paper is premature.

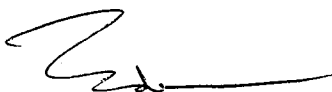
Turning to the specific situation of the Hong Kong International Airport, in principle, we believe the private sector should, wherever feasible, own and operate businesses on sound commercial principles. However, at the same time, we recognize that airports are key components of an economy's competitiveness and, as such, need to be managed in accordance with both public policy interests and business principles.

Therefore, we believe that before proceeding with consultation on the means of achieving the specific goals of a particular privatization project, the objectives must be clear. If the purpose is to raise money, there should be a clearly stated reason why the funds are needed. Is the money to be used to shore up fiscal operating deficits? We believe it is inappropriate to use capital revenue to offset recurrent expenditure; this needs to be addressed separately. Is the money earmarked for future investment in expanding, maintaining or operating the asset itself? In that case, we would wish to see a comparison of alternative financing arrangements, from a partial IPO to debt instruments such as revenue-linked bonds.

One of the frequently cited reasons for considering privatization is to improve operating efficiencies. We agree that this is a useful objective in and of itself, and so we are puzzled at the lack of analysis as to the specific shortcomings that need to be addressed by the Hong Kong International Airport. Before analyzing the means of privatization for the purpose of improving efficiency, we would expect to see a detailed explanation of the benchmark criteria for measuring success and the reasons why such improvements cannot be made other than through privatization. For example, what are the deficiencies in using a management contract to address efficiency problems? In short, we believe that, thanks to the dedication of those who run the Hong Kong Airport, it seems pretty efficient right now.

We trust that these views will assist in your policy deliberations, and that they will be considered in the spirit of doing what is best for Hong Kong. We would be interested in putting forth views in any future consultation on this important issue. We also have some technical comments and reservations on specifics in your consultation, but as I said above, answering them would be premature before the "big" principles are addressed first. Thank you very much for your attention.

Sincerely,



Dr. Eden Woon,
CEO
Hong Kong General Chamber of Commerce