



AIRPORT PRIVATISATION

Submission to the Panel on Economic Services by the Hong Kong Airline Service Providers Association (HASPA)

Association Background

HASPA represents 22 companies at Hong Kong International Airport (see appendix 1) and was formed in 1999.

The objectives of the Association are:

- To provide an organisation for the interchange of information between non-airline companies, engaged in aircraft handling and related services at Hong Kong International Airport (HKIA)
- To provide a forum in which to determine agreed attitudes to common issues
- Advocacy of the Association's views, to other bodies relevant to, or associated with, Hong Kong International Airport
- To provide support for members, both individually, and collectively, in their dealings with various regulatory bodies
- To recognise, and provide for the requirements of I.C.A.O. Annex 9, Chapter 6, Paragraph 6.4, that states the opportunity should exist for an independent aircraft handling agent to provide ground handling services at airports. Such services to be provided without economic or racial discrimination.
- To work, with common effort, for the progress of civil aviation in general

At the end of 2004, HASPA member organisations directly employed approximately 15,000 staff at Hong Kong International Airport.

The role of the airline service providers community, in making Hong Kong International Airport, such a success story, should not be underestimated.

HASPA companies are responsible for:

- Check in and passenger handling for over 35 airlines
- Arrival and departure baggage and cargo handling
- In-flight catering – meal preparation, loading and unloading
- Aircraft fuelling
- Aircraft maintenance
- Aircraft cabin cleaning
- Cargo terminal operations
- Airport hotel
- Business aviation handling
- Wheelchair passenger handling
- Baggage trolley management

Privatisation Concerns

As a matter of principle, member companies have no objection to a privatised, or indeed a partially privatised, Airport Authority (AA). Examples of well-run privatised airports exist in many locations around the world.

However, there are concerns within the service provider community and we see little, in the Consultation Document, to alleviate these worries.

HKIA is already an extremely expensive place to do business and it is a genuine worry, going forward, that the various fees and charges levied on franchisees and other airport companies, may be increased arbitrarily and excessively. Our airline customers are concerned too, as they correctly see any increased charges ultimately being passed on to them.

Many of our members have, since airport opening in 1998, struggled to achieve acceptable returns and it is only in the last year (2004) that some have, for the first time, managed to post a small profit. Airlines have placed enormous pressure on all their suppliers to reduce costs over the last few years and the service provider community has been one of the hardest hit. Investment in new equipment, staff training and development under these circumstances has not been easy.

The Consultation Document, Para. 22 (xiv), proposes that only airport charges paid by airlines should be regulated as they concern " core airport activities which are necessary for the operation of the airport, but cannot be economically duplicated outside the airport perimeter".

Whilst we would argue that this definition includes 99% of our member organisations, we would also agree that 'over-regulation' is not an attractive proposition for the non-airline community.



The document goes on to state that the proposed model is in line "with most other privatised international airports." It does not however elaborate on the charging mechanisms adopted by these other airports for the award of franchises, handling licences, service contracts etc. Many airports simply charge notional licence fees and office rental, believing the way to grow their businesses lies in attracting as much air traffic and retail as possible with a competitive, but healthy, handling community for airlines to select from.

At HKIA, the various charges payable to the Authority, are (as a percentage of overall business costs) higher than industry norms, significantly so in some cases. Clearly, index linking passenger terminal office accommodation to Central 'Grade A' commercial office space artificially inflates just one of these cost components. Others (e.g. annual licencing and inspection of non-mechanised equipment) are unique to HKIA and an unnecessary cost and administrative burden.

HASPA certainly supports the airlines view that revenues earned by AA from retail related activity (the so-called single till concept) should be factored into any economic equation involving the financial performance of the airport. We do not believe organisations that support the airport operation and have no ability to trade elsewhere, should be regarded as primary revenue streams.

In the event the privatisation exercise goes ahead, we would strongly encourage the Government to promote a full review of AA's relationship with the service provider businesses.

As a group, we are responsible for the livelihoods of over 15,000 Hong Kong people. It is therefore vitally important we see a strategy that promotes the long term and sustainable growth and profitability of the aviation support sector in Hong Kong. We are not convinced that the administration's proposals, outlined thus far, really address this need.

Hong Kong Airline Service Providers Association

31 January 2005



Appendix 1

HASPA MEMBER COMPANIES

1. AFSC Refuelling Ltd
2. Asia Airfreight Terminal Co Ltd
3. China Aircraft Services Limited
4. Cathay Pacific Catering Services
5. DCH - Dragonair Airport GSE Services Ltd
6. Gate Gourmet Hong Kong Limited
7. Ground Support Engineering Ltd
8. Hong Kong Air Cargo Terminals Ltd
9. Hong Kong Aircraft Engineering Ltd
10. Hong Kong Airport Services Ltd
11. Hong Kong Int'l Airport Services Ltd
12. Hong Kong Business Aviation Centre
13. Hong Kong Oxygen and Acetylene Co Ltd
14. Jardine Airport Services Limited
15. Jardine Air Terminal Services Ltd
16. LSG Lufthansa Service Sky Chefs
17. Menzies Aviation Group HK Ltd
18. Pan Asia Pacific Services Ltd
19. Regal Airport Hotel
20. Securair Limited
21. Worldwide Flight Services Fuelling (HK) Ltd
22. Worldwide Flight Services Inc