



**THE NEED FOR
ECONOMIC REGULATION OF THE
HONG KONG INTERNATIONAL AIRPORT**

**IATA SUBMISSION
TO THE
ECONOMIC DEVELOPMENT AND LABOUR BUREAU
OF THE HONG KONG SAR**

14 January 2004

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1. Introduction

The International Air Transport Association (IATA) is the trade association of the world's air transport industry, representing over 270 Member airlines, which carry 98% of the world's scheduled international air traffic. IATA is herewith presenting the views of its Member airlines on the need for economic regulation of the Airport Authority of Hong Kong (AAHK) and the key elements that need to be addressed in ensuring a successful regulatory regime for consideration by the Economic Development and Labour Bureau of Hong Kong SAR (EDLB), particularly in view of the proposed privatisation of Hong Kong International Airport (HKIA).

The Airline industry is of the view that privatisation of the airport should benefit not only the Government of Hong Kong SAR and the new owners of the privatised entity, but also the airlines, passengers and shippers. The industry is also of the firm conviction that in privatising such strategic infrastructure, the public utility nature of the airport and the role it plays in the development and air transport's contribution to Hong Kong SAR's overall economy should be given due consideration.

The airline industry is opposed to the conversion of a public monopoly into a private monopoly, which will result in the abuse of its position by its owners. The airlines are also concerned that privatisation could be taken as an opportunity for raising charges to the airline users. This concern does not simply relate to aeronautical charges. The concern covers other related fees that the AAHK charges e.g. franchise fees, the levels of which are already rather exorbitant. Making these fees too punitive would only serve to push up the costs to the airlines operating at HKIA as this would have the same effect as an increase in aeronautical charges.

Such concern is not without cause because the current charges at HKIA are already quite high. If we compare HKIA with other major airports in the region, which is more relevant than comparing with airports elsewhere in the world, the airport charges of HKIA are higher than Seoul, Taipei, Bangkok, Singapore, and Kuala Lumpur by 33%, 45%, 59%, 123% and 352% respectively. Obviously, any attempt to adjust charges at HKIA should be for reduction rather than increases.

As a result of severe competition and market demand for lower airfares and better quality of service, the yield (revenue per unit of activity) to the airlines has been declining over the past decade or more. During the past five years, the decline in yields to the IATA Member airlines on their international scheduled operations has

been around 3.4% per annum. This need for reduced airfares is further demonstrated by the rapid growth of the “No frills” carriers.

Therefore, the airlines need to continuously improve efficiencies and reduce operating costs. In this effort, all providers of services to the industry also have to ensure that they in turn improve their efficiencies and quality of service while reducing charges to the airlines.

The airline industry is of the view that Economic Regulation is one of the more transparent and effective ways of achieving this objective. In this regard, IATA supports the statement in Paragraph 15 of the ICAO document 9082/6 “ICAO’s Policies on Charges for Airports and Air Navigations Services” , which states:

“The Council notes that with the rapidly growing autonomy in the provision and operation of airports and air navigation services, many States may wish to establish an independent mechanism for the economic regulation of airports and air navigation services. Such a mechanism, the establishment of which in such circumstances is recommended by the Council, would oversee economic, commercial and financial practices, and its objectives could be drawn or adapted from, but need not be limited to, the following:

- i) Ensure non-discrimination in the application of charges.*
- ii) Ensure there is no overcharging or other anti-competitive practices or abuse of dominant position.*
- iii) Ensure transparency as well as the availability and presentation of all financial data required to determine the basis for charges.*
- iv) Assess and encourage efficiency and efficacy in the operation of providers.*
- v) Establish and review standards, quality and level of services provided.*
- vi) Monitor and encourage investments to meet future demand.*
- vii) Ensure user views are adequately taken into account.”*

Paragraphs 13, 14, 16 and 17 of the same document also provide further insight into the requirements for the successful regulation of a privatised airport.

In this document, IATA is presenting the views of the industry on economic regulation and some key aspects that need to be addressed in establishing the framework for economic regulation and determining the level and structure of charges.

2. Clear definition of the scope of the Airport’s business.

It is essential that a decision be made regarding the scope of the Airport’s business and be communicated to all stakeholders. In the view of the airline industry, all activities performed by the Airport or its agents that are required for the safe, reliable and efficient air transportation and commercial activities, linked directly or indirectly

to the air transport activity should be included within the scope of the airport business. Given the strategic importance of the airport to Hong Kong SAR and to International Civil Aviation, any high-risk non-aeronautical activities, failure of which could threaten the viability of the airport should be excluded.

3. The Appropriate Regulatory Regime

Economic regulation usually seeks to reproduce the desirable elements of a competitive market in a situation where competition is not possible. Airports are natural monopolies and thus, require some form of economic regulation.

There are many different methods of economic regulation in use across a range of industries around the world. At a simplistic level, the choice is between 'Rate-of Return' Regulation and 'Incentive' Regulation, perhaps the best-known version of which is known as RPI-X regulation.

a) Rate of Return Regulation

Under rate of return regulation, the company provides detailed information on the costs incurred in providing its services. The regulator reviews those costs, and if they are reasonable, the company will be allowed to recover them from their customers. It will also be necessary for the regulator to decide the asset value, depreciation and rate of return for the regulated company. The rate of return will reflect the cost of debt and equity for the regulated company. The revenue for a given year will be the asset value multiplied by the rate of return plus operating costs plus depreciation.

IATA does not support the use of a pure 'Rate of Return' regulation for Hong Kong for two reasons. Firstly, if the rate of return is set too high, then the company has an incentive to 'gold plate' its assets, and increase its capital expenditure inefficiently. Secondly, the regulated company has no incentive to reduce operating costs.

b) Incentive Regulation (RPI-X)

Under this system, the regulated airport is allowed to increase its revenue by the Retail Price Index less an efficiency factor (known as X). If the regulated company is more efficient than was assumed when setting the X factor, it is allowed to retain any savings as profit. If the airport is less efficient than was assumed when setting the X factor, it will make a loss. Therefore, RPI-X regulation provides the regulated company with an incentive to cut costs quicker than the forecasts underpinning its revenue control. In principle, the X factor can be set without reference to the costs of the regulated company. However, in practice, the regulator requires an understanding of the forecast costs of the regulated business.

Generally, where airports have been subject to overt economic regulation it has been under an RPI-X type regime.

Airlines generally understand and prefer ‘Incentive’ regulation as opposed to pure ‘Rate of Return’ regulation because, in essence, RPI-X aims to mimic the competitive market outcome by:

- Allowing for innovators to enjoy temporary benefits
- Providing an incentive to reveal attainable cost efficiencies
- Being forward looking with forecasts of potential productivity improvements whereas rate of return is backward looking and is based on historic costs
- Giving regulators more degree of freedom because of the range of factors that can go into X.
- Allowing scope for bargaining under RPI-X (which may lead to better outcomes)

3.1 The BAA’s London Airports ~ A good working model.

The most mature example of economic regulation of airports is in the United Kingdom, where BAA’s three London Airports have been regulated since their privatization in 1987. We consider this a good role model for Hong Kong.

In practice, economic regulation of BAA’s London Airports is a hybrid model of price- cap and rate-of-return regulation. The price cap comprises a RPI-X price cap applied in the form of an average revenue yield per passenger. Airport charges subject to the price cap are those associated with the landing, take-off, and parking of aircraft, and with the processing of passengers through the terminals. The procedure for calculating the price cap at designated airports under the single till comprises four main steps:

- a. An agreed program of capital expenditure for the airport is determined. In addition, based on consultation between the regulators, the airports, airport users and other interested parties, the regulator determines, for the coming five-year period, estimates of:
 - traffic and passenger numbers;
 - operational expenditure; and
 - commercial revenues (revenues from non-aeronautical services).
- b. The value of the airport’s asset base is derived, and an allowable risk-adjusted rate of return is determined by the regulator.
- c. The overall revenue required by the airport to achieve the approved rate of return is then estimated. The estimated commercial revenues are then subtracted from the overall revenue requirement to obtain the residual revenue requirement.
- d. The residual revenue requirement is what airports may earn from charges from the provision of aeronautical services under the price cap. The Xs, which are set by the regulator, are estimated to allow the airport to recover the residual revenue requirement.

As individual charges are not subject to the price cap, the airport operator has a degree of discretion with respect to the level of each individual charge and the relationship between them. When resetting the RPI-X price cap, the regulator adopts a single-till approach. Under the single till, future revenues and costs are assessed on an airport-wide basis to determine allowable average revenue yield per passenger. That is, the regulator takes into account not only the revenue generated from aeronautical services, but also the revenue generated by activities such as retailing, and the provision of rental property and other services to tenants and licensees. The cap is reset every five years by the regulators after an extensive review process.

We are seeking a single till structure that allows the airport to retain any commercial earnings that exceed the forecast for the regulatory period and do not impact on the level of airport charges for that period.

In this paper, it is not our intention to define the Value of X, as this requires a greater understanding of the regulatory regime that the Government of Hong Kong SAR would be stipulating and the business forecasts of the airport. IATA will present the airline industry views once the Government has made its recommendation.

4. Application of the Single Till

The concept of the single till is widely understood within international aviation regulation. The International Civil Aviation Organization (ICAO), who endorse the single till approach, in Paragraph 22 i) of ICAO Document 9082/6 provides a simple explanation of the single till:

“The cost to be shared is the full cost of providing the airport and its essential ancillary services, including appropriate amounts for cost of capital and depreciation of assets, as well as the cost of maintenance and operation and management and administration expenses, but allowing for all aeronautical revenues plus contributions from non-aeronautical revenues accruing from the operation of the airport to its operators.”

Airports Council International (ACI) has also accepted the single till concept as evident in the Joint ACI/IATA position on this matter given in Attachment 1.

IATA supports the retention of a refined version of the single till for a number of reasons.

a. Interdependency

It has long been accepted that there is a very strong symbiotic relationship between airlines and airports, as each needs the services provided by the other. Economic activities at airports are generated by the presence of airlines – Hong Kong International Airport is no exception to this.

The interdependency has been highlighted by BAA, the operator of airports in the UK and internationally, in their recent annual reports:

“..... that the income from commercial activity enables the business to keep down charges to airlines – which is inevitably passed on to passengers in the fares they

pay – and invest in airport infrastructure. It is no accident that the UK is the only country in the world where major airport infrastructure can be provided at no cost to the taxpayer. We can only finance our capital investment program as a result of the revenues we earn by providing quality commercial services.” (BAA Annual Report 1998/99 p.20)

“By offering customers what they want, we can maximise commercial returns, making it possible to keep airlines charges low and invest in airport infrastructure.” (BAA Annual Report 1999/00 p.26)

It is reasonable to assume that in the absence of aeronautical services, there would be no market for non-aeronautical services such as retail concessions and car parking. Thus, aeronautical services are primary drivers for non-aeronautical services.

An example of interdependency outside of aviation is that between the value of retail leases at shopping centres and investments in adjacent car parking spaces. The more accessible is the shopping centre (i.e. the more car parking spaces that are available), the more visitors there will be to the centre and the more valuable will be the retail leases. Thus, many shopping centres do not charge for car parking or charge a nominal rate in order to entice customers into the retail portion of the centre.

In this context, it is also useful to note the UK Competition Commission’s findings, which state:

“Against those, at most, limited benefits, we see significant disadvantages from the dual-till approach. We believe it is difficult sensibly to separate commercial and aeronautical activities. BAA’s rental and other commercial revenues at the three London airports would not be generated without aeronautical facilities-commercial and aeronautical facilities are better, therefore, in our view, and more realistically regarded as one business. Since the successful development of commercial revenues requires airlines to attract passengers to the airport, the benefits of commercial activities should also in our view be shared with airlines and airline users.”

b. Absence of a competitive environment for airports.

Airports are natural monopolies, thus their pricing behaviour is tempered by the lack of formal competition. It is IATA’s strong belief that if it were possible to place airports into a competitive environment, for example, if they had to regularly tender to provide airport services to airlines, they would not treat aeronautical and non aeronautical as two distinct and separate income streams. Instead, a rational airport provider is most likely to promote aeronautical pricing solutions that would increase passenger throughput at their airport in order to maximise their non-aeronautical revenue. Thus they would use income generated from non-aeronautical services to support aeronautical charges to encourage additional passenger throughput.

This is common practice in other industries where product pricing is determined by different revenue generators, for example, in the mobile phone industry, the price of handsets is priced below cost in conjunction with long-term line rental agreements.

Good examples of this in practice are the 2 Belfast airports – Belfast City Airport (BHD) and Belfast International Airport (BFS) – which do compete directly. BHD has adopted a single till approach as a means to offer competitive pricing versus its more established competitor (BFS).

c. Simplicity

The single till has long been recognised as a simple system to administer, as there are no complex or contentious cost allocation issues between aeronautical and non-aeronautical activities to deal with. A dual pricing till system will need to be detailed and robust oversight by a regulator required to ensure that aeronautical activities are not unjustly burdened with costs that are not attributable to the services provided and to ensure that the costs of common use space and resources are allocated reasonably. A further factor that complicates the accurate determination of aeronautical costs is in determining the actual infrastructure requirement and operating costs. For example, would the reduced level of investment need, if the airport was only providing aeronautical and aeronautical related services have resulted in a reduced risk level? Would the terminals require the same number of public amenities, public lifts, escalators and moving walkways? By what percentage could the operating costs be reduced?

Therefore, the monitoring of the ring-fenced revenue streams and associated expenditure would not be without on-going costs and considerable effort would have to be made ensuring compliance and enforcement.

d. Under-investment in aeronautical resources

Under a dual till approach, airports will have to make continued capital investment decisions, given there is an implicit scarcity of financing resources within all companies, capital will be allocated to fund resources that provide the highest economic return. Non-aeronautical investment as an unregulated source of income will generate higher returns when compared to aeronautical investment. Thus, future investment decisions under a dual till environment will be weighted to non-aeronautical infrastructure. This could lead to an imbalance in service levels between the two areas and ultimately could compromise the integrity of the aeronautical infrastructure.

e. IATA's Pragmatic Approach to Single Till Pricing

Recognising that the airport is an indivisible enterprise, a common sense approach to pricing aeronautical service with analytical merit is the single till approach. Under the single till approach, aeronautical charges are effectively set to recover the costs of providing aeronautical services less any excess profits the airport operator achieves from non-aeronautical services. In this way, it treats the airport

business as an indivisible enterprise and recognises the interrelationships between aeronautical and non-aeronautical investments, operating costs and revenues.

Although interdependencies are recognised, it has been argued that the single till approach may provide weaker incentives for the airport operator to invest in improvements in its non-aeronautical assets. However, under single till, the aviation charges are usually set by considering budgeted cost and ancillary income streams, which will be discussed with the users, higher results thanks to performing better than agreed (lower cost, higher ancillary income) remains with the operator, with the compliments of the users until the following regulatory review when the single till is re-set. This provides an incentive to the airport to develop non-aeronautical revenue whilst at the same time ensuring that in the longer term airlines share in the benefits of the fact that its they who bring the retail spending power of passengers to the airport.

As evidence of this, retail floor space at BAA's three London airports increased by about 45,000 sq. metres (80%) over the last 7 years – a growth far in excess of passengers numbers. This was done under a single till environment – so BAA quite clearly did not feel that the single till gave them no incentive to increase commercial facilities. In addition, almost 80% of BAA's profits in the last two years have been from commercial activities. This equates to about £400m.

In their most recent review of the BAA structure, the UK competition commission in their reports to the UK CAA found no evidence of under-investment as a result of the single till, so the dual till, it was argued, was to solve a perceived problem that had not actually occurred.

The conclusion of the review was that, given the increase in the profitability of the BAA airports that would result from the dual till, at the expense of higher charges to airlines and higher fares to their passengers, the reasonable interests of users to the airports are better served by the single till than by the dual till. Hence, it would be unreasonable and inappropriate to allow prices to be determined by the application of dual till.

5. Definition of aeronautical, aeronautical-related, and non-aeronautical activities.

In defining aeronautical, aeronautical-related and non-aeronautical activities, the following are presented for consideration. It is stressed that the list is by no means exhaustive and may need to be amended at times to adapt to changing circumstances.

Aeronautical services can be defined to include:

- (a) aircraft movement facilities, meaning any of the following:
 - (i) airside grounds, runways, taxiways and aprons;
 - (ii) airfield lighting, airside roads and airside lighting;
 - (iii) airside safety;
 - (iv) nose-in guidance;
 - (v) aircraft parking;
 - (vi) visual navigation aids

- (vii) aircraft ramp services including short-term maintenance; and
- (viii) aircraft refueling services.

(b) passenger processing facilities and activities, meaning any of the following:

- (i) forward airline support area services;
- (ii) aerobridges and airside buses;
- (iii) departure lounges and holding lounges (but excluding commercially important persons lounges);
- (iv) immigration and customs service areas;
- (v) security systems and services (including closed circuit surveillance systems);
- (vi) baggage make-up, handling and reclaim;
- (vii) public areas in terminals, public amenities, public lifts, escalators and moving walkways; and
- (viii) flight information display and public address systems.

Aeronautical-related services can be defined to include:

- (a) landside vehicle access to terminals (including areas of close proximity to terminals which facilitate access to terminals, such as short term parking or stopping areas for buses and hire cars);
- (b) landside vehicle services, including:
 - (i) public and staff car parking (but not valet parking); and
 - (ii) taxi holding and feeder rank services on airport;
- (c) check-in counters and related facilities;
- (d) aircraft refuelling services and related infrastructure; and
- (e) aircraft light and emergency maintenance sites and buildings.

Non-aeronautical activities are those activities that are undertaken by an Airport Operator, which do not fall within the definition of Aeronautical and Aeronautical-Related activities as defined above.

6. Cost allocation: related assets and operating costs.

As has been discussed earlier in this submission, cost allocation between, aeronautical, aeronautical related and non-aeronautical activities would not be a major issue provided the single till concept is applied. However, if a dual till or multi till concept is established, the airline industry would require detailed information regarding the cost allocation methodologies used and the performance of an independent audit acceptable to the airline industry with its full participation in the process.

On this issue, the UK Competition Commission has stated that:

“It is also difficult, in practice, to allocate either investments or operating costs between aeronautical and commercial activities. To the extent that some of the judgements that have to be made are arbitrary, future disputes about cost allocation could also harm relations between the airport and its users.”

Even within the single till concept, cost not allocable to civil aviation, such as the costs incurred in view of functions that are the prime responsibilities of Government as immigration, customs, quarantine and security, should be removed from the charges cost base. The joint ACI/IATA position paper on this matter is given in Attachment 2.

This airline industry position is in line with ICAO Policies on charges as stated in Paragraph 22 iv) of ICAO Document 9082/6, which states that:

“An allocation of costs should be considered in respect of space or facilities utilized by government authorities.”

IATA is of the view that costs of these functions should be paid for by the Government, particularly if it would be taxing the airport post commercialisation.

7. Asset Valuation.

The capital base will be highly sensitive to the accounting methods adopted for valuing assets. Furthermore, changes to such accounting methods during a review period can have a significant impact on the assets thus re-valued.

Care needs to be taken regarding reclassification of land as investment property. Investment properties may be valued by some airport authorities on an “open market” (capital value being calculated as a multiple of rent) thereby producing a higher market value.

Certain airport authorities may attempt to re-value their asset bases with the intention of charging depreciation on the new asset values, even when the assets in question may have been already fully depreciated.

It is also necessary to be cautious about the risk of inclusion in the asset base of both the assets during the course of construction and the capitalisation of interest associated therewith. To allow both capitalisation of interest and a rate of return on assets in the course of construction results in double counting of the opportunity cost of capital during that period.

If the asset base is not recorded in the balance sheet on the basis of an historic cost valuation (that is, if a current cost methodology is employed), the need to link the asset base to a stable cost/price index is essential to avoid fluctuations in the capital base valuation due to unforeseen economic circumstances and the resultant distortions of permitted rates of return.

In the case of HKIA, IATA does not anticipate any major issues as all assets are relatively recent and hence, applying historical values would be acceptable to all parties.

8. Policy on the treatment of land:

Land is an asset, which does not have a limited life. Therefore, the land used by an airport should not be taken into account in calculating return on capital or depreciation. Land should be treated as an investment by the airport owner, which does not yield a return, but may be disposed of (if the airport closes) at a significant capital gain. Any such capital gain should be applied towards the capital cost of the replacement facility.

In recent times, some airports have been proposing an opportunity cost approach to determine the value of existing land to be used in constructing the asset base, which then results in higher returns for the airport investors at the expense of the users of the airport. IATA considers that this approach is flawed.

In most countries, due to environmental protection and other related regulations, land used for new airport facilities are those that do not have any other useful purpose. Hence, the initial value of airport land is the least costly in the region. Due to the economic activity and the provision of better access in most cases, land prices around airports appreciate with time. It should be recognised that this is a result of activities by both the airport and the airlines. Therefore, it is incorrect for airports to re-value existing land based on current market prices, prices which the airport has not paid for. It is even worse when one party uses the benefits of such increased value to the detriment of the other contributing party.

IATA's view is that the land in current use by AAHK should be zero valued. We understand that that is the case at present, where the land has been provided to the airport on a nominally priced lease. We support the continuation of this policy.

The reclaimed land would be available to the Government for disposal once the airport ceases its operation at the current location. Hence, given the rate of growth in land prices, and therefore the opportunity for the Government to make a significant profit at the end of the airport's operation, the airline industry is of the view that, when privatizing the airport, the Government should consider absorbing the land reclamation costs, thereby reducing the pressure on the new owners of AAHK.

9. Rate of Return.

In deriving the appropriate cost of capital and applicable rate of return, due regard should be had to:

- the monopolistic, relatively low-risk position of the airport authority; and
- the fact that an airport has a responsibility to the well being of an area's overall economy – overpricing its services affects a much larger constituency than its immediate users.

It has always been the airlines view that there was no need for HKIA aeronautical charges to be set at such a high level at the date of airport opening. The current charges, even though they have been reduced by 15% in 1999, are still higher than necessary and there is room for further reduction.

The question or debate as to what approach should be taken to recover the investment made by the investor (HKSAR Government) had been the highlight of the discussions held between the airlines and the Government and Provisional AA, prior to - and after - the opening of the airport. At that time, making a 5% return was the basis of the discussion. While the charges were eventually finalized at the current level, it is the IATA view that:

- a. The land for HKIA including reclamation thereof for the purpose of operating a viable air transport infrastructure would be available to the Government for disposal once the airport ceases its operation at the current location. This allows, given the rate of growth in land prices, the opportunity for the Government to make a significant profit at the end of the airport's operation.
- b. The realty value of such land should therefore, not be included in the asset base of the project when compiling the rate of return. The airlines understand that that is the case at present, where the land has been provided to the airport on a nominally priced lease. We support the continuation of this policy.
- c. The airlines further understand that the present land cost as in the books of AAHK is basically the land reclamation cost. For the reason as stated in point a) above, we believe firstly, that such cost should not be included in the base upon which the rate of return is calculated and to reduce the pressure on the new owners of AAHK, the Government should consider absorbing the land reclamation costs when privatizing the airport.
- d. The rate of return achieved so far, as per AAHK for the year 2002/2003, was 1.4% on net asset or on Government Investment (HKD 36.6 billion), which includes a large sum of land reclamation cost of approximately, HKD 11 billion (depreciated to 31st March 2003). If we were to reduce the net asset by the amount of the land reclamation cost, the return made by AAHK in 2002/2003 would have been 2%.
- e. The normal basis of evaluating the return on investment in any capital project is to take into account the cash inflow during the economic life of the project plus any residual value. If we were to project an aggregated rate of return using the entire life of the airport, it is envisaged that the rate of return will be very healthy, as probably most of the current fixed assets will be largely depreciated in 30 years time as per the current AAHK schedule. Therefore, it is important that we assess the rate of return for the entire life of the airport.
- f. The airport is currently at half of capacity. Future growth will definitely contribute to a much higher rate of return when the assets are better utilized.

- g. Weighted Average Cost of Capital (WACC) is the standard approach to calculate the required rate of return. However, prior to such attempt, it is important that the current equity structure be reviewed to ensure a more viable debt to equity ratio. We consider it more equitable to have a balanced mix of equity and debt to avoid distorting the WACC by a higher risk premium associated with equity risk.
- h. The risk of investment in HKIA is low given the Government remains its major shareholder. We expect a very low risk premium for both debt and equity over the equivalent asset type in the market.
- i. In the event that AAHK is unwilling to share the traffic risks with the airlines, the risk free rate should apply.
- j. In addition to making reference to WACC as an indicator of rate of return, reference should also be made to the use of RPI-X (or CPI-X) as a means to safeguard against assets being “gold-plated” as discussed in Section 3 of this submission.
- k. It was understood that a 5% ROR was used in deriving the current airport charges. In the case of AAHK post IPO, the ROR should be set taking into account the social and economic value of HKIA for the development of the economy and prosperity of Hong Kong.

10. Transparency and the provision of financial and operational information to the airlines.

In the process of consultation with users on charges for the airport, the underlying philosophy is, transparency of information and the rationale of decisions. Transparency is the means of facilitating knowledge, assessment and opinion on what is happening within the airport. The regulatory authority should ensure that the users are provided with adequate information on major developments at the airport, rational for any charge setting proposal, charge setting formula and the method used to establish the values used in the formula.

Airport Operators should include, as part of any accounting information provided to the users, full and detailed documentation of the accounting principles and policies used to prepare that information.

A pro-forma statement developed that lists the basic information airlines wish to have during a consultation process is given in Attachment 3. The periods upon which information is required are the actual of the two years preceding the year in which consultations take place, estimates for the year in which consultations take place and the forecasts for the subsequent five years.

11. A business plan with projection into the next 5, 10 and 20 years.

In order to allow better understanding of the airport’s business situation, a long term high level business plan of the airport with forecast projections of infrastructure

development, investments, and financial statements should be provided to the airlines during the consultation process, while a detailed capital expenditure plan covering the five years under review should also be provided. The five-year plan should also be supported by a robust traffic forecast. While the capital expenditure affecting aeronautical charges should be first agreed with the airline industry, its non-implementation or partial implementation should result in an automatic reduction of charges to the airlines.

12. Standards and Service Quality.

In order to ensure that the service to be provided by a privatized AAHK will not be compromised for the sake of pursuing higher or even excessive profits, there must be some protection against deterioration of service standards. AAHK should commit to a service charter that set out the general performance principles, criteria and measures to be adopted. The suggested guidelines are as follows:

Performance principles and criteria

Performance principles to be observed should include:

- (a) maintain and operate a secure, safe and efficient airport,
- (b) provide a comfortable and friendly environment to the travelling public,
- (c) continue to improve airport facilities and aviation services wherever justified and in accordance with plans agreed with airlines,
- (d) ensure that a high standard of cleanliness is maintained in public areas and facilities,
- (e) continue to maintain and improve airport facilities and aviation services for special needs passengers,
- (f) ensure that all aviation services comply with occupational health and safety standards,
- (g) respond promptly to airlines' enquiry regarding aviation services and facilities, and
- (h) allocate aviation services and facilities to airlines in a mutually beneficial and equitable manner.

Measures

Three types of measures should be adopted. These are:

- i) Performance

These measures relate to the operating characteristics of systems where poor performance may lead to aircraft delay. The measure should be defined as a percentage of demand processed within a fixed time.

- ii) Availability

These measures relate to those services where delays can arise as a result of capacity not being available. The measure should be defined with in

terms of the percentage of time that the asset's services are available or a percentage of the total volume processed by the assets in question.

iii) Quality of service survey

The service charter should provide for AAHK, at least once a year, to survey:

- (a) a representative sample of all passengers, arriving and departing, to determine the level of satisfaction across a range of performance measures, and
- (b) major users of the airport in relation to the aviation services and facilities provided to them.

Suggestions of performance and availability measures to be rated for passengers may include:

- (a) check-in waiting time in check-in queue,
- (b) Government inspection –
 - waiting time in inbound immigration queue,
 - waiting time in Customs queue, and
 - waiting time in outbound immigration queue,
- (c) security clearance – waiting time at baggage x-ray area and length of time security screening takes per passenger,
- (d) gate lounges –
 - availability of seating in departure lounge,
 - comfort of seating in departure lounge,
 - cleanliness of seating in departing lounge, and
 - size of departure lounge for number of people using it,
- (e) baggage –
 - waiting time at baggage reclaim area,
 - size of baggage reclaim area for number of passengers, and
 - ease to find appropriate carousel,
- (f) baggage trolleys – ease of finding baggage trolleys,
- (g) flights information display and signs – general satisfaction with flight information display and signs,
- (h) washrooms – terminal's overall standard of washrooms,
- (i) car parking –
 - waiting time to get in and out of the car park,
 - overall standard of car parking, and
 - availability of car spaces,
- (j) airport access –
 - suitability of area for curb side car pick-ups and drop-offs,
 - space provided for curb side car pick-ups and drop-offs,

- suitability of area for taxi pick-ups and drop-offs,
- space provided for taxi pick-ups and drop-offs,
- suitability of area for bus pick-ups and drop-offs, and
- space provided for bus pick-ups and drop-offs.

Additional performance and availability measures to be rated for major users may include:

- (a) landside infrastructure,
- (b) aerobridge availability,
- (c) taxiway availability, and
- (d) runway availability.
