

BAR Submission on Proposed Partial Privatization of AAHK

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General Views on Airport Privatization

- Airlines do not object in principle to airport privatization, subject to:
 - a. Airport charges being transparent, fair and reasonable.
 - b. The airport's conforming to international agreements and obligations.
 - c. The airport's being in line with ICAO's policies and principles (ICAO Doc 9082/6):
 - Non-discrimination in the application of charges
 - No overcharging or abuse of dominant position
 - Transparency of data to determine the basis for charges
 - Charging structure to encourage operating efficiencies
 - Investment to meet future traffic demand at a reasonable level of service
 - Adequate account taken of user views
 - d. A satisfactory regulatory process being implemented.

Making the Case for Partial Privatization

- Stated objectives are unconvincing
 - HKIA already efficient
 - “Strengthened market discipline” could be shorthand for increases in charges
- Objective should be to maintain/develop HKIA’s hub status
 - Maintain/improve competitiveness
 - Recognize value of HKIA as strategic asset for benefit of all of Hong Kong

“AA’s Business Case and Valuation” - Airline viewpoints

- Airlines disagree with Consultation Document ss10-16:
- Low “return” in 2002 is irrelevant:
 - HKIA is a long term project
 - HKIA still operating well below capacity
 - “Return” should be over the life of HKIA
- Increases in charges will make HKIA uncompetitive
 - HKIA already more expensive than Bangkok, Seoul, Singapore, Taipei
- Higher charges will retard growth at HKIA
 - Low percentage of overall costs is irrelevant
 - HKIA charges are high percentage of marginal cost of new operations
- Higher charges will mean higher fares
 - Airlines must pass on higher costs in the long run

“Economic Regulation” - Airline viewpoints

- Airlines disagree with Consultation Document s22 (xiv):
- EDLB proposes that only narrowly defined “aeronautical business” be regulated
 - Impossible to separate this from other business activities
 - Complex/arbitrary allocations of costs/assets
 - Airlines deserve some benefit from growth in traffic they generate for HKIA
 - Contrary to ICAO recommended principles of regulation
 - Contrary to accepted practice elsewhere around world
- High risk of charges making HKIA uncompetitive.
- Current consultation process is taking no account of airlines’ views on this issue.

Other major concerns of airlines

- “Rate of return” regulatory scheme for aeronautical activities
 - Risk of “gold-plating” assets
 - No incentive on AAHK to improve productivity or reduce cost
- Treatment of land formation cost (HK\$11 billion)
 - Land should not be considered AAHK asset for “rate of return” purposes
- Competitiveness of HKIA
 - Privatization should not be a justification for increasing charges to airlines.
- AAHK overall rate of return is and will remain high
 - Strong commercial revenues on top of guaranteed return from aeronautical activities
- Inadequate time allowed for consultation process.

Conclusions

- If the privatization reduces HKIA's competitiveness by increasing charges, airlines question the timing of the IPO so early in HKIA's economic life.
- Regulatory scheme for charges should take some account of the contribution airlines make to the growth of commercial revenues.
- Regulatory scheme must contain mechanism to ensure continuous productivity improvement of AAHK.
- The current consultation process must take better account of airlines' views on the scope of regulation.
- Above all, HKIA's hub status must not be compromised - top priority is to maintain/improve its competitiveness.