

立法會
Legislative Council

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Panel on Economic Services

**Minutes of special meeting held on
Tuesday, 18 July 2006, at 10:45 am
in the Chamber of the Legislative Council Building**

Members present : Hon James TIEN Pei-chun, GBS, JP (Chairman)
Hon Jeffrey LAM Kin-fung, SBS, JP (Deputy Chairman)
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Dr Hon David LI Kwok-po, GBS, JP
Hon Fred LI Wah-ming, JP
Dr Hon LUI Ming-wah, SBS, JP
Hon CHAN Kam-lam, SBS, JP
Hon SIN Chung-kai, JP
Hon Howard YOUNG, SBS, JP
Hon LAU Chin-shek, JP
Hon Vincent FANG Kang, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon WONG Ting-kwong, BBS
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
Hon Albert Jinghan CHENG
Hon TAM Heung-man

Members absent : Hon Miriam LAU Kin-yee, GBS, JP
Hon Abraham SHEK Lai-him, JP
Hon KWONG Chi-kin

Public Officers attending : **Agenda item I**
Ms Eva CHENG
Permanent Secretary for Economic Development and
Labour (Economic Development)

Miss AU King-chi
Commissioner for Tourism

Mr Roger LAI
Director of Electrical and Mechanical Services

Mr CHAN Fan
Assistant Director of Electrical and Mechanical
Services/Gas and General Legislation

Agenda item II

Ms Eva CHENG
Permanent Secretary for Economic Development and
Labour (Economic Development)

Mr Michael WONG
Deputy Secretary for Economic Development and Labour
(Economic Development)

Mr Darryl CHAN
Principal Assistant Secretary for Economic Development
and Labour (Economic Development)

**Attendance by
invitation**

: Agenda item I

MTR Corporation Limited

Mr Russell BLACK
Project Director

Mr Rod HOCKIN
Project Manager

Skyrail-ITM (Hong Kong) Ltd

Mr Bill CALDERWOOD
Managing Director

Mr David LOADER
Executive General Manager (Cableway Operations)

Clerk in attendance : Mr Andy LAU
Chief Council Secretary (1)2

Staff in attendance : Ms Debbie YAU
Senior Council Secretary (1)1

Miss Winnie CHENG
Legislative Assistant (1)5

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- I Progress update on Ngong Ping 360**
(LC Paper No. CB(1)1972/05-06(01) - Information paper provided by the Administration
- LC Paper No. CB(1)1973/05-06 - Updated background brief on Ngong Ping 360 prepared by the Secretariat)
- LC Paper No. CB(1) 2018/05-06(01) -- A set of PowerPoint presentation materials provided by Skyrail-ITM (Hong Kong) Limited

Presentation by Skyrail-ITM (Hong Kong) Limited (Skyrail) and the Administration

With the aid of PowerPoint presentation, Mr Bill CALDERWOOD, Managing Director of Skyrail updated members on the progress of the Ngong Ping 360 Project (the Project), in particular the Tung Chung Cable Car System (TCCCS). On issues arising from the trial run on 17 June 2006, Mr CALDERWOOD advised that according to the findings by Skyrail, the cause of a series of stoppages experienced by the cable car service were due to the following three technical issues which occurred closely together –

- (a) an issue with the system which controlled the spacing of cable cars in Ngong Ping Skyrail Terminal;
- (b) a friction-related issue with the conveyor rail system which transported cable cars around the contour of the Ngong Ping Skyrail Terminal; and
- (c) a failure of the gate leading into the cable car parking area at Ngong Ping Skyrail Terminal which blocked the parking of the cable cars.

2. Mr Bill CALDERWOOD further advised that in the light of the above findings, the cable car manufacturer, Leitner GmbH (Leitner) had enhanced the programme for the spacer control system, conducted further testing with Skyrail to ensure consistently smooth passage of cable cars through terminals, repaired the gate, made adjustments to finetune the system and undertaken engineering test running of the system. Skyrail and Leitner had also successfully completed the reliability tests by using dummy load. Skyrail would resume its trial run with invited guests upon satisfactory completion of the other necessary preparatory tasks. Once it was resumed, Skyrail would work together with the MTR Corporation Limited (MTRCL) and the Government to decide

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when to open TCCCS to the public

3. The Director of Electrical and Mechanical Services (DEMS) said that subsequent to the incident on 17 June 2006, officers of the Electrical and Mechanical Services Department (EMSD) had conducted site inspections and reliability tests with a view to identifying the causes of the stoppage and necessary improvement measures to ensure the smooth and efficient operation of TCCCS. The reliability tests covered both system and operational aspects. The reliability of the system aspects had been tested by using different load conditions and operating speeds whilst tests on operational aspects had been conducted by simulating real life situations which could be expected to occur during actual operation (e.g. slowing down or stopping the cable car to cater for passenger flow, controlling the spacing of cable cars manually and transporting cable cars into the parking area). EMSD had examined the test results which were found to be satisfactory. EMSD also confirmed that the design and the manufacture of TCCCS were up to the requisite safety standard and there had been no recurrence of the previous technical issues in subsequent testing. EMSD would closely follow up other necessary preparatory tasks performed by Skyrail in the light of the experience gathered during the previous trial run so as to enhance the contingency measures and operational procedures of TCCCS and to minimize the chance of recurrence of similar incident as well as to avoid causing inconvenience to passengers.

Discussion

Role of the MTR Corporation Limited, Skyrail and Leitner

4. In response to the Chairman's enquiry about the role and relationship of the MTR Corporation Limited (MTRCL) and Skyrail, the Permanent Secretary for Economic Development and Labour (Economic Development) (PS/ED) and Mr Russell BLACK, Project Director of MTRCL advised that MTRCL was awarded a franchise of 30 years based on a Build-Operate-Transfer model to finance, design, construct, operate and maintain the cable car system linking Tung Chung and Ngong Ping. Assuming overall responsibility in overseeing the project management, MTRCL had appointed the cable car manufacturer, Leitner, to design and construct TCCCS and Skyrail to operate and manage TCCCS and the Ngong Ping Village. Given the rich experience of Skyrail in operating similar cableway in Australia which was one of the successful ecotourism projects in the world, Mr BLACK considered that Skyrail could offer expert advice on the design and commissioning of the Project, operate TCCCS and promote such new tourism attraction on behalf of MTRCL. Being an expert in the field of project management and well-versed in the local business environment, MTRCL had been working closely with Leitner and Skyrail as a team throughout the whole process in commissioning the Ngong Ping 360 Project and providing support to them whenever necessary.

5. Ir Dr Raymond HO said that he found it very difficult to accept the findings of the three technical issues which occurred closely together during the trial run on 17 June 2006. Regrettably, the incident seemed to have affected the confidence of

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visitors and impaired the reputation of Ngong Ping 360 as a world-class tourism attraction. Noting the working relationship of MTRCL, Skyrail and Leitner, he considered that MTRCL should take a more proactive approach in monitoring the performance of the contractors, rather than acted until problem arose. In this connection, he enquired how MTRCL could improve its monitoring role so as to avoid the recurrence of similar incident in the future. Echoing the view of Ir Dr Raymond HO, the Chairman opined that MTRCL should be held accountable for the Ngong Ping 360 Project as it had been awarded a franchise to finance, design, construct, operate and maintain the whole operation of TCCCS.

6. In response, Mr Russell BLACK of MTRCL advised that according to the management contract between Skyrail and MTRCL, Skyrail was responsible for managing and promoting Ngong Ping 360 on behalf of MTRCL. A management system had been put in place for Skyrail to report to the management committee of MTRCL, which was responsible for monitoring the performance of its contractors on an on-going basis. Assuring members that MTRCL would not pass the responsibility onto Skyrail, Mr BLACK said that the MTRCL project management team had been keeping a close watch on the performance of Skyrail and Leitner and supervise their works in the installation of cableway and the handling of technical issues as well as the daily operation of TCCCS. Given the business interest at stake, MTRCL would ensure that an excellent cable car service would be provided to meet the aspiration of the public.

Improvement measures to address issues arising from the trial run on 17 June 2006

7. Noting that passengers were being stranded in the cable cars for two hours during the trial run on 17 June 2006, the Deputy Chairman was concerned about the contingency measures that had been undertaken by Skyrail. He opined that the cable cars with passengers in question should be transported to the terminals by using the manual mode of operation in order to let passengers alight from the cabins as soon as practicable.

8. In response, Mr David LOADER, Executive General Manager (Cableway Operations), Skyrail explained that it was technically not feasible to operate TCCCS in manual mode as the cable cars were fully attached to the ropeways. During the initial stoppage, Skyrail was still able to resume the operation of the cable car system and transport the cable cars to the Ngong Ping Skyrail Terminal to let passengers alight from the cabins. However, stoppages occurred again due to a spacing problem. As a result, the cable cars had been stuck and could not pass through the contour of the Terminal. Under such circumstances, a longer time was required for Skyrail to find out the causes of the problems and take action to rectify the situation before the operation could be resumed to unload passengers. DEMS added that Skyrail had been solving the problem at that time by dismantling some of the conveying rubber tyres along the overhead rail in order that cable cars could be slowly transported through the contour in the Ngong Ping Terminal. He drew members' attention that TCCCS had been equipped with backup power supply system and the series of stoppages occurred during the trial run on 17 June 2006 were not due to power failure

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but caused by the friction-related issue. The Deputy Chairman disagreed with Skyrail's explanation and considered that Skyrail should review the contingency measures in the light of the experience gained from the incident.

9. Ir Dr Raymond HO raised query about details of the three technical issues leading to the suspension of cable car service on 17 June 2006 and the specified distance between cable cars along the cableway for TCCCS. Mr David LOADER of Skyrail advised that on 17 June 2006, a total of 109 cabins had been used for the trial run and the specified spacing between cable cars along the ropeway was 123.5 metres. A friction-related problem had been detected along the conveyor rail system in Ngong Ping Skyrail Terminal causing a slow down in the speed of cable cars, thus leading to a problem of incorrect spacing around the contour of the Terminal and a failure of the gate which blocked the parking of the cable cars. As such, the problem of spacing was not caused by the computer system failure. Nevertheless, in the light of the findings, Leitner had finetuned the spacing between cable cars and enhanced the computer programme to ensure that TCCCS could be operated in a smooth and more effective manner.

10. Mr Fred LI expressed disappointment about the delay of the opening of Ngong Ping 360. Noting several hundreds of MTRCL employees and their families were being stranded in the cable cars for two hours during the trial run on 17 June 2006, he considered that the situation was serious and unacceptable. In this connection, he enquired whether the Administration had examined Skyrail's crisis handling and crowd control procedures, including its communication with the operational staff at the terminals/angle stations and passengers inside the cable cars as well as the media.

11. In response, DEMS and the Assistant Director of Electrical and Mechanical Services/Gas and General Legislation advised that apart from identifying the technical issues arising from the trial run on 17 June 2006, EMSD had also looked into the situations of loading and unloading of passengers at terminals, suspending the service, transporting cable cars into the terminals, and implementing procedures for unloading passengers under system failure situation. EMSD considered that there was room for improvement in the passenger handling procedures and had hence followed up with Skyrail and MTRCL on the issue. In this connection, Skyrail had reviewed and modified the transport contingency plan to deal with suspension of cable car service to improve queue control. With the improved measures by Skyrail and upon its satisfactory completion of the preparatory tasks such as drills and contingency tests as well as the training provided to its staff to familiarize themselves with the finetuned procedures, EMSD believed that issues arising from the trial run on 17 June 2006 could be addressed and the situation could be rectified.

12. Mr Bill CALDERWOOD of Skyrail said that the purpose of the trial run was to identify and resolve possible technical and operational issues, including incident management and crowd control procedures, prior to the opening of Ngong Ping 360. He informed the meeting that crowd control procedures in Tung Chung upon the activation of the contingency transport arrangement on 17 June 2006 had been smooth. Nevertheless, crowd control procedures in Ngong Ping and the hotline system would

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need to be reviewed and finetuned.

13. The Commissioner for Tourism (C for Tourism) supplemented that the notification system for MTRCL, EMSD, the Police, the Transport Department and the travel trade had been tested and enhanced in the light of the experience obtained. The Administration would monitor the situation closely with a view to finetuning all procedures of the notification system to ensure a smooth and efficient operation.

14. The Chairman queried why the problems of TCCCS could not be completely resolved after one month since the trial run on 17 June 2006. As Ngong Ping 360 was a world-class tourism attraction for visitors, he was very concerned about the revised opening date of the system which had yet to be decided. Mr Bill CALDERWOOD of Skyrail advised that the company, in conjunction with EMSD, had to adopt a prudent and systematic approach to identify the causes of technical issues which led to a stoppage of the system during the trial run. It was also important for its staff to familiarize themselves with the finetuned system during the preparatory period following the completion of the reliability tests which had been conducted by simulating real life situations. In fact, Skyrail had already planned to resume the trial run after completion of the preparatory tasks and would announce the date of opening in due course.

15. Noting that 15 000 guests from local community, disadvantaged and disabled groups, travel trade and business partners had been invited to take part in the trial run, Mr Albert CHENG said that it was fortunate that the two-hour break down of the cable car service had not occurred at a time when the disadvantaged and disabled groups were involved in the ride. In view of the incident on 17 June 2006, he urged Skyrail not to use those people as guinea pigs to test the operation of TCCCS for the sake of their health and safety. Instead, Skyrail should invite them to have a free ride after the opening upon satisfactory completion of all reliability tests and preparatory tasks. This would help Skyrail fulfill its corporate social responsibility.

16. In response, Mr Bill CALDERWOOD of Skyrail said that the company had, upon advice, extended its invitation to over 2 000 guests from the disabled groups to take part in the trial run. Skyrail did not consider any of their guests invited for the trial run guinea pigs. He clarified that passengers being stranded in the cable cars during the ride on 17 June 2006 were mostly MTRCL employees and some contract staff of the Ngong Ping 360 Project as well as a small number of members of the public. The suspension of the cable car service only lasted for less than two hours during which Skyrail had made its best endeavor to let passengers alight from the cabins.

17. Noting that Skyrail had conducted dummy runs to enable staff to familiarize with the operation of TCCCS, the Deputy Chairman opined that it was more appropriate for Skyrail to conduct trial run with guests rather than dummy runs without passengers to simulate real life situations during the actual operation. Mr Bill CALDERWOOD of Skyrail took note of the member's view but remarked that Skyrail considered the existing testing procedures of TCCCS normal and appropriate.

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Rescue plan and transport

18. In response to Mr Albert CHENG's enquiry about the rescue plan to deal with the suspension of the cable car service, Mr Bill CALDERWOOD of Skyrail advised that the comprehensive rescue plan would only be activated as a last resort when Skyrail could not resume the cableway operation and arrange passengers to get off from the cabins safely within a reasonable period of time. Trained operational staff from the Fire Services Department (FSD) would be deployed to undertake the horizontal and vertical rescue. However, if Skyrail had activated the plan, it might take more than two hours for FSD to rescue passengers from the cabins.

19. Pointing out that Ngong Ping 360 was a world-class tourism attraction for visitors, the Chairman and Mr Fred LI urged Skyrail to assure the public that similar incident on 17 June 2006 would not recur in the future. Mr Bill CALDERWOOD of Skyrail responded that while a guarantee that it would never happen again could not be given, Skyrail undertook to activate the comprehensive rescue plan as appropriate in case of operational failure. Instead of implementing the rescue plan in each and every situation, it would be more efficient for the operational staff to assess the fault and rectify the problem at once so as to assist passengers to get off from the cabins safely as soon as practicable. In response to the Chairman's further enquiry, Mr CALDERWOOD remarked that as there had been no recurrence of the three technical issues concurrently in subsequent tests, there would be very little likelihood of that happening in the future.

20. The Deputy Chairman sought information on the transport arrangements in the event of the suspension of the cable car service. Mr Bill CALDERWOOD of Skyrail advised that Skyrail had formulated a transport contingency plan to provide bus services to take visitors from the Ngong Ping Village to Tung Chung. The plan would be activated within 30 minutes upon notification by Skyrail of the suspension of the cable car service. The New Lantau Bus Company Ltd would provide 50 buses within the first hour to facilitate the evacuation. In response to the Deputy Chairman's further enquiry about the operation of Ngong Ping 360 under strong winds, Mr CALDERWOOD advised that Skyrail would keep collecting wind data from the six wind monitoring stations and suspend the cable car service in case of strong winds. The transport contingency plan would be activated to use buses to take visitors from the Ngong Ping Village to Tung Chung if evacuation was required. The 25 shops including the food and beverage retail outlets in the Ngong Ping Village would continue to provide entertainment and services to visitors until the evacuation process was completed.

Promotion and ticketing

21. Mr SIN Chung-kai noted that Ngong Ping 360 had received some negative coverage by overseas media after the incident on 17 June 2006. In this connection, he enquired how Skyrail would counteract the possible effects of such adverse publicity. He also sought information on the way forward for the promotion of

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Ngong Ping 360. The Chairman added that those media coverage would also affect the visitors' confidence in the operation of TCCCS.

22. C for Tourism noted that members of the travel trade had been understanding, and as reported by the press, they appreciated the need for Skyrail to finetune certain procedures to ensure the smooth operation of TCCCS before commencing commercial operation. Skyrail had, in conjunction with the Hong Kong Tourism Board and the travel trade, launched a marketing campaign in overseas markets to promote Ngong Ping 360. In view of the issues arising from the trial run, some of the promotions had been put on hold. Notwithstanding, Skyrail would enhance the promotion work once the opening date was confirmed.

23. Mr Bill CALDERWOOD of Skyrail supplemented that the company had maintained a close liaison with the travel trade in Hong Kong and overseas markets to keep them informed of all aspects of the operation of Ngong Ping 360. They were aware of the latest developments and appreciated the prudent process being undertaken by Skyrail. Upon completion of the preparatory tasks, Skyrail would invite representatives of the trade and the media to take part in the trial run to have a first-hand experience of the tourism attraction.

24. Mr Howard YOUNG was disappointed to note about the delay of the opening of Ngong Ping 360 and said that the negative coverage by overseas media might have some undesirable effect on the tourism attraction. He sought information on the ticketing arrangements for Ngong Ping 360 in view of the postponement. Mr Bill CALDERWOOD of Skyrail advised that the company had suspended the booking service for the time being and rescheduled the tour visits with the travel agents. In addition, about 100 refund applications were being handled by Skyrail. Nonetheless, Skyrail would continue to liaise closely with the trade and to render assistance to accommodate their needs as far as possible. Mr YOUNG suggested that concessionary tickets should be offered to visitors who had already purchased the vouchers but had not enjoyed the ride due to the postponement. This could help show the goodwill and care of Skyrail for the visitors concerned. Mr CALDERWOOD took note of Mr YOUNG's suggestion for consideration. He said that Skyrail had been discussing the ticketing issue with its trade partners with a view to finalizing details and future arrangement.

Summing up

25. The Chairman thanked representatives of all parties for attending the meeting to update members on the subject. Noting the explanation given on the issues arising from the trial run on 17 June 2006, he was concerned whether Skyrail would have enough confidence in avoiding the recurrence of similar incident in the future. Notwithstanding, he hoped that all technical issues related to the operation of TCCCS could be resolved with a view to launching a successful and smooth opening of Ngong Ping 360 in the coming days.

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II Government's views on the proposed acquisition of Dragonair by Cathay Pacific

(LC Paper No. CB(1)1972/05-06(02) - Information paper provided by the Administration)

26. At the invitation of the Chairman, PS/ED briefed members on the Government's view on the proposed acquisition of Dragonair by Cathay Pacific (CX) (the proposed acquisition). She explained that the proposed acquisition was a commercial matter between the two airlines concerned; and did not require the Government's approval. The Government played no role in the transaction. Completion of the transaction would be subject to the approval of the shareholders of the companies involved. PS/ED also highlighted that Hong Kong was already facing fierce competition from many other major airports in the region, and the Administration did not consider that the changes in shareholding under the current proposal would raise substantive concerns on competition as set out in the information paper (LC Paper No. CB(1)1972/05-06(02)).

Discussion

27. Mr Howard YOUNG declared that he was a staff member of CX. He reflected the positive feedback of the tourism and aviation industries on the proposed acquisition.

Benefits of the proposed acquisition to the Hong Kong economy

28. While acknowledging that the proposed acquisition was a commercial transaction, the Deputy Chairman was concerned about its impact on the economy of Hong Kong, in particular on the tourism, retail and logistics sectors.

29. PS/ED said that if the proposal could, as envisaged by the parties to the transaction, better integrate CX's international network with Dragonair's Mainland network and create maximum synergy between the two airlines, it would facilitate the connection of international long-haul passengers to and from the Mainland via Hong Kong, instead of via neighbouring cities such as Bangkok or Singapore. This would enhance the competitiveness of Hong Kong as a transit hub into the Mainland and further strengthen Hong Kong's status as an international aviation centre. PS/ED further advised that a vibrant and competitive aviation industry would also facilitate more convenient air travel to and from Hong Kong, which would contribute positively to the tourism industry.

30. The Deputy Chairman further enquired about the Administration's projection of the origin and increased number of visitors brought about by the proposal. He was concerned whether supporting facilities such as availability of hotel rooms were in place to tie in with the anticipated demand.

31. The Deputy Secretary for Economic Development and Labour (Economic Development) (DS/ED) remarked that since the transaction had yet to be completed, it

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was premature to quantify the economic benefits of the proposal at this stage. Nonetheless, given the robust international network of the Hong Kong International Airport (HKIA), the proposal would enhance the role of Hong Kong as a hub for international passengers to and from the Mainland through providing better connection in Hong Kong. PS/ED advised that the Government had been working on a number of initiatives to improve the business operating environment of the hotel industry, for example, streamlining the regulatory regime and simplifying the administrative procedures in applying for land use change and lease modification. The number of hotel rooms would increase substantially by the end of 2006, bringing the total number of rooms to about 53 000.

32. Whilst welcoming the proposed acquisition to enhance the competitiveness of Hong Kong as a transit hub into the Mainland market, Mr Andrew LEUNG was concerned about the associated benefits brought to the local economy. PS/ED highlighted that 35% of passengers and cargo handled by HKIA were transit passengers and transshipment cargo, which had given rise to job or business opportunities relating to financing, accounting and insurance etc. DS/ED added that with more transit passengers, local airlines were able to schedule more flights and offer wider choice for consumers.

33. Mr CHAN Kam-lam was concerned whether CX wished to gain greater access to the Mainland market by acquiring Dragonair in order to integrate its own international network with the latter's Mainland network to create a synergy effect; and how the proposed acquisition would strengthen the status of HKIA as an international aviation hub in the region.

34. PS/ED envisaged that there would continue to be robust growth in air traffic between Hong Kong and Mainland cities for the coming years. As such, it was important for Hong Kong to ensure that Hong Kong airlines could expand into its hinterland and offer more services in the Mainland market. DS/ED supplemented that under the new air services agreement concluded between Hong Kong and the Mainland, another 11 routes would be added to the existing 45 routes between the two sides, which covered all major cities in the Mainland. Capacity constraints on most routes would also be relaxed. The capacity limits for passenger services on 35 routes would be lifted completely in two phases whereas capacity for the remaining routes would be substantially increased. The cargo capacity limits for most Mainland destinations would be completely removed eventually.

35. In reply to Mr CHAN's further enquiry on the number of Mainland visitors coming to Hong Kong by air in past years, DS/ED informed members that there were 5.1 million, 7.5 million and 8.5 million Mainland visitors serviced by HKIA in 2003, 2004 and 2005 respectively. He noted that according to a number of international organizations, it was predicted that generally speaking, visitor growth in Asian markets, in particular the Mainland market, would be faster than the other parts of the world.

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Benefits of the proposed acquisition to staff

36. Highlighting the essential role played by vibrant and strong local airlines for a metropolitan city, Mr LAU Chin-shek expressed his support for the proposed change of shareholding structure between the two local airlines. Noting from the note provided by CX (annex to LC Paper No CB(1)1972/05-06(02)) that the agreement would produce far-reaching benefits across the board for customers, shareholders, staff and the Hong Kong economy, Mr LAU urged the Administration to ensure that the airlines concerned would take heed of the views expressed by the staff side on the proposed acquisition and that the claimed benefits to staff were real and could be realized. He also considered that the Economic Development and Labour Bureau (EDLB) should be prepared to safeguard the well-being of the staff concerned, in terms of job security and workload. The Chairman was also concerned whether the proposed transaction would lead to any staff redundancy.

37. PS/ED envisaged that as the proposed acquisition, if taken place, would enhance the competitiveness of both CX and Dragonair, and lead to increase in business turnover, which should eventually benefit, among others, staff of the two airlines. DS/ED added that according to CX's announcement, Dragonair would be maintained as a principal airline for at least six years upon the proposed change of shareholding structure. Parties concerned believed that the proposed transaction would create more jobs and career opportunities in the aviation sector and related industries in Hong Kong over a long-term period of growth. Nevertheless, PS/ED undertook to reflect members' concern to the two airlines.

Shareholding structure and competition

38. Noting that under the proposed acquisition, Air China would increase its shareholding in CX, the Deputy Chairman was concerned whether this would affect the operation of CX and Dragonair in the Mainland upon completion of the transaction.

39. PS/ED remarked that it was a common international practice for airlines to become shareholders of aviation partners to develop closer cooperation. DS/ED referred to the overseas example provided by Silk Air and Singapore Airlines (SIA), where the former was a wholly owned subsidiary of the latter. While both CX and SIA served primarily the trunk routes and the upper-end market, Silk Air and Dragonair offered secondary routes for short-haul travellers. As such, he believed that the present operating practices of CX and Dragonair in the Mainland would continue after the proposed change took place.

40. Mr Fred LI understood that at present, CX, Dragonair and Air China altogether had taken up 17 of the 18 daily scheduled flights between Hong Kong and Beijing, leaving the remaining flight to be serviced by China Southern. He was concerned that the proposed acquisition would lead to a near monopoly of flights between Hong Kong and popular Mainland cities such as Beijing and Shanghai by the alliance. The Chairman was worried that as CX and Air China were shareholders of each other

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mutually, the three carriers might engage in price-fixing and raise air fares.

41. PS/ED understood that China Southern, Air China, and CX/Dragonair had taken up approximately 11%, 39% and 50% of the weekly flights between Hong Kong and Beijing. As the aviation industry in Hong Kong remained vibrant and competitive, the competition among Air China, CX and Dragonair would continue even after the proposed acquisition took place. Highlighting the difference in the standards of services of the aforesaid airlines, DS/ED pointed out that it was unlikely for them to set the air fares for the same route at the same level.

42. Mr Andrew LEUNG also considered the air fares for flight between Hong Kong and Beijing expensive. He was concerned about the Administration's measures, if any, in promoting competition among the airlines to safeguard the interests of consumers. For example, he enquired whether the Government would consider lowering the entry thresholds to facilitate new airlines to enter the Hong Kong aviation market. Dr LUI Ming-wah expressed similar concern.

43. PS/ED remarked that the best policy to safeguard consumers' interest was to further liberalize the aviation market. She said that over the past few years, the Government had been proactively liberalizing air services arrangements with all our aviation counterparts to remove restrictions and promote competition. She also remarked that in the past few years, the Government had facilitated the entry of new airlines which were now working hard to expand their businesses. On air fares, DS/ED advised that they were basically determined by the supply and demand situation in the market, although also subject to regulation by the Director-General of Civil Aviation according to established procedures. PS/ED added that if the air fares for Hong Kong-Beijing routes were set too high, consumers might choose to fly to Beijing from neighboring cities, such as Shenzhen, in which the airlines charged lower air fares.

44. Disagreeing with the Administration's view that the proposed acquisition would help promote competition in both the Mainland and the Southeast Asian markets, Mr Ronny TONG highlighted the difference in the situation of the two markets. He considered that while CX might become more competitive in the Mainland consequent to the proposed acquisition, he did not reckon that there would be any improvement in its competitiveness in the Southeast Asian markets since CX was already providing very good air services to popular destinations in Southeast Asia at very competitive fares.

45. On CX's competitiveness in different markets, DS/ED reiterated that it was likely that similar to SIA and Silk Air, CX and Dragonair would continue to operate under different brand names to serve distinct markets after the proposed acquisition took place. For example, CX might serve upper-end markets by primarily serving the trunk routes whereas Dragonair might serve niche markets providing air services between popular resort destinations in Southeast Asia and Hong Kong. The proposed acquisition of Dragonair by CX could also enhance flight connectivity between the two airlines and deliver better value for their customers.

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46. Referring to the proposed changes of shareholding structure in CX, Dragonair and Air China set out at the note provided by CX (annex to LC Paper No. CB(1)1972/05-06(02)), Mr SIN Chung-kai was concerned about the prescribed level of shares that should be held by local residents before an airline could be regarded a Hong Kong airline.

47. Highlighting the complexity of shareholding structure of large commercial companies, PS/ED advised that an airline should be incorporated in Hong Kong and having its principal place of business in Hong Kong in order to be designated as a Hong Kong airline.

48. Noting the Administration's explanation, Mr SIN Chung-kai further enquired whether and how the Administration would assist a new airline, which, for instance, had incorporated in Hong Kong with its major shareholders resided in Beijing whilst its senior management functioned in London, to secure the traffic rights for profitable routes such as those between Hong Kong and Beijing or Shanghai. He anticipated that under such a circumstance, CX, Dragonair and Air China would raise their objection. In this connection, Mr Fred LI enquired about the negotiation for and allocation of traffic rights for new airlines.

49. PS/ED explained that the Government usually made reference to the business plans and readiness of the Hong Kong airlines (i.e., those incorporated and having their principal place of business in Hong Kong) in negotiating for additional traffic rights. If the limit on the number of scheduled flights for a certain route had inhibited airlines from offering more services, the Government would explore with aviation partners for their consideration on the possibility of increasing additional flights for the said route. PS/ED further advised that negotiation on air services arrangements was an on-going task. The Government would continue to review the various air services arrangements, taking into account the business plans of the Hong Kong airlines. While views expressed by other airlines might serve as a reference for the Government when considering the requests of a particular airline for additional traffic rights, PS/ED remarked that the Administration would mainly consider whether the expansion of air services arrangements that might be required in consequence would enhance the competitiveness of HKIA and strengthen Hong Kong's status as an international and regional aviation centre.

50. Mr Fred LI was concerned that even if traffic rights for profitable routes, such as Hong Kong – Shanghai, could be secured for new airlines, they might still be disadvantaged in terms of flight time slots.

51. Regarding runway slots, DS/ED said that in the case of HKIA, as for any other major airports, prime-time slots were in short supply. He noted that some airlines might prefer flights in odd hours to meet the demand for freight transport and experience showed that some younger travellers might also choose to take advantage of such flights so as to save hotel and other expenses. In reply to Mr Fred LI's further enquiry on the development of the fifth freedom traffic rights between Hong

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Kong and the Mainland, DS/ED clarified that the air traffic between Hong Kong and points in the Mainland were not classified as fifth freedom traffic. Nevertheless, the Administration would continue to explore with the Mainland aviation authorities on new air services arrangements as and when there was additional demand for more services.

III Any other business

52. There being no other business, the meeting ended at 12:45 pm.

Council Business Division 1
Legislative Council Secretariat
4 October 2006