

**LEGISLATIVE COUNCIL**

**HONG KONG SPECIAL ADMINISTRATIVE REGION OF THE PEOPLE'S REPUBLIC OF CHINA**

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**Bills Committee on Revenue Bill 2001 & Revenue (No. 2) Bill 2001**



**“PETITION AGAINST THE PROPOSED LEVY OF \$80  
AIRPORT PASSENGER DEPARTURE TAX ON HELICOPTER PASSENGERS”**

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by  
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**INTRODUCTION:**  
**THE GOVERNMENT'S RATIONALE FOR THE PROPOSED LEVY**



**Madam Chairman, Honorable members of the Bills Committee, Ladies and Gentlemen:**

We respectfully object to the proposed levy of an **Air Passenger Departure Tax (APDT)** on helicopter passengers. The Administration's rationale for imposing the proposed increase in APDT on helicopter passengers is that:

- Helicopter passengers departing from the Hong Kong International Airport (HKIA) are already paying that tax, and therefore, any increase in APDT at the HKIA should apply equally to helicopter passengers.
- By extension, if the APDT applied to helicopter passengers departing from the HKIA, then it should also apply to all helicopter passengers, including passengers departing from the heliport at the Hong Kong Macau Ferry Terminal (HKMFT), "*on equity ground*".
- Helicopter passengers can afford to pay the APDT.

We respectfully raise the following six objections to the proposed levy. Please note that throughout this report, where we make reference to our market territory, we refer not merely to the Hong Kong-Macau market, but to the broader Pearl River Delta market, expansion plans into which are currently under way.



**Objection #1:**

**Proposed Levy Should Not Be Applied to Short Haul Commuter Flights**

As the Honorable Howard Young noted in his 28 March 2001 response speech on the proposed Financial Budget,

*“The Financial Secretary and Government repeatedly emphasized the close relationship between Hong Kong and the Pearl River Delta. At present, linkage with the Pearl River Delta relies on rail, road and sea. All aviation services provided are beyond the Delta. Therefore, helicopter service is the one with potential to make up for this deficiency.”*

Mr. Howard Young’s statement points to two key differences between “long-haul” markets served by airlines and “short-haul” markets served by helicopters:

- The long-haul market caters to international travel, typically of an infrequent nature and longer duration, while the short-haul market caters to commuter travel, typically on a more frequent, often same-day-return, basis. Obviously, the economics of travel are quite different between these two modes of travel.
- Equally important, the long-haul market is primarily served by airlines, while the short-haul market is served by many alternative modes of transport. Therefore, the two markets operate within distinctly different competitive environments.

Accordingly, we respectfully submit that the Government should not impose an across-the-board tax on two very different modes of transportation, despite their superficially similar classification.



## **Objection #2:**

### **Proposed Levy Creates Unfair Competition Against Helicopters**

We respectfully submit that the proposed tax increase, far from being equitable, has an asymmetrical impact on helicopter passengers as compared to airline passengers. While the proposed \$30 tax increase represents only a small fraction of the overall cost of international travel for airline passengers, the impact on helicopter passengers (after deducting an existing Ferry Terminal Embarkation Fee of \$18) will be a net increase of **\$62** in taxes, representing **5%** of our average fare, and potentially **10%** of a planned discount fare.

### **HeliHongKong Fare Comparison Chart**

	<b>Weekday</b>	<b>%</b>	<b>Weekend</b>	<b>%</b>	<b>Discount</b>	<b>%</b>
<b>Net Fare</b>	<b>1,100</b>	<b>89.4%</b>	<b>1,200</b>	<b>90.2%</b>	<b>469</b>	<b>78.3%</b>
<b>Ferry Terminal Embarkation Fee</b>	<b>18</b>	<b>1.5%</b>	<b>18</b>	<b>1.4%</b>	<b>18</b>	<b>3.0%</b>
<b>Facilities Fee (Helipad Rental)</b>	<b>50</b>	<b>4.1%</b>	<b>50</b>	<b>3.8%</b>	<b>50</b>	<b>8.3%</b>
<b>Proposed APDT (= \$80-\$18)</b>	<b>62</b>	<b>5.0%</b>	<b>62</b>	<b>4.7%</b>	<b>62</b>	<b>10.4%</b>
<b>Total Fare</b>	<b>\$ 1,230</b>	<b>100%</b>	<b>\$ 1,330</b>	<b>100%</b>	<b>\$ 599</b>	<b>100%</b>

Moreover, a tax applied uniformly on all international carriers does not penalize any single carrier; yet a 5% tax on helicopter travel will penalize the helicopter operator relative to its competitors in the price-sensitive Pearl River Delta, namely the ferry, bus and automobile.

Therefore, we respectfully submit that the proposed tax creates unfair competition against the helicopter industry.

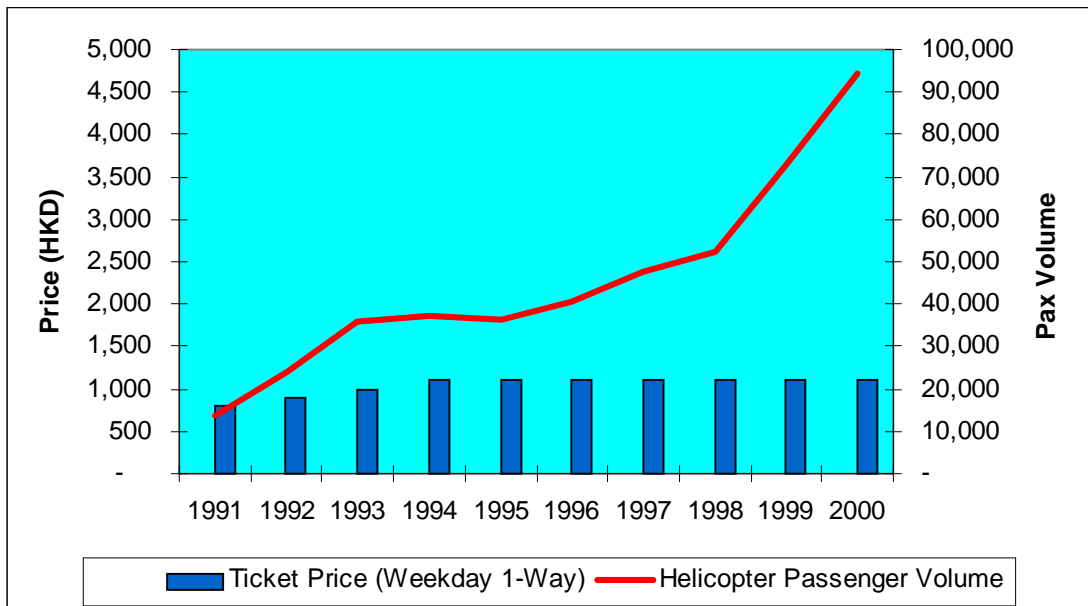


**Objection #3:**  
**Helicopter Passengers are Price-Sensitive**

In an 11 May 2001 letter to us, the Finance Bureau noted that,

*“The important point is that we believe air passengers who choose to depart Hong Kong by helicopters will not find it an unreasonable burden to pay the same APDT as those departing by fixed-wing aircraft.”*

It appears that the Finance Bureau is unaware that helicopter passengers are in fact very price-sensitive, as illustrated in the chart below, showing helicopter passenger volume in relation to ticket price from 1991 through 2000.



Passenger growth was quite anemic from 1991 through 1997, but eventually took off as we held ticket price constant while upgrading our service. We are extremely concerned that imposing an APDT on helicopter flights will stifle passenger growth.

Today, the helicopter is no longer a vehicle for the super-rich, but a convenient and highly efficient mode of **public transportation** for leisure, tourist and business travelers alike. Given abundant alternative modes of transport, our passengers are understandably price-sensitive and value-conscious.

Therefore, the Finance Bureau’s implicit assumption that demand for helicopter service is inelastic is untrue.

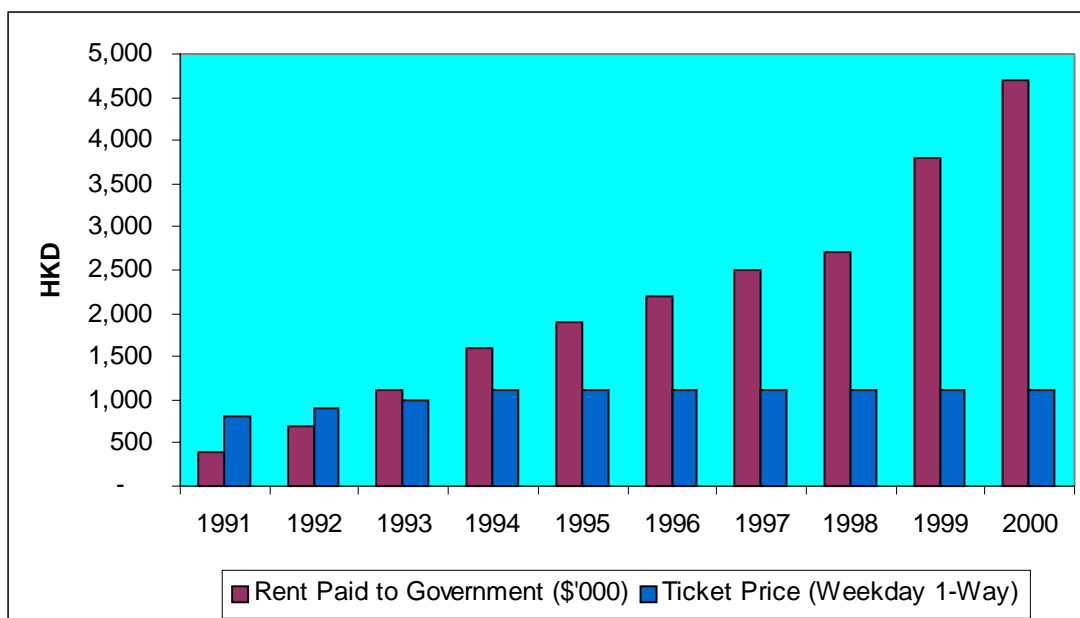


#### **Objection #4:**

#### **Helicopter is a Low Margin Business: Traffic Volume is Critical**

Contrary perhaps to popular belief, our helicopter business is a low-margin business. This is a reflection of the competitive environment in which we operate and of the high level of service we offer. Today, we operate 56 half-hourly flights from 9 in the morning to 11 at night daily on our Hong Kong-Macau HeliShuttle, the busiest such service in the world. Our customer service is second to none. **Such reliable, high-quality service is expensive.**

Under our rental agreement with the Government, the legal owner of the HKMFT Heliport, we pay 4.5% of our gross revenue in annual rental charges. As the chart below indicates, our rental payment over the last 10 years totaled \$21.6 Million, \$11.2 million of which in the last three years alone. Despite the fact that we have not raised ticket prices in 8 years, the government's rental take has continued to grow.



Yet, over the last ten years the Government has expended **no funds** in building the Heliport or any ancillary infrastructure, **no funds** in operating the Heliport, and **no funds** in its ongoing maintenance. **All capital, operational, repair and maintenance costs have been borne by us, the operator.**

Given such high operating costs, our margins are razor thin. We must achieve a high load factor just to break even, let alone be profitable. Given our low margin, any increase in tax levied by the government will have to be passed on to our customers, and given their price sensitivity, that will hurt our business.

We hope the Government understands that the helicopter industry in Hong Kong is still in its infancy. Amidst this backdrop, the Government must give us some "survival space". **Instead of offering us breathing room, however, a tax increase at this point will only choke off our air supply.**



**Objection #5:**

**Government's Policy is Unclear in regards to the Helicopter Industry**

As we strive to build up the local helicopter industry from scratch, the Government's actions, or at times its lack thereof, have often led us to ask the following question: ***"What is the Government's policy toward the helicopter industry?"***

Here are just a few examples:

- Given the growth in helicopter traffic, the single-pad heliport at the HKMFT is becoming increasingly vulnerable to a service shutdown in the event a disabled aircraft is grounded on the helipad. Yet, two years after we petitioned the Government to build a parking pad adjoining the existing helipad at our initial cost, the Administration has yet to work with us to devise an equitable formula for cost recovery. So we ask,

***"What is the Government's policy toward the helicopter industry?"***

- At the end of 1999, amidst one of the worst real estate slumps in recent history, the Government, the legal owner of the Ferry Terminal, raised our minimum rent by 445%, offering no reason for the increase, no room for negotiation, no alternatives, just a threat of unilateral lease termination. Again we ask,

***"What is the Government's policy toward the helicopter industry?"***

- As the helicopter industry matures and we look forward to an exciting new phase, that of expanding helicopter services into the Pearl River Delta, our petition to restructure the present rental agreement of the heliport along the lines of a public aerodrome has fallen on deaf ears. Yet again we ask,

***"What is the Government's policy toward the helicopter industry?"***

- For over two years, we have been working with the Hong Kong Tourism Board (formerly the Hong Kong Tourism Association) to develop unique helicopter tours to promote tourism. We call it Heli**Tourism**. Yet many Government-related obstacles prevent us from developing this unique tourist attraction to its full potential, prompting us to ask,

***"What is the Government's policy toward the helicopter industry?"***

- Now this misguided effort to apply the Air Passenger Departure Tax to helicopter passengers, which number less than half a percent of airline passengers. While this tax will make a negligible contribution to the Government's revenue, it will have a punishing effect on the nascent helicopter industry. Once again we ask,

***"What is the Government's policy toward the helicopter industry?"***

We are pleased to see that the Government has commissioned a consultancy study on the feasibility of building an international heliport. ***It is our sincere hope that this study will help the Government formulate a coherent, long-term policy toward the helicopter industry.***

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### **Objection #6:**

#### **Government's Policy is Inconsistent in regards to the Pearl River Delta**

In his 2001 Budget speech, former Finance Secretary Donald Tsang noted that Hong Kong must,

*“...step up co-operation with Guangdong, especially with the Pearl River Delta, to capitalise on [our] regional competitive advantage.”*

We fully support the former Secretary's position. *With proper support from the respective governments*, HeliHongKong and its business partner, Macau-based EAA Helicopters, are committed to developing a new regional network of super-efficient, point-to-point, helicopter service within the Pearl River Delta.

*Once the cross-border protocol is instituted and the necessary heliport infrastructure established*, such a network can potentially reduce a three-hour journey within the Pearl River Delta to less than 30 minute, helping the HKSAR “capitalise on [its] regional competitive advantage”.



The challenge is that the Pearl River Delta today is efficiently served by railway, bus, ferry and automobile transportation. The market is extremely price competitive and price sensitive. Launching a new helicopter service requires investments in new infrastructure and personnel, and delivering a product at a competitive price point. Our strategy must be based on lowering ticket price and boosting passenger volume.

*Accordingly, the proposed new tax on helicopter passengers will make it more difficult for us to launch new helicopter service into the Pearl River Delta.*



### **Hong Kong, Macau, and the Pearl River Delta: A New Paradigm?**

We believe that, implicit in former Finance Secretary Donald Tsang's remarks that Hong Kong should foster stronger economic cooperation with the Pearl River Delta, is the recognition that the economies of the HKSAR and the Pearl River Delta have become inextricably intertwined. If closer economic integration with the Pearl River Delta were one of the HKSAR's priorities, then the Government should make it easier and less costly to conduct intra-regional trade by:

- Broadening the available modes of transportation linking the two territories,
- Making these modes of transportation more affordable, and,
- Streamlining the cross-border formalities.

In the New Economy, where speed and agility can win the day, where mobile workforce and ad-hoc work teams are the new business paradigms, and where business must move at the speed of information, we envision the need for flexible, efficient transportation systems that can move at the speed of business.

*We respectfully submit that perhaps a new policy paradigm is required: treating the HKSAR, the Macau SAR and the Pearl River Delta region as a "Significant Economic Zone (SEZ)", bestowing it with preferential policy treatment, such as waiving departure taxes and streamlining cross-border formalities for travel within this zone. Only then can Hong Kong fully capitalise on its vaunted "regional competitive advantage".*



**Conclusion:**

**Government Should Support, not Stifle, the Helicopter Industry**

**Madam Chairman, Honorable members of the Bills Committee, Ladies and Gentlemen, in conclusion, I respectfully submit that:**

1. If you agree with the Finance Bureau's position that simply because helicopters fall under the classification of airlines, it must be subject to the Air Passenger Departure Tax, then I would urge you consider phasing in the tax over a reasonable period of time so as not to create a price shock to the helicopter industry. After all, the airline industry was not hit with the full \$80 tax all at once.
2. If, on the other hand, you accept our proposition that the helicopter industry can make a unique contribution to Hong Kong's tourism and economy, but that in order to succeed, the government should support, not stifle, the helicopter industry, then I urge you to defeat this proposed tax. *In doing so, you will signal your support for a truly unique industry that can also help make Hong Kong, Asia's truly unique World City!*

**Thank you.**



**Andrew E. Tse  
Chief Executive Officer**

