



**PRIVATISATION
OF
THE AIRPORT AUTHORITY**

**IATA SUBMISSION
TO THE
ECONOMIC SERVICES PANEL
LEGISLATIVE COUNCIL OF HONG KONG
SPECIAL ADMINISTRATIVE REGION**

31 January 2005

References:

- A. Legislative Council, Panel on Economic Services – Report on port and airport management, airport privatisation in April 2004. LC Paper No. CB (1) 2216/03-04
- B. Privatisation of Airport Authority. IATA Submission to Legislative Council Economic Services Panel Hearing, 31 January 2005 (Attached)
- C. The Need for Economic Regulation, Hong Kong International Airport, Submission to Economic Development and Labour Bureau, IATA 14 January 2004 (Attached)



**SUBMISSION TO THE
ECONOMIC SERVICES PANEL
LEGISLATIVE COUNCIL, HONG KONG SAR
PRIVATISATION OF THE AIRPORT AUTHORITY**

The Airline industry is of the view that the privatisation of Hong Kong International Airport (HKIA) should benefit not only the Government of Hong Kong SAR and the new owners of the privatised entity, but also the people, the Airport Authority (AA) and staff, airlines and their passengers and those aviation related businesses serving Chep Lap Kok. They are all stakeholders whose needs and aspirations should be addressed in a balanced manner. The industry is also of the firm conviction that in privatising such strategic infrastructure, the public utility nature of the airport, the role it plays in the development of, and air transport's contribution to, Hong Kong SAR's overall economy should be given primacy of consideration. All stakeholders will need to compromise some of their aspirations if they want HKIA to continue to grow and serve the SAR community.

The airline industry is opposed to the conversion of a public monopoly into a private monopoly in any manner that could allow the abuse of its market power. The airlines are also concerned that privatisation could be taken as an opportunity for raising charges to an industry already in a critical financial state. This concern does not simply relate to aeronautical charges. The concern covers other related fees that the AA charges e.g. franchise fees, the levels of which are already rather exorbitant. Having punitive fees only serves to push up costs to airlines. Recent Press reports have already noted the slip in cargo handling competitiveness viz other regional seaports; similar risks are ahead for aviation unless the AA can achieve ever-improving efficiencies and remain competitive.

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 readjust charges at HKIA should be for reductions rather than increases. Current prices, let alone any possible future increase will affect long-term economic growth in Hong Kong SAR.

As a result of increasing competition and market demand for lower airfares as well as 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. Therefore, airlines need to continuously improve efficiencies and reduce operating costs. In this effort, all providers of services to aviation also have to ensure that they in turn improve their efficiencies and quality of service while continually

reducing charges to the industry. For HKIA it is especially so because of the immediate impact on the SAR's economic well being.

The airline industry is of the view that Economic Regulation is one of the more transparent and effective ways of achieving efficiency and market equivalent prices. In this regard, IATA supports ICAO's Policies on Charges for Airports and Air Navigations Services that recommends that States may wish "to establish an independent mechanism for the economic regulation of airports and air navigation services." IATA has previously presented its views, including aspects of the joint recommendations of the Airports Council International in its submission to EDLB on 14 January 2004. The submission is attached for the Panel to review. In essence the main points of the IATA recommendations are:

- 1. An 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.
- 2. Incentive Regulation (CPI-X).** Under this system, the regulated airport is allowed to increase its revenue by the Consumer 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.
- 3. Application of the Single Till.** The concept of the single till is widely understood within international aviation regulation. ICAO endorses the single till approach.
- 4. Policy on the Accounting Treatment of Land Value.** Land is an asset, which does not have a limited life. Therefore, the value of land used by an airport should not be taken into account in calculating return on capital or depreciation.
- 5. A Business Plan with Projection into the Next 5, 10 and 20 Years.** A long term high level business plan of the airport with forecast projections of infrastructure development, investments, and financial statements should be a Government/public reviewed plan reflecting the airports position in Hong Kong SAR's future economy.
- 6. Standards and Service Quality.** In order to ensure that the service to be provided by AA will not be compromised for the sake of pursuing higher or even excessive profits, there must be some protection against deterioration of service standards. AA should commit to a service charter that sets out the general performance principles, criteria and measures to be adopted, see the Attached IATA EDLB Submission detail.

CONCLUSION

The airline industry is opposed to the privatisation of natural monopolies such as airports without adequate safeguards to prevent any possible abuse of market power. IATA recommends incentive regulation to balance and protect all stakeholders. In addition the AA must be encouraged to produce efficiencies and lower costs, not only for airlines but also for the future economic well being of the Hong Kong Special Administrative Region. Such reductions can be achieved on a continuous basis stimulated through AA's internal management capabilities combining with the positive assistance provided by effective incentive economic regulation.