



香港地產建設商會

THE REAL ESTATE DEVELOPERS ASSOCIATION OF HONG KONG

香港中環德輔道中十九號環球大廈1403室
Room 1403, World-Wide House, 19 Des Voeux Road Central, Hong Kong.
Tel: 2826 0111 Fax: 2845 2521

28 January 2005

By fax & by hand

Clerk to the Panel
on Economic Services
c/o Legislative Council Building
8 Jackson Road
Central
Hong Kong

Attn: Ms. Anita Sit

Dear Ms. Sit

Privatization of the Airport Authority

We thank you for your letter of 29 December 2004 and as requested, would like to offer our views as follows.

Upon reviewing the consultation document issued by the Economic Development and Labour Bureau, we do not find the rationale for the privatization of the Airport Authority (AA) convincing.

There are usually two principal reasons for a public listing:

1. realization of capital on behalf of a founding shareholder and/or raising new capital for expansion of an ongoing business or to fund new ventures; and,
2. greater efficiency, especially if moving from public to private sector e.g. with the UK de-nationalization process in the '80s.

There is certainly no convincing argument to say that the shareholder, the Hong Kong SAR Government, requires the money nor any convincing case that the AA itself needs capital for expansion. The recent acquisition of equity in Hangzhou airport is an unusual move and the AA really needs to clearly explain its ongoing strategy to a sceptical public.

The airport itself is already run along commercial lines by individuals largely drawn from the private sector and there is no obvious basis for improvement. In fact, to the contrary, one could argue that as a gateway to Hong Kong, the present facility is becoming over-commercialized.



香港地產建設商會

THE REAL ESTATE DEVELOPERS ASSOCIATION OF HONG KONG

香港中環德輔道中十九號環球大廈1403室

Room 1403, World-Wide House, 19 Des Voeux Road Central, Hong Kong.

Tel: 2826 0111 Fax: 2845 2521

The airport is still a relatively new facility with considerable growth potential. If privatized at this embryonic stage, then there is every likelihood that shares will be sold at a level to induce small investors and this could represent the cheap sale of a public asset. The recent debacle over the Link Reit is a case in point.

In addition, there should certainly be no requirement that the AA be privatized during the early years of its operation at a valuation that equates to Government's equity of \$30.7 billion. The airport's cost is partly attributable to its construction on reclaimed land and does not take into consideration on the plus side the value that has been created for the community from the relaxation of land and building constraints in the area affected by the former airport at Kai Tak.

The privatization of an asset such as this can also create complications in the future once other shareholders come into the frame as the Government loses almost all flexibility once it is dealing with the strict governance requirements of a listed company. This is not in the overall interest of Hong Kong as a whole.

Once privatized, there will be greater pressure for increasing all forms of airport rents and charges in order to improve returns to minority shareholders. As a public utility essential to the future growth and development of Hong Kong and its service economy, it is important to look beyond the question of short term returns, but rather to focus on the overall community benefit. This is the role of the Government and not the private sector and privatization is an illustration of flexibility lost to the Government and the community as a whole. At a time when our position as an aviation hub is increasingly coming under challenge by new airports, such as the new Baiyun in Guangzhou, coming into operation in the region, the ability to stay flexible and nimble in the pricing strategy of our airport is of paramount importance in maintaining our competitiveness.

The argument being debated that aviation costs and revenues should be treated separately from retail and other revenues is disingenuous. They are symbiotic, in that without increased passenger flows there would be inadequate business for the shops. Income from both streams must be part of the common pool and the airport looked at as a whole rather than revenues manipulated unnecessarily which will inevitably lead to misalignment of interests at a later stage. It also does not follow that making aeronautical operations a commercially viable business on its own would encourage the AA to maintain its aeronautical services at high standards.

While the potential conflict between Government as shareholder and Government as regulator exists today, this conflict will become much more difficult to manage if and when minority shareholders are brought into the frame. This is a potential minefield that could lead to considerable problems in the longer term and certainly are unnecessary to introduce at this early stage in the airport's life.



香港地產建設商會

THE REAL ESTATE DEVELOPERS ASSOCIATION OF HONG KONG

香港中環德輔道中十九號環球大廈 1403室

Room 1403, World-Wide House, 19 Des Voeux Road Central, Hong Kong.

Tel: 2826 0111 Fax: 2845 2521

Last but not the least is the potential conflict between the AA as a provider of land versus the role played by Government. Given the present shareholding structure, this conflict can be handled but again the situation changes dramatically if the AA is privatized. Should privatization proceed, then either the surplus land on the airport island should be excised from the AA and handed back to Government or an alternative arrangement put in place to avoid this conflict e.g. an extremely restrictive lease condition requiring lease modifications and payment of premium in the event any form of development on the surplus land is approved, in the same manner as would apply if it were Government land today.

Yours sincerely

Louis Loong
Secretary General