AIRPORTS COUNCIL INTERNATIONAL

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Economic Development and Labour Bureau
The Government of Hong Kong Special Administrative Region
2/F Main Wing
Central Government Offices
Lower Albert Road
Hong Kong

Dear Sirs,

Subject: Privatization of Hong Kong International Airport

With regard to the proposed privatization of the Hong Kong International Airport, Airports Council International (ACI) is writing to express its views for consideration by the Economic Development and Labour Bureau of the Hong Kong SAR Government (EDLB).

Privatization of airports is a widespread and growing phenomenon worldwide and this trend is expected to continue. There are more than 190 privatized Commercial airports globally. Major international airports such as those in London, Frankfurt, Zurich, Copenhagen, Argentina, and Mexico have been privatized with varying forms of ownership and management structure. In the Asia Pacific region, privatized airports include Bangkok, Kuala Lumpur, Sydney, and Auckland, among others. Furthermore, China is in the forefront of this trend. Several of its major airports including Beijing, Shanghai, and Guangzhou are listed on major stock exchanges.

Through privatization, airports are able to strengthen market and commercial discipline in the management of airports for greater efficiency. Privatized airports, which are run with a view to providing a reasonable rate of return to stakeholders (a principle well-accepted in ICAO guidelines), have better access to capital markets because they are run as commercial enterprises. Because privatized airports are subject to close monitoring by the market, a corporate culture of innovative leadership and entrepreneurial acumen is instilled in these airports' leadership, giving them the flexibility to make sound decisions in the challenging and rapidly changing aviation sector. A related benefit is that most of an airport's users, including air carriers and concessionaires are fully privatized, and often feel more at ease dealing with an airport company which understands and respects market forces.

Concerning the economic regulation regime, ACI supports the HKSAR Government's proposed regime laid out in the Consultation Document on Partial Privatization of the Airport Authority dated November, 2004 that it should focus only on airport charges for the following reasons:

1) This approach complies with ICAO's user-pays principle and avoids cross-subsidization. As a result, it gives the right signal for an airport operator to provide a high level of services to its users, as well as making correct decisions on capacity expansion and other related investments for future development.

2) The proposed regime focuses only on the activities where the airport might have market power, which is consistent with the rationale and objective of an economic regulation regime and is also in line with ACI policy that excessive regulation stifles the airport operator's incentives to diversify revenues and provide infrastructure improvements. This approach avoids the perverse pricing outcomes generated under single till, under which airport charges can fall below the cost of providing the services, leading to

excess demand at congested airports. London Heathrow, where airport charges were under-priced for many years and the air carriers were literally subsidized by high retail concession income, is a good case to illustrate this point.

3) By focusing the regulatory regime only on airport charges, a strong incentive is offered to the airport to explore innovative commercial opportunities and develop world-class services that would fulfill the needs of its passengers and other users of the airport.

As the global body of airports, representing over 1,500 member airports in 170 nations, ACI would like to express its view that the privatization of HKIA can be viable and beneficial. Moreover, ACI believes that the regulation regime laid out in the Consultation Document is an appropriate approach for HKIA to ensure that the airport continues to be an efficient and competitive airport with sufficient incentives for it to continue to be a strong catalyst for regional growth and to underpin trade, investment and tourism links within the Asia Pacific region and beyond.

Sincerely,

Robert J. Aaronson

Robert J. Aaronson
Director General