

**立法會**  
**Legislative Council**

LC Paper No. CB(1)1321/03-04

(These minutes have been  
seen by the Administration)

Ref: CB1/PL/ES/1

**Panel on Economic Services**

**Minutes of meeting held on  
Monday, 23 February 2004, at 10:45 am  
in the Chamber of the Legislative Council Building**

**Members present** : Hon James TIEN Pei-chun, GBS, JP (Chairman)  
Dr Hon LUI Ming-wah, JP (Deputy Chairman)  
Dr Hon David LI Kwok-po, GBS, JP  
Hon Fred LI Wah-ming, JP  
Hon Mrs Selina CHOW LIANG Shuk-yee, GBS, JP  
Hon CHEUNG Man-kwong  
Hon HUI Cheung-ching, JP  
Hon CHAN Kam-lam, JP  
Hon SIN Chung-kai  
Dr Hon Philip WONG Yu-hong, GBS  
Hon Howard YOUNG, SBS, JP  
Hon LAU Chin-shek, JP  
Hon Miriam LAU Kin-yee, JP  
Hon CHOY So-yuk  
Hon Abraham SHEK Lai-him, JP  
Hon LI Fung-ying, JP  
Hon Henry WU King-cheong, BBS, JP  
Hon LEUNG Fu-wah, MH, JP

**Members absent** : Hon Kenneth TING Woo-shou, JP  
Dr Hon Eric LI Ka-cheung, GBS, JP

**Public Officers  
attending** : **Agenda item IV**

Ms Sandra LEE  
Permanent Secretary for Economic Development and  
Labour (Economic Development)

Ms Miranda CHIU  
Deputy Secretary for Economic Development and  
Labour (Economic Development)

Mr Raymond YOUNG  
Deputy Secretary for Commerce, Industry and  
Technology (Commerce and Industry)

Mr Eddy CHAN  
Deputy Secretary for Health, Welfare and Food (Food  
and Environmental Hygiene)

Mr Donald TONG  
Deputy Director of Food and Environmental Hygiene  
(Administration and Development)

Mr Albert LEE  
Assistant Director of Housing  
(Commercial Properties)

Mr K F CHEUNG  
Chief Manager/Commercial Properties  
(Development, Lettings and Support)

**Agenda item V**

Ms Sandra LEE  
Permanent Secretary for Economic Development and  
Labour (Economic Development)

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

Mr Norman LO  
Deputy Director-General of Civil Aviation

Mr W Y LEUNG  
Assistant Director-General of Civil Aviation  
(Engineering and Systems)

**Agenda item VI**

Mr Stephen IP  
Secretary for Economic Development and Labour

Ms Sandra LEE  
Permanent Secretary for Economic Development and  
Labour (Economic Development)

Mr Howard LEE  
Principal Assistant Secretary for Economic  
Development and Labour (Economic Development)

Mr Martin GLASS  
Deputy Secretary for Financial Services and the  
Treasury (Treasury)

**Attendance by  
invitation** : **Agenda item IV**

Consumer Council

Mrs CHAN WONG Shui  
Chief Executive

Dr Victor HUNG  
Chief Trade Practices Officer

**Agenda item VI**

UBS Investment Bank

Ms Melanie GEE  
Managing Director

Ms Mary LEUNG  
Director

**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 5

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**I Confirmation of minutes and matters arising**

(LC Paper No. CB(1)1016/03-04 - Minutes of meeting held on 15 January 2004)

The minutes of the meeting held on 15 January 2004 were confirmed.

**II Information papers issued since last meeting**

(LC Paper No. CB(1)922/03-04(01) - Tables and graphs showing the import and retail prices of major oil products from January 2002 to December 2003 furnished by the Census and Statistics Department)

2. Members noted the information paper issued since last meeting.

**III Items for discussion at the next meeting scheduled for 22 March 2004**

(LC Paper No. CB(1)1017/03-04(01) - List of outstanding items for discussion

LC Paper No. CB(1)1017/03-04(02) - List of follow-up actions)

3. Members agreed to discuss the following items proposed by the Administration at the next meeting scheduled for 22 March 2004:

- (a) Hospitable Hong Kong;
- (b) Transfer of certain statutory powers and functions of the Chief Secretary for Administration and the Financial Secretary to the Secretary for Economic Development and Labour; and
- (c) An aviation-related item

*(Post-meeting note: The Administration had subsequently advised that item(c) would not be discussed at the forthcoming meeting and item (b) be replaced by an electricity-related item.)*

4. Mr Abraham SHEK proposed to discuss item 10 "Access to the Mainland aviation market" listed on the "List of outstanding items for discussion" (CB(1)1017/03-04(01) at the Panel meeting on 22 March 2004 in view that another round of negotiation for further air services arrangements between Hong Kong and the Mainland had taken place in Beijing this month. The Chairman asked the Clerk to consult the Administration on whether it was ready to brief members on the item at the said meeting.

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(*Post-meeting note:* The Administration had subsequently advised that it was not ready to brief the Panel on the item of "Access to the Mainland aviation market" on 22 March 2004.)

**IV Follow-up to the Consumer Council's Report on competition in the foodstuffs and household necessities retailing sector**

(LC Paper No. CB(1)1017/03-04(03) - Information paper provided by the Administration

LC Paper No. CB(1)1043/03-04(01) - Submission from the Consumer Council)

5. At the invitation of the Chairman, the Deputy Secretary for Economic Development and Labour (Economic Development) (DS/EDL(ED)) briefed members on the Administration's response and follow-up actions on Consumer Council (CC)'s Report on Competition in the Foodstuffs and Household Necessities Retailing Sector (the Report).

Market share and competition law

6. Members noted from the Report that the market share of wet markets vis-à-vis supermarkets in the fresh produce sector was 76% in 1999 and 70% in 2001. Given superstores under the supermarket chains selling fresh produce had only proliferated in recent two years, Mr Fred LI sought latest figure on the relevant market share of wet markets vis-à-vis supermarkets in the fresh produce sector with a view to enabling members to have a better understanding about the state of competition between the two. Mrs CHAN Wong-shui, Chief Executive of the Consumer Council (CE/CC) advised that the figure in 2001 was the latest information available.

7. Pointing out that some 80% of comparable advanced economies had adopted general competition law, Mr Fred LI urged the Administration to consider introducing similar legislation in Hong Kong. He cautioned that notwithstanding the competition of the two major supermarkets, the Administration should examine ways to deal with the possible merger of the two and the resulting situation.

8. Mr CHAN Kam-lam however took a different view. He considered that the availability of consumer choices was the best indicator of free market. As long as consumers were free to shop at outlets of different scales of operation in accordance with their own purchasing power and preference, the Government should keep its intervention to the minimum. Since there was ample competition in the foodstuffs and household necessities retailing sector, Mr CHAN did not envisage that the introduction of a general competition law would bring about more competition in the sector. Mr Abraham SHEK shared similar view and indicated his support to the Government's competition policy.

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9. Whilst acknowledging that some 80 out of 100-odd members of the World Trade Organizations (WTO) had adopted competition laws, the Permanent Secretary for Economic Development and Labour (Economic Development) (PS/EDL(ED)) pointed out that the related regulatory framework varied not only in terms of scope of control but also enforcement mechanism and remedies available. In fact, the WTO had not taken a position on the issue. At the present stage, the Government did not see any need to enact an all-embracing competition law. To maintain overall consistency in the application of competition policy, the Administration had provided a comprehensive, transparent and over-arching competition policy framework and reinforced it with sector-specific measures not limited to laws. The Government called upon all businesses to cease existing, and refrain from introducing, restrictive practices that impair economic efficiency or free trade on a voluntary basis. On safeguards against possible merger of the two major supermarkets, PS/EDL(ED) noted that competition in the retail market was fierce and that there was no need for the Government to intervene in the operation of the retail market.

10. Mr Howard YOUNG expressed the support of the Liberal Party on Government's competition policy with sector-specific regulation. In fact, the introduction of a general competition law might restrict business development and reduce competition. Apart from the telecommunications sector, Mr YOUNG enquired about the Administration's plan to regulate other sectors of the economy to ensure competition.

11. PS/EDL(ED) said that the Competition Policy Advisory Group (COMPAG) had been promoting economic efficiency and free trade through competition in three aspects. Firstly, in formulating government policies, bureaux and departments were required to identify whether the proposed measures would impose possible obstacles and constraints which limited market accessibility and contestability and compromised free trade to the detriment of the overall interest of Hong Kong. Secondly, COMPAG would initiate pro-competition measures, on a sectoral basis, through administrative and legislative measures as appropriate. Thirdly, COMPAG would follow-up on alleged restrictive practices that had been referred to the concerned policy bureau or government department for consideration. Competition in the foodstuffs and household necessities retailing sector was a case in point. COMPAG had reviewed the Report and the relevant bureaux and departments had also studied in detail the findings and recommendations of the Report and carried out necessary follow-up action. The Administration noted that measures had been taken to encourage self-regulation in the sector.

## Handling of complaints and self-regulation

12. Members also noted that as revealed by the Report, there had been complaints that market power was being exerted over suppliers to the effect that existing competitors might be deterred from engaging in vigorous price

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competition and which raised doubts as to the probable success of future new entry. The Administration's reply was that the Commerce, Industry and Technology Bureau (CITB) had assessed that there was so far no evidence showing that supermarket chains had engaged in anti-competitive acts or had abused their market power to limit accessibility and contestability. The CITB considered some of the complaints received by the CC might relate to commercial disputes on possible breach of contracts, while others might well be business acts prompted by fierce competition. In general, there was no evidence to prove that these practices were restrictive and detrimental to economic efficiency or free trade.

13. As CC was not a competition authority with powers of investigation and was therefore unable to establish the veracity of the allegations, Mr Fred LI enquired whether the Administration was aware of any alleged anti-competitive conduct in the supermarket sector and whether it had conducted investigations on these complaints.

14. PS/EDL(ED) confirmed that the Administration did not receive any such complaints but would be pleased to follow them up if received. The Deputy Secretary for Commerce, Industry and Technology (Commerce and Industry) (DS/CIT(CI)) supplemented that COMPAG regularly received and took follow-up action on competition-related complaints. He said that COMPAG must act on formal complaints. It could not take action simply based on media reports without further evidence. Nevertheless, in response to the *Guidelines to maintain a competitive environment and define and tackle anti-competitive practices* (the Guidelines) promulgated by COMPAG in September 2003, the Hong Kong Retail Management Association (HKRMA) had taken concrete steps to encourage voluntary discipline in the relevant sector.

15. Mr Fred LI was very surprised to note that CITB had not received any complaints from the suppliers nor conducted any investigation. In the absence of such information, he queried how the Administration could arrive at the conclusion that some of the complaints received by CC might relate to commercial disputes on possible breach of contracts whereas others might well be business acts prompted by fierce competition. He enquired if CC had referred the complaints to the Administration.

16. In response, DS/CIT(CI) acknowledged that as formal complaints were not available, the Administration's remark was merely a deduction but not conclusion. He reiterated that, the Administration would follow-up on complaints by suppliers if concrete information was provided. DS/CIT(CI) further said that CITB had approached the two major supermarkets and encouraged them to institute voluntary action to further enhance competition in the market. In fact, as good corporate citizens, supermarkets might wish to consider stepping up communication with all stakeholders so as to ensure a level playing field for all. The Administration undertook to continue to monitor the situation in conjunction with CC.

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17. On referral of complaints, CE/CC advised that while the CC had encouraged the affected suppliers to lodge complaints directly with COMPAG, they dared not come forward publicly. CC suggested that an independent body should be established to investigate into complaints of anti-competitive conduct in a confidential manner. This could safeguard the interests of small traders and suppliers. Nevertheless, CC was pleased to note that the HKRMA had responded proactively to the Guidelines and was in the process of developing a code of conduct for the sector to promote competition.

18. Mr CHEUNG Man-kwong was gravely concerned about the way the Administration handled the allegation of anti-competitive conduct by the two major supermarkets. He highlighted that in view of the position of the two major supermarkets, some suppliers had no choice but accepted whatever terms given by the two major supermarkets in return for permission to display their goods at supermarkets for sale. Under such circumstances, they were unwilling to lodge complaints against the supermarkets for fear of loss of business. Mr CHEUNG pointed out that the Administration's inaction on alleged anti-competitive conduct in the supermarket sector would further reduce competition in the sector and enhance duopoly by the two supermarkets. Noting that CC was not an investigative body entrusted with powers to obtain information, he opined that CC should be vested with investigative power so that the Administration could consider taking actions against anti-competitive conduct once it was concluded by CC.

19. PS/EDL(ED) took note of Mr CHEUNG's concern. However, she reiterated that the Administration had to act under the law. In the absence of formal complaints from suppliers, the Administration could not proceed with the investigation. She urged CC to provide more detailed information for follow-up.

20. To this end, Dr LUI Ming-wah suggested that the Administration might commission the tertiary institutions for an independent survey among suppliers on alleged anti-competitive conduct in the supermarket sector as this would not expose the details of the suppliers concerned.

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Wet markets managed by the Food and Environmental Hygiene Department (FEHD)

21. Noting that the FEHD was working actively in partnership with the wet market operators and smaller retailers to enhance the attractiveness of public wet markets through various measures, Ms LI Fung-ying sought information on the criteria for assessing the effectiveness of the proposed measures such as the tenancy rates and rates of business growth.

22. The Deputy Secretary for Health, Welfare and Food (Food and Environmental Hygiene) (DS/HWF(FEH)) pointed out that the development of FEHD-run wet markets was inextricably linked to the history of relocating hawkers. The wet markets were built to free streets and public areas from hawking activities.



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As such, the FEHD's involvement in the provision of wet market facilities was therefore not primarily driven by economic considerations. The rentals currently paid by most market tenants were well below the "Open Market Rentals (OMR)" assessed by the Rating and Valuation Department. The Government was aware of its social responsibility and refrained from bringing the rentals back to the OMR level. FEHD had employed measures to revitalize its wet markets with a view to enhancing the competitiveness of the markets concerned and their appeal to members of the public. For example, it had earmarked over \$600 million in the next few years for carrying out improvement works to the FEHD markets. The scope of works included upgrading of ventilation and/or drainage system, replacement of floor and wall finishes, lighting improvements, upgrading of entrances, signages, escalators, etc. It had also implemented a market Manager Scheme in four public markets whereby qualified and experienced personnel from the private sector were engaged to enhance management of the markets.

23. In assessing the effectiveness of the measures, DS/HWF(FEH) pointed out that it might not be feasible to come up with objective criteria to serve the purpose. The tenancy rate or rate of business growth of individual stalls would hinge on the availability of other retail shops selling fresh produce in the vicinity of the wet markets concerned. Nevertheless, the Administration would continue to assist the stallholders concerned to improve the business environment.

24. Members noted that most FEHD-run markets had been built in 1960's and 1970's where the environment was crowded and hence badly needed improvement. Noting that works of retro-fitting air-conditioning system to FEHD-run wet markets would require the support of 85% or more of the tenants to ensure smooth implementation, Mr CHAN Kam-lam was concerned that the 85% threshold was too rigid and urged the Administration to review the situation.

25. In response, DS/HWF(FEH) pointed out that the FEHD-run wet markets were characterized by stallholders who could not afford to pay higher rental and other operating costs. As the stallholders had to pay the recurrent costs involved, works of retro-fitting air-conditioning systems must be supported by most of the tenants.

26. Mrs Selina CHOW highlighted that the core of the problems with FEHD-run wet markets laid on the fact that the provision of these facilities was not driven by economic consideration. The hygiene condition and unsatisfactory environment inside wet markets had indeed affected their sustainability, and, in turn, livelihood of stallholders. Mrs CHOW urged the Administration to adopt a new policy on the provision of wet market facilities. There was a need for a paradigm shift in operating the FEHD-run wet markets from health and safety consideration to economic consideration. Housing Authority (HA)'s divestment plan in respect of its retail and carparking facilities was in the right track. With proper improvement and upgrading of facilities for wet markets with a view to maintaining their commercial prospects, Hong Kong would benefit from a vibrant

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food retailing market with multiple operators, where competitive choices would be available.

27. DS/HWF(FEH) took note of Mrs CHOW's view. He said that unlike HA, the relationship between FEHD and its stallholders was not merely that of landlord and lessees. FEHD carried with its market the legacy of re-housing hawkers. Nevertheless, the Administration observed that of the 80-odd markets managed by FEHD, the majority were viable ones. There were admittedly a small number of FEHD-run wet markets with relatively high vacancy rates. FEHD was examining the issue and might close down the unviable markets where necessary to save public monies.

### Wet markets managed by the HA

28. Ms LI Fung-ying was concerned on the progress of the HA's divestment plan to transfer its retail and carparking facilities to the private sector through a real estate investment trust. She enquired if the Administration had taken into account the impact of the plan on the tenants and whether they had been consulted.

29. On progress of the proposed divestment of HA's retail and carparking facilities, the Assistant Director of Housing (Commercial Properties) (AD/H(CP)) highlighted that the HA had appointed the Global Coordinators and the Financial Adviser in assisting the implementation of the project. The Administration had met with representatives of different tenant groups concerned and would seriously consider their views before drawing up more detailed implementation plan. As undertaken, the Administration would report to the Panel on Housing the progress of the divestment in the first quarter of 2004.

### The Report

30. Noting from the Administration's paper that CC had acknowledged about the unclear interpretation of "the relevant market" and the need to improve the methodology of the pricing surveys in the Report, Mr CHAN Kam-lam was concerned that these might have led to different findings and affected consumer trust in the market place. Mr CHAN also disagreed with CC's claim that the two major supermarkets had abused their dominant market position by increasing the list price of their goods by about 1.5% during the first half of 2003 vis-à-vis the same period in 2002. He considered that it was the customers' choice if they wished to pay an extra premium in return for a better buying environment at supermarkets.

31. CE/CC took the opportunity to clarify that the Report had indicated clearly the reference of "the relevant market" but a footnote should have been inserted in the related press statement to clarify that the 70% share referred to "the relevant market", which meant in fact only supermarket chain stores and supermarkets in the department stores but excluded convenience stores, drug stores and wet markets,

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etc. With regard to the data on supermarket price survey in the Report, the supermarket operators were kept informed and consulted of the current methodology and the list of surveyed products CC had adopted for the purpose of the survey. The findings of the survey set out in the Report were in line with those published by the Census and Statistics Department. In view of the electronic processing of supermarket price data, CC was exploring with supermarkets alternative data collection methods with a view to increasing the frequency of data collection. CC expected the new mode of co-operation would take effect later this year.

32. CE/CC further clarified that the claim in relation to abuse of dominant market position by supermarkets was not made by CC. In fact, CC had delineated in great details in the Report factors of determining abuse of dominant market place, which included, inter alia, market share and market behaviour. She undertook to send a copy of the Report to Mr CHAN and if practical, explain to him further on this aspect.

**V Replacement of Doppler Very High Frequency Omni-Directional Range and Distance Measuring Equipment**

(LC Paper No. CB(1)1017/03-04(04) - Information paper provided by the Administration)

33. At the invitation of the Chairman, the Deputy Director-General of Civil Aviation (DDG/CA) briefed members on the proposal of the Civil Aviation Department to replace the existing Doppler Very High Frequency Omni-Directional Range and Distance Measuring Equipment (DVOR/DME) at Tung Lung Island. The estimated non-recurrent cost was \$33.4 million. He said that the DVOR/DME at Tung Lung Island was a long-range radio navigation aid providing essential navigation information for aircraft to/from Hong Kong. It was one of the five current facilities located at strategic positions in Hong Kong. The equipment, having been in continuous service for more than 19 years, was aging and had become increasingly costly to maintain. Despite intensive maintenance, the fault rate of the DVOR/DME had averaged at 14 occurrences per year between 2001 and 2003. As it was expected that the fault rate would increase in the coming years, causing more outages of the DVOR/DME and the equipment supplier of DVOR/DME had ceased the production of spare parts to support the system maintenance since 1999, there was an urgent need to replace the DVOR/DME to ensure reliability of the equipment and to reduce maintenance cost. Members noted that the Administration planned to seek the approval of the Finance Committee on 30 April 2004 for the non-recurrent funding of the proposal.

34. The Chairman enquired about the length of service of the other four DVOR/DME facilities and whether they needed to be replaced soon. Mr Fred LI also asked about the useful life of the new facilities.

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35. In reply, DDG/CA said that the other four DVOR/DME facilities had been set up/replaced in 1996, shortly before the relocation of the airport to Chek Lap Kok. With proper maintenance, these facilities could normally serve for some 20 years. As such, he did not envisage the need to replace the other four facilities in the near future.

36. Noting that the cost of the replacement equipment would be recovered from the Air Traffic Control (ATC) and En-route Navigation Services Charges, Mr Howard YOUNG was concerned why the related cost would be amortized over a period of 15 years instead of 20 years. Notwithstanding the Administration's claim that the increase in the said charges would be insignificant, Mr YOUNG was concerned that the competitiveness of the Hong Kong's aviation sector would be unduly affected as a result of the additional costs imposed on airlines and aircraft operators.

37. DDG/CA responded that ATC services were provided by CAD on a cost-recovery basis and the cost of CAD equipment would normally be amortized over 15 years. He assured members that the increase in ATC Service Charge per flight and En-route Navigation Service Charge per overflight would only be 0.3% and 0.4% respectively, which would be insignificant vis-à-vis the total operating costs of airlines.

38. Members noted that there would be a seven-month gap between decommissioning of the existing DVOR/DME and commissioning of the replacement equipment. During this period, CAD would use the facilities at Tathong Point and Cheung Chau to provide the navigation service. In view that a DVOR/DME system was already provided at Tathong Point, Tung Lung Island, Mr CHAN Kam-lam enquired whether the Administration would consider taking this replacement opportunity to re-locate the DVOR/DME at Tung Lung Island to other location.

39. Noting that the fault rate of the DVOR/DME at Tung Lung Island averaged at 14 occurrences per year between 2001 and 2003, Mr Henry WU presumed that CAD had already made use of the facilities at Tathong Point and Cheung Chau to provide navigation service during such time. As such, he queried why there was still a need to provide another set of equipment at Tung Lung Island at a cost of \$33.4 million. Mr HUI Cheung-ching also enquired about the DVOR/DME at Siu Mo To and the actual cost of the equipment.

40. DDG/CA explained that the DVOR/DME facilities at different locations served different functions and they provided essential navigation information for aircraft movement and safety. The DVOR/DME facilities at Tathong Point and Siu Mo To were short-range radio navigation aids whereas the ones at Tung Lung Island and Cheung Chau were long-range facilities. Moreover, being located in close proximity to the airport island, Siu Mo To had mainly been used to provide

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navigation information for aircraft taking off or landing the Hong Kong International Airport (HKIA). Although the DVOR/DME at Tung Lung Island and Cheung Chau were both long-range aids, they were used to serve aircraft flying to/from east and west respectively. In the absence of the DVOR/DME at Tung Lung Island, the DVOR/DME in Cheung Chau could also be used to serve aircraft flying to/from east. However, a single system alone would not be the optimum solution in terms of efficiency. Therefore, the equipment at Tung Lung Island should be retained and replaced with a view to ensuring flight safety and ATC efficiency. This could, in turn, enhance air safety for the long-term development of civil aviation in Hong Kong.

41. As regards the possibility of re-locating the DVOR/DME at Tung Lung Island to other location, DDG/CA pointed out that the current flight paths had been designed in accordance with the location of the facilities. Re-location of the facilities might necessitate the change of flight paths which might not be feasible in view of the physical landscape of the Lantau Island. On the actual cost of the equipment in Siu Mo To when it was replaced in 1996, DDG/CA confirmed that it cost about \$34.3 million which included expenses on site formation, building service works, equipment provision and installation, testing and commissioning etc.

42. Referring to the itemized budget, Dr LUI Ming-wah was concerned that the estimate of \$14.6 million for the building modification and building service works of the replacement proposal was too high, bearing in mind the equipment provision and installation cost was only \$13.7 million. He queried on the need for refurbishing concrete slab for antenna counterpoise installation since the frequency of the replaced equipment would be the same as that of the existing one.

43. In response, the Assistant Director-General of Civil Aviation (Engineering and Systems) said that the cost of building modification and building services works covered the refurbishment of a 60-metre diameter concrete slab for the new exposed antenna counterpoise installation and construction of a new equipment room. As opposed to the current design of having the antenna feeder cables and metallic antenna counterpoise embedded in concrete slabs, the new design would feature a surface-level equipment room, thus allowing easy access to maintenance. He further said that the cost also covered the replacement of the obsolescent power supply cables to the station, and the reprovision and renovation works on building services facilities. Dr LUI did not subscribe to the Administration's explanation and pointed out that reprovision and renovation works should not be so costly.

Admin 44 In this connection, the Chairman requested the Administration to include in its funding proposal to the Finance Committee for members' consideration further details on each cost items and data in enhancing aircraft safety as a result of the proposed replacement.

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**VI Privatization of the Airport Authority**

(LC Paper No. CB(1)1017/03-04(05) - Information paper provided by the Administration

LC Paper No. CB(1)1092/03-04(01) - Joint letter from the Staffs and Workers Union of Hong Kong Civil Airlines and Hong Kong Aviation Industry Employees General Union on the privatization of the Airport Authority)  
*(tabled at the meeting and subsequently circulated to members on 24 February 2004)*

45. At the invitation of the Chairman, the Principal Assistant Secretary for Economic Development and Labour (Economic Development) (PAS/EDL(ED)) briefed members on the way forward for the proposed privatization of Airport Authority (AA). He said that the Administration was mindful of the concerns over certain issues relating to the proposed privatization, and therefore had decided to take more time to further consult stakeholders before putting a privatization bill to the Legislative Council. In the meantime, the Administration proposed that AA should return about \$6 billion of equity capital to the Government through capital restructuring prior to privatization. The proposed capital restructuring could lower AA's weighted average cost of capital and had a value-enhancement effect. The Secretary for Economic Development and Labour (SEDL) added that the Administration would further consult stakeholders before finalizing the privatization bill together with other regulatory documentation. The Administration would revert to the Panel in due course.

46. In view of time constraint, the Chairman suggested and members agreed that a special meeting be held on 2 March 2004 at 8:30 am to continue discussion with the Administration on the related issues. The Chairman then invited members to briefly give their views on the proposed privatization of AA and requested the Administration to provide responses for further discussion at the special meeting.

Privatization of AA

47. Referring to the rationale for privatizing AA as set out in paragraph 3 of the paper, Mr Abraham SHEK commented that as AA was already required to operate on prudent commercial principles, he queried how the airport could be more efficiently run after privatization. Likewise, as AA could already borrow money from the market, he asked how the privatization proposal could enhance AA's access to the capital market.

48. Some other members pointed out that the Administration should also set out the demerits of the proposed privatization of AA to facilitate members' consideration. Ms LI Fung-ying remarked that the principle of "small government,

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big market" should be applied with caution as some essential public services could not be privatized.

49. Mrs Selina CHOW declared interest as a board member of AA. She said that as privatization of airport was a worldwide trend and had numerous benefits, the proposal should be worth pursuing. She also said that in taking forward the privatization proposal, the AA board was mindful of the need to maintain the competitiveness of the airport as well as the strategic role of the airport on the sustainable growth of the economy.

50. Mr Howard YOUNG supported the two-step approach in taking forward the privatization of AA. He hoped the privatization of AA could bring benefits to all stakeholders as well as to the general public. Mr Henry WU also remarked that the financial service market welcomed the proposed privatization of AA.

### Implications of the privatization of AA on staff working on the airport island

51. Some members expressed serious concern that the proposed privatization of AA might have adverse impacts on the welfare of staff working on the airport island. Mr LAU Chink-shek and Mr LEUNG Fu-wah pointed out that as business contracts of AA were awarded to contractors who offered the lowest bid, the level of wages of staff working on the airport island was already very low. They were worried that the situation would worsen after privatization. This, in turn, would affect the operation of the airport as well as its overall quality and standards of service. Ms CHOY So-yuk echoed the view and said that the morale of employees and standards of service might be affected as a result of the proposed privatization.

52. Ms LI Fung-ying said that the Administration should set out the adverse impact of the proposed privatization on the welfare of staff working on the airport island. Mr LEUNG Fu-wah also requested the Administration to conduct a separate study to examine the impact of the proposed privatization on the level of wages of employees at the airport island. Ms CHOY So-yuk asked whether the Administration had consulted the concerned staff unions and what were their respective stances on the proposed privatization of AA.

### Economic regulation

53. Mr Abraham SHEK remarked that as the existing high landing fees had already driven away many airlines to the Macau airport and affect the economy of Hong Kong, he considered it necessary to keep the airport charges at low level. To this end, he urged the Administration to carefully examine issues relating to economic regulation to ensure that the proposal would not have adverse impact on the long term economic growth of Hong Kong and the general economy as a whole.

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54. Mr LAU Chin-shek was worried that upon privatization, AA would not be willing to undertake projects which were not financially viable but would be of benefits to the community. Indeed, there would be difficulties in striking a balance between public interest and the interest of the shareholders of the privatized company. He also enquired whether the change of status from a public corporation to a privatized company would make AA less effective in its discussion and cooperation with other regional airports, hence weakening the hub status of HKIA.

55. Mr Fred LI said that given the privatized AA's monopolistic status, he was concerned that AA might abuse its monopolistic position and extract undue benefits from its users, through the imposition of high airport charges and levies on airport passengers.

Abuse of monopolistic power

56. Given the privatized AA's monopolistic status with a vast amount of land under its control and its unparalleled advantages in certain business activities, Mr Abraham SHEK was worried that AA might become a major property developer in Hong Kong and undertake property development projects to compete for profit with the private sector. Mr CHEUNG Man-kwong also remarked that AA might abuse its dominant position to engage in other kinds of business activities, which would give rise to various issues relating to competition. Whilst indicating that AA should be allowed to operate airport-related businesses, Mr Fred LI was also concerned that AA might become an independent kingdom after privatization which was free from public scrutiny.

Overseas experience on airport privatization

57. Noting that airports in North America were not privatized due to national security concerns, Mr LAU Chin-shek expressed concerns about the airport safety and security after privatization.

58. Mr Abraham SHEK and Mr Henry WU requested the Administration to provide further information on overseas experience on airport privatization such as -

- (a) merits and demerits of their privatization proposals
- (b) initial amount of shares offered for sale to the public
- (c) result of the initial subscription
- (d) amount of capital raised
- (e) target investors during initial public offering
- (f) debt to equity ratio at the time of offer
- (g) credit rating of the privatized company before and after privatization
- (h) staff welfare before and after privatization.



Action

Capital restructuring

59. Mr Abraham SHEK and Mr Howard YOUNG indicated their support to the proposed capital restructuring proposal. Mr SIN Chung-kai pointed out that whilst the proposed privatization of AA had yet to be examined in detail, the proposed capital restructuring proposal could bring benefits to the community at large. Mr LEUNG Fu-wah however expressed concern that the proposal might further affect the welfare of employees as AA might transfer the related cost to its contractors. He enquired how the proposal would affect the employees of the franchisees.

60. Notwithstanding the present capital restructuring proposal, Mr Howard YOUNG said that the debt to equity ratio of AA was still low compared to other similar organizations such as MTR Corporation Limited and British Airport Authority. He urged the Administration to consider asking AA to return more equity capital to Government prior to privatization.

61. Mr Henry WU however queried whether the proposed amount of \$6 billion would affect the financial strength and credit rating of AA, and hence, its attractiveness to investors upon privatization.

62. Mr SIN Chung-kai pointed out that the Administration should provide further information to explain how AA was going to finance the capital restructuring proposal. The Administration should also take the opportunity to consider issuing retail bonds.

63. On the Chinese rendition for the term "privatization", Mr SIN Chung-kai enquired whether it should be read as "私有化" rather than "私營化" as the former referred to ownership while the latter operation.

64. Mr Henry WU enquired which company was serving as the Government's financial adviser. Referring to item 18 of the Annex to LC Paper No. CB(1)1017/03-04(05) which stated that the aerodrome licence of AA might be revoked under specified circumstances, Mr WU enquired whether this would mean that the business of AA might be terminated, having regard to the listing requirements on the privatized AA.

**VII Any other business**

65. There being no other business, the meeting ended at 12:50 pm.