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# INFORMATION NOTE

## Air services in Hong Kong

### 1. Introduction

1.1 At a meeting held on 28 April 2008, the Panel on Economic Development requested the Research and Library Services Division to provide information on the operation of low-cost carriers in Hong Kong, and airfares of various travel classes to selected destinations offered in Hong Kong and overseas places. This information note provides information on air services in Hong Kong, the general business model of low-cost carriers and a comparison of airfares to selected destinations offered in Hong Kong and overseas places.

### 2. Overview of air services in Hong Kong

2.1 Hong Kong is a major international and regional aviation centre. The Hong Kong International Airport is one of the busiest airports in the world. In 2007, there were some 85 international airlines operating about 5 700 scheduled passenger and all-cargo flights each week between Hong Kong and some 155 destinations worldwide. There were also an average of approximately 84 non-scheduled passenger and cargo flights operating each week.<sup>1</sup>

2.2 The operation of scheduled air services to and from Hong Kong is facilitated by Air Services Agreements<sup>2</sup> between Hong Kong and its aviation partners. Since the opening of the Hong Kong International Airport, the Government has implemented a policy of progressive liberalization of air services to promote consumer choice and competition as well as providing airlines of Hong Kong and its aviation partners with opportunities for service expansion.

2.3 An aircraft registered in Hong Kong is not allowed to fly for the purpose of public transport unless the operator holds an Air Operator's Certificate (AOC)<sup>3</sup> granted by the Director-General of Civil Aviation.<sup>4</sup> As at 31 March 2007, there were nine local AOC holders,<sup>5</sup> with seven providing passenger and cargo flights and two providing helicopter services. Table 1 lists the airline operators in Hong Kong that operate scheduled and charter passenger and cargo flights.

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<sup>1</sup> The Government of the Hong Kong Special Administrative Region (2008).

<sup>2</sup> An Air Services Agreement is an agreement signed by two places to allow civil aviation between their territories.

<sup>3</sup> An AOC is an official document issued to an airline by its national safety regulator. It attests to the airline's competence regarding its ability to conduct a safe operation.

<sup>4</sup> For the grant of an AOC, the Director-General of Civil Aviation takes into account the applicant's previous conduct and experience, equipment, organization, staffing, maintenance and other arrangements.

<sup>5</sup> Civil Aviation Department (2007).

**Table 1 – Airline operators in Hong Kong that operate scheduled and charter passenger and cargo flights**

<b>Airline</b>	<b>Year of establishment</b>	<b>Parent company</b>	<b>Fleet size</b>	<b>Service</b>
Cathay Pacific Airways Limited	1946	Swire Group	116	Scheduled services to Asia, Australia, New Zealand, the Middle East, Europe, South Africa and North America.
Hong Kong Dragon Airlines Limited	1985	Cathay Pacific Airways Limited	39	(a) Scheduled passenger services to Bangladesh, Brunei, Cambodia, China, India, Japan, South Korea, Malaysia, Nepal, Taiwan, Thailand; and  (b) scheduled all-cargo services to China, Taiwan, Japan, the Middle East, Europe and the United States (US).
Air Hong Kong Limited	1986	Cathay Pacific Airways Limited	8	Scheduled all-cargo services to China, Taiwan, Japan, South Korea, Thailand, Malaysia and Singapore.
Metrojet Limited	1995	Kadoorie group	4	Non-scheduled passenger services to Pakistan, India, Thailand, Malaysia, Indonesia, Singapore, Vietnam, Brunei, Philippines, Taiwan, Japan and South Korea.
Hong Kong Airlines Limited	2001 (launched as CR Airways)	Hainan Airlines	8	(a) Scheduled services to China and Vietnam; and  (b) charter services to Japan and South Korea.
Hong Kong Express Airways Limited	2005	Hong Kong Express Airways Limited	5	Scheduled passenger services to China, Japan, Thailand, Philippines and Malaysia.
Oasis Hong Kong Airlines Limited	2005 (ceased operation on 9 April 2008)	Oasis Hong Kong Airlines	5	Scheduled services to London and Vancouver.

Sources: *Air Hong Kong Limited* (2008), *Cathay Pacific Airways Limited* (2008), Civil Aviation Department (2007), *Hong Kong Airlines Limited* (2008), *Hong Kong Dragon Airlines Limited* (2008), *Hong Kong Express Airways Limited* (2008), *Metrojet Limited* (2008) and *Wikipedia* (2008).

2.4 Among the nine local AOC holders, five provide scheduled passenger flight services. It is observed that, except for the Oasis Hong Kong Airlines Limited which was considered by the travel industry as a low-cost carrier, the low-cost carrier business model mentioned in paragraph 3.1 below seems not to apply to the other four airlines, namely Cathay Pacific Airways Limited, Hong Kong Dragon Airlines Limited, Hong Kong Airlines Limited and Hong Kong Express Airways Limited. These airlines aim at providing their passengers with traditional full-services as well as pleasurable and comfortable flying experience.

2.5 Established in February 2005, the Oasis Hong Kong Airlines Limited commenced services with its inaugural route to London Gatwick Airport on 26 October 2006. Another service to Vancouver International Airport began on 28 June 2007. The airline was voted the "World's Leading New Airline" at the Annual World Travel Awards<sup>6</sup> 2007. However, the airline ceased operation on 9 April 2008 due to an accumulated loss of some HK\$1 billion since its operation.<sup>7</sup>

### **3. Definition of low-cost carrier**

3.1 A low-cost carrier or no-frills airline is defined as an airline that offers relatively low fares in exchange for limited passenger services. The concept of low-cost carrier originated in the US before spreading to Europe in the early 1990s. In general, a low-cost carrier operates in the following business model:

- (a) offering a single passenger class;
- (b) using a single type of airplanes to reduce training and servicing costs;
- (c) providing a minimum set of optional equipment on its airplanes to reduce acquisition and maintenance costs;
- (d) offering a simple fare scheme such as charging one-way tickets half the fare of round-trip tickets;
- (e) allowing unreserved seating;
- (f) flying to cheaper, less congested secondary airports;
- (g) flying during non-peak hours to avoid air traffic delays and taking the advantage of lower landing fees;
- (h) maximizing utilization of aircraft by means of fast turnaround times;

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<sup>6</sup> The World Travel Awards were established in 1993 to acknowledge, reward and celebrate the achievements in all sectors of the travel industry.

<sup>7</sup> *Wikipedia* (2008).

- (i) offering simplified routes and emphasizing point-to-point transit instead of transfers at hubs;
- (j) generating ancillary revenue from a variety of activities such as a la carte features and commission-based products;
- (k) emphasizing direct sales of tickets, especially over the Internet to avoid fees and commissions paid to travel agents and computer reservations systems;
- (l) flight attendants working in multiple roles to reduce personnel costs;
- (m) providing limited special services to passengers such as placing a higher age limit on unaccompanied minors; and
- (n) maintaining aggressive fuel hedging programmes.

3.2 However, not every low-cost carrier adopts all features of the above model. While some low-cost carriers differentiate themselves with allocated seating, some others operate more than one aircraft type.

#### **4. Airline pricing**

4.1 According to the Air Transport Association of America, Inc. (ATA)<sup>8</sup>, airfares are normally set at a level that covers unit operating cost. Full-service airlines have a higher level of fixed and operating costs due to the acquisition and maintenance of airplanes as well as the provision of quality services. According to ATA, the costs incurred in the provision of air services include:

- (a) labour;
- (b) fuel;
- (c) airplanes and engines;
- (d) spares and parts;
- (e) information technology services and networks;
- (f) airport equipment;

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<sup>8</sup> Established in 1936, ATA is the oldest and largest airline trade association in the US, representing the nation's leading airlines. The Association's fundamental purpose is to foster a business and regulatory environment that ensures safe and secure air transportation and permits US airlines to flourish, stimulating economic growth locally, nationally and internationally.

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- (g) airport handling services;
- (h) sales distribution;
- (i) catering;
- (j) training;
- (k) aviation insurance; and
- (l) other costs.

4.2 Most airlines adopt a differential pricing strategy, which is a form of price discrimination, to sell their air services. As such, airlines divide each cabin of the aircraft into a number of travel classes: first, business and economy, for pricing purposes. Other factors affecting airfares include:

- (a) days remaining until departure;
- (b) booked load factor;
- (c) forecast of total demand by various pricing;
- (d) pricing of competitors; and
- (e) variations by day of week as well as by time of day of departure.

Airfares also include a number of fees, taxes, and surcharges which airlines have little or no control, and these costs are usually transferred to consumers.

## **5. Non-stop round-trip airfares to selected destinations offered in Hong Kong and overseas places**

5.1 Table 2 compares non-stop round-trip airfares to selected destinations offered in Hong Kong and overseas places. The destinations selected are Taipei, Singapore, Sydney, London, Vancouver and San Francisco, and the carriers chosen are the major players in the market. The travel classes chosen are first, business and economy. The date of departure and that of return are 26 May 2008 and 30 May 2008 respectively. All fares were quoted via the Internet during the week of 5 May 2008.

5.2 All fares quoted are subject to various terms and conditions and promotional offers. In general, changes in the following terms and conditions will result in changes in airfares:

- (a) rebooking;
- (b) rerouting;

- (c) travelling period;
- (d) minimum stay;
- (e) maximum stay;
- (f) mileage accrual; and
- (g) redemption upgrade.

5.3 It can be seen from Table 2 that while in general, it is cheaper to purchase in Hong Kong round-trip tickets to Singapore, Sydney and London, it seems that Taipei offers cheaper round-trip tickets for all travel classes to Hong Kong. For Vancouver and San Francisco, it depends on the airline as well as the travel class chosen.

**Table 2 – Non-stop round-trip airfares to selected destinations offered in Hong Kong and overseas places**

	<b>Economy class (HK\$)</b>	<b>Business class (HK\$)</b>	<b>First class (HK\$)</b>
<b>Hong Kong to Taipei (tickets purchased in Hong Kong)</b>			
Dragonair	3,816 – 4,096	7,266	8,296
China Airlines	1,579 – 3,409	3,799 – 5,199	Not available
EVA Air	2,029 – 4,096	5,059 – 6,646	Not available
<b>Taipei to Hong Kong (tickets purchased in Taipei)</b>			
Dragonair	2,597 – 3,518	3,860	7,380
China Airlines	1,565 – 3,742	4,019 – 4,396	Not available
EVA Air	1,893 – 4,158	3,881 – 4,938	Not available
<b>Hong Kong to Singapore (tickets purchased in Hong Kong)</b>			
Singapore Airlines	2,891 – 5,641	17,251	21,101
Cathay Pacific Airways	1,991 – 5,711	16,471	19,661
United Airlines	2,661 – 8,241	12,901	15,151
<b>Singapore to Hong Kong (tickets purchased in Singapore)</b>			
Singapore Airlines	3,976	15,450	22,346
Cathay Pacific Airways	2,968 – 5,264	16,950	23,832
United Airlines	3,303 – 8,393	13,143	21,633

**Table 2 – Non-stop round-trip airfares to selected destinations offered in Hong Kong and overseas places (cont'd)**

	<b>Economy class (HK\$)</b>	<b>Business class (HK\$)</b>	<b>First class (HK\$)</b>
<b>Hong Kong to Sydney (tickets purchased in Hong Kong)</b>			
Qantas Airways	6,700 – 10,850	35,330	45,007
Cathay Pacific Airways	6,700 – 10,270	35,330	45,007
Virgin Atlantic	5,710 – 21,870	29,010 – 35,330	Not available
<b>Sydney to Hong Kong (tickets purchased in Sydney)</b>			
Qantas Airways	8,309 – 13,680	47,002 – 60,513	70,149
Cathay Pacific Airways	8,345 – 9,156	45,279	58,881
Virgin Atlantic	7,398 – 14,082	38,320 – 61,922	Not available
<b>Hong Kong to London (tickets purchased in Hong Kong)</b>			
British Airways	6,310 – 7,790	37,063 – 41,208	55,380
Cathay Pacific Airways	5,232 – 8,692	49,113	61,420
Virgin Atlantic	8,488	49,707	Not available
<b>London to Hong Kong (tickets purchased in London)</b>			
British Airways	25,508	63,274 – 73,853	114,392
Cathay Pacific Airways	8,561 – 11,356	60,961	72,637
Virgin Atlantic	25,515	73,860	Not available
<b>Hong Kong to Vancouver (tickets purchased in Hong Kong)</b>			
Air Canada	17,790	22,950 – 45,770	Not available
Cathay Pacific Airways	5,890 – 12,490	38,800	61,093
<b>Vancouver to Hong Kong (tickets purchased in Vancouver)</b>			
Air Canada	21,920	34,100 – 59,250	Not available
Cathay Pacific Airways	10,611	30,569	75,410
<b>Hong Kong to San Francisco (tickets purchased in Hong Kong)</b>			
United Airlines	10,081 – 22,381	60,061	100,611
Cathay Pacific Airways	9,702 – 10,542	65,912	116,652
<b>San Francisco to Hong Kong (tickets purchased in San Francisco)</b>			
United Airlines	10,991 – 34,711	72,161	168,111 – 197,461
Cathay Pacific Airways	7,916 – 24,075	50,755	83,353

Sources: *Air Canada* (2008), *British Airways* (2008), *Cathay Pacific Airways Limited* (2008), *China Airlines* (2008), *EVA Air* (2008), *Hong Kong Dragon Airlines Limited* (2008), *Qantas Airways* (2008), *Singapore Airlines* (2008), *United Airlines* (2008) and *Virgin Atlantic* (2008).

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Prepared by Vicky LEE  
20 May 2008  
Tel: 2869 9602

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