



香港特別行政區政府

民航處

Civil Aviation Department

The Government of the Hong Kong Special Administrative Region

CB(1)1600/09-10(01)

BY FAX

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Clerk to Panel
 (Attn: Ms Debbie Yau)
 Panel on Economic Development
 Legislative Council Secretariat
 Legislative Council Building
 8 Jackson Road
 Central, Hong Kong
 (Fax: 2509 0775)

9 April 2010

Dear Ms Yau,

Motion on "Airlines reducing the commission for travel agents"

I refer to your letter of 30 March 2010 to the Secretary for Commerce and Economic Development asking for a written response from the Administration to the above motion.

2. Scheduled air services operated by airlines between Hong Kong and other places are governed by the bilateral Air Services Agreements (ASAs) that the Government of the Hong Kong Special Administrative Region has entered into with its aviation partners. Generally speaking, according to the ASAs, the tariffs to be charged by airlines for scheduled air services (including the fares charged for the carriage of passengers, the rates charged for the carriage of cargo, the charges and conditions for services ancillary to the carriage, and the rate of commission paid to travel agents), shall be those approved by the aeronautical authorities of both sides. Such requirements aim to prevent airlines of either Contracting Party from adopting such practices as dumping and discriminatory or predatory pricing, which distort normal market operations and affect air services, to the extent of adversely affecting the interest of passengers.

3. On 20 January 2010, Air France (AF) and KLM Royal Dutch Airlines (KLM) applied to the Civil Aviation Department (CAD) to reduce the commission rate from 3% to 0%. After considering all the relevant factors (including the cost of operating the air services and the interests of passengers) in accordance with the Hong Kong / France ASA and Hong Kong / Netherlands ASA, CAD has approved the applications with effect from 16 April 2010. At the meeting of the LegCo Panel on Economic Development on 29 March 2010, CAD explained that the commission paid by airlines was part of their operating costs which had to be ultimately recovered through ticket fares. Since the reduction in commission would help airlines lower their operating costs, passengers' interests should not be adversely affected.

4. According to AF and KLM, there will be no change in their current sales channels. Passengers may continue to purchase their tickets through travel agents, airlines' web-sites or other direct sales channels to meet their needs. It is a commercial decision of individual travel agents whether to collect a service fee from passengers regardless of the level of commission offered by airlines. Passengers have a choice as to whether to purchase their tickets from travel agents or through other means.

5. Moreover, it is understood that airlines operating in the USA, Canada, countries in Europe, Australia, Singapore, Japan and other places have implemented zero commission for some time.

6. Before reaching the decision to approve AF/KLM's application, CAD had received and duly considered the views of the Travel Industry Council of Hong Kong ("TIC") as set out in its letter to CAD on 22 December 2009.

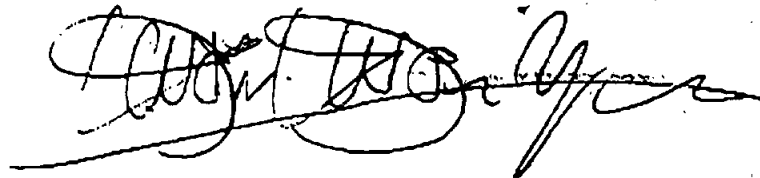
7. CAD considers that the mechanism for selling tickets and the arrangements for commission are commercial matters to be decided between airlines and travel agents. On the other hand, CAD processes

the relevant applications from airlines in accordance with the provisions of ASAs, and is not in a position to mediate or arbitrate when it comes to such commercial commission.

8. CAD is obliged to process and has processed AF's and KLM's applications and granted approval in accordance with the procedures specified in the ASAs. CAD does not consider that the order issued in India as mentioned in the motion is relevant to CAD's consideration of approving tariff applications in accordance with the relevant ASAs, and does not find it necessary to re-open the applications in the absence of any other new material or new points that warrant CAD's reconsideration. We also consider that the existing approving procedures are working well.

9. Airlines' tariff filings may contain commercially sensitive information and it would not be appropriate for CAD to disclose such information to third parties without airlines' consent. We therefore have no plan to include in the tariff approving procedures any mandatory consultation requirements. We would however welcome any views that may be given by TIC in respect of applications of such nature and would take them into account as appropriate.

Yours sincerely,



(Stephen Kwok)
for Director-General of Civil Aviation

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