

For Information
on 31 March 2003

Legislative Council Panel on Economic Services
Fuel Surcharge by Airlines

Introduction

At the request of Members, this paper provides information on the fuel surcharge levied by airlines on passenger and cargo services.

Background

2. Airlines recover their operating costs through the tariffs they charge for the carriage of passengers and cargo (i.e. ticket fares and cargo rates). Under bilateral air services agreements (ASAs) which govern the provision of air services to/from Hong Kong, tariffs charged by airlines require the approval of the relevant aeronautical authorities. For Hong Kong, the Civil Aviation Department (CAD) is the relevant aeronautical authority. When CAD considers a tariff application from an airline, it will take into account relevant factors specified in the ASAs including, inter alia, airlines' cost of operating the services and interests of passengers.

3. For short-term fluctuations in operating costs, e.g. fuel costs, airlines may choose to introduce a surcharge instead of an increase in ticket fares and cargo rates to recover fully or partially the short-term increase in costs. A surcharge is also a form of tariff requiring the approval of CAD. However, due to the short-term nature of such increase in costs, CAD's approval of an airline's surcharge normally covers only a short period of time e.g. three months.

Fuel surcharge for carriage of passengers

4. To recover the recent increase in fuel costs due to escalating oil prices, 11 airlines have applied to CAD to levy a fuel surcharge for passenger carriage. The proposed surcharge ranges from HK\$40 to US\$13 (about HK\$101) per one way flight. These applications have been carefully considered by CAD on their individual merits taking into account relevant ASA provisions and the supporting information provided by the airline concerned.

5. So far, applications from 8 airlines have been approved by CAD for a period of three months (Annex A). The fuel surcharge levied by these airlines ranges from CNY70 to US\$13 and represents only a small percentage of the total ticket fare paid by a passenger. The remaining applications are still being considered by CAD.

Annex A

Fuel surcharge for carriage of cargo

6. Some airlines also recover the recent increase in fuel costs for carrying cargo through a surcharge calculated in accordance with a trigger mechanism approved by CAD. The mechanism is based on a fuel price index which averages the fuel prices in five major spotmarkets, i.e. Rotterdam, Mediterranean, Singapore, US-Gulf and US West Coast. Under this CAD-approved mechanism, 60 airlines levy a surcharge of HK\$0.80 and HK\$1.60 per kg respectively for carriage of cargo to/from Asia and rest of the world (Annex B).

Annex B

Civil Aviation Department
March 2003

Annex A

**Airlines approved by CAD to levy
a fuel surcharge for passenger carriage
(from 17 March 2003 to 16 June 2003)**

<u>Airline</u>	<u>Surcharge per sector</u>
Air China	CNY 70
China Eastern	CNY 70
China Northern	CNY 70
China Northwest	CNY 70
China Southern	CNY 70
China Yunnan	CNY 70
Air Canada	US\$13
KLM	US\$10

List of airlines levying cargo fuel surcharge

1. Aeroflot Russian International Airlines
2. AHK Air Hong Kong
3. Air Canada
4. Air France
5. Air India
6. Air Mauritius
7. Air New Zealand
8. Alitalia
9. All Nippon Airways
10. Asiana Airlines
11. Australian Airlines
12. British Airways
13. Cargolux
14. Cathay Pacific Airways
15. China Airlines
16. Air China
17. China Southern Airlines
18. China Northern Airlines
19. China Eastern Airlines
20. China Northwest Airlines
21. China Yunnan Airlines
22. Continental Airlines
23. Continental Micronesia
24. Emirates
25. El Al Israel Airlines
26. Eva Air
27. Evergreen International Airlines
28. Federal Express
29. Finnair Cargo
30. Garuda Indonesia
31. Gulf Air

32. HK Dragon Airlines
33. Japan Airlines
34. Japan Asia Airways
35. KLM Cargo
36. Korean Air
37. Lufthansa Cargo
38. Malaysia Airlines
39. Mandarin Airlines
40. Martinair
41. Nippon Cargo Airlines
42. Northwest Airlines
43. Pakistan International Airlines
44. Philippine Airlines
45. Polar Air Cargo
46. Qantas
47. Royal Brunei Airlines
48. Royal Nepal Airlines
49. Saudi Arabian Airlines
50. Scandinavian Airlines System
51. Singapore Airlines
52. Singapore Airline Cargo
53. South African Airways
54. SriLankan Airlines
55. Swiss Air Lines
56. Thai Airways International
57. United Airlines
58. United Parcel Service
59. Vietnam Airlines
60. Virgin Atlantic Cargo