

Information Paper for Legislative Council Panel on Economic Services

Air Services Arrangements between Hong Kong and the United States

Purpose

This paper informs Members of the results of the recent air services talks between the Government of the Hong Kong Special Administrative Region (HKSAR Government) and the Government of the United States (the US Government).

Policy objective

2. The aviation policy of the HKSAR Government is to progressively liberalize Hong Kong's air services regime in a proactive manner, with a view to expanding Hong Kong's air services network and frequencies as well as enhancing Hong Kong's position as an aviation and logistics hub. All bilateral air services negotiations with our aviation partners are conducted against this policy objective. At the same time, we take into account Hong Kong's overall and long term interests when considering the arrangements concerned in our negotiations.

Air services between Hong Kong and the United States

3. On the basis of the Air Services Agreement signed on 7 April 1997, the HKSAR Government and the US Government have conducted many rounds of negotiations during the past three years, and reached consensus on 19 October 2002 to further liberalise air services between Hong Kong and the United States (US).

4. Under the Memorandum of Understanding signed by the two Governments on 19 October, the new arrangements take immediate effect and contain the following major elements :

Third/Fourth freedom traffic rights⁽¹⁾

- (i) The existing gateway point restriction in the US is removed with immediate effect. This enables airlines of both sides to commence or terminate passenger and all-cargo services at any point in the US. There is also no restriction on traffic capacity. In other words, airlines of both sides can provide passenger and all-cargo services between Hong Kong and any point in the US according to their own commercial decisions.

Fifth Freedom Traffic Rights⁽²⁾

Passenger services

- (ii) The capacity and points (i.e. intermediate and beyond points) for passenger services will increase in phases over two years. US airlines will be able to increase services from 21 flights per week (fpw) to/from points in three countries to 42 fpw to/from points in seven countries. The original 7 fpw “Round-the-World” services for US airlines have been converted to fifth freedom flights to specified points. Hong Kong airlines will be able to increase services from 21 fpw to/from points in three countries to 42 fpw to/from points in nine countries; and there is no capacity limit to/from fifth freedom points in one specified country.

All-cargo services

- (iii) The capacity and points (i.e. intermediate and beyond points) for all-cargo services will increase in phases over three years. US airlines will be able to increase services from 8 fpw to/from points in three countries to 64 fpw to/from points in 13 countries. Hong Kong will be able to increase services from 8 fpw to/from points in two countries to 64 fpw to/from points in 15 countries.

⁽¹⁾ Third freedom traffic rights refer to the rights of an aircraft of one party to carry passenger and cargo traffic from its own territory to the territory of another party. Fourth freedom traffic rights refer to the rights of an aircraft of one party to carry passenger and cargo traffic to its own territory from the territory of another party.

⁽²⁾ Fifth freedom traffic rights refer to the rights of an aircraft of one party to carry passenger and cargo traffic between the second party and a third country while en route to or after arrival at the territory of the second party.

Code share services⁽³⁾

- (iv) The two sides agreed to introduce code share provisions. For passenger services, airlines of both sides will be able to enter into code share arrangements according to market situation. Besides, Hong Kong airlines can provide code share services linking points of direct service in US or Canada to 20 other points within the US in the first year, and these points will increase to 25 in the second year.
- (v) For all-cargo services, both sides agreed to an open code share arrangement. For example, Hong Kong airlines can provide code share services to the US without any restriction in respect of points and capacity.

5. Both Governments also agreed to review the bilateral air services arrangements in 2005.

Conclusion

6. The new Memorandum of Understanding between the HKSAR Government and the US Government further liberalises air services between Hong Kong and the United States. It allows for expansion of both all-cargo and passenger services and the introduction of code share services for both Hong Kong and US airlines. It will further expand Hong Kong's air services network, which is particularly important for the enhancement of Hong Kong's status as an aviation and logistics hub. The Hong Kong International Airport has ample capacity to handle growth in both passenger and cargo traffic. We must create the opportunity for more cargo and passenger traffic to our airport and the new arrangement serves this purpose. This will contribute towards Hong Kong's economic development and create employment opportunities. We believe the new arrangements serve Hong Kong's overall interest.

7. Two press releases issued by the HKSAR Government on 19 October 2002 are annexed.

Economic Development Branch
Economic Development and Labour Bureau
22 October 2002

⁽³⁾ Code share services refer to a situation in which an airline places its flight code on flights operated by another local airline, an airline of the other party or other airlines in order to market the services jointly.

Hong Kong/US reach agreement on air services

Hong Kong and the US reached agreement this morning (October 19) in Hong Kong following four days of talks on their bilateral air services agreement. The new Memorandum of Understanding will further liberalise air services between Hong Kong and the US. The agreement will allow for expansion of both cargo and passenger services and introduce code-share services for both Hong Kong and US airlines.

"We are pleased to have reached agreement with the US at this round of talks." said Mr Stephen Ip, Secretary for Economic Development and Labour.

"The new agreement will further expand Hong Kong's air services network; provide new business opportunities for Hong Kong airlines and further strengthen Hong Kong's status as an aviation and logistics hub." Mr Ip added.

"The increases in capacity and frequency for both cargo and passenger services will also make our air services more competitive," Mr Ip said.

"The talks have been conducted in a frank and pragmatic manner and the agreement is a step forward in our aviation relation with the US," said Mr Ip.

End/Saturday, October 19, 2002

Hong Kong/US Air Services Agreement in the interest of Hong Kong

In response to press enquiries on the Hong Kong/US air services agreement concluded this morning (October 19), the Permanent Secretary for Economic Development and Labour (Economic Development), Ms Sandra Lee, pointed out that the agreement served the overall interest of Hong Kong and it was against this objective that the agreement was concluded.

"The overall interest of Hong Kong may not be identical to that of a particular company," she said.

"The agreement liberalises air services between Hong Kong and US. It enables airlines of both sides to mount more services, leading to further expansion of our air services network. This is clearly important if Hong Kong is to strengthen its status as an aviation and logistics hub," said Ms Lee.

With rapid economic development in the region, air traffic has a good potential for growth.

"The Hong Kong International Airport has ample capacity to handle growth in both passenger and cargo traffic. We must create the opportunity for more cargo and passenger traffic to our airport and the agreement serves this purpose. This will contribute towards Hong Kong's economic development and create employment opportunities," added Ms Lee.

"We take a longer term view with Hong Kong's overall interest at heart in our talks with the US," Ms Lee remarked.

End/Saturday, October 19, 2002