

**For information
on 26 May 2008**

Legislative Council Panel on Economic Development

**Development and Operation of
Low-cost Carriers in Hong Kong**

Introduction

This paper briefs Members on the development and operation of low-cost carriers in Hong Kong.

Development and Operation of Low-cost Carriers in Hong Kong

2. The term “low-cost carriers” is often used to describe airlines that offer lower airfares to passengers in return for a reduction in some services that are generally provided by ordinary airlines to passengers¹. However, it is not a well-defined category of airline operators. Four foreign airlines that operate scheduled services at the Hong Kong International Airport (HKIA) openly refer to themselves as low-cost carriers² and they account for about 2% of the total annual passenger throughput at HKIA in 2007.

3. The Administration continuously expands and liberalises the air services arrangements between Hong Kong and our aviation partners. We provide a level-playing field for all carriers to operate services to and from Hong Kong, be they local or foreign, or full-service or low-cost. This has allowed airlines to expand services and facilitated new airlines to enter into the market.

¹ Typically the low cost carriers charge passengers for meals, drinks, choice of seats, and offer a smaller baggage limit etc.

² They are Cebu Pacific Air, Orient Thai Airlines, Jetstar Asia and Air Asia. Air Asia has started scheduled services at HKIA since May 2008.

4. In the past ten years, the number of airlines operating scheduled services in Hong Kong has increased by about 40% from 62 to 88, and the number of destinations served by scheduled services has increased by 30% from 120 to 156.

5. Whilst low-cost carriers are treated on an equal footing as any other carrier, the Airport Authority (AA) makes available airport facilities which are friendly to the typical operational needs of low-cost carriers. Such facilities include direct taxi-in and taxi-out parking stands that allow short turn-around time of aircraft, and reduced parking charges for parking stands designed for narrow-body aircraft, which are commonly used by low-cost carriers.

Competition in air services

6. Air services are governed by bilateral Air Services Agreements (ASAs) entered into between Hong Kong and our aviation partners. We now have 58 ASAs with our aviation partners. Most ASAs allow multiple airline designation, i.e., Hong Kong and our aviation partners can allow any number of airlines to operate scheduled services between the two places as and when needed. We have also agreed with 16 of our aviation partners to lift all restrictions on the number of frequencies of passenger and cargo services that may be operated by airlines between the two sides, so that the airlines may adjust their services in response to market demand. The continual liberalisation of bilateral air services arrangements will promote competition and allow the market to respond to customers' demands. In practice, most airlines offer a wide range of airfares in the market to respond to the market situation.

7. The table at the **Annex** sets out the numbers of airline operators on the top ten busiest passenger routes at HKIA in 2007, which range from three airline operators to 11 on a particular route. This demonstrates the keen competition on these routes. On less popular routes, there are relatively fewer choices, but this is mostly a result of airlines' commercial decisions on route developments rather than any market barrier preventing new airlines from joining the routes.

Arrangements and Handling of Situations upon Cessation of Services by Airlines

8. Upon cessation of services by airlines, the Government's priority is to put in place contingency arrangements in conjunction with the relevant parties to help the affected travellers. The airlines concerned should be responsible for making appropriate arrangements for the affected passengers, setting up hotlines to deal with enquiries and making available relevant information on their websites.

9. The Airport Authority can provide relevant information on flight schedules for the affected travellers who need to make alternative travel arrangements and help the affected travellers who are at the Hong Kong International Airport. We also appeal to both local and foreign airlines operating similar services to assist the affected travellers as far as possible, such as to offer concessionary tickets and to provide additional flights. We also find it useful to alert the Consumer Council, the Travel Industry Council and the Labour Department to the situation.

Transport Branch
Transport and Housing Bureau
19 May 2008

Annex

Destinations (in descending order of numbers of passengers carried on the services between Hong Kong and the destinations in 2007)	Numbers of airlines operating scheduled services on the routes (number of local airlines in brackets)
Taipei	5 (2)
Shanghai	4 (2)*
Bangkok	11 (2)
Singapore	4 (1)
Manila	3 (1)
Tokyo	4 (1)
Beijing	4 (2)*
London	6 (2) [#]
Seoul	5 (1)
Kaohsiung	3 (1)

* Expected to increase to “5(3)” for both Beijing and Shanghai in mid 2008.

Reduced to “5(1)” after the cessation of service by Oasis Hong Kong Airlines Limited.