

For information
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Operation of Low-Cost Carriers in Hong Kong

Introduction

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

Hong Kong's Aviation Regime

2. Aviation links are important assets as they connect Hong Kong with the rest of the world. Hong Kong is located in a strategic location within five-hour flying time of half of the world's population. We have been pursuing a progressive liberalization policy with a view to expanding Hong Kong's aviation network and strengthening our status as an international hub.

3. Air services are governed by bilateral Air Services Agreements (ASAs) entered into between Hong Kong and our aviation partners. We have now signed 62 ASAs with our aviation partners and 25 of which have lifted all restrictions on the number of frequencies of passenger and cargo services that may be operated by airlines between the two sides.

4. It is the Government's policy to continuously expand and liberalise 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 (FSC) or low-cost (LCC).

In addition, most of the 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. This has enabled airlines to expand services and facilitated new airlines to enter into the market. In practice, airlines will offer a wide range of airfares and services in the market to respond to the market situation.

5. Both local airlines and those from our aviation partners are providing air services at the Hong Kong International Airport (HKIA). From 2002 to 2012, the number of airlines operating scheduled services in Hong Kong has increased by about 46% from 74 to 108, and the number of destinations served by scheduled services has increased by 28% from 137 to 175.

Characteristics of a Low-Cost Carrier

6. There is no legal definition of LCC as such. According to the International Civil Aviation Organisation, a LCC is “an air carrier that has a relatively low-cost structure in comparison with other comparable carriers and offers low fares and rates. Such an airline may be independent, the division or subsidiary of a major network airline or, in some instances, the ex-charter arm of an airline group.”¹ LCCs are also commonly known as budget carriers. In return for lower airfares, passengers will either not be provided with such services as meals, seat preferences, luggage capacity and in-flight entertainment, or will have to separately pay for them.

¹ ICAO defines a LCC in the context of Strategic Objective D.4 (liberalization of air transport regulation and efficiency of infrastructure management under Chapter 5.1 of the Manual on the Regulation of International Air Transport (Doc 9626).

7. To control cost, a LCC usually possesses the following general characteristics:

- (a) deploy standardized fleet (to lower training and maintenance costs and to facilitate the purchase of aircraft in bulk);
- (b) remove non-essential features (such as no reclining seats, no pilot auto throttle, no frequent flyer programmes);
- (c) quick turnaround (to provide more frequent services and to lessen the time the aircraft spends on ground);
- (d) sell tickets direct and not through agents;
- (e) use secondary airports (for lower landing fees and marketing support);
- (f) online self-check-in by passengers (fewer check-in desks);
- (g) impose baggage charges (less baggage allows faster loading of aircraft and opens additional revenue source);
- (h) do not use airbridges (thus avoiding extra airport charges);
- (i) multitasking by staff (cabin crew performs gate ticket checks and cabin cleaning); and
- (j) charges for all services (including meals, reserved seating and additional baggage).

8. There are many other features that are unique to LCCs. The most prominent one among others is that LCCs provide point-to-point service. Unlike the hub-and-spoke model adopted by FSCs, the point-to-point model discourages passenger transfer to other flights; it also enables the aircraft to carry less fuel. When a LCC can reduce its fuel consumption, as well as turnaround and ground time, it can achieve cost reduction.

Air Services provided by LCCs in Hong Kong

9. In 2007, there were only four LCCs which operate scheduled services at the HKIA. They accounted for about 2% of the total annual passenger throughput at HKIA in 2007. The number of LCCs rose to 15 and contributed to 6% of the total passenger throughput in 2012. The list of the LCCs is at Annex.

10. One of the local airlines, Hong Kong Express Airways, announced in June 2013 of its plan to operate as a LCC with effect from late 2013. According to its announcements, the planned destinations would include Kota Kinabalu, Chiang Mai, Kunming, Tai Chung, Tokyo and Osaka.

11. To facilitate the operation of the LCCs, the Airport Authority Hong Kong has made available airport facilities which are friendly to the typical operational needs of LCCs. 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 LCCs. Whilst we welcome more LCCs to provide services to and from Hong Kong, the extent of increase in such services in the foreseeable future may be constrained by the existing capacity of the airport.

Way Forward

12. We will continue to pursue progressive liberalization in our aviation regime to expand Hong Kong's aviation network so as to encourage further development of the aviation sector in Hong Kong.

Transport and Housing Bureau
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List of Low-cost Carriers Operating in Hong Kong in 2012

- Air Busan
- AirAsia
- AirAsia Philippines
- Airphil Express
- Cebu Pacific Air
- Eastar Jet
- Jeju Air
- Jetstar Asia
- Jin Air
- Orient Thai Airlines
- Peach
- SEAir
- Spring Airlines
- Thai AirAsia
- Tiger Airways