

**For discussion  
on 22 March 2024**

**Legislative Council Panel on Economic Development**

**Issues relating to cancellation of flights  
by Cathay Pacific Airways Limited**

**PURPOSE**

This paper briefs Members on the incident of cancellation of flights in January and February 2024 by Cathay Pacific Airways Limited (“CPA”) and the follow-up work.

**THE INCIDENT**

2. CPA cancelled 786 passenger flights from 28 December 2023 to 29 February 2024, which amounted to over 4% of the total operation. The cancellations were made in two rounds. In late December 2023, CPA first cancelled a batch of its passenger flights for late December 2023/ early January 2024. In early January 2024, CPA further cancelled an average of six passenger flight pairs per day for the rest of January and February 2024 to protect its flights to be operated during the Chinese New Year (“CNY”) travel peak (i.e. 7-18 February 2024). Affected passengers were contacted and offered alternative arrangements including alternative flights or refund.

*Follow-up actions taken by the Government*

3. CPA had duly reported the above flight cancellations to the Civil Aviation Department (“CAD”), which is the aviation safety regulatory

authority over airlines' operations<sup>1</sup>. The Transport and Logistics Bureau ("TLB") and CAD, nevertheless, had expressed to CPA the Government's serious concerns over its flight cancellation issues. CPA were urged to render suitable assistance to affected passengers and properly manage its deployment of manpower and other resources so as to ensure the stable provision of reliable services, especially for meeting the demand during the CNY travel peak season in mid-February 2024. In particular, CAD requested CPA to submit a report on the incident to elucidate the cause of the incident, the approach for handling its flight cancellations, etc, in order to prevent recurrence of similar incidents. A summary<sup>2</sup> of the report submitted by CPA on 9 February 2024 is at Annex.

#### *The cause of the incident*

4. CPA's report revealed that the flight cancellations were contributed by a number of factors, including its internal planning issues and under-estimation of pilot reserve levels which indicated CPA's ineffective crew planning process. CPA acknowledged its shortcomings, as well as the lack of a proactive and detailed tracking system of individual pilot's available flying hours among various controlling parameters including regulatory restrictions.

#### *Improvement measures taken by CPA*

5. CPA has proposed short-term and long-term measures to address the issues. In the short-run, they will focus on ensuring schedule stability, especially for the upcoming travel peaks. To ensure that there will be sufficient available pilots, they have conducted a detailed headcount planning and training projections and protect adequate level of reserve pilots. In the longer-term, they have formed a taskforce to review its organisational structure (including the structure of business units) and its operational

---

<sup>1</sup> According to the condition stipulated in the licence issued by the Air Transport Licensing Authority, local airlines are required to timely report flight schedule changes to CAD.

<sup>2</sup> The full report is not disclosed as it contains commercially sensitive information.

planning processes, with the aim to ensure structural resilience and strong digital capabilities to avoid future shortfalls in resource planning.

### *CAD's assessment*

6. Having reviewed CPA's report, CAD's observation is that CPA's planning team lacked the experience and digital capability to forecast crew resources sufficiently. Coordination among departments responsible for service planning and crew availability was also inadequate. Given such, CAD considers that there is a need for CPA to put in place an effective planning tool on crew resources for stable provision of reliable services to passengers. CAD is also of the view that CPA should demonstrate that it has in place the necessary corporate governance for its various departments to communicate effectively and ensure the continuity and regularity of services. In response, CPA has proposed various mitigating measures, which include the recruitment of experienced crew planning staff, deployment of technology to monitor their crew recruitment process and availability of crew training resources, as well as putting in place an effective system to monitor the level of reserve pilots.

7. No flight cancellation by CPA due to crew issues was reported during the CNY travel peak. With CPA's on-going improvement efforts, CPA has assured that there will be no similar flight cancellation during the upcoming Easter travel peak. In fact, CPA has further re-assured the Government and publicly that they will make their best endeavours to ensure there will be no similar flight cancellation in future.

### **IMPLICATIONS**

8. CPA is the flagship carrier of Hong Kong. The incident gives rise to concern about the capacity resumption of CPA and, further to that, the recovery of Hong Kong International Airport ("HKIA").

### *Cathay Group's forecast of capacity resumption*

9. The Cathay Group (including CPA and Hong Kong Express Airways Limited (“HKE”)) achieved its end-2023 target of operating 70% of pre-pandemic passenger flights. They will reach 80% within the second quarter of 2024. The Cathay Group is working towards reaching 100% of flights within the first quarter of 2025.

### *CPA's flight network expansion plan*

10. Capacity resumption aside, in the rebuilding journey, CPA has been reviewing their flight network and exploring the possibility of expanding their network to new/suspended destinations to cater for a change in market landscape after the pandemic. At the end of 2023, the Cathay Group operated to around 80 passenger destinations globally. In 2024, CPA has/will re-launched/launch passenger services to Chennai, Colombo, and Barcelona (seasonal service).

11. Given CPA's status of a flagship home-based carrier, the Government has advised CPA that its network planning should support in-principle the Government's policy and strategy to enhance Hong Kong's position as an international aviation hub and to meet Hong Kong's strategic development needs. To this end, CPA is continuously developing flight services along existing major routes as well as exploring potential new destinations in the Mainland China, Southeast Asia, the Middle East and Eastern Europe.

### *Overall Recovery at HKIA*

12. Passenger traffic at HKIA has recovered to 80% of the pre-pandemic level during the Christmas peak at the end of 2023, and the Airport Authority Hong Kong (“AAHK”) expects passenger throughput to reach 100% of pre-pandemic level in end-2024. As an international aviation hub, Hong Kong is served by a wide range of local and non-local airlines, with

an around 60-40 split in terms of number of passenger flights operated to/from HKIA in January 2024. In order to achieve the target of 100% recovery of passenger throughput at HKIA by end-2024, collaborative efforts from local and non-local airlines are necessary.

13. Apart from CPA, other local airlines are also pressing ahead with rebuilding/expanding their passenger flight capacity post-pandemic and endeavouring to tap into the new opportunities in the new era. For example, HKE was operating nearly 140% of pre-pandemic capacity in end-2023 in terms of flight frequency. Hong Kong Airlines Limited (“HKA”) targets to achieve 100% capacity resumption by mid-2024. Both airlines have been rebuilding their air connectivity by launching/resuming passenger services to new/suspended destinations, including those in the Mainland China (e.g. Beijing (Daxing) for HKE) and East/Southeast Asia (e.g. Manila and Hanoi for HKE; Fukuoka, Nagoya, Phuket for HKA). On the other hand, Greater Bay Airlines Company Limited, as a relatively new local airline, has launched routes to Japan, Korea, and the Philippines, and has been rapidly increasing its flight frequency on existing routes (e.g. Thailand and Taiwan, China). They are also proactively planning to commence new scheduled services to major cities in the Mainland China and Southeast Asia (e.g. Singapore) and will also look to increase frequencies to points in its existing network.

14. While local airlines are actively resuming their services, the AAHK has also been discussing with non-local airlines to launch and increase flights to and from Hong Kong to increase the overall passenger carrying capacity to/from HKIA. In December 2022, the AAHK rolled out the “Early Bird Guaranteed Landing Charge Discount” scheme to provide financial incentives to airlines for flight resumption post-pandemic. The AAHK has also been actively participating in various large scale international forums and conferences in order to promote HKIA’s services to non-local airlines.

15. So far, AAHK’s efforts have yielded positive results. In fact, the

percentage recovery of passenger flights operated by non-local airlines (78%) slightly surpassed those operated by local airlines (72%) in January 2024. New non-local airlines have commenced passenger services to Hong Kong post-pandemic, for example Hainan Airlines (Haikou), Vistara (Delhi), LOONGAIR (Hangzhou), AirAsia X (Kuala Lumpur) and Batik Air Malaysia (Kuala Lumpur).

*Other efforts to enhance air services*

16. Looking forward, the Three-Runway System (“3RS”) of HKIA will be commissioned by end-2024. With 3RS, HKIA will be able to attain the target handling capacity of 120 million passengers and 10 million tonnes of cargo per year by 2035. The 2024-25 Budget has announced that the Government will, leveraging the opportunities brought by the 3RS of HKIA and our country’s support of the “Air Silk Road”, strengthen air services between Hong Kong and related countries to expand our aviation network.

17. In addition, we will strive to strengthen connectivity with the Mainland by increasing the number of Mainland service ports and strengthen direct services between Hong Kong and the Mainland. The AAHK will also promote and enhance the “Fly-Via-Zhuhai-HK” passenger service and strengthen intermodal arrangements to/from HKIA to expand catchment of demand from the Mainland China.

18. The Government will continue to work closely with the AAHK, the Hong Kong Tourism Board and the Hong Kong Trade Development Council to step up efforts in promoting tourism and business activities for Hong Kong, thereby boosting the demand for air services between Hong Kong and the related destinations. With increased market opportunities, we expect to see enhanced services and more airlines, both local and non-local, flying to and from Hong Kong, reinforcing Hong Kong’s status as an international aviation hub.

## **ADVICE SOUGHT**

19. Members are invited to note the content of the paper and offer their views.

**Transport and Logistics Bureau  
Civil Aviation Department  
March 2024**

**Cathay Pacific Airways**  
**Summarised Report on factors leading to CPA Flight Cancellations**

**Introduction**

This document is provided as a summary of the Comprehensive Report provided to HKCAD on 9 February 2024 in relation to Cathay Pacific's flight cancellations over the period 28 December 2023 to 29 February 2024.

This report starts by describing the root causes of the delays, and the actions taken to minimise disruption to the Cathay Pacific's customers; it then focusses on key learnings and the processes implemented to ensure the reliability of our network and flight schedules moving forward. These include actions taken to protect our customers' travel plans over the Chinese New Year period (CNY) and the rest of 2024, including the Easter, summer and year-end peaks.

To address the failures that took place within our planning processes, structural changes will be made to Cathay Pacific's operations planning teams. These are being designed by a taskforce under the leadership of the Chief Operating and Service Delivery Officer (COSDO). These changes are aimed at achieving long-term improvements by providing the new operations planning team with the tools and capabilities needed to carry out detailed strategic and operational planning.

This report is divided into four sections:

1. Root cause behind the flight cancellations.
2. Flight cancellation and passenger handling process.
3. Protection of all services in February and for the rest of 2024.
4. Learnings and long-term enhancements.

**Root cause behind the flight cancellations**

The root cause behind the flight cancellations that took place at the end of December 2023, during January 2024 and parts of February sits within the pilot resource planning process.

Specifically, Cathay Pacific's teams within our Flight Operations business unit underestimated the Reserve pilot levels required to cover contingencies during the final two weeks of December 2023. An unanticipated and sustained increase in pilot sickness, most likely caused by a peak in seasonal influenza, resulted in a shortage of available pilots to fully cover the increased number of flights over the December holiday peak, thus resulting in proactive cancellations from 28 December. This shortfall and the increased levels of sickness spilled over into January 2024 and required a second round of cancellations.

A further contributing factor was the lack of remaining flight hours within the rolling, 12-month maximum of 900 (referred to as Block Hours (BH)) for those pilots who were allocated Reserve duties. Amongst those pilots on Reserve, a large number were very close to their 900 BH annual limit, which meant that they couldn't be used to cover many of the flights originally allocated to absent/sick crew. The 900 BH annual limit is a published legal limit that protects against fatigue, and one which Cathay Pacific is fully aware of, however, it had not previously

been a significant impediment to the operation and, as such, it was not tracked to the level of detail that has now become necessary.

Cathay Pacific acknowledges that this event was the result of a planning failure within the organisation and, following an initial review, action is being taken to ensure that the oversight of pilot deployment at all levels is carried out by managers with the appropriate remit and experience. A taskforce has also been assembled to review the end-to-end planning processes and current organisational structure to ensure longer-term changes are made to improve Cathay Pacific's strategic and tactical planning capabilities. More details are provided under "Learnings and long-term enhancements," including short-term actions to ensure the operation remains stable and robust during the interim period before these improvements are implemented.

### **Flight cancellation and passenger handling process**

In order to minimise the impact to our customers and ensure the reliability of our remaining flight schedules, Cathay Pacific made the decision to proactively cancel a number of flights until the end of February 2024. In total, from 28 December to 29 February, we cancelled 786 of our approximately 18,500 flights, which amounts to approximately 11 out of 250 flights on the average day, or just over 4% of the total operation during the affected period.

The above cancellations fulfilled two functions – firstly to make an immediate impact by stabilising our services for the days ahead, thereby securing the rest of January; and secondly to build resilience for Chinese New Year (CNY) and the rest of 2024. The cancellations were completed by 9 January 2024. This action impacted approximately 1.9% of our booked customers in December, 5% in January and less than 1% of February's bookings. 96% of all customers affected were offered alternate flight options within 24 hours of their original departure time, with 85% being protected onto other Cathay Pacific flights, and the remaining protected onto other airlines.

Cathay Pacific endeavored to give maximum notice to our affected customers where possible.

Cathay Pacific deploys fully automated rebooking and communication tools that instantly communicate a change in schedule. In the case of re-protections, the customer's new flight details are communicated via email or SMS, depending on the contact information provided by customers.

Cathay Pacific's customer care procedures ensure that all of our customers are automatically re-protected to another flight when cancellations or flight consolidations occur. They then have the option to change those arrangements via our self-servicing digital channels or to contact our Contact Centre for assistance. During the period we had a dedicated disruption hotline/queue set up to give priority to those customers needing urgent help. The waiting time for the disruption hotline was an average of 41 seconds.

All customers who saw their original flights cancelled had the option to obtain a refund for any portion of their ticket unused. To date, 5% of customers have applied for and had their unused bookings refunded. For customers who were disrupted at very short notice in January, Cathay provided additional gestures of goodwill in the form of complimentary upgrades or Asia Miles (Cathay's loyalty programme) credits as our way of apologising for the short-notice change to their travel plans. For customers who provided us with information related to other

inconveniences or out-of-pocket expenses, we have assessed each case individually and addressed with different kinds of service recovery as appropriate, including cash reimbursement, Asia Miles credits and extra travel benefits for their future travel.

Since the completion of the flight cancellation process our day-to-day operations have remained stable and reliable.

### **Protection of all services in February and for the rest of 2024**

After taking all necessary measures possible to ensure reliable flight services to our customers, especially during the CNY travel peak season, Cathay Pacific is pleased to confirm that our operations over the entire period proceeded smoothly and according to plan.

#### Mitigations for February 2024 and Chinese New Year (CNY)

Mitigations which have been enacted for February 2024 and the CNY period include:

1. Reserve pilot levels for each fleet and pilot category exceeded normal levels by a large margin. For the CNY period between 7 and 18 February, Reserve pilot numbers ranged from 106 to 110 in total, or 35-41% higher than normal levels.
2. Flight consolidations were implemented until the end of February, including a shift of a portion of the flying task from the Airbus fleet to the Boeing 777 fleet.
3. Certain types of pilot training were temporarily put on hold in February to reduce the need for Training Captains to conduct ground duties and some non-revenue training flights, thus increasing Training Captain availability for revenue flying duties.
4. The 900 BH limitation was mapped into the current and future crew planning processes and additional buffers were added to the crew rostering system to reduce the number of pilots approaching their 900 BH limit.

#### Mitigations beyond February 2024

Beyond February 2024 the primary areas of focus for schedule stability have been the Easter weekend and subsequent week leading up to the Hong Kong Sevens, as well as the summer and Christmas/New Year peaks.

Ensuring sufficient available pilots:

1. Our current headcount planning and training projections indicate that we will have sufficient pilots to crew our planned 2024 schedule. The projections make use of detailed assumptions related to pilot training, recruitment and attrition rates. Additional information on tracking the 900 BH annual limit is included under "Learnings and long-term enhancements," below.
2. To protect adequate levels of Reserve pilots beyond the CNY period, additional 'ghosted' block hours have been included in published Reserve blocks. This process is to ensure that pilots on Reserve are available to operate any duty, if called to do so, without the risk of them reaching their block hour limitations.

As a result of these measures, within the second quarter of 2024, the Cathay Group (comprised of Cathay Pacific and HK Express) will reach 80% of pre-pandemic passenger flights over the same period in 2019. For the remainder of 2024 we will continue to rebuild our

flights in a measured and responsible manner, taking into account the recent learnings, global supply chain challenges and changes in market demand.

### **Learnings and long-term enhancements**

In order to fully understand and learn from the flight cancellations, a Taskforce has been assembled by the COSDO to consider Cathay's organisational structure with the aim to increase the overall robustness of our resource planning systems, to deploy digital solutions that improve our overall planning capabilities, including forecasting, and to review all the end-to-end processes related to operational planning.

These longer-term actions are regarded by Cathay as the most important aspect of the learnings to come out of the flight cancellation event. The Taskforce is examining all aspects of Cathay Pacific's operational planning processes and the structure of business units, including Flight Operations and Planning, with the aim of enhancing and digitising the operational planning teams and processes.

This phase is effectively a cross-company operations and service delivery improvement programme that has been structured around three streams:

- a. People, Skills and Experience (which will cover organisational design and the further development of our people),
- b. End-to-End Processes, and
- c. Digital Tools. The Minimum Viable Product (MVP) for the Flight Crew Headcount Planner was completed in January 2024, with system integration taking place until May 2024, and further development of expanded capabilities in planning for 2H 2024 and early 2025.

Supported by these improvements, the Cathay Group is now working towards reaching 100% of pre-pandemic passenger flights within the first quarter of 2025.

### **Conclusion / Summary**

1. Root Cause: Due to a failure in our planning processes, Cathay Pacific underestimated the Reserve pilot levels required to cover contingencies during the final two weeks of December 2023. An unanticipated and sustained increase in pilot sickness, most likely caused by a peak in seasonal influenza, resulted in a shortage of available pilots to fully cover the increased number of flights over the December holiday peak. This shortfall and the increased levels of sickness spilled over into January 2024.
2. Cancellations: In order to minimise the impact to our customers and ensure the reliability of our remaining flight schedules, Cathay Pacific made the decision to proactively cancel a number of flights until the end of February 2024. The cancellations were completed by 9 January and all affected customers were contacted and either protected onto alternative flights or offered a refund. Since the completion of the flight cancellations our day-to-day operations have remained stable and reliable.

3. Securing the operation for February and the rest of 2024: Reserve pilot numbers ranged from 35-41% higher than normal levels for the CNY period from 7 to 18 February. CNY operations ran smoothly and without cancellations.
4. Learning and long-term enhancements: A Taskforce has been assembled to fully understand and learn from this event. Short and longer-term actions are either completed, ongoing or under development to ensure structural resilience and strong digital capabilities to avoid future shortfalls in resource planning.