

LCQ22: Aviation industry

Following is a question by the Hon Luk Chung-hung and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (July 15):

Question:

The Coronavirus Disease 2019 pandemic has dealt a heavy blow to Hong Kong's aviation industry. To maintain Hong Kong's status as an international aviation hub, the Government has, earlier on, announced its decision to invest in Cathay Pacific Airways Limited (CX) to help CX come out of financial distress. On the other hand, some employees in the aviation industry and the aviation support services sector have relayed that the Government's current relief measures have mainly benefited enterprises, with little direct assistance for employees. In this connection, will the Government inform this Council:

(1) as the Government has indicated that it has no intention of keeping its shareholding in CX for a prolonged period of time, of the expected time when the Government can cease to hold any shares in CX;

(2) whether it knows the number of CX's Hong Kong staff members and the percentage of such number in the total number of employees in the local aviation industry, with a tabulated breakdown of the former by (i) type of business, (ii) job type and (iii) position;

(3) given that when it accepted the Government's investment and loan, CX did not publicly undertake that it would not lay off its staff, and that CX has currently asked quite a number of its employees to take no pay leave, whether the Government has put in place specific measures to ensure that CX's staff have adequate protection for their employment and wages; if so, of the details; if not, the reasons for that;

(4) of the (i) unemployment rate, (ii) number of unemployed persons, (iii) underemployment rate and (iv) number of underemployed persons, in respect of Hong Kong's aviation industry and aviation support services sector in each month from January to June this year, with a tabulated breakdown by job type and position;

(5) whether the Government will provide cash assistance, anti-epidemic allowances and travel allowances for employees in the aviation industry and the aviation support services sector (including ancillary engineering personnel, ground crews, catering service personnel, shop attendants and freight logistics personnel who work in the airport); if so, of the details; if not, the reasons for that;

(6) whether it has assessed when Hong Kong's aviation industry will recover; of the measures in place to assist the aviation industry in coming out of the trough as soon as possible, and to reinforce Hong Kong's status as an

international aviation hub; and

(7) whether it has any measures to prevent the slump in the aviation industry from causing talent wastage, and to step up the training for employees in the industry; if so, of the details; if not, the reasons for that?

Reply:

President,

Hong Kong is an international aviation hub with a comprehensive international air network that underpins the development of a wide spectrum of economic activities, including trading and logistics, tourism and financial services. Strategically located in the region and having one of the best airport infrastructure in the world, the aviation industry has brought tremendous economic benefits to Hong Kong over the years. In 2012, the economic contribution of Hong Kong International Airport (HKIA) (including direct, indirect and induced contributions) amounted to some \$94 billion, representing 4.6 per cent of Hong Kong's gross domestic product. Prior to the outbreak of COVID-19, about 78 000 people worked at HKIA.

The sustainability and competitiveness of our local airlines are now under severe stress in the face of the outbreak of COVID-19. In April 2020, the International Air Transport Association projected that the annual airline passenger revenues around the world would suffer a year-on-year drop of 55 per cent due to the economic shock caused by the outbreak of COVID-19 and the imposition of travel restrictions worldwide. In Hong Kong, comparing their pre-COVID-19 (the second half of January 2020) operation level and that in the second half of April 2020, the number of scheduled passenger services operated by local airlines reduced by around 90 per cent and the passenger traffic plunged by over 99 per cent from the previous daily average of around 130 000 passengers to a daily average of around 500 passengers.

Parts (1) to (3) of Hon Luk Chung-hung's question are related to the Government's investment in Cathay Pacific Airways Limited (Cathay Group). As the bureau responsible for aviation policy, the Transport and Housing Bureau (THB) provided policy inputs to the Financial Secretary in respect of the Government's consideration on whether it should uphold Hong Kong's status as an international aviation hub by supporting the Cathay Group. The subsequent commercial assessments of the Government's investment in the Cathay Group were handled by the external financial consultant engaged by the Hong Kong Monetary Authority (HKMA) under the authorisation of the Financial Secretary. The THB did not participate in the commercial assessments and designs of the investment, as well as the commercial negotiations with the Cathay Group and its major shareholders. The THB will also not participate in any subsequent investment decisions related to the Government's investment concerned.

Having consulted the Financial Secretary's Office, the Financial Services and the Treasury Bureau and the HKMA, our reply is as follows:

(1) The Government's investment involves subscription of preference shares (with detachable warrants) issued by the Cathay Group, and provision of a

bridge loan to the company. The step-up coupon mechanism will incentivise the Cathay Group to redeem the preference shares as soon as practicable. As for the detachable warrants, the Government could exercise the warrants within five years of the warrants issuance having regard to market conditions. For the bridge loan, the Cathay Group can arrange respective drawdowns within 12 months of the loan establishment based on need and is required to make repayment within 18 months of the respective drawdowns.

(2) Based on the information provided by the Cathay Group, as at the end of June 2020, the four local airlines under its portfolio (namely Cathay Pacific, Cathay Dragon, HK Express and Air Hong Kong) employed over 20 000 staff in total in Hong Kong, and other subsidiaries of the Cathay Group employed over 5 000 staff in total in Hong Kong. Before the outbreak of COVID-19, there were around 78 000 persons working at HKIA. Understandably, the number of employees locally employed by the Cathay Group accounts for a considerable proportion of the total number of staff working at HKIA.

(3) The Hong Kong Special Administrative Region (HKSAR) Government received applications for the first tranche of the Employment Support Scheme (ESS) from the end of May to the middle of June 2020. The objective of the ESS is to provide time-limited financial support to employers to retain their employees who would otherwise be made redundant and to pay wages to staff who have been put on no-pay leave. When submitting their applications, all employers participating in the first tranche of the ESS provided an undertaking not to make redundancies during the subsidy period (viz from June to August 2020) and to spend all the wage subsidies on paying wages to the employees. The four local airlines in the Cathay Group have all applied for the ESS and have been approved to receive the wage subsidies. Based on the information provided by the ESS Secretariat, the total number of committed headcount (viz total number of paid and unpaid staff (as of March 2020)) of the four airlines is over 20 000 persons.

Having consulted relevant bureaux/departments, our reply to parts (4) to (7) of Hon Luk Chung-hung's question is as follows:

(4) and (5) Over the past few months, the Government together with the Airport Authority Hong Kong (AAHK) have jointly launched several rounds of relief measures totalling over \$5 billion for the aviation industry in response to the challenges the industry has to face arising from the outbreak of COVID-19. The Government and the AAHK have been closely monitoring the situation, liaising with the business partners and meeting different stakeholders so as to understand their situation and gauge their views. To help the aviation sector in mitigating the impact of the COVID-19, the Government has launched two subsidies for the aviation industry under the second round of Anti-epidemic Fund (AEF), targeting airlines and aviation support services and cargo facilities operators (e.g. aircraft maintenance, ground services, aviation catering, aviation fuel supply, logistics services and inter-modal transport services) at HKIA respectively. The one-off subsidies amount to \$367 million. The subsidies provided timely support to the industry in overcoming the challenges, maintaining operations and safeguarding employment, in order to avoid hindering the recovery of the aviation sector and the economy of Hong Kong.

Meanwhile, to assist the airport industry affected by the epidemic, the AAHK has launched four rounds of relief measures supporting the airport community, targeting different groups including airlines, aviation support services operators, airport retail tenants and restaurants, and airport staff. To care for the airport staff, training incentive is provided to front-line airport staff who take on training while they are on unpaid leave. The AAHK has earmarked a total of \$50 million for providing training incentive in March 2020. In view of the positive response, the AAHK has earmarked another \$50 million in June 2020, i.e. a total of \$100 million as training incentive, to encourage staff to enhance competencies and skills.

We hope that the support under the AEF and multiple rounds of relief measures would help alleviate the short-term turmoil caused by the current epidemic to the aviation industry and avoid making detrimental impact on our international aviation hub.

According to the latest statistics released by the Census and Statistics Department (C&SD), the overall seasonally adjusted unemployment rate and underemployment rate during March to May 2020 were 5.9 per cent and 3.5 per cent respectively. Before the outbreak of COVID-19 in Hong Kong, the overall seasonally adjusted unemployment rate and underemployment rate during November 2019 to January 2020 were 3.4 per cent and 1.2 per cent respectively. Comparing the two sets of statistics, it is noted that the overall employment situation in Hong Kong had largely been affected by the outbreak of COVID-19. Apparently, the aviation industry, which was hard hit by the outbreak of COVID-19, would not have been spared from the impact.

According to the industry classification of C&SD, the aviation industry belongs to the air transport sector under the transport industry. As the unemployment and underemployment statistics for the air transport sector are compiled based on a small number of observations and subject to very large sampling errors, the statistics for this specific sector is not released.

(6) and (7) Having considered public health protection, economic impact and social acceptance, transit services at HKIA has been resumed in a gradual and coordinated manner starting from June 1, 2020. Depending on the travel and border control restrictions and quarantine measures imposed by different countries and regions, airlines will adjust their flight services (including considering the resumption of air services to/from certain ports, and the addition of flight frequencies) based on market demand. Meanwhile, the Government is now exploring with places which have relatively stabilised their epidemic situation on how to resume cross-border travel in a gradual manner and establish the mutual arrangement as soon as possible. The HKSAR Government has already had some initial discussion with the relevant governments, among them, the government of Thailand has announced that it is going to commence discussion with Hong Kong on the ways of relaxing border control. The Government will follow up with the government of Thailand.

The Government and the AAHK will continue to closely monitor the on-going economic and market situation, and will engage the industry when considering appropriate measures, with a view to helping the industry overcome the hardship and retain talents. We look forward to the launching of

market recovery campaigns by the AAHK, together with the business partners, when the epidemic is over, in order to drive the air traffic and related businesses.