

## LCQ22: Cargo fuel surcharge

Following is a question by the Dr Hon Chan Han-pan and a written reply by the Secretary for Transport and Logistics, Mr Lam Sai-hung, in the Legislative Council today (June 19):

Question:

The Government announced on May 23 this year that the implementation of cargo fuel surcharge (CFS) liberalisation would take effect starting from January 1 next year, which would allow airlines the liberty to adjust the level of CFS to be levied, with a view to encouraging competition. According to the information from the Civil Aviation Department, such decision was made with reference to the initial findings of a consultancy study released in early 2017, which was conducted by a consultant engaged to study the regulation of fuel surcharges. Moreover, some stakeholders in the logistics industry have indicated that they as well as a number of cross-border e-commerce logistics platforms in the Guangdong-Hong Kong-Macao Greater Bay Area, which are key players in Hong Kong's air cargo export, had no prior knowledge of the liberalisation decision. In this connection, will the Government inform this Council:

(1) whether it has consulted various stakeholders in the logistics industry on the liberalisation of CFS; if so, of their views; whether the Government will make available the aforesaid consultancy report to the public or the logistics industry;

(2) as the Government has indicated that the liberalisation of CFS seeks to encourage market competition, but there are views that the prerequisite for promoting market competition is the availability of market choices with the presence of multiple and sufficient airlines, whether it has compiled statistics on the number of freight routes in Hong Kong which are currently operated by a single airline, together with a tabulated breakdown by airline; given the competition or monopoly over freight routes, what measures and mechanisms are put in place by the Government to ensure that cargo fares in Hong Kong are competitive;

(3) as there are views that the present political and economic environment as well as the operation of the logistics market in the world are different from those at the time when the findings of the consultancy study were released in 2017, and the liberalisation of CFS will very likely lead to a rise in air freight transport costs given that Hong Kong's mode of freight operation is highly reliant on the Mainland market and air cargoes mainly consist of small-item commodities carried on e-commerce logistics platforms which are particularly sensitive to changes in cargo fares, how the Government will mitigate the potential impact of the liberalisation on the logistics industry;

(4) as it is learnt that individual airports on the Mainland provide various forms of support and substantial subsidies for cargo flights, whether the

Government has studied if the liberalisation of CFS will, in the absence of similar subsidies, undermine Hong Kong's competitiveness as an air cargo hub, thus resulting in cargoes not being transshipped through Hong Kong; in view of the impact brought about by the liberalisation, whether the Government has formulated specific strategies to cope with the competition from other cities, so as to maintain Hong Kong's status as an international cargo hub as well as the busiest air cargo hub in the world, and of the justifications for such strategies;

(5) as there are views that Hong Kong has become the busiest air cargo hub despite the regulation of CFS being in force for years, of the justifications for the Government to choose to implement the liberalisation next year, and whether there are data to support that such decision will not divert Hong Kong's air cargo throughput to neighbouring airports, as in the case of the ban on intermodal transshipment of alternative smoking products in 2022; and

(6) as some members of the industry have pointed out that regulation of fuel charges is in place in a number of Asian countries (including Japan, Korea and the Philippines), whether the Government has studied if it is in line with the actual situation of Hong Kong to follow the global trend of deregulating fuel surcharges, and whether the Government has given due consideration to the differences between Hong Kong and other countries and regions in terms of market characteristics and mechanisms when formulating policies relating to CFS?

Reply:

President,

The Government has been adopting a policy of liberalising air tariffs in a progressive manner to encourage competition among the aviation industry in Hong Kong, thereby continuing to enhance service quality and reduce costs. In September 2018, the Government announced that it would liberalise passenger fuel surcharge, and with effect from January 1, 2020, liberalise cargo fuel surcharge (CFS). However, having taken into account the subsequent situation and the unprecedented difficulties and challenges imposed on the logistics industry by the COVID-19 pandemic, the Government has suspended the liberalisation of CFS until June 30, 2024.

As the aviation industry gradually recovers to the pre-pandemic level, the Government announced on May 23 this year that the implementation of CFS liberalisation will take effect starting from January 1, 2025, after a six-month lead-in period (i.e. from July 1 to December 31, 2024). After the liberalisation of CFS, airlines may set their own CFS levels or choose not to levy such surcharges for flights originating from Hong Kong.

In consultation with the Civil Aviation Department (CAD), the reply to the Dr Hon Chan Han-pan's question is as follows:

(1), (2) and (6) Fuel surcharges allow airlines to partially recover the increase in operating costs due to the fluctuation of fuel prices. There is a global trend of deregulating fuel surcharges to enhance competition.

Specifically, major aviation authorities around the world, including Mainland China, the European Union, the United States and Singapore, have already liberalised fuel surcharges. For example, based on the adjustment in fuel prices, a local airline has recently announced a reduction in passenger fuel surcharge for some destinations from July 1, 2024, with a reduction of more than 20 per cent for both long and short-haul routes.

The aviation industry in Hong Kong is highly competitive. As at end May 2024, there are about 120 airlines operating passenger and cargo flights between Hong Kong International Airport (HKIA) and some 180 destinations worldwide. For cargo flights, a majority of routes are operated by more than one airline. Generally speaking, airlines set CFS levels for short-haul and long-haul flights respectively, instead of setting individual CFS level for each route. Hence, there is no direct correlation between the number of serving airlines and the level of CFS for individual routes.

In the course of the study conducted by the CAD, the consultant has consulted the industry and relevant stakeholders. Subsequently, since the Government's announcement of the policy of progressively liberalising fuel surcharges in September 2018, the Transport and Logistics Bureau (TLB) and the CAD have been liaising closely with the air cargo industry in Hong Kong, including airlines and the logistics industry. In particular, the TLB and the CAD have met with the freight forwarding industry on a number of occasions in the past few months and learnt of their concerns about the increase in shipping costs as a result of CFS liberalisation. Taking into account the unique nature of the air cargo market and to allow sufficient time for the industry to negotiate new agreements before liberalisation, the Government introduces a six-month lead-in period (i.e. from July 1 to December 31, 2024) prior to the liberalisation. Furthermore, in order to ensure transparency after the liberalisation of CFS, the CAD will require airlines to promulgate their maximum CFS levels for flights originating from Hong Kong on their websites or other platforms for the public's information. The TLB and the CAD have also set up a communication platform to facilitate continuous dialogue with stakeholders on related issues and to ensure the industry's smooth transition towards the liberalisation of CFS from January 1, 2025.

(3) to (5) CFS only forms a small part of the overall cost of air cargo services. The liberalisation of CFS aims to allow market forces to regulate the level of fuel surcharges on their own, in the same way that the market determines other components of air cargo rates. While there may be some fluctuations in shipping costs in the short term, airlines will have greater incentives to improve the overall efficiency and quality of their services as a result of market competition, and market forces will cause air cargo rates, including fuel surcharges, to be set at competitive levels. In the long run, liberalisation of CFS will help enhance the overall quality of Hong Kong's air cargo industry and support its sustainable development. In addition, the Government anticipates that the liberalisation of CFS can attract more non-local airlines to provide air cargo services to and from Hong Kong, thereby strengthening the connectivity of HKIA, which is conducive to maintaining the competitiveness of Hong Kong's aviation industry and Hong Kong's position as an international aviation hub.

The Government has been actively adopting various measures to consolidate and enhance Hong Kong's position as an international aviation hub, an international shipping centre and an international logistics hub. HKIA's maintenance of its position as the world's busiest international cargo airport in 2023 demonstrates Hong Kong's position as an important logistics hub in Asia. Specifically, in respect of the logistics industry, the Government announced the Action Plan on Modern Logistics Development in October 2023, which sets out eight strategies and 24 action measures to promote high-quality development of our logistics industry by realising smart development, modernisation, green and sustainability, internationalisation and facilitation, thereby developing Hong Kong into a sustainable, international and smart logistics hub focusing on high-value goods and the e-commerce market, capitalising on the tremendous opportunities brought by the rapid development of our country and the region, as well as consolidating and enhancing Hong Kong's status as an international logistics hub. Relevant measures include strengthening support for the logistics industry on digital transformation, smart logistics solutions adoption and green logistics implementation through various funding schemes; sustaining the supply of logistics sites to meet the industry's demand for logistics sites in the short to medium term; improving the intermodal transport between Hong Kong and the Mainland; and working jointly with the Hong Kong Logistics Development Council to promote the strengths of Hong Kong's modern logistics industry so as to attract more Mainland and overseas companies to use Hong Kong's logistics companies for regional distribution.

With regard to air cargo, the Government will flexibly approve applications from airlines to operate additional flights, having regard to their operational needs and market demand. In addition, the Airport Authority Hong Kong (AAHK) has reserved land in the South Cargo Precinct of the airport to support the development of transshipment, cross-boundary e-commerce and high-value temperature-controlled air cargo, including the DHL expanded hub and the Cainiao Smart Gateway which were opened last year, as well as United Parcel Service's new hub facility to be completed by 2028. The AAHK is also working with Dongguan to develop the sea-air intermodal cargo transshipment mode, and plans to complete the first-phase construction of the permanent facility of the HKIA Logistics Park by the end of next year. The cargo handling capacity of the facility will gradually reach one million tonnes per annum, better fulfilling the Greater Bay Area's international cargo demand.

To maintain the competitive edge of Hong Kong's air cargo industry, the Government will continue to provide facilitations to the industry and strengthen air services connectivity with different regions to consolidate and expand Hong Kong's aviation network. At the same time, the AAHK will continue to maintain close liaison with airlines and encourage them to operate more air cargo services to and from Hong Kong, so as to provide the logistics industry with more business options and promote the diversified development of Hong Kong's air cargo industry.