CATHAY PACIFIC HURT BY RUNWAY DELAY IN HONG KONG WITH RIVALS EXPANDING

News / Airlines

Hong Kong has a plan to counter growing competition from airports in North Asia. It starts in 2023.

That's how long Asia's busiest international airfield must wait before opening a third runway after a near 10-year delay in winning approval for the extension. In the meantime, airports from Guangzhou to Taipei are expanding and adding more direct flights, taking business from Hong Kong's top carrier Cathay Pacific Airways Ltd. The former British colony gets a third of its business from transiting passengers.

Hong Kong International Airport is second only to Beijing in passenger traffic in China, but with its runways on Chek Lap Kok island already close to capacity, it's likely to be overtaken by both Shanghai and Guangzhou before the third runway is ready.

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"The rise in direct flights between China and the world poses risks to Hong Kong as a transit hub and to its home-based airline, Cathay Pacific," said Eric Lin, an analyst with UBS Group AG in Hong Kong. He said Chinese travelers increasingly are choosing direct flights over cheaper but longer trips via Hong Kong.

British Handover

Hong Kong was home to the world's biggest container port and second-busiest cargo airport when it was handed over to China in 1997. But struggles between Beijing and Britain over the cost of building Hong Kong International Airport delayed the project --first announced in October 1989 -- and prevented it from opening as planned before the handover. Beijing repeatedly stalled the project because it wanted to prevent the airport from becoming a heavy financial burden on the Hong Kong government after the city reverted to Chinese sovereignty.

Hong Kong is now the world's fourth-busiest container port, trailing Shanghai, Singapore and Shenzhen. While Hong Kong delayed a plan to build a 10th terminal, Shenzhen -- just across the border in mainland China -- expanded its facilities.

Chek Lap Kok

Hong Kong International Airport, which finally opened in July 1998, became the gateway to a rapidly developing China, with passengers flying in from around the world and catching onward flights to about 20 destinations on the mainland. It soon became one of the cheapest ways for China's nascent middle class to get to other countries in Asia and beyond.

Mainland China passengers accounted for 22 percent of the total in Hong Kong last fiscal year, according to an e-mail from Airport Authority Hong Kong.

With more Chinese airports offering direct flights, Hong Kong's advantage as a hub is waning. Passengers can fly direct to Paris from Chengdu or Kunming. There are non-stop flights from Wuhan to San Francisco, from Changsha to Frankfurt, from Chongqing to Rome and from Xinjiang to St. Petersburg.

And the mainland's own major airports like Shanghai and Beijing are offering alternative transit routes that are often cheaper. When Sam Tang, 22, from Kunming in southwestern China flew to Vancouver and Toronto two years ago, he went via Shanghai -- even though he's a student at the University of Hong Kong.

"No Sense"

"It just didn't make sense to fly from Hong Kong when you can get a cheaper price from Shanghai," he said.

Hong Kong International Airport said in an e-mail that it serves as a "multi-modal transport hub," that helps passengers travel between Hong Kong and mainland cities.

The new runway will enable Hong Kong to handle 58 percent more passengers, raising its capacity to 100 million a year by 2023 at a cost of HK$141.5 billion (US$18 billion). Other regional airports, including those in Singapore and Kuala Lumpur, are planning to expand to a similar capacity.

Hong Kong's challenges come as Chinese airlines are expanding their international offerings.

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China's big three carriers -- Air China Ltd., China Southern Airlines Co. and China Eastern Airlines Corp. -- have boosted direct flights to Europe and the U.S. in the past three years, using longer-range planes such as Boeing Co.'s 777 and 787, and Airbus Group's A350 that can make the trip without stopping.

Nonstop Flights

Beijing now offers 40 percent more nonstop trips to Europe than Hong Kong does, Credit Suisse Group AG says, and 14 percent more to the U.S. Smaller, "second-tier" Chinese cities sent 14 direct flights a week to the U.S. in August, all on routes that were inaugurated within the past three years. Hong Kong, meanwhile, will hit the maximum number of landings and takeoffs it can handle next year, three years earlier than expected, it said.

Air China's direct flight to London from Beijing takes about 10 hours, 40 minutes. Cathay Pacific's flight, with a stopover in Hong Kong, is about US$600 cheaper but takes nearly six hours longer, according to a study by Credit Suisse released in August.

Hong Kong Hub

"Given the capacity constraints at Hong Kong International Airport, the allocation of scarce slots for aircraft traffic should take into account what is best for the overall benefit of Hong Kong and its economy," Cathay Pacific said in an e-mailed statement to Bloomberg News. "We believe that the limited available slots should be put to better use by giving priority to airlines that seek to launch new destinations and increase frequencies to cities with major trade and business relationships with Hong Kong."

Cathay Pacific said its passenger capacity grew by 6.4 percent and cargo capacity by 9.7 percent during the first six months of this year. Cathay's sales are forecast to grow 12 percent in the three years through 2017, analyst estimates on Bloomberg show. That compares with 81 percent growth expected for Air China, 31 percent for China Southern and 32 percent for China Eastern.

Meanwhile, rival airports in North Asia are adding capacity to capture a share of the region's booming air travel. Guangzhou will open a second terminal next year, while Incheon, which serves Seoul, will follow in early 2017. Taipei will add a third terminal by 2020. Shenzhen has increased capacity with a third terminal.

"You've got four airports nearby expanding quite rapidly and vying for the same piece of airspace, and in many cases the same passengers," said Timothy Ross, a Singapore-based analyst at Credit Suisse. "Hong Kong is a hub, and it becomes less effective if you can't add capacity and others can."

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