

Arrangement on the Resumption of Cargo Fuel Surcharge

- The formula adopted by the Civil Aviation Department (CAD) is as follows:

$$\text{Cargo Fuel Surcharge (CFS)} = (\text{Prevailing Oil Price} - \text{Baseline}) \times \text{Unit Fuel Consumption} \times \text{Recovery Rate (80\%)}$$

Note:

- Baseline: the baseline is US\$46 per barrel of Brent Oil (reflecting crude oil price). The baseline of US\$46 is the 12-month average price level of Brent Oil i.e. from February 2016 to January 2017. As the information on Brent Oil is easily accessible to the general public, using the Brent Oil price will enhance the transparency of the formula.
- Prevailing Oil Price: the CAD will update in the middle of each month the prevailing oil price and the corresponding CFS level to be levied for the next month. The prevailing oil price is determined from the available average daily Brent Oil prices for the whole month preceding the date of updating of the CAD website.
- Unit Fuel Consumption: the unit fuel consumption is a weighted

average calculated based on the actual fuel consumption data collected from all local airlines in the past 12 months (as of January 2017), which represent more than half of cargo throughput in the Hong Kong air cargo market. The fuel consumption data of airlines represent confidential commercial information and are provided on a confidential basis to the CAD individually for calculating the weighted average. The CAD will review and update the unit fuel consumption every IATA Season, i.e. every six months.

- Recovery rate: a recovery rate is introduced, as per the consultant's recommendation, so that airlines will share the risk of fuel price fluctuations in their operating costs.
- Airlines may choose to levy a lower CFS than the CAD's published level or choose not to levy any such surcharge at all, based on their own circumstances and business strategy. Under this mechanism, airlines are not required to submit an application to the CAD prior to the levying of CFS, which is same as or lower than the CAD's published level.

* * * * *