

Rāpopoto - Summary

- In the first part of this year, Hong Kong faced a perfect storm of supply chain challenges affecting the costs of freight transported by land, sea and air. Beyond the effects of high oil prices and container shortages, COVID-related restrictions in Hong Kong and the Mainland are having a significant impact on all forms of freight and are damaging Hong Kong's attractiveness as a route for transshipment.
- In the case of agriculture and food, Q1 imports dropped a whopping 10-30% by value from almost every major source with the exception of New Zealand (+5.6% YoY), Mainland China (+5.2% YoY), Indonesia (-1.3% YoY) and UK (-4.6% YoY). Approximately 20% of New Zealand's exports arrive in Hong Kong via airfreight. High food prices and premium New Zealand products which are less price-sensitive may have contributed to imports by value from New Zealand remaining steady despite dropping from every other foreign supplier.

Pūrongo - Report

Horopaki – Background

Hong Kong has traditionally served as an international cargo hub. Since 1996, it has been the world's busiest airport. It typically ranks 8th for sea cargo throughput. And it has important land cargo links into Southern China – 8 border crossings by road; and 2 border crossings by rail. In a normal year, just less than half of Hong Kong's inbound trade is destined for re-export. But recent developments, particularly COVID settings in Hong Kong and Mainland China, have increased costs for those wanting to send cargo to or through Hong Kong.

Complicating matters further is the fact that Hong Kong is eager to resume two-way border traffic with the Mainland – the city's most important partner for tourism and business links. No doubt partly in response to concerns from Mainland officials, Hong Kong has maintained a number of COVID measures that are impacting supply chains.

In the short term, Hong Kong's status as a global logistics and transshipment hub is in decline. Major freight forwarders DHL, FedEx and Mainfreight have relocated or are relocating their Asia regional offices to Singapore. This is due to COVID-related restrictions and also government moves to consolidate freight between Hong Kong and the Mainland in bonded warehouses located in Shenzhen, China (expected to be fully operational by 2023).

Mārunga Whenua – Land freight

In May of this year, two-way trucking capacity between Hong Kong and Guangdong province is estimated to have

been 70-80% below normal levels because of health measures affecting cross-border drivers which were further tightened in January of this year.

Specific issues include:

- Quotas for the number of border crossings
 - Normally, the Shenzhen government would maintain a quota of 20,000 crossings per day for freight originating from or destined for Hong Kong. In early 2022 that quota was at times adjusted as low as 1000 crossings per day in order to manage COVID-related delays.

- There is a shortage of drivers
 - Drivers must test regularly. They sometimes have to wait 7-8 hours for a PCR test at the border and they face significant downtime if they test positive. High petrol prices are also making driving an unattractive proposition.

- Increased costs
 - The Chair of the Hong Kong Logistics Association claims that the cost of a container has risen from HK\$2,500-3,000 to HK\$15,000 – 17,000 and the length of transport from 4 to 6 hours to 72 hours. Hong Kong drivers are no longer allowed to drive cargo all the way to the final destination in the Mainland and must hand over their trucks at designated border connection points. Apparently, there need to be two additional Mainland drivers in order to get the cargo to its final destination whereas only one driver was required prior. High petrol prices are also having a profound impact.

Mārunga Moana – Sea freight

The Port of Hong Kong handled 3.7 million TEUs of containers in the first quarter of 2022, down approximately 10% YoY. Major issues include a global shortage of refrigerated containers, the truck driver shortage affecting transshipment to and from the Mainland and labour shortages affecting container inspections. In April/May during the peak of Hong Kong’s 5th COVID wave, there were reports of some shipments taking as long as 3 weeks to clear. The lockdown in Shanghai reportedly did not bring additional business to Hong Kong but disruptions in southern ports like Shekou and Yantian may drive some shipments to Hong Kong.

Seaborne cargo throughput, % change

	Seaborne cargo discharged	Seaborne cargo loaded	Seaborne cargo throughput
	YOY % change		
2022 Q1	-8	-10.7	-8.9

Source: Hong Kong Marine Department

The airfreight sector in Hong Kong is facing a myriad of challenges - mainly COVID related. Hong Kong still imposes 7-days managed quarantine for travelers to Hong Kong and airlines routinely face 7-day suspensions (previously 14-days) if 3 or more passengers test positive for COVID on arrival. For several months between late 2021 and early 2022, Hong Kong suspended all flights from 9 countries due to the large number of COVID cases amongst passenger arrivals (Australia, Canada, France, India, Pakistan, the Philippines, the UK, the USA, and Nepal). All of this has meant less flights and less options for transshipment of cargo. This is further exacerbated by the trucking shortage issue.

During Q1, air cargo throughput declined 7.6% YoY. It was most severe in January 2022 when authorities imposed closed-loop hotel quarantine requirements for locally based aircrew and then suspended Cathay Pacific Cargo Flights for seven days. After Hong Kong removed flight suspensions from the 9 countries from 1 April, YoY April cargo had only declined by 0.5%.

Other issues include major labour shortages at the Hong Kong airport terminal. People are reluctant to work there because of regular testing requirements and the possibility of being sent into managed isolation. Anecdotally, there have been some close calls at the airport in relation to perishable goods where airlines have had to get involved in prodding airport staff to unload cargo quickly. There is also COVID-testing of imported and frozen product for which importers must pay a fee.

Take Aotearoa – New Zealand's interests

In 2021 New Zealand's goods exports to Hong Kong were at NZ\$1.2b which is generally in line with annual figures for the four years prior (NZ\$1.1b-1.25b). According to data from Stats NZ, the proportion of New Zealand's Hong Kong-bound exports covered by sea freight and air freight has remained steady both pre and post-covid at about 80% and 20% respectively. Air New Zealand currently maintains one passenger flight and two cargo flights to Hong Kong per week. Cathay is operating one passenger per week, no cargo flights. The trucker shortage is affecting freight costs for New Zealand health supplements and infant formula destined for Southern China – these would normally be airfreighted to Hong Kong then put onto trucks as the cheapest route. Instead, Air New Zealand is currently sending these via Guangzhou, China.

Despite COVID woes, the overall value of New Zealand's food exports to Hong Kong has been relatively steady even in the first quarter of this year when cases reached as high as 65,000 per day. In times when restrictions on restaurants have affected exports to the food service sector, this has been compensated for by increased demand from Hong Kong's supermarket chains. According to Trade NZ, many New Zealand food products in the Hong Kong market are at the premium end and therefore less subject to consumer price sensitivity. Hardest hit has been New Zealand's health supplement exports which is heavily reliant on demand from (now mostly non-existent) Mainland tourists.

Hong Kong's Ag and Food Imports Jan- April 2022, US\$ million

	2021	2022	%Δ 2022/21
_World	9,753	8,370	-14.18
China	2,062	2,169	5.19
United States	672	535	-20.31
Australia	705	495	-29.83
Chile	1,520	1,319	-13.21
Japan	618	528	-14.53
Brazil	562	368	-34.48
Thailand	448	340	-24.15
France	388	312	-19.43
New Zealand	164	175	6.55
Netherlands	190	119	-37.62
Indonesia	175	173	-1.27
United Kingdom	138	132	-4.61

Source: TDM – Hong Kong Census

Despite the increasing costs of logistics, it's positive that demand for high quality New Zealand food has stayed resilient despite the many headwinds. But we remain cognisant of the many risks due to rising supply chain costs, including the vulnerability of the Air New Zealand route and the challenges for the health supplement and infant formula sectors.

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