

**Voluntary Report** – Voluntary - Public Distribution

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**Report Name:** Flight Suspensions Add to US Agricultural Shipping Woes

**Country:** Hong Kong

**Post:** Hong Kong

**Report Category:** Agriculture in the Economy, Agriculture in the News

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**Report Highlights:**

In response to Hong Kong's new quarantine requirements on locally based cargo crew, on December 30, 2021, Cathay Pacific airlines announced the suspension of all long-haul cargo and cargo-only passenger flights until January 6, 2022. Post estimates the impact of the seven-day flight suspension on U.S. agricultural and food exports at \$2.6 million. According to a logistics trade entity, this new quarantine measure could raise air shipping costs and further disrupt future supplies of fresh produce, seafood, and premium meats. In addition, the government's January 5 announcement suspending in-bound passenger flights from various countries, including the United States, will extend the impact on U.S. agricultural trade as passenger flights also carry cargo. Hong Kong's Chief Executive Carrie Lam conveyed on January 12, she expects some goods, including premium foods, to become unavailable or their prices to go up.

## **Background**

Hong Kong has traditionally served as an international cargo hub. In order to maintain the city's food supplies and vibrancy as a trade hub over the past two years, the Hong Kong government (HKG) exempted locally based air crew members from the stringent hotel quarantine requirements applied generally to travelers under its zero-COVID strategy. Instead, HKG requested airlines to adopt "isolation closed loop" rosters where locally based crew members would quarantine at home for three days after returning to Hong Kong and to self-isolate in hotels when abroad. Until recently, Hong Kong had been able to maintain zero local COVID-19 cases (registering only imported cases) and was gaining momentum in its negotiations to reopen the border with mainland China. Nonetheless, there were voiced concerns that the home quarantine measure applied to crew members was a loophole in Hong Kong's comprehensive precautionary measures.

However, HKG removed this exemption on December 28, 2021, when a few crew members who allegedly violated home isolation requirements were found to be infected with the Omicron variant. HKG imposed a mandatory three-day hotel quarantine on Hong Kong-based cargo crews. On December 31, HKG extended the length of quarantine to seven days effective January 1, 2022. To adapt to this latest new quarantine requirement, on December 30, Cathay Pacific announced the suspension of all long-haul cargo and cargo-only passenger flights with immediate effect until January 6.

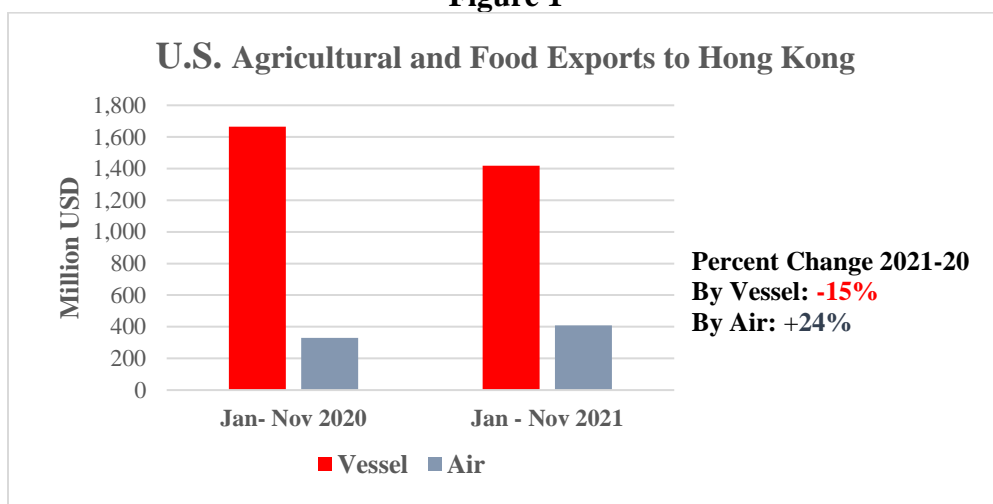
## **Immediate Impact on Air Cargo**

Since 1996, Hong Kong has held the world's busiest international airport. In 2020, Hong Kong handled 4.4 million tons of air cargo, which accounted for about 43 percent of the total value of Hong Kong's external trade. Given the global sea supply chain disruptions in 2021 (see [GAIN report](#)), many local importers switched to shipping premium foods via air. As a result, Hong Kong's air cargo throughput and discharge for the first three quarters of 2021 increased 13 percent compared to the same period in 2020.

## **Air-Shipped U.S. Agricultural Exports to Hong Kong Rose in 2021**

As a result of the disruptive sea logistics chain, during the first eleven months of 2021, U.S. air shipments of agricultural and food exports to Hong Kong increased 30 percent by weight and 24 percent by value year-on-year. In contrast, the same product category shipped via vessels decreased 15 percent by value and 23 percent by weight, showing the shift in transport methods. In addition, the increase in overall air cargo discharged in Hong Kong (13 percent) compared with the increase in U.S. food cargo shipments to Hong Kong (30 percent), suggests that U.S. food exports relied more on air shipments to reach Hong Kong consumers as maritime transport became less reliable during the pandemic.

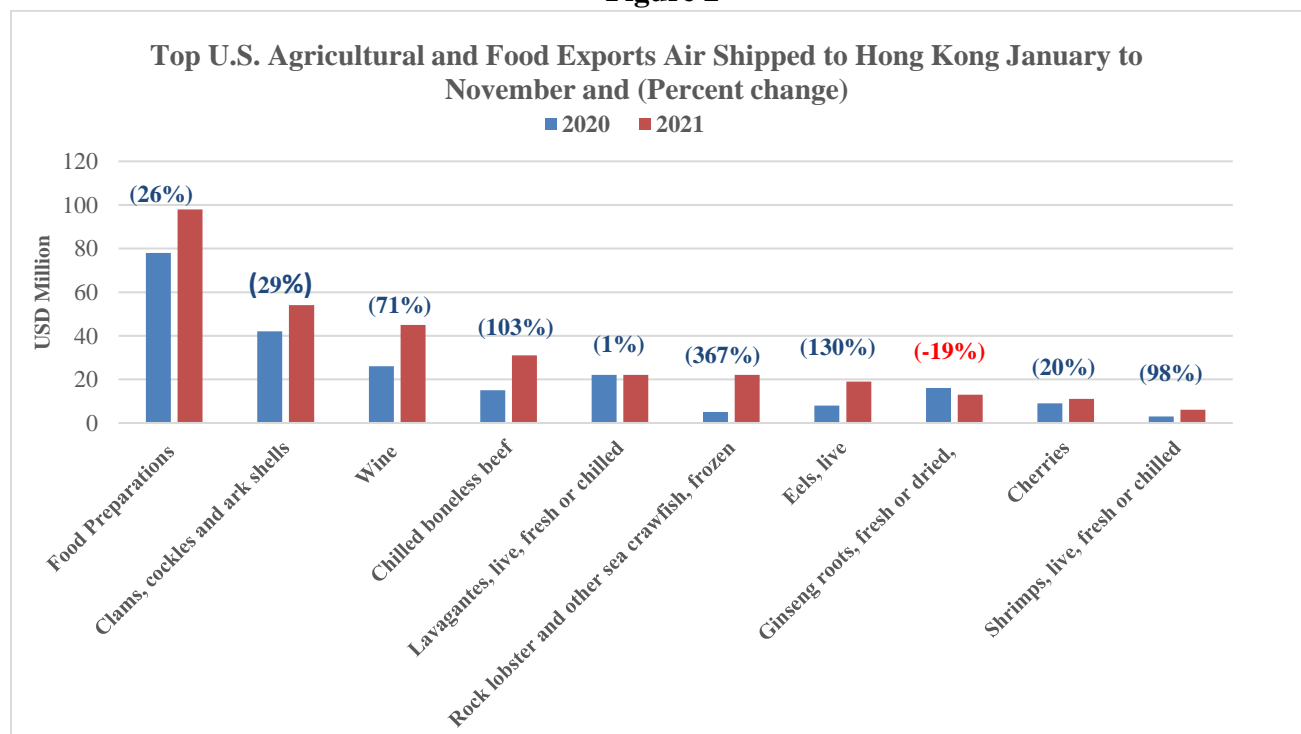
**Figure 1**



Source: – U.S. Census Bureau, Trade Data Monitor, LLC

Between January – November 2021, the United States exported \$410 million worth of agricultural and food products to Hong Kong via air. Almost all the top U.S. food products air shipped to Hong Kong rose remarkably (Figure 2). U.S. exports of chilled beef, lobsters, and eels are good examples showing triple digit growth in exports by air. This indicates that some of these products would have not been air shipped had maritime shipping alternatives been available.

**Figure 2**



Source: – U.S. Census Bureau, Trade Data Monitor, LLC

## **Impact of Flight Suspensions on U.S. Agricultural Trade Estimated at \$2.6 Million**

With the recent flight suspensions, Cathay Pacific was only operating 38 cargo flights during the week of the announcement, down from the 83 flights originally scheduled. Cathay carried 135,350 tons of cargo in November with most of it passing through Hong Kong, amounting to almost 30 per cent of the city's total air freight, according to local news outlets. Based on Cathay Pacific's share of air freight operations in this market, Post estimates the airline's seven-day suspension of air cargo affected \$2.6 million worth of U.S. agricultural and food exports to Hong Kong. The most likely affected products are those listed above (Figure 2), including U.S. exports of premium beef and seafood. U.S. exports of fruits were not as affected as it is not the peak shipping season.

A more tangible impact is the potential shortage of premium food products scheduled to air ship during the suspension period. Local traders responded by substituting chilled with frozen products, shipping to Hong Kong via indirect flights or sourcing from the regional suppliers, such as China. However, the cost of indirect flights is expected to rise by at least 20 percent and finding cargo space is not easy even if traders are willing to pay the higher cost.

### **When Pigs Can't Fly**

Post is already aware that a U.S. shipment of live pigs has been affected by the flight suspension. The traditional sanitary requirements, that facilitate this type of trade, may not make it possible to find a shipping alternative and air shipments can risk expiring certifications. (Note: Post continues to work with local authorities and the USDA's Animal Health Inspection Service to address the issue.)

One of the most noticeable affected products is flowers, particularly around the Chinese New Year, the peak shipping season for fresh flowers. While exports of U.S. cut flowers to Hong Kong is not significant, the Netherlands is the largest supplier. Traders already said that they will refill their inventory with flowers from China. Also, this is the season for Hong Kong to buy premium cherries from Australia by air. Fruit importers expect that freight cost will rise even when Cathay Pacific resumes long-haul flights.

### **Medium- and Long-Term Repercussions**

The impact of the suspension is expected to last longer than seven days. Reportedly, while Cathay Pacific resumed long haul cargo service, its capacity can only reach 20 percent of the pre-pandemic level due to the stringent quarantine measures. Local media reports that some crew members are prepared to resign due to the harsh quarantine measures. In addition, operating under the stringent quarantine requirements would inevitably lead to a reduction in flight frequency in order to protect the well-being and mental health of crew members. Furthermore, Hong Kong announced on January 5, 2022, that it would suspend passenger flights from various omicron affected countries for two weeks. The ad hoc flight suspension severely affects Hong Kong's trade link to the world. The ensuing flight cancellation further dampens airlines cargo capacity as passenger flights can also carry cargo. During the first session of the Legislative Council's new term on January 12, Hong Kong's Chief Executive

Carrie Lam said “the consequences of cargo policies will be seen very soon.” Lam expected some goods, including food, to become unavailable or their prices to go up. Sunny Ho, Executive Director of the Hong Kong Shippers’ Council, said that while high-value consumer goods will be negatively affected given their reliance on air freight, supply of basic food ingredients and necessities will be more stable as they are imported primarily from the mainland via land transport.

Logistics body representatives warned that shipping costs would rise about 30 percent and consumers would bear the adverse impact in the context of rising food costs particularly for premium food products. They warned that Hong Kong consumers should prepare for further rising food costs. Moreover, there are concerns that stringent quarantine measures applied on cargo crew members could ultimately threaten Hong Kong's status as an "international logistics hub" in the long term. It would be a huge challenge for Hong Kong to recover business lost to competitors.

With Hong Kong’s Zero-COVID strategy and the aim to open the border with mainland China as soon as possible, it is unlikely that the Hong Kong government will relax the quarantine requirements for cargo crew in the near future. The new measure on cargo air crew further disrupts the already troubled supply chain caused by port congestions in many countries. The much-needed role of air cargo to help alleviate the pressure of sea cargo is eroding. The lack of both air and ship cargo space is exacerbating the unpredictability of food supply schedules to Hong Kong, more so for U.S. agricultural and food exports if the U.S. port conditions do not improve. While monthly export figures have recovered in last couple of months, cumulative U.S. agricultural and food exports to Hong Kong (January-November 2021) dropped 9.2 percent compared to the same period last year and are still below the average of the last four years.

**Attachments:**

No Attachments.