

Workshop “Challenges and prospects for China-EU agricultural trade”

Organized by LEI and SOW-VU, 14th November 2007
Hotel Metropole, Brussels

Introduction and background

The objective of the workshop is to discuss the recent developments in agricultural trade between China and the European Union (EU) and to learn and compare the views of the policy and business community on the prospects for further growth of these bilateral trade flows and the challenges that will be faced. China's fast growing economy and its accession to the WTO have greatly increased trade opportunities while food safety and food quality issues now figure among the most prominent consumer concerns. The workshop brings together importers, exporters and EU policy makers and aims at getting a better understanding of the key issues now and in the near future in China-EU agricultural trade and of their relation to government policies and private sector requirements.

The workshop is organized as part of the EU-funded CATSEI project (*Chinese Agricultural Transition: Trade, Social and Environmental Impacts*)¹ that studies the impact of China's current economic transition on its agricultural economy, with special emphasis on social conditions and the environment in China's rural areas as well as on markets in the rest of the world.

The workshop is attended by 26 participants of which 7 from the policy sector, 12 from the business sector and the remaining ones from the organizing institutes. Invited speakers are Charles Dunkley (International Affairs EU, DG Agriculture), Frank van Tongeren (Organization for Economic Cooperation and Development), Philippe Binard (General Delegate of Freshfel Europe), Ruiqing Huang (Director of Beijing Rui Xue Global Co., Ltd), and Eric van Rijn (Trade and commercial manager of Interfood BV). The meeting is chaired by Kees van der Meer (consultant for the Agriculture and Rural Development Department of the World Bank).

All presentations are available as powerpoint documents on the website of the project, www.catsei.org. The program of the workshop can be found in Appendix I, the list of participants in Appendix II.

¹ Cooperating partners in the CATSEI-project are the Centre for World Food Studies, Amsterdam (SOW-VU), the Center for Chinese Agricultural Policy, Beijing (CCAP), the International Institute for Applied Systems Analysis, Laxenburg (IIASA), the School of Oriental and African Studies, London (SOAS), the Agricultural Economics Research Institute, The Hague (LEI), and the International Food Policy Research Institute, Washington DC (IFPRI).

The meeting

Kees van der Meer opens the meeting at 13.00. The first presentation “Challenges and prospects for China-EU agricultural trade” is given by Michiel Keyzer, director of SOW-VU and coordinator of the CATSEI project, who introduces the research project and explains the purpose of the workshop. He emphasizes that the outcomes of the workshop will be used in the elaboration of the project scenario studies whereas the participants will be kept informed of the findings.

Charles Dunkley of the International Affairs Division of the Directorate-General Agriculture of the European Commission starts with some key statistical facts in his presentation “EU-China agriculture trade”. China’s booming economy, increasing incomes and steady trade liberalization have made it an important importer and exporter of agricultural products, while sustained production growth of pork, poultry, beef and dairy products is expected to persist over the next decade. Since 2004, the value of agricultural imports exceeds the value of its agricultural exports. However, looking at the bilateral flows between China and EU, China’s exports far outweigh EU’s exports. Indeed, compared to other trading regions such as North-America and Oceania, EU is still a minor agricultural exporter to China. Non-tariff barriers (NTBs), in particular sanitary and phytosanitary (SPS) measures, may explain the negative EU trade balance. Nonetheless, China’s increasing imports of meat and dairy products will provide growing export opportunities to EU producers, albeit for meat probably largely in the form of complementary products (offal). Other options will be specialized quality products, in particular those characterized by their geographical indication (GI). In order to reduce the NTBs and increase EU’s exports to China, an intensive program of dialogues with Chinese authorities has been set up by the EU.

Frank van Tongeren from the OECD confirms in his presentation “Some trade policy issues in SPS and TBT and analytical challenges” the recent change of sign in China’s agro-food balance of trade mentioned above. In his discussion of future developments, he focuses on the role of non-tariff measures SPS and TBT (technical barriers to trade), starting from the observation that, as such, these measures are not bad and not even trade restricting provided that their application is uniform and transparent. However, for EU exports to China they cause significant problems. SPS issues are systemic concerns due to the lack of transparency in China’s inspection procedures and the fact that China does not follow the international standards and protocols referenced to in the SPS agreement. In this context, he emphasizes the distinction between food safety and food quality, viewing food safety as the main responsibility of policy makers, while food quality primarily belongs to the private domain. With respect to TBT, many complaints exist about the Compulsory Chinese Certification (CCC) and the cumbersome food labeling procedures. He concludes his presentation by accentuating the importance of focusing analytical work on systemic concerns rather than on incidents, and advocates the use of product-by-product price gap calculations to assess the height of all-inclusive trade barriers.

After the coffee break, Philippe Binard from Freshfel Europe delivers his presentation “Trading fruit and vegetables with China”. He highlights the absence of reciprocity in EU-China trade of fruits and vegetables by pointing to the large difference between China’s high export volumes to EU and EU’s low export volumes to China. Garlic and apples are the two main export products of China to the EU with in 2006 51,000 and 33,000 tons, respectively, while the major import products from the EU, kiwi fruit and strawberries (frozen from Poland), do not exceed the level of 250 ton! This lack of balance suggests a limited degree of openness of China to products from abroad indicating that China has a protectionist bias. However, comparison of EU and US exports to China shows that the US completely outperforms the EU on the Chinese fruit and vegetable markets. Explaining this, Mr. Binard mentions three reasons that contribute to the difficult situation of European fruit and vegetable exporters. The first reason is the long-lasting depreciation of China’s Yuan Renminbi against the Euro. The second one is related to the application of WTO principles. EU has a permissive approach (“what is not explicitly forbidden, is allowed”) whereas China has a restrictive approach (“what is not explicitly allowed, is forbidden”), and this asymmetry in trade policy leads to asymmetry in trade flows. The third reason is the need to negotiate specific protocols separately for each EU member state, each product and each variety causing difficult negotiations and long timetables. The only way-out is greater transparency and simplification of procedures.

The perspective of a Chinese agricultural trader is brought up in the presentation of Ruiqing Huang on “China-EU trade: plants and seeds”. Although he sees major improvements over the last decade in China with respect to plant quarantine and the introduction of new varieties, three types of non-tariff barriers remain that significantly hamper China-EU trade in plants and seeds. First, lack of knowledge, imperfect technical facilities and unclear division of tasks among government authorities often prevent adequate and timely application of plant quarantine (PQ) measures. Second, plant variety protection (PVP) is insufficiently guaranteed making many EU breeders reluctant to sell their products in China, as can be inferred from the limited amount of foreign plant varieties that have been registered so far (only 18 in the period 1999-2007). Slow procedures, outdated testing technology and fraud are at the root of these problems. Finally, Dr. Huang emphasizes that cultural differences still play an important role in explaining failed business between European and Chinese trading partners. Chinese tend to build long-term relationships with their business partners based on trust, while European traders rather view trade as a contractual arrangement.

The last presentation is given by Eric van Rijn from Interfood BV. After a brief introduction of Interfood as international trader of dairy product components for the food and feed industry, he turns to the dairy sector of China. In recent years, rising incomes pushed up China’s import requirements to about 300 thousand ton but this year the amount will be lower due to the high world prices and a gradual shift in preferences from milk powder to fresh milk. The role of EU in these deliveries is only minor and confines itself mainly to whey. France dominates the EU exports of dairy products. The largest world-wide suppliers to China are New Zealand, Australia and the USA, who all have long-established trading contacts favored by their geographical proximity and whose

exports apparently fit Chinese taste. Dairy exports from EU to China are hampered by their prices as well as by taste differences (fat content). Attempts to promote European exports suffer from the lack of transparency of official regulations and registration procedures. Surprisingly, since this year there are also dairy exports from China to EU but, originating from a country with 50% manual milking and some 1300 small dairy factories, they have no chance to meet the EU food safety requirements and can, therefore, only be used in technical applications.

Summary statements of the workshop

The workshop provides ample opportunity for plenary and bilateral discussions, in order to deepen the insights in the issues brought forward and to understand how recent developments in China and the EU interact with trade flows. These discussions cannot be reproduced verbatim. The main lessons learnt appear to be as follows:

1. SPS concerns are dominant

SPS and additional quality and safety requirements imposed by firms create the main constraints on further expansion of exports from China to EU. Dairy products do not qualify at all. For imports into EU food safety is of essence. There is no comprehensive check on Chinese products with respect to food safety: a sample of about 10% of trade is tested. Higher testing volumes would lead to significant additional costs. It would be politically impractical to let EU take any responsibility, say, via inspections, outside its own territory. Conversely, making the EU-importers fully responsible for food safety would meet with resistance on their part but it would definitely help raising the pressure. It was also mentioned that companies with joint ventures in China that do more than importing tend to find it easier to operate.

2. Different views on SPS measures

Exports from EU to China essentially suffer from the fact that China does not comply with SPS. It imposes 100% checking of all trade, according to old, non-SPS regulations that essentially characterize the content of the product rather than its safety. In general, EU and OECD countries essentially see quality as an issue for the private sector, albeit that adequate grading is economically important, and want to focus on safety inspections. As a key difference it was mentioned that for imports into China everything is prohibited that is not explicitly permitted, while the EU permits everything that is not explicitly prohibited. Generally, the difficulties for exports fall into three categories: (1) bureaucracy; (2) lack of technical capacity; (3) use of NTB hurdles for policy purposes. Moreover, for the EU the SPS is to be negotiated in protocols by product, by variety, and most importantly, by member state, and strong member states like to preserve this situation.

3. Prospects for joint ventures

In the medium term, as long as it needs to find employment for its rural masses, China will like to produce standard livestock products domestically, while importing animal feeds. It was noted that the EU could seek expansion in that direction, by participating in

plant and animal breeding on Chinese territory, by helping to develop the chains and by investing into Chinese agriculture. It appears, however, that chain oriented projects often fail, partly because of lack of respect on Chinese side for intellectual property rights. Blueprints and approaches are often being copied without due compensation. Whether joint ventures will flourish in this field, therefore, greatly depends on the expected benefits. As far as livestock production in China is concerned, there still is a long way to go until EU breeders will find the sanitary environment secure enough to engage themselves at a large scale. On the other hand, large and well established companies with strong brands (like e.g. Nestlé) would by themselves impose strict food safety standards on their Chinese production sites, just to preserve their reputation as reliable food producer.

4. Most promising products

Overall, the discussion confirmed that China will focus on exports of horticultural products but mention was made of its exports of butter fat, currently for industrial use only. As to imports, the key question remains whether in the long run it will import meat or feed but it seems that the EU has limited expectation in this respect of its new members in the East becoming major feed exporters. Also about increasing EU dairy exports, expectations are modest since Oceania and US are strong competitors. With respect to specific imports into China, the expectation is that spirits, wines, special meats and cheese, in short, the high quality products have a future as niche goods, in view of rising incomes, irrespective of other policy adjustments. For fruits, vegetables and flowers, product heterogeneity will presumably maintain two-way traffic. The same holds in the short-term for poultry, where best parts are used within the EU, and bones, legs and offal are shipped to China. As final remark in this respect, it should be noted that imports and exports of fish and fish products largely remained outside the scope of the discussions.

5. The role of agricultural wages

There was also some discussion on the possibility of wages in rural areas of China to rise so much that it would no longer be possible to raise livestock and produce fruits and vegetables at limited costs, with Japanese experience as an example. It would seem, however, that China has far more room for gradually shifting its high value agriculture inland, away from coastal areas and for further mechanization of its production. Furthermore, the success of countries like Denmark and The Netherlands proves that it is possible to produce these products with high wages on small land areas.

6. Modeling implications

Regarding the implications for CATSEI-modeling, it seems clear that NTBs play a significant role, in creating wedges as well as frictions, so that price changes on world market may, particularly for the high value segment, not permeate fully into China for both exports and imports. On the EU-side the dichotomy is more outspoken, with goods that can enter and goods that cannot. At any rate, for high value, heterogeneous products (livestock and horticulture) it will be necessary to distinguish at the data level as much as possible products and varieties with their own prices and quantities, so as to isolate the various quality, protectionist and transport cost effects.

Appendix I Workshop program

Challenges and prospects for China-EU agricultural trade

12.00-13.00 Lunch buffet in the lounge outside the meeting room

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| 13.05 Welcome | Kees van der Meer, chairman |
| 13.10 CATSEI project – a presentation | Michiel Keyzer, project leader CATSEI |

Session I: Trade barriers: rules and regulations

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| 13.25 EU-China agricultural trade | Charles Dunkley, International Affairs, EU DG-AGRI |
| 13.45 Trade policy issues: SPS and TBT | Frank van Tongeren, OECD |
| 14.05 Concluding discussion on policy related issues | |

14.25 Coffee break (lounge)

Session II: Trade barriers: daily practice

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| 14.50 China-EU trade: plants and seeds | Ruiqing Huang, Beijing Rui Xue Global Co., Ltd |
| 15.10 China-EU trade: vegetables and fruits | Philippe Binard, Freshfel Europe |
| 15.30 China EU trade: dairy products | Eric van Rijn, Interfood BV |
| 15.50 Open floor discussion | |
| 16.30 Concluding remarks | Kees van der Meer |

16.45 Drinks are served in room Einstein

Appendix II List of participants

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| Kees van der Meer | World Bank |
| Frank van Tongeren | OECD |
| Charles Dunkley | European Commission, DG AGRI |
| Betty Lee | European Commission, DG AGRI |
| Wim Olthof | European Commission, DG Development |
| Wlodzimierz Konwerski | Ministry of Agriculture and Rural Development, Republic of Poland |
| Hélène Massan Fiagan | ACP Secretariat, Brussels |
| Philippe Binard | FRESHFEL, European Fresh Produce Association |
| Simon Pettinger | FRESHFEL, European Fresh Produce Association |
| Ruiqing Huang | Beijing Rui Xue Global Co., Ltd |
| Eric van Rijn | Interfood BV, Netherlands |
| Anne Randles | EUCOLAIT, European Association of Dairy Trade |
| Bernd Gruner | CELCAA, European Liaison Committee for the Agricultural and Agri-Food Trade |
| Hans Peter Schons | ADT, German Animal Breeders Federation |
| Simone Schwab | CMA, Zentrale Marketing-Gesellschaft der Deutschen Agrarwirtschaft |
| Cees Vermeeren | AVEC, European Association of Poultry Processors and Poultry Trade |
| György Endrödi | Hungarian Poultry Product Board |
| Isabelle Klopstein | ESA, European Seeds Association |
| Harry Smit | Rabobank International |
| Hans van Meijl | LEI |
| Lusine Aramyan | LEI |
| Michiel Keyzer | SOW-VU |
| Max Merbis | SOW-VU |
| Wim van Veen | SOW-VU |
| Le Chen | SOW-VU |
| Bo Liu | SOW-VU |