



## **Understanding Canada-China Food Trade: Behind-the-Border Barriers**

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The authors are grateful to those who reviewed the paper. Views expressed in the paper reflect those of the authors, and do not necessarily reflect those of the Asia Pacific Foundation of Canada.  
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**June, 2009**

**Executive Summary:** The Asia Pacific Economic Cooperation (APEC) trade position and the Doha Development Agenda (DDA) of the World Trade Organization (WTO) have both called for “freer trade, especially trade in agriculture... and to dismantle many barriers, particularly behind the borders, for freer flows of trade and investment” (APEC, 2006). This study seeks to provide information for policymakers and government, in order to gain an understanding of behind the border trade barriers for food exports to China, one of the world’s largest and fastest growing food markets. These barriers, which virtually all countries have, are also known as non-tariff trade barriers (NTB), non-tariff measures (NTM) or technical barriers to trade (TBT). In the case of food non-tariff barriers, these restrictions can sometimes include import regulations, such as food safety requirements, food standards, labeling requirements, inspections, import licences and (sanitary and phytosanitary conditions (SPS). They are sometimes used by food importing countries to restrict imports and protect domestic producers, even when there is no scientific evidence or health reasons for the restrictions. Following the paper’s introduction, background on China’s food trade is discussed, followed by identification of non-tariff food trade barriers in China, evaluation of non-tariff barriers, costs of non-tariff trade barriers and a summary. Ten steps are then suggested that Canadian stakeholders may wish to consider in order to enhance food exports, and to cope with non-tariff trade barriers for food in China.

## **Introduction**

### *Non-Tariff Barriers for Food in China*

Food trade barriers have been increasing in recent years. According to the Canadian Department of Foreign Affairs and International Trade (DFAIT): “...as the use of tariffs as a trade policy tool has diminished, there can at times, be an increased incentive for governments to use regulations and standards as an alternative, and less transparent means of restricting the entry of foreign products” (DFAIT, 2006). This is not unique to China or any particular country. Whenever there are advances in freer trade, such as China’s entry into the WTO, higher cost producers in a country will often try to have imports restricted. This is especially true when new markets are opened for trade, and domestic producers attempt to adjust to lower world cost structures.

The issue of non-tariff barriers in China food trade takes on increased importance for a number of reasons: 1) China is one of the world’s largest agricultural and food import markets; 2) many countries have trade deficits with China and believe that reducing non-tariff barriers could assist in reducing these deficits; 3) China is relatively new to the WTO and its food import regulations are not fully developed or understood, which may act as a non-tariff barrier; and 4) after China’s entry into the WTO, the many small Chinese farmers with higher costs (60-70% of the population is rural), have been forced to adjust to more competitive cost structures and world price levels, and this has put pressure on the agricultural and food sector, sometimes resulting in domestic protection and non-tariff barriers.

According to Ellen Terpstra, Deputy Under Secretary for Farm and Foreign Agricultural Services of the US Department of Agriculture (USDA), “While China’s

food trade environment is much more open than in previous years, China's trade partners still encounter many barriers to imports. Many market access barriers are SPS related" (Terpstra, 2005). The Food and Agriculture Organization of the United Nations states that "Increasing non-tariff measures may act as a critical barrier to the participation of developing countries in growing international trade" (FAO, 2005). They also state that "...non-tariff measures affect many food and agricultural products, and have a great impact on export revenues."

One 2009 example of a non-tariff barrier includes the April 2009 swine flu virus (H1N1) outbreak. China banned pork exported from Alberta (*Edmonton Journal*, 2009) and about 20 other countries banned pork imports (*Toronto Star*, 2009). This was despite the fact that it is impossible for the swine flu virus to pass from pork to humans, according to scientific evidence by three of the world's most recognized scientific bodies for food and health. According to a joint statement by the Food and Agriculture Organization of the United Nations, the World Health Organization and the World Organization for Animal Health, "Influenza viruses are not known to be transmissible to people through eating processed pork or other food products derived from pigs" (OIE, 2009).

In 1996, the USDA estimated that non-tariff barriers decreased the value of US exports by nearly US\$5 billion (FAO, 2005). The number of notifications (complaints) regarding non-tariff barriers has expanded steadily with the growth in freer trade (Figure 1). Removing these non-tariff barriers could improve the efficiency of trade and provide lower prices for consumers. This is especially important for China, because of China's growing food demand, rising food prices, and China's lower-income consumers who would like to buy food at a lower cost.

#### *Importance of China's Food Market: Large Population and Growing Income*

Since China's entry into the WTO in 2001, it has been one of world's fastest growing economies, and potentially a large food export market for Canada. Also, China has at least temporarily replaced Canada as the largest trading partner of the US. Income in China has more than doubled from the year 2000 to 2008, to about US\$3,000 per capita in 2008, and the population is about 1.3 billion making it the world's largest country, with about 20% of the World's population, according to the International Monetary Fund. China's population is still growing, and may add as many as 100 to 300 million people to the population by 2030. This is because the one-child family policy does not apply to 1) many rural families, 2) ethnic minorities, and 3) also to children from one-child families who marry another who is also from a one-child family. Also, there is some indication that China may slowly relax the one-child policy in future, as its population ages. Population growth, combined with growing income, could make China a substantial net food importer in future.

#### *Possibility of More Canadian Food Exports to China and other Countries: Diversifying Food Exports Beyond the US*

It is also important for Canada to consider more food exports to China (and other countries), and diversify beyond the US, given the large and growing Asian market. For example, demand for pork exports to China from Canada is expected to grow exponentially over the next decade (Manitoba Pork Council, 2008). Another reason

for diversification of exports beyond the US is the recent protectionist atmosphere regarding Canadian food exports to the US and the recent US economic downturn. The sluggish US economy in 2008/2009 and large future deficit spending could increase the debt-to-GDP ratio as high as 100% in future years, to among the highest in developed countries, and result in a possible loss of the triple A credit rating. This downturn and high debt could bring about more US saving and less consumption, a weaker US dollar, and less demand for Canadian food exports -- especially for more income-sensitive products such as meat -- and bring even more calls for US protectionism.

However, the disastrous US Smoot-Hawley Tariff Act of 1930, under which tariffs were increased to over 50% on over 3,000 products as a means to rescue the US from an economic downturn, resulted in a world trade war with a prolonged depression. The backlash led a number of countries, including Canada, to diversify more trade away from the US, and to the establishment of the GATT (and later the WTO). This serves as a reminder of the dangers of protectionism, especially in times of economic downturns.

A number of Canadian provinces have had 50% or more of some of their food and agricultural exports going to the US, which has created a risk of excess dependency on the US market, especially if US protectionism continues to emerge. While the US administration in 2009 has talked about the importance of free trade, actions have indicated otherwise for certain food exports from Canada.

For example, with the 2009 economic downturn, there has been lower demand for meat in the US and livestock producers have struggled, and this has contributed to protectionism. A small number of US agricultural producer groups (primarily R-CALF and the National Farmers Union) have successfully lobbied the US government to impose country of origin labeling (COOL) regulations (which are non-tariff barriers), on cattle and hogs originating in Canada. This legislation protects US producers from foreign competition. COOL regulations essentially require that US meat processors segregate live Canadian cattle and hogs from US animals and label the package to be sold in the store as containing Canadian meat. But this has been too costly for most processors, and has resulted largely in the processors being unwilling to accept Canadian animals. By April, 2009, it was estimated that Canadian cattle producers had lost \$400 million in cattle exports to the US, and hog exports to the US had dropped by 40%, because of US COOL regulations. Canada is now challenging US COOL regulations at the WTO (Winnipeg *Free Press*, 2009). Further, by late May 2009, finished pig exports from Manitoba the US ("market pigs") had dropped from earlier levels of 25,000 pigs per week to 3,000 per week (Manitoba Pork Council, 2009).

#### *Threat of Rising US Protectionism for Food, Agriculture and other Products*

Unless there are changes, US COOL (country of origin labeling) regulations could essentially close the US border to a large share of Canadian livestock exports, and change Canadian exports to processed pork and beef, rather than live animals. As well, the US market loss for Canadian live animals would require building more meat processing capacity in Canada. This could channel more Canadian processed beef

and pork into Asia, including China, given the rising income and growing market. Once the meat is processed, it could be exported to a number of markets instead of the US. However, live animal exports for consumption in Asia would be uneconomic due to transportation distance. Keeping international markets open for Canadian livestock is especially important for the financial survival of many producers, given their recent struggles with high feed grain prices, weak livestock prices, and a strong Canadian dollar, in addition to COOL and BSE non-tariff barriers.

The US protectionism trend highlights the need for Canada to consider diversifying some of its food trade away from the US, to newer and growing markets such as China, especially if more Canadian food exports are restricted by the US. This is also in light of broader protectionist views expressed during the 2008 US Presidential Debates by both President Obama and then-Senator Clinton to renegotiate NAFTA (from which they later attempted to distance themselves). Protectionism has also been reflected in the “Buy American” clause in the US Administration’s recent US\$787 billion stimulus package which may shut Canadian firms out of billions of dollars of exports and business in the US. Broad US protectionist talk has also included consideration of imposing tariffs or taxes to restrict energy exports from the Canadian oil sands if the US considers it to be “dirty energy.”

#### *Reasons for Non-Tariff Food Trade Barriers in China*

While US non-tariff barriers have been rising, Canada also faces some challenges with China’s non-tariff barriers for food. There are many reasons why China and other countries place barriers on food imports: sometimes these protect consumers from unhealthy or dangerous food imports that could harm consumers, due to food safety issues; other times, food safety is not an issue and domestic producer forces have applied pressure to restrict imports to permit domestic farmers and the food industry to gain an advantage over imports, and avoid competition with lower-cost imported food. For example, it was alleged in the case of BSE (“mad cow disease”) that beef from Canada and the US was restricted by Japan, China and South Korea, even though recognized world scientific bodies considered the beef “safe.” Also, barriers may be imposed, for example, during periods of an abundant harvest and excess domestic supplies. As well, it is alleged by some Western exporters that China may attempt to block imported food, as a response to Western countries that have banned various Chinese products for alleged safety concerns including toys, toothpaste, and melamine-related concerns.

However, Chinese food producers have also been subject to some recent relatively high non-tariff barriers, especially by Japan, where a considerable amount of Chinese food is imported for Japanese hotels, restaurants and other institutions. In May 2006, a new law came into effect in Japan which substantially served to restrict Chinese agricultural and food imports through non-tariff barriers. “The new law stipulated about 97,000 limitation standards on 135 kinds of foodstuffs and 724 kinds of pesticides. But before May, there were 9,000 limitation standards on 130 kinds of imported farm products and 229 kinds of pesticides, meaning the old standards equaled only 10% of the new” (*China Daily*, 2006).

### *Types of Non-Tariff Barriers for Food in Various Countries.*

Non-tariff barriers include barriers to trade that are not tariffs. Examples of food related non-tariff trade barriers may include at least some the following: 1) WTO SPS standards for food/meat (e.g. BSE in beef, avian flu, foot and mouth disease for pork, contaminants, chemicals, residues and bacteria); 2) food labeling and nutritional regulations; 3) food grades, standards and inspection requirements (e.g. for meat and grain); 4) safety standards regarding food additives, and hormones and antibiotics given to animals (e.g. meat and dairy products); 5) quality assurance certifications, approvals, stamps and institutional acceptance (e.g. government, private, international, etc.); 6) food regulations on ingredients, preservatives and extended shelf life, irradiation, product expiration dates, packaging regulations and processing/handling regulations (e.g. HACCP); 7) organic and green food standards; 8) traceability standards of food (tracing food from farm to processor to retailer to consumer; 9) genetically modified (GM) food regulations; 10) country of origin; 11) food import licences; 12) undervalued currency exchange rate; 13) trade retaliation; and 14) patriotic factors.

### *Costs of Non-Tariff Food Trade Barriers*

The Uruguay Trade Agreement of GATT (later WTO) in 1994 brought agriculture (and food) under the agreement, along with the elimination of trade distorting subsidies. Quotas and non-tariff barriers (with some exceptions) were also to be converted to tariffs, in order to make trade restrictions transparent and measureable. While non-tariff barriers were to be prohibited, many countries have managed to maintain previous non-tariff barriers for food, and create new ones as well.

Non-tariff trade barriers can be costly and lead to trade disputes with costs such as blocked imports, shortages and higher prices, legal costs, delays in shipments, late penalties, extra warehousing and storage costs, food spoilage, exceeded product exportation dates, rejected shipments and simply lost sales. In the case of China, a considerable share of these higher costs is often passed on to the Chinese consumer in the form of higher prices.

### *Benefits of Fewer Non-Tariff Food Trade Barriers in China*

Through reducing or eliminating non-tariff barriers to trade, Chinese policymakers can assist in providing Chinese consumers with more abundant food supplies and at lower prices, which is especially important for lower income consumers. Given the 2008 world food shortages, the United Nations Agency FAO has advocated that countries spend US\$30 billion annually to feed the world's 860 million hungry people, which is about one tenth of the US\$300 billion spent annually on farm subsidies (Moore, 2008). However, reducing non-tariff barriers for food could also be very useful in solving world food shortages and the high cost of food. A study by IFPRI indicates that getting rid of trade restrictions could result in up to 30% lower food prices in some countries (*Economist*, 2008a).

Lowering of non-tariff trade barriers could also boost Canadian food exports and assist with lowering of Canada's relatively large trade deficit with China. As Canada's fourth-largest and fastest-growing trade partner in 2008, Canadian imports from China were about \$42 billion annually, while Canadian exports to China were lower at about \$10 billion, leaving a large trade deficit of \$32 billion for Canada (Figure 2). According to *The Globe and Mail*, "Canada's imports from China soared 17%" from 2006 to 2007 (York, 2007). Canadian food exports are an important contributor for Canada's trade balance with China. Over the years, the agricultural industry in Canada has exported products to China such as wheat, canola, some higher valued dairy products, and meat and processed foods.

### **Background on China's Food Trade and Growth**

China's role in the world food trade is growing along with its economy. China mainly imports food from North America, Latin America and Asia, and exports food to Asia, North America and Europe. According to the Asian Region Food Strategy Review (Stanton, Emms and Sia (2008), the Chinese market for imported food was growing at 27.7% annually from 2002 to 2006, with food imports rising from approximately US\$9 billion to US\$21 billion. China has been experiencing the fastest growth in food imports in Asia. This has been driven partly by China's high 9-10% annual economic growth for over 15 years since the early 1990s, and also the liberalization of its market since China entered the WTO. In 2006, some of China's main food imports included oil seeds (US\$ 8.1 billion), fats and oils (US\$3.9 billion), fish and seafood (US\$3.1 billion), cereals (US\$820 million), vegetables (US\$755 million), fruit (US\$738 million), meat and poultry (US\$685 million), sugar (US\$617 million), drinks (US\$585 million) and dairy products (US\$565 million).

From 2002 to 2006, China's annual imports of meat and poultry increased by 1.9%, fish and seafood increased by 20.3%, dairy products increased by 21.5%, vegetables increased by 57.8%, fruit increased by 19%, unprocessed cereals increased by 14.1%, milling industry products increased by 31.8%, oilseeds increased by 38.5%, fats and oils increased by 29.6%, sugar increased by 24.2%, and drinks increased by 59.1%, according to China's National Bureau of Statistics (2007). China's geographic location allows it to produce a wide range of agricultural and food products, including fruits, vegetables, grains, livestock, poultry and seafood. Therefore, China mainly uses imported food to cover the shortfalls in its own production. Although China is a large food importer, the value of China's food exports is still greater than its imports. In 2006, food imports were valued at US\$21.4 billion, and its exports were valued at US\$27.6 billion, though this may reverse in future with higher income and larger population.

## Identification and Analysis of Possible Non-Tariff Barriers for Food

### *A Few Specific Examples of Possible Non-Tariff Barriers for Food*

#### Food Labeling:

- COOL (country of origin) labeling
- GM (genetically modified food) labeling

#### SPS (Sanitary and Phytosanitary) conditions:

- measures for diseases of BSE, avian flu, foot and mouth disease, Salmonella, etc.
- low residue limits for hormones, ractopamine in pork, etc.

#### Other:

- Food inspections
- QIP (Quarantine Inspection permits) and import licences
- Imposition of unscientific standards (in contrast to Codex and OIE recognized by WTO)

### *Food Labeling*

*Food Labeling and Codex.* Labeling requirements for packaged food products have become an important issue for international trade, and may sometimes become non-tariff barriers. Common agreements on labeling systems between countries could lead to fewer trade disputes regarding non-tariff barriers. However, common agreements are not always being reached and so there are different labeling systems between nations. Codex was initiated in 1963 by the Food and Agriculture Organization (FAO) of the United Nations and the World Health Organization (WHO), in order to develop food standards and guidelines for the joint FAO/WHO Food Standards Programme. According to Hobbs (2001), "Although the general philosophy of the Codex approach is widely accepted, in practice getting countries to accept and implement codes standards has been more difficult," and Codex standards are sometimes only being used as a guideline when there are disputes within the WTO agreement on the application of sanitary and phytosanitary measures, which is known as the SPS Agreement.

*Food Labeling in China and Trade Disruptions.* According to Chinese government policy, any packaged food imported into China must meet its mandatory labeling requirements. The mandatory labeling requirements include the name of the food, the list of ingredients, net contents, weight, name and address of the manufacturer and distributor, date, storage instructions, quality grades, and whether the package contains irradiated foods or genetically modified foods. However, labeling for energy and nutrients, batch identification, and product instructions are voluntary.

Some types of labelling requirements have a tendency to trigger trade disruptions, and "Often, disagreement arises as to whether the labeling of process attributes is primarily for the benefit of consumers or is a trade measure designed to protect the interests of domestic producers" (Hobbs, 2001). In other words, labeling

requirements can be used as a non-tariff barrier to protect farmers, and the domestic food industry from import competition.

*Labeling of Fumigated and Irradiated Food.* For example, a mandatory labeling requirement for irradiated foods may reduce the sales of imported irradiated foods, since some consumers view food irradiation with uncertainty, or believe it to be unhealthy. Yet, chemical fumigation, which is a similar practice, is not facing the same requirement. The Consultative Group on Food Irradiation (CGFI) claims that “Given the unfair marketing position and additional expenses of mandatory labeling of irradiated foods when competitive chemical treatments do not require it, labeling of irradiated foods should be voluntary” (Marcotte, 1998).

*Labeling of GM (Genetically Modified) Food.* Genetically modified organisms (GMO) food, also known as GM food, can be seen as a product’s process attribute, which is the way a food is produced, or a characteristic of the product. With the strong mistrust of GM food by many consumers, the mandatory labeling requirements of GM food may become a non-tariff trade barrier. “Labeling of genetically modified food is probably one of the most important trade issues with respect to process attributes at the moment. For various ethical, environmental, and food safety reasons, some consumers do not wish to consume genetically modified food” (Hobbs and Plunkett, 1999). GM food is a relatively new concept for many Chinese food consumers, and more Chinese consumers have an increased interest in food safety and biotechnology issues as income rises and food choices increase. Therefore, new regulations regarding GM food were created by the Chinese central government in 2002. “The Ministry of Agriculture announced three new implementation regulations on biosafety management, trade, and labeling of GM farm products, that were planned to take effect after March 20, 2002” (Huang and Wang, 2002).

The mandatory labeling requirements for GM food in China may raise costs for food processors, retailers, and consumers. “The firms must ensure that food is accurately represented to the consumer. This increases the information, monitoring and enforcement costs of the supply chain, providing an additional incentive for closer vertical coordination along the agrifood supply chain” (Hobbs and Plunkett, 1999). Often the higher costs associated with labeling are at least partially passed on to consumers. Since there is still no material scientific evidence of any GM food safety concerns regarding consumers, agricultural producers in both Canada and the US have opposed a mandatory labeling requirement, and argue this requirement will only create unnecessary costs in the food system. However, proposed legislation in Canada may revisit GM food labeling, as more consumer groups are becoming vocal about GM food issues (Carter, 2008).

#### *GM Wheat and Labeling.*

Many GM products are consumed everyday in the global food market. Among the products, genetically modified wheat is facing a serious marketing challenge. Wheat is often for direct human consumption in contrast to feed grains, and so the consumers are more concerned about whether the product is safe, and so GM wheat has yet to be commercially produced on a large scale. But unlike wheat, canola and soybeans are often processed into vegetable oils, which are often exempt from GM

labeling since the GM protein is believed to be removed during the procedure. Therefore, wheat farmers may have missed out on the profits that biotechnology has brought to the producers of canola, soybeans and corn. However, GM food exporting countries such as Canada and the US argue that since there is no scientific evidence that GM food is harmful, and they argue that blocking it violates WTO rules.

*Country of Origin Labeling (COOL).* Currently, China does not have a country of origin labeling (COOL) requirement, and therefore the COOL requirement poses no immediate threat to food exporters that are exporting to China. However because countries like Japan, Korea, United States, and Canada are paying more attention to this issue, China may adopt such requirements in the future. Supporters of the mandatory COOL requirement believe that it may provide more of a competitive advantage (a non-tariff barrier) for domestic products, and they argue that consumers have a right to know the origin of their food in order to make a proper choice. However, opponents of the mandatory COOL requirement believe it is another non-tariff trade barrier to increase the costs for importers and consumers. The US 2002 Farm Security and Rural Investment Act (2002 Farm Bill) requires retailers to provide consumers with information on the country of origin of their products, and “The 2002 COOL provision has become one of the most polemic labeling programs” (Loureiro, 2005).

In May, 2008, the United States Congress approved a new five-year farm bill, and Canadian agriculture minister Gerry Ritz promised to launch a trade complaint if COOL provisions in the bill take effect and hurt Canadian exports (Wilson, 2008). Later, in April 2009, Canada filed a formal complaint at the WTO on US COOL regulations for meat, as it was estimated that Canadian cattle producers had lost \$400 million in cattle exports to the US, and hog exports to the US had dropped by 40%, because of US COOL regulations (Winnipeg Free Press, 2009).

*SPS (Sanitary and Phytosanitary) Measures.* SPS measures such as preventing the import of certain food products are often taken to protect against risks linked to food safety, animal health and plant protection, and can sometimes become non-tariff barriers. For example, banning imports of certain animals or plants may prevent the spread of a disease or pest, or protect humans from unsafe food diseases or bacteria found in food. Regarding SPS, Japan is known to often have some of the strictest requirements in chemical residues and microbial levels when dealing with agricultural imports, however, Chinese requirements sometimes are even tougher. One reason is because China is relatively new to the WTO, and only started importing more agricultural and food products on a larger scale in the past thirty years, and so is not yet fully experienced in dealing with SPS world scientific standards.

*Levels of China’s SPS Standards.* China does not have a long established legal infrastructure and regulation for international trade, and has since attempted to catch up by sometimes choosing the toughest rules from other countries. When there was no international standard established by other countries or agencies such as Codex, China established its own standards. “These China-specific standards sometimes

appear to lack a particular technical or scientific basis, and could create significant barriers for China's markets because of the high cost of producing products that comply with the China-specific standards" (USTR, 2008). As well, according to the USTR, "In 2006, China's general lack of transparency remained a problem. China either failed to notify or belatedly notified to the WTO on numerous SPS measures, resulting in measures that were adopted without the benefit of comments from other interested WTO Members" (USTR Press Release, 2006).

*SPS and Ractopamine Residues for Pork.* Officials from China seized US pork which contained ractopamine residues in July 2007, and two months later a Canadian shipment was seized for the same reason. Ractopamine is a drug used as a feed additive to add leanness and muscle growth in swine, and is not a steroid or hormone, and is approved by 26 countries, though not China. According to the United States Food and Drug Administration, the use of ractopamine was approved in 1999, and since has been approved by many countries for feed use. However, China's policy towards ractopamine is zero tolerance. International pork producers hope that China can be convinced in future that residues of ractopamine have no harm to humans.

*Ractopamine and Delisting of Pork Plants that Export to China.* Martin Rice, executive director of Canadian Pork Council has stated regarding ractopamine, "We are hoping that China will, as Japan did, look at the tolerance that the international body called Codex is arriving at even though it has not yet made the product available for its own producers." Still, China stood firm on this issue and until December 2007, China had delisted 15 US pork plants from exporting pork to China due to pathogens and animal drug residue issues such as ractopamine, and two Canadian plants were delisted. Ractopamine and pathogens may be examples of China's SPS restrictions on imported food, "in total China denied entry to Canadian food products on 70 occasions for incorrect labeling and 57 occasions for violating health safety standards in the period from January 2006 to March 2007" (York and Shufelt, 2007).

*BSE (Bovine Spongiform Encephalopathy) Food Trade Issue.* BSE was discovered in England in 1986, and according to USDA's data there are more than 180,000 confirmed cases in cattle worldwide. The first human case of BSE was found in 1994 in North Wales. Before that, scientists and the general public believed BSE was equivalent to Scrapie, a disease commonly found in sheep that did not infect humans. Around 200 people are believed to have died worldwide, though the disease is now believed to be controlled and "low risk." As the world reacted to BSE, it also became another non-tariff trade barrier for which some countries would block foreign competitor's beef products.

#### *BSE and Canada's Beef Trade in China.*

In May 2003, the Chinese agriculture ministry announced a ban on imports of live cattle and beef from Canada, after Canada found its first case of BSE, also known as mad cow disease. Half a year later China put another immediate ban on imports of US beef and beef related products. This was after the United States found its first case of BSE. In 2007, after Japan lifted its ban on North American beef from cattle up to 20 months old, Canadian beef was still blocked from the Chinese market.

Also, Canada had exported about 30 million dollars of tallow to China annually before the BSE ban was imposed, and tallow is considered zero risk for BSE contamination. However, China's border remains closed to all North American tallow. As well the Paris based World Organization for Animal Health (OIE), which is recognized as a reference organization by the WTO, has designated the US and Canada as controlled risk countries for BSE. Some argue that China may be using the BSE issue as negotiating power in order to get more favorable access to other markets. An example might be allowing Canadian beef into the Chinese market in exchange for allowing more Chinese poultry access to the Canadian market, as the Canadian poultry market is heavily protected by high tariffs, and as well may be partially protected to some extent by potential food safety non-tariff barriers.

*Trade Concerns Over BSE, Avian Flu, Foot and Mouth Disease, and Listeria.* The world has been facing concerns related to food safety, given the greater movement of people and plant and animal products between countries. As well, there has been greater publicity of news reports of food safety problems, and also more testing and identification of food safety problems, which may have earlier gone unnoticed. Consequently SPS's importance will likely grow in the future, especially in the sectors of meat and dairy. The 2008 Listeria meat contamination at a large company in Canada allegedly was related to at least 19 Canadians dying, many of whom were senior citizens. Three children allegedly died from toxic milk powder containing melamine in China. The number of ill children had increased to 294,000 worldwide, according to a World Health Organization (WHO) report in December, 2008. Therefore, SPS regulations are important in ensuring the protection of human, animal and plant health.

#### *Import Licences*

*Quarantine Inspection Permits (QIP).* Upon China's entry into the WTO in December 2001, China committed to the nondiscriminatory, fair, and simplified application process for import licenses. However, complaints have been filed by many foreign license applicants and importers, as they claimed some sensitive business information was required without explanations, for the license application, leading to non-tariff barriers.

A Quarantine Inspection Permit (QIP) requirement was imposed by China's Administration of Quality Supervision, Inspection and Quarantine (AQSIQ). This requirement is one of the most important trade policy issues that adversely affect China's agricultural trading partners, and it has reportedly led to many restrictions on imports of agricultural commodities. "Two AQSIQ measures issued in 2002 require importers to obtain a QIP prior to signing a purchase contract for nearly all trade agricultural commodities" (USTR, 2008). The slowdowns and suspensions on issuing QIPs were particularly troublesome for agricultural commodities, since some commodities are perishable, and may diminish in quality with time.

The related costs of the slow issuance of the QIP, such as storage, labour costs, and spoilage, are often passed on to the Chinese consumers, and food exporters to China have also been concerned about these extra costs. Officials hope to see some progress on the QIP system soon, especially the arbitrary quantity limits on

imports, through QIP's, which have been allegedly used often by AQSIQ during the peak harvest season in China. These limits on the inflows of imported food commodities during harvest are reportedly used to reduce any excess domestic food supplies during harvest, and prevent prices from falling, according to the USTR 2008 report.

*AQSIQ's Relationship with the Canadian Food Inspection Agency (CFIA).* The CFIA has been regarded as effective and well respected, both nationally and internationally in preventing the spread of food born diseases and illnesses. The surveillance plan and protocols for the various industry sectors are at the upper end of international standards. China's AQSIQ has received a considerable number of its ideas from CFIA. AQSIQ has often sent a number of its employees to the CFIA in Ottawa for training during the year, and a considerable share of AQSIQ's upper management team was trained in Canada, and both sides have benefited from this exchange. However, the BSE outbreak in 2003, and the 2008 outbreak of Listeria at a large Canadian meat processing firm with reportedly at least 19 related deaths, has presented challenges for food safety in Canada and unfavorable publicity. Also, prior to the outbreak of Listeria, the Canadian government had proposed that CFIA hand over more of the food inspection duties to industry, and this was alleged by some to lead to less rigorous inspections, though it appears that this has been at least partially reconsidered by the government.

#### *China's Currency Exchange Rate*

Another alleged non-tariff barrier has been China's supposedly undervalued or "manipulated" currency. Some argue that this could potentially favour Chinese exporters by providing lower cost exports. The argument for the undervalued currency is that the "low" Chinese Yuan exchange rate is set by the government. Therefore, this would make Chinese imported goods relatively more "expensive," and Chinese export goods "cheaper," so would serve as trade deterrent and a non-tariff trade barrier.

However, the above argument is likely weak, and China's currency may not be undervalued. The argument against China's currency being undervalued is that Chinese prices are relatively flexible and free to adjust in the long-run in response to decreases in the Chinese exchange rate. Therefore, prices in China should rise to competitive levels with a lower currency value, and Chinese goods and exports would not be unfairly "cheap" and would not gain a trade export advantage. The US government also appears to agree with this view, as on April 15, 2009 the US Treasury Department's report on foreign currency practices determined that China was not manipulating its currency to gain an unfair trade advantage.

#### *Trade Retaliation*

*Toothpaste and Toys from China in the Media.* It is sometimes alleged that trade retaliation can sometimes lead to non-tariff trade barriers. In 2007, China was hit by a string of food and product safety scandals, including tainted toothpaste, contaminated pet food, and lead in toys.

“Parents worried as lead ... showed up in toys and over-the-counter kids’ medicines came under scrutiny. Several pet owners were also devastated when their animals died after eating food tainted with poison. And the “made in China” label took on new meaning as the source of several contaminated products was traced back to the country” (CTV News, 2007).

Much attention was given in the western media about safety concerns over Chinese made products and falling consumer confidence in western countries regarding Chinese products. The Chinese government had criticized the US media claiming that it was unfair and irresponsible for the US media to single out China by exaggerating China’s food safety problems and misleading the consumers. The American Chamber of Commerce in China voiced concern that overly political legislation in the US could “undermine the international trade regime, derail constructive dialogue, and ultimately weaken the competitive position of U.S business and overall economy” (McCary and Batson, 2007).

*Food Trade Retaliation.* “Friday’s (June 08, 2007) announcement said Chinese inspectors in the ports of Ningbo and Shenzhen found bacteria and sulfur dioxide in supplements and raisins shipped by three American companies. No details were given on when or how the inspections were conducted” (Fox News, 2007). To some, this statement appeared to suggest that China may have been engaging in trade retaliation, regarding the tainted toothpaste, contaminated pet food and the lead in toys. Also, some analysts believed that China was trying to show the world that it was not the only country having safety issues, and it was also reminding the West that excessively publicizing safety concerns of Chinese products would be not in their best interests as well, especially if they want to narrow their trade deficit by exporting more products to China. Also, 15 US meat plants and several Canadian plants were delisted for exports to China, and some questioned whether this was retaliation for the toothpaste, pet food and toys.

#### *Patriotic Non-Tariff Trade Barriers*

*2008 Olympic Incidents and Boycott of French Business and Carrefour in China.* An incident with the Beijing Olympic Torch Relay in 2008 brought widespread anger among Chinese citizens both inside and outside China. A picture of Jin Jing, who was in her wheelchair and was a Chinese Paralympics’ fencer, was shown in the news as she protected the Olympic torch, from adversaries in France. Since the incident, angry crowds had gathered outside the French-based Carrefour supermarket stores in China, and were protesting. According to *Business Week* on April 22, 2008, “If the anti French protests spread, they could harm not only Carrefour, but also luxury goods maker Louis Vuitton, which count China as one of their fastest growing markets” (Matlack, 2008). Such retail and luxury products were at high risk, as well as French food products, since these products were highly visible to consumers. These protests concerned Carrefour deeply, since its business in China had generated almost €3 billion in revenue in 2007. Carrefour board member Jacques Beauchet told Reuters in a telephone interview that “It is too soon today to estimate the impact on sales. We won’t be able to make a precise assessment of the situation until the end of May since we have to go through May Day. Boycott calls are notably targeting May Day,” and he added that Carrefour

could not so far assess the impact of the boycott on its image in China (Reuters, 2008).

### *Improving Food Safety for Consumers and Canadian Food Exporters*

Given the previously mentioned SPS food safety problems in Canada such as BSE and Listeria, it is possible that Canadian food exporters may face more non-tariff barriers in various countries related to these problems. In order to build more trust regarding Canadian food exports and avoid non-tariff barriers, better food safety is needed in Canada.

One possibility is to consider ensuring broader participation in food safety through a national comprehensive food safety system and data base. A comprehensive food safety system and database would more quickly and comprehensively test, identify, report, and track food safety problems and food borne diseases, share information, and then more quickly alert consumers and the food industry to disease or illness, and quickly initiate product recalls when needed. This would entail improved procedures, information sharing, communication, cooperation, and transparency between municipal, provincial, federal authorities, and international authorities, regarding food safety, and avoiding jurisdictional struggles.

For example, a month passed from the time of the first death from Listeria until there was a widespread recall of meat products linked to Listeria. This was according to the Chief Medical Officer of Health's Report on the Management of the 2008 Listeriosis Outbreak in Ontario (Williams, 2009). A number of deaths may have been prevented had there been improved and timely information sharing and food safety procedures, and no jurisdictional struggles among municipal, provincial, and federal authorities. This would have allowed a wider meat product recall to occur sooner. The above report also highlights many helpful food safety related recommendations. For example, it recommends that fingerprinting tests of bacterial strains be done regionally rather than always sending samples to federal labs in Winnipeg and Ottawa for tests. It also recommends that local public health units should be better educated in sampling and testing regarding diseases in order to better manage outbreaks, and there needs to be better coordination between government authorities.

The above improvements would be helpful for domestic food safety, product recalls, and also for building trust in Canadian food exports. Canada could consider this approach through building more cooperation among existing systems and databases, or consider other cost effective alternatives. One example of a well recognized food safety database is FoodNet in the US (see box).

#### *FoodNet Data Base: An Example from the US*

"The Foodborne Diseases Active Surveillance Network (FoodNet) is the principal food borne disease component of the Centers for Disease Control (CDC) Emerging Infections Program (EIP). FoodNet is a collaborative project of the CDC, ten EIP sites the US Department of Agriculture (USDA), and the Food and Drug Administration (FDA).

The project consists of active surveillance for food borne diseases and related epidemiologic studies designed to help public health officials better understand the epidemiology of food borne diseases in the United States.

Objectives of the Network:

- Determine the burden of food borne illness in the United States
- Monitor trends in the burden of specific food borne illness over time
- Attribute the burden of food borne illness to specific foods and settings
- Disseminate information that can lead to improvements in public health practice and the development of interventions to reduce the burden of food borne illness.”

Source: <http://www.cdc.gov/FoodNet/index.htm> .

## **Evaluation of Non-Tariff Trade Barriers**

### *Equity and Fairness for Food Importers*

*Enforcement of Pesticide Residues, Hormone Use, and Sanitation Standards.* While the trade policy of many countries including China is often recognized to be generally equitable and fair, some of China’s trading partners are concerned about unfair standards and policies, which are alleged to be only directed towards Chinese food imports, rather than domestic food producers in China. As mentioned earlier, China has some of the toughest food safety standards regarding imported food, yet domestic producers are sometimes not required to meet the same standards. The Chinese Ministry of Health sets limits on pesticide residues on food and hormone use and there are about 400 food sanitation standards, but the enforcement of these standards is not strictly monitored.

According to the US Subcommittee on Oversight and Investigations Staff Trip Report conducted in China on August 2007, “When committee staff asked how closely these standards are followed, the response was that the firms holding a Ministry of Health (MOH) licence are believed to follow the standards by and large” (Dingell and Stupak, 2007). Nevertheless, there is no information on compliance by the domestic unlicensed firms. Much of these products are traded freely within the domestic market such as supermarkets and wet markets. The alleged lack of enforcement in the domestic food market could be unfair in some cases to imported foreign products that compete in the same market.

*SPS Zero Tolerance of Pathogens, Codex Consistency, and Laboratory Testing.* Another alleged non-tariff barrier is the ‘Zero Tolerance for Pathogens’ requirement that has received numerous complaints over the years. Since 2002, China introduced SPS related requirements on imported raw poultry and meat, which are not consistent with the Codex guidelines. For example, China has a zero tolerance limit for Salmonella bacteria, E. coli and Listeria pathogens. However, these pathogens can only be reduced through the process of irradiation, which some consumers are reluctant to accept. Moreover, the Chinese domestic raw poultry and meat does not need to comply with these stringent standards. Some Chinese

importers also allege unfair treatment and uneven enforcement of standards and technical regulations. For instance, imported products must be tested in certain designated laboratories and this can require prolonged waiting time. The laboratories' expertise in the field has also been questioned due to inadequate transparency.

*Lack of Coordination between AQSIQ, Certification and Accreditation of China (CNCA) and the Standardization Administration of China (SAC) for food imports.* It is also alleged that sometimes the Chinese local officials do not fully understand the complexities of China's WTO commitment, such as China's commitment for both domestic and imported products to face the same technical regulations, standards, and assessment procedures. "Coordination between AQSIQ and its affiliated bodies, the Certification and Accreditation of China (CNCA), and the Standardization Administration of China (SAC), is lacking, as is coordination between these bodies and China Customs and other ministries and agencies, at both the central and local government levels, on issues related to technical regulations" (USTR press release, 2006). These may result in inconsistency and confusion for many food importers in China.

### *Transparency*

The lack of transparency on how China's trade standards and regulations are developed has caused some concern among many of China's trading partners, as one principle of trade policy is transparency. Lack of transparency frustrates efforts of foreign and domestic businesses to receive the full benefits of China's entry into the WTO. For example, in 2008, in the report of the United States Trade Representative (USTR) on China's foreign trade barriers, the word transparency appeared forty two times, plus an entire section on the issue. The USTR report claims that, "the vast majority of Chinese standards-setting bodies are not fully open to foreign participation, in some cases refusing membership to foreign firms to vote". Many foreign firms have had a hard time finding out which regulations apply to their operations in China.

*Difficulty in Understanding Chinese Laws and Regulations.* To add to the problem, laws in China tend to be more general and vague than in some other countries, and government officials who implement laws are often given a high degree of flexibility, and foreign firms have alleged that implementation and enforcement of laws affecting foreign and domestic firms have been arbitrary at times and sometimes favor domestic firms. Although there is an effort to improve China's legislative drafting, it will likely take time. Thus, the lack of a clear and consistent set of laws creates barriers for China to fulfill the WTO requirement for transparency. To China's credit, it has been working hard on increasing the transparency of its trade related law and regulation since its WTO accession. "Today, the publication of central and provincial level reports, laws, regulations, and other official trade related texts can be found easily in China. This has contributed significantly towards transparency" (Synder, 2002). Nevertheless, transparency still remains a concern.

## *Scientific and Technical Basis of Food Import Regulations*

*Chinese Standards Versus Codex and OIE Standards.* A principle of food trade policy is that food safety import regulations should be determined on a scientific and technical basis, and recognized by world scientific bodies, such as Codex and OIE. Despite the well-established international standards, which are agreed upon by the international community, many Chinese specific standards were developed by China based on its own technical requirements. Many questions have been raised over these requirements. According to the USTR, “The Chinese-specific standards appear to be more in favour of protecting the domestic companies from competing foreign standards and technologies, rather than based on technical or scientific evidence” (USTR, 2008).

*More Scientific Basis Needed in Developing China’s SPS Standards, and BSE Controls.* Sanitary and Phytosanitary (SPS) measures have also been accused of lacking scientific evidence. Seven years after its WTO accession, the problem still allegedly remains large. “Various US agricultural exports continue to be subjected to entry, inspection, and labeling requirements, and these appear to be maintained without sufficient scientific evidence” (USTR, 2008). This was especially true when there were an increasing number of bans on western products in 2007 with limited details on when or how the inspections were conducted. Thus, many western exporters questioned whether China imposed these bans to show retaliation for recent western actions against Chinese products. To date, China has not yet provided any widely accepted scientific evidence on maintaining its BSE bans. As well, the Paris based World Organization for Animal Health (OIE), which is recognized as a reference organization by the WTO, has designated the US and Canada as controlled risk countries for BSE.

*Need for Scientific Tolerance Limits for Salmonella, E. Coli, and Listeria.* Many of China’s tolerance limits such as zero tolerance limits on Salmonella, E. coli, and Listeria pathogens do not appear to be consistent with scientific principles and risk assessment. The maximum residue levels (MRLs) accepted by China are another difficulty for exporting companies, since many of these MRLs are incompatible with commonly accepted Codex standards. Many exporters have encouraged China to develop or adopt standards that are more science based, and more broadly accepted.

### *China’s Import Procedures May Be More Flexible when Product is Needed: Example of Peas*

One aspect of doing business with China is that China may find flexibility in its procedures when needed. It is alleged in the Chinese food import industry that if a certain product is needed, China may relax its procedures to accept the product, if the product has much safer standards than are needed. An example may be the selenium level in peas, and China sets a 0.3ppm selenium tolerance level. This is considerably lower than other countries, and lower than necessary, and so can result in pea imports being easily blocked. However, China depends largely on imported peas for its vermicelli noodle market. Imports from Canada alone are about 75,000 million tons annually.

The selenium level in Canadian peas and peas from many countries is higher than 0.3ppm, but since China desires Canadian peas, it is believed that China tests residue levels for finished pea products only, which pass the tests more easily, rather than raw peas which are less likely to pass the tests. Similar cases can be found in other imported food products such as seafood. Imported food products, as well as Chinese food products, often exceed China's import tolerance levels for chemical residues, as sometimes China's levels appear to be set arbitrarily low compared to world standards, and with limited scientific basis.

### **Costs of Non-Tariff Trade Barriers**

Non-tariff barriers in food can constrain international trade, and cost billions of dollars in lost trade each year, and lower the welfare of consumers. China is one of the largest exporting countries and is facing challenges regarding its trade surplus, since many of China's trading partners are experiencing a growing trade deficit with China. The EU trade commissioner, Mr. Peter Mandelson has stated that "Chinese non-tariff barriers cost EU operators no less than €21.4 billion a year in lost business opportunities" (International Herald Tribune, 2007). Exporting nations are not the only ones affected by non-tariff barriers, but consumers in importing countries are also impacted through higher prices.

#### *Food Prices in China*

*The Role of Food Price Inflation in China.* Higher food prices can be costly, and in 2007, the price of pork rose 63.4%, fresh vegetables were up 46% and cooking oil was up 41% (2008, China Statistics Bureau), which has highlighted the need to lower the non-tariff barriers for food in China. Food price is a key barometer for inflation, since it makes up approximately 30% of China's consumer price index. In 2007, the 63.4% increase in pork prices triggered an abnormal increase in overall food prices, and the spillover effect has been reflected in the inflation rate. A few factors have played a role in the rising price of pork. One is the outbreak of the deadly blue-ear disease in 2007. According to *The Economist*, "the disease had infected 257,000 pigs in 26 provinces, of which 68,000 died and 175,000 were destroyed" (*The Economist*, 2007b). The other reason is that raising pigs have become more expensive due to costly raw ingredients such as feed. With the mounting pressure on soaring food prices and the inflation rate, economists speculated that the Chinese government would have to increase its pork imports, which could also involve a reduction in any pork non-tariff barriers at some point.

*Import Regulations in China Partly Contributing to High Pork Prices.* However, while the price of pork continued to spike in summer 2007, Chinese officials seized American and Canadian produced pork which contained ractopamine, and delisted a number of plants in the US and Canada for exporting to China, even though American and Canadian officials believed the pork was safe. These actions taken by the Chinese officials reduced pork imports, and did not help toward the lowering of pork prices in China, and made pork imports more challenging.

At the same time, Canadian pork producers were facing very low prices, high feed grain prices, and many were struggling to survive financially. It would have appeared that both Chinese pork consumers and Canadian pork producers could

have benefited from more pork trade between the two countries, rather than having the alleged non-tariff ractopamine pork restrictions by China. The pork market in China was an export opportunity for Canadian pork producers, since the pork industry in Canada faced challenges such as low prices, a strong Canadian dollar, and facing country of origin labeling restrictions for exports to the US. This was especially true in provinces such as Manitoba and Saskatchewan, where a number of pork producers were facing bankruptcy.

#### *Other Non –Tariff Trade Barrier Related Costs*

*Inefficiency Costs in Customs Clearance.* Delays of shipments can be caused by many factors, especially inefficiency in customs clearance or inspection delays. If imported products cannot get through customs clearance in a timely manner, or they must go through unnecessary inspections, then supply chain congestions will be unavoidable. This is largely because of the rising volumes and capacity constraints in many ports, and logistics channels. To avoid congestion, the ports and customs clearance must be managed in a timely manner. Lost time and extra logistics costs such as additional inventory costs, and food spoilage costs, are associated with delayed shipments and are often passed on to the consumer in higher prices.

#### *Costs of Container Delay at Port in China.*

One extra day incurred by a container load with a value of €40,000 would result in the following costs: First, opportunity costs (3%-4% per year) = €3 to €4.5 per day. Second, economic depreciation (typically 10%-30% per year for consumer products) = €10-€30 per day (Notteboom, 2006). If the products are time sensitive, delays will result in spoilage, or exceed product expiration dates, and the products will be rejected by the importers. In order to avoid the extra costs and sometimes even lost sales, avoiding delays are crucial.

*High Cost of Settling Trade Disputes.* Since China joined the WTO in 2001, and attempted to adjust to increased imports, it has increasingly become the target of WTO complaints. A number of China's trading partners allege that China is a major beneficiary of the WTO system, but does not fully comply with the rules, such as reducing non-tariff trade barriers. Trade dispute settlements through the WTO can be extremely costly and time consuming. This can include investigating a possible claim, to lobbying the government, and then pursuing with litigation.

#### *Legal Costs of Trade Disputes.*

"Taking a conservative estimate of attorney fees in trade litigation cases at a billable rate of \$350 per hour, one estimate of the average number of hours indicated that the bill for hourly legal services could run from \$89,950 for a "low" complexity Dispute Settlement Understanding (DSU) case to a \$240,100 for a "high" complexity case" (ACWL, 2004).

Aside from attorney fees, there are other costs linked with litigation support. For example, the additional costs for hiring trade and economic experts as witnesses for testimony, data collection costs, litigation related travel, communication, and accommodation costs. “A litigation only bill of US\$500,000 for an exporter for a market access case is likely to be fairly typical” (Bown and Hoekman, 2005). However, trading nations often try to settle any disputes through bilateral procedural agreements before taking the case to WTO, given the high cost and time delay related to WTO rulings.

### **Summary and Implications**

Overall, Canadian exporters need patience and a long-term commitment to succeed in China’s food market. It is important for Canadian food exporters to understand that because Canada is a relatively small trading nation (30 million population), it faces some limitations in exporting to the large Chinese food market (1.3 billion population). The small size means that Canada does not have the export capacity to gain a large share of the huge Chinese food market, and does not have the resources to “open” all markets in China. Therefore many Canadian food exporters to China may be better off to specialize in particular segments of the Chinese food market.

As well, the smaller size also means that Canada does not likely have the legal resources or economic power to challenge many non-tariff trade barriers, but instead is more likely to succeed through quietly solving food trade issues with China, and also working together with other food exporting countries in future WTO negotiations to reduce non-tariff barriers. Also, China is a relatively new player in international trade and the WTO, and with less experience than other countries, and so China’s policies and regulations may have more variation and less transparency than other countries.

China’s large population and economic strength may also allow it to act somewhat independently in its trade policies and interpretation of WTO rules. As well, despite its rapid development, China still lacks technologies used in food safety testing, and has incomplete legal infrastructure. Therefore, it may take five to ten years or more, before China develops an international trade system that more closely complies with international standards. Until then, exporters such as Canada may need to exercise some patience with agricultural and food trade and non-tariff barriers in China.

Finally, Canada should consider more senior level trade visits by Canadian government and business leaders. While Canada’s Trade Minister visited China in 2009, according to one analyst, Canada’s China trade strategy has “reached a dead end” and “we are far behind a number of competitive nations that are trying to work with the Chinese.” (Evans, 2009). Canada has had fewer high level government visits to China in recent years, making it more challenging for Canadian food exporters from a small country such as Canada to be visible and maintain trade and economic relationships at high levels with the Chinese government. The Chinese government plays a large role in China’s economy and trade, and high level on-going relationships and long-term commitments are looked upon favorably by Chinese officials. In Chinese culture, relationships may often take precedence over business agreements, trade agreements, and contract law, and many problems can be avoided or solved more easily through relationships rather than legal or other means.

Therefore, more high level visits are needed by high level Canadian officials in order to maintain strong exports to China, and resolve non-tariff barrier problems.

Ten steps are presented below which Canadian stakeholders may wish to consider in order to enhance food exports, and to cope with non-tariff food trade barriers in China.

**Government and stakeholders may wish to consider the following steps, in order to enhance food exports to China and cope with non-tariff food trade barriers in China:**

1. *Continue to organize Canadian trade visits to China.* Sufficient emphasis on food exports and well organized high level visits to China by Canadian food firms and government would indicate the seriousness of Canadian firms and their long-term commitment to the Chinese food market.

2. *Consider sharing more Canadian food safety knowledge with China.* Government, academic, and industry exchanges, where appropriate, could be a means of creating goodwill for food exports to China. One example is sharing Canadian technical expertise in food inspection (e.g. laboratory testing, food borne disease knowledge, residue tolerance levels, etc.), as this could provide goodwill in preventing or solving food trade challenges with China. A second example is sharing knowledge in the area of widely accepted international scientific food standards such as Codex and OIE, which are recognized by the WTO. In the past, the CFIA (Canadian Food Inspection Agency) has provided valuable training for China's AQSIQ (Administration of Quality Supervision and Inspection Quarantine), and it could be very worthwhile to continue this. More valuable knowledge on food safety provided by Canadians to experts in China may result in fewer non-tariff barriers for Canadian food entering China.

3. *Continue to invest resources in the CFIA.* A first reason for doing this is to improve the safety of Canadian food for Canadian consumers. But a second reason is to publicly demonstrate to Canadian consumers and international consumers, including China, that Canada has a strong commitment to food safety, and this would build trust for Canadian food exports.

4. *Invest sufficient resources in international food trade promotion regarding China.* This is important if Canada is to enhance its food exports to China, a country with the world's largest population and growing income, and one of the world's largest markets for agriculture and food products.

5. *Maintain a strong Canadian presence regarding Canadian food exports to China.* In order to overcome food trade differences and non-tariff trade barriers, Canadian food export stakeholders could work to maintain a strong presence in China. One way this can be done is through involvement and attendance in important Chinese public events where attendance by foreigners is welcomed and appreciated. Secondly, presence can also be displayed in a lower profile manner by discussing trade problems quietly in China, through building social relationships and friendships "guanxi" alongside official relationships. This is often more effective and less costly

than attempting alternatives such as legal trade action, or publicly raising differences through the media. Since personal relationships can sometimes implicitly take precedence over contracts or law in Chinese culture, it is important to build friendship networks “guanxi” in China. Thirdly, Canada could consider assisting China through technical assistance and relationships where possible on food safety issues, such as the melamine issue. This could assist in building goodwill for any future Canadian food safety trade issues such as BSE, Listeria, avian flu, swine flu (H1N1), etc.

6. *Canada should consider proceeding with extreme caution regarding creating any laws requiring labeling, or COOL (country of origin labeling) for food in Canada.* If Canada adds COOL legislation, then other countries may add COOL, such as the US has done with meat. COOL in the US has restricted Canadian meat exports to the US, as many US meat processing plants would not accept Canadian livestock as of 2008/2009. Unfortunately, COOL served as a non-tariff barrier, and could make Canadian food exports to other countries costly as well, because exports may not be accepted, or may be required to be labeled differently and possibly segregated at points in the supply chain of the importing country. A second form of labeling requirements that could hurt Canadian food is GM (genetically modified) food labeling. While there is no conclusive evidence that Canadian GM food is harmful to consumers, some foreign consumers may refuse it if it is labeled, and exports such as Canola could be harmed, given that nearly all Canadian Canola is GM Canola.

7. *Recognize Canada's size limitations in food trade with China.* Because Canada is a small country (0.5% of world population), with relatively small exports on the world stage, it has less influence on the Chinese trade policies. First, the small size often makes it too expensive to legally challenge trade cases in large countries such as China (20% of world population), where legal costs can often run in millions of dollars for a single product case. Therefore, Canada should take a more conciliatory approach to China, or else join larger population areas such as the EU, US, or Japan on common trade issues. Second, because Canada is a small exporter, and with smaller capacity, it must pick specific target markets within large countries such as China, rather than trying to supply all markets.

8. *Understand Food Trade Policy in Japan and South Korea, in order to better understand China's Food Trade Policies.* Japan and South Korea have a number of similarities to China, in terms of diet, culture, food security concerns, and small farm size. Therefore, at times, China looks to Japan and Korea for some of its food trade and agricultural policy basis. Therefore, in order to understand how China may respond regarding food market protection, SPS, and non-tariff food safety issues such as BSE, it is often helpful to look to Japan and South Korea. For example, if Japan and South Korea fully open their beef markets following BSE, it might be expected that China may consider doing the same.

9. *Ensure broader participation in a national food safety system and database in order to build more trust and transparency in Canadian food safety.* Improved food safety, through building higher trust in Canadian food products at home, and also for export, could help alleviate non-tariff barriers and SPS (sanitary and phytosanitary) concerns of importing countries, such as China, especially for meat and dairy products. A more comprehensive food safety system and database could more

quickly test, identify, report, and track food safety problems and food borne illnesses, and more quickly alert consumers and the food industry to disease or illness. This could also stimulate improved information sharing at the municipal, provincial, and federal levels which was lacking during the Listeria outbreak in 2008, and also avoid jurisdictional struggles which had occurred between these authorities. This approach would be helpful both domestic food and for food exporters, and for product recalls. Canada could consider improving database capabilities to track and report food safety problems, or cooperate with other databases, or undertake other cost effective alternatives. One of the most well known data base examples is FoodNet, a project of the US based CDC (Centers for Disease Control), ten EIP sites (Emerging Infections Program), the US Department of Agriculture (USDA), and the Food and Drug Administration (FDA). Source: <http://www.cdc.gov/FoodNet/index.htm> .

With broader participation in a food safety data base and more comprehensive reporting, food safety statistics could then be tracked over past years, and then disseminated and publicized regarding food borne diseases (e.g. Listeria, Salmonella, E. coli, etc.) on a per 100,000 population basis. An example is the Data Base Statistics, from FoodNet. This could provide more trust and transparency in the Canadian food system, and provide an indication of whether particular food borne diseases are increasing, constant, or decreasing over time. Source: <http://www.cdc.gov/FoodNet/factsandfigures/1.pdf> .

10. *Consider providing timely food safety alerts.* If any serious problems develop within the food system which would affect consumers, then food processors, retailers, and those countries that import Canadian food could be notified and more quickly to remove their unsafe product from the market. If a more comprehensive database with broader participation was available, this could help avoid unnecessary illnesses and deaths. Many food borne diseases affect particular age groups, often younger children or older adults (as for the case of Listeria) or expectant women, and so schools, senior citizen homes, or hospitals could often be targeted during alerts. Besides contributing to a healthier Canadian population, this could improve the safety of Canadian food exports and help lower the food safety related non-tariff barriers in other countries such as China, and enhance Canadian food exports.

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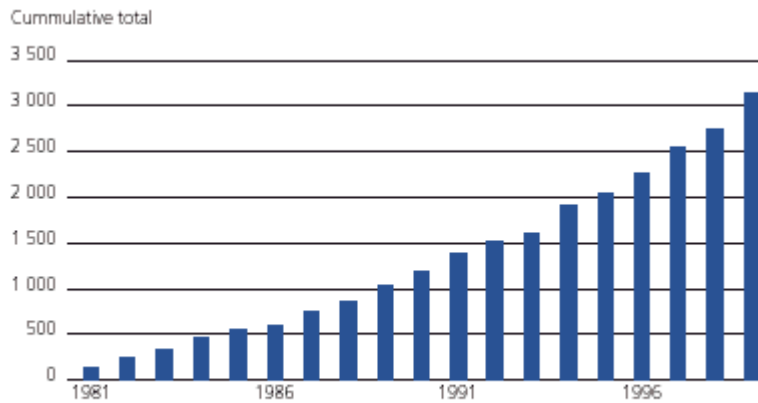
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## FIGURES

(Figure 1)

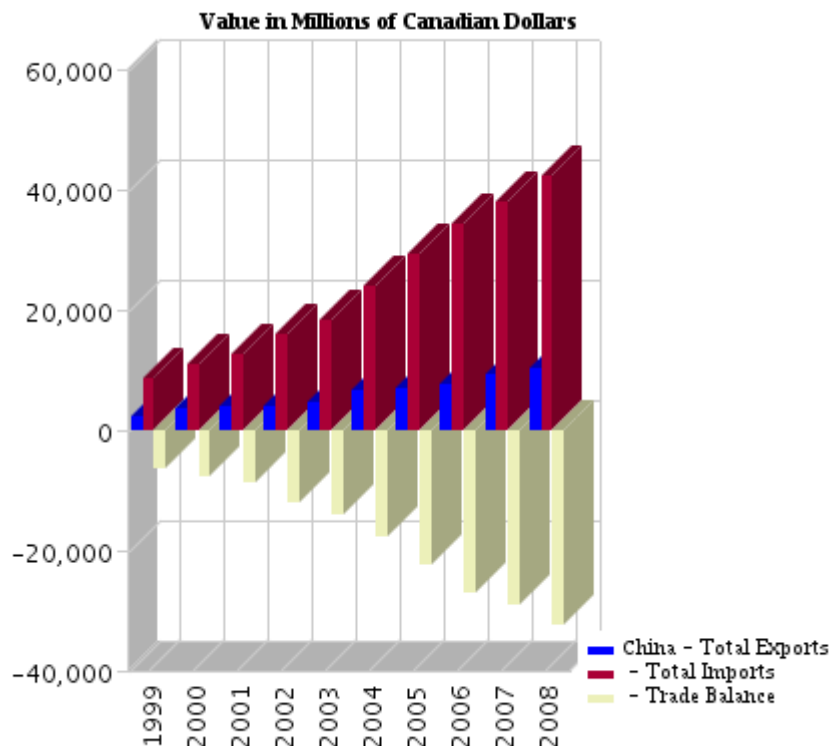
### The Increasing Number of Notifications of Technical Measures (Non-Tariff Barriers) to GATT/WTO



Source: S. Hensen et al. (2000), University of Reading

(Figure 2)

### Canada's Trade Balance (Deficit) with China



KavaChart images from VE.com  
 Source: Industry Canada, <http://www.ic.gc.ca>.