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Historic agreement paves way for increased trade between U.S. and China

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Report Highlights:

On December 20, 2007, U.S. and Chinese flags fluttered, and an explosion of colorful confetti marked the historic signing ceremony between the state of Oregon and the *China Certification and Inspection Group Zhuhai Branch, South China Agricultural University* and *Zhuhai Peace Company* to enable both U.S. and China to issue reciprocal advisory export certificates based on the other's food product laws and standards. The program is open to all U.S. and Chinese traders. Significantly, it establishes the first-ever *China-US Peace Food Safety Detection Service Center (CUPSC)* at the *Zhuhai Peace Logistics Complex* that will sample and test food and agricultural products bound for the States according to U.S. FDA standards. The agreement also provides for a permanent display space for WUSATA products at the Complex.

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Historic agreement will help spur trade between U.S. and China

On December 20, 2007, in the city of Zhuhai in Guangdong Province, U.S. and Chinese flags fluttered, and an explosion of colorful confetti marked the historic signing ceremony between the state of Oregon and the *Certification and Inspection Group Zhuhai Branch (CCIC); South China Agricultural University;* and *Zhuhai Peace Company* to enable both U.S. and Chinese sides to pre-test and



Agreement cosigners (from left to right) Yang (South China Agricultural University), Chen (Zhuhai Peace Company), Hobbs (ODA) and He (CCIC)

issue reciprocal advisory export certificates based on the other's food and agricultural product laws and standards. U.S. Food and Drug Administration (FDA) and China Inspection and Quarantine (CIQ) would retain inspection and clearance rights at the port of entry. The program is open to all U.S. and Chinese traders.

Significantly, it establishes the first-ever *China-US Peace Food Safety Detection Service Center (CUPSC)* (to be built on the site of the *Zhuhai Peace Logistics Complex*) that will sample and test food and agricultural products bound for the States according to U.S. FDA (*Food and Drug Administration*) standards. The agreement also provides for permanent display space for *WUSATA (Western U.S. Agricultural Trade Association*)* at the Complex.

(* Note: *WUSATA* helps to promote exports of agricultural products from 13 western member states).

On the Chinese side, Chinese food and agricultural products destined for the US will be tested -- in advance of shipment -- to U.S. FDA protocols and standards at CUPSC labs. CCIC* employees will inspect and test at the Center. (*Note: *CCIC* is under *AQSIQ - General Administration of Quality Supervision, Inspection and Quarantine - China's national administrative and law enforcement organ for quality control, measurement, inspection of import and export commodities, entry-exit health quarantine, certification and standardization.*) *South China Agricultural University* will provide critical technical expertise and support. The idea is that pre-testing at the Zhuhai lab could save time and expense, especially if untested Chinese products end up being subjected to FDA inspection and testing at the border or required to be tested at private labs to gain entry. If rejected, product would have to be destroyed, shipped back to China or to a third country.

On the U.S. side, U.S. products bound for China will be tested -- in advance of shipment -- to Chinese *Ministry of Health (MOH)* food and agricultural product laws and standards at Oregon Department of Agriculture (ODA) labs.

In no case would Oregon labs certify food bound for China if contrary to U.S. or Chinese law. The idea is to provide an advisory certificate to U.S. exporters whose product meets Chinese law as it pertains to that specific product. This may mean that products otherwise acceptable in the States but not in China would not be certified.



VIP's

U.S. exporters submit official samples (gathered and forwarded by recognized state or federal inspectors) to Oregon labs. ODA labs will be authorized by the Government of China to conduct official sampling and testing of U.S. products prior to export, using Chinese methodology. It would be as if U.S. products were tested in China, but by conducting procedures in the States, this ensures that the product will clear more easily once in China. Product labels will be reviewed for prohibited ingredients or additives and, depending on the type of product and specific Chinese testing requirements, submitted for laboratory analysis for chemical contamination (pesticides, heavy

metals, etc.). If GMO testing is needed, Oregon labs would test for particular genetic events in food and agricultural products using proprietary testing and quantification technology, then report out based on Chinese tolerances for specific products.

If acceptable, an export certificate is issued by ODA with an electronic version forwarded to CIQ officials in advance of export shipment. The new service is planned to be available early 2008 on a pilot basis and fully operational by June 2008. ODA employees will be onsite for three to six months to assist with the Zhuhai lab start-up.

Export documents is slated to be a single document issued jointly by the CUPSC and ODA to report laboratory findings of the product and transmitted electronically to minimize forgery and fraud. Initially, however, there may be dual documents issued by CUPSC and the ODA on a transitional basis. Test results will be reported to respective import control agencies to ensure reduction of holds and delay upon product arrival. The joint document will certify that products meet all destination country (U.S. or Chinese) food laws with respect to ingredients, additives, dyes, adulteration, heavy metals and chemical contamination.

For Chinese products bound for the States, the document is not a blanket certification that dispenses with the need for FDA surveillance and clearance once at the border. For American products bound for China, the document is likewise not a blanket certification that dispenses with the need for CIQ surveillance and clearance upon reaching borders.

Also, Oregon labs do not perform microbiological analysis or certification for food pathogens (such as *salmonella* in chicken) in U.S. export products as there is too much uncertainty with test results to certify for absence of food pathogens with confidence given temperature abuse en-route and factors that could influence growth of food pathogens in the product. Exact wording of the document is being finalized but will be an "advisory document of export fitness" and likely entitled "Advisory Food and Agricultural Product Export Certificate."

What critical role does the Zhuhai Peace Logistics Complex play? The *Zhuhai Peace Logistics Complex* will include a wholesale market, cold storage, exhibition center, convention center, offices, condos, hotel and, most importantly, the *China-US Peace Food Safety Detection Service Center* (CUPSC). The entire complex will cover more than 1.3 million sq. ft. and stretch 1.5 miles at a total cost of US\$91.9 million (680 million RMB). The groundbreaking (known here as “stone laying”) ceremony took place this past April, and already the outline of the complex is taking shape.

What products will most likely be tested under the new program? Overall, products expected to be tested on both sides will be frozen, cooked or processed (canned, dried or pickled). This includes fresh, or chilled high-value, meat, produce and seafood from the US (cherries, beef, live crab and oysters) or the currently limited range of Chinese fresh produce items (onion family and lychees) to the States.

American west coast states are especially interested in exporting sea food for reprocessing such as Dungeness crab (to remove the meat from the shell and reexport), black cod (to cut and portion control for re-export to high end markets such as Hong Kong, Tokyo and Seoul) and sardines (to make into flavor ingredients, make fish sauce, portion control for institutional use or can for re-export or local consumption) while the Chinese are mostly interested in exporting shrimp, fish, processed food ingredients such as proteins including meals and dehydrated individually quick frozen (IQF) vegetables.

Why the tiny city of Zhuhai? Although Zhuhai (a two hours drive from Guangzhou) has a population of 1.5 million, it ideally sits near Macau and Hong Kong. As a Special Economic Zone (SEZ), it has substantial political support as a new agricultural import/export gateway. Products from the States are shipped to Hong Kong, then transshipped to Zhuhai's port. Typically, it takes four to five days from when imported cargo is discharged in Hong Kong to when it arrives in Zhuhai to allow for customs clearance, port handling, wait time for barges to arrive at the proper terminal and actual transport (7-10 hours as barges use designated routes apart from faster passenger boats).

As a deep-water port, Zhuhai can receive 10,000-ton ships and has a throughput of 34 million tons compared to Shenzhen's 178 million tons and Guangzhou's 350 million tons. To update facilities, Zhuhai has just finished deepening the port from 29.5 feet to 45.9 feet. By the end of 2008 two berths will be built to receive standard sized panamax container ocean vessels (50,000-ton, 4,000 TEU capacity) as well as another four 100,000-ton berths by 2010. When completed, Zhuhai will have 98 million ton throughput, roughly triple current capacity and thus serve as a regional gateway for imports to enter west Guangdong and Macao markets. Cranes will be added to handle containers. The port will become authorized for agricultural exports and imports. This would facilitate direct shipment of west coast cargo to Zhuhai.



Construction of the Zhuhai Peace Logistics Complex, farther than the eye can see

There are plans to construct a 22-mile bridge to link Zhuhai to both Macau (expected five minute drive) and Hong Kong (expected 20 minute drive). Taiwan is another trading partner, only a 1-1/2 hour plane ride from Macau or Hong Kong. Given China's remarkable

agricultural trade and distribution growth and emphasis on food safety, there is enormous benefit to U.S.-China collaboration.

How will the program be funded? Both Chinese and U.S. sides of the program are voluntary and fee supported. A price list is being developed for U.S. and Chinese exporters and available early 2008. Start-up costs are an estimated \$4.0 million with capital and support from *Zhuhai Peace Company*, CCIC and ODA.

What does a WUSATA food and agricultural product showcase offer?

As part of the agreement, *Zhuhai Peace Company* will provide the ODA 8,000 square feet for offices and permanent display space for food, fishery and agricultural products from the WUSATA region. Showcase advantages are as follows:

- **More direct selling channels.** With 250 importers/wholesalers/distributors expected at the *Zhuhai Peace Logistics Complex*, this would allow WUSATA companies valuable opportunities to sell directly to importers in China without working through a U.S. broker or distributor. More direct selling channels means placing WUSATA exporters much closer to the market.



Construction rises all 'round

- **Technical staff.** There is also an option to have full-time technical staff on site to respond to trade requests, answer technical questions and offer marketing assistance in Chinese. WUSATA exporters that participate in the showroom program would immediately know how their products are selling.
- **Storage.** Because the complex is in a Special Economic Zone (SEZ*), U.S. exports can pre-position and store forward inventory at the Complex. Import duties and value added taxes are paid only when product is sold and moved out of the SEZ into commercial channels in China. Shipments may be consolidated in the US of less than container loads (rather than the customary full container load) and warehoused in the Complex, then directed to Chinese buyers more quickly. Otherwise, small-to-medium sized new-to-market exporters often find it difficult to sell a full container's worth to Chinese buyers.

(*Note - There are five SEZ's in China, all located in South China. Shenzhen, Zhuhai, Shantou and Xiamen were designated in 1980 and Hainan, in 1988. Afterwards, 15 "Open Cities" were established offering similar SEZ preferential policies. Four of them are located in South China: Guangzhou, Fuzhou, Zhanjiang and Beihai.)

- **Tax advantages.** Additionally, if products are used for further processing and re-exported back to the US or a third country, there would be no Chinese duties or VAT levied. For example, frozen whole salmon from Alaska that is filleted and processed into consumer ready portion controlled products and re-shipped to the US would be exempt from Chinese duties and taxes – if processed within the SEZ.

The project, to date, has been funded by Oregon and the *Zhuhai Peace Company*. The WUSATA display/selling office at the facility is proposed as a non-USDA/Foreign Agricultural Service (FAS) project. As such, Oregon has proposed that member states of WUSATA may participate collaboratively at this facility using pooled state funding. Oregon is not opposed to opening it up to other states or non-profit state regional trade groups (SRTGs) or seeking FAS funding once the project is underway. Finalized showcase information will be available by mid-2008.

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Zhuhai Port Information - Zhuhai Transportation Administration

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