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Guangxi Vietnam Border Trade Channel Survey

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Report Highlights:

On June 9-10, 2013, ATO Guangzhou Director led a delegation of representatives from U.S. tree nut producer associations (U.S. Pecan Growers, Almond Board of California, Paramount, and Western Pistachio Growers) as well a representative from ATO Chengdu to Nanning and Chongzuo City to explore third country trade through Vietnam- as well as petty trade along the Guangxi Province-Vietnam border. The Chairman of the Guangdong Tree Nut Import Association (the official and nationally recognized association China's National Tree Nut Committee under the Ministry of Commerce and Trade (MOFCOM)) was also invited and two of the largest buyers of U.S. tree nuts in China (one from Yunan Province and another from the Pearl River Delta).

General Information:

On June 9, the delegation was received by the Secretary of Guangxi's Ministry of Commerce and Trade and officials from the Bureau of Industry, Information and Trade of Chongzuo City. There were three media representatives invited to the symposium. Kunlun Logistics, a Taiwan-invested company assisted ATO Guangzhou as our interlocutors with local government officials. The symposium began with presentations from Kunlun's Director Ms. Sandy Huang which provided an overview of the border region including an outline of the location of the 25 border points between Guangxi Province and Vietnam. She distinguished between ports managed by local government and those managed by the military. Ms. Huang also provided estimates of trade figures by tree nut category that were slightly higher than many of the representatives anticipated. Each U.S. producer representative delivered a brief presentation on their commodities as well as marketing distinctions such as nutritional content and China's marketing strategies for the HRI and retail sector.

Following the presentations, there was a lengthy discussion over details of the Guangxi-Vietnam border trade that was initiated by Mr. Lai Xiao Jun, Chairman of the Import Committee and also one of the largest buyers of U.S. tree nuts in China with over 30 years of experience in the trade. Questions were fielded by Kunlun Logistics' President Mr. Jiang Shiming who explained the three major types of board trade:

Below is our understanding of the three types of trade practices:

Type 1: Conventional trading

Type 2: Border resident "volume" trading

Type 3: Border resident duty free trade or petty trade

Regarding Type 3, the maximum allowed value of goods for border residents to personally import is \$1,304 (RMB: 8,000) per person, per day duty free. Kunlun added that by the end of this year the rate will increase between \$3,258-- \$4,888 (RMB: 20,000 - RMB: 30,000) per person/per day for tree nut trade and other agricultural commodities and there is an estimated one million-resident population in the Chongzuo border region. However after visiting four ports, we can attest to lax inspection procedures in two of the four where we actually witnessed the unloading of cashews and frozen Norwegian salmon. Border management responsible for managing Customs procedures are allowing many crews of freight forwarders in several ports to routinely move through several container-shipment size loads per day. Two separate sources estimated each crew could transport about five to six containers a day from Vietnam through Guangxi's ports. According to a manager from a freight company, inspection officials are applying the law as each crew can only carry one product up to RMB: 8,000 per day. Post did not have the ability to cross reference this information with Customs officials since we were not granted permission to meet with them either in Nanning or in Chongzuo ports.

The tone of the discussions were positive although there was great suspicion on behalf of the Guangdong trade that these trading practices were not as clear and transparent as Mr. Jiang was describing them. The main points that were in contention were on the details and documentation that would be required to import, process, resell (outside of Guangxi Province) as well as how to place orders. Mr. Jiang carefully explained that all of the required paperwork for importation into any other province were the same, except and that the

border officials would be able to provide the three major documents that were required for resale: Customs' clearance certificate, quarantine and inspection certificate, and local government seal for retail sale. One distinction that was made by Mr. Jiang was that this channel was only for bulk trade and that branded products would not fall under a duty free category.

The next day in official meeting the Party Secretary Huang Ke of Chongzuo's municipality added their commitment to expanding joint cooperation to "mitigate misunderstandings about this trade channel as well a need for support in areas of tree nut processing in Chongzuo." As way of background southern Guangxi was heavily populated with military brigades along the border for over 30 years and only recently (in the last ten years) as China entered into free trade discussions with the ASEANs, the military presence was sizably reduced. This reduction meant a large local income stream in the region was also reduced. Economic development programs in the form of preferential trade policies were doled out by MOFCOM and China Customs to Guangxi border residents at the central government level.

China-Vietnam Border visit points included:

1. Huu Nghi Border Gate
2. Puzhai Port
3. Buju port
4. Shuikou Port

Although from discussions it was clear that Kunlun was not as interested in trading directly, it is becoming clearer that they would like to be facilitators and showed an interest in working with the established traders in the Pearl River Delta. Kunlun has invested heavily in developing the border region by financing construction projects that house officials and support tree nut trade and processing mainly in Chongzuo such as the construction of roads leading to the major highways, factories, a product display show room with a sales floor, and refrigerated cold storage facilities adjacent to the border points. Kunlun has also served as a broker for the purchasing of U.S. peanuts.

Overall discussions concluded on a positive note, although from our vantage-point more details were asked by the trade than the local officials and Kunlun had answers for. The trade approached ATO Director after the symposium and asked why a representative from Customs and quarantine and inspection (CIQ) had not attended. The answer to this question was that both of these bureaus have a higher level of clearance and approval before they are allowed to interface with foreign government representatives. Meetings with many government bureaus across China for example require approval from Beijing for simple courtesy call meetings and Guangxi Province Customs officials observe a similar policy. One thing remained certain though, all of the explanations were consistent among the Guangxi Provincial and Chongzuo officials. These were the same responses that were given a month earlier with ATO Guangzhou Director and staff visited.

Conclusion: While it is obvious that this channel is significant, there are a number of unanswered questions such as what conditions can the non-Guangxi province trade access this channel, actual management and

processing fees (including government official and unofficial service fees), whether this access is seasonal, and if these shipments can flow through into the supply chain channel. In previous visits to Guangxi border regions, ATO Guangzhou staff has seen large volumes of Vietnam-transshipped U.S. tree nuts (mainly in peanuts, shell walnuts, pecans and almonds) in local storage facilities. However what concerns the trade the most is the impact this trade will have on pricing in the short term and on food safety in the long term. The feeling from the trade is that asymmetries might have a potential to further distort markets and impact smaller traders without a strong position in the market in the short run. Chairman Lai was encouraged to invite Kulun Logistics to participate in the China Tree Nut Trade Committee meetings in mid August and prepare similar presentation to a wider audience of national government and trade.