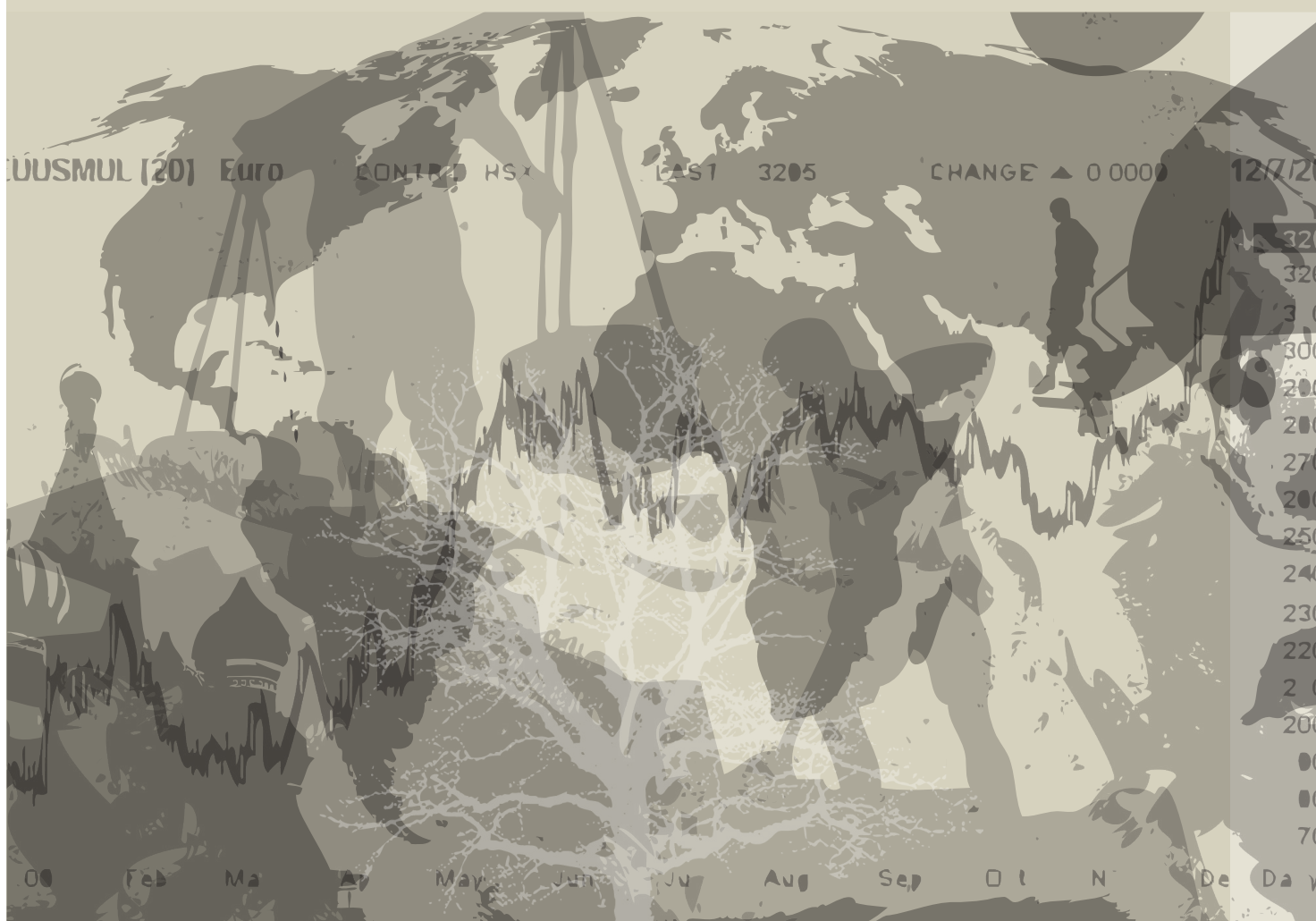




Norwegian Institute  
of International  
Affairs

# China's Salmon Sanction

Xianwen Chen and Roberto J. Garcia



NUPI Working Paper 845

Department of International Economics

---

Publisher: Norwegian Institute of International Affairs  
Copyright: © Norwegian Institute of International Affairs 2015

Any views expressed in this publication are those of the author. They should not be interpreted as reflecting the views of the Norwegian Institute of International Affairs. The text may not be printed in part or in full without the permission of the author.

Visiting address: C.J. Hambros plass 2d  
Address: P.O. Box 8159 Dep.  
NO-0033 Oslo, Norway  
Internet: [www.nupi.no](http://www.nupi.no)  
E-mail: [info@nupi.no](mailto:info@nupi.no)  
Fax: [+ 47] 22 99 40 50  
Tel: [+ 47] 22 99 40 00

---

# China's Salmon Sanction

Xianwen Chen<sup>1\*</sup> and Roberto J. Garcia<sup>1</sup>

## Abstract

Angered by the Norwegian Nobel Committee's awarding of the 2010 Peace Prize to a Chinese dissident, China signalled its displeasure by allegedly applying more stringent regulatory measures and import licensing procedures on Norway's iconic product, salmon. This has been widely reported in the media internationally, but not formally investigated by the scientific community. Through interviews with stakeholders in the Norway-China salmon trade and examination of trade data, personal accounts corroborate the evidence from trade data that non-tariff border measures have been disproportionately applied against Norwegian salmon. These measures have distorted China's fresh/chilled whole salmon market since 2011, and are likely to have long-term consequences in terms of trade patterns, re-routing and smuggling of salmon, and for quality concerns. Accounting for the transhipped and the smuggled Norwegian salmon via Hong Kong and Vietnam, we challenge the popular misbelief that Norway has lost its majority share in China's fresh/chilled whole salmon market, but rather has increased its exports, suggesting that these measures have failed to prevent more salmon from entering mainland China's market. However, the Norwegian government's refusal to meet the Dalai Lama in May 2014 suggests that the full effect of China's salmon sanction has made its way upstream to affect Norway's policy.

Key words: China, economic sanction, regulatory border measures, import licensing procedures, non-tariff barriers, trade patterns, transshipment.

Published by Norwegian Institute of International Affairs

---

\* School of Economics and Business, Faculty of Social Sciences, Norway University of Life Sciences, Aas, Norway Corresponding author: Xianwen Chen, P.O. Box 5003, School of Economics and Business, Faculty of Social Sciences, Norway University of Life Sciences, 1430 Aas, Norway.  
Telephone: +47 984 21 622  
Email: [xianwen.chen@gmail.com](mailto:xianwen.chen@gmail.com)

# Contents

Abstract	2
<b>Introduction</b>	<b>4</b>
<b>Data sources</b>	<b>8</b>
Field Interview	8
Trade Data	10
<b>Implementation of China's Salmon Sanction</b>	<b>11</b>
Norwegian-specific regulation at Beijing Capital International Airport	11
Stricter sanitation tests and veterinary inspections on all imported salmon	11
Volume restrictions on import licenses	13
<b>Implications part I: Stakeholders' marketing responses to new border measures</b>	<b>15</b>
Selling rotting fish to salmon processors	15
Communications with NSC and the Norwegian Embassy in Beijing	15
Shifting source-country suppliers	16
Mislabelling of the country-of-origin labels in the retail market	16
Port-shifting within mainland China	16
Synchronization of Import-Licensing Applications	17
Transshipments through legal channels	18
Transshipment through illegal channels	19
<b>Implications part II: Distorting China's salmon market and reducing consumer welfare</b>	<b>21</b>
Increased corruption	21
Quality degradation	21
Increased costs for Chinese importers	23
Distorting mainland China's domestic salmon market	24
Consumer welfare losses	24
Potential damage to the image of Norwegian salmon	24
Long-term implications for China's salmon market	25
Long-term implication to Norway's salmon exporters	25
<b>Implications part III: Effectiveness of the sanction</b>	<b>27</b>
Ineffective: Increasing Norwegian exports to mainland China	27
Effective Salmon Sanction?	28
<b>Conclusions</b>	<b>30</b>
<b>Notes</b>	<b>32</b>
<b>References</b>	<b>33</b>

# Introduction

Accounts from stakeholders involved in the Norway-China salmon trade and analyses of trade data provide convincing evidence of China's longest and currently on-going economic sanction (经济制裁) on Norway through non-tariff barriers (NTBs) (非关税贸易壁垒) on Norwegian salmon (挪威三文鱼). This study covers China's market for whole salmon (整条三文鱼),<sup>1</sup> including fresh/chilled salmon (冰鲜三文鱼) and frozen whole salmon (冰冻三文鱼), but the focus is on fresh/chilled whole salmon because Norway's share of the frozen whole salmon market in China is much less pronounced.

Despite China's usual opposition to foreign governments' use of economic sanctions, the Chinese government has increasingly turned to its own economic sanctions as an international relations tool.<sup>2</sup> Starting in the 2000s, China exercised this option in the following instances: (1) when a country formally received the Dalai Lama;<sup>3</sup> (2) in cases of maritime disputes or when support was offered to other countries' maritime claims in the East China Sea (东海)<sup>4</sup> and the South China Sea (南海)<sup>5</sup> 6; (3) following criticism of China's human rights record; or (4) subsequent to foreign governments' arms sales to Taiwan.<sup>7</sup>

In October 2010, the Norwegian Nobel Committee, which includes five members who are appointed by the Parliament of Norway, awarded

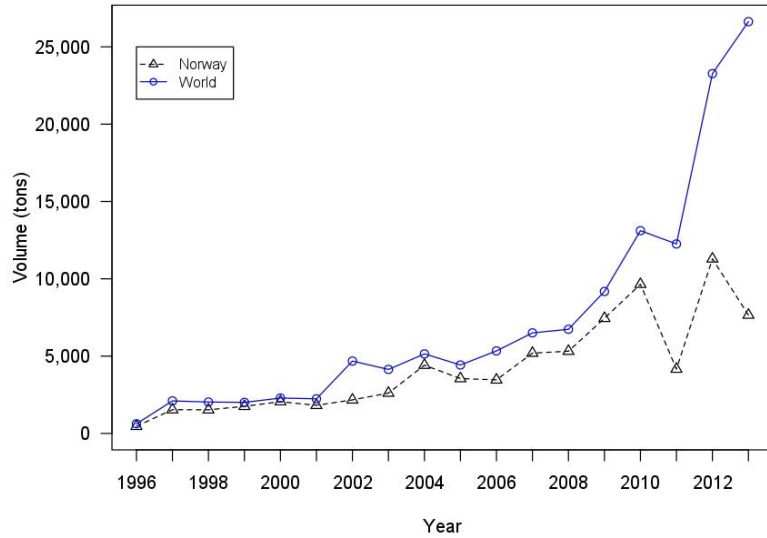
- 
- 1 China has its own salmon-processing industry, and given its low-cost labour, it is more economical to produce fillets and smoked salmon in China. Hence there is not much need to import fillets or smoked salmon. The trade data reflects that trade in salmon fillets and processed salmon (including smoked salmon) is marginal. Therefore, only the trade of whole salmon, fresh/chilled or frozen, is studied.
  - 2 James Reilly, China's unilateral sanctions, *The Washington Quarterly*, 2012: 121-133.
  - 3 Andreas Fuchs and Nils-Hendrik Klann, Paying a visit: The Dalai Lama effect on international trade, *Journal of International Economics*, 2013: 164-177.
  - 4 Keith Bradsher and Edward Wong, China's ban on selling rare earth minerals to Japan continues, *New York Times*, 10 November 2010, <http://www.nytimes.com/2010/10/11/business/global/11rare.html>, accessed 10 June 2014.
  - 5 Bonnie S. Glaser, China's coercive economic diplomacy, *The Diplomat*, 25 July 2012, <http://thediplomat.com/2012/07/chinas-coercive-economic-diplomacy/>, accessed 16 April 2014.
  - 6 Andrew Higgins, In Philippines, banana growers feel effect of South China Sea dispute, *The Washington Post*, 11 June 2012, [http://www.washingtonpost.com/world/asia\\_pacific/in-philippines-banana-growers-feel-effect-of-south-china-sea-dispute/2012/06/10/gIQA47WVTV\\_story\\_1.html](http://www.washingtonpost.com/world/asia_pacific/in-philippines-banana-growers-feel-effect-of-south-china-sea-dispute/2012/06/10/gIQA47WVTV_story_1.html), accessed 25 May 2014.
  - 7 Reilly, China's unilateral sanctions.

the Peace Prize to a Chinese dissident, Liu Xiaobo (刘晓波).<sup>8</sup> The award angered the Chinese government<sup>9</sup> and initiated a diplomatic row between the two countries, which is alleged in the media to have resulted in China introducing regulatory actions that impeded trade, particularly of Norwegian exports of fresh/chilled whole salmon to mainland China, a key export and symbolic product of Norway.<sup>10 11 12 13</sup>

Figure 1 shows the dramatic change in the trend in China's imports of fresh/chilled whole salmon from Norway and the total from the world. For most of 1996-2010, imports from Norway took the predominant share of the total until 2011. The break in the trend, coinciding with the awarding of the prize, is allegedly the result of changes in customs and regulatory practices and import licensing procedures in China, which is argued to constitute an economic sanction because of how it affected the market access of salmon from Norway.

- 
- <sup>8</sup> The Nobel Peace Prize for 2010, 8 October 2010, [http://www.nobelprize.org/nobel\\_prizes/peace/laureates/2010/press.html](http://www.nobelprize.org/nobel_prizes/peace/laureates/2010/press.html), accessed 25 May 2014.
- <sup>9</sup> Awarding Liu Xiaobo Nobel peace prize may harm China-Norway relations, says FM spokesman, 8 October 2010, [http://news.xinhuanet.com/english2010/china/2010-10/08/c\\_13547668.htm](http://news.xinhuanet.com/english2010/china/2010-10/08/c_13547668.htm), accessed 26 November 2014.
- <sup>10</sup> Bjoen H. Amland, Norway feels sting of China's anger after Liu Xiaobo Nobel Prize win, *The World Post*, 6 May 2011, [http://www.huffingtonpost.com/2011/05/06/norway-china-liu-xiaobo-peace-prize\\_n\\_858506.html](http://www.huffingtonpost.com/2011/05/06/norway-china-liu-xiaobo-peace-prize_n_858506.html), accessed 4 February 2014.
- <sup>11</sup> Richard Milne, Norway sees Liu Xiaobo's Nobel Prize hurt salmon exports to China, *Financial Times*, 15 August 2013, <http://www.ft.com/intl/cms/s/0/ab456776-05b0-11e3-8ed5-00144feab7de.html>, accessed 2 September 2013.
- <sup>12</sup> Kina stopper norsk laks ved grensen (China stops Norwegian salmon at the border), *Dagens Næringsliv (Today's Business Life)*, 8 August 2013 and revised on 11 February 2014, <http://www.dn.no/nyheter/naringsliv/2013/08/26/kina-stopper-norsk-laks-ved-grensen>, accessed 1 May 2014.
- <sup>13</sup> China still miffed at Norway 3 years after Nobel Awarded to dissident Liu Xiaobo, *Sydney Morning Herald*, 29 October 2013, <http://www.smh.com.au/world/china-still-miffed-at-norway-3-years-after-nobel-awarded-to-dissident-liu-xiaobo-20131029-2wcv2.html>, accessed 24 May 2014. Kina stopper norsk laks ved grensen (China stops Norwegian salmon at the border), *Dagens Næringsliv (Today's Business Life)*.

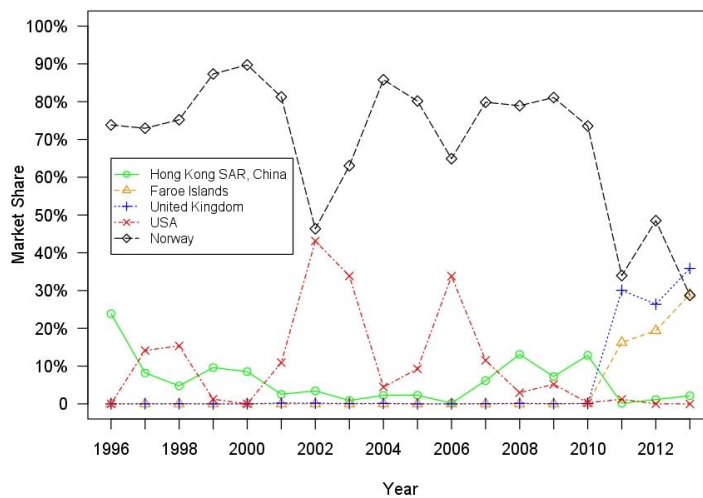
Figure 1. Mainland China's imports of fresh/chilled whole salmon from Norway and the world (1996 – 2013)



Source: UN Comtrade and Norwegian Seafood Council.

Another break in the trend, as is evident in figure 2, is related to the changes in the market shares of the different salmon-producing countries and Hong Kong Special Administrative Region (hereafter Hong Kong), which re-exports salmon to mainland China. Between 1997 and 2010, whenever Norway’s market share fell below 80% of the total, imports from the US took up the slack. From 2011 it was imports from the UK and the Faroe Islands that filled an ever wider gap.

Figure 2: Market shares in mainland China's fresh/chilled whole salmon market (1996 – 2013)



Source: UN Comtrade, Norwegian Seafood Council, and Government of Hong Kong, Census and Statistics Department.

Despite the salmon sanction having been widely reported in the international media, there has been no formal investigation by the academic community to study the incident. This article examines China's use of an economic sanction on Norwegian salmon through two methods. First, in 2014, a questionnaire was prepared and used to interview traders involved in the Norway-China salmon trade, both on the mainland and Hong Kong. The participants were interviewed in person regarding their experiences, opinions and insights on the application of regulatory border measures, import licensing procedures for salmon exported to mainland China, and their business strategies in response to these measures. Second, an analysis of trade data is undertaken to establish a link between the awarding of the 2010 Nobel Prize and the reversal of the trends in Norway-China trade patterns and/or in regional trade flows involving Norwegian salmon trade during 2011-13. Throughout the paper, the accounts from the field interviews and the evidence from data analyses are weaved together whenever possible.

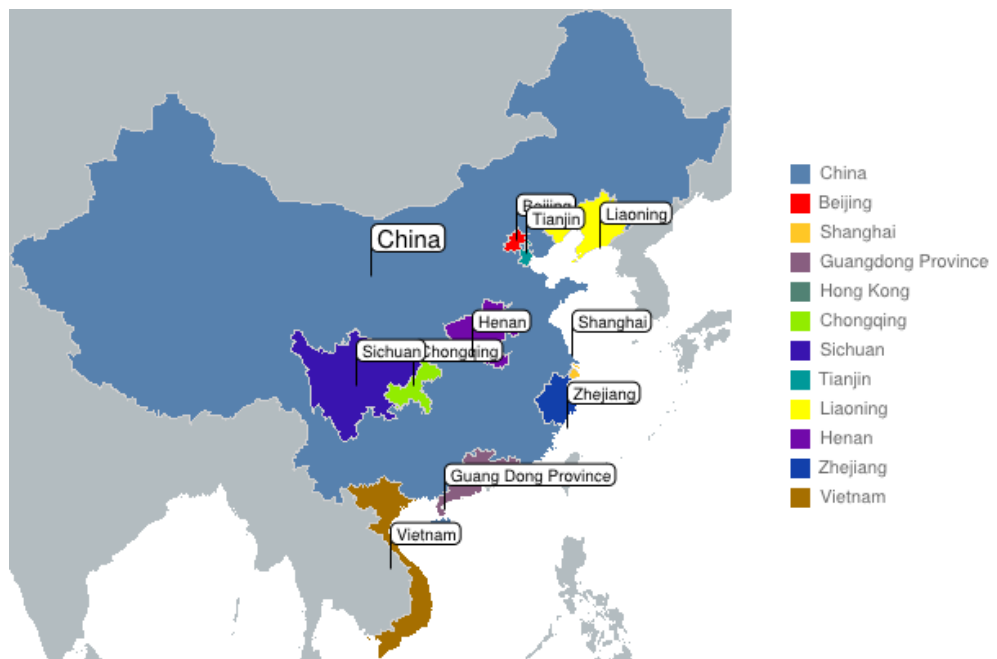


# Data sources

## Field Interview

The field visit was conducted in January 2014 in Hong Kong and four cities in mainland China. The four cities in mainland China are: Beijing City (北京市), Shanghai City (上海市), Guangzhou City (广州市), and Shenzhen City (深圳市). Hong Kong's market is largely of its own. Each of the four mainland China cities has a wholesale market that supplies salmon either regionally or nationally. The wholesale market in Beijing City mainly supplies northern China, the one in Shanghai City mainly supplies eastern China, and those in Guangzhou City and Shenzhen City supply both southern China and the wholesale markets in other parts of mainland China, including Beijing City and Shanghai City. Figure 3 contains a map that shows where these five cities are. Both Guangzhou City and Shenzhen City are part of Guangdong Province (广东省), which is shown on the map. Hong Kong is next to Guangdong Province, but it is too small to be shown on the map.

Figure 3. Map of China and Vietnam with locations of China's wholesale salmon markets and the airports where salmon is imported



Note: Hong Kong is next to Guangdong Province but is too small to be visible on the map.

Source: Created using Google Charts

Three separate questionnaires were developed, corresponding to the three types of organizations to be interviewed: Norwegian salmon exporters that have representatives in China,<sup>15</sup> salmon importers in mainland China, and salmon importers in Hong Kong. There were 21 companies that took part in the survey and agreed to be interviewed. In addition, representatives from the Norwegian Seafood Council (NSC), a corporation owned by the Norwegian Ministry of Fisheries and Coastal Affairs, were interviewed.<sup>16</sup>

Each participating firm and the NSC was interviewed separately, and the person(s) interviewed was (were) met in person. For firms, each questionnaire, depending on where the firm is based, inquired on: (1) basic information of the firm; (2) the species, volumes, values, and shipment of fish being traded; (3) experiences and knowledge of mainland China or Hong Kong's customs practices in clearing imported salmon; (4) experiences and knowledge on transshipments; (5) experiences and knowledge on mainland China or Hong Kong's import licensing system; (6) experiences and knowledge on mainland China or Hong Kong's sanitation testing and veterinary inspection; and (7) the firm's market share in mainland China or Hong Kong and anticipation of future market developments. During all interviews, out-of-questionnaire questions were always asked whenever it was deemed necessary. Finally, the interview with the NSC was not pre-planned and only questions that are relevant to the Council were raised.

Of the five Norwegian firms that have Chinese representatives in China, four agreed beforehand to take the interview. The only representative who declined to take the survey, acknowledged that “[There are] a lot of difficulties, and I am more inclined to not talk about these difficulties [or to talk about numbers such as sales figures which are confidential]”. This highlights the sensitivity of openly discussing China's discriminative practices in salmon imports. Hence, with consideration to those stakeholders who requested anonymity to be interviewed for this study, the firms and the persons that were interviewed are not identified in this article. During the field trip, representatives of two other Norwegian firms could not sit for an interview or take the survey, despite agreeing to do so earlier.<sup>17</sup>

---

<sup>15</sup> All the Norwegian exporters that have representatives in China are producers themselves. All have representatives based in mainland China that oversee both the mainland China and the Hong Kong markets.

<sup>16</sup> Norwegian Seafood Council, <http://en.seafood.no/About-us/Organization>, accessed 25 May 2014.

<sup>17</sup> One representative was busy with business travels, and declined to meet when offered to meet in one of the cities (at the representative's choice) where the representative was travelling. The other representative could not meet because of a sudden illness to his child.

## Trade Data

The trade data for the analysis are compiled from three sources: the United Nations Commodity Trade Statistics Database (UN Comtrade)<sup>18</sup>, the NSC<sup>19</sup>, and the Government of Hong Kong, Census and Statistics Department (香港特别行政区政府政府统计处)<sup>20</sup>. The UN Comtrade collects export and re-export statistics that are reported by the governments. Their data consists the main part of the compiled data.<sup>21</sup> As of May 2014, several countries and regions, including Hong Kong SAR, Norway, and the USA, had not completed reporting their trade statistics to UN Comtrade for 2013. The missing trade statistics for Hong Kong's exports and re-exports were collected from the Government of Hong Kong, Census and Statistics Department and the NSC for Norway's export to China in 2013. In addition, weekly, monthly and annual Norwegian salmon export data from 2007 to 2013 were provided by the NSC.<sup>22</sup>

---

<sup>18</sup> Annual trade statistics by country from 1996 to 2013 are based on the 1996 Harmonized Commodity Description and Coding System (HS) of the tariff nomenclature at the 6-digit level as obtained from UN Comtrade. The salmon products in question are: HS-030212, fresh/chilled whole salmon; HS-030310, frozen whole Pacific salmon; and HS-030322, frozen Atlantic and Danube salmon. <http://comtrade.un.org/>, accessed in April and May 2014.

<sup>19</sup> Norwegian Seafood Council, 2014, trade data acquired through personal e-mail contacts on 25 and 27 March, and 13, 19, 28, and 30 May 2014.

<sup>20</sup> Census and Statistics Department, <http://www.censtatd.gov.hk/>, accessed 1 February 2014.

<sup>21</sup> In its official statistics China only reports the import volume that it consumes and excludes imported salmon that is processed and re-exported. The numbers are different from the UN Comtrade and Norwegian Seafood Council. Between 1996 and 2006, China's reported imports of Norwegian fresh/chilled whole salmon are at least 7% less than the reported exports from Norway. That is probably due to subtracting re-export of processed salmon products. After 2006 the difference is smaller (+/- 5%), except in 2010 and 2012. In 2010 and 2012, China's reported imports are 29% and 13% more than the reported exports by Norway. The surplus in China's reported imports are strange and cannot be explained by re-export. When comparing China's reported imports of fresh/chilled whole salmon from the whole world and the reported exports from all countries, China's statistical records are at least 10% less for most of the years, except 2003, 2004, 2011, and 2012. Exports reported from the rest of world are used throughout the paper, so that the analysis will be consistent and coherent. Nevertheless, even using the reported imports from China, the same conclusion is reached: there are significant changes in trade patterns and regional flows.

<sup>22</sup> The data from NSC are disaggregated as fresh/chilled whole salmon, fresh/chilled whole salmon fillets, frozen whole salmon, frozen salmon fillets, and smoked salmon and are compiled based on Norwegian salmon producers' reports.

# Implementation of China's Salmon Sanction

According to the accounts of a majority of interviewed stakeholders (78%), China's sanction on Norway's salmon was implemented in three procedures. First, it is alleged that an order was issued by the Beijing Capital Airport Entry-Exit Inspection and Quarantine Bureau Service Center that called for stricter and more thorough sanitation tests and veterinary inspections on Norwegian salmon. This initial order was refined and replaced by a second national order that was issued calling for stricter sanitation tests and veterinary inspections on all imported salmon. However, these stakeholders expressed that in practice Norwegian salmon is always checked and the checks take much longer time (in contrast to the random and less time-consuming checks that occur on non-Norwegian salmon). Third, the subtle change in the import-licensing procedures implies that Chinese importers only obtain licenses to import Norwegian salmon when the requested import volumes are relatively small, a constraint that does not apply on salmon imported from other countries.

## **Norwegian-specific regulation at Beijing Capital International Airport**

There was no central government decree or law which explicitly called for more stringent sanitation tests and veterinary inspection against Norwegian salmon. However, regionally, the Beijing Capital Airport Entry-Exit Inspection and Quarantine Bureau Service Center (首都机场出入境检验检疫局) issued an order, dated 8 December 2010, which specifically required stricter and more thorough sanitation tests and veterinary inspections on Norwegian fresh aquaculture products coming through Capital Airport, effective from 13 December 2010.<sup>22</sup> A copy of the original order in Chinese could not be obtained. An English translation of the order was provided by the NSC. Thus, it could not be independently verified whether the order was issued.

## **Stricter sanitation tests and veterinary inspections on all imported salmon**

As a member of the World Trade Organization (WTO), the Chinese government is aware that it cannot issue a decree or law that explicitly

---

<sup>22</sup> Quality inspection notification, 8 December 2010, Beijing: Beijing Capital Airport Entry-Exit Inspection and Quarantine Bureau Service Center. A translated copy was provided by the Norwegian Seafood Council.

restricts Norwegian salmon because such a policy would be in violation of WTO non-discrimination principles and could easily be challenged by Norway. Instead, China's State Administration of Quality Supervision, Inspection and Quarantine (国家质量监督检验检疫总局) issued an order, "Public Notice on Strengthening Inspection and Quarantine of Imported Salmon" (关于加强进口三文鱼检验简易的公告), Document No. 9 (总局2011年第9号公告) dated 28 January 2011 that applies to all imported salmon regardless of origin.<sup>23 24</sup>

Judging from its legal content, Document No. 9 is a regulatory measure that can be applied in a non-discriminatory manner, consistent with the WTO Sanitary and Phytosanitary (SPS) Agreement, but a justification for why salmon, in particular, has been singled out would be required. However, one of the interviewed Chinese importers suggested that Document No. 9 was actually meant to restrict imports from Norway. The argument is that, although the new regulation applies to all imported salmon, in a market in which Norwegian salmon was dominant, the measure has restricted only Norwegian salmon.

The process of imported salmon clearing customs occurs in two steps. First, imported salmon must pass sanitation tests and veterinary inspections. Second, the importer must present the required documentation and pay the tariff. For the purposes of this study, only the passing of sanitation tests and veterinary inspections is of interest because there were no allegations of the tariff regime being applied discriminately.

As noted a majority of the stakeholders that were interviewed, claimed that shipments of Norwegian salmon were always checked and that testing and inspection took longer, up to 20 days, for Norwegian salmon. Salmon from other producing countries, when checked, only needed about three to four days to complete sanitation tests and veterinary inspections. The other 22% of the interviewed stakeholders either stated that they did not know or suggested that the practice in sanitation tests and veterinary inspections was the same for salmon from all producing countries. Finally, all interviewed participants suggested

---

<sup>23</sup> Guanyu jiaqiang jinkou sanwenyu jianyan jianyi de gonggao (General notice on strengthening of the inspection and quarantine of imported salmon), 26 January 2011, <http://www.shciq.gov.cn/templates/detail.jsp?id=28021> and <http://www.leshan.gov.cn/Frontpage/html/ZWGVView.asp?ID=120476>, accessed 25 May 2014.

<sup>24</sup> Document No. 9 can no longer be found on the China's State Administration of Quality Supervision, Inspection and Quarantine's website. However, because the document was dispatched from the central government to provinces, municipalities, and cities, we were able to find the order on the websites of some government bureaus. For example, we were able to find a copy of the document on the website of the Shanghai Entry-Exit Inspection and Quarantine Bureau as well as on the website of Leshan City of Sichuan Province on May 25, 2014. However, as of December 8, 2014, the copies on these two websites have been deleted.

that after completing sanitation tests and veterinary inspections, it took the same amount of time to clear customs. In summary, while the government presents Document No. 9 as a non-discriminating SPS-related measure applied at the border, the practice is believed by more than three-quarters of those stakeholders interviewed to be biased against Norwegian salmon.

### **Volume restrictions on import licenses**

According to the interview stakeholders, starting in mid-2011, China modified the protocol on the issuance of import licenses for seafood. The official title of the import license is “Import License of the People’s Republic of China” (中华人民共和国进出口许可证). The application of an import license requires the following information to be specified: the quantity to be imported, the species of the seafood, the exporting country, and the port of entry into China. Hence, an approved license is quantity-specific, import-firm specific, export-country specific, and port-specific.

The WTO defines an import license as an “administrative procedure ... requiring the submission of an application ... to the relevant administrative body as a prior condition for importation ... of goods”.<sup>25</sup> The purpose of which, in this case, could be to ensure food-safety, for the surveillance of transacted prices, and/or to maintain trade statistics,<sup>26</sup> rather than a means to administer any formal import quota, which China does not have the right to do under its WTO commitments.

Initially, traders usually obtained approval for the volumes for which they applied. However, the same 78% of interviewed stakeholders noted, toward the end of 2012 importers of Norwegian salmon had their license applications rejected for anything other than small volumes, e.g., between 10 and 30 tons of Norwegian salmon. Previously, it was claimed, that applications were regularly approved for volumes of up to 200 tons. Moreover, it was claimed that current applications for imports of salmon from other producing countries approve import volumes as high as 300 tons. The other 22% of the interviewed stakeholders either stated that they did not know or suggested that the practice was the same for salmon from all producing countries.

After an import license has been issued for shipments entering a particular port, a new application can be submitted and a license

---

<sup>25</sup> Agreement on import licensing procedures, article 1.1, Geneva: World Trade Organization, 1995, [http://www.wto.org/english/res\\_e/booksp\\_e/analytic\\_index\\_e/licensing\\_01\\_e.htm](http://www.wto.org/english/res_e/booksp_e/analytic_index_e/licensing_01_e.htm), accessed 20 April 2014.

<sup>26</sup> Neal H. Hooker and Julie A. Caswell, A framework for evaluating non-tariff barriers to trade related to sanitary and phytosanitary regulation, *Journal of Agricultural Economics*, 1999: 234-246.

obtained once 75% of the current import volume has been filled. However, because the applications are sent from the regions to the central government for approval, each application takes 20 working days, i.e. 4 weeks. According to WTO rules, automatic licenses (e.g., those that are not in place to administer a quantitative restriction) should be issued within a maximum period of 10 days after the receipt of applications.<sup>27</sup> The actual procedures exceed the WTO's maximum period, suggesting the process is "more burdensome than absolutely necessary" to administer a licensing system, but the duration for approval and issuance is the same regardless of the source of imports.

For those interviewed traders who claimed that the new licensing protocol limited approval of volumes to 10-30 tons per shipment, argued that the quantitative restriction was a larger obstacle than delays in the customs clearance associated with the more stringent food safety testing and veterinary inspection. It was also noted that this quantitative limitation was particularly more troublesome for the larger importers. Therefore, the import licensing procedure, while still technically not an import quota, might be considered a non-trade measure with an equivalent effect of a quantitative restriction and has been applied in a manner inconsistent with the norms outlined in the WTO Agreement on Import Licensing Procedures.

---

<sup>27</sup> Business guide to the Uruguay Round, Geneva: International Trade Center, United Nations Center for Trade and Development, World Trade Organization, and the Commonwealth Secretariat, 1995.

# Implications part I: Stakeholders' marketing responses to new border measures

The stakeholders, both Norwegian exporters and the importers from China, have made great efforts to lessen the burden and attempted several mitigation strategies to circumvent China's salmon sanction. These remedies include communication with NSC and the Norwegian Embassy in Beijing, importing salmon through airports that implement less strict sanitation tests and veterinary inspections, and the transshipment of Norwegian salmon indirectly through a third region or country.

## **Selling rotting fish to salmon processors**

Fresh/chilled whole salmon, within two days after harvested from the sea, is transported to the destination market, in this case mainland China, by air cargo planes using ice to chill the salmon and to preserve the quality. Because air transportation is expensive, Norwegian exporters only put enough ice to assure quality upon arrival in mainland China. When suddenly it took up to 20 more days to clear customs because of the tests and inspections, the fish began to rot soon after all the ice melted. The quality became so bad that the fish could no longer be sold as fresh salmon. To reduce economic losses, some interviewed importers admitted to selling rotting salmon to factories to make smoked salmon. However, they indicated that this only happened when the salmon sanction initiated, when it took them by surprise.

## **Communications with NSC and the Norwegian Embassy in Beijing**

From accounts during the interviews, it was noted that since the implementation of the new sanitation tests and veterinary inspections, Chinese businessmen and representatives of seafood traders did turn to the NSC and the Norwegian Embassy in Beijing, to voice their concerns and to request the Norwegian government to communicate with the Chinese government to ease the trade situation. The stakeholders noted that some sort of gesture or an apology might ease the diplomatic tension. Prior to and during interviews, stakeholders in mainland China sometimes asked what the purpose of the study was and whether a message could be conveyed back in Norway which might bring a change in Sino-Norwegian relations to de-escalate the diplomatic tension.



### **Shifting source-country suppliers**

Some businessmen turned to salmon produced in other countries, notably the UK, the Faroe Islands and Chile, to avoid the obstacles of importing Norwegian salmon (figure 2). A challenge that importers face is the language and communication. Salmon importers in mainland China, judging from the sample in the interview, do not speak English. Having been trading with China for over a decade, Norwegian exporters have either Chinese-speaking employees in Norway or in their offices in mainland China, to facilitate the trade. To our knowledge, there is only one Chinese-speaking employee in one of the salmon firms in Faroe Islands, who was recently employed as of 2014. Even with that, it is hard for Chinese importers to go through Internet, find the employee's contact method, and negotiate a contract.

### **Mislabelling of the country-of-origin labels in the retail market**

The country-of-origin is an important attribute and an important label for agricultural products such as salmon.<sup>28</sup> Several Chinese businessmen expressed that Norwegian salmon had superior quality than salmon from other countries, and that they would not trade salmon from other countries if things were as before the diplomatic row. Moreover, according to NSC's own research, Chinese consumers prefer Norwegian salmon to salmon from other producing countries. Hence the choice of shifting source-country supplier is not economically optimal.

During the field trip in January 2014, it was observed that it was rare to see salmon sold on wholesale markets and on retailing street markets bearing a label of the product's country-of-origin other than Norway, because some merchants falsely claim that salmon originating from other countries is Norwegian as a means to boost sales and profits. This has been noted in media reports.<sup>29</sup> In the larger supermarket chains, which tend to behave in accordance with Chinese law, salmon is usually more accurately labelled with the country of origin.

### **Port-shifting within mainland China**

In mainland China, prior to the diplomatic row, most Norwegian fresh/chilled whole salmon, if not all, was shipped through airports in four cities where the regional and national wholesale markets are and where the interviewed were conducted: Beijing City, Shanghai City, Guangzhou City, and Shenzhen City. Because shipments were concen-

---

<sup>28</sup> Hirotsugu Uchida, Yuko Onozaka, Tamaki Morita, and Shunsuke Managi, Demand for ecolabeled seafood in the Japanese market: A conjoint analysis of the impact of information and interaction with other labels, *Food Policy*, 2014: 68-75.

<sup>29</sup> Kina stopper norsk laks ved grensen, *Dagens Næringsliv*.

trated in these four ports, the new regulatory measures might have been only initially implemented at these airports.<sup>30</sup>

Importers tried to find ways have been trying to import salmon through other airports where sanitation tests and veterinary inspections were less strictly implemented. According to the interview stakeholders, in northern China, shipments of salmon started going through Tianjin Binhai International Airport (天津滨海国际机场) in Tianjin City (天津市), Zhengzhou Xinzheng International Airport (郑州新郑国际机场) in Henan Province (河南省), and Dalian International Airport (大连国际机场) in Liaoning Province (辽宁省); in eastern China, shipments of salmon started going through Hangzhou International Airport (杭州萧山国际机场) in Zhejiang Province<sup>31</sup>; in southern China, shipments of salmon started going through Chengdu Shuangliu International Airport (成都双流国际机场) in Sichuan Province (四川省) and Chongqing Jiangbei International Airport (重庆江北国际机场) in Chongqing City. The locations of these cities and provinces are shown in figure 3.

Stakeholders suggested that some local representatives of the Customs and Entry-Exit Inspection and Quarantine Bureau welcomed the shifting of salmon shipments. These airports, which never had salmon shipments in the past, were now receiving large quantities of salmon shipments. Along with the shipments come increased tax revenue, revenue from collecting customs-brokering fees, and revenue from collecting the fees for the testing and inspection services. However, the interviewed stakeholders also suggested that such an airport would implement the stricter sanitation tests and veterinary inspections once the central government noticed higher import volumes, which happened at Tianjin Binhai International Airport.

### **Synchronization of Import-Licensing Applications**

An import license with a 10-30 ton allowance of Norwegian salmon can be used up quickly. Applying for or renewing an import license takes about four weeks, and as noted a firm can only apply for a new import license once 75% of current volume has been imported. The more stringent sanitation tests and veterinary inspections did not affect imports of frozen Norwegian salmon much. There was only one stakeholder, among those interviewed, who imports frozen salmon. He verified that that delays in sanitation tests and veterinary inspections only increase

---

<sup>30</sup> As a result, nowadays virtually nobody imports Norwegian salmon through the airports in Beijing or Shanghai.

<sup>31</sup> Stakeholders noted that shipments of Norwegian salmon can go through Hangzhou International Airport swiftly because the shipments are ordered by a state-owned import company in Hangzhou City.

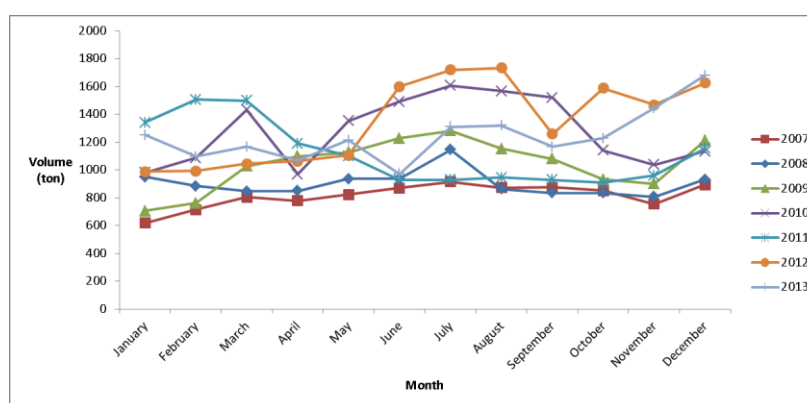
costs slightly but did not affect quality, and that his import was constrained by the import license.<sup>32</sup>

However, because the licensing regime limits the volume of Norwegian salmon by port, some Chinese importers have started applying for licenses to import Norwegian salmon into multiple ports. When the volume for one port is almost used up, they re-apply for another license at that port, and continue to import from other ports where they have already obtained an import license with a volume allowance that is not yet used. Importers keep applying for licenses from different ports and shifting salmon shipments to different ports, as a way to work around the volume limitation on a license application.

### Transshipments through legal channels

Among the interviewed stakeholders in mainland China and Hong Kong, 62% confirmed that they had imported or they knew other firms had imported Norwegian salmon via Hong Kong. However, there is little evidence suggesting that re-exported Norwegian salmon underwent less strict sanitation tests and veterinary inspections. Moreover, data from UN Comtrade do not record increased re-exports from Hong Kong or Vietnam to mainland China. Hence, some scepticism is in order regarding any claims of legal transshipment of Norwegian salmons. Figure 4 presents monthly exports of Norwegian salmon to Hong Kong between 2007 and 2013. The monthly imports of Norwegian salmon follow a similar pattern over the calendar, increasing toward the end of the year, but do show that import volumes were higher during 2010-13.

Figure 4. Hong Kong's monthly imports of Norwegian fresh/chilled whole salmon (2007 – 2013)



Source: Norwegian Seafood Council.

<sup>32</sup> It is simply advantageous to import frozen salmon from other source markets than to make repeated applications to import Norwegian salmon. This could account for the steeper reduction in Norwegian exports in the frozen salmon market segment.

Some of the interviewed stakeholders suggested another way of transshipping through legal channels via the illegal practice of changing country-of-origin label and falsifying documents. Since the Chinese authorities allegedly only limit Norwegian salmon, if the country-of-origin label is changed to a country other than Norway, e.g. Canada, the fish will no longer be Norwegian salmon on the document and will not likely go through lengthy sanitation tests and veterinary inspections. One interviewed importer of Norwegian salmon in Hong Kong admitted that when they resell Norwegian salmon to firms from the mainland, they are typically not asked to provide documents including the veterinary certificate from Norway, suggesting that labels are typically changed during transshipping. The practice of altering a label or switching the label from one shipment to another is illegal, but the risk of being detected is relatively low.

### **Transshipment through illegal channels**

Some of the interviewed stakeholders admitted to having smuggled Norwegian salmon via Hong Kong and Vietnam. According to the interviewed stakeholders, salmon had historically been transshipped and smuggled from Hong Kong to mainland China. The main reasons were threefold: (1) there were more frequent cargo flights from Europe to Hong Kong; (2) Hong Kong had a lower value-added tax on fuel and lower tariffs than mainland China; and (3) Hong Kong is part of China and borders Shenzhen, which creates conveniences for smugglers. However, due to more restricted border controls between the mainland and Hong Kong, gradually more salmon was shipped legitimately through airports in mainland China prior to the 2010 Prize. Following the increased difficulty of legitimately importing Norwegian salmon through mainland China's airports, importers turned their eyes back to Hong Kong. The uptick in monthly trade volumes in the NSC data in figure 4 provide limited support for this view.

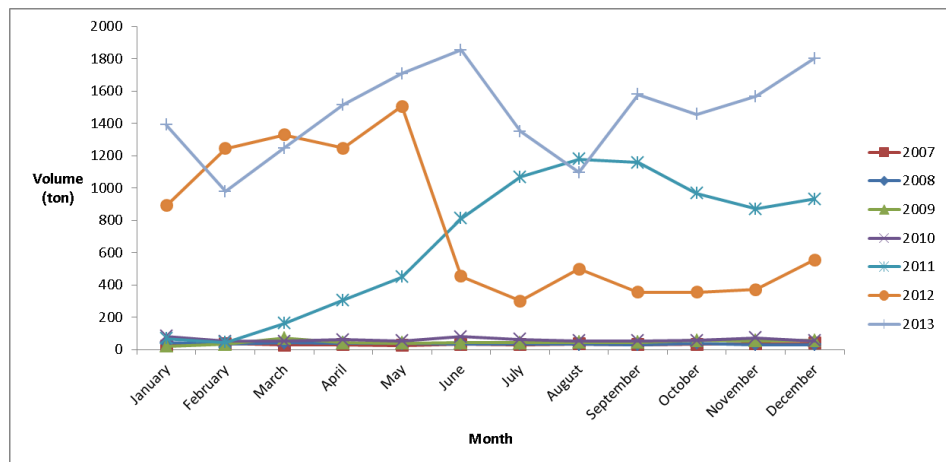
Vietnam has become a transshipment destination for all kinds of luxury food products for Chinese businessmen, as noted by the stakeholders interviewed. Smuggling between Vietnam and mainland China has always been active.<sup>33</sup> One stakeholder suggested that transshipment of salmon through Vietnam was due to the increased difficulty and risk to smuggle salmon via waterways from Hong Kong, which was then the route for smuggling. Therefore, in early 2010, salmon importers began transshipping through Vietnam by road, which by then was already a hub for expensive beef and other luxury seafood products. Vietnam's monthly imports of Norwegian salmon are reported in figure 5. The abrupt change in trade patterns since 2011 reflect abnormally high

---

<sup>33</sup> Through a border darkly, *The Economist*, 16 August 2014, <http://www.economist.com/news/asia/21612234-relations-between-two-communist-neighbours-are-their-lowest-point-decades-through-border>, accessed 22 August 2014.

increases in monthly exports of Norwegian salmon to Vietnam suggesting that salmon was being smuggled from Vietnam to mainland China.

Figure 5: Vietnam's monthly imports of Norwegian fresh/chilled whole salmon (2007 – 2013)



Source: Norwegian Seafood Council.

# Implications part II: Distorting China's salmon market and reducing consumer welfare

China's salmon sanction was designed to punish Norway through its salmon products. However, as the stakeholders have suggested, the business sector have implemented mitigate strategies to overcome the obstacles and work around the constraints. Despite the objective of the sanction, the costs in the end have mainly been to China's own salmon market and to Chinese consumers.

## **Increased corruption**

Corruption due to bribery is suggested in several of the mitigation strategies pursued by the stakeholders, including port-shifting, transshipping, and smuggling. For port-shifting, with the increased costs of shipments from airports that are far away from the final market, importers now have larger stakes to lose. Many of the stakeholders agreed that they are working every channel to get their orders through airports with minimal delays on sanitation tests and veterinary inspections. One stakeholder admitted that they would not order and import Norwegian salmon through an airport if the shipment was not guaranteed beforehand to pass through sanitation tests and veterinary inspections quickly. Another stakeholder hinted that how fast a shipment got out of the airport depended on how "passionate" the customs broker was. However, because most of the brokering services are outsourced to specialized customs-brokering agencies, the importers either did not know or would not disclose the details of how this clearing customs was facilitated or what share of the fee went to bribe officials. Similarly, because transshipping and smuggling are "outsourced" to a third party, stakeholders did not know the details involving those transactions. Stakeholders hinted that corruption was involved.

## **Quality degradation**

Chilled/fresh whole salmon is best 15 days after harvested from the sea. Typically, it takes two to three days to package, transport and deliver salmon by air cargo from Norway to mainland China, Hong Kong, or Vietnam. To maintain quality, there are only around 12 days for the whole value chain to get the fish from an airport to a consumer's dinner table. But China is a large country. After being imported, unprocessed fish is redistributed several times as it passes from larger

to smaller wholesaler, and as a whole salmon is processed (cut) before arriving at street markets, retail stores, and restaurants.

To conclude, before the diplomatic row it was already time consuming to deliver fresh/chilled whole salmon from the producers in Norway to consumers in mainland China. Since the row, if clearing customs takes two to three weeks, then Chinese consumers can no longer get high quality Norwegian salmon through formal trade channels. Table 1 documents the average number of days it takes to bring Norwegian salmon to an importer's storage facility. For fresh/chilled whole salmon, each day spent on the road results in additional quality degradation.

Table 1. Time frame<sup>a</sup> for redistributing fresh/chilled whole Norwegian salmon

	Before 2011	Since 2011		
		Through normal channel <sup>b</sup>	Port-shifting <sup>c</sup>	Transshipment / smuggling
Harvest from the sea in Norway and transportation to destination airport <sup>d</sup>	2-3 days			
Pass sanitation tests and veterinary inspections	No delay <sup>e</sup>	Up to 20 days	No delay	Likely no delay <sup>f</sup>
Clear customs	No delay			Likely no delay <sup>f</sup>
Transport to importers' storage facility	No delay <sup>g</sup>	No delay <sup>g</sup>	Can take 2 days depending on the location of the airport	2 to 6 days <sup>h</sup>
Days left to redistribute from importers to consumers	12-13 days	Can be rotten upon arrival at the importer's storage facility	10-11 days	6-11 days

<sup>a</sup> Fresh/chilled salmon is best within 15 days after harvested from the sea, which is the time frame between harvesting and consuming.

<sup>b</sup> The normal channel refers to importing through an airport in mainland China where the stringent sanitation tests and veterinary inspections on Norwegian salmon are implemented.

<sup>c</sup> By port-shifting refers to the practice of the Norwegian exporters and the Chinese importers that a shipment is directly transported to an airport where the stringent sanitation tests and veterinary inspections were not implemented or where the

importers have brokers with good connections with customs officials (potentially involving corruption).

- <sup>d</sup> The destination airport refers to mainland China, Hong Kong, and Vietnam.
- <sup>e</sup> Before 2011, Norwegian salmon could exit customs immediately for sale in mainland China, while sanitation tests and veterinary inspections would be conducted at the same time. The salmon, although very rare, would be recalled if a test or inspection failed.
- <sup>f</sup> For shipments that are transhipped or smuggled via Hong Kong, there is no additional sanitation test or veterinary inspection nor delay at customs. It is not known how much time it takes in Vietnam, but we suspect there is no delay.
- <sup>g</sup> The shipment is sent to the airport in the same city where the importer is based and where the wholesale market is. It takes at most two hours to transport the shipment from the airport to the importer's storage facility.
- <sup>h</sup> It takes some time to transport the salmon from a Vietnamese airport to the border, to cross the border into mainland China, and finally to reach the importer's storage facility. Furthermore, each segment may involve unloading and loading of salmon onto a different vehicle, train, or plane, which takes additional time.

Another problem is quality degradation due to inadequate transportation facilities during transshipping and smuggling. Vietnam and southern China, including Hong Kong, have a tropical climate. When Norwegian producers arrange air cargo shipments, they only put enough ice to reach the destination port, in this case Hong Kong or Vietnam, because air transportation is expensive. Ice melts fast while transporting in a tropical climate, which creates a problem for preserving fish quality. The interviewed stakeholders acknowledged changes in the quality of Norwegian after the diplomatic row; they observed poor quality in summer time, and better quality in winter when temperatures are lower. Sometimes, ice trucks are used for transporting salmon in the summer, but fresh/chilled whole salmon can become frozen upon arrival at the final destination market.

### **Increased costs for Chinese importers**

For Norwegian salmon shipped through the airports in mainland China, delays from sanitation tests and veterinary inspections imply storage costs incurred at the airport. For Norwegian salmon that passed through previously-unused airports in mainland China, or that were transhipped or smuggled, the importers bore higher costs to cover: (1) increased in-country transport costs from the distant airport to the importer's storage facility; (2) the costs of hiring a third-party to tranship or to smuggle; (3) the costs of hiring specialized brokers who manage the application of licenses at multiple airports; and (4) the costs from implied bribery to facilitate the customs-clearing time. There are additional opportunity costs and efficiency losses from moving more, smaller shipments and/or because the delays degrade the average quality of the fish, resulting in lower prices. Finally, there is a potential legal cost for a stakeholder implicated in being involved in mislabelling of fish, bribing civil servants or customs officials, or smuggling.



### **Distorting mainland China's domestic salmon market**

Mainland China's salmon market is very price sensitive and quality is a concern. Even salmon of a low quality can be sold if the price is sufficiently discounted. Despite the increased transportation and smuggling-related costs, smuggled salmon evades border delays, the costs of regulatory border measures and tariffs, providing a competitive edge in the price-sensitive market, according to some Chinese businessmen interviewed. The smuggled salmon, with a competitive price advantage, outcompetes legitimately imported salmon and distorts the market. As a consequence, former legitimate importers of Norwegian salmon facing the obstacles of importing directly through airports in mainland China have turned to buying from smugglers instead.

The smuggled salmon also distorts the high-end segment of mainland China's salmon market, e.g., upscale restaurants and the larger supermarket chains. These buyers require quality fish and the official sanitation and veterinary documents from Chinese authorities. Therefore, Norwegian salmon passing through official channels is preferred to smuggled salmon in both quality and documentation. However, for smuggled salmon with good enough quality, smugglers are able to sell it with falsified sanitation and veterinary documents or to reuse the sanitation and veterinary documents from another shipment. In addition, due to significant quality degradation during road transportation in the hotter months, smuggled salmon can only supply the high-end market during winter. Thus, the high-end segment of the market is also distorted, but only to a lesser extent.

### **Consumer welfare losses**

The loss in salmon quality and increased costs due to various remedies and workarounds, in the end, are born by the consumers in mainland China. Consumers are, by and large, unaware of the quality degradation due to increased transportation distance and time. Furthermore, although salmon is sold in large supermarket chains have valid country-of-origin labels, salmon from other countries are sold as Norwegian salmon in street markets, which are the traditional markets at which Chinese consumers shop for food. The consumers, in this case, pay a premium for "Norwegian" salmon but get salmon from a different country instead.

### **Potential damage to the image of Norwegian salmon**

China's salmon market has grown rapidly, because of China's expanding middle class. The NSC has cultivated the demand for salmon in general and the image of high-quality salmon from Norway through marketing and awareness campaigns. The NSC spent NOK 15 million (USD 2.4 million) in 2012 and the budget in China in 2013 was around NOK 30 million. If allegations of degraded fresh/chilled whole salmon being sold in China are proven, this can damage the image of Nor-

wegian salmon, especially if it also proven that country-of-origin labels have been falsified. The damage to the image of Norwegian salmon would forfeit a significant part of Norway's investment in the Chinese market.

### **Long-term implications for China's salmon market**

According to some interviewed stakeholders, initially only Norwegian salmon was smuggled from Vietnam to mainland China, as a means around the Chinese government's discriminatory practices. Once smugglers earned profits learning their trade, they started smuggling salmon from other producing countries too. While this assertion seems reasonable and logical, it could not be substantiated or corroborated through UN Comtrade data. If true, then market distortion due to smuggling would be more severe than generally thought.

Making matters potentially worse, the market distortion might last even after the Sino-Norway relationship normalizes. The transshipment/smuggling link via Hong Kong and Vietnam has operated for more than four years. In one week in 2013, over 700 tons of Norwegian salmon were imported into Vietnam, virtually all of which can be reckoned to have been transhipped to mainland China. Currently, air cargo flights to Vietnam have not expanded as rapidly as the growth in the transhipped volumes. The number of cargo flights from Europe to Vietnam is much smaller compared with mainland China and Hong Kong. Hence, right now there is a limit to the capacity to tranship salmon through Vietnam. The fast development of Vietnam's economy, the well-established transshipment channels, and the expected expansion of air cargo companies in the future should provide further opportunities to market Norwegian salmon via Vietnam, if the need exists.

### **Long-term implication to Norway's salmon exporters**

Mainland China's fresh/chilled whole salmon market was once dominated by salmon from Norway for over a decade. Although Norway still has a major share of the market, its position has changed and more and more players have entered or are about to enter to the market. During the 18<sup>th</sup> China Seafood & Fisheries Exposition in 2013, which is China's largest fair on seafood trade, there were more salmon exporters than ever, including firms from countries that do not produce salmon but which are interested in re-exporting. Hence, even when the political row-induced border measures are removed, the market is not likely to return to what it was before 2011.

From a competition standpoint, it is expected to be difficult for Norway to regain its dominance over the Chinese market because competitors have already established trade and relations with buyers that are likely to last. Furthermore, Chinese consumers nowadays are more aware of the salmon from the Faroe Islands and Scotland. But because

the Chinese market is expected to continue growing, increased export volumes for Norway are still possible even if market shares do not return to pre-2011 levels.

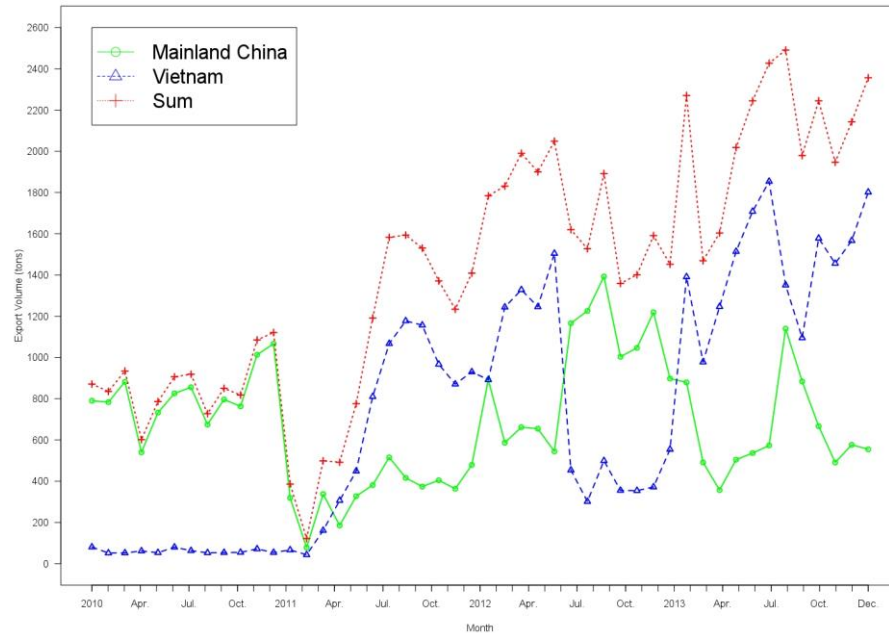
## Implications part III: Effectiveness of the sanction

According to 78% of the interviewed stakeholders, the stringent sanitation tests and veterinary inspections, and the quantitative restriction on imports through approval of small volumes on import licenses, were specifically applied on Norwegian salmon. These regulatory and border measures, while justified as domestic regulations intended to meet some legitimate social policy objective (rather than to signal China's displeasure with the awarding of the 2010 Nobel Peace Prize), in practice act as NTBs limiting market access to Norwegian salmon. However, the NTBs have not been fully effective in impeding Norwegian salmon from entering mainland China's market.

### **Ineffective: Increasing Norwegian exports to mainland China**

The popular misconception that Norway has lost its majority share in China's fresh/chilled whole salmon market is based on media reports from official trade data of direct exports from Norway to mainland China. However, with the prevalence of transshipping coupled with falsified country-of-origin labels, and of smuggling from Hong Kong and, particularly, Vietnam to mainland China, the official trade data on direct exports are not a reliable source. The interviewed stakeholders believe that Norwegian salmon still accounts for between 50% and 70% of the total fresh/chilled whole salmon on mainland China's market. Figure 6 presents Norway's monthly direct exports to Vietnam and mainland China, and the sum. Vietnam's domestic market is very small, as suggested by the imported volumes before March 2011. Using that as the base period would imply that almost all the Norwegian salmon exported to Vietnam was transhipped to mainland China's market. Summing the indirect exports via Vietnam and the direct exports to China together shows that Norway increased its export of salmon to mainland China.

Figure 6. Norway's monthly direct exports of fresh/chilled whole salmon to mainland China and Vietnam (January 2010 – December 2013)



Source: Norwegian Seafood Council.

Norway's salmon industry has global production. In Europe, Norway has farms in the Faroe Islands and Scotland. If one thinks of Norwegian salmon as salmon produced from farms that are invested in or owned by Norwegian capital, then the losses are even smaller, because Norwegian capital is invested in several salmon farms in the Faroe Islands and the UK. This is supported in the break in the trend where salmon imports from the US covered any shortfall in salmon from Norway on the Chinese market (figure 2). However, after 2010 it was not the US but rather it was exports from the two countries where Norway has the largest salmon production capacity which took over Norway's lost market shares.

### Effective Salmon Sanction?

Despite the sanction's ineffectiveness in restricting market access as a NTB, China's sanction seemed to have played its desired soft-power effect in 2014. In May 2014, the government of Norway declined to meet the Dalai Lama during his visit to the country (Gladstone 2014).<sup>34</sup> Perhaps this initial gesture by Norway can be seen as China having gotten its message across. After all, the UK resumed its ministerial meetings and warmed up its relationship with China by declining and

<sup>34</sup> Ricker Gladstone, Norway snubs Dalai Lama in deference to China, The New York Times, 7 May 2014, <http://www.nytimes.com/2014/05/08/world/europe/norways-leaders-snob-dalai-lama-in-deference-to-china.html>, accessed 24 May 2014.

restraining its ministers from meeting the Dalai Lama in 2013.<sup>35 36 37 38</sup> The puzzling part is that as of December 2014, the salmon sanction, in its fifth year, is still actively in force. It may be because that China expects more gestures from Norway.

- 
- <sup>35</sup> David Cameron distances UK from Dalai Lama and Tibet to woo Beijing, South China Morning Post, 30 November 2013 and updated on 1 December 2013, <http://www.scmp.com/news/world/article/1369743/cameron-distance-united-kingdom-dalai-lama-and-tibet-issue>, accessed 14 May 2014.
- <sup>36</sup> Robert Winnett and Moore Malcolm, Political 'deep freeze' between Britain and China finally over following Dalai Lama row, The Telegraph, 25 June 2013, <http://www.telegraph.co.uk/news/worldnews/asia/china/10142457/Political-deep-freeze-between-Britain-and-China-finally-over-following-Dalai-Lama-row.html>, accessed 14 May 2014.
- <sup>37</sup> Christopher Hope, David Cameron banned ministers from speaking to Dalai Lama, The Telegraph, 2 Dec 2013, <http://www.telegraph.co.uk/news/worldnews/asia/tibet/9717544/David-Cameron-banned-ministers-from-speaking-to-Dalai-Lama.html>, accessed 14 May 2014.
- <sup>38</sup> Daniel DeFaria, The UK appears to give in to China on issue of Dalai Lama visit, 30 November 2013, <http://www.globalpost.com/dispatch/news/regions/asia-pacific/131130/the-uk-gives-china-issue-dalai-lama-visit>, accessed 14 May 2014.

# Conclusions

China's rapid economic growth and economic power in global markets facilitates the use of economic sanctions as a means of projecting that power in international relations. The government of China is able to limit foreign firms' access to its lucrative market to make its foreign policy objectives known. This study makes the case that China has applied customs practices and licensing procedures, i.e., non-tariff barriers that have discriminated against the Norwegian salmon industry since 2011. First, Norwegian salmon is more frequently, if not always, subjected to sanitation testing and veterinary inspections. Second, the licensing regime required to import salmon is more restrictive applied upon Norwegian salmon. That is, only smaller volumes of Norwegian salmon tend to be approved on an import license. These practices, as confirmed by majority of the interviewed salmon traders, strengthen the case that China is applying border measures that are inconsistent with WTO rules in their implementation.

The combination of strong consumer preference for Norwegian salmon and the difficulties in importing Norwegian salmon directly through legitimate channels has resulted in importers using different methods to get Norwegian salmon into mainland China: some started using airports which are easier to clear sanitation tests and veterinary inspection; some started applying for licenses to import at ports that previously did not receive shipments of salmon; and some started transshipping and smuggling Norwegian salmon via Hong Kong and Vietnam. While statements from interviewed stakeholders confirmed transshipping and smuggling, abnormalities in trade volumes from Norway to Hong Kong and Vietnam have provided further evidence. Finally, some importers gave up Norwegian salmon and turned to import salmon from other European countries, while some importers stopping importing Norwegian salmon due to the obstacles and turned to buy from smugglers. Nevertheless, the direct imports from Norway and indirect imports of Norwegian salmon through, in particular, Vietnam appear to refute the popular claims that imports of Norwegian salmon to China have declined since 2011.

The politically-driven border measures come at a cost, largely borne by China's domestic salmon market and Chinese consumers. The consumers pay for the increased costs (e.g. costs related to transportation, hiring intermediaries and implied bribes) and consume salmon of lower quality.

Despite Norway managing to increase its exports to China, mainly through transshipments, the change in Norwegian government's foreign

relations position to meet the Dalai Lama in May 2014 suggests how an economic sanction can affect foreign affairs. For nations which rely more on exporting products to China, concerns over such economic sanctions will play an even more important role in international politics.



## Notes

This work was supported by the Research Council of Norway (project no. 216742). With consideration to those stakeholders who requested anonymity to be interviewed for this study, the authors cannot identify the participants but gratefully acknowledge and thank them for their observations, personal impressions and insights. In addition, Kia Johanna Uuskartano and Sigmund Bjørge, from the Norwegian Seafood Council, are thanked for the provision of trade statistics and helpful comments. Lesley Jenkins from the Scottish Salmon Producers' Association is gratefully acknowledged for her comments. We thank Bernt Aarset, Arne Melchior, Kathryn Bernhardt, participants of "Non-Tariff Barriers, Food Safety and International Trade: Second Workshop", participants of University of Oslo's "East Asia Lunch Seminar", and participants of the seminar at Norwegian University of Life Sciences for their suggestions and comments on earlier drafts. The authors declare that there is no conflict of interest.

# References

- Agreement on import licensing procedures (1995) Geneva: World Trade Organization.  
[http://www.wto.org/english/res\\_e/booksp\\_e/analytic\\_index\\_e/licensing\\_01\\_e.htm](http://www.wto.org/english/res_e/booksp_e/analytic_index_e/licensing_01_e.htm), accessed 20 April 2014.
- Amland, Bjoern H. (2011) Norway Feels Sting of China's Anger after Liu Xiaobo Nobel Prize Win. The World Post, May 6.  
[http://www.huffingtonpost.com/2011/05/06/norway-china-liu-xiaobo-peace-prize\\_n\\_858506.html](http://www.huffingtonpost.com/2011/05/06/norway-china-liu-xiaobo-peace-prize_n_858506.html), accessed 4 February 2014.
- Awarding Liu Xiaobo Nobel Peace Prize may harm China-Norway relations, says FM spokesman, 8 October 2010.  
[http://news.xinhuanet.com/english2010/china/2010-10/08/c\\_13547668.htm](http://news.xinhuanet.com/english2010/china/2010-10/08/c_13547668.htm), accessed 26 November 2014.
- Bradsher, Keith and Wong, Edward (2010) China's ban on selling rare earth minerals to Japan continues. New York Times, Nov. 10, 2010.  
<http://www.nytimes.com/2010/10/11/business/global/11rare.html>, accessed 10 June 2014.
- Business guide to the Uruguay Round (1995) Geneva: International Trade Center, United Nations Center for Trade and Development, World Trade Organization, and the Commonwealth Secretariat.
- China still miffed at Norway 3 years after Nobel awarded to dissident Liu Xiaobo. Sydney Morning Herald, 29 October 2013.  
<http://www.smh.com.au/world/china-still-miffed-at-norway-3-years-after-nobel-awarded-to-dissident-liu-xiaobo-20131029-2wcv2.html>, accessed 24 May 2014.
- Census and Statistics Department, <http://www.censtatd.gov.hk/>, accessed 1 February 2014.
- David Cameron distances UK from Dalai Lama and Tibet to woo Beijing, South China Morning Post, 30 November 2013 and updated on 1 December 2013. <http://www.scmp.com/news/world/article/1369743/cameron-distance-united-kingdom-dalai-lama-and-tibet-issue>, accessed 14 May 2014.
- DeFaria, Daniel (2013) The UK appears to give in to China on issue of Dalai Lama visit. 30 November.  
<http://www.globalpost.com/dispatch/news/regions/asia->

[pacific/131130/the-uk-gives-china-issue-dalai-lama-visit](#), accessed 14 May 2014.

Kina stopper norsk laks ved grensen (China stops Norwegian salmon at the border). Dagens Næringsliv (Today's Business Life), 8 August 2013 and revised on 11 February 2014.

<http://www.dn.no/nyheter/naringsliv/2013/08/26/kina-stopper-norsk-laks-ved-grensen>, accessed 1 May 2014.

Fuchs, Andreas and Klann, Nils-Hendrik (2013) Paying a visit: The Dalai Lama effect on international trade. *Journal of International Economics* 91(1): 164-177.

Gladstone, Ricker (2014) Norway snubs Dalai Lama in deference to China. *The New York Times*, 7 May.

<http://www.nytimes.com/2014/05/08/world/europe/norways-leaders-snob-dalai-lama-in-deference-to-china.html>, accessed 24 May 2014.

Glaser, Bonnie S. (2012) China's coercive economic diplomacy. *The Diplomat*, July 25, 2012. <http://thediplomat.com/2012/07/chinas-coercive-economic-diplomacy/>, accessed 16 April 2014.

Guanyu jiaqiang jinkou sanwenyu jianyan jianyi de gonggao (General notice on strengthening of the inspection and quarantine of imported salmon) (2011) 26 January.

<http://www.shciq.gov.cn/templates/detail.jsp?id=28021> and <http://www.leshan.gov.cn/Frontpage/html/ZWGKView.asp?ID=120476>, accessed 25 May 2014.

Higgins, Andrew (2012) In Philippines, banana growers feel effect of South China Sea dispute. *The Washington Post*, June 11, 2012.

[http://www.washingtonpost.com/world/asia\\_pacific/in-philippines-banana-growers-feel-effect-of-south-china-sea-dispute/2012/06/10/gJOA47WVTV\\_story\\_1.html](http://www.washingtonpost.com/world/asia_pacific/in-philippines-banana-growers-feel-effect-of-south-china-sea-dispute/2012/06/10/gJOA47WVTV_story_1.html), accessed 23 May 2014.

Hooker, Neal H. and Caswell, Julie A. (1999) A framework for evaluating non-tariff barriers to trade related to sanitary and phytosanitary regulation. *Journal of Agricultural Economics* 50(2): 234-246.

Hope, Christopher (2013) David Cameron banned ministers from speaking to Dalai Lama. *The Telegraph*, 2 Dec.

<http://www.telegraph.co.uk/news/worldnews/asia/tibet/9717544/David-Cameron-banned-ministers-from-speaking-to-Dalai-Lama.html>, accessed 14 May 2014.

Milne, Richard (2013) Norway sees Liu Xiaobo's Nobel Prize hurt salmon exports to China. *Financial Times*, Aug 15.

<http://www.ft.com/intl/cms/s/0/ab456776-05b0-11e3-8ed5-00144feab7de.html>, accessed 2 September 2013.

Organization, <http://en.seafood.no/About-us/Organization>, accessed 25 May 2014.

Personal communication with Norwegian Seafood Council, trade data acquired through personal e-mail contacts on 25 and 27 March, and 13, 19, 28, and 30 May 2014.

Quality inspection notification (2010) 8 December. Beijing: Beijing Capital Airport Entry-Exit Inspection and Quarantine Bureau Service Center. 8 December 2010. Translated copy provided by the Norwegian Seafood Council.

Reilly, James (2012) China's unilateral sanctions. *The Washington Quarterly* 35(4): 121-133.

Through a border darkly, *The Economist*, 16 August 2014.  
<http://www.economist.com/news/asia/21612234-relations-between-two-communist-neighbours-are-their-lowest-point-decades-through-border>, accessed 22 August 2014.

The Nobel Peace Prize for 2010 (2010) 8 October.  
[http://www.nobelprize.org/nobel\\_prizes/peace/laureates/2010/press.html](http://www.nobelprize.org/nobel_prizes/peace/laureates/2010/press.html), accessed 25 May 2014.

Uchida, Hirotsugu, Onozaka, Yuko, Morita, Tamaki, and Managi, Shunsuke (2014) Demand for ecolabeled seafood in the Japanese market: A conjoint analysis of the impact of information and interaction with other labels. *Food Policy* 44: 68-75.

UN Comtrade – International Trade Statistics Database.  
<http://comtrade.un.org/>, accessed in April and May 2014.

Winnett, Robert and Malcolm, Moore (2013) Political “deep freeze” between Britain and China finally over following Dalai Lama row. *The Telegraph*, 25 June.  
<http://www.telegraph.co.uk/news/worldnews/asia/china/10142457/Political-deep-freeze-between-Britain-and-China-finally-over-following-Dalai-Lama-row.html>, accessed 14 May 2014.





## Norwegian Institute of International Affairs

Established in 1959, the Norwegian Institute of International Affairs [NUPI] is a leading independent research institute on international politics and areas of relevance to Norwegian foreign policy. Formally under the Ministry of Education and Research, NUPI nevertheless operates as an independent, non-political instance in all its professional activities. Research undertaken at NUPI ranges from short-term applied research to more long-term basic research.

### **About the Authors**

**Xianwen Chen** is a PhD student at School of Economics and Business, Norwegian University of Life Sciences. His current research interests include consumer behavior and international trade.

**Roberto J. Garcia** is an associate professor at School of Economics and Business, Norwegian University of Life Sciences. His current research interests include trade policy analysis and WTO compliance of trade policies.

### **NUPI**

Norwegian Institute of International Affairs  
C.J. Hambros plass 2D  
PO Box 8159 Dep. NO-0033 Oslo, Norway  
[www.nupi.no](http://www.nupi.no) | [info@nupi.no](mailto:info@nupi.no)