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## Why Some China Exports Are Taking Illegal Detours

By JOHN W. MILLER

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BRUSSELS -- When Cambodia suddenly started exporting hundreds of tons of garlic to the European Union a few years ago, Jürgen Marke, a computer analyst at Europe's Olaf antifraud office, smelled a problem.



**Jürgen Marke**

Earlier this month, investigators wrapped up a lengthy probe based on his hunch. The garlic turned out to be Chinese, routed through Cambodia to hide its origin and avoid high EU tariffs and strict quotas.


Mr. Marke's data-crunching in his small office in Brussels puts him on the front line of a growing battle to stop so-called trans-shipment of Chinese goods to the rich markets of Europe and the U.S. At stake are hundreds of millions of dollars in lost customs duties, as well as jobs in domestic industries -- from shoes to food -- under threat from low-cost competition from Asia.

Rerouting goods to avoid tariffs isn't new or unique to Chinese exporters. But in recent years the U.S. and the EU have imposed increasing numbers of quotas and punitive tariffs to combat alleged Chinese "dumping" -- the export of goods below cost to secure market share -- as well as some bans for safety reasons. That appears to be fueling efforts to get around the rules; EU officials, for instance, say they have detected evidence of trans-shipment for 90% of the 91 products subject to the bloc's antidumping tariffs.

Customs agents in the U.S. and the EU have discovered trans-shipment rings selling everything from shoes to cigarette lighters to energy-saving light bulbs lately. Their newest worry is over one of the West's most protected and politically sensitive sectors: food. Last year, EU countries reported 84 instances of food trans-shipped from China, up from 50 the year before, including duck, chicken, beef and milk. Although only a small percentage of China's \$969 billion in exports, food is a big growth area as Chinese agriculture modernizes.

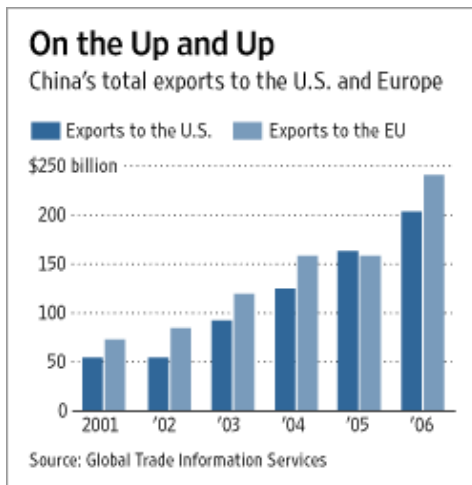
The recent revelation that tainted wheat flour from China entered pet food in the U.S. has helped fuel these concerns. EU and U.S. customs agents worry that trans-shipped goods could allow unsafe or contaminated foods to leak into food chains. "You're increasing the risk if you're not sure where the food is coming from," Mr. Marke says.

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Caroline Smith DeWaal, food safety director at the Center for Science in the Public Interest in Washington, says that people suspect that trans-shipping is a big problem for food imports in the U.S., but that the picture remains murky. That is partly because countries can legally import ingredients and then either process them or combine them with other homegrown ingredients and then export the product to another country. That can make the origins hard to discern.



"It's a hidden problem in the sense that it's happening below the government's radar screen and even the radar screen of some of the buyers of the products," Ms. DeWaal says. A spokesman for the Food and Drug Administration said the agency couldn't immediately comment on the problem.

Trans-shipment also cuts down on the effectiveness of customs screening processes, which take into account country of origin. "We use risk analysis to decide what containers of food to inspect," says Coen Gelinck of the Dutch Food and Consumer Product Safety Authority in The Hague.

Laundering trade through third countries was a common practice among Chinese exporters before 2001 but subsided for a while after China joined the World Trade Organization and gained low-tariff access to the world's richest markets, say trade officials, lawyers and analysts. Now it is reappearing as the EU and the U.S. step up antidumping tariffs, quotas or outright bans on the Asian giant's cheap imports.

Trans-shipment has become "a persistent and annoying problem" says Vera Evans, an executive director for U.S. Customs and Border Protection. The U.S. runs five domestic offices that monitor trade flows for signs of trans-shipment. The issue is on a long list of trade concerns the U.S. has with China. Talks just concluded in Washington highlighted a range of issues, from alleged currency manipulation to food safety to the pirating of intellectual property. While many of those topics have received high-profile public attention, problems with trans-shipment are deeper in the background of the U.S.-Sino relationship. But they are still very much a concern among officials charged with enforcement of U.S. trade laws.

Though trans-shipment is illegal, it is difficult to combat. The goods, usually carrying false documentation on their origin, look legal when they arrive. To spot the problems, back-office customs agents must monitor global trade flows for clues.

Mr. Marke, for instance, tracks the \$10 trillion world-trade market using a privately sold database that can pull up imports and exports of goods between any two countries. The 40-year-old knows his trade routes: Vanilla beans normally come from France, nickel from Australia, honey from Argentina. "I watch for deviation," he says as maps pop up on his screen. He uses lines to track where products originate and where they go.

A new line means either that a country has just started producing a product for export -- or that it is a trans-shipment that actually originated elsewhere. Some maps compare where Chinese exports are going, and where European imports are coming from. "We get suspicious if the lines all of sudden meet in another [third] country," he says.

In 2004, Mr. Marke noted a sharp spike in Cambodia's garlic exports to Italy and the U.K. There were new garlic lines from China to Cambodia, and from Cambodia to the EU. Like the U.S., the EU maintains high barriers for many agricultural products. Almost all meat and poultry imports from China are banned outright for health reasons. Garlic is subject to stiff quotas and tariffs.

Chinese garlic production has tripled since 1995 to 13 million tons a year. Yet its quota for export to the EU is just 37,480 tons. Once the quota is used up, the tariff paid by Chinese garlic exporters skyrockets to 209.6% of the value of the shipment, up from the standard EU tariff of 9.6% for WTO members.

Earlier this year, an EU agent dispatched to Cambodia found no increase in local production, meaning the increased garlic shipments from Cambodia to the EU must be coming from elsewhere. Italian and U.K. customs authorities investigated and found that in 2003 and 2004, a Taiwan trading company had shipped 120 containers -- more than 3,000 tons of garlic -- from Qingdao, China to Sihanoukville, Cambodia. After spending a couple of days in port, the garlic was re-exported to Naples, Italy, and Felixstowe, in the U.K. The scheme cost the EU roughly \$5 million in lost tariff fees.

Earlier this month, U.K. and Italian authorities charged the importers who bought the garlic with fraud. Importers are held responsible for checking the origin of the goods they are importing. "We don't have any legal leverage over the shipper or the exporter," Mr. Marke says.

Last year, EU officials discovered 43 operations trans-shipping garlic from China, more than half the food cases involving the Asian giant. Countries used as conduits included Jordan, Russia, Serbia, Turkey, the Dominican Republic and the Philippines. The EU estimates trans-shipment of garlic alone has cost \$80 million in lost tariff fees in the past five years.

Companies in other countries trans-ship, too. In 2003, for example, the EU discovered Brazilian sugar being shipped via Serbia, after the EU had given the war-torn Balkan country a special tariff exemption to boost its economy. To avoid the U.S. trade embargo against Iran, U.S. companies often ship goods through Dubai, U.S. customs officials say.

In the four months after the EU imposed a 16.5% duty on Chinese shoe imports last October, Mr. Marke notes, monthly shoe exports from Malaysia rose to around \$220 million from \$10.8 million, most of it going to Europe. He can't comment on continuing cases, but another EU official familiar with the case said the EU is investigating whether Chinese companies are sending the shoes to Malaysia, then shipping them to Europe.

"Traders are always finding new routes to avoid detection," says Mr. Marke. "This is a problem that never seems to end."

--Greg Hitt and Jane Zhang contributed to this article.

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