

## Chinese Fruit May Spur EU Battle

Low-Cost Produce Exports Stir Calls  
For Penalties From Polish Farms

By JOHN W. MILLER

BAODING, China -- European fruit and vegetable farmers, already the beneficiaries of heavy subsidies, are looking ahead to a crop-by-crop battle for even more protection from Chinese competition.

But as the fate of Polish strawberry growers shows, trade barriers may do little to stop Chinese industrial farms like Binghua Food Co. from gaining ground in the European market.

Stung by low-cost competition from China, Poland's strawberry producers filed a complaint with the European Union last year, leading to the EU's first agricultural import duty, a punitive tariff levied in October of 34.2% on imports of frozen strawberries from China.

Trade officials must decide by April whether to make the tariff permanent, in a dispute that shows how Europe can be economically vulnerable even in some of its most protected sectors.

Poland's strawberry growers aren't alone. EU trade officials, under pressure from Spanish farmers, set quotas in 2004 on Chinese mandarins and other Chinese citrus fruits. In Brussels, lobbyists representing industries such as Spanish furniture makers and Belgian apple farmers could pursue dumping complaints against the Chinese. The EU recently imposed antidumping duties on Chinese and Vietnamese shoes following complaints from Italian shoemakers.

An EU investigation into Binghua and other Chinese fruit producers found they benefited from tax breaks that allowed them to undercut market prices, in addition to advantages such as inexpensive land and labor. EU trade officials decided that to turn away the Poles would have sent a continent-wide signal of surrender to Chinese farmers, said a person familiar with the matter.

European regulators are torn by two constituencies. While producers fear Asian competition, thrifty consumers are increasingly hungry for it. European jam, yogurt and ice-cream producers who need cheap fruit to cut their costs have lined up to back China.

The EU thinks it has much to gain by striking the right trade balance. "Agriculture will be an area of tremendous growth," says EU trade commissioner Peter Mandelson. China can sell bulk products in the EU, saving EU consumers money, he says, while the EU can

cash in on China's growing middle classes by selling niche products such as wine and cheese.

Chinese farm-export numbers to Europe are small but growing. Chinese frozen-strawberry exports to the EU rose to \$26.4 million last year from \$6.2 million in 2002, an increase in market share to 20% from 3.5%. That growth came largely at the expense of other imports, and the new strawberry tariff is likely to help exporters in countries such as Morocco more than it helps Poland, as Moroccan strawberries won't be affected by the tariffs.

Chinese agriculture exporters are actively pursuing sales to Europe. At a trade fair last month in Chengdu, meant to bring together small European and Chinese companies, agriculture was the most prominent sector represented -- 195 of the 800 companies present -- ahead of high-tech and heavy-machinery firms.

And in November, 120 apple vendors crowded the Renaissance Hotel in Brussels to showcase the attractiveness of Chinese fruit. One room was piled high with boxes of apples. "We're trying to show we have a special taste," said Zhou Zhixiao, division chief of the Shaanxi Provincial Fruit Administrative Bureau. He cut a deal with King Transport, a logistics company, to stock his apples at a refrigerated warehouse in Belgium.

"We have more and more Chinese customers," said Robert Jacobs, King's sales-and-marketing manager. Chinese apple exports to the EU have grown to \$46 million in 2005 from \$4 million in 2000.

Poland is now the world's third-largest grower of blueberries. It is No. 4 in raspberries and No. 6 in strawberries. Poland joined the EU in 2004 and has an unemployment rate near 15%, and lobbyists pushing for strawberry tariffs said without them the country stood to lose more than 2,500 jobs.

In Baoding, 80 miles southwest of Beijing, an entrepreneur named Liu Quanhua founded Binghua Food in 2001 with \$62,500 in capital.

Its fruit business took off in 2004, when Binghua hired Chen Guofan, a 35-year-old with a degree in international trade. Surfing the Web, Ms. Chen found Materne Confilux SA, a family-owned Belgian company that turns out €100 million (\$131.7 million) worth of jam and other fruit products a year. Materne ordered 360 metric tons of frozen strawberries and cut down on supplies from its previous source: Polish farmers.

Materne needs Chinese strawberries to stay competitive, says Managing Director Jean-Luc Heymans. Poland is vulnerable to drought and frost and can only deliver in June, a month after the Chinese are ready, Mr. Heymans says. "We're not convinced Poland's problems come from China," he says. If the EU duties hold, Mr. Heymans says he will have to raise jam prices.

In 2004, Chinese prices were 49% cheaper, in part because of frost in Poland.

Binghua rents 3.1 acres, or 1.24 hectares, from the government for a total of \$3,500 and is charged 9.6% annual interest by a local state-backed bank. The company says it pays its 200 temporary workers as much as 60 cents an hour. Salaried employees get \$100 a month.

Binghua is the only food processor of its kind in town. It sets prices for peasants like Tan Baotian. He farms on eight acres he leased two years ago for free from the local government. He sells his excess strawberries to Binghua for around \$60 a metric ton -- around one tenth of what Polish processors pay for their strawberries, and a third the price Mr. Tan gets at fresh produce markets in town. Mr. Tan says he makes around \$600 a year and, he adds, "I don't know where my fruit is going."

Polish workers earn more than double what their Chinese counterparts do, and the cost to the company is twice that due to social security and insurance payments.

Poland's fruit industry wasn't really set up to compete on a global scale. After Communism collapsed, many of Poland's fruit cooperatives on its eastern plains were parceled into a network of small, privately own farms. Though small, they were able to put the country on the map.

Janusz Majtczak wishes he could hire people like Mr. Tan. Mr. Majtczak is the chief executive of Unifreze, a processing plant in northern Poland owned by two fruit and vegetable cooperatives. Unifreze can't find enough pickers who will work for €1 an hour, say Mr. Majtczak. Poles can make four times that much working at jobs in Spain or the U.K., where there is a shortage of fruit and vegetable pickers.

"Dumping duties will help," he adds. "But we also have to cut labor costs and the tax burden."