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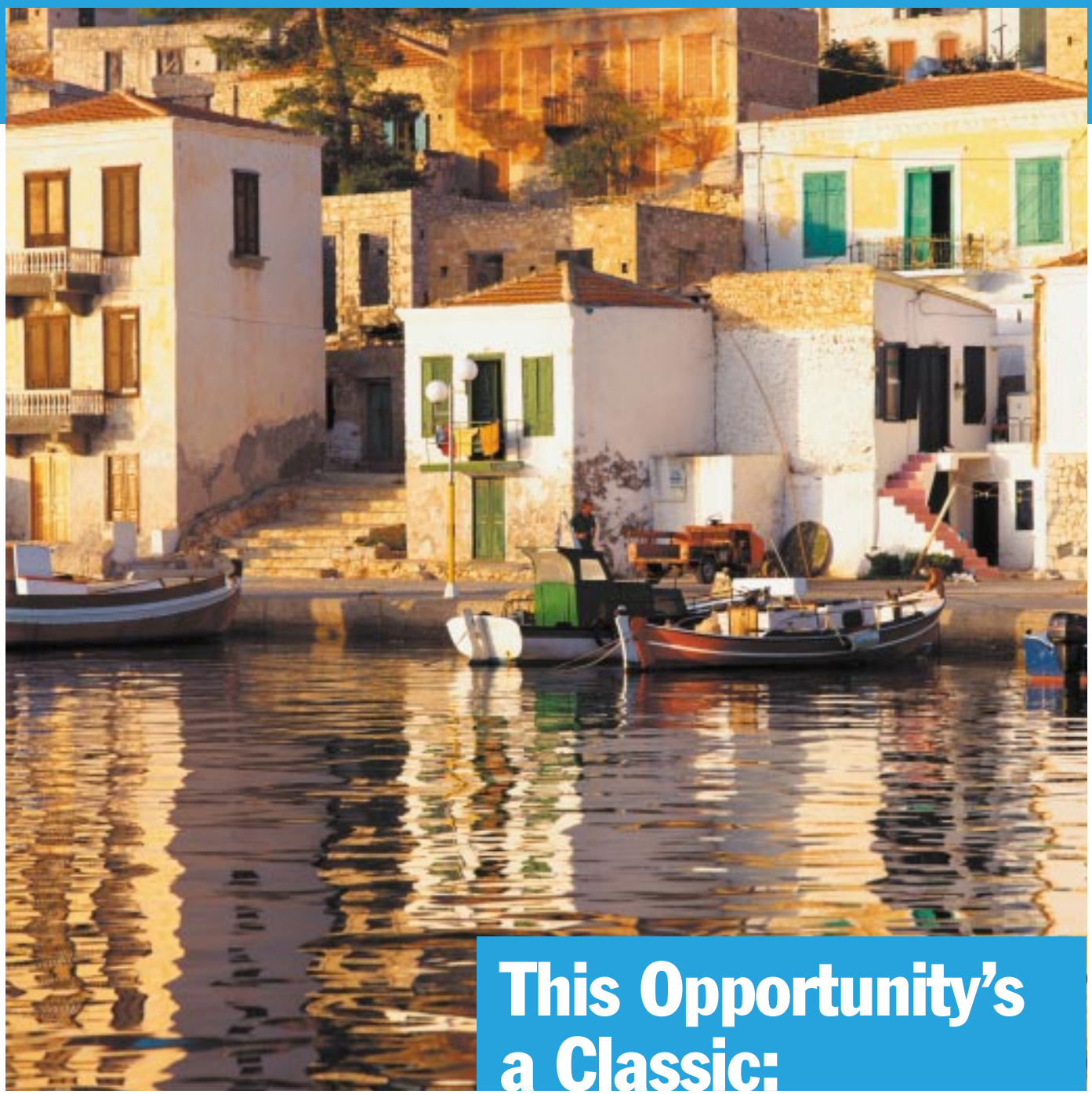

This Opportunity's a Classic: Greece's Consumer Food Sector

U.S. Exporters: Don't Let It Be "All Greek" to You!

By Danae Synodinou

With a gradually improving economy and a shifting market structure, the business landscape of today's Greece is changing, creating exciting opportunities for U.S. consumer food exporters.

Fundamental economic changes are altering lifestyles, increasing incomes and heightening demand for food convenience and variety. So although, in the past, Greece has offered limited prospects for U.S. consumer food sales, several factors are transforming it into a market of promise.

The Greek Economy

Greece has a population of 10.6 million, a workforce of about 4 million and an unemployment rate of roughly 10.5 percent. Per capita gross domestic product (GDP) reached $12,480 in 1999; although lower than that of many members of the European Union (EU), this figure shows a considerable gain from the country's year-earlier figure, $11,335. Moreover, Greece's GDP growth exceeds the EU average, so the country is catching up with the more prosperous members.

Like many of its neighbors, Greece is making the transition from a centrally planned, largely government-controlled economy to one that is more market oriented. The state sector makes up 45 percent of GDP, and the private sector 55 percent. Services make up the largest and fastest growing sector of the Greek economy, accounting for roughly 68 percent of GDP. Tourism, transportation, trade, banking, communications and con-

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GREECE OFFERS STRONG PROSPECTS FOR FROZEN FOODS, TREE NUTS, PULSES, BEVERAGES, MEAT, DAIRY AND SEAFOOD.

struction constitute the largest service subsectors.

Greece is a major beneficiary of EU aid, which makes up about 4 percent of the country's GDP. In 1994-99, about $20 billion in EU funds went for major infrastructure projects (road and rail networks, port facilities, airports and telecommunications). For 2000-06, Greece is getting another $22 billion in EU structural funds.

The country's economy has improved steadily in the past few years, with the government tightening monetary policy, which allowed it to join the EU's single currency–the euro–this year. Greece has reduced its budget deficit and trimmed inflation.

Olympic Incentives

Tourism has long been a mainstay of the Greek economy. Today, the sector provides not only a large portion of GDP and foreign exchange earnings, but also the strong likelihood of future expansion. Greece can count on the drawing power of its rich heritage, embodied by sites of such historic and cultural significance as Athens, Crete and Rhodes.

The selection of Greece to host the 2004 Summer Olympic Games has given the country considerable impetus to speed up its modernization and development efforts. Infrastructure projects in preparation for the big event are providing jobs and attracting service and support businesses. The number of tourists visiting Greece will likely skyrocket from 11 million in a typical year to over 25 million the year of the Games.

Constraints, Conditions and Keys

As an EU member, Greece conforms to EU packaging and labeling requirements. New-to-market food products require approval by Greece's Supreme General State Laboratory. Products that comply with the current Food Code do not need special permits to be imported and marketed.

Trade between EU members is duty-free. Import duties on products from non-EU countries vary with product classification and country of origin, although average tariffs remain high for some products. Imports are also sometimes subject to other surcharges.

Not surprisingly, Greece conducts most of its trade with its fellow EU members, which provide about 63 percent of its imports. The United States, by contrast, supplies 4 percent, mainly in the form of soybeans, seeds, forest products, vegetable oils, cereals, dried fruits and nuts, fish, pulses and beverages.

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The key to success in this market is to have an experienced agent or joint-venture partner, with substantial experience and an extensive sales and service network. Agents usually conduct promotions for the products they import.

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The same local representatives that supply supermarkets often import for convenience stores, either directly or through wholesalers. Some supermarket chains also act as importers.

Product Prospects

Now for a run-down of products with good sales potential:

- **Frozen food** is one of the fastest growing markets, now that 30 percent of Greek households have microwaves and freezers. Vegetables, french fries, dough, meat and meat products have especially strong prospects.
- **Frozen seafood** is already a $47.5 million annual market. Fish, squid and other types of seafood are perennial favorites in the Greek diet, and per capita consumption averages 24 kilograms per year.
- **Tree nuts** are a big favorite with Greek consumers. Although the country already has one of the world's highest per-capita consumption rates–8 kilograms per year–demand continues to rise slowly in the food and confectionery industry and in the snack food sector. Almonds, walnuts, peanuts and pistachios are the most popular.
- **Pulses,** especially lentils and beans, have good potential. Declining domestic production, plus demand spurred by the reputation of pulses as healthy food, favor imports.
- **Meat** (including beef, pork and lamb) constitutes one of Greece's main foods, and the country averages 80 kilograms per capita in meat consumption. Moreover, meat demand will likely expand as incomes grow. In addition to the retail sector, meat (especially high-quality beef) has very good potential in the hotel and restaurant sector.
- **Organic foods** have some potential, thanks to demand for diet and health products.
- **Wine, beer, juice and soft drinks** have considerable potential. Wine consumption stands at 31.4 liters per capita. Greece presents a varied market for beer, importing more than 130 brands with demand still climbing. The juice and soft drink market has grown steadily over the past decade. The Summer Olympics will likely give the whole beverage sector a big boost.
- **Dairy products** constitute another important food category. By weight, over 17 percent of the average Greek's food consumption comes from dairy products. Cheese products hold a particularly noteworthy position in Greek supermarkets, accounting for about 12 percent of sales. Greeks are among the biggest cheese consumers in the world, with per capita consumption of 25 kilograms. Ice cream sales, although limited by seasonal demand and per capita consumption of 5 liters a year, seem ready to increase, particularly during the Olympics. ■

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Gargantuan Shifts

With the emergence of new international chains and mergers of existing companies, the retail food sector in Greece is changing rapidly. So far, Greek supermarkets number 2,700–including 88 cash-and-carry operations, big shops selling products in large packages to wholesalers. Supermarkets and their smaller branches are replacing more traditional stores in many areas.

Discount chains are also reshaping the market. French retail giant Carrefour entered the market in 1999, acquiring the Greek firm Promodes and collaborating with Marinopoulos, Greece's biggest chain. The resulting chain will own and operate 133 supermarkets and 4 hypermarkets. Other supermarkets, traditional markets and outlets will have to compete with the lower prices and varied services that the new chain can provide.

Greece now has several major and fiercely competitive fast food chains, including Goody's, McDonald's, Everest and Grigoris Mikrogevmata. The number of outlets and the value of their sales will likely continue to expand over the next several years, particularly in conjunction with the Olympics.

The author is an agricultural marketing specialist in Athens. For more information or assistance in exporting to the Greek market, contact: Foreign Agricultural Office, U.S. Embassy, 8 Makedonon St., GR-101 60 Athens, Greece. Tel.: (011-30-1) 720-2233 or (011-30-1) 721-2951; Fax: (011-30-1) 721-5264; E-mail: AgAthens@fas.usda.gov

U.S. Solid Wood Products: Selling What Italy Buys

By Wanda Besozzi

Although Italy is not a nation with extensive forestry reserves, wood is dear to the Italian heart–and economy. The nation's construction and furniture industries depend on imported forest products, including high-quality value-added products such as hardwood lumber from the United States.

The logic of this situation often puts Italy in an "import it, add value to it, then re-export it" frame of mind. Thanks largely to forest products produced elsewhere, Italy is one of the world's major exporters of finished and semi-finished forest products.

Total Italian imports of forest products, including wooden furniture, were valued at $4.8 billion in 1999, while exports of forest and wood products, mainly furniture and furnishings, totaled about $11 billion.

U.S. wood exporters looking to prosper in Italy would be well-advised to develop long-term strategies. Italian companies value face-to-face interaction and long-term business associations:

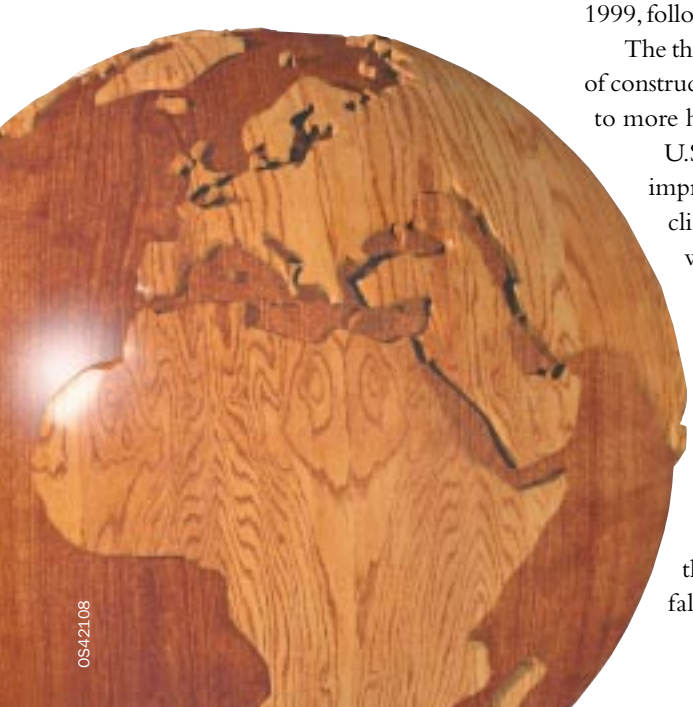
- Keep export prices as stable as possible.
- Educate the Italian importer to the quality, variety and specifications of U.S. products through technical seminars held in tandem with European wood trade associations.

During the past two years, three trends have encouraged Italy's imports of wood products. First, because of the relative weakness of the euro, the Italian furniture manufacturing sector has a positive outlook for the near future. The industry is making use of its advantage, and is making special efforts to find new markets–as well as expanding existing markets for their furniture.

Second, the furniture industry is turning its attention once again to its domestic market, which began to improve in late 1999, following several years of stagnation.

The third trend has occurred in the field of construction; a stronger economy has led to more housing starts.

U.S. hardwood sales in 2000 were impressive. There was a dramatic decline, however, in sales of U.S. softwood panels and other value-added wood products to Italy. The decline was mainly attributed to the strength of the U.S. dollar and strong competition from European and Brazilian producers, which nearly priced the U.S. product out of the marketplace. Compounding the problem, a short-term "windfall" of lumber recently glutted markets throughout Europe after extremely strong winds felled trees in France and Germany.



Windows (and Pallets) of Opportunity

Yes, opportunities still exist in Italy for U.S. value-added wood products, particularly components of furniture, windows and semi-finished elements for pallets.

To be more competitive in this tight market, U.S. lumber suppliers need to be more aware of the Italian perception of quality. To the Italian manufacturer, quality is much more than accurate grading; import decisions are also based on factors like dimensional accuracy, consistent supply and customer service. ■

Wanda Besozzi is a retired FAS market specialist in Italy.

For more information, contact the Foreign Agricultural Service, U.S. Embassy, Rome. Tel.: (011-390-6) 46741; Fax: (011-390-6)478-87008; E-Mail: fas.rome@agora.stm.it

Awakening the Dragon: Trading With China Under WTO Rules

By Eric Wenberg

In 2001, China may be reaching final steps toward membership in the World Trade Organization (WTO). To become a member, the Chinese government will have to make historic concessions to open its markets. In its bilateral accession agreement with the United States, China agreed to lower tariffs and establish tariff rate quotas, a move that would make U.S. goods more affordable for China's consumers. The agreement also introduced legal reforms for intellectual property and telecommunications.

New provisions extend the right to import and distribute products beyond China's state trading enterprises and a few privileged private companies. These reforms are vital to the interests of U.S. agricultural exporters. China's trade policy differs from the international norm in that foreign companies are generally prohibited from importing, warehousing and selling foreign products. Reduced tariffs are of little benefit if U.S. companies lack flexibility in managing their supply chain.

Distribution Rights Are Critical

China heavily regulates distribution of imported products. Foreign companies, including U.S. exporters, are generally pro-

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hibited from distributing products that are imported into China. When a foreign company formally registers to conduct business, this limitation is printed on a business license.

These restrictions, which have the effect of creating inefficiencies, tend to fragment the import market, in turn constraining the number of companies that import, complicating supply chain management and reducing foreign investments in distribution infrastructure. They also interrupt clear transmission of market information from consumers to company executives.

Regulation has also meant that Chinese importers and distributors able to buy abroad and sell your product into China's domestic economy are few, while competition to find these companies is fierce.

Currently, a foreign company cannot easily transfer assets to, or control, a subsidiary sales company, which limits the willingness of some companies to expand their distribution network. China's regulations have created a scarcity of reliable distributors and importers. Moreover, with more intermediaries needed, corruption abounds.

Competition to find reliable partners is fierce.

Trouble With Trading Rights

The other side of the distribution bind is the right to import. This right is currently confined to Chinese companies or foreign-invested enterprises–also known as joint ventures. But these firms are limited in what they can do.

Joint venture companies may market products they produce in China, but they are unable to import and market products from the United States, even if they are identical to the joint-venture product. Meanwhile, Chinese companies can get

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Resources on China

For more insights into China and trade policy, here are some useful sources of information:

The U.S. Department of Agriculture's offices in Beijing, Shanghai, Guangzhou, and Hong Kong can help you find more information on the market and increase your sales opportunities through a number of upcoming promotions and trade shows.

U.S. Office of Agricultural Affairs at the U.S. Embassy in Beijing
Tel.: (011-86-10) 6532-3831 ext. 5400/5179
Fax: (011-86-10) 6532-2962
E-mail: AgBeijing@fas.usda.gov

U.S. Agricultural Trade Office in Guangzhou, China
Tel.: (011-86-20) 8666-3388, ext. 1283
Fax: (011-86-20) 8666-07

U.S. Agricultural Trade Office in Hong Kong
Tel.: (011-852) 2841-2350
Fax: (011-852) 2845-0943.
E-mail: atohongkong@fas.usda.gov.
E-mail: ato@gitic.com.cn

U.S. Agricultural Trade Office in Shanghai, China.
Tel.: (011-86-21) 6279-8622.
Fax: (011-86-21) 6279-8336.
E-mail: atos@public.sta.net.cn
http://www.atoshanghai.org

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authority to import, but most are legally blocked from having foreign currency.

Currently, the only way Chinese importers can effectively operate is to find a partner with access to a foreign currency bank account and form a joint venture.

Foreign representative offices are closely monitored and legally constrained. For example, a foreign company without the proper licensing or corporate structure can either sell a product or warehouse it, but not both.

This policy makes the simple practice of clearing and warehousing goods for sale an enormous headache for exporters. The U.S-China Business Council ranked it as one of U.S. companies' top three concerns in doing business in China.

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How Companies Cope Today

Successful companies have strategies for distribution. They can register in special free-trade zones where regional officials have authority to supersede some restrictions. They can create a Chinese company. They can also develop a business partnership with an importer with rights to process documents.

How WTO Will Help

U.S. trade negotiators used the WTO accession process to address these concerns. The resulting agreement included provisions that address the issue of trading and distribution rights–a subject rarely seen in multilateral negotiations.

Once these reforms are in place, Chinese companies will be forced to compete more directly against each other and foreign firms. This ultimately will give Chinese consumers greater access to a diversity of goods.

So what are some of these provisions? Over three years, if the agreement becomes China's WTO commitment, it will gradually open the door for foreign companies to distribute imported products. In agriculture, changes will open trading rights first to joint ventures, then to wholly owned foreign subsidiaries. Generally, current restrictions on distribution of products are to be phased out within three years of the date of China's WTO accession.

There are certain trade areas where China's regulations will still apply, such as tobacco and salt. Still, the benefits of WTO are getting good reviews from companies in China now.

Trying China Now

If your export plans include any deeper arrangement than a direct sales contract, check out trading rights with a microscope to be sure you understand the situation. Find a good international consultant or law firm to assist in proper registration. Investigate potential distributors carefully. The current regulatory climate gives distributors substantial leverage over how they may act on your behalf, so choose wisely. ■

The author is a senior analyst with FAS Commodity and Marketing Programs in Washington, D.C. Tel.: (202) 720-4126; Fax: (202) 690-3606; E-mail: wenberge@fas.usda.gov

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Changing Shipping Policy Makes China Access Easier

By Ursula Chen and Jim Caron

It looks like smooth sailing for shipping goods to China these days with new port upgrades and the government making facility building and trade a national priority.

World Trade Organization negotiations have the potential to help U.S. agribusinesses enter China, but important–and beneficial–changes for the shipping industry are already in place.

Good News About Shenzhen

Twenty years ago, Shenzhen was a remote fishing village. Today, thanks to China's economic reform, it is one of the wealthiest cities in China.

Shenzhen, blessed with an ideal geographical location and efficient transportation network, allows shippers to reach important centers of economic activity in South China such as Hong Kong, Macau, Guangzhou and the Pearl River Delta.

Shenzhen's location and infrastructure were essential to its selection as the first Special Economic Zone of China. These zones are principal trading centers where officials may have the authority to expedite business matters.

With China's entry into the WTO, the ports of Shenzhen expect to assume a bigger role in grain handling. In fact, some of them expect to become China's primary ports for grain shipments.

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When Shenzhen was first developed, construction materials were in high demand; bringing them in became one of the major businesses of the ports in Shenzhen.

Now that the core of the Special Economic Zone is fully developed, some of the ports have switched their business to handling bulk commodities, including wheat and soybeans.

Opportunities in the region may expand as grain importing, trading and processing in South China are expected to rise.

Shenzhen has four large-scale flour mills that processed 5 million tons of grain in 1999. In the same year, this city's ports transported 2.5 million tons of wheat to areas in the nearby Pearl River Delta.

Among the ports of Shenzhen, the ones most involved in grain handling are the Shekou and Chiwan Ports.

For details, see FAS report CH1602. To find it on the web, start at **www.fas.usda.gov**, select **attache reports** and respond to the dialogue boxes.

Other Ports With Potential

Despite the efficiency of other Chinese ports such as Qingdao, Shanghai, Dalian, Xingang, Huangpu and Fuzhou, most U.S. agricultural cargo arrives in Hong Kong. All ports are looking to add capacity, especially Shanghai, Xingang and Dalian, where extensive investments are planned.

How Much Does it Cost?

As the distance between U.S. and Chinese ports varies considerably, so does the cost of shipping. For example, if exporters ship frozen beef to the port of Xingang, Beijing, they pay about 24 percent more than when shipping it to Hong Kong.

One reason shipping to Xingang costs so much is that goods must be transhipped through other ports before they can reach that location. If Xingang increases its capacity, however, this may change.

Overall, shipping fees to China are becoming more affordable. New U.S. regulations have curbed the influence of ocean shipping cartels such as the Westbound Transpacific Stabilization Agreement, formed of 12 Pacific Ocean shipping lines. This group once dominated the pricing of ocean transport between the United States and Asia, but their voices are now muted.

Ocean carriers can still meet and discuss rate levels and capacity, but carriers do not necessarily have to maintain standard rate levels. Ocean carriers in the Asian trades did announce in 2000 increases in the cost of shipping refrigerated goods like apples in 2001.

However, shipping rates for certain products are now at record lows. For example, an average shipment of apples (one 40-foot container weighing between 18 and 30 pounds) to Hong Kong costs $2,775, 20 percent less today than it did three years ago. ■

Major Shipping Lines to China

A major advantage of the ocean container-shipping market is the competition between lines which drives down rates and increases service. Although market share may change each year, here are the top 10 shipping lines for China.

Name	Percent Market Share for 2000
COSCO	16 percent
Maersk-SeaLand	14 percent
Hanjin	14 percent
NOL-APL	10 percent
Hyundai	9 percent
Mitsui OSK	7 percent
OOCL	6 percent
K Line	5 percent
Evergreen	4 percent
Yang Ming	3 percent
Other	12 percent

Ursula Chen is an Agricultural Assistant with the U.S. Agricultural Trade Office in Guangzhou, China. Tel.: (011-8620) 8666-3388, ext. 1283; Fax: (011-8620) 8666-0703; E-mail: ato@gitic.com.cn

Jim Caron is program manager of the shipping and exporter assistance group at USDA's Agricultural Marketing Service in Washington, D.C. Tel.: (202) 690-1315; Fax: (202) 690-1340; E-mail: jim.caron@USDA.gov

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Make an Impression: The Right Business Etiquette for China

Are you doing bilingual business? A two-sided business card may help.

By LaVerne E. Brabant

Much of China's business etiquette draws on its basic cultural values, such as respect for age and position, and an orientation toward group goals rather than individualism. At the same time, there is little tolerance for overly emotional or loud behavior, with great value placed on the importance of relationships. With this in mind, here are six tips for being on your best business manners in China.

1: Establish Personal Relationships

When you begin to do business with Chinese people, it's important that you talk a little bit about your hobbies, family and yourself before you broach the topic of business. Treat your counterparts in China as your friends. Doing so will help smooth your business relationship.

2: Eating and Meeting

Working lunches and dinners are not only common but expected in China. Count on attending banquets arranged by your host. Return the favor if at all possible, either while you are traveling in China or after you return home.

At working meetings, seating will follow strict protocol, so let your host seat you. Start with a few pleasantries before discussing business. During a meal, wait for the host to make the first toast before drinking, then return the toast. It is polite to use both hands when offering or receiving anything, especially a drink.

3: Bring Small Gifts

While not absolutely required, small gifts are appreciated–items such as food, pens or items with your corporate logo work well. A book with pictures of your country or region is also a good bet, as are representative objects from the United States. If your Chinese client doesn't open the gift at once, don't assume the present is unappreciated. Chinese often tend not to open gifts in front of others.

4: Bring Business Cards

Business cards are absolutely essential for doing business in China. Again, when you receive a name card, do so with both hands. Look at the card for a moment before putting it away in your wallet or purse. To fail to do so is considered disrespectful.

5: Learn Some Mandarin

Your Chinese clients will be impressed because they equate learning Chinese with a fondness for China. If you can summon up even a few simple greetings, it will help lay a foundation for a stronger business relationship. Here are a few examples:

Nin hao: (Nin How) How do you do?

Wo hen gaoxing ren shi nin (Wa HEN GaoSHING RENshur Nin) Nice to meet you.

Xie xie (SHI'EH-shi'eh) Thank you.

Qing zuo: (Qing DZO'AH) Sit down, please.

Zai jian (Dzy JEE'EN) Goodbye.

6: Keep Things Low Key

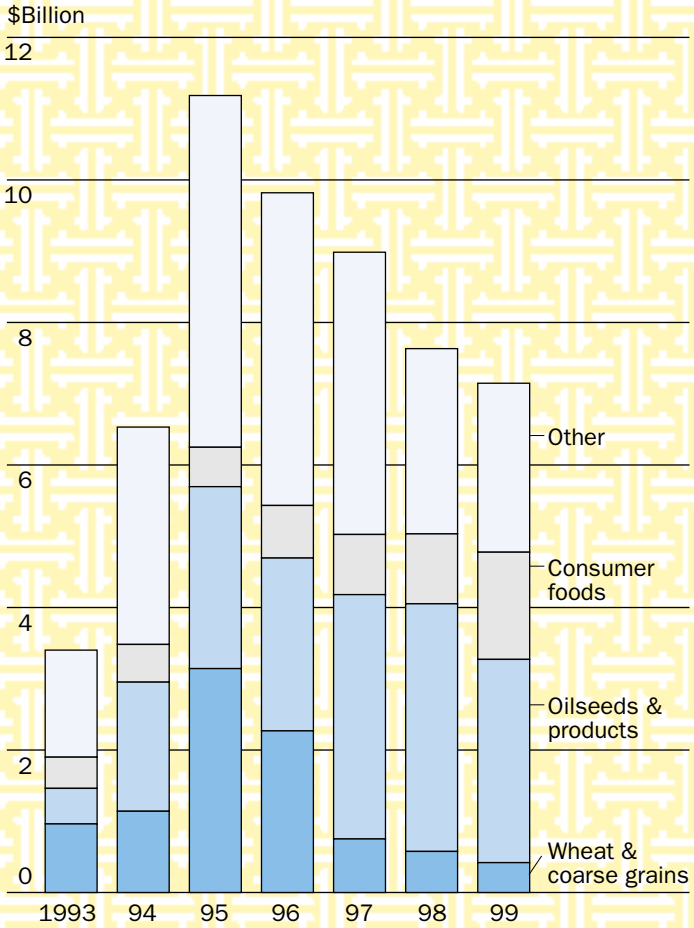
Don't be too demonstrative. The hugging or kissing practiced in other cultures may embarrass your Chinese clients. Laughing too loudly is not polite, nor is being too talkative. Expect your host to be more reserved in business than is common in the United States.

And last but not least is the highly sensitive topic of "face." Chinese people are accustomed to burying strong emotions and keeping expressionless faces. "Losing face" means losing business. By comparison, westerners tend to react more emotionally. When you run into problems, whether it's a conflict at a meeting or a taxi splashing you on a city street, don't lose your temper. ■

LaVerne E. Brabant is the director of the U.S. Agricultural Trade Office in Shanghai, China. Tel.: (011-8621) 6279-8622; Fax: (011-8621) 6279-8336; E-mail: atos@public.sta.net.cn
www.atoshanghai.org

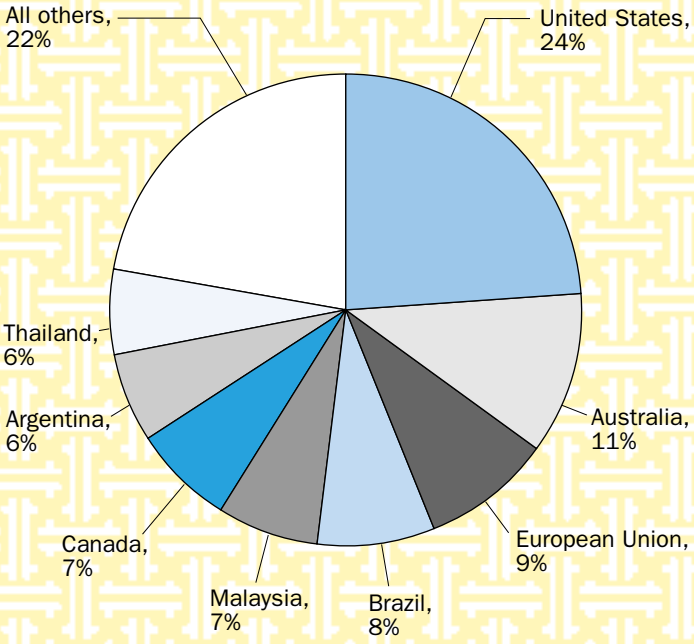
Sizing Up the China Market

China's Agricultural Imports From Around the Globe Totaled More Than $7 Billion in 1999



Source: FAS from U.N. statistics on China's imports.

United States Is Largest Supplier of Agricultural Products to China



Average shares of China's total ag imports by value, 1997-99

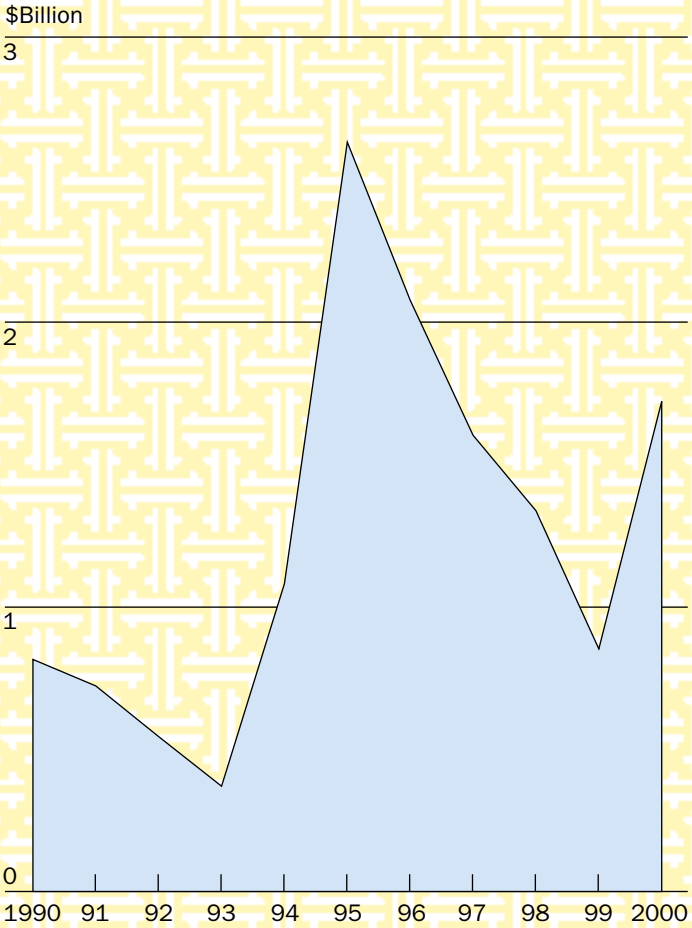
Source: FAS from U.N. statistics on China's imports.

China is the world's largest producer and consumer of agricultural products, an important exporter and often a U.S. trade competitor in corn and other products. With 1.3 billion people and a GDP growing about 7% a year, it is also a major market with significant growth potential. Despite China's zeal for self-reliance, the demand fueled by rising incomes, middle-class expansion and changing diets is likely to outpace agricultural productivity as economic and trade reforms proceed.

China's agricultural imports from all sources were reported at $7.1 billion for 1999, down $4 billion from 1995's spike but more than double 1993's imports. Grain purchases have slumped as China expanded production. For oilseeds and products, the mix has shifted, but imports have risen to $3-$3.5 billion a year–more than 40% of total agricultural imports during 1997-99, up from 23% in 1993-95. Consumer food imports climbed 240% since 1993, topping $1.5 billion in 1999.

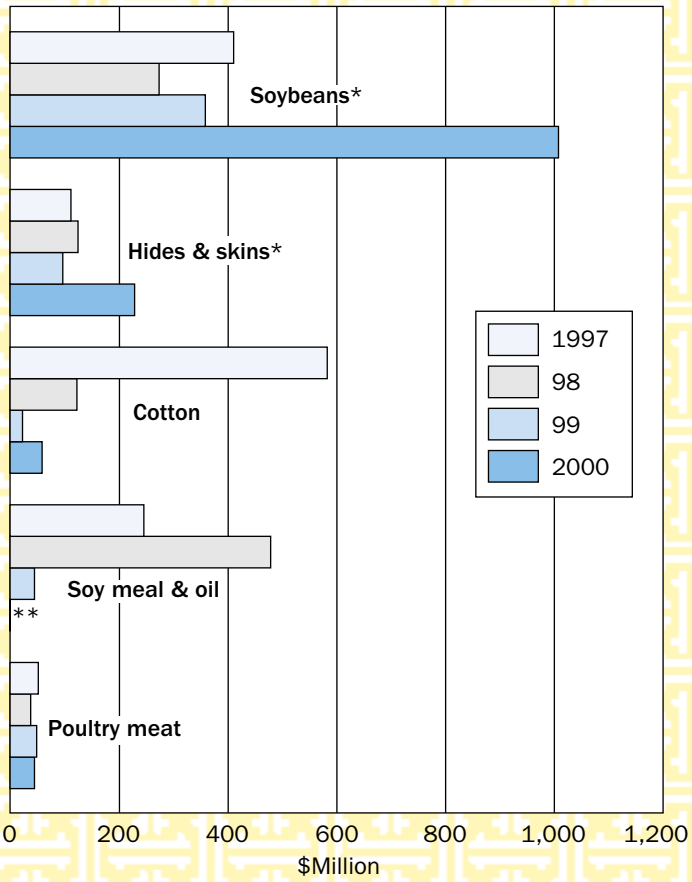
The United States is the No. 1 agricultural supplier to China, but there's a lot of competition. The U.S. market share of China's imports averaged 24% during 1997-99, up from 17% in 1992-94 and twice the share of No. 2 Australia. Based on 1999 U.N. data, the U.S. share was 58% for soybeans, 39% for soy oil, 44% for hides and 64% for poultry meat. Canada's market share has shrunk by nearly two-thirds since 1992, while the United States, Argentina and Brazil gained share.

U.S. Agricultural Exports to China Fluctuate, Doubling to $1.7 Billion Last Year



Source: FAS from U.S. Census Bureau export statistics.

Soybeans Led the U.S. Sales List in 1999 and 2000



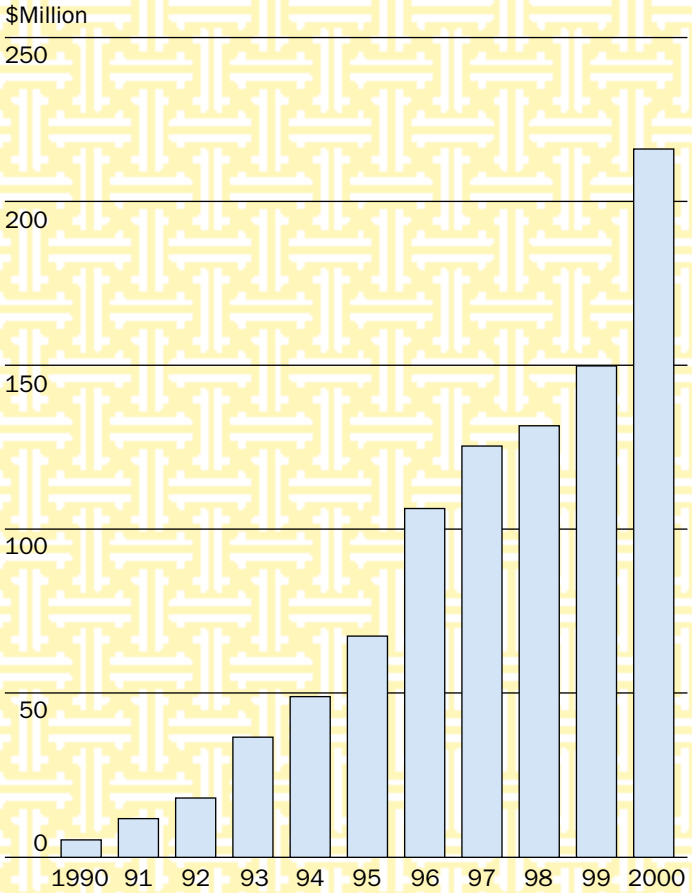
**Record sales to China in 2000.*
***Less than $1 million in 2000.*
Source: FAS from U.S. Census Bureau export statistics.

U.S. agricultural exports to China have seen wide swings in recent years. Sales surged above $2.6 billion in 1995 when China was facing a serious grain shortage. That year, shipments of U.S. corn, as well as cotton and soy oil, reached record levels. By 1999, exports had slowed to $855 million, but value then doubled to $1.7 billion last year, led by $1 billion in U.S. soybean sales to China. U.S. exports of hides and skins also set a record at $229 million in 2000.

Our top five agricultural exports to China last year, by value, were soybeans, hides and skins, cotton, poultry meat and planting seeds. Two years earlier, the top five were soy oil, soybeans, soy meal, hides and cotton. In 1996, cotton and wheat led the list. Two notable changes in the last few years are China's reduced grain imports and its shift toward smaller imports of soy oil and meal in favor of more raw soybeans to keep crushing facilities on the coast busy.

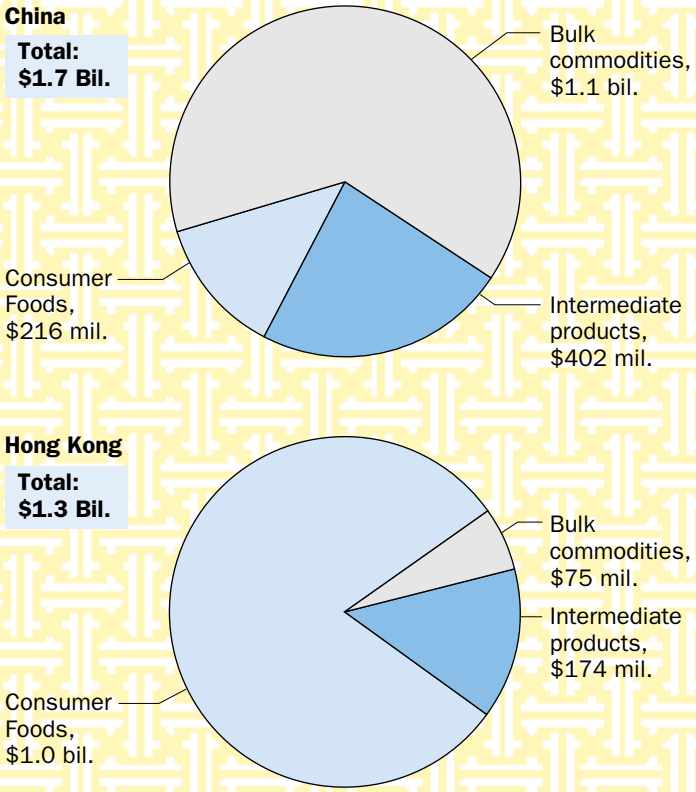
Bulk commodities hold a volatile but dominant role in our trade with China, followed by intermediate products such as cattle hides and soy oil and meal. Consumer foods claim a small but steadily growing share. Last year, direct U.S. consumer food exports to China reached $216 million, with record sales of fruits and vegetables, red meats, snack foods and pet foods. Exports of poultry meat, the leading U.S. consumer food export to China, were valued at $45 million.

U.S. Consumer Food Exports to China Follow Steady Upward Path



Source: FAS from U.S. Census Bureau export statistics.

Bulk Commodities Dominate Direct U.S. Sales to China, While More Consumer Foods Flow to Hong Kong



U.S. agricultural exports, 2000

Source: FAS from U.S. Census Bureau export statistics.

Hong Kong is the real hub for consumer foods, which make up 80% of U.S. agricultural exports to this Special Administrative Region of China. Top sellers: poultry meat, fresh fruit, red meats. For the last 2 years, Hong Kong was our No. 1 poultry meat export market. As much as two-thirds of Hong Kong's imports may make their way to the mainland. U.S. agricultural exports to the two markets combined totaled $3.0 billion in 2000, with forestry and fishery products adding another $390 million.

A commitment by China to freer markets and the rules-based World Trade Organization (WTO) trading system would be a major plus for future U.S. export opportunities. Although final conditions for WTO entry are still being negotiated, China agreed to broad, market-opening measures as part of the U.S.-China accession agreement signed in late 1999. USDA economists project that China's commitments, when fully implemented, could add around $2 billion a year to U.S. agricultural exports.

In the U.S.-China accession agreement, China agreed to cut tariffs to an average 14% for priority U.S. agricultural products, down from 31%. It also agreed to end import bans and establish expanding tariff-rate quotas for bulk commodities; eliminate export subsidies; cap and then reduce trade-distorting domestic subsidies for agriculture; expand trading rights and abide by the WTO agreement requiring sanitary/phytosanitary import restrictions to be based on sound science.

Opportunities for U.S. Cotton Exports to Russia

By Eric Trachtenberg and Yelena Vassilieva

The average Russian consumer needs new socks–and maybe some towels, a new T-shirt and blankets. Recovery from the 1998 economic crisis has started, and incomes have increased. Those who darned socks during hard times now want something new.

The poor condition of clothing and textile stocks in Russia indicates a high degree of pent-up demand. Demand by the military has also increased. Russians have been scooping up children's clothing, towels, stockings, pajamas and jerseys. Factories have been buying more industrial cloth, while hospitals are purchasing more gauze and medical textiles.

While delightedly hustling to keep pace with demand, Russian textile mills find they need new suppliers of cotton.

The trusted nearby source, Uzbekistan, may not be as reliable in the future, now that Soviet-era financing and supply systems are gone. Moreover, Uzbekistan's rising soil salinity and recent crossover to grain production are signs that the old ways are fading fast. Uzbek cotton production fell to 850,000 metric tons in 2000, owing to bad weather. That's down from the million tons produced the year before. It is expected to fall further in coming years.

Russia's search for new cotton suppliers has created a major opening for U.S. cotton. According to estimates by top Russian textile producers, demand for U.S. cotton should be a minimum of 15,000 tons per year. While most mills cannot afford U.S. cotton now, those that prosper during this growth period may be interested in buying some down the road. U.S. producers who are willing to allow payments in installments, instead of demanding cash up front, are the ones who can reach this market.

There is a precedent for U.S. sales with flexible terms. Russia purchased over $7 million worth of U.S. cotton in 1997, through USDA's GSM-102 export credit guarantee program, which facilitates export sales by providing financial backing for payments.

Russia Takes a Cotton to Raw Imports

While Russia's demand for textiles is growing, don't expect it to result in demand for more finished-product imports. Despite a rising need for textiles, imports remained stagnant at just under 50 million square meters in 2000. That's roughly what it's expected to be in 2001, because textiles made elsewhere will still be too costly against the weak ruble.

That is also why Russia, in spite of domestic demand, was expected to sell 550 million square meters of textiles to other countries in 2000, up 66 percent from the previous year. The main customers were the United States and the European Union, whose currencies, when stacked against the recovering ruble, make Russian-made clothing, bedding and curtains a bargain.

Unless the ruble appreciates, this flow of Russian textile exports will continue.

Textile Makers Toil Under Tolling

The Soviet-era system of bartering with Uzbekistan–cotton for farm equipment and supplies–ended in the 1990s. Its demise

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GSM Program Provides U.S. Entry

Russia's demand for new cotton suppliers is already resulting in more imports. In 2000, Russia imported 295,000 metric tons of cotton, up 30 percent from the 230,000 tons 1999. Most of it came from Russia's neighbors, China and the Baltic countries.

So how can the United States break into this market?

In 1996, the United States exported $9.3 million worth of cotton to Russia through USDA's GSM-102 export credit guarantee program while in 1997, it exported $7 million worth. After 1998, when the financial crisis hit, the GSM program to Russia was suspended until Russia's economic improved. Now the GSM program is open for business again in Russia and has a $40 million credit limit. The GSM-102 program provides government guarantees for bank credits used by importers to purchase foreign goods.

In addition, USDA's Supplier Credit Guarantee Program is making its Russian debut. This $10million program in Russia provides a partial guarantee that importers will pay for the products they buy.

resulted in a substitute that serves the mills' needs, but limits profitability.

Under the new system, textile mills never take actual possession of the cotton, but are paid for processing it. This arrangement, known as tolling, lowers costs by allowing imports to enter free of duties and value-added taxes. Tolling also relieves Russian mills of the burden of having to buy cotton with hard currency.

There are drawbacks to tolling, however. It limits the profits a mill can gain from turning cotton into fabric. The importers most active in tolling are usually big trading companies based in Central Asia. They use the mills for processing, then sell the fabric in Russia and elsewhere, but only a few firms actually invest in the mills they rely on.

This may be one reason why industry sources say that tolling, while still accounting for about 80 percent of the total textile production, is down from 90 percent in 1999. Recovery for Russia's mills will depend in part on relieving their chronic shortage of investment capital.

A Crystal Boll on the Future

Many Russian textile managers may wistfully recall the days of state subsidies and cheap Uzbek cotton, but the reality check is in the mail. Many of them realize that, to succeed in Russia's new economy, they must be market-oriented.

In addition, as textile production costs rise, especially in the European Union, there is an increasing interest in investing in Russian mills.

The mills still have some obstacles to overcome, however. Outmoded equipment and inefficiencies in scale of production present problems. Potential investors may be taken aback by the social obligations that Russian mills shoulder; they are often required to provide employees with clinics, kindergartens and other social services.

Still, the industry showed an 85-percent growth rate in production for 2000, turning out an impressive 1.7 billion square meters of fabric, the largest total in six years.

And the boom isn't over yet–the industry is expected to continue growing 10 percent annually.

Although production still remains far below the 6-billion-square-meter level of the mid-1980s, Russia is now producing higher quality items in response to market demand instead of the low-quality fabrics it once made for the state.

Making Your Russian Entry

About 60 percent of Russian textile production is located in the Ivanovo region, or *oblast*. In the last three years, this *oblast* has attracted many commercial traders, who now sell 40 percent of the cotton distributed in Russia. The rest comes mainly from traders based in Moscow and in supplying countries. More than half of all the cotton is imported by Rostextile, a large holding company. ■

Agricultural attaché Eric Trachtenberg and agricultural specialist Yelena Vassilieva are with FAS at the U.S. Embassy in Moscow. Tel.: (011-7-095) 728-5222; Fax.: (011-7-095) 728-5133. E-mail: trachenberg@fas.usda.gov