Economic sanctions and trade diplomacy: Sanction-busting strategies, market distortion and efficacy of China’s restrictions on Norwegian salmon imports

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Abstract
This article confirms that China’s economic sanction in the form of restricting salmon imports from Norway was in retaliation for the 2010 Nobel Peace Prize awarded to a Chinese dissident. By combining personal accounts of stakeholders interviewed in the Norway–China salmon trade with an examination of trade data, there is strong evidence that links changes in trade patterns of fresh/chilled whole Norwegian salmon to border measures applied in response to the peace prize. While disproportionate border measures targeting Norwegian salmon have distorted China’s market since 2011, private actors appear to have busted the sanction by circumventing these measures, including rerouting, falsifying country-of-origin certification, and smuggling. This could have long-term consequences for trade patterns and quality. Official statistics record a reduced Norwegian market share and decreased Norway–China salmon trade despite an expansion of the volume of Chinese imports. However, official data do not record Norwegian salmon entering illegally, which some stakeholders estimate at between 50 and 70 per cent of the market. Norway’s official refusal to meet the Dalai Lama in May 2014 suggests that China’s sanction has affected foreign policy. The salmon sanction demonstrates that China has become more assertive in its international relations.

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Despite China’s usual opposition to foreign governments’ use of economic sanctions,\(^1\) the Chinese government has increasingly resorted to economic sanctions as an international relations tool.\(^2\) Starting in the 2000s, China exercised this option in the following instances: (1) when a country officially received the Dalai Lama;\(^3\) (2) in cases of maritime disputes or when support was offered to other countries’ maritime claims in the East China Sea and the South China Sea;\(^4\) (3) in the aftermath of criticism of China’s human rights record;\(^5\) and (4) subsequent to foreign governments’ arms sales to Taiwan.\(^6\)

China’s economic sanctions have typically been intended to signal the government’s displeasure regarding some event rather than cause serious long-term economic injury to the foreign country in question. Such acts signal China’s frustration and serve as a warning of stronger retaliation if a country does not reverse a certain action or if a country does not make an official gesture to improve relations, for example, refusing to meet with the Dalai Lama.\(^7\) China’s sanctions tend to be subtle: they are unilateral, not officially declared, implemented without being formally passed into law, and limited in terms of sectoral application, economic scope and duration.\(^8\) Chinese sanctions are more often imposed to adversely affect companies and firms of a targeted country which have financial/commercial interests in China or those sectors that rely on trade with China. As a response to an incident in 2010 involving Japan’s arrest of a Chinese fisherman in disputed territorial waters, China blocked exports of rare earth elements to Japan. One could ask whether this was a move aimed at hitting Japan’s advanced electronics manufacturing sector.\(^9\) Another instance was the 2012 maritime dispute with the Philippines which resulted in tighter regulatory measures on Filipino fruit imported into China.\(^10\)

The advantage of a subtle sanction is that it is harder to prove the existence of any underpinning domestic regulation. Economic sanctions that affect trade directly can give rise to trade disputes at the World Trade Organization (WTO), whose rules limit the use of trade restrictions as a political tool. While China’s announcement in 2010 of a tighter export quota on rare earth elements – 40 per cent less than for 2009 – was not labelled a sanction, the announcement did coincide with Japan’s claims that China was suspending or blocking shipments following the diplomatic dispute. This made headlines and resulted in a trade dispute at the WTO which China eventually lost.\(^11\) Hence, China is more inclined to use non-transparent political measures which are not legislated, and to apply non-tariff barriers which have not been notified to or declared with multilateral bodies such as the WTO and the United Nations. One disadvantage of subtle sanctions is that they are easier to bust because other countries have no specific interests in implementing or cooperating to enforce them.

The main question this study addresses is whether the changing patterns of China’s import of fresh/chilled whole salmon, a key export and symbolic product of Norway, can be linked to a subtle Chinese sanction in retaliation for the 2010 Nobel Peace Prize.
awarded to a Chinese dissident, Liu Xiaobo. Between 2000 and 2010, Norway dominated the Chinese fresh/chilled whole salmon market, exceeding 80 per cent of the total share in several years. In October 2010, the Norwegian Nobel Committee, which includes five members appointed by the Norwegian Parliament, awarded the prize in disregard of the Chinese government’s displeasure with such an action. Since 2011, the share of Norwegian salmon has fallen to as low as 25 per cent. Norwegian salmon imports into China fell, despite a growth in China’s total salmon imports from an annual average of 6,900 tons between 2007 and 2010 to 25,180 tons between 2011 and 2014. The sudden reduction in Norway’s market share was also unexpected because Chinese consumers prefer Norwegian salmon. China also cancelled a scheduled visit to Norway by a ministerial trade delegation immediately following the announcement of the Nobel Peace Prize award.

More specifically, this article looks at whether an economic sanction on Norway is underpinned by non-tariff barriers, for example, whether customs practices and border measures have been disproportionately applied to target Norway’s exports of fresh/chilled whole salmon to China since the awarding of the peace prize. In particular, this study sets out to: (1) determine whether the allegations and widespread media reports on the Chinese sanction are supported by bilateral and regional trade data during 1990–2014 and corroborated by stakeholder accounts obtained through interviews in 2014; (2) account for how non-tariff barriers may have been implemented to target Norwegian salmon as part of the sanction; and (3) evaluate the efficacy of the sanction based on an analysis of the response of Chinese and Norwegian firms, and other regional players, in circumventing the non-tariff barriers through sanction-busting countermeasures, and the effect of the sanction in eliciting an official response from Norway.

Despite wide reporting of the sanction on salmon in the media and a number of studies citing the case of Norwegian salmon, there has been no formal study by the academic community. An effort is made here to investigate the salmon sanction through triangulation, combining semi-structured in-depth interviews with stakeholders in mainland China (hereby referred to as China) and the Hong Kong Special Administrative Region (hereby referred to as Hong Kong) as well as an analysis of trade data.

Background

Figure 1 shows the dramatic change in China’s imports of fresh/chilled whole salmon from Norway and the total from the rest of the world after 2010. As can be seen from the figure, a break in the trend coincides with the timing of the prize. In 2011, total imports into China decreased slightly before increasing at a faster growth trajectory during 2012–14. Norway’s exports to China decreased in 2011, rebounded in 2012, but the gap between China’s total imports and imports from Norway continued to widen. The decrease in 2011 was abrupt. There was neither an obvious event that explains the sudden change in China’s demand, nor a reduction in Norway’s productive capacity, nor a qualitative change in Norwegian salmon. Norwegian production of farmed Atlantic salmon has been increasing since 1964. The average production level was 0.8 million tons between 2007 and 2010, and 1.1 million tons between 2011 and 2013.
For most of 1997–2010, imports from Norway constituted the predominant share of China’s total salmon imports, rarely accounting for less than 70 per cent. The break in the trend in market shares is evident in Figure 2. Between 1997 and 2010, whenever Norway’s market share fell below 80 per cent of the total, imports from the United States took up the slack. The combined Norway–US share of China’s market averaged 89 per cent. Interestingly, from 2011 it was imports from the United Kingdom and the Faroe Islands that filled the widening gap between total imports and imports from Norway, as shown in Figures 1 and 2, accounting for 54 per cent in the period 2011–14.

According to media reports, both in and outside Norway, the Nobel Peace Prize resulted in China imposing economic sanctions, particularly on Norwegian exports of fresh/chilled whole salmon to China. Customs practices and regulatory border measures in China were cited as being responsible for the drop in salmon imports. These included stricter testing and inspection procedures and longer customs-clearance time for salmon from Norway, but not from other countries. Procedures for import licencing were said to be more restrictive for Norwegian salmon.

Theory and literature review

The literature defines three types of sanctions: embargoes, financial sanctions, and boycotts. Embargoes restrict certain types of goods that can be exported to the target country. Financial sanctions restrict or suspend loans and investments into the target country, impose additional restrictions on international payments, and/or freeze the target country’s foreign
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A boycott restricts imports of one or more key goods from the target country. Hence, an economic sanction on imports of Norwegian salmon is a partial boycott: imposed on one good for which there are reasonably close international substitutes, limiting the disruption to China’s domestic market, while concentrating the effect on Norway.

Since economic reform in 1978, China has used foreign policy extensively as a tool to further its economic interests. However, since the 2000s, China has reversed the strategy and begun to use its economic might to influence international relations. When imposing sanctions, China tends to tread cautiously in the arena of international law, particularly in relation to the WTO. Unlike a typical unilateral US sanction that is formalized through US domestic law or a multilateral sanction backed by a UN resolution, China’s sanctions are subtle and rarely publicly declared. Instead, vague threats, cancellation of high-level visits, selective purchases and non-purchases, and other informal measures are the common methods that China uses to impose a sanction. Informal measures are preferred by China because they offer flexibility and credible deniability of their existence. Moreover, informal measures are easily reversible in a discrete, face-saving manner, minimizing diplomatic fallout or potential legal challenges at the WTO. A customs practice or border measure, which systematically discriminates against imports of a particular member state but which is not officially announced, can be difficult to prove.

The WTO generally prohibits import restrictions as a policy instrument, except in national security issues. Under the argument of national security, China has brandished trade sanctions on US companies with commercial interests in China whenever the

Figure 2. Market shares in China’s fresh/chilled whole salmon market, 1996–2014. Sources: UN Comtrade Database, Norwegian Seafood Council, and Census and Statistics Department of the Government of Hong Kong.
United States considered arm sales to Taiwan.\textsuperscript{31} If the national security argument is not applicable to a situation, China discretely resorts to non-tariff barriers whose effects are equivalent to import or export restrictions, leveraging the size of its domestic market and/or its relative economic size in the trade of some key commodity.

In general, the efficacy of an economic sanction is measured by its ability to produce a desired result. In the context of our study, efficacy means China’s ability to induce an official response from Norway, given that the Nobel Peace Prize cannot be revoked.\textsuperscript{32} Unilateral economic sanctions are often ineffective due to trans-shipment from third countries.\textsuperscript{33} Daniel Drezner distinguishes two types of situations when the sender country cannot enforce a sanction: (1) rent-seeking actors in the private sector, and (2) non-cooperative behaviour by nation-states.\textsuperscript{34} The literature refers to the former as sanctions-busting, and the latter is known as backsliding. For a unilaterally imposed sanction such as China’s, there has not been any effort to bring allies on board to enforce the policy. Norway’s market share in China could be taken over by another exporting country, and Norway’s export could be diverted to another market to make up the slack, without any net effect on Norway. Nor is there a practical manner for Chinese officials to restrict imports of salmon from firms located in another country (e.g. the United Kingdom or the Faroe Islands) which are owned in part or whole by Norwegian capital. Moreover, as with any sort of economic sanction, the measures applied give rise to strategic marketing responses from economic agents seeking to bust the sanction.

Sanctions-busting has been extensively investigated in the literature.\textsuperscript{35} This study on China’s salmon sanction contributes to the literature by profiling the motivations of sanctions busters in a specific context. If there are strong consumer preferences for Norwegian salmon in China, then any non-tariff barrier that restricts Norwegian salmon in particular would encourage coping strategies by private sector agents to circumvent the restriction and to bust the sanction.

To prevent sanctions-busting, a government must be willing to penalize any party that is involved in circumventing the sanction.\textsuperscript{36} Sanctions-busting is always likely to occur because trade can be diverted by domestic and third-country companies through newly established relationships.\textsuperscript{37} To enforce sanctions, multilateral cooperation is essential so as to prevent sanctions-busting and backsliding – all of which require significant diplomatic efforts.\textsuperscript{38} For example, the Helms–Burton Act and the Iran Sanctions Act have explicit clauses aimed at preventing sanctions-busting.\textsuperscript{39} Firstly, any US company dealing economically with Cuba, Iran, and Libya will face legal actions from the US government. Secondly, a non-US company dealing with these countries will be partly or entirely prohibited from exporting to the United States.

The nature of China’s sanctions complicates the implementation of preventive measures against sanctions-busting.\textsuperscript{40} Without a righteous cause, finding a foreign ally is a problem, making it difficult to prevent trans-shipment or smuggling through a third country. Moreover, China’s practice of subtle and informal sanctions prevents formal legislation against such actions. Without formal legislation, China can only effectively command official bureaus and state-owned firms, but not private firms or actors that are involved in China’s salmon trade. This is the disadvantage of informal sanctions. However, China still prefers informal sanctions because such sanctions are easily reversible and their very existence can be denied.
Sanctions-busting comes at a cost, usually borne by the target country. For economic sanctions backed by UN resolutions, the target country can bust the sanction only through heavily discounted prices on its exports. For example, between 1975 and 1979 Rhodesia (present-day Zimbabwe) managed to bust a UN sanction by exporting at a 20 per cent discount. In addition to the costs related to premiums or discounts in the price of tradable goods, there are other potential costs such as increased marketing costs related to hiring intermediaries, rerouting of goods, and counterfeiting, smuggling, bribery and other forms of corruption. In this study, one objective is to ascertain the types of cost from sanctions-busting and to assess the efficacy of China’s sanction on Norwegian salmon.

**Research methods and data**

We combine a qualitative research method involving semi-structured in-depth interviews with stakeholders involved in China’s salmon trade, with a quantitative research method that examines and analyses trade data, to triangulate and establish a link between the awarding of the 2010 Nobel Prize and the reversal of the trends in Norway–China trade patterns. Triangulation, which combines two or more methodologies to study a phenomenon, is widely used in sociological research.

**Field interviews**

Three separate questionnaires were developed, corresponding to three types of organizations: Norwegian salmon exporters with representatives in China; salmon importers in China; and salmon importers based in Hong Kong. Each interview was semi-structured according to one of the three pre-designed questionnaires. There was no opportunity to pretest the questionnaires.

A list of stakeholders involved in the Norway–China salmon trade was obtained from the Norwegian Seafood Council (NSC), a public corporation owned by the Norwegian Ministry of Fisheries and Coastal Affairs. The stakeholders were first approached through emails, then by telephone if they did not reply to the emails. They were assured that their identity would remain anonymous and confidential. Conversations were not recorded. Notes were taken by the interviewer. All interviews were conducted in Chinese, except for the interview with the NSC which was in English. External translation was not required nor was interpretation necessary.

Of the five Norwegian firms that have Chinese representatives in China, initially four agreed to take part in the interview. The only representative who declined to do the survey acknowledged that ‘[there are] a lot of difficulties, and I am more disinclined to talk about these difficulties than about sales figures which are confidential’. During the field trip, two representatives of the abovementioned four backed out of the interview and survey, indicating the sensitivity of openly discussing China’s discriminative practices surrounding salmon imports.

There were 21 companies that took part in the survey. In addition, a representative from the NSC was interviewed. The participants were interviewed separately and in person during a field visit in January 2014 that covered Hong Kong, and the cities of Beijing, Shanghai, Guangzhou, and Shenzhen (Figure 3). Each of the four cities has a
wholesale market that supplies salmon either regionally or nationally. The wholesale market in Beijing supplies mainly northern China, the one in Shanghai supplies mainly eastern China, and those in the cities of Guangzhou and Shenzhen supply both southern China and the wholesale markets in other parts of China, including Beijing and Shanghai. Hong Kong has a market of its own.

Each interview, depending on where a firm is based, inquired about the following: (1) basic information concerning the firm; (2) the species, volumes, values, and shipment of fish being traded; (3) experiences and knowledge of China’s or Hong Kong’s customs practices regarding clearing imported salmon; (4) experiences and knowledge of transshipments; (5) experiences and knowledge of China’s or Hong Kong’s import licencing system; (6) experiences and knowledge of China’s or Hong Kong’s sanitation testing and veterinary inspection; and (7) the firm’s market share in China or Hong Kong and anticipation of future market developments. The interview with the NSC was not pre-planned,
and only questions that were relevant to the council were raised. During all interviews, additional questions were posed when deemed necessary.

**Trade data**

The trade data for the analysis were compiled from three sources: the United Nations Commodity Trade Statistics Database (UN Comtrade), the NSC, and the Census and Statistics Department of the Government of Hong Kong. The UN Comtrade collects annual trade statistics reported by governments at a disaggregated product level and by country. As of May 2015, several countries, including Russia and the Netherlands, had not completed reporting for 2014. The missing trade statistics were collected from the NSC. In addition, monthly export data from January 2007 to April 2015 were provided by the NSC.

**Findings and discussion**

A majority of the interviewed mainland Chinese stakeholders (78 per cent) acknowledged that there have been changes in customs practices and border procedures, and confirmed our hypothesis that they have been disproportionately imposed on imports from Norway.

**Implementation of China’s salmon sanction**

The process of imported salmon clearing customs takes place in two steps. Firstly, imported salmon must pass sanitation tests and veterinary inspections. Secondly, 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 discriminatorily.

To our knowledge, there is no central government decree or law which explicitly targets Norwegian salmon. However, an order was issued regionally by the Beijing Capital Airport Entry–Exit Inspection and Quarantine Bureau (北京首都机场出入境检验检疫局, hereafter Beijing Airport Inspection and Quarantine Service), dated 8 December 2010, which required stricter and more thorough checks on, specifically, Norwegian fresh aquaculture products coming through Capital Airport. The NSC provided an English translation of the order. A copy of the original order in Chinese could not be obtained for independent verification. The following month, the Central Office of Quality Supervision, Inspection and Quarantine of the People’s Republic of China （国家质量监督检验检疫总局）issued an order, ‘General Notice on Strengthening Inspection and Quarantine of Imported Salmon’ （关于加强进口三文鱼检验检疫的公告），Document No. 9, dated 28 January 2011, calling for more stringent sanitation and veterinary testing of imports of chilled farmed salmon in general.

Although required by WTO rules, there were no notifications by China explaining the changes in testing and inspection. Judging by its legal content, Document No. 9 is a regulatory measure applicable in a non-discriminatory manner. However, an explanation is required as to why salmon were singled out for stricter testing and inspection. Norway
twice raised the issue at the WTO, asking for clarification of Document No. 9 in 2011 and 2013.50 One of the interviewed Chinese importers suggested that the order was actually meant to restrict imports from Norway, since Norway was the largest and the dominant exporter. While Document No. 9 could have been intended as a WTO-consistent, non-discriminating sanitary and phytosanitary-related measure applied at the border, the practice was, according to more than three-quarters of the interviewed stakeholders, used to disrupt imports of Norwegian salmon. The majority of the interviewed stakeholders claimed that shipments of Norwegian salmon were always checked and that testing and inspection took longer, meaning that it could take up to 20 days for Norwegian salmon to clear customs. Salmon from other producing countries are only randomly checked; when checked, only three to four days are required for completing sanitation tests and veterinary inspections. The other 22 per cent 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. All interviewed participants agreed that once the sanitation testing and veterinary inspections were completed, it took the same amount of time to clear customs. However, challenging such a practice at the WTO would be difficult because China never notified the WTO Secretariat of the measure, and physical evidence of discrimination is hard to obtain. Table 1 summarizes the delays occurring at the Chinese border.

The first step a trader must take to import salmon into China is to apply for a permit for sanitation testing and veterinary inspection, which is called the ‘Animal and Plant Inspection and Quarantine Permit’ (动植物检验检疫许可证). According to the ‘Measures for the Quarantine Examination and Approval of Animals and Plants Crossing the Border’ (进境动植物检疫审批管理办法), dated 2 August 2002 and issued by the General Administration for Quality Supervision, Inspection and Quarantine,51 an importer should obtain this permit before signing a business contract with a foreign exporter.52 The application for the permit requires specific information, including the quantity to be imported, species, exporting country, and port of entry into China. The approved permit is quantity-specific, import-firm-specific, export-country-specific, and import-port-specific.53 Such key information is identical to what is required by the general import licence, called ‘Import Licence of the People’s Republic of China’ (中华人民共和国进口许可证), although the two documents are administrated under different laws/regulations and government bodies. The WTO defines an import licence as an ‘administrative procedure … requiring the submission of an application or other documentation … to the relevant administrative body as a prior condition for importation … of goods’.54 According to the WTO definition, the ‘Animal and Plant Inspection and Quarantine Licence’ is a de facto import licence; hereafter we refer to this permit as an import licence. WTO compliance rules require that an import licence should serve to ensure food safety and/or to maintain trade statistics.55 The import licence for salmon should therefore not be used as a means to administer an import quota, and China under its WTO commitments does not have the right to do so.

The same 78 per cent of stakeholders suggested that, with the changes after 2011, importers of Norwegian salmon started to experience constraints on the approved volume of imports. Previously, traders obtained approval for the volumes for which they
applied regardless of country of origin. From 2011 onwards, the General Administration of Quality Supervision, Inspection and Quarantine has approved licences for low volumes of Norwegian salmon (10 to 30 tons); this restriction did not apply to salmon from other countries (volumes up to 300 tons). The other 22 per cent 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.

A new licence application can be submitted once 75 per cent of the already approved licence volume has been imported. However, each application took 20 to 25 days. While this condition applied to all exporting countries, this disproportionately affected an

### Table 1. Marketing channels for fresh/chilled whole Norwegian salmon (in days).

<table>
<thead>
<tr>
<th>Stages in the marketing channel for imported salmon&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Prior to 2011&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Since 2011&lt;sup&gt;c&lt;/sup&gt;</th>
<th>Port-shifting&lt;sup&gt;d&lt;/sup&gt;</th>
<th>Trans-shipment/&lt;br&gt;smuggling&lt;sup&gt;e&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fish harvested from the sea off Norway and transported to destination airport</td>
<td>2–3 days</td>
<td>2–3 days</td>
<td>2–3 days</td>
<td>2–3 days</td>
</tr>
<tr>
<td>Sanitation tests and veterinary inspections and final customs clearance</td>
<td>Same day</td>
<td>Up to 20 additional days</td>
<td>Usually on the same day</td>
<td>No delay likely</td>
</tr>
<tr>
<td>Transport to importer’s storage (warehousing) facility after clearing customs</td>
<td>Same day</td>
<td>Same day</td>
<td>Up to 2 days depending on location of airport</td>
<td>2–6 additional days</td>
</tr>
<tr>
<td>Days remaining for transport (according to best-consumed-by date) from wholesale to retail and end user&lt;sup&gt;f&lt;/sup&gt;</td>
<td>12–13 days</td>
<td>Could have already passed its best-consumed-by date</td>
<td>10–11 days depending on how quickly shipment clears customs</td>
<td>6–11 days depending on how far retail point is to entry point</td>
</tr>
</tbody>
</table>

Notes:

<sup>a</sup> Fresh/chilled salmon are best when consumed within 15 days after harvest.

<sup>b</sup> Prior to 2011, Norwegian salmon were sent to airports in Beijing, Shanghai, Guangzhou and Shenzhen.

<sup>c</sup> Refers to importing through a Chinese airport where stringent sanitation tests and veterinary inspections are in place.

<sup>d</sup> Port-shifting refers to the practice of switching to a new port of entry where sanitation tests and veterinary inspections are not as stringent or where the importers have brokers with good connections with customs officials (potentially involving corruption), therefore reducing the time it takes to clear customs.

<sup>e</sup> Trans-shipments go through either Hong Kong or Vietnam. For shipments that are trans-shipped or smuggled via Hong Kong, there is no additional sanitation test or veterinary inspection nor delay at customs. Although the time taken in Vietnam is not known, no delay is expected.

<sup>f</sup> Since 2011, importing through the normal channel usually meant that the fish would already have started to rot or that it was frozen because of storage in freezer warehouses. Port-shifting can add two to three days if the retail market is in a different city than an importer’s storage facility. Smuggling requires transport from airport to the border, and additional time to load/unload and to cross into China, and subsequent transport by truck/rail to reach the importer’s storage facility.
exporting country whose approved volumes are much smaller. Under the norms outlined in the WTO Agreement on Import Licensing Procedures, automatic licences (e.g. those that are not in place to administer a quantitative restriction) should be issued within a maximum of 10 days after receipt of application. The revised licencing system in place raises three issues concerning WTO compliancy: (1) the approval takes more than 10 working days, making it ‘more burdensome than absolutely necessary’ to administer; (2) it provides a de facto limit of 30 tons per licence which has an effect similar to that of a quantitative restriction; and (3) the limit is discriminately applied to salmon imports from Norway.

Seventy-eight per cent of the traders argued that quantitative restriction was a larger obstacle than delay in the customs clearance because of more stringent food safety testing and veterinary inspection. Moreover, this is the only regulatory change that affected the frozen salmon business. There was only one stakeholder who imported frozen salmon. The delays in sanitation testing and veterinary inspections increased his business costs slightly but did not affect quality. However, his business was now constrained by the small volumes approved.

Sanctions-busting: Stakeholders’ marketing responses

The stakeholders, both Norwegian exporters and importers in China, have taken steps to circumvent the changes in customs practices and regulatory border measures that underpin China’s salmon sanction. The initial steps included communicating with the NSC and the Norwegian Embassy in Beijing to request a diplomatic gesture to improve Sino-Norwegian relations. Later on, several mitigation strategies involved adapting the transport and marketing channel through the following strategies: port-shifting, source-shifting, mislabelling, trans-shipment and smuggling. The following sub-sections describe the efforts of rent-seeking private actors to bust China’s sanction on Norwegian salmon.

Selling rotting fish to salmon processors. The sanction was not announced and took stakeholders by surprise. Because air transport is expensive and cost is calculated according to weight, exporters only pack enough ice to chill salmon and assure quality upon arrival in China. When the sanction was enforced, it took up to 20 days to clear customs because of tests and inspections; the fish began to degrade soon after all the ice melted. In some cases, the quality became so poor that the fish could no longer be sold as fresh salmon. To reduce losses, one of the interviewed importers admitted to selling Norwegian salmon of degraded quality to factories so that they could produce smoked salmon. This only happened at the start of the salmon sanction.

Source-shifting to non-Norwegian salmon. Because of obstacles confronting the import of Norwegian salmon, some businessmen turned to importing salmon produced in other countries, notably the United Kingdom, the Faroe Islands, and Chile (Figure 2). Prior to 2010, China’s salmon market was mostly dominated by Norway and the United States. This changed after 2010, when the three abovementioned countries took over Norway’s market share. It is likely that a new agreement was reached between Norwegian suppliers and Chinese importers to supply salmon from farms in countries where Norwegian salmon companies have interests. Marine Harvest admits that it has been exporting salmon to China from its farms in these three countries.
Mislabelling country of origin in the retail market. The country of origin is an important attribute and an important label for seafood products such as salmon. During our field trip in January 2014, it was rare to find salmon other than Norwegian salmon in wholesale or retail markets. After 2010, however, only 30 per cent of the officially recorded salmon were Norwegian. To boost sales and profits, some merchants falsely claimed that salmon from other countries was Norwegian salmon. This was reported by the media. The falsification of country-of-origin labels was more likely to occur in more informal markets rather than in the larger supermarket chains which tended to observe Chinese law.

Legal trans-shipments. Among the interviewed stakeholders in China and Hong Kong, 62 per cent confirmed that they had imported or they knew other firms that had imported Norwegian salmon via Hong Kong. However, there is little evidence to suggest that re-exported Norwegian salmon undergoes less strict border measures. The increase in official re-exports from Hong Kong to China, as reported in Figure 2, has been much smaller than the increase in exports from Norway to Hong Kong presented in Figure 4. Between 2011 and 2014, on average, Hong Kong re-exported 420 tons of fresh/chilled whole salmon to China annually, while Hong Kong imported 2102 tons from Norway. If all of Hong Kong’s re-exports to China during 2011–14 was Norwegian salmon, this would have amounted to 21 per cent of Hong Kong’s import from Norway, on an annual average, but this is unlikely and cannot be confirmed. There are no officially reported re-exports from Vietnam to China, suggesting no legally trans-shipped salmon via Vietnam.

Illegal trans-shipments. Another means of trans-shiping through legal channels may involve the illegal practice of falsifying country-of-origin certification. Chinese authorities only place restrictions on Norwegian salmon. By illegally changing the country of origin (that is, Norway) to another country, lengthy sanitation tests and veterinary inspections are then side-stepped. One Hong Kong importer admitted that when reselling

Figure 4. Hong Kong’s monthly imports of Norwegian fresh/chilled whole salmon, January 2007–April 2015.
Source: Norwegian Seafood Council.
Norwegian salmon, Chinese buyers often did not request Norwegian documentation, inferring that the documentation was changed during trans-shipping. The practice of altering a label is illegal, but the risk of being detected is relatively low.

Seven of the interviewed stakeholders admitted to having smuggled Norwegian salmon via Hong Kong and/or Vietnam. They were motivated by the increased difficulty of importing Norwegian salmon legitimately. The upticks in monthly trade volumes from Norway to Hong Kong in Figure 4 and to Vietnam in Figure 5 support this claim. However, it is hard to estimate precisely the amount of salmon smuggled from Hong Kong to China.

Estimating smuggling from Vietnam might be easier because there are no official re-exports. Assuming that only 5 per cent of the Norwegian salmon imported into Vietnam since 2011 stayed in Vietnam (which is the 2007–10 annual average) and that the rest was smuggled into China, then China’s share of Norwegian salmon imports coming from Vietnam would amount to 32 per cent of the total. Since 2011, there has been a sudden increase in imports of Norwegian salmon which cannot be explained by an increase in per capita demand. Smuggling of different types of commodities between Vietnam and China is common and lucrative. One stakeholder based in Guangdong Province, which is next to Hong Kong and bordering Vietnam, suggested that trans-shipment of salmon through Vietnam was due to the increased difficulty and risk of smuggling salmon from Hong Kong via waterways, then the common route for smuggling. Another stakeholder, who admitted to smuggling through Vietnam, noted that Vietnam had already become a hub for smuggling expensive beef and other luxury seafood products before 2010.

Port-shifting within China. In China, prior to the diplomatic row, most Norwegian fresh/chilled whole salmon, if not all, was shipped through airports located near the regional and national wholesale markets in the cities of Beijing, Shanghai, Guangzhou, and...
Shenzhen. Because shipments were concentrated in these four ports, the new regulatory measures might have initially been implemented only at these airports.

Importers began port-shifting, that is, importing salmon through other airports where customs clearance was faster because sanitation tests and veterinary inspections were less strictly implemented, in part because these ports were not regular points of entry. In northern China, for example, shipments started going through Tianjin Binhai International Airport in Tianjin City, Zhengzhou Xinzheng International Airport in Henan Province, and Dalian International Airport in Liaoning Province; in eastern China, shipments started going through Hangzhou International Airport in Zhejiang Province; in southern China, shipments started going through Chengdu Shuangliu International Airport in Sichuan Province and Chongqing Jiangbei International Airport in Chongqing City (Figure 3).

Stakeholders suggested that some local Customs and Entry–Exit Inspection and Quarantine Bureaus welcomed the salmon shipments because it brought revenues from import taxes and various fees associated with importing, testing, and inspections. However, the interviewed stakeholders also suggested that these airports would eventually implement strict sanitation tests and veterinary inspections once the central government was alerted to higher import volumes, which is what happened at Tianjin Binhai International Airport.

**Synchronization of import licence applications.** Because an import licence is port-specific, some Chinese importers have started applying for licences to import Norwegian salmon into multiple ports. When the volume for one port was almost used up, they re-applied for another licence at that port, and continued to import from other ports where they had already obtained an import licence with a volume allowance that could be used. Importers kept applying for licences from different ports and shifting salmon shipments to different ports. Such manoeuvres incurred additional costs and lost any cost advantage derived from scale.

**Distortion of China’s salmon market**

China’s salmon sanction was designed to punish Norway by restricting access to the Chinese market. However, the damages and costs, in the end, have been borne mainly by China’s own salmon market and its consumers.

**Corruption**

Several of the mitigation strategies involved deceptive practices, illegal or complicated manoeuvres, bribery or corruption, including port-shifting, falsifying documents or mislabelling of country-of-origin, trans-shipping, and smuggling. Stakeholders admitted that they were working every channel to minimize delays from testing and inspections. Port-shifting to ports farther from the end market increased transport cost and implied that importers stood to lose larger stakes. One stakeholder admitted that his company would not order and import Norwegian salmon through an airport if the company did not expect that the shipment would pass through testing and inspections quickly. Another...
stakeholder suggested that how fast a shipment cleared customs depended on ‘how passionate the customs broker was’. However, because most brokering services were outsourced to specialized customs-brokering agencies, the importers either did not know or would not disclose the details of how customs clearing was facilitated or what share of the fee was a bribe. Similarly, because trans-shipping and smuggling were ‘outsourced’ to third parties, stakeholders either did not know or would not disclose the details involved in those transactions.

Quality degradation

Fresh/chilled whole salmon are best within 15 days after being harvested from the sea. Table 1 documents the average number of days it takes Norwegian salmon to reach an importer’s storage facility. For fresh/chilled whole salmon, each additional day spent on the road results in quality degradation. Inadequate transportation facilities during trans-shipping and smuggling further degrade the quality of salmon.

Increased costs for Chinese importers

For Norwegian salmon that passed through airports in mainland China which were not used in the past for importing salmon, or for Norwegian salmon that was trans-shipped or smuggled, the importers bore higher costs which they had to cover including: (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 trans-ship or smuggle; (3) the costs of hiring specialized brokers to manage the application of licences at multiple airports; and (4) the costs of bribery to facilitate the customs-clearing time. There were additional opportunity costs and efficiency losses from moving more, smaller shipments and/or because the delays degraded the quality of the fish. Finally, there was a potential legal cost for a stakeholder implicated in mislabelling, bribing civil servants or customs officials, or smuggling.

‘Bad’ fish drives out ‘good’ fish

Chinese consumers are very sensitive to price. Even salmon of a low quality can be sold if the price is sufficiently discounted. Despite the increased transportation and smuggling-related costs, delays can be avoided and tariffs evaded. According to the Chinese businessmen interviewed, smuggled salmon have a competitive edge relative to legitimately imported salmon in the price-sensitive market. As a consequence, some former legitimate importers, facing obstacles at Chinese airports, have turned to buying from smugglers.

Smuggled salmon have also distorted the high-end segment of China’s salmon market constituted by upscale restaurants and the larger supermarket chains which demand and expect high quality. According to the interviewed stakeholders, smugglers were able to sell smuggled salmon of sufficiently good quality by using official documents from another legal shipment. It was not possible to ascertain the extent to which this was done. Due to significant quality degradation during transportation in the hotter months, smuggled salmon supplied the high-end market only in winter. Thus, the high-end segment of the market was seasonally distorted.
Consumer welfare loss

There are three sources of potential consumer welfare loss: loss in the quality of legitimate imports of Norwegian salmon from the regulatory delays; increased costs associated with various workarounds to facilitate customs-clearing times of Norwegian salmon; and rent-seeking from selling salmon other than Norwegian salmon. China’s consumers are generally unaware of any quality degradation. Bribes or facilitating fees are costs that are eventually borne by consumers. Finally, most Chinese consumers shop for food at traditional street markets, where they are most vulnerable to country-of-origin mislabeling. Thus, consumers might pay a premium for ‘Norwegian’ salmon when in fact it is from another country. Whatever competitive advantage accruing from smuggling is more likely to result in rents to smugglers rather than lower prices for consumers.

Potential damage to the reputation of Norwegian salmon

If allegations of degraded Norwegian salmon being sold in China are true, this can damage the reputation of Norwegian salmon and jeopardize a significant portion of Norway’s investment in the Chinese market. For more than a decade, the fresh/chilled whole salmon market was dominated by Norwegian salmon. China’s market has continued to grow rapidly. The NSC has cultivated the demand for salmon in general and built the image of high-quality salmon from Norway through marketing and awareness campaigns. The NSC spent NOK 15 million (US$2.4 million) in 2012, and its budget in China in 2013 was around NOK 30 million. Even with the lifting of border measures, it is expected that it will be difficult for Norway to regain its pre-2011 dominance, because competitors have already established trade and relations with buyers that are likely to last. Since 2011, a number of new players have entered the market. During the 18th China Seafood and Fisheries Exposition in 2013, which is China’s largest seafood trade fair, there were more salmon exporters than ever, including firms from countries that do not produce salmon but which are interested in re-exporting. Chinese consumers nowadays are also becoming more aware of the salmon from other producing countries.

Long-term implications for China’s salmon market

According to several interviewed stakeholders, initially only Norwegian salmon were smuggled from Vietnam to China, as a means of circumventing the Chinese government’s discriminatory practices. Once smugglers earn profits from their trade, they can start smuggling salmon from other producing countries too. While this is a reasonable and logical assumption, we could not substantiate or corroborate it from UN Comtrade data. But if this is true, then market distortion from smuggling is greater than what official trade statistics tell us. The trans-shipment/smuggling of salmon via Hong Kong and Vietnam has been going on for more than four years, and it is an endemic phenomenon arising from the issue of trade barriers in China in general. Market distortion could continue even after the normalization of Sino-Norwegian relations.
Efficacy of the sanction

China’s sanction on Norway has targeted only salmon. China appears to have chosen its target carefully and deliberately such that it sends clear signals about its political objective without greatly impeding its broader economic interests. For Norway, salmon are an iconic product and fresh/chilled whole salmon are an important export product. Hence, the signal sent is likely to be transmitted clearly, creating the desired pressure on the target country’s government through a vocal interest group. China could have chosen to impose a broader boycott on Norwegian goods, but the Chinese government was also concerned with its own economic growth. China has not been able to capitalize on public anger when it imposed sanctions on Norway. Chinese officials have often encouraged consumer boycotts as part of the sanction game. This occurred in 2005 against Japanese goods during a political row over the visit by Japan’s prime minister to Yasukuni Shrine (靖国神社), and in 2008 against Carrefour, a French retail chain, after protests in Paris during the Beijing Olympic torch relay called attention to China’s Tibet policy and human rights record. In the case of the Nobel Peace Prize to Liu Xiaobo, while it was an extreme embarrassment for the Chinese government, the general public sentiment was comparatively mild compared with the outcries against Japan and France, particularly because China exerted media control over the event and perhaps because the public might not share the government’s sentiments about Liu being awarded the peace prize.

It is a popular misconception that, after 2010, Norway’s exports of fresh/chilled whole salmon to China decreased despite the growth in the market, and that Norway has lost its majority share in China’s market. Media reports were responsible for this misconception because of analysis on direct exports from Norway to China in the official trade data. Taking into account changes in regional trade patterns and the mitigation strategies pursued by stakeholders, one arrives at a different conclusion. If Norway’s indirect exports smuggled through Vietnam are added to its direct exports to China, then Norwegian exports to China have continued to increase, as shown in Figure 6. The prevalence of trans-shipping coupled with falsified country-of-origin labels, and smuggling from Hong Kong and, more notably, Vietnam, makes use of the official trade data on direct exports unreliable. The interviewed stakeholders believed that Norwegian salmon still accounted for between 50 per cent and 70 per cent of the total fresh/chilled whole salmon in China’s market. Figure 6 presents Norway’s monthly direct exports to Vietnam and China, and the sum of fresh/chilled whole salmon exported to both countries. Assuming that per capita consumption levels in Vietnam stayed at pre-2011 levels, then almost all the Norwegian salmon exported to Vietnam was trans-shipped to China’s market.

To prevent sanctions-busting, a government must be willing to penalize any party that is involved in sanctions-busting. There does not appear to be such willingness in the case of the sanction on Norwegian salmon. One of the interviewed stakeholders believed that the Chinese government has been aware of the trans-shipments from Hong Kong and Vietnam, but it has simply ignored them. China’s goal is mainly political and the sanction was used to send a strong signal to Norway. Hence, China has not bothered to enforce an
effective border control between Vietnam and southern China. The principal-agent problem in this case is pronounced because a reward–punishment mechanism was not implemented to motivate customs officials, sanitation inspectors or border guards to enforce compliance with the sanction.

China’s sanction seems to have achieved a desired effect. In May 2014, the government of Norway declined to meet the Dalai Lama. Perhaps this initial gesture by Norway can be interpreted as China having succeeded in getting its message across. After all, the United Kingdom resumed its ministerial meetings and warmed up its relationship with China by declining and restraining its ministers from meeting the Dalai Lama in 2013. Similarly, after France issued a statement recognizing Tibet as a part of China’s integral territory in 2009, the diplomatic tension arising from then President Sarkozy’s meeting with the Dalai Lama in 2008 began to defuse and a Chinese trade delegation visited Paris soon thereafter.

However, in September 2014 and March 2015, China announced a ban on imports of Norwegian salmon because of concerns that infectious salmon anaemia (ISA) could greatly harm the domestic aquaculture industry. ISA is a virus that causes disease and has affected farmed salmon in Europe and North and South America, but it is not harmful to human health. While ISA is found in major salmon farming countries, only Norwegian salmon have been targeted. The ban had not been applied as of February 2015, nor was the WTO notified. The ISA issue might have been a component of the salmon sanction, but in general, in the eyes of the seafood industry and Norwegian authorities the ISA issue is separate from strict sanitation testing and veterinary inspections.

In April 2015, almost one year after the Norwegian government’s May 2014 gesture and one month after China announced the import ban in March 2015, Norway and China negotiated a new health certificate for exports of fish and fish products from Norway.

This new agreement can be viewed from two perspectives. Firstly, it addresses, albeit partially, the ban on farmed salmon from Norway, allowing salmon from farms that are not infected by ISA to be issued with a health certificate by the Norwegian authorities and to be imported into China. Secondly, this agreement could be interpreted as a warm political gesture by the Chinese government. Food safety authorities of both countries have resumed dialogue and reached an agreement, which could be one small step towards full restoration of bilateral relations between Norway and China.

**Conclusion**

China’s rapid economic growth and prominent position in global markets facilitate the use of economic sanctions as a means of exercising leverage in international relations. The government of China is able to use access of foreign firms to its lucrative and rapidly growing market as a bargaining chip and a means of reinforcing its foreign policy objectives. This study set out to determine whether sufficient evidence could be found, through compiling trade data and corroborating accounts from stakeholders who were interviewed, to support the claim that China imposed a sanction on Norwegian salmon imports in response to the 2010 Nobel Peace Prize awarded to a Chinese dissident.

The findings support the claim that China applied a partial boycott on fresh/chilled whole Norwegian salmon which was underpinned by non-tariff barriers (e.g. more restrictive import-licencing approval practices and more stringent inspection methods delaying customs clearance). Furthermore, the timing of the changes in customs practices and border measures, discriminatorily applied to Norwegian salmon, coincided with the awarding of the Nobel Prize. Under WTO rules, stricter sanitation testing and veterinary inspection procedures are allowable sanitary and phytosanitary measures, but the WTO Secretariat has to be notified of the justification for such measures. Moreover, no food safety concerns over Norwegian salmon were brought up by other importing countries. The measures imposed by China were decrees or changes in practices that were not based on legislation, which suggests China’s tendency to resort to subtle sanctions.

Norway–China trade data for fresh/chilled salmon before and after 2011 show that the decline in Norway’s total exports to and relative market share in China coincided with the non-tariff barriers that accompanied the sanction which was circumvented through various sanction-busting mitigation strategies. Through newly established business relationships domestically and internationally, Chinese importers appeared to have been able to bust the salmon sanction by importing salmon through airports that are less controlled by the central government and through trans-shipment/smuggling via Hong Kong and Vietnam.

The sanction is illustrative of an intended soft-power effect to signal China’s displeasure with the award. The sanction also appears to have successfully influenced Norway’s foreign policy in that the Norwegian government declined to meet with the Dalai Lama. However, the costs of sanction-busting have been incurred by Chinese consumers in terms of higher prices for Norwegian salmon, mislabelled salmon, and quality-degraded salmon. Non-tariff barriers have encouraged illegal marketing activities, bribery and corruption, which have also affected Chinese society at large.
China has become more confident and more skilled in the statecraft of economic sanctions, and this point has to be taken seriously. The discrete manner in which China uses non-tariff barriers makes it hard to gather evidence to initiate a challenge at the WTO. Several countries have given in to China, suggesting that sanctions have been successful and effective tools. Despite Norway’s refusal to meet the Dalai Lama, the sanction is still in place. The salmon sanction demonstrates that China is capable of exercising long-term economic statecraft, and that it has become more assertive in international relations.

This study lacks statements and opinions of Chinese officials, which could bias the findings and conclusions. Such interviews would provide greater insight into understanding the salmon sanction and could make an important contribution to the literature. Future research on the role of Scotland (UK) and the Faroe Islands, which have gained market access during the salmon sanction, is another avenue of study. Finally, a formal statistical analysis on the trade data would also help determine how integrated the Vietnam–China salmon market is.

Notes

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