Making Xinjiang Sanctions Work

Policy Brief No. 8 – Tomatoes

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Can economic sanctions address Xinjiang forced labour? The Xinjiang Sanctions research project seeks to answer this question. Drawing on 3 original datasets containing over 12,000 datapoints, confidential interviews and a year of research, this Policy Brief series summarises key findings from the research. For further analysis, and the references and authorities supporting the statements in these Policy Briefs, see the project's main research study at www.xinjiangsanctions.info.

The Xinjiang Sanctions Policy Brief series:

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Key research findings

- Xinjiang is the source of around 18 per cent by volume of the global trade in processed tomato products such as tomato paste and tomato sauce.
- Much of this goes to Europe, especially Italy, where it is modified and re-exported to Western markets and buyers, including fast food retailers and agrifood giants such as KraftHeinz, Unilever, PepsiCo and Nestlé.
- A significant portion also goes to Africa and to the Middle East. Cheap Xinjiang exports have undercut West African production in recent years, leading to declines in local production and processing.
- Access to cheap and sometimes coerced labour has been central to the strategy of competition on cost.
- The XPCC has been central to tomato production and processing in the region, and ChalkiS [*sic*] Tomato Industrial Company, spun off from the XPCC Sixth Division, now accounts for 45 per cent of the African small can tomato sauce market, and 20 per cent of the European tomato paste market.
- COFCO Tunhe – a listed subsidiary of the massive state-owned enterprise (SOE) that Beijing sees as a cornerstone of Chinese food security (COFCO) – on its own accounts for around 4 to 5 per cent of global supply of processed tomato products.
- The sector has long used forced labour – through prison labour, the VSETC system and the Poverty Alleviation through Labour Transfers programme.
- To date, only the US has specifically targeted this sector – and the US has undertaken limited enforcement. Xinjiang tomatoes are still entering North American markets, including through intermediary countries such as Italy.
- There is only limited evidence of Western buyers ceasing to buy products containing Xinjiang tomatoes. (Marks & Spencer, Tesco and Kagome are exceptions proving the rule.)
- There is little evidence to date of sanctions significantly impacting firms in the Xinjiang tomato sector, of policy change, or of remedy for victims of forced labour in the sector.
- Sanctions have responded to evidence of ties to forced labour, rather than sought to impact those with influence in policy processes. No differentiation of approach between XPCC firms and those with more direct influence in Beijing (e.g. COFCO Tunhe) is evident.
- US financial sanctions have, however, led to some firms with ties to the XPCC being dropped from global security indices. Beyond this, capital market engagement is limited, though some institutional investors are now beginning to ask consumer staples retailers about their connections to the Xinjiang tomato sector.

Why is this important?

- As more jurisdictions adopt import bans on Xinjiang tomatoes, trade will be reallocated to other markets where labour standards are not being enforced on imports. This social dumping may place local producers at risk, as it has in West Africa. Such countries – especially in Africa and Latin America – could be potential recruits to the sanctioning coalition.
- Enforcement strategy will shape the effectiveness of import bans. Since some firms may be seeking to evade sanctions through trade 'deflection' (re-routing goods through intermediary countries) or outright document fraud, documentary enforcement may need to be supplemented by forensic technology.
- Sanctions could be made more effective if regulators and investors brought greater pressure on the agrifood, consumer staples and fast food businesses that are the ultimate retailers of Xinjiang processed tomato products. One option would be to encourage them not only to avoid importing these products, but also to avoid using them overseas.
- Sanctions on COFCO may be more likely than those on XPCC-linked firms to create costs for actors with influence over relevant policy processes in Beijing. But they may also meet with resistance in Beijing, since they may be perceived as an attack on China's food security.

Research overview

The Xinjiang tomato sector

Xinjiang accounts for around 18 per cent by volume of the global trade in processed tomato products such as tomato paste and tomato sauce.

Much of this goes to Europe, especially Italy, where it is modified and re-exported to Western markets and buyers, including fast food retailers and agrifood giants such as KraftHeinz, Unilever, PepsiCo and Nestlé. A significant portion also goes to Africa and to the Middle East. Cheap Xinjiang exports have undercut West African production in recent years, leading to declines in local production and processing.

Access to cheap and sometimes coerced labour has been central to the strategy of competition on cost. The XPCC has been central to tomato production and processing in the region, and ChalkiS Tomato Industrial Company, spun off from the XPCC Sixth Division, now accounts for 45 per cent of the African small can tomato sauce market, as well as 20 per cent of the European tomato paste market. XPCC entities have played the role of a ‘dragonhead’ or ‘leading’ enterprise (龙头企业), purchasing tomatoes from smallholders in return for access to company technology, quality control systems and marketing platforms. This appears to have led to minority farmers and smallholders being coerced either into monopsonistic purchasing arrangements with XPCC-backed tomato firms, or into dispossession. This has swollen the ranks of the “surplus rural labour” that has been the target of Poverty Alleviation and Labour Transfer programmes over the last decade. When ChalkiS sought to expand in 2004 by purchasing a French produce processing company, it could not replicate the cost structure that had made it so successful in Xinjiang, and the venture failed.

But over the last 2 decades other firms, notably the state-owned enterprise COFCO (China Oil and Foodstuffs Corporation) have also become major players. Beijing sees the COFCO Group as a strategically important firm underpinning Chinese food security. The group has revenues of around half a trillion dollars, with 2020 profit exceeding USD 12 billion. It has been listed in the Fortune Global 500 for most of the last quarter of a century, and owns and/or operates ventures in dozens of countries, including sugar cane plantations in Brazil, grain silos in Ukraine, soybean processing facilities in multiple Latin American countries, a sugar mill in Australia, and its own global transport fleet. This growth has been supported by both Chinese and foreign investment, including loans of over USD 175 million from the International Finance Group. COFCO Tunhe, the subsidiary that handles COFCO’s tomato business, accounts for around 4 to 5 per cent of global supply of processed tomato products.

The Xinjiang tomato sector’s growth over the last two decades has benefited from policies encouraging access to cheap and sometimes coerced labour – including prison labour; the VSETC system; and the Poverty Alleviation through Labour Transfer programme. Another factor is investment into the region by firms from elsewhere in China, included through a ‘Pairing Assistance’ scheme; significant financial support from state banking, export credit and development finance entities; and transfer of human capital and technology into special industrial zones in the region.

Sanctions dynamics

To date, only the US has made Xinjiang’s tomato sector a focus of its sanctions target selection and enforcement efforts. The measures it has put in place combine import bans and financial sanctions with some limited capital market effects. Other jurisdictions have generally not targeted the sector. There are limited signs of importers in other jurisdictions voluntarily exiting relationships with Xinjiang tomato exporters – such as Marks & Spencer and Tesco in the UK, and Kagome in Japan.

Western sanctions have so far had a more limited impact on the Xinjiang tomato sector than on cotton and solar products. There appear to be several reasons for this, including: different market structures and firm-level adaptation; limited enforcement efforts; limited engagement by capital markets actors; and the absence of a sectoral body amplifying labour standards enforcement in the sector.

Moreover, the structure of the global tomato market may work against sanctions in this case. Processed tomato products are relatively homogenous goods, and the sanctioning coalition currently represents a relatively low share of overall demand for direct exports from Xinjiang. With Xinjiang firms exporting to over 130 countries, it will not be difficult for target exporters to find alternative buyers to fill any gaps left by the loss of direct US exports. However, if or when the EU adopts an import ban on goods from Xinjiang, this will represent a more serious cost to Xinjiang exporters, given that the EU receives around 13 per cent of Chinese tomato products. Italy, alone, receives around 9 or 10 per cent of Xinjiang’s processed tomato exports. An Australian import ban might affect another 1.5 per cent of direct exports. Yet the main direct export markets for the Xinjiang tomato sector – in Africa and the Middle East – are at present absent from this discussion.

Nevertheless, the US market represents a much larger share of consumption of Xinjiang tomatoes, if we factor in *indirect* exports through third countries. This is central to the global processed tomato value-chain. COFCO Tunhe exports large volumes of tomato paste to Asian countries, where it is processed as spaghetti sauces and ketchups and re-exported under Product of Philippines, Product of India and Product of Pakistan country origin labels. The company also exports to Italy, where major buyers such as Antonio Petti Fu Pasquale add ingredients and then sell the resulting products as unbranded processed tomato products to firms that rebrand and resell them. The structure of the supply-chain thus lends itself to trade ‘deflection’ and sanctions evasion. As a result, Xinjiang tomato products appear still to be finding their way to North American shelves, despite import bans in both the US and Canada.

One impact of US financial sanctions has been that global securities index providers, such as FTSE Russell, have removed firms owned by the XPCC from their China indices. This has impacted several Xinjiang tomato sector firms. But the overall impact of these measures on Western investment seems limited, not least because they are currently limited to US investors, and to firms owned by the XPCC. Other firms – such as COFCO Tunhe – are unaffected. Some investor groups, such as Investor Alliance for Human Rights, and Investors Against Slavery and Trafficking APAC, are discussing Xinjiang forced labour with consumer staples retailers, but fast food firms have so far avoided significant scrutiny, and there is no evidence to date of concerted shareholder action.

Implications

As more countries adopt import bans blocking Xinjiang tomato products, the risks of trade reallocation of those products to other markets increases. This will generate social dumping – the export of goods made below labour standards to markets that do not enforce those standards on imported products. In the short term this means that buyers and consumers in those markets will enjoy lower prices. But as the impacts of ChalkiS’ market growth on West African production makes clear, the long-term result is that the unfair subsidy provided by forced labour leads to devastation for local industry. Developing countries otherwise active in the tomato sector may be vulnerable – and may therefore be potential recruits into the sanctioning coalition, provided that Western countries offer adequate technical, technological and financial support to allow them to upgrade their own capabilities.

Another implication of the analysis is that enforcement strategy and resourcing will determine whether firms comply with sanctions or evade them. We found clear risks of producers and exporters considering evading sanctions by producing fraudulent paperwork to mask the origin of Xinjiang tomatoes. One solution to this may be to impose heavy penalties where such evasion is discovered, as a deterrent. Another solution may be to supplement paper-based enforcement with DNA, genotype and isotopic testing to identify the provenance of tomatoes. Given the relative simplicity of this supply-chain, it may be a good testing-ground for enforcement of the UFLPA and other import bans.

The focus of sanctions targeting and enforcement has so far been on XPCC-linked firms, not other firms with close ties to the sector, such as COFCO Tunhe. Sanctioning COFCO could send a stronger signal of Western resolve to Beijing than sanctions that have been imposed to this point, and might also increase the prospect of impacting actors with influence over the policy processes in Beijing (relating to agrarian development, poverty alleviation, and Xinjiang governance) that are creating the conditions leading to forced labour. Yet precisely because it sees COFCO as a strategically important firm, Beijing is more likely to perceive any sanctions directed at COFCO as an attempt to disrupt security and stability in China more generally. Sanctions targeted at COFCO are thus more likely to be meet with resistance.

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Sectoral dynamics of Xinjiang sanctions

	Cotton	Tomatoes	Solar
Overall impacts to date	Significant impact on demand for Xinjiang cotton, price. Some targeted firms closing manufacturing plants, laying off workers. Western brands have lost market share (see Part 2). No sign of remediation to victims of forced labour.	Limited sanctions enforcement to date. No clear evidence of impacts. No sign of remedy for victims of forced labour.	Limited impact – prices at 10-year high. Possible supply-chain bifurcation. No clear roadmap for developing alternative supply means established firms capturing new 'slavery-free' demand. No sign of remedy for victims of forced labour.
Strengthen policy opponents?	Sanctions have responded to evidence of ties to forced labour, rather than sought to impact those with ties to policy makers. No differentiation of enforcement approach between XPCC firms and those with more direct influence in Beijing (eg Ruyi Group). Targeted sanctions on firms and leaders' foreign assets could increase impact.	Sanctions have responded to evidence of ties to forced labour, rather than sought to impact those with influence in policy processes. No differentiation of approach between XPCC firms and those with more direct influence in Beijing (eg COFCO Tunhe).	Sanctions not yet targeting industry leaders with influence over policy makers (eg those with ties to 'Zhejiang Clique', those with ties to Deng Xiaoping family & PLA).
Cost asymmetries	Asymmetries marginally favour sanctioning coalition because of Western share of demand and higher price Western consumers will pay. This could be further strengthened by broadening coalition to include Central Asian buyers of raw and spun cotton.	Asymmetries currently favour Xinjiang producers. This will change if: 1. EU import ban adopted, enforced; 2. African or Middle East countries recruited into the sanctioning coalition; 3. US takes more robust enforcement action eg against fast food companies; or 4. sanctions focused more on the broader COFCO group – though this risks being perceived as an attack on China's food security.	Asymmetries strongly favour Xinjiang producers and work against Western importers. This could be addressed by focusing sanctions on high-quartz quality exports from the US, and through industrial policy to increase alternative supply of slavery-free polysilicon.
Trade adaptation strategies	Evidence of reallocation, deflection and transformation. Clear risk of sanctions evasion – enforcement strategy will be determinative.	Evidence of deflection which may shade into evasion. Some reallocation / social dumping emerging. Enforcement strategy will shape firm-level adaptation.	Evidence of trade reallocation and some deflection (via South East Asia). Dominant firms in middle of supply-chain increasingly engaging in product transformation and supply-chain – without giving up forced labour production for some products. This raises cross-subsidization concerns.
Sectoral body conduct	Sectoral bodies representing globalized firms push for limits on import controls. Standards-oriented bodies provide norm amplification. Chinese government responds by politicizing standards processes.	No activity evident.	Sectoral bodies' policy stances respond to both positions in global value-chains and local regulatory signals. Globalized value-chains lead sectoral bodies to push for more open trade. Thin-film & ultra-low-carbon producers more vocal in support of sanctions, as they may improve their competitive positions.
Capital markets engaged?	Increasingly, but primarily through private active engagement, including via IAHR. Some emerging shareholder proposal activity.	Some impacts on XPCC family firms, eg removal from stock indices. Early signs of active engagement by IAST-APAC and IAHR. No shareholder actions to date.	Western investors remain invested in these firms. Development finance bodies most engaged, some signs of engagement by institutional investors, private equity. But no signs of shareholder actions or delisting to date.

[i] James Cockayne, *Making Xinjiang Sanctions Work: Addressing forced labour through coercive trade and finance measures* (Nottingham: University of Nottingham, 2022).

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