# Senators question proposed purchase of Smithfield by Chinese company

By Derrick Cain



WASHINGTON, July 11, 2013 - Several senators questioned the proposed purchase of Smithfield Foods, the largest U.S. pork producer, by a Chinese company during a hearing on Wednesday.

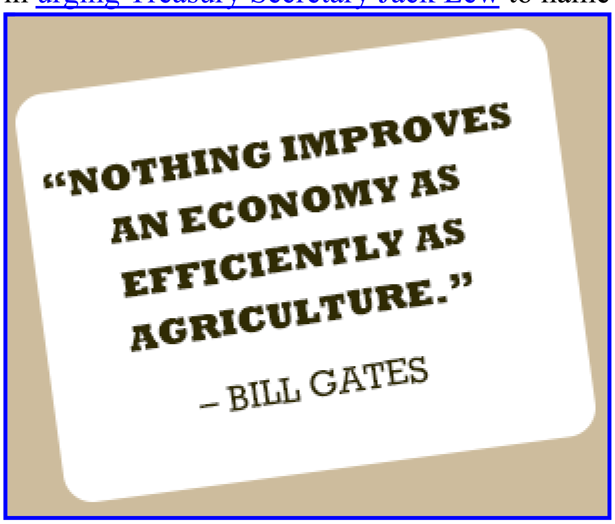
The Senate Agriculture, Nutrition and Forestry Committee held the hearing to discuss the $7.1 billion sale of Smithfield to Chinese meat processing company Shuanghui International, which would represent the largest acquisition of a U.S. company by a Chinese firm.

Committee Chairwoman Debbie Stabenow, D-Mich., has been highly skeptical of the deal in terms of what it may mean for U.S. food companies, food safety, and food security.

“Smithfield might be the first acquisition of a major food and agricultural company, but I doubt it will be the last,” Stabenow said. “That is why we must take a long-term view of what is happening. We need to be having this conversation and evaluating what is in the best interests of American families and our American economy because of the importance of our food supply, security, and safety.”

Merger approval must first come from the Committee on Foreign Investment in the United States (CFIUS), an inter-agency committee authorized, under the Treasury Department, to review transactions that could result in control of a U.S. business by a foreign person. Stabenow and other senators have urged that USDA and FDA be part of the approval process.

In June, Stabenow joined a group of 15 senators, including ranking member Thad Cochran, R-Miss., in urging Treasury Secretary Jack Lew to name a USDA official to CFIUS.




“This is a precedent-setting case and we owe it to consumers, producers and workers to ensure we are asking the right questions and evaluating the long-term implications,” she said.

Cochran told committee members the deal needs more scrutiny.

“It is important to note that rule of law, transparency, and science-based standards foster growth, strengthen international relationships, and help feed the world,” Cochran said.

He said China maintains unscientific sanitary and phytosanitary standards that “unfairly block American producers from the Chinese marketplace - despite scientific evidence confirming the safety of American practices and products.”

"If finalized, I hope the transaction between Smithfield and Shuanghui will strengthen China's commitment to market- and rules-based engagement with the global economy," Cochran said.

Sen. Sherrod Brown, D-Ohio, said the CFIUS review needs to consider national security, food safety, and long-term food safety implications.

"With a sale of this size, measured and thorough scrutiny is critical," Brown said. "We must not only consider the national security implications of this sale, but also the long-term impact on workers, producers, and consumers. We need guarantees that under Chinese ownership, we will continue to see high-quality food products that comply with stringent American food safety and biosecurity standards."

The merger deal, announced May 29, is valued at about $7.1 billion. Shuanghui would acquire all of the outstanding shares of Smithfield for $34.00 per share in cash. The transaction is expected to close in the second half of 2013.

Just ahead of the hearing, a coalition of farm, rural, and consumer organizations sent a letter Tuesday to the CFIUS members urging them to recommend that the Obama administration reject the proposed acquisition.

Defending the merger plan, Larry Pope, president and chief executive officer of Smithfield Foods, said the reaction from the U.S. agricultural community has been "overwhelmingly positive."

Pope said the Michigan, Indiana and North Carolina pork producers associations, the North American Meat Association, industry leaders, and numerous individual producers have expressed support for this transaction.

A take-over by the Chinese company would not result in any major changes to the Smithfield business, he said.

"Growth is also very good news for Smithfield's employees and communities," Pope said. "We have a saying: 'It will be the same old Smithfield, only better.' Shuanghui and Smithfield are committed to maintaining our operations, our headquarters, our relationships with producers, our labor contracts, and our quality brands with the highest reputation for food safety."

He added,"There will be no noticeable impact on how we do business."

Pope said the Chinese consume more than 20 pounds more pork per capita per year than Americans. Over the last 15 years, Chinese per capita consumption has grown by 25 percent and U.S. per capita consumption has shrunk by 10 percent. Pork is the number three protein in the US, but the number one protein in China, he said.

"At Smithfield, we see this valuable market as an undeniable opportunity to grow our business and produce more here in the United States," Pope said.

Smithfield share-holders, including Pope, are expected to benefit financially quite well from the transaction.

Brown essentially called Pope onto the carpet by asking, "What are the benefits to you?"

Pope said he did not have exact numbers, but noted the company has done well and that he is a "significant share-holder." He also volunteered to give the committee numbers on how much he stands to make in the deal.

Also in defense of the merger, Matthew Slaughter, faculty director of the Center for Global Business and Government at the Tuck School of Business, said acquisitions of U.S. companies by foreign entities are largely an everyday reality in the modern global economy.

"Indeed, there have been nearly 500 such acquisitions just this year—about three every business day," Slaughter said. "Smithfield notwithstanding, China is still a small fraction of this total."

Slaughter said, as of 2013, ten U.S. companies have been purchased by Chinese companies.

"While Chinese investment in the United States has dramatically increased since 2008—rising from less than $1 billion to $6.7 billion last year—the absolute level is still quite low," Slaughter said.

Speaking against the merger, Usha Haley, professor at the Robbins Center for Global Business and Strategy at West Virginia University, said Shuanghui is a "heavily subsidized and opaquely managed private company with strong links to China's provincial and central governments."

Haley said the merger would provide long-term benefits to China as well as short-term benefits to Smithfield's managers, shareholders and pension funds.

"However, the medium and long-term benefits to U.S. consumers, industry and society are highly questionable and the risks outweigh the benefits," Haley said. "After the acquisition, Smithfield will cease to be publicly traded and information on operations will come through Chinese reports."

Haley said the size of the deal will affect U.S. food safety and how business is done in the United States - including intellectual property protections. "There is little doubt that this Chinese foray will be the first of many in the U.S. food and agricultural sectors," Haley said.

Daniel Slane, commissioner for the U.S. Chamber of Commerce's U.S.-China Economic and Security Review Commission, said the Chinese want some control over the international price of pork.

"With Smithfield's commanding domination of the US pork industry, they can have some impact on pricing," Slane said. "At peak times, the Chinese demand for pork is so great that they do not want to be at the mercy of the commodities market."

Slane said China wants Smithfield's "very valuable technology and hog genetics."

"Smithfield has developed high-value hog genetic strains that is contends are 'the leanest hogs commercially available,'" Slane said.

He noted that Smithfield also has some of the most advanced meat processing technology and manure management techniques that help foster industrial-scale hog production.

"It's interesting to note that U.S. taxpayers help finance much of Smithfield's growth," he said.

After the hearing, the Treasury Department held a briefing with senators regarding the CFIUS review, and the process for evaluating U.S. national security interests when non-traditional CFIUS issues are being considered, such as food and agriculture. The briefing was led by Mariso Lago, assistant secretary of the Treasury for International Markets and Development.

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