

The New York Times

DEALBOOK

Business/Financial Desk; SECTB

Senators Question Chinese Takeover of Smithfield

By EDWARD WYATT

1,058 words

11 July 2013

The New York Times

NYTF

Late Edition - Final

7

English

Copyright 2013 The New York Times Company. All Rights Reserved.

WASHINGTON -- Members of the Senate Agriculture Committee raised questions on Wednesday about the economic and national security implications of a Chinese company's proposed acquisition of **Smithfield** Foods, the nation's largest pork producer.

While the chief executive of **Smithfield**, C. Larry Pope, said the \$4.7 billion acquisition would have "no impact on the U.S. food supply and, therefore, no impact on food security," several senators said they feared that promises by the Chinese company, Shuanghui International, would not be honored over the long term.

That could result, they said, in China eventually exporting pork to the United States that did not meet American safety standards or taking away sales by American companies in other overseas markets, like Japan.

Other senators raised questions about whether the acquisition would harm American interests by transferring food production technologies, including high-value genetic strains of hogs, advanced meat processing technology and manure management techniques, that were developed with the support of United States taxpayers.

The question of whether foreign acquisition of domestic companies affects national security is one that the United States has struggled with for years.

In 2012, the Obama administration blocked the purchase of four American wind farm companies by a Chinese-owned firm, citing national security concerns -- the first time in 22 years that a president had done so.

And in 2006, Congress effectively blocked a deal under which Dubai Ports World, owned by the Dubai government, was to take over the management of six United States ports.

The Committee on Foreign Investments in the United States, an interagency government panel, is reviewing the **Smithfield** acquisition, which would be the largest acquisition to date of a United States company by a Chinese company.

Still, it is far from clear that the concerns expressed by the senators will carry enough weight to affect that review. Senator Debbie Stabenow, a Michigan Democrat who is the chairwoman of the Agriculture Committee, and 15 other committee members signed a letter asking the Treasury Department, which oversees the foreign investments committee, to include the Agriculture Department and the Food and Drug Administration on their review panel to consider food safety and security.

While the Treasury Department responded to the letter, it did not address the request, but instead cited restrictions on the confidentiality of the review.

Both **Smithfield**, based in Virginia, and Shuanghui have emphasized the mutual benefits of the deal. With Americans eating less pork than they once did, **Smithfield** is eager to increase its exports to China, where meat

consumption has skyrocketed as the country's economy has boomed. But Chinese producers have had trouble keeping up with that rapidly growing appetite.

Mr. Pope told the senators that the benefits of the acquisition would flow not only to **Smithfield** but also to other American pork producers and their employees. "This means increased capacity for producers, more jobs in processing and more exports for the U.S. economy," he said. "Shuanghui is committed to investing in **Smithfield** to produce more food, more jobs and more value in the U.S."

Two witnesses called by the committee -- **Usha C.V. Haley**, an expert on Chinese business strategy at West Virginia University, and Daniel Slane, a member of the U.S.-China Economic and Security Review Commission, a group appointed by Congress -- expressed multiple doubts about the transaction.

Ms. **Haley** said that pork was a "strategically important industry for China" as the growing ranks of the middle class demand more sources of high-quality protein. "The same patterns that occurred in other strategically important industries," like paper, steel and glass, she said, "will repeat in this sector and the United States will lose its competitive edge in food, becoming dependent on China."

Mr. Slane said that the fact that Shuanghui was effectively controlled by the Chinese government meant that it presented a national security threat to the United States.

The top executive at Shuanghui "is a high-ranking member of the Chinese Communist Party," Mr. Slane said, and he was appointed to that job by the party. "If he does not do what they say, they will remove him or worse."

In addition, the transaction is being financed in part by the Bank of China, Mr. Slane said. "The Bank of China does not finance any transaction unless it is told to do so by the Chinese government," he said. "By any measure, this is a Chinese-controlled company."

Those opinions drew some skepticism from some senators, however. "Did you realize you were the victim of a Chinese communist plot?" Senator Pat Roberts, a Kansas Republican, asked Mr. Pope.

Noting that plenty of companies in other industries received investments from foreign companies, Mr. Pope said that the cornerstone of the transaction for the American economy was that it would help an industry that has struggled to continue to grow.

"Without the opportunity to grow outside the U.S., there is no opportunity for us to grow as an industry," he said.

Matthew J. Slaughter, an associate dean at the Tuck School of Business at Dartmouth who specializes in the politics of globalization, supported Mr. Pope's view. "There is nothing inherently worrisome or unusual" about the transaction, he said.

Ms. Stabenow said a major source of her suspicion about the transaction lies in the fact that if **Smithfield** Foods wanted to buy Shuanghui, it would not be allowed to do so.

"We need to evaluate how foreign purchases of our food supply will affect our economy broadly, and frankly, whether there is a level playing field when it comes to these kinds of business purchases," Ms. Stabenow said.

"In the short term, I know this deal looks good for our producers," she added. "But it's our job to be thinking about the big picture and the long term for American food security and economic security."

This is a more complete version of the story than the one that appeared in print.

C. Larry Pope, chief executive of **Smithfield** Foods, told the Senate committee that the acquisition would help the meat industry. (PHOTOGRAPH BY DANIEL ROSENBAUM FOR THE NEW YORK TIMES); A Shuanghui pork processing plant in China. The \$4.7 billion deal is awaiting review by the foreign investment committee. (PHOTOGRAPH BY JIN YUEQUAN/EUROPEAN PRESS AGENCY)

Document NYTF000020130711e97b000f6

Search Summary

Text	usha and haley and smithfield
Date	In the last 3 months
Source	All Publications