Smithfield CEO faces heat over sale to China

Jul 10, 2013, 4:19 PM EDT

By Doug Palmer

WASHINGTON, July 10 (Reuters) - The head of Smithfield Foods on Wednesday faced tough questioning from U.S. lawmakers concerned the proposed sale of Virginia ham maker to China's largest pork producer could hurt U.S. food safety and lead to higher prices for American consumers.

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"I think to your constituents back home, it's the same old Smithfield," company President Larry Pope told members of the Senate Agriculture Committee. "Nothing's going to change. This is going to be an American company. We will continue to operate like an American company."

The sale of Smithfield Foods, the world's largest pork producer with more than 46,000 employees in 25 states and four countries, to Shuanghui International Holdings for $4.7 billion would be the biggest Chinese takeover of a U.S. company to date.

Pope acknowledged he would benefit significantly from the proposed sale, but declined to say how much he would gain.

Congress has no direct role in approving or blocking the transaction, but the Senate hearing sheds light on issues facing the Committee on Foreign Investment in the United States, a panel led by the Treasury Department that examines whether a foreign purchase of a U.S. company poses any national security risk.

"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," Senate Agriculture Committee Chairman Debbie Stabenow said in a prepared opening statement.

"Smithfield might be the first (Chinese) acquisition of a major food and agricultural company, but I doubt it will be the last. That is why we must take a long-term view of what is happening," she said.

The Smithfield, Virginia-based company makes ham, sausage, bacon and other prepared meats under labels including Eckrich, Gwaltney, Armour. It has argued the deal is good for United States because it will boost pork exports, and good for China because it will help meet the country's growing demand for pork as hundreds of millions of Chinese move into the middle class.

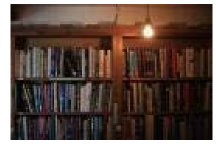
But some have questioned what kind of production practices Shuanghui could bring to the United States, especially after revolting images this year of thousands of rotting pig carcasses floating down the Huangpu River that runs through Shanghai raised concerns about food safety practices in China.

"Regardless of where the ownership is, this company is going to have to operate under the laws of the United States. We're not operating under the laws of China. We're operating under the auspices of the USDA and food inspection process," Pope said.

Lawmakers have also expressed concern about the impact on the competitiveness of U.S. pork production if Shuanghui gains access to Smithfield's valuable technology and hog genetics.

Stabenow noted that Shuanghui is offering to pay a 30 percent premium for Smithfield even though the American company has been struggling to make a profit.

"That, to me, raises questions about the economic motivations of the purchase. Is Shuanghui focused on acquiring Smithfield's technology, which was developed with considerable assistance by U.S. taxpayers?" Stabenow asked.



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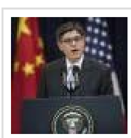

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Pope said he expected the deal to "drive growth and expansion not only for our growers but for the entire U.S. pork industry." He said China's huge protein deficit made it unlikely it would become a significant pork exporter.

"China is responsible for 50 percent of the world's pork consumption and their demand is still growing, whereas pork demand in the U.S. has been declining for almost 15 years," Pope told the agriculture panel.

The panel also heard from witnesses critical of deal, including Daniel Slane, a businessman who serves on the U.S.-China Economic and Security Review Commission, a watchdog panel established by Congress to monitor the Asian heavyweight.

Although Pope told senators the "Chinese government has absolutely no ownership stake or management control in Shuanghui," Slane painted a different portrait of the company, which he called state-controlled.

"Many of the largest Chinese enterprises, including Shuanghui, maintain strategic ties to the Chinese government, whether through direct ownership or control, preferential access to massive government subsidies and personal links to the Chinese government," Slane said in his prepared remarks.

Professor Usha Haley, director of the Robbins Center for Global Business and Strategy at West Virginia University, also questioned Shuanghui's independence and said it would likely continue to benefit from generous Chinese subsidies that would put pressure on other U.S. pork producers.

"U.S. competitors would be forced to reduce their profit margins to compete, and in this consolidated industry, cost-cutting and bankruptcies would ensue in a very short time, perhaps in as little as two to three years," Haley said.

The Shuanghui-Smithfield union provides China access to U.S. land, water, brands and technology, but "the risks are clearer than any long-term benefits" for the United States, she said.

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