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SMITHFIELD AND BEYOND: EXAMINING FOREIGN PURCHASES OF AMERICAN FOOD COMPANIES

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY UNITED STATES SENATE

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SMITHFIELD AND BEYOND: EXAMINING FOREIGN PURCHASES OF AMERICAN FOOD COMPANIES

Wednesday, July 10, 2013

UNITED STATES SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY,
Washington, DC

The Committee met, pursuant to notice, at 2:32 p.m., room 562, Dirksen Senate Office Building, Hon. Debbie Stabenow, Chairwoman of the Committee, presiding.

Present or submitting a statement: Senators Stabenow, Brown, Klobuchar, Gillibrand, Heitkamp, Cochran, Roberts, Boozman, Johanns, Thune, and Grassley

STATEMENT OF HON. DEBBIE STABENOW, U.S. SENATOR FROM THE STATE OF MICHIGAN, CHAIRWOMAN, COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

Chairwoman STABENOW. Good afternoon.

The Senate Committee on Agriculture, Nutrition, and Forestry will now come to order.

Before we begin the hearing, I just want to take a moment for our Committee members to say again how proud I am of this Committee in working together in a bipartisan way to pass the Farm Bill, not once but twice, two different distinguished Ranking Members.

We know there are some challenges in the other body but I am confident that the leadership and the role models that we have set in working together will ultimately prevail.

I just want to thank everyone again for working hard, listening to each other, being willing to make some compromises in the interest of passing a bill and making agreements and sticking to them and working hard.

Senator Cochran, I want to thank you also for your leadership in doing that; and I am proud that we have been able to get that done.

From the very beginning of human history, we have seen civilizations rise and fall based on their ability to feed their people. That is why food security is absolutely essential to National security, and it is why food and agriculture are such an important and unique part of our American economy.

Not a day goes by that every one of us in this room is reminded of the importance of a safe, affordable, and abundant food supply. It can be easy for Americans to forget that food does not just show up in the grocery store. Sometimes I feel we have to remind people of that. It is a process that requires risk taking, sound business practices, and a whole lot of hard work from the 16 million people whose jobs rely on agriculture.

That is why the news of Shuanghui International's proposed purchase of Smithfield Foods, the largest purchase of a U.S. company by a Chinese firm, raises so many questions. Smithfield might be the first 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. We need to be having this conversation and evaluating what is in the best interests of American families and our American economy because the importance of our food supply, and security, and safety cannot be underestimated.

First, is our approval process adequate to handle issues unique to food security and safety? Important question, 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.

Last week, Senator Cochran and I along with a number of members of this Committee urged the Secretary of the Treasury to include the USDA and FDA in the review process of this transaction by the Committee on Foreign Investment in the United States, and that is why we will be meeting later today with officials from the Department of Treasury in conjunction with the Banking Committee so that Senators can get briefed on the CFIUS process. We also ask that this be the process in the future for transactions involving the food supply.

I firmly believe that economic security is part of our National security and that it should be considered when our government reviews foreign investment into the United States. Unlike other countries, the United States does not currently undertake such a review and I believe that needs to change.

Second, 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 acquisitions.

Could this sale happen if it were the other way around? Could Smithfield purchase Shuanghui? Based on what we have heard from many experts already, it sounds like the answer is "no". I hope we can get some clarification on this point from our panelists today.

We need to be evaluating the long-term market implications of this deal for American workers, pork producers, and the farmers who grow grain and feed ingredients.

Despite the strength of America's pork sector, Smithfield has been struggling to make a profit, and yet Shuanghui is offering to pay a 30 percent premium for the company. 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? As with all of our food companies, Smithfield has benefited from years of public investments improving feed rations, living conditions, environmental impact, food safety and efficiency.

Can we really expect increased access for our pork products in China, a country that already produces five times as many hogs as we do and that uses barriers to keep U.S. pork out of the country? Can we expect that after the company has adopted Smithfield's excellent technology and practices, they will increase exports to Japan, our largest export market, in competition with U.S. products? Most importantly, will we see volatility in prices and other long-term economic impacts?

In the short-term, I know this deal looks good for our producers. This also needs to be a good deal in the long-term. It is our responsibility to ask the right questions to make sure that we are thinking in the long-term about these issues, that is why we are here.

One pork company alone might not be enough to affect our National security, but it is our job to be thinking about the big picture and the long term for American food security and economic security. Because as we all know on this Committee, and we have all said so many times, food security is a part of our National security.

I would now like to turn to my good friend and Ranking Member, Senator Thad Cochran, and I appreciate very much your leadership on the Committee.

STATEMENT OF HON. THAD COCHRAN, U.S. SENATOR FROM THE STATE OF MISSISSIPPI

Senator COCHRAN. Madam Chairman, thank you for holding this hearing. We are very anxious to learn more about the facts with respect to the proposed transaction that this Committee will be considering today.

We want to thank you, Madam Chairman, for your impressive leadership of the Committee and the example you have set by the passage of a Farm Bill that still has us beaming with pride over the success of that undertaking.

We likewise, think it is important for us to follow your leadership again in the analysis and review of this proposed transaction between Smithfield Foods and Shuanghui because, first of all, it is one of the most widespread in terms of possible economic impact of a transaction or acquisition of a U.S. company by a Chinese company in history. That is what we are being advised.

But it is the questions that flow from this that bring us to this point, and we are anxious for our witnesses to touch on that and things that we should know so we will appreciate the economic consequences for our country as well as the possible benefits that will flow to the individual companies that are involved.

The U.S. economy has long benefited from investments from overseas. We hope to be able to make some assurances or draw some conclusions about the consequences in advance of this transaction that is under review today.

We are proud of our American agriculture producers and our food processors and distributors. We have the best in the world and we are proud of that and we want to keep it that way.

But today, we are here to listen to our witnesses to help better acquaint us with what we think we need to know.

Thank you for your cooperation with our Committee.

Chairwoman STABENOW. Thank you very much, and we welcome all of our witnesses. We very much appreciate your time today and let me introduced each of you. Senator Brown is going to introduce one of our witnesses and then we will ask each of you to speak for five minutes.

We welcome whatever written testimony you would like to give us as well. Also any other follow-up testimony after today that you would like to give us we would welcome as well.

So, I will introduce everyone together and then turn to our first witness.

Our first witness on the panel is Mr. Larry Pope, President and CEO of Smithfield Foods. Mr. Pope has served as president and chief executive officer of the company since 2006. He previously served as president and chief operating officer from 2001 to 2006 and vice president and chief financial officer from 2000 to 2001. Mr. Pope's over 30-year career at the company spans a variety of senior management roles and responsibilities which provide an in-depth knowledge of the company and broad experience in operational finance accounting and risk management matters. So, we welcome you today.

Our second witness on the panel is Dr. Matthew Slaughter, Associate Dean for Faculty at Tuck School of Business at Dartmouth College. Dr. Slaughter joined Dartmouth's faculty in 1994, focusing his research on the economics and politics of globalization. From 2005 to 2007, Dr. Slaughter served as a member of the Council of Economic Advisors for President Bush. Recently, Dr. Slaughter has focused on the global operations of multinational firms and on labor market impacts of international trade and investment. We welcome you as well today.

Our third witness is Dr. Usha Haley, Professor of Management and Director of the Robbins Center for Global Business and Strategy at West Virginia University. Dr. Haley's extensive research includes over 200 articles and presentations and multiple books that explore companies and business environments in India, China, Southeast Asia, and Mexico. Her research on Chinese subsidies has also supported trade regulations in the United States and the European Union. Welcome to you.

Finally, I would like to turn to Senator Brown for the next introduction.

Senator BROWN. Thank you, Madam Chairman. I want to introduce Dan Slane, Commissioner on the US–China Commission, third term on that commission, appointed by Speaker Boehner, formerly worked in the Ford White House a few years ago.

Dan Slane has an understanding, a particularly good understanding as you will hear from his testimony, as you will hear from his speaking today and see his written testimony, seeing China both as the threat and the opportunity both that it can be and is to our country in terms of economics and in terms of National security, and I think he has a particularly acute understanding of that and I look forward to hearing him also.

As a former member of the Iowa State University Board of Trustees, he proudly always wears his lapel pin signifying that, football season, basketball season, academic season alike. So, thank you.

Chairwoman STABENOW. Senator Brown, you had me up to that point. As a Michigan State University graduate, I need to have my green and white on today, Commissioner.

Mr. Pope, welcome.

STATEMENT OF LARRY POPE, PRESIDENT AND CEO, SMITHFIELD FOODS, INC., SMITHFIELD, VIRGINIA

Mr. POPE. Afternoon. Good afternoon, Chairwoman Stabenow, Ranking Member Cochran, and members of the Committee. My name is Larry Pope. I am the President and Chief Executive Officer of Smithfield Foods, a global food company and pork producer based in Smithfield, Virginia.

I appreciate this opportunity to offer testimony to the Committee today. At this time, I would like to summarize my written testimony which I submitted for the record.

We at Smithfield are very excited about our announced new partnership with Shuanghui, the majority owner of China's largest pork processor. It provides enormous benefits for our two companies, for American manufacturing, and American agriculture.

It is a partnership that is all about growth and improving the agricultural environment in both the U.S. and China. The combined company expects to help meet the growing demand for pork in China by exporting high quality poor products from the U.S. This means increased capacity for U.S. producers, more jobs in processing, and more exports for the U.S. economy.

At the same time, we will continue to supply our same high quality, renowned products to U.S. consumers as well as other markets around the world. In short, this partnership for growth is good for our business and for the producers and the suppliers with whom we work.

The reaction from the U.S. agricultural community has been overwhelmingly positive. The Michigan, Indiana, North Carolina Pork Producers Association, the North American Meat Association, industry leaders, and numerous individual producers have expressed support for this transaction.

Growth is also very good for Smithfield's employees and our communities. We have a saying. It will be the same old Smithfield only better. Let me be clear. Shuanghui intends to retain Smithfield's management team, its plants, and all of its employees.

Shuanghui recognizes Smithfield's best in class operations, outstanding food safety practices, and our 46,000 hard-working employees.

There should be no noticeable impact on how we do business operationally in America and around the world as a result of this acquisition except that we plan to do more of it.

Shuanghui will honor our collective bargaining agreements in place with Smithfield's union-represented employees as well as existing wage and benefit package arrangements for our non-represented employees.

These commitments, combined with the opportunities for growth created by this deal, have elicited the support of the UFCW and our employees.

With respect to agriculture, we expect this transaction to drive growth and expansion not only for our growers but for the entire U.S. pork industry. Smithfield Foods owns 400 hog farms and has contracts with over 2000 family farms across the country. Our agreement with Shuanghui will maintain all of these contracts and arrangements.

Moreover, this transaction creates a terrific opportunity through growth in exports for U.S. hog farmers to expand to meet the growing Chinese demand.

The integrity of our brands, our record of safety, the safety of the U.S. food supply, and the recognized effectiveness of U.S. food safety standards are key drivers of value that Shuanghui places on Smithfield.

Our brands are recognized as representing the highest quality, safest and most desired product throughout the world including China. Our combined company thus has every incentive to ensure the continued safety and excellence of our products and brands.

This transaction is about exporting high quality meat from the U.S. to China to meet their growing demand. This combination will not result in any U.S. imports of food from China. Moreover, all food products imported into the U.S. are already subject to rigorous inspections and controls by America's regulators to ensure their integrity, safety, and wholesomeness. U.S. pork producers are the best and the most efficient in the world.

We have voluntarily sought review of this acquisition from the Committee on Foreign Investment in the U.S. where the transaction is already undergoing a thorough review.

I appreciate this opportunity to address the Committee and I welcome your questions.

[The prepared statement of Mr. Pope can be found on page 58 in the appendix.]

Chairwoman STABENOW. Thank you very much

Dr. Slaughter.

STATEMENT OF THE HON. MATTHEW J. SLAUGHTER, ASSOCIATE DEAN FOR FACULTY, SIGNAL COMPANIES' PROFESSOR OF MANAGEMENT, FACULTY DIRECTOR OF THE CENTER FOR GLOBAL BUSINESS AND GOVERNMENT, TUCK SCHOOL OF BUSINESS, DARTMOUTH COLLEGE, HANOVER, NEW HAMPSHIRE

Mr. SLAUGHTER. Committee Chairwoman Stabenow, Ranking Member Cochran, and fellow Members, thank you very much for inviting me to testify on these important and timely issues of how foreign purchases of American companies affect U.S. jobs and overall economic strength.

In my testimony, I will make three main points that together help explain the many benefits that the Shuanghui acquisition of Smithfield Foods should bring to Smithfield's stakeholders including its employees and to the broader U.S. economy.

First, merger-and-acquisition transactions have long been the main strategy by which global companies establish and expand operations in America. Acquisitions of U.S. companies by foreign entities are an everyday reality in the today's global economy.

Indeed, here in 2013 there have already been nearly 500 such acquisitions, about three every business day. These transactions have long been critical for the United States to benefit from inward foreign direct investment.

For decades, the vast majority of new FDI into America has come in the form of M and A transactions rather than via greenfield investments that establish a brand-new company.

From 1987 through 2006, the United States received $2 trillion in new FDI, of which 88.8 percent was accounted for by foreign companies buying American companies.

The second main point of my testimony is that U.S. affiliates of global companies, despite accounting for far less than 1 percent of U.S. businesses, have long performed large shares of America's productivity-enhancing activities that lead to millions of the kind of high wage jobs that America needs in this slow recovery from the great recession.

In 2010, the U.S. subsidiaries of global companies produced about 6 percent of all U.S. private sector output. They undertook over 14 percent of both non-residential, private sector capital investment and of total U.S. private R and D. They accounted for almost 18 percent of U.S. exports of goods, and they did all of this while purchasing almost $2 trillion dollars in intermediate inputs from other U.S. companies.

All these activities contribute to millions of high-paying jobs here in America. In 2011, these U.S. affiliates employed 5.6 million workers in the United States, 5 percent of total private employment, at a per-worker average compensation of over $77,000, more than a third above the U.S. average and at higher unionization rates than at other U.S. companies.

The third main point of my testimony is that all public information about the Shuanghui-Smithfield transaction indicates it will benefit Smithfield's stakeholders and the broader U.S. economy by maintaining a high innovation enterprise.

A primary motivation for Shuanghui is to access and learn from Smithfield's expertise in a number of related areas, including its strong management team, its leading brands, and its vertically integrated business model. This motivation accords with much of the historical pattern of inward FDI into America.

Consistent with this historical pattern, and as Mr. Pope explained, post acquisition Smithville plans to operate largely as it does today. All key leaders and management teams will remain in place, all collective bargaining agreements and wage and benefit arrangements will be honored with all employees, and no plants or facilities will be closed.

There is nothing inherently worrisome or unusual about the Chinese aspect of this transaction. What about the risks of state-owned enterprises? Although SOEs remain prominent in China, Shuanghui is not one. In fact, its stakeholders include Goldman Sachs.

What about possible risks to Smithfield's intellectual property? IP theft in China has quickly become one of the gravest threats to the global economic system and to innovative U.S. companies and their workers here at home.

In this context, it is important to see that the Smithfield transaction offers exhibit A of the ideal solution to this grave problem, an American company being paid by a Chinese company billions of dollars for its ideas in a transparent market-based deal.

Indeed, Shuanghui seeks to deploy Smithfield's expertise, products, and brands in China largely through boosting Smithfield's exports to China to better meet surging poor demand driven by rising household income growth in Chinese families. These greater exports will help reduce the U.S.-China bilateral trade imbalance that last year reached a record $315 billion.

There also appears to be nothing inherently worrisome about the food aspect of the Smithfield transaction. As with many industries in food manufacturing, global companies have long played an important role in the U.S. economy. These global food companies already today employ over 200,000 American workers.

Let me close by placing the Smithfield transaction in the context of an America that today continues to confront too few jobs and too little economic growth. The good news is there is a future in which America can create millions of good jobs connected to the world via international trade and investment.

Should it ultimately goes through, a smooth Smithfield purchase would send a valuable signal to China and to the world that the United States welcomes inward investment at a time where it is especially needed.

Thank you again for your time and interest in my testimony. I look forward to answering any questions you may have.

[The prepared statement of Mr. Slaughter can be found on page 71 in the appendix.]

Chairwoman STABENOW. Thank you very much.

Dr. Haley.

STATEMENT OF USHA HALEY, PROFESSOR AND DIRECTOR, ROBBINS CENTER FOR GLOBAL BUSINESS AND STRATEGY, WEST VIRGINIA UNIVERSITY, MORGANTOWN, WEST VIRGINIA

Ms. HALEY. Good afternoon, Chairwoman Stabenow and Committee members. I have submitted my full statement to the Committee which I ask be made part of the hearing record.

My name is Usha Haley, currently Professor and Director of the Robbins Center for Global Business and Strategy, West Virginia University.

I have researched Chinese business and global strategy for almost 15 years. The point of my testimony is that this takeover provides long-term benefits to China, Henan province and Shuanghui, and short-term benefits to Smithfield's managers and shareholders. But, the medium and long-term benefits to U.S. consumers, industry, and society are questionable and the risks outweigh the benefits.

Shuanghui is a highly subsidized and opaquely managed Chinese private company. This largest takeover of an American by a Chinese company will double the number of our jobs tied to Chinese direct investment.

As Australian and African experiences with China show, problems arise. After the acquisition, Smithfield will not trade publicly and information will come from Chinese reports. This deal will affect food safety, how we do business, and compatibility with our policies.

In China, politics trumps economics. No free market exists for China's food products and arguments of the efficiencies from global logistics fall short. When subsidies and negative externalities such as pollution exist as they do here, markets can no longer set prices.

U.S. pig farming is a consolidated, modern industry with economies of scale. The Chinese pork industry is fragmented, small-scale, and low tech as in the paper and other strategic Chinese industries we studied. Labor costs there were similar to food processing, under 7 percent from purchases. Scale economies mattered. Yet, in five years China moved from net importer to largest manufacturer and exporter.

We found that subsidies gave China that hidden advantage: free loans, cheap raw materials, energy, and land, and tech acquisition support.

Shuanghui's subsidiary almost certainly gets subsidies from its province just as competitor Yurun Pork with subsidies to net profits of 36 percent.

Pork processing is a strategic industry for China. Shuanghui's subsidiary is Henan's largest employer in the province's pillar industry. Beijing's indigenous innovation policies also subsidize applied research in pork processing.

A state-owned bank may finance the Smithfield take over. Another will help with exports. Smithfield could become the lowest rung of the commodity supply chain.

High-value manufacturing would move to China leaving low value, low tech pork production here. Shuanghui could insert local hogs and re-export processed food back to the U.S. under the Smithfield brand.

But evaluating Shuanghui is difficult. The Smithfield bid included Goldman but also New Horizon, founded by Winston Wen, the former Chinese prime minister Wen Jiabao's son. In China, annual reports and formal reporting relationships never tell the full story.

Chairman Wan Long is a member of China's National People's Congress that formalizes the Chinese Communist Party's measures. Accounting data provide little information on these business-government links. Incomplete information could impact the stock market, company evaluations, pricing, and other food producers' competitive positions.

There have been outrageous food safety violations. Shuanghui fed pigs the banned chemical clenbuteral. Chinese food horrors include glowing pork, cadmium rice, rat meat sold as mutton, toxic milk, et cetera, et cetera. 16,000 dead pigs floated down a Shanghai river in March.

Smithfield's Larry Pope recently said, "Open your refrigerator door, look inside. Nothing in there is made in China because American agriculture is the most competitive and efficient in the world." Mr. Pope is wrong. China shipped four billion pounds of food to the U.S. last year including half the apple juice, 80 percent of the tilapia, and more than 10 percent of frozen spinach.

The U.S. has periodically banned numerous imported Chinese foods. Supermarkets display imported foods' country of origin but restaurants do not. Also processed imported foods require no such labeling.

IP protection in China is also poor. Increased counterfeit American food products from China will lead to brand dilution and loss of U.S. export markets.

With record subsidies, China is encouraging buying foreign food assets and farms. Smithfield is the first and we should prepare for others in agriculture as a matter of national interest.

For China, Smithfield provides benefits of American land, water, brands, and technology. As Continental Grain argued, benefits even to Smithfield's shareholders are unclear. In a conference call with analysts, Shuanghui's managing director said, "We want the business to stay the same but be better."

Today, Mr. Pope echoed this sentiment. Neither explained how Smithfield would become better without technology or know-how from Shuanghui. Neither elaborated on better for whom, the question that CFIUS and this Committee should be asking on behalf of the American people.

Thank you for the opportunity to appear here today. I stand ready to answer any questions.

[The prepared statement of Ms. Haley can be found on page 40 in the appendix.]

Chairwoman STABENOW. Thank you very much.

Commissioner Slane.

STATEMENT OF DANIEL SLANE, COMMISSIONER, U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION, WASHINGTON, DC

Mr. SLANE. Chairwoman Stabenow, Ranking Member Cochran, and members of the Committee, thank you for the opportunity to appear today.

Prior to serving on the U.S.-China commission, I owned and operated three plywood factories in China. The U.S.-China Economic and Security Review Commission, on which I serve, has not taken a position on this proposed transaction and has not made any public statements on it. The views I present today are entirely my own.

Shuanghui's purchase of Smithfield is part of China's far-reaching program of foreign investments aimed at gaining as much control of key foreign sources of supply as possible. I remain concerned that many of the largest Chinese enterprises, including Shuanghui, maintains strategic ties to the Chinese government whether through direct ownership or control, preferential access to massive government subsidies, or personal links to the Chinese Communist Party. It is important to understand that the Chinese government is really behind China's global economic expansion.

With 21 percent of the world population, China has only 7 percent of the productive farmland. The country suffers from severe water shortages in its northern half and extensive surface water and air pollution. When you couple this with the growing demand for meat, you can begin to understand the enormous challenges faced by China's leadership and its agro industry.

China does not have sufficient farmland to grow as the feedstock required to produce the amount of meat and dairy demanded by their citizens. China is on track to spend a record amount on the purchase of food assets and farms. The drive for agricultural assets in South America, Australia, Africa, and other locations has ignited concerns for lawmakers around the world.

In my view, the purchase of Smithfield by China is the first of what I would expect to be many forays into rural America. China's purchase of Smithfield is driven by two major factors.

Number one, China wants some control over the commodity price of pork. With Smithfield's commanding domination of the U.S. pork industry, they can have some impact on pricing.

Number two, the Chinese want Smithfield's valuable technology in hod genetics. Smithfield also has some of the most advanced meat processing technology and manure management techniques that help foster industrial scale hog production. It is interesting to note that U.S. taxpayers help finance much of Smithfield's growth through USDA grants.

Now, I would like to turn to the potential impact this purchase may have on our economy. Number one, Shuanghui's takeover of Smithfield will exacerbate a pattern of U.S. trade relations that have taken hold over the past 10 years whereby value-added production is shifted to or owned by China to the detriment of U.S. workers and businesses.

It raises the question of whether allowing a Chinese company to dominate our pork processing industry is in the best interest of the United States. If this deal is approved, it will open the door for other purchases of U.S. food companies by Chinese firms or investors.

Our agriculture and food sector is unusually concentrated with just a few companies dominating the market in each link of our food chain.

Number two, another risk is that this deal will do little to improve overall market access for U.S. pork. China is unlikely to abandon its policy of self-sufficiency meat production. A more likely result is a closed market, intracompany trade between Shuanghui and the Smithfield. Given Smithfield's massive output, it alone might suffice for China's limited quota of U.S. pork.

Number three, this deal has been promoted as a way to facilitate U.S. pork exports to China, but ultimately, Shuanghui could export pork back to us. The adoption of Smithfield'S hog genetics and processing technologies will dramatically improve hog production in China and could allow Shuanghui to reverse the global flow of pork products, and if approved, begin the export of Chinese pork to the U.S..

Shuanghui is expected to apply for approval to re-export pork products processed from imported U.S. hogs and may even apply to ship pork from hogs raised in China.

Number four, providing foreign competitors access to Smithfield's technology and intellectual property could disadvantage our domestic hog industry both here and globally.

Shuanghui is expected to adopt Smithfield's hog genetic lines that could weaken U.S. pork opportunities.

Shuanghui has extensive supply chain and distribution system in China and throughout Asia with operations in Japan and South Korea. The merger would improve the position of Shuanghui's mainland China processing plants by sharing U.S. technology and expertise and potentially allowing Shuanghui to undercut U.S.

pork exports to the Pacific Rim. It will limit the ability of other U.S. exports to get a foothold in this market.

In conclusion, I think it is reasonable for you to expect a wave of Chinese investments into our food and agricultural industry. As China becomes a global player and a fierce competitor in American markets, its political system and state capital ideology pose a threat.

With that in mind, the commission in its report to Congress last year made the following recommendation. Congress examine foreign direct investment from China to the United States and assess whether there is a need to amend the CFIUS statute to, number one, require a mandatory review of all controlling transactions by Chinese state-owned or state-controlled companies investing in the United States.

Number two, add a new economic benefits test to the existing National security test that CFIUS administers, and three, prohibit an investment in a U.S. industry by a foreign company whose government prohibits foreign investments in that same industry.

Thank you for allowing me to testify.

[The prepared statement of Mr. Slane can be found on page 65 in the appendix.]

Chairwoman STABENOW. Thank you very much to each of you.

Let me just start the questioning with something simple. If you can do yes or no that would be great, and that is and we will start with Mr. Pope.

If this transaction were to happen in the reverse, would China allow Smithfield to buy Shuanghui?

Mr. POPE. Senator, I am not sure I am an expert on reverse mergers into China and so I would yield to those at the panel who have more expertise in terms of that. But, I know there are U.S. acquisitions into China. I could not really answer that question one way or the other.

Chairwoman STABENOW. When you and I met, you talked about originally looking at your buying a portion of their company, their buying a portion of yours. There was an attempt at that, what happened there?

Mr. POPE. We had a discussion about five years ago about Shuanghui buying 20 percent of Smithfield and Smithfield buying 20 percent of Shuanghui. Chairman Wan and myself had that. Then over the period of time that did not occur.

I do not remember any involvement of the Chinese government approving or disapproving. In fact, I am not sure anyone in the government was even ever aware of the conversations and so I do not think there were any regulatory barriers to that. There were more business issues associated with that, and we had subsequent conversation even since then.

Chairwoman STABENOW. Okay. Thank you.

Dr. Slaughter, yes or no, could that happen in reverse?

Mr. SLAUGHTER. I do not know. I do know that China's amazing growth since 1978 has come in some basic sense by the government getting out of the business of running business. They had a complete command and control economy for decades. It remains a work in progress.

Chairwoman STABENOW. Okay, Dr. Haley.

Ms. HALEY. No, as a matter of fact, it would not happen. That same question was raised in a Chinese blog, Weibo, and a big debate about it followed. Everybody said no there as well.

The reason is this is a strategically important industry; and as most people in China know, the power of the state has actually been increasing vis-a-vis-private interests in China as a proportion of total production. So this is, no.

Chairwoman STABENOW. Commissioner Slane, could this happen in reverse?

Mr. SLANE. Absolutely not, Madam Chairwoman.

Chairwoman STABENOW. Okay. I do have another question. I do want to say that, Dr. Slaughter, one of the things that you said was concerning to me if I heard correctly. You were saying that, as we all know, we have issues of intellectual property theft with China. This is no secret. There has been a huge issue in all kinds of industries, manufacturing and so on.

But then you said the ideal solution to the problem of IP theft is this situation. Does that mean you think the ideal solution is for China just to buy all our companies and then they would have all our intellectual property?

Mr. SLAUGHTER. No, Senator. My point is right now we know that hundreds of thousands if not millions of American jobs are lost because of IP theft in China.

Chairwoman STABENOW. Right, but why is it ideal? Why having a Chinese company buying an American company the solution? That is the solution to IP theft?

Mr. SLAUGHTER. So, around the world in lots of industries including the United States there is an active market around companies for the exchange of ideas. So, companies create ideas through their hard R and D and lots of different innovation efforts and the companies deploy those assets for themselves but a lot of times the motivation for M and A transactions across companies is precisely to gain ideas of others. So, having market mediated transactions like that is far preferable to theft.

Chairwoman STABENOW. It is absolutely. I would suggest that following the rules is preferable to theft as well. So, let me ask one other thing before turning to colleagues; and that is, we have been told that Shuanghui wants to buy Smithfield because need more pork and want it sourced from the United States.

But, if that were true, if that were true, American producers would be happy to do that today. Right now our pork producers in Michigan would be more than happy if they would be allowed to sell into China which they are not.

Now, Smithfield is a unique situation as an integrated facility, business. But, we spent $23 million this year to promote U.S. meat exports but we cannot open the Chinese market. They use illegal, unscientific food safety standards to block both pork and beef.

I am all about exports. As a member of the President's Export Council, I want to see export our products; but it seems to me removing the unfair barriers from China would be a lot quicker and more efficient than just saying that the only way we can get in is if they own our company. That does not make sense to me.

Commissioner Slane, I wonder if from your perspective if you might speak about this.

Mr. SLANE. Yes. Madam Chairman, this is really all about control, and the Chinese could easily go out and buy pork on the market. The problem with that is they subject themselves to huge price increases, and they learned in the iron ore and the coal business that it was better for them to buy the mines than to just buy the ore.

So, here what they have found is that multinational, vertically integrated meat processing companies have a cost and price advantage. So, they have told their domestic industries like Shuanghui go out and find these companies and acquire them. This is all about trying to control the price of pork, and at the same time, they are getting the value added benefit by purchasing Smithfield.

Chairwoman STABENOW. Thank you. I am over my time.

Senator Cochran.

Senator COCHRAN. Well, my reaction to the testimony of the last witness is that there are many more negative factors that should be considered by our Committee than positive ones if this merger or acquisition goes through. Is that inaccurate?

Mr. SLANE. No. I would agree with that, Senator. I think the endgame, from the Chinese point of view, is to ultimately dominate our domestic pork market. They will take Smithfield's technology. They will integrate it into China.

They are converting from backyard hog production to industrial scale. They need the technology for manure handling, for genetics, for the meat cutting, that sort of thing. The history is that once they digest all of this and they get their industry up, then they will start to try to export their pork to us.

So, I think their endgame is to ultimately dominate in the long-term.

Senator COCHRAN. Well, if you were serving as a member

of the U.S. Senate, would you consider this to be in the public interest of the United States or not?

Mr. SLANE. No, I would not. There are four problems here as I see it in approving this transaction. The number one problem is that if this transaction is approved, how do you stop other Chinese companies from coming in and buying our food processing companies in the United States?

For example, COFCO is the largest grain trading company in China, and they are a state-owned entity. They have publicly announced that they are seeking acquisitions of U.S. companies.

So, if this transaction with Smithfield gets approved, I do not know how you stop other state-owned and state-controlled Chinese companies from coming in and buying our food companies.

The second thing that offends me is they can buy our companies but we cannot buy their companies. And, you know, there is just something really fundamentally wrong with that; and I think that the endgame is to dominate our markets. That bothers me.

The final thing is that what we are doing here, if this is approved, is you are importing a radically different economic system in a system in which we espouse free-market, and that is a potential for conflict, as I see it.

For those reasons, I would be opposed.

Senator COCHRAN. Do you know of anybody who is for it?

Mr. SLANE. I am sorry, sir.

Senator COCHRAN. Do you know of anybody who is in favor of the transaction being approved?

Mr. SLANE. Yes.

Ms. HALEY. Two here.

[Laughter.]

Senator COCHRAN. You are outnumbered.

Mr. SLANE. Mr. Pope has no choice, and I think Dr. Slaughter supports it.

Senator COCHRAN. Well, I am going to give them an opportunity to tell us why this is in the public interest of the United States and why we should recommend approval, or do we have the power to decide as a political body of the United States that it should not be permitted to be approved.

Mr. POPE. Senator, I hope you are not expecting me to tell you the powers of the U.S. Senate and the U.S. legislative process. I will leave that to you smart guys up there as I am just a meat processor in the business world.

But, yes, I clearly am in favor of this transaction. I think it is good for America. I think this is the opportunity that America has been looking for to import jobs.

There has been a discussion for the last 20 years about jobs being exported out of this country into China and things made in China and shipped back into the United States.

This is the exact reverse of that, that is, China looking to another market to help feed its growing demand and realizing, as the other witness indicated, they have a protein shortage and Asia is likely to be protein short for a very long time.

China consumes 50 percent of all the world's poor production, and Asia consumes substantially more of the remaining, a substantial proportion of the remaining 50 percent. That is the area of the world where pork is the number one protein. Pork is number three in the United States. People in China eat substantially more per capita than they do in the United States.

This is a wonderful opportunity for the U.S. to do what it does best which is to produce agricultural products that ship those around the world. This helps with the balance of payments and trade. This creates jobs. This creates opportunities for American farmers to grow.

This seems like all the things, if you were writing down what would be positive, this is all the good things in life, what America is trying to do. So, thank you.

Senator COCHRAN. Thank you very much.

Chairwoman STABENOW. Thank you very much.

Senator Brown.

Senator BROWN. Thank you, Madam Chair, and I appreciate Senator Cochran's line of questioning.

For Mr. Pope and Commissioner Slane, do you think USDA should be involved in the CFIUS review of this proposed deal?

Mr. Pope.

Mr. POPE. We have absolutely no objection to that and support that process.

Senator BROWN. Okay. Mr. Slane.

Mr. SLANE. Senator, I would totally support that. It is one of the weaknesses of CFIUS.

Senator BROWN. One of the weaknesses is in that you do not expect that CFIUS will decide to include USDA in the process?

Mr. SLANE. As you know, they are not included now so my hope is that they would become a permanent member of CFIUS and maybe some of the other agencies as well.

Senator BROWN. Especially if it is a food safety issue?

Mr. SLANE. Right.

Senator BROWN. Mr. Pope, we know this is a good deal for shareholders. We know the long-term benefits for workers and farmers and I heard what you said to Senator Cochran's question. But, the long-term benefits for workers and farmers and American consumers to me are not so clear but let me ask you something. Financially, what is at stake for you personally and for top management of Smithfield in this deal?

Mr. POPE. I think we are on record and publicly, I think there is a public, in our preliminary proxy we filed what the benefits are to me personally and my senior management team. So, I certainly stand to benefit from this. I am a shareholder in Smithfield Foods and have been. I have been with the company over 30 years and have acquired the ownership shares that I have over a very long period of time. And so, the company has done well and so I do stand——

Senator BROWN. Could you be more specific whatever you said publicly and share that with the committee?

Mr. POPE. I do not have those numbers right here in front of me but I will be glad, if it is okay with this Committee, I will be glad to make sure you get the exact accurate numbers. I will be glad to get that back to you.

Senator BROWN. Could you give us a range? I cannot believe that you have not heard some of these numbers that will benefit you and other top management at least in some range that you could share with the Committee?

Mr. POPE. Well, I certainly have, I certainly am a significant shareholder. So, my shareholdings, I am going to receive the $34 a share that every other Smithfield Foods shareholder is going to receive; and as well, I have some equity awards that have been awarded over a very long period of time; and finally, I have got a retention.

Shuanghui, in order to make sure that the management team stays in place, is putting in place retention agreements with our top executives to ensure that nothing changes. And, so those are payable over a three-year period and not payable if the management team does not stay.

So, what I am going to alternately receive is still subject to the management team staying in place and continuing to run this company.

Senator BROWN. All right. You said something, Mr. Pope, that I liked, the recognition that American business, it has almost become maybe the first time in economic history, as far as I can see, where the business plan of a large number of companies in one country, our country, has to shut down production in the U.S., move production to a foreign country, China, then sell back into the original country.

I do not know that has happened that I had seen in world history to any appreciable degree. You are saying that you are sort of the flip side of that. I am not sure that I quite follow that.

But talk to us, and this question is for both Mr. Pope and Commissioner Slane. How likely is it that the adoption of Smithfield processing technologies will allow Shuanghui to export pork to the United States?

Mr. POPE. Well, let me be——

Senator BROWN. I am sorry. Because what I am concerned of, as Chairwoman Stabenow is, of, you know, what can happen with the technology and that it does not create American jobs. It really goes the other way.

So if you would discuss that and then Mr. Slane.

Mr. POPE. Senator, I think that is a, the concern that so many have posed is what is the opportunity that Chinese product, which some consider to be of a lesser standard, are going to be imported back into this country.

I was very clear in my testimony that this is all about exports. This is not about imports. In fact, Chinese product cannot be imported into the United States today and they had no plans and no applications in place and I have the highest respect for what the U.S. Department of Agriculture does in this country.

In any event if any application was ever done, all of that product would be subject to USDA standards just as products manufactured in the United States are today.

I would not suspect it would have the same level of scrutiny that our product have manufactured in this country today; but I want to be clear, there is no discussion about that. There is a huge protein deficit in that part of the world. So, this is not about exporting product from China to the U.S. It is about exporting U.S. product to China.

Senator BROWN. Well, it may not be today but we have seen, this is a different issue but it is also not. We have seen the pharmaceuticals, contaminated pharmaceutical ingredients coming from China to the United States in the form of heparin and in death as a result.

We have seen other kinds, just not the same kind of respect for food safety, drug safety, toys, paint, lead-based paint on toys all the kinds of back-and-forth sales from that country that have not observed the same kinds of standards we have.

Mr. Slane, if you would comment on what Mr. Pope said.

Chairwoman STABENOW. It has to be very short.

Mr. SLANE. Yes. In the short term, you are going to see, you are not going to see any imports, and I think that the long-term endgame here is to dramatically increase production in China. The overriding principle of the Chinese is food security, and they do that through self-sufficiency. They do not want to be dependent upon a foreign country for their food. So, their endgame is to get their production up to a certain point. And historically when you look at steel, toys, paper, all kinds of other industries, they start overproducing and then they will start to export.

Chairwoman STABENOW. Thank you very much Senator Roberts.

Senator ROBERTS. Thank you, Madam Chairwoman.

Mr. Pope, Smithfield voluntarily agreed to undergo a review—I emphasize voluntarily—by the Committee on Foreign Investment in the United States, i.e., CFIUS, a marvelous acronym.

At the time what were your expectations of the CFIUS review, and I would urge you to respond with regard to their very rigorous interagency review to determine the effect on National security. What was your expectation of this?

Mr. POPE. Senator, we feel like we have a fully transparent process here and we are more than open to review by anybodies and any agencies within the U.S. government, and so we voluntarily did make the submission to CFIUS to ensure that they did the review, to ensure that there was not a National security issue associated with this.

I do not want to opine in terms of how CFIUS is going to conduct that review. It is done in a confidential way, and they certainly do not share with me what they are thinking. Maybe you have a better understanding of that.

Senator ROBERTS. Yes. I was going to say that really falls under our oversight responsibility. Perhaps that should be the focus of another hearing.

Did you ever expect that the Senate Agriculture Committee, CFIUS two, would hold a hearing on the acquisition of Smithfield Foods and the CFIUS process?

Mr. POPE. Is the question——

Senator ROBERTS. Did you expect that? I mean, did you expect that this Committee would hold a hearing on the acquisition?

Mr. POPE. I do not know that I contemplated that, no.

Senator ROBERTS. Did you realize you were the victim of a Chinese Communist plot?

[Laughter.]

Mr. POPE. Senator, to this moment I am not sure I understand I am the victim of a communist plot.

Senator ROBERTS. The control of your company would somehow allow China to control the pork industry, were you aware of that?

Mr. POPE. Senator, I was not aware of that.

Senator ROBERTS. Well, they own our debt so, you know, you have got to be careful here.

Given the high demand for safe and nutritious pork and pork products in China, which you have underscored and others have as well and even agreed to by the last two witnesses, what will be the impact on the acquisition for American pork producers and processors?

I am talking about growth here. Can you be specific? How can others benefit from this?

Mr. POPE. Senator, that is almost the cornerstone of the rationale for this transaction for America. The China, it is feeding the population with high quality products from the United States. For the U.S. producer, this is and opportunity once again to grow.

We, as an industry, have struggled with growth in this country. Americans are eating less pork today than they were 15 years ago. So, without the opportunity to grow outside the United States, there is no opportunity for the U.S. pork producer to expand.

So, the U.S. farmer does not have an opportunity, does not have an opportunity to grow his business. This is it to the largest market in the world.

Senator ROBERTS. If China is unable to buy American pork either through this acquisition or other means, where will they turn to meet their population's demand for an additional high quality pork?

Mr. POPE. Senator, they would look to, they can look to other countries. They could look to——

Senator ROBERTS. What countries?

Mr. POPE. They could look to Brazil. They could look to Canada, potentially into Western Europe although pork production is very expensive in that continent. And so, the U.S. is the natural place. We have enormous respect and that is a compliment to the U.S. farmer.

Senator ROBERTS. What about the consumer in regards to prices at the grocery store in regards to pork products?

Mr. POPE. Senator, was the question about the U.S. consumer?

Senator ROBERTS. American consumers.

Mr. POPE. I do not expect there to be a significant impact of this on U.S. consumers because we have the ability to expand this business and meet that need.

Senator ROBERTS. I have one question here for Dr. Slaughter. Welcome back. Moving beyond Smithfield in terms of the overall landscape for food and, to some extent, beverage companies, there has been a lot of talk about this setting an example and then we will have an avalanche of foreign investment here.

Are there other iconic American brands and companies with foreign direct investment? If so, what are a few examples.

Mr. SLAUGHTER. Sure, Senator. Think of automobiles, think of information technology. So, those are two industries that have long had a tremendous amount of inward investment into the United States and strong U.S. companies have undertaken a lot of investment outwards to the rest of the world.

Senator ROBERTS. Maybe Chrysler and Fiat in Michigan?

Mr. SLAUGHTER. Yes, great example. Think of the Apple iPhone that I have got in my briefcase. You know, designed by Apple in California, assembled in China is what it says right now. IT is a great example of an industry where the flow of ideas——

Senator ROBERTS. What about agriculture? We have three seconds here.

Mr. SLAUGHTER. Agriculture as well. So, I was like from my hometown Cargill a great global engaged company that sells a lot around the world.

Senator ROBERTS. Thank you.

Chairwoman STABENOW. Thank you very much.

Senator Johanns.

Senator JOHANNS. Thank you, Madam Chair.

Just an observation or two before I get to my questions. You know, one of the things that American agriculture is facing is that 95 percent of the world's population does not live here. They live someplace else in the world.

You look at a market like China, it is a growing market, dramatically growing as a matter of fact, not only a lot of people but as their standard of living continues to increase, one of the first things they will look to is a better food supply. So, they look to the United States.

The other thing about China is that if there is a trade imbalance relative to agriculture, that is in our favor. We sell them more than they sell to us. Why? Because of some of the things that were mentioned today.

I look at this transaction and I think, well, could they move production to China. Well, they have got a water problem, a very serious water problem. If they cannot get water, they cannot very well raise corn.

I just think the problems of moving production are too great for China to overcome over the long-term. So, I do not see much possibility there.

Could they move processing to China? Well, they certainly have a labor force but the product is here; and if they cannot raise the product in China, it makes more sense to come here, find the product, find the country where it can be grown. That is here in the United States.

But, I think here is the problem that we are struggling with and the reality is, just to be very candid, there is not really a legal mechanism in place that really reviews this much or that could likely stop it. I appreciate you submitted to CFIUS. Quite honestly, the standard is such that there just is not much that can be done here.

I suppose Congress could act; but if our experience with the Farm Bill is any indication, that is probably not going to work out too well. You know, the Senate might do something but you kind of wonder what would happen in the House. The House could do something, you kind of wonder what would happen in the Senate.

But here is the problem in dealing with this transaction; I think for us and for the people that we represent. There is something really offensive about the reality that they can do this here but a very aggressive company like Smithfield, which has kind of redesigned pork production in the United States, could not do this in China.

Mr. Pope, that is not a hard question. It is not. You know for a fact you could not do in China what they are doing here with Smithfield. The Chinese regulators would laugh at you if you said, well, I will just buy Shuanghui; and to us, that is just very, very difficult.

So, how do we do something here that is realistic, that really gets to the essence of what I think our people are concerned about and that is; is the food supply going to be protected? At the end of the day, is China going to pick the Chinese versus America because they will now control what percentage of the U.S. pork production? It will be a very large percentage.

So, how do we ensure our people back home that pork will be available, that it will be affordable? We will still have the kind of controls that I think they hope we will have.

Mr. Pope, hard question for you. But how do I go back home and tell Nebraskans, do not worry, this is a good transaction for you?

Mr. POPE. Senator, you are right. I know it is troubling with respect to the openness of the U.S. marketplace versus other countries in the world who have different approval processes. So, I will not speak to whether we could buy Shuanghui or not. I have not tried so I would just be speculating.

However, I think there is an important thing here. We have a strong food safety program under the USDA, the HACCP programs we have inside our plans, integrity of the brands, and the sophistication of the management teams we have in place in these businesses.

We are going to protect these brands and we are going to protect this in business. And, if we do not, the U.S. inspectors are going to do it anyway.

This is a highly regulated industry. The U.S. government, tight inspection protocols are in place on every pound of meat we produced in every plant, and those on the agriculture Committee, you know that. You know how tight those inspection processes are.

That is why people around the world take such comfort in the USDA stamp on product that they receive, and they are going to continue to have that assurance that anything, regardless of where the ownership is, this company has got to operate under the laws of the United States.

We are not operating under the laws of China. We are operating under the auspices of the USDA and the food inspection process and our own developed HACCP programs beyond that.

So, I think to your constituents back home, it is the same old Smithfield. Nothing is going to change. This is going to be an American company. We are going to continue to operate like an American company, and we are going to continue to protect these brands.

The conversations I have had with those people at Shuanghui, this is one of the things that they are trying to buy. They want us to help them develop those food safety protocols and help to protect their food supply.

Senator JOHANNS. Thank you, Madam Chairwoman.

Chairwoman STABENOW. Thank you very much.

Senator Grassley.

Senator GRASSLEY. I am going to start with Dr. Haley and Commissioner Slane. Do you agree with Mr. Pope's answer to Senator Robert's question about the benefits of U.S. pork producers and processors to expand and to grow domestically as a result of this transaction?

Ms. HALEY. No, I do not. I do not think Shuanghui is buying Smithfield for its pork. All of Smithfield's production is about three percent of what China produces. Shuanghui is buying Smithfield for its brand name and to assuage the horrible reputation that China has so far as food production goes and exports of food.

Smithfield has gene technology which is a strategically important industry for China. This acquisition is bolstered by indigenous innovation policies because China wants to move up into value-added production. Shuanghui already is in value added production as regards China.

Senator GRASSLEY. So, now are you speaking to the point, though, that you think it will expand American production?

Ms. HALEY. I think we will be producing more pork, a steady line of pigs will be going to China but I also think that there are going to be other side effects. For example, competitors will now be dealing with a Shuanghui Smithfield that is as inscrutable as any other Chinese company, any sort of strategic information will not be made public, for example. It will go through that morass of Chinese dissemination. Competitors will be dealing with——

Senator GRASSLEY. I think you have answered my question and I would like to get Mr. Slane.

Ms. HALEY. Okay. Sorry.

Senator GRASSLEY. Then I want to get into some other things. Go ahead.

Mr. SLANE. Senator, last year the Chinese consumed just under 120 billion pounds of pork. They imported 1.5 billion pounds, a little over 1 percent. Smithfield exported 1.2 billion pounds of pork. Smithfield has the capability to supply the import needs of pork to make up the difference in the Chinese economy without any other U.S. pork producer participating.

Senator GRASSLEY. It is my understanding four producers in the United States or processors control 74 percent of the market. So, I am always concerned about antitrust and competition issues.

This would be to any of you that want to answer. Do you have any concerns that the transaction could increase anti-competitive and predatory business practices in the pork industry domestically?

Ms. HALEY. Well, I think it is going to be very difficult for competitors because they are not going to be able, in this very tightly controlled industry, they are not going to be able to decipher what one major company is doing. Yes, it will.

Mr. SLANE. Senator, how does an American company compete with a company, a Chinese company that has no cost of capital, that has enormous subsidies made available to them; and in effect, American companies are not competing with a Chinese company but with the Chinese government and they cannot win that competition.

Ms. HALEY. That is right. And, the Chinese government has come out publicly and said that. They said we encourage those acquisitions which translated means we subsidize and facilitate those transactions.

Senator GRASSLEY. Well, Dr. Slaughter, you had a different point of view in your testimony on that. You obviously disagree with them. I would like to have you convinced me when we thought a few years ago that the Chinese, whatever, CNOOC or whatever the oil company is should not buy Unical because we thought it was against our national interests, and maybe even our National security interest.

Since food is such an important part of National security why this might not be a problem from that point of view. And you said that the Chinese government does not have much to do with this small, you said small company in China.

Mr. SLAUGHTER. So, I think, first of all, Senator, I think that CFIUS's review of this transaction is entirely warranted. I served on CFIUS, in fact, during the time of that particular transaction when I served in the government before.

The interagency process works well in CFIUS. I think that this is a transaction, given its novel nature, where precisely a careful look at CFIUS makes sense.

Second, I agree a lot with what Commissioner Slane and Dr. Haley have said about the challenges of growing food in China. Although, I gently would disagree and say the major goals for the Chinese government here is to maintain social stability, given the demands of their population for safe and cleanly produced food.

Senator GRASSLEY. So, you said you do not think the Chinese government had much to do with this company that is buying Smithfield; but on the other hand, the Chinese government is very concerned about social cohesion and all that sort of thing.

So, how do you know they are not pushing the company to buy Smithfield and so the government has got an involvement in it, the Chinese government has and involvement in it?

Mr. SLAUGHTER. So, the new leaders in China today have been very explicit about trying to have what they call more balanced and harmonious economic growth focused less on exports, more on meeting the needs of the households and families in China. And, I view this transaction as consistent with that effort to try to bring cleaner growth to China.

Senator GRASSLEY. Thank you, Madam Chairman.

Chairwoman STABENOW. Thank you very much.

Senator Boozman.

Senator BOOZMAN. Thank you, Madam Chair, and thank you and the Ranking Member Cochran for having this really important hearing. This is something we have all heard about for a while and, you know, we are concerned, the American public is concerned so it is good to have the discussion.

I think all of us are really concerned that you have a huge company in the sense of controlling a good part of the market and then again what is that going to be the effect on consumers, what is that going to be the effect on the American worker is the bottom line.

Tell me, Mr. Pope, my understanding of the reason that China wants to do this is in the sense that, as has been alluded to, they need protein. They need the pork. If right now they do not have the grain to do that over there, it takes four or five pounds of grain to make a pound of pork so it makes sense to raise the pork where the grain is at. Is that true?

Mr. Pope.

Mr. POPE. Senator, I think that is exactly true. That is not any different than the way that pork and meat is produced in this company. Meat is largely produced where the grain is and in China has had a policy of attempting, as many countries have, to be self-sufficient in feeding their population. However, I think they have concluded that is going to be a difficult process; and one solution to that is to import the product.

Senator BOOZMAN. Again, like I say, I am just trying to understand their reasoning. So, they send it back, you know, in the sense a lot of it goes back, perhaps, I would assume it would. But again, our producers backfill what goes back theoretically and you sell more grain, you sell more pigs. Is that too simple of an understanding?

Mr. POPE. Well, I think our producers—and some are in the room here today with me—have overwhelmingly supported this. The producers see this——

Senator BOOZMAN. That is a good point. And again, I have visited with some of the large producers also. And, where are they at? I mean, are our large producers, small producers, are they for this or against it or?

Mr. POPE. Senator, I do not believe that I have gotten any feedback from any producer who is opposed to this. They are overwhelmingly supportive of this. It is the opportunity to grow again. I do not know of any producer who is opposed to this today.

Senator BOOZMAN. Mr. Slane, Dr. Haley, have you met with any of our producers? Do you know if they are for or against this?

Mr. SLANE. I have not talked to any, Senator.

Senator BOOZMAN. That would probably be a good idea.

The other thing too is that began to me in the hearing we are drifting into all kinds of things.

Dr. Haley, I share your concern with food safety; and yet if we are not doing a good job in that regard because we have got all kinds of stuff coming in here now; and again, I am not saying I am supporting or against it. I am just trying to find the information.

But, there is a lot of product coming in here right now and we needed to do a better job of that than we do.

Commissioner Slane, I do not understand in the sense, you know, that if your argument is that we should not do this, allow this to be done here because if we cannot do it over there. I mean there are countries that we deal with that we cannot buy property in and yet we allow them to buy property here. I mean, there are all kinds of other situations like that comes about.

I have great fear of the Chinese, you know, as you are alluding to in the sense, I have traveled in Africa a lot and understand, you know, some of the methods that are used. But, apart from that, that is really not a very good argument, is it?

Mr. SLANE. Only in the extent that we should have the same opportunity in these other countries to acquire their companies and there is just something fundamentally wrong economically in not allowing this. And, our commission recommended that CFIUS be modified in that we reject applications where we cannot buy that same company in that country.

Senator BOOZMAN. Right. And again, I understand that and, like I say, to me that is kind of a separate deal in the sense that is a huge problem that we have got in many countries throughout the world.

The other thing I would like to ask about, if you are knowledgeable, is I am told that as far as, you know, this being the rocket science as far as the pork production that it is pretty easy.

I used to have a bunch of cows and, you know, worked the genetics hard that way. I mean, this is an industry that is a pretty stable industry that the access to genetics and things like that, if you want to obtain it, I mean, there is not a great mystery in the feed mix or this or that. Is that true or false?

Mr. POPE. Senator, I think that, in terms of technology, I think essentially what we do, we do not have any patents. It is commercially available.

Senator BOOZMAN. Thank you, Madam Chair, and began, thank you for having the hearing. I think this is very helpful.

Chairwoman STABENOW. Thank you very much.

Senator Thune.

Senator THUNE. Thank you, Madam Chair.

I appreciate you all coming in and answering our questions. I think one of the issues with this acquisition, we are probably not going to see a month from now or a year from now any visible impact on the Nation's livestock industry, our Nation's food supply or food safety for that matter, but I think we need to look at these in terms of what the impact will be five years down the road, 10 years down the road, how the Nation's food supply might be impacted, our food safety might be impacted.

You have 20 percent of the world's population living in China. So obviously, food security is a high priority, especially since only 8 percent of the world's crop land is in China. China is going to have to look beyond its borders to ensure a steady and stable food supply.

But, we have got to ensure that China's food security and adequate supply does not come at the expense of ours here in the United States.

I want to ask a question. Mr. Pope, you had mentioned, and I think the quote is, it will be the same old Smithfield only better, and that Shuanghui is 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.

I think we are all encouraged to hear that as Smithfield has been a great asset to the American food supply in the past decades. But, I am wondering if maybe you could elaborate on any assurances that have been given to business partners, producers, employees, consumers that Smithfield will be, in fact, as you put it, the same old Smithfield.

Mr. POPE. Sure. Thank you, Senator. I would love to address that. Shuanghui has been very forthcoming in terms of their commitments in their public statements on the announcement of this deal of their commitment.

So, they are well aware that this is a large acquisition going on in the United States, and they are well aware of the public overview and concern about this transaction. So, they are very knowledgeable and very thoughtful about what they are committing to realizing that they will be held accountable of that.

The fact that the overwhelming support of so many different organizations and participants in the pork industry have come forward with this should give you some assurance that Shuanghui is going to live up to their commitments.

I have known these folks for several years. They have always lived up to their commitments to us. They are the leader in their country. They are partnering with the leader and the largest pork producer in the world, with the largest pork consuming country in the world, with the largest processor in that country. The marriage is sort of very natural and very automatic.

In terms of commitments, I am very grateful for the fact that people at the UFCW, the unions have stepped forward and said we understand. They are going to honor our contract.

Our producers in the industry, of the hog of producing industry, many have stepped forward and said we salute this transaction as well as many of our competitors in this industry have also come forward saluting this transaction as good for this industry for the long-term.

I have got over 30 years with Smithfield, and so I have an enormous investment emotionally in this company, and I am going to make sure, I am still going to continue as the CEO of this company, and I am going to have a hand in the future in the way this company continues to operate, and I realize we are going to be held accountable to the scrutiny of the American public and the regulatory process in this country, and I am very comfortable.

Shuanghui 100 percent endorses that; and in fact, the North Carolina pork producers just today were meeting with Chairman Wan in China and just put out a press release in the last few hours complementing their meeting with him and his commitment as the chairman of Shuanghui, the commitment to maintain the food safety standards that Smithfield has been placed today.

So, as good as an assurance as anyone can have, they are making public statements on the record that they are going to maintain the management team and our operations and our food safety standards.

Senator THUNE. Mr. Slane's testimony identified Shuanghui as being a, and I quote, Chinese state-controlled company, end quote. In your testimony, you state that Shuanghui is a private holding company based in Hong Kong.

Would you agree that Shuanghui is a state-controlled company?

Mr. POPE. No, I would not agree, Senator, that it is a state-controlled company. I think that is fairly easy to research. So, I would just ask Mr. Slane to do the research and maybe he just got some bad information.

Senator THUNE. Mr. Slane.

Mr. SLANE. Chairman Wan is a high-ranking Member of the Chinese Communist Party and a 15-year veteran of the National People's Congress. He was appointed to the position by the Chinese Communist Party and he answers to the Chinese Communist Party; and if he does not do what they say, they will remove him or worse.

In addition, he controls the majority of stock and the voting rights of Shuanghui; and finally, Senator, and the Bank of China, which is controlled by the Chinese government, is financing the cash, the 4.7 billion, in this transaction. The Bank of China does not finance any transactions unless they are told to by the Chinese Government.

By any definition, this is a state-controlled company.

Ms. HALEY. May I add two more things as to why it is state-controlled?

Chairwoman STABENOW. Very quickly.

Ms. HALEY. Its subsidiary was listed on the Shenzhen stock exchange. You do not get a listing like that without some kind of state support.

Several government people have come out and said openly that they support this acquisition. That does not happen unless there is something else going on, some other influence.

Chairwoman STABENOW. Thank you very much. Thank you.

Senator Heitkamp.

Senator HEITKAMP. Madam Chairman, I apologize for coming in and out. I had another significant meeting to my State and wanted a chance to listen to all the questioning, and I know that a lot of the ground that I wanted to cover has already been covered.

I just have one quick question of Mr. Pope. You know, it is always good to get a lot of commitments on the front when you are negotiating a deal and when you want to make people happy and you want to come before a panel like this and say things are going to go well.

But, what are the legal requirements that contracts be maintained, that all of the things that have been promised will actually come to fruition now and into the future or is this just part of what we are talking about now and tomorrow after the acquisition is finalized those commitments go away?

Mr. POPE. Senator, many of those commitments that I made reference to our legally binding contracts under U.S. law. So, they have no choice but to honor the contracts we have with our union employees as well as the 2000 contracts we have with our contract growers. We have those in place and they have no choice but to honor those contracts.

Senator HEITKAMP. No contract is permanent. So, what is the termination dates on those contracts?

Mr. POPE. Obviously, Senator, those contracts have varying termination dates. But, the fact is that Shuanghui realizes that an important asset they are buying here is the management team in place, our employees in place, and the relationship we have with our growers and our suppliers.

They would not be paying a 30 percent premium to the market without realizing that they are getting a valuable asset and the discussion that was being held earlier this year about the potential breakup of this company into parts by other interested parties created some of this interest by Shuanghui and other interested parties because of the value of his vertically integrated model.

Senator HEITKAMP. Can you state with any legal certainty that in 10 years you can come back here and say contracts similar to the contracts that you have today with your growers will be in tact and that you will have union contracts in 10 years?

Mr. POPE. Senator, obviously, it is difficult for me to project the future. However, as certain as I can be about anything, I am virtually positive we will have the contracts with our contract growers because we do not have a business without them. Our contract growers are, one of the most important assets this company holds is the ability to work with power producers. That is a key asset. Beyond the brands that the company owns, that is probably the second most important asset we have.

The union, the relationship we have with United Food and Commercial Workers I would ask you to ask them themselves, they have come up so much supportive of this. They are highly confident that the company will continue to recognize them as the unions in place and have contracts that are favorable to their employees or to their workforce.

Senator HEITKAMP. You know, not to belabor the point, but I think the concern here is that in anything like this that is going to have a fair level of controversy, as you can see, from the panel today there is always a lot of commitments that are made and, you know, we like to envision that in 10 years we will come back and say we were right. It all worked out. And, I certainly hope that is the case.

But, just be aware that there is a fair amount of cynicism and concern about this transaction, and part of that is borne out of concern for what is going to happen to the intellectual property of this company.

As you have mentioned over and over again, the quality of the work that you do, the intellectual product, the know-how that you have, once that has been acquired as an asset of a Chinese company, will we then see that basically undermine pork production in our country. That is the concern.

You know, this ground has been plowed and I thank the Chairwoman for having the hearing but again I hope in 10 years you are right.

Chairwoman STABENOW. Thank you very much.

I want to talk a little bit more about exports because a shining star for us in the United States is agricultural exports. We have for every 1 billion of dollars that we invest we have about 5000 jobs created. So, we have a surplus in terms of exports in agriculture which is very, very important.

Pork is very export dependent. You need to export, and right now if China opened its doors and did not apply illegal and unscientific food safety standards, you could just export to them. Create a lot more jobs. I think that would be terrific.

Other producers, independent producers that are configured differently than Smithfield could do that right now but that is not what we are talking about.

My question is, now that Shuanghui will have access to Smithfield's production technology and genetics and improved food safety practices, is it possible—I am sure they are going to increase their own efficiency. They said that is why they are willing to pay a premium for the company, and Japan sits right next door which is our largest export market from the United States.

Why would China not export to Japan?

Mr. Pope.

Mr. POPE. Senator, that is a very good question, and certainly it is a concern that the industry has is Japan is a very important market for the pork industry, and you are right again about the importance of exports to the health of the pork industry.

I like to say exporters have become the lifeblood of the pork industry; and when we do not have sizable exports, the industry suffers significantly as a result of that.

Today, China could and does, and does, export into Japan very limited amounts. There are very, very tight food safety standards between, in Japan with respect to Chinese product; and so they have to have plant approvals. I am sure you and your staff know that.

There has been very little but there is some. And so, the thing that gives me comfort is the economics. Pork is substantially more expensive in China than it is in the U.S. It probably surprises many people to hear that. Pork prices are 50 percent higher in China. It is not a cheaper market. It is a higher market.

They have an economic disadvantage in shipping to Japan because they do not have the grain. They have got to import the grain. The grain has got to be grown someplace else. It has to be shipped to China. They do not have anywhere near the productivity in their herds and so that the pigs do not stay alive.

It is much more expensive for their economic disadvantage. And, the U.S. has an economic advantage in selling to Japan, and the deficit that exists in China today I think is a very real deficit but I think it is an opportunity for U.S. exports.

I think they are looking, China is looking that this is an opportunity to feed their people, to satisfy the civil issue that they have got to solve in giving safe food to their people. It is not about an opportunity to import product and then exported back out to Japan.

Chairwoman STABENOW. But again, Mr. Pope, they could feed their people by opening their markets to the great American pork products that we have, and of course, they have chosen, and I understand they would like your brand. It is an excellent brand.

One of the concerns or questions I have is whether or not your brand which will be put on Chinese pork which has been less than stellar is going to be a problem for your brand down the road.

But, I wonder if Dr. Haley and Commissioner Slane would like to talk about the economics of all of this.

Ms. HALEY. Well, I do not think—as I said before, that China or Shuanghui bought Smithfield for the pork. Smithfield's production is just 3 percent of Chinese production. But what I see happening is what is happening in other industries such as paper, steel, glass, solar. We spent the last five years looking at these industries.

Higher value-added manufacturing will move to China; and by that I mean, processed products, and they will use the Smithfield brand name. We will continue to export pork, a steady stream will go on to China with all sorts of negative externalities such as pollution mounting, perhaps soy and other interrelated feed industries will have their prices going up as well.

We will be exporting more pork but we will be importing more processed foods from China. So, we will be exporting more commodities as we have been doing. We currently import 560 percent more technologically advanced products from China than we export to it.

So, we will be importing their processed foods and we will be exporting our commodity. And, as we will be importing more than we will be exporting, our trade deficit will continue to grow.

China is not seeing this as just one acquisition. Shuanghui has government support. These going-out companies have government support and they see Smithfield as a foot in the door. There are going to be very many acquisitions in agriculture. I have spoken to people in China and this acquisition is being very carefully monitored. There are other companies that are waiting in the wings to buy more American companies; and so, this is a weighty decision and I think this really has to be looked at very carefully as to what we want to do with the agricultural sector in this country.

Chairwoman STABENOW. Thank you.

Commissioner Slane.

Mr. SLANE. Senator, I think it is important to note that Shuanghui as production and distribution systems in Japan and

South Korea so they are obviously penetrating that market; and with the subsidies from the Chinese government, I think eventually long-term they could undermine U.S. exports to those markets.

Ms. HALEY. Yes.

Chairwoman STABENOW. Thank you. My time is up. If there are other members that have questions.

Senator Thune.

Senator THUNE. Thanks, Madam Chair.

I just wanted to take advantage of Mr. Slaughter's expertise while we are here and ask a question. I would like to hear, in your words, what you see as the long-term implications of the merger and acquisition on the American food manufacturing industry. And to be more precise, is this acquisition going to be a job creator for American workers?

Mr. SLAUGHTER. Thank you, Senator. It has every potential to do so; and if I could echo Mr. Pope's response to your question earlier about the long-term, the one dimension in which I hope he is wrong is that in five to ten years Smithfield does not have 46,000 employees in America, they have 56-or 66,000.

Most of the growth in the world is outside of the United States. I will echo the Chairman Stabenow's nice framing. The number I will give economically is 22 million. There are over 22 million under and unemployed Americans in America today.

We need to try to create for the next five to ten years approximately 20,000,000 new jobs in America, and a lot of those jobs are ideally going to come from American workers and their businesses being connected to opportunities in world markets.

Yes, there is a lot of legitimate concerns about the economic development of China but I think the engagement of China and the rules-based, transparent policymaking process is critical to try to allow American workers like those at Smithfield and throughout a lot of other industries to be connected to that growth in China.

Senator THUNE. You, in your testimony, mentioned foreign direct investment in the long-term as being boom to the American economy. I am wondering if you see any situation in which foreign direct investment might be a detriment or be an untenable risk to the American economy.

Mr. SLAUGHTER. So, anytime there is a foreign investment that raises a legitimate National security concern for America, that foreign investment should be looked at closely if not forbidden; and again, I think the CFIUS process has decades of being a well-run and well-managed process for reviewing those kinds of National security concerns.

My thought in that interesting question is clearly individual transactions sometimes do not work well for the parties involved; but when you look at the clear historical records for America over the decades, inward foreign direct investment like this particular transaction has generated large benefits for American workers in the broader economy.

Senator THUNE. Thank you, Madam Chair.

Chairwoman STABENOW. Thank you very much. I think this has been a very important and very thoughtful hearing and very informative. I appreciate everyone being here today.

We have a number of issues that have been raised and I think, from my perspective I remain concerned about the adequacy of our government's review process for these acquisitions of our food supply.

I really believe this is a precedent-setting case. I am concerned when Dr. Haley talks about more waiting in the wings to come which just says to me that we need to be thoughtful on behalf of American consumers and producers in the broader economy to make sure that we are looking at the adequacy of the review process and what is in the best interest of our country.

I want to remind the members that we are going to be with the Treasury Department, we are going to be going across the hall now to meet with those that are involved with this review process and we will have questions for them as well.

Any additional questions for the record should be submitted to the Committee Clerk by five business days from today, that is 5 p.m. on Wednesday July 17.

This is important. I hope that we will continue to see a strong, robust pork industry in America and that I have no doubt that our standards will remain high in this country, and we certainly want all the right things to happen. But I think there are legitimate issues here about what this is all about and the long-term implications for what will happen to the industry.

Thank you very much for joining us.

[Whereupon, at 4:06 p.m., the Committee was adjourned.]

A P P E N D I X

JULY 10, 2013

Senator Sherrod Brown
Opening Statement
"Smithfield and Beyond: Examining Foreign Purchases of American Food Companies"
Wednesday July 10, 2013

I want to thank Chairwoman Stabenow and Ranking Member Cochran for working together to organize today's hearing, and thanks to our four witnesses for joining us today.

Foreign investment in the U.S. has historically been a source of significant economic growth, often leading to job creation, innovation, and increased productivity.

In my state of Ohio, we have a long history of corporate leadership and innovation from foreign-owned companies like Siemens and Honda and ArcelorMittal.

However, China's history of encouraging private companies to make strategic economic investments through subsidies and incentives and the concentrated nature of the US food industries makes this acquisition unique.

In the pork industry alone, the top four companies control 63% of the pork packaging. The same thing can be said for the beef packaging, soybean processing, and broiler chicken processing industries.

This means that in one fell swoop 26% of pork processing and 15% of hog production will now be under the control of a company with murky ties to the Chinese government .

I believe this raises significant questions regarding the national security of US food supply chains.

On top of this, a large portion of US pork production will now lack transparency. Combined with the questionable food safety history of

Chinese food producers, we should carefully examine the consequences of this transaction.

Finally, China has a poor record on worker safety and recognizing labor rights.

Shuanghui has indicated that it intends to honor current contracts, but legitimate questions must be asked about how long Shuanghui will continue current practices.

If allowed without close scrutiny, this deal could open the door to a flood of Chinese companies seeking to acquire US food companies, and it will signal to the Chinese that top US companies are up for sale.

Absent addressing the role of state ownership and subsidies generally or food safety and worker rights in this particular case, there is reason for concern.

The Committee on Foreign Investment in the United States (CFIUS) is weighing whether to conduct a review of the implications of this acquisition. Going forward, I believe that when the sale of agribusinesses are undertaken, USDA must be involved in the CFIUS process.

Given the potential food safety concerns, transfer of intellectual property, and global consolidation of the food industry, I believe they must take a close look before approval.

SENATOR GRASSLEY'S STATEMENT FOR U.S. SENATE AGRICULTURE COMMITTEE HEARING ON SHUANGHUI INTERNATIONAL'S PURCHASE OF SMITHFIELD FOODS, JULY 10, 2013

Madam Chairwoman, I appreciate the Agriculture Committee holding this hearing today. I have several areas of concern regarding the proposed acquisition of Smithfield Foods by a Chinese food company, such as the impact on national and food security as well as on competition in the pork industry. Notwithstanding these concerns, the transaction does present the potential for benefits for American pork producers, such as increased trade opportunities.

I'd like to elaborate on my concerns with the deal. One of my concerns is that as China gears up its pork production, in the long term, some of that pork may find its way into the United States. Not only does that pose a possible food safety risk because of questionable Chinese business practices and lax health, safety and quality control standards. It also could cause severe economic damage to our domestic pork industry.

No one can deny the unsafe methods utilized by some Chinese food companies. And, to have a Chinese food company controlling a major U.S. meat supplier – without strong safety inspection standards, without any shareholder accountability, without robust quality control mechanisms – frankly, that's concerning for me. I've always said that we are nine meals away from a revolution, so a safe and sustainable food supply is critical to our national security.

Further, I'm concerned that the Chinese firm will use the knowledge they've gained from the purchase of an American company to implement similar technology and business practices in China – where they may or may not be subsidized by the Chinese government – and once they've improved their own processes, they'll undercut U.S. pork production.

Moreover, if the Chinese production is so much improved, it's unclear if the new company would even want to expand into exporting American pork products abroad in the long term. Then what benefits, if any, would the domestic pork industry see with this transaction?

I also have antitrust concerns about what kind of impact this acquisition will have on an already highly consolidated pork industry in the United States. As you all know, I have a long history in this area. I wrote a letter to the Justice Department urging the Antitrust Division to thoroughly examine the transaction The Department responded that they would look for "any potential issues under the antitrust laws and [ ] take whatever action is appropriate to protect competition, hog farmers and consumers."

I want to make sure that any purchase of Smithfield does not exacerbate the vertical integration strategy that the company already employs. They own the entire process – from conception to consumer – which can end up creating higher prices and less choice for consumers.

I'm also interested in learning specifics about the impact of this transaction on the independent producer. As Smithfield becomes even more capital rich, there's a potential that non-Smithfield growers will be shut out of the marketplace.

Will the independent producer be able to market their product, both domestically and abroad, and get a fair price? Will this be the end of the American independent pork producer?

The bottom line is that vertical integration can leave the independent producer with even fewer choices of who to buy from and sell to, and can hurt a farmer's ability to get a fair price for his products. Concentration also can lead to consumers having fewer choices and higher costs at the grocery store.

Finally, this deal highlights the need for Country of Origin Labeling. Like so many Americans, I'd rather eat pork, beef and poultry raised in the United States. The deal only makes it more logical to ensure that American consumers know exactly what they are paying for and eating.

I look forward to hearing the testimony of the witnesses on this important issue.

TESTIMONY OF USHA C. V. HALEY
PROFESSOR/DIRECTOR, ROBBINS CENTER FOR GLOBAL BUSINESS AND STRATEGY, WEST VIRGINIA UNIVERSITY
BEFORE THE
U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY, WASHINGTON, DC

July 10, 2013

Good afternoon Chairwoman Stabenow, Ranking Member Cochran and members of the Committee. I thank you for inviting me to participate in today's historically significant hearing on "Smithfield and Beyond: Examining Foreign Purchases of American Food Companies". I am pleased to testify. I have researched Chinese business and global strategy for almost 15 years, have several books and peer-reviewed articles on the subject and I testify in that capacity. Much of the research that I refer to today is from my 2013 book Subsidies to Chinese Industry: State Capitalism, Business Strategy and Trade Policy (Oxford University Press) and from independent research on Shuanghui, Smithfield and the global food industry.

Summary of Position

Shuanghui International, the largest Chinese food processor, has made a successful bid for Smithfield Foods, the world's largest pork producer, by paying a 31% premium. Smithfield owns an array of well-known brands, including Armour, Farmland and Healthy Ones, and gets the vast majority of its sales in the United States, with about 25% of its exports going to China. Smithfield and four other companies also control 73% of the U.S. pork-processing industry. Shuanghui is a heavily subsidized and opaquely managed private company with strong links to China's provincial and central governments: the company holds a majority stake in Henan Shuanghui Investment & Development Co., which is China's largest meat-processing enterprise.

This takeover provides long-term benefits to China, the province of Henan and to Shuanghui 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.

China's pork output, the world's largest, is predicted at 53.8 million tons, compared with U.S. output of 10.7 million tons. China imported more than 1.3 million tons of pork and its by-products last year, including more than 500,000 tons from the United States. Buying Smithfield would give Shuanghui access to more advanced production technology as well as to 460 farms that raise about 15.8 million hogs a year. Smithfield also promises brand reassurance after numerous Chinese food-safety scandals including the deaths of at least six babies in 2008 because of melamine-tainted milk and the discovery of more than 16,000 dead pigs in Shanghai's Huangpu River in March. Shuanghui apologized in March 2011 over illegal additives found in its meat and halted output after a CCTV report that farmers in Henan province fed the additive to their pigs and then sold them to a Shuanghui slaughterhouse. The company subsequently pledged to step up quality control.

If completed, this deal, the largest takeover of a U.S. company by a Chinese company, will double the number of U.S. jobs tied to direct investment by China. After the acquisition, Smithfield will cease to be publicly traded and information on operations will come through Chinese reports. The magnitude of this deal in a strategically important global industry will almost certainly affect food safety, how we do business in the United States, U.S. companies' and regulatory agencies' modes of participation, U.S. competitive environments (including company evaluations, pricing mechanisms and other food producers' competitive positions), efficiencies, intellectual property (IP) protection, and compatibility with U.S. industrial, economic and cultural policies. There is little doubt that this Chinese foray will be the first of many in the U.S. food and agricultural sectors. Consequently, the deal merits a thorough examination by the Committee on Foreign Investment in the United States (CFIUS) and broader participation by the Department of Agriculture and other affected parties.

Comparative Advantage, Subsidies & Trade with China

In China, political considerations trump economic ones. No free market exists for food products in China and so economic arguments of efficiencies accruing from global logistics have little explanatory power: when subsidies and negative externalities (such as pollution[1]) exist as they do in this strategic Chinese food sector and in others we studied, the markets can no longer set prices and market failure occurs with detrimental effects on other countries' economies.

For the past five years, we have examined how China swiftly moved from being a global bit player and net importer to the world's largest manufacturer and exporter in capital-intensive industries where it had no labor-cost or comparative advantage just a few years prior. We witnessed industrialized countries become exporters of commodities and scrap to China. In 2000, labor-intensive products constituted 37% of all Chinese exports; by 2010, this fell to 14%. In parallel, from 2004 to 2011, U.S. imports of technologically-advanced products from China grew by 16.5% annually, while similar U.S. exports increased by only 11%. In 2011, the U.S. imported 560% more technologically-advanced products from China than it exported to that country. Meanwhile, the annual U.S. trade surplus with China in scrap and waste grew from $715 million in 2000 to $8.4 billion in 2010. The U.S. trade deficit with China, which has ballooned to account for more than half of the total U.S. trade deficit with the world, has had welfare implications, including lost U.S. jobs. Researchers have disputed the exact number of U.S. jobs lost to China trade but not that jobs have been lost.

Half of the world's pigs, about 476 million, reside in China. Yet, China has no comparative advantage in pig farming. U.S. pig farming is a consolidated, modern industry with economies of scale. Eighty-seven percent of the pork sold in the United States comes from big pig farms with more than 2,000 hogs. Such farms are climate-controlled and self-contained to minimize the spread of disease. By contrast, the Chinese pork industry is fragmented, small-scale, and low-tech. Seventy percent of the pork in China comes from pig farms with 500 hogs or less. Farmers

[1] About 576 gallons of water and four pounds of grain go into manufacturing one pound of pork. Pound-for-pound, factory-farmed pigs also produce four times the waste volume that people do. According to the FAO, the global livestock industry is the largest sectoral source of water pollution. China with the world's largest livestock population has significant water pollution, soil degradation, rising rates of obesity and chronic disease, risks to food security and food safety, pressure on small farmers, and declining farm-animal welfare. A 2013 report by the Chinese Academy of Social Sciences' Institute of Rural Development concluded that in 2012, large-scale livestock and poultry pollution had become the biggest source of agricultural pollution in China.

with annual production of less than 50 hogs contribute 35% of the nation's output, while producers with less than 500 contribute 65% (Soozhu.com). Hygienic conditions are often primitive; yet, bureaucratic hurdles make consolidation of pig farms in China impossible. In the United States, by contrast, 53% of farms produce 5,000 or more pigs a year, according to the National Pork Producers Council. Shuanghui also imports all its slaughtering and processing equipment from the United States.

Yet, as I discuss later, despite no comparative advantage, pork is a strategically important industry for China. The same patterns that occurred in other strategically important industries will repeat in this sector and the United States will lose its competitive edge in food becoming dependent on China.

Extrapolating from what has occurred in steel, paper, glass, auto parts and solar, the United States will become an exporter of the commodity of pork to China, and an importer of higher-value-added processed foods from China, with attendant negative externalities including pollution, and detrimental effects on competitors, consumers and national security. Although U.S. exports to China of pork will rise, U.S. imports of processed foods from China will rise even faster contributing to the trade deficit and loss of manufacturing capacity.

In the Chinese industries we studied — solar, steel, glass, paper, and auto parts — labor was between 2% and 7% of production costs, and imported raw materials and energy accounted for most costs. Chinese production mostly came from small companies that possessed no scale economies or technological edge. Yet, in 5 years, China had moved from being net importer to largest manufacturer and exporter. The products in these strategically important industries for China (and often for the rest of the world) routinely sold for 25% to 30% less than those from the United States or European Union. This is similar to the food-processing industry in which Shuanghui and Smithfield operate, where labor costs are about 5% to 7%, most costs come from purchases and scale economies matter.

We found that Chinese companies could expand in this fashion only because of subsidies they received from China's central and provincial governments. Subsidies in strategically important Chinese manufacturing industries appear in dollar terms to exceed over 30% of industrial output.The subsidies took the form of free or low-cost loans; artificially cheap raw materials, components, energy, and land; and support for R&D and technology acquisitions.

Since 2001, when China joined the World Trade Organization (WTO), subsidies have annually financed over 20% of industrial expansion for both large private firms (such as Shuanghui) and State Owned Enterprises (SOEs). The state has willingly paid the price of economic inefficiency to accomplish political, social, economic, and diplomatic goals. Huge Chinese subsidies have led to massive excess global capacity, increased exports, depressed worldwide prices, and hollowed out other countries' industrial bases.

As a non-market state-capitalist economy, China favors employment and domestic growth over its enterprises' profitability with implications for the entire U.S. pork sector and associated industries that feed in and out. Shuanghui has not released its profitability figures, but most of the companies we studied would have been bankrupt without subsidies. U.S. companies would be unable to compete domestically and in exports against a Shuanghui-Smithfield that does not pursue profits but is heavily subsidized and aims for industry domination. 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 or three years (as with the solar industry).

Take paper and forestry. Since 2000, China tripled its paper production. In 2008, China overtook the United States to become the world's largest producer of paper and paper products. But, China has no comparative advantage in paper. The companies in China's paper industry are mostly small, with limited economies of scale or scope and no technological advantage. The industry is geographically fragmented as well, operating in 30 provinces. China also has among the smallest forest bases in the world per capita. Consequently, it is the largest importer in the world of major industrial inputs, including pulp and recycled paper. Labor makes up about 4% of the costs in this industry; in contrast, imported recycled paper and pulp comprise over 35% of the costs. Yet Chinese paper sells at a substantial discount compared to U.S. or European paper. China's rapid rise in the global paper industry was fueled by over $33.1 billion in government subsidies. Governmental policies have systematically aimed to reduce China's dependence on imported raw materials and to subsidize the paper industry's restructuring. The

Chinese industry is opaque and we measured just the tip of the iceberg. The subsidies we measured from 2002 to 2009 included those for electricity ($778 million), coal ($3 billion), subsidy income reported by companies ($442 million), and loan-interest subsidies ($2 billion); from 2004 to 2009 they include those for pulp ($25 billion); and from 2004 to 2008, they include subsidies for recycled paper ($1.7 billion). Missing data prevented calculation of pulp or recycled-paper subsidies in 2002, 2003, and 2009.

Subsidies to Chinese private-sector companies such as Shuanghui, not just to SOEs, are widespread. China's local governments are the source of nearly all subsidies to private companies. Many subsidies come in the form of cash or tax rebates from city and provincial governments, given to support companies' employment, R&D spending, and similar activities that aid the local economy. Subsidies to private companies are growing fast, and once companies start getting large subsidies, they tend to continue, contributing to supply-chain inefficiencies and other logistical problems. In line with subsidies to this sector, Shuanghui's wholly owned subsidiary almost certainly gets a great many "unconditional" subsidies from the provincial Henan government, probably in line with subsidies that others receive in this industry, such as Yurun Pork Products that revealed subsidies to net profit of 36% (Fathom China). Relationships with officials help to attract subsidies. Local governments usually grant subsidies for promoting employment, drawing additional investment and stimulating economic growth.

Policies Molding China's Pork-Processing Sector

Shuanghui traces its origins to the province of Henan and its wholly-owned pork-producing subsidiary, Henan Shuanghui Investment & Development Co, the province's largest employer. The food industry is one of Henan's pillar industries; through assiduous state support, Henan has evolved from becoming the nation's granary into the nation's kitchen. Through state subsidies, Henan upgraded its industry, agriculture, forestry and high-tech industries and helped all industries expand production scale, achieve broad integration, extend supply chains and expand markets at home and abroad.

The food-processing industry has also benefitted from Beijing's trade policy of indigenous innovation that focuses on domestic production and includes networks of regulation that advance the goals of state capitalism, not of market efficiencies. Technology transfer, such as with Smithfield's animal-gene technologies, becomes the prerequisite for foreign companies to access China's markets and to move China into higher-value-added and innovative manufacturing. In 2006, the Chinese Communist Party's Central Committee and the State Council issued a *Decision on Implementing the Science and Technology Plan and Strengthening the Indigenous Innovation* (the "*Innovation Decision*") to carry out the landmark *National Mid and Long-term Science and Technology Development Plan (2006-2020)* issued a year earlier. This plan to strengthen indigenous innovation lists eleven general fields of applied research for emphasis including those that affect pork processing: Water and mineral resources; Environment; Agriculture; Population control and health; and, Public safety.

Implementing the *Innovation Decision* calls for establishing a series of supporting policies and measures to encourage indigenous innovation, including: Government grants; Preferential lending; IP protection; Construction of public forums; Tax incentives; Government procurement; Incentives to attract and retain talent; and International cooperation.

As patent filings become part of performance evaluations, local governments give subsidies for filings that often exceed budgeted costs. Shuanghui, for example has over 500 patents in China. According to the European Chamber, China's indigenous-innovation policies and official procurement catalogs wall off 17% of China's $5.9 trillion economy from foreign participation. If other strategic industries are an indicator, it is unlikely that other U.S. competitors will be allowed into the pork-processing industry in China, or even be able to export pork to China at competitive prices.

The *12th Five Year Plan* emphasizes the development of seven strategic emerging industries (SEIs) that should account for 8% of Chinese gross domestic product at the end of the period, including Biology (biomedicines, biomedical engineering products, and biological agriculture). Article 27 of China's new *Enterprise Income Tax* law provides that income generated from agriculture, forestry, husbandry, or fisheries may be exempted from tax. The State Council issued the *National Strategic Emerging Industries 12th Five Year Development Plan* in July 2012. The plan designates the biology industry as one of the seven SEIs. The plan also calls for further development of the biopharmaceutical, biomedical engineering, bio-agriculture, and bio-manufacturing industries through supporting policies for SEIs, including establishing an SEI special development fund, improving and implementing tax incentives, and encouraging financial institutions to increase lending. Various Chinese governmental agencies disburse indigenous-innovation subsidies. China's Ministry of Science and Technology funds science parks, research labs, and megaprojects. The state-owned China Development Bank provides soft loans for projects and may help finance the Smithfield takeover. The Export-Import Bank of China creates special accounts for innovative enterprises to lower their costs and to increase their exports.

These Chinese subsidies could lead to a bifurcation in food processing, with Smithfield becoming the lowest rung of the commodity supply chain to China's higher-value-added food processing. Essentially, higher-value manufacturing would move to China, while lower-value, lower-technology manufacturing would remain in the United States. One danger here is that Shuanghui could mix its plentiful supply of local hogs into this supply chain and re-export the higher-value-added processed food back to the United States and its export markets under the Smithfield brand.

A large proportion of Chinese household income goes into food, with pork as the staple protein source. Consequently, the price of pigs is linked to China's social and political stability: When pork prices rise, Beijing assumes that discontent will follow. To defuse protests that may threaten state power, Beijing has from 2007 managed a strategic pork reserve to control pork prices and to signal the need for shifts in policy[2]. The only reserve of its kind in the world, China's strategic pork reserve consists of two different parts: a live-hog reserve of a few million pigs rotated every four months between 200 to 300 commercial farms; and a frozen-pork reserve of about 200,000 tonnes, rotated every four months to ensure freshness and administered through domestic packing plants with pig facilities such as Shuanghui. The specifics of how the strategic pork

[2] The Chinese government considers a hog-to-corn price ratio of six as a break-even level for pig farmers. The ratio also provides a gauge to check stability in Chinese pork supply and to guess at farmer's income. If the ratio rises over nine the government may release more pork into the market, and if it falls below six it may purchase pork to support prices.

reserve operates are classified as state secrets. The state-owned China National Cereals, Oils and Foodstuffs Corporation (COFCO) has a monopoly on both the live-hog and frozen-pork reserves.

In 2007, COFCO signed a deal with Smithfield Foods for 60 million pounds of pork for the frozen reserve. Smithfield scaled up production and added 250 workers at their Sioux City, Iowa plant, expecting that this deal signaled the opening of a promising market for pork exports. In 2009, however, Chinese authorities decided that only domestically produced pork would be used for the reserve in the future.

Pork processing is one of the most polluting industries in the world and China's central government has started seeing this as a potential threat to social stability. At this year's National People's Congress, pollution became a major focus. Chen Jiping, a retired Chinese Communist Party official, said that pollution had replaced land disputes as the main cause of social unrest in China. He blamed a reaction against pollution for the majority of the country's 30,000-50,000 "mass incidents" each year.

Governance & Evaluation of Shuanghui

The bid for Smithfield included Goldman Sachs, CDH Investments, Singapore's sovereign wealth fund Temasek, and New Horizon Capital, a Chinese private-equity firm co-founded by Winston Wen (a.k.a. Wen Yunsong), the former Chinese prime minister Wen Jiabao's son. The group controls Shuanghui International, which was acquired about seven years ago by helping privatize a state-owned meat processor. The company's extremely complicated ownership structure, deliberately built over a period of years to signal no political attachments, leads people outside China to believe that it is not state-owned and therefore not state controlled. However, like most large private companies in China, especially those in strategically important industries, the government exercises considerable influence on Shuanghui; managers enjoy no independence from the state as Americans understand the term.

China is a high-context culture, where the annual reports and formal reporting relationships never tell the full story and may even distort. Shuanghui has excellent connections not just to the local government but also to the central government, which enabled its wholly-owned subsidiary to get a listing on the Shenzhen stock exchange.

Shuanghui's management retains the majority stake in the company at around 36% of shares, but has more voting rights than other shareholders. CDH has the next biggest stake at about 34%. Goldman and New Horizon each have about 5% and Temasek holds about 3%. When Winston Wen ran Beijing-based New Horizon, the firm invested about $20 million into Shuanghui from 2006 through two avenues, according to a 2012 research report from China Investment Capital Corp. Winston Wen left New Horizon in 2010 after some in the industry criticized his company's aggressive deal-making. Beijing later appointed him chairman of the China Satellite Communications Corporation, a State Owned Enterprise. New Horizon is run by some of Wen's former college classmates, but how much stake he or his relatives have remains unclear. Regardless, Winston Wen continues to take an interest in operations, remains involved in New Horizon and derives income from its investments. In 2012, about a year after Shuanghui was hit by a food-safety scandal involving the illegal additive clenbuterol, Winston Wen's father, Prime Minister Wen Jiabao, visited the company's factories and headquarters. Prime Minister Wen encouraged Shuanghui's workers to put food safety first, stating that if the company made "unremitting efforts" it would shine brightly. Such public pronouncements and visits signal official patronage in China.

Based in the city of Luohe in the central Henan province, Shuanghui was set up by the local government in 1958. Current Chairman Wan Long was appointed head in 1984 and steered Shuanghui through a restructuring and a successful initial public offering in 1998. After the local government sold its stake in 2006, Shuanghui transformed itself into its current labyrinthine corporate structure, with a view to foreign acquisitions.

Smithfield too has previous ties to the Chinese government, knows the value of these ties in China and the suspicion they arouse elsewhere. Smithfield began exporting to China in 2007. In 2008, the state-owned COFCO, China's largest food importer/exporter, bought a 5% share in Smithfield. Shuanghui and Smithfield first discussed the potential acquisition in 2009, with on-and-off negotiations for 4 years. In 2012, Smithfield repurchased COFCO's shares. In 2013, Shuanghui made the bid for Smithfield.

Like many of China's top business leaders, Shuanghui's Chairman Wan Long has cultivated political connections in Beijing. For the past 15 years he has been a member of China's National

People's Congress, a national-level legislature that meets once a year to formalize measures proposed by leaders of the Chinese Communist Party. The backing of princeling stakeholder Winston Wen gives the company direct access to power brokers and key decision makers in Beijing.

In 2010, the investors explored the possibility of listing Shuanghui by having its Shenzhen-listed subsidiary, Henan Shuanghui Investment & Development Co., buy the parent company's assets. They abandoned the plan because local media reports on the proposed parent company's state affiliations sparked investors' concerns.

In 2011, CCTV revealed that Shuanghui's buyers had pressured farmers to spike pig feed with the chemical clenbuteral, banned in both the United States and China, to stops pigs from accumulating fat to produce lean meat. Local government officials and inspectors had given a green light to this problematic food chain, disregarding food-safety guidelines. When Shuanghui was exposed, local officials protested that the company had been unfairly targeted as farmers all over China regularly used clenbuteral. But Shuanghui buyers had ordered hog farmers to supply unnaturally trim 70% lean pigs. An average pig can produce meat that is only 40% lean. Regardless, provincial officials insisted that the largest employer in central and southern Henan could not fail.

Accounting data in China are particularly opaque and provide scant information on these interrelationships between business and government. Despite Beijing's avowed goal of adopting international accounting standards, certain activities, such as "related-party transactions", are not consistent with international standards, so officials and managers fudge. Under international accounting norms, managers should clearly disclose deals between companies with overlapping ownership. But, because overlapping ownership permeates China, detailing individual transactions would overwhelm financial reports. Consequently, "pure state-controlled enterprises" have no disclosure requirements. For the research in our book, Subsidies to Chinese Industry, we found that many of the companies' annual reports did not reveal standard accounting data such as "Bad Debts" and did not define terms such as "Payables to The Government". Cash Inflows from some companies' operations exceeded the Sales reported on the Income statements with no clarification.

Unclear governance and incomplete, even misleading, information from Shuanghui and Smithfield would impact the U.S. stock market, company evaluations, pricing mechanisms and other food producers' competitive positions.

Food-Safety Issues

Shuanghui's and China's food-industry culture exudes outrageous food-safety violations and a history of food adulteration. As discussed prior, the company finally shut down a plant after numerous reports surfaced (including from CCTV) that it fed pigs with banned chemical clenbuteral. Chinese food calamities include glowing, bacteria-infused pork, cadmium-laced rice, rat meat sold as mutton, and toxic milk formula that killed six infants.

Smithfield's CEO Larry Pope recently said "People have this belief that everything is made in China. Open your refrigerator door, look inside. Nothing in there is made in China because American agriculture is the most competitive and efficient in the world" (Bloomberg Businessweek, May 29, 2013). Respectfully, Mr. Pope is wrong.

Americans have long been eating foods imported from China, the world's largest agricultural economy and one of the biggest exporters of agricultural products. China shipped 4.1 billion pounds of food to the United States last year, according to the Agriculture Department, including almost half of the apple juice, 80% of the tilapia and more than 10% of the frozen spinach, as well as fresh mushrooms, canned tuna, mandarin oranges, and artificial vanilla. The United States currently does not import meat products from China. The United States has cracked down on milk products imported from China, including baby formula and pet food containing the toxic protein-additive melamine. The United States has also banned at various times honey, shrimp, catfish and eel from China.

Oversight of China's food producers has lagged behind Chinese food imports. A 2009 study by the Agriculture Department concluded that while Chinese officials were working to improve food safety and the regulation of food production (requiring the small number of Chinese food exporters to gain certification) imports from China remained problematic. Monitoring the wide range of products and hazards that can arise at various points in supply chains posed a challenge for Chinese and U.S. officials. The Food and Drug Administration (FDA) inspects less than 2%

of imported produce, processed food and seafood. Despite a Memorandum of Understanding between the FDA and China's Certification and Accreditation Administration signed in 2010, the FDA only inspected ten food facilities in China in 2012.

Imported foods sold in groceries and other food stores must be labeled with their country of origin; but, many imports end up in restaurant and food-service meals, where consumers have no information of source. Additionally, once imported foods are processed in any fashion, government regulations no longer require such labeling.

Consequently, frozen imported peas and carrots would require a label if packaged separately, but mixed together and sold in a single package, they do not need labeling. Fish fillets must carry labeling, but imported fish sticks or crab patties do not. China is also a big source of ingredients used in food, like xylitol (a candy sweetener), artificial vanilla, soy sauce and folic acid. China cannot, however, export fresh pork or beef to the United States because the country still has outbreaks of hoof-and-mouth disease. Processed-pork products like smoked hams, sausages and bacon could conceivably be imported from China, if they meet the World Organization for Animal Health's recommendations, which require cooking at high heats for a specific amount of time. Disturbingly, this would not catch wrong doings such as Shuanghui's selling pork laced with clenbuterol or other banned additives with widespread use in China.

China is not yet approved to ship meat and poultry products to the United States but is being certified as equivalent to U.S. meat-inspection standards. Simultaneously, the Department of Agriculture has weakened oversight by moving from conducting annual on-site audits to relying on a Self-Reporting Tool augmented by audits every three years. This increases the risks of exporting potentially unsafe pork products from China to the United States and the safety risks for U.S. consumers and society.

Quality Control & IP Protection

Shuanghui, which controls Shenzhen-listed Henan Shuanghui Investment & Development Co, China's largest meat processor, is one of China's few integrated meat producers, with farm-to-fork operations -- but it only raises 400,000 of its own hogs a year, a fraction of the 11 million it needs. This means the company, which has more than 61,000 employees, relies heavily on private breeders in a country where overcrowding on farms is commonplace, raising the risk of spreading disease back to the United States. Overcrowding on farms around Shanghai led to some 16,000 rotting pig carcasses floating down the Huangpu River earlier this year, according to official documents. More alarmingly for Shanghai's residents, the Huangpu supplies 20% to 30% of the city's tap water.

Quality control does not seem a strong suit for Shuanghui. A recent report on the U.S. Meat Export Federation website about training seminars at large Chinese meat processors, including Shuanghui, noted some participants were unfamiliar with the proper use and handling of frozen raw materials. "In some instances, we found that while the processing equipment was very modern, there was room for improvement in terms of maintenance and sanitation," it said.

The United States Trade Representative has listed China as one of ten countries on its Priority Watch List of worst violators of intellectual property rights. Shuanghui will acquire and possibly license Smithfield's animal-gene technology, with corresponding competitive losses for U.S. industry and Smithfield's competitors.

One offshoot of the acquisition will be counterfeit meat products that China consumes and exports, leading to brand dilution and loss of export markets (other than China) for the United States. For example, New Zealand exports 20 milk-powder brands to China made by six companies. Yet, more than 200 Chinese brands claim to be from New Zealand. The New Zealand Herald (June 25, 2013) reported that 90% of so-called NZ dairy products in Chinese supermarkets were counterfeit. This situation will probably occur with Smithfield's patents and brands exacerbating loss of domestic and export markets for U.S. companies and brand dilution for U.S. food processers generally.

Reciprocity

Shuanghui did not acquire Smithfield for its hogs alone. In 2012, the number of hogs slaughtered by Smithfield, which has about a quarter of the U.S. slaughter capacity, would account for only 3% of China's slaughtered hogs. However, Shuanghui's purchase of Smithfield is a harbinger of things to come as China prepares to buy more in this U.S. and other agricultural sectors.

As the Chinese government views pork-processing as a strategically important industry, the country is unlikely to open this market to U.S. companies. Conversely, protecting the U.S. local food industry will probably not stop Chinese processed-pork imports. A 2011 World Bank study noted that from 2001-2009, China has loomed especially large in the most-protected sectors of major trading partners' markets. In 2009 in these most-protected sectors, China's share of imports greatly exceeded overall imports and dwarfed that of any other country. For example, China's share of the most-protected sectors in Japan was over 70%, in Korea over 60%, in Brazil about 55%, and in the United States, Canada, and the EU about 50% each. Even in these protected sectors, China's share increased dramatically over the course of the Doha Round. In many of the importing countries (e.g., Brazil, the EU, and the United States), China's share more than doubled. Indeed, China gained market share even in countries such as Canada, Mexico, and Turkey that have free -trade agreements with close and large neighbors. Thus, liberalization under the Doha agenda, especially in the politically-charged, high-tariff sectors, resulted in other countries opening their markets to Chinese exports. For example, in the United States, China had by far the highest share of imports in eight out of the ten most-protected sectors, ranging from 22% in man-made fibers to 76% in footwear. But, the Chinese market, despite China's far-reaching WTO-accession commitments, remained protected across several products while the Chinese government simultaneously subsidized its manufacturers for increased exports.

Indeed, the Smithfield acquisition will be the first in a long line of Chinese acquisitions in U.S. agriculture and we should prepare for this as a matter of national interest.

Chinese acquisitions of U.S. companies have soared to $8.7 billion so far this year from $56 million in 2003, according to data compiled by Bloomberg. The deal volume through May 31 was already close to 2012's record $9.2 billion and more than double the $3.9 billion in 2011. The size of China's purchases have grown as well. Three of the four biggest Chinese deals in the United States have been announced since the start of 2012, including the Smithfield acquisition.

Closely-held companies undertook about half of the Chinese transactions in the United States by dollar value over the past 15 months. But, as previously argued, these large private acquisitions (and many small ones in strategically important industries) have their Chinese provincial and central governments' close backing and support; in return the companies have an obligation to respond to governmental demands. The Chinese government, through its investment arms, also has investments in major private Chinese firms engaged in strategic businesses include food production, aside from companies fully owned or controlled by the Central Committee's key members. The People's Liberation Army has its own investments in companies engaged in profitable areas of business which provide funds for the improvement and development of military personnel and hardware.

Through record subsidies and loans that never have to be repaid for the life of the loan, the Chinese government is encouraging a going-out strategy in agriculture to acquire foreign food assets and farms. The government has blessed a $32.7 billion foreign investment splurge in the last five years after just $4.2 billion in the previous five. China's announced purchases in agriculture, including pastoral land, farm chemicals, processors and food companies, have already reached about $7.8 billion this year, compared with the record $8.1 billion in all of 2010.

Shuanghui's bid for Smithfield, which owns 460 farms and has contracts with 2,100 others across twelve U.S. states, would be the largest Chinese acquisition of a U.S. company and follows a string of global food and agricultural-related purchases in Southeast Asia, Brazil and Australia.

China's acquisitions are being driven by the desire to secure volumes of safe produce for import and eventually access to the transfer of technology. Vice Agriculture Minister Chen Xiaohua said in March that China is "willing to encourage" investment by capable Chinese companies in foreign farm sectors. Similarly, Chen Xiwen, deputy head of the Central Rural Work Leading Group under the State Council said in May 2012 that the nation's agricultural businesses should invest in global grain trading and supply-chain logistics to help China to secure supplies.

Holdings in industry-leading farmers and food processors around the world give Chinese companies access to the intellectual property that drives it all, propelling a steeper increase in China's domestic pork-processing productivity. The United Nations estimates that with 20% of the world's population and just 8% of its farmland, China needs to spend $861 billion on its farm sector through 2050 to produce crops and livestock to feed its people. Food security has become critically important to the Chinese government eliciting genuine demand to invest in large-scale assets especially food-processing plants and various technologies associated with food production. Shuanghui is not venturing into the Smithfield acquisition alone.

Conclusions

Countries undertake activities with negative externalities such as pork production with the promise of societal benefits. For China, the Smithfield acquisition provides the benefits of American land, water, brands and technology. For U.S. consumers, competitors, and society the risks are clearer than any long-term benefits. Unanswered questions include who owns the farm land in the United States and who manages its oversight as well as who sees that what we eat is not toxic. Our present regulations do not protect us adequately in this brave new world.

Medium and long-term benefits to Smithfield's shareholders are debatable as well. Continental Grain, which together with several related parties recently owned roughly 6% of Smithfield, has said the board should consider separating the company into three businesses: hog production; fresh pork and packaged-meats production; and international pork operations. Smithfield's chairman said he disagreed with Continental's recommendations.

In a conference call with analysts (May 29, 2013), Shuanghui's Managing Director Yang Zhijun, said "Continuity is very important to" Shuanghui, and it "will not change the people, the places, the products, [or] the leaders" at Smithfield. "We want the business to stay the same, but [be] better." He did not elaborate on how Smithfield would become better as no transfers of technology or knowhow were forthcoming from Shuanghui. He also did not elaborate on better for whom, which is the question that CFIUS and this committee should be asking on behalf of the American people.

Thank you and I look forward to your questions.

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C. Larry Pope
President & Chief Executive Officer, Smithfield Foods
Committee on Agriculture, Nutrition and Forestry
United States Senate
July 10, 2013

Good afternoon Chairwoman Stabenow, Ranking Member Cochran, and members of the Committee. My name is Larry Pope. I am the President and Chief Executive Officer of Smithfield Foods, a global food company and pork producer based in Smithfield, Virginia. I appreciate this opportunity to offer testimony to the Committee today.

We are very excited about the announced new partnership with Shuanghui, the majority owner of China's largest pork producer. It provides enormous benefits for our two companies, for American manufacturing and agriculture. It is a partnership that is all about growth, and improving the agricultural environment in both the US and China.

The new combined company expects to meet the growing demand for pork in China by exporting high-quality pork products from the US. This means more production for US producers, more jobs in processing and more exports for the US economy.

At the same time, we will continue to supply our same high quality, renowned products to US consumers, as well as other markets around the world. Shuanghui is absolutely committed to continuing the long-term growth of Smithfield and to continuing to work with American producers and suppliers who have played an integral role in our success for many years.

In short, this partnership for growth is good for our business, and for the producers and suppliers with whom we work. The reaction from the US agricultural community has been overwhelmingly positive. 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.

Growth is also very good news for Smithfield's employees and communities. 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.

I thought it would be helpful to the Committee to share the key details of our new partnership with Shuanghui. On May 29th, 2013, Smithfield announced that we were entering into a definitive merger agreement with Shuanghui International Holdings Limited to create a leading global pork enterprise. Shuanghui will acquire all of the outstanding shares of Smithfield for $34.00 per share in cash. This price represents a valuation of Smithfield at $7.1 billion. The purchase price represents a premium of approximately 31 percent over Smithfield's closing stock price on May 28, 2013, the last trading day prior to the announcement. We expect this transaction to close in the second half of 2013, following receipt of necessary approvals and a vote by our shareholders.

We have voluntarily sought review of this acquisition from the Committee on Foreign Investment in the US (CFIUS), where the transaction is already undergoing a thorough review. We welcome the additional interest we have received, and welcome this chance to answer the Committee's questions. I know that we have only limited time today, but I have directed my staff to maintain contact with the Committee staff and the staff of the members in order to be sure that we respond to your questions and concerns about this new venture.

Madame Chair, let me provide the Committee with some background regarding the parties to this transaction. Smithfield Foods is a publicly traded $13 billion global food company and the world's largest pork processor and hog producer. In the US, the company is also the leader in numerous categories of packaged meats with many popular brands. We employ more than

46,000 people in 25 states and 4 countries. Over half of our domestic employees are members of the United Food and Commercial Workers (UFCW), including all 4,808 employees at the Smithfield Packing Plant in Tar Heel, North Carolina, which is the largest packing plant in the world. Smithfield Foods is committed to providing good food in a responsible way. We maintain robust animal care, community involvement, employee safety, environmental, and food safety and quality programs.

Shuanghui International Holdings Limited is a private holding company based in Hong Kong. It has a diverse ownership which includes the management and employees of the Shuanghui Group in China, as well as major global investors, including Goldman Sachs. The Chinese government has absolutely no ownership stake or management control in Shuanghui. Shuanghui is the majority shareholder of China's largest meat processing enterprise and China's largest publicly-traded meat products company as measured by market capitalization. It is a pioneer in the Chinese meat processing industry with over 30 years of experience. Shuanghui has no US presence, market share, or current business interests. Smithfield has maintained and enjoyed a business relationship with Shuanghui for over five years. During this time, we have gotten to know one another, and share mutual respect and admiration.

We are entering into this transaction not only because it provides good value to our shareholders, but because we believe that this is a great transaction for all Smithfield stakeholders, including our employees, suppliers, communities, and farmers. This transaction will give Smithfield new channels to market and the strongest distribution network in China. By combining Shuanghui and Smithfield, we will accelerate both companies' strategic plans, broaden our market reach and create exciting growth opportunities.

The most important aspect of this transaction is that it not only preserves Smithfield, a name synonymous with excellence among American consumers, but also offers us more opportunities in new markets and new frontiers. Shuanghui is committed to maintaining Smithfield's operations, staff and management.

Larry Pope - Testimony
Senate Agriculture Committee
7/10/13

Let me be clear: Shuanghui intends to retain Smithfield's management team, its plants and its employees. Shuanghui recognizes Smithfield's best-in-class operations, outstanding food safety practices and 46,000 hard-working employees. There should be no noticeable impact on how we do business operationally in America and around the world as a result of this transaction, except that we will do more of it.

Shuanghui will honor the collective bargaining agreements in place with Smithfield's union-represented employees, as well as existing wage and benefit packages for non-represented employees. These commitments, combined with the opportunities for growth created by this deal, have elicited the support of UFCW and our employees.

The combined company is committed to maintaining Smithfield's integrity and brand excellence, as well as Smithfield's six-pillar sustainability initiatives and extensive community support. Our sustainability strategy is based on our core values and organized by five pillars that represent our key areas of sustainability focus: animal care, employees, environment, food safety and quality, and helping communities. The sixth pillar, value creation, underpins our sustainability strategy and connects it with our business results.

With respect to agriculture, we expect this transaction to drive growth and expansion not only for our growers, but for the entire US pork industry. Smithfield Foods owns over 400 hog farms and has contracts with more than 2,000 family farmers across the country. Our agreement with Shuanghui will maintain all of these contracts and arrangements. Moreover, this transaction creates a terrific opportunity through growth in exports for US hog farmers to expand production to meet the growing Chinese demand.

Smithfield has experienced tremendous growth over the last several years due primarily to increases in exports, especially to China. China has 1.35 billion people, many of whom are moving rapidly into the middle class and desire more and better-quality protein in their and their family's diets. And pork is what is on the menu for Chinese consumers. Pork is by far the leading protein in the Chinese diet, representing over 60 percent of all protein consumed. In fact, the

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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 US per capita consumption has shrunk by 10 percent. Pork is the number three protein in the US, but the number one protein in China. China is responsible for 50 percent of the world's pork consumption and their demand is still growing, whereas pork demand in the US has been declining for almost 15 years. At Smithfield, we see this valuable market as an undeniable opportunity to grow our business and produce more here in the US.

Growing exports is a key strategic objective for Smithfield. Exports currently account for 30 percent of our fresh pork revenue. Exports are also critical to the US industry on a whole, where exports have grown from 6.5 percent to 23 percent of total industry output in the last 15 years. And China is the fastest-growing and largest overseas market in terms of potential demand. Over the next several years, we project our growth in revenue from overseas sales, on a year-over-year basis, to exceed revenue growth from our domestic sales. Increasing our sales to China is central to our growth strategy. Combining with Shuanghui, China's number one pork company, in order to achieve this objective makes perfect business sense. I know that Smithfield is not alone in recognizing how important global exports are for the US agricultural sector, and pork in particular.

Food safety is incredibly important to both companies. At Smithfield, producing safe, high-quality, and nourishing food is the most important thing we do as a business. Smithfield and its independent operating companies (IOCs) work together to ensure traceability and to provide the highest-quality meats and packaged foods to our customers. Our vertically integrated business model helps to support the safety and quality of our products through careful management, strict policies, and dedicated food safety professionals. Responsibility for food safety stretches across our company—from our corporate Food Safety Council to the employees within each of our facilities.

The integrity of our brands, our record of safety, the safety of the US food supply chain and the recognized effectiveness of US food safety standards are key drivers of the value that Shuanghui places on Smithfield. Our brands are recognized as representing highest-quality, safe and sought-after products throughout the world, including in China. Our combined company thus has every incentive to ensure the continued safety and excellence of our products and brands. Smithfield's facilities will continue to maintain their quality and will experience the same rigorous level of USDA FSIS inspection, regardless of the ownership of this company. Absolutely nothing about how our products are made, inspected or distributed will change.

In addition, the transaction will positively impact global food safety. Shuanghui sought out Smithfield because of our industry-leading standards. Nothing is more important to Shuanghui than the quality and safety of its food products. Shuanghui, whom we have partnered with for years, has worked to implement new, stringent food safety protocols and standards in China, and is constantly improving its standards of safety. Teaming up with Smithfield will only strengthen the safety of the global food supply chain.

This transaction is about <u>exporting</u> high-quality meat products from the US to China to meet the growing global demand for pork and increase global food safety standards. This combination will not result in any US imports of food from China. Moreover, all food products imported into the US are subject to rigorous inspections and controls by American regulators to ensure their integrity, safety and wholesomeness.

On the issue of securing the domestic food supply, an issue which I know to be important to all of us, we believe that this transaction has no impact on US food supply and therefore no impact on "food security". Smithfield will continue to produce pork in a safe and responsible way for US consumers, in full compliance with the standards and regulations of the USDA, FDA, and other federal and state authorities. The US pork market remains incredibly competitive and attractive, and we will continue to aggressively produce and market our high-quality pork products in America.

US pork producers and processors are the best and most efficient in the world, and that competitive advantage will not be upended, but rather enhanced, by this merger. The bottom line is that this is all about US exports to the Chinese market, not Chinese exports, or a loss of US competitiveness. Smithfield, as well as its competitors, will increase their ability to export to the fastest growing market in the world, thus ensuring value for our shareholders and growth for American producers.

Smithfield will combine with an enterprise that shares our belief in global opportunities and our commitment to the highest standards of product safety and quality. It also creates a stronger Smithfield with more resources to grow and meet increasing global demand for high-quality pork. Shuanghui is committed to investing in Smithfield to produce more food, more jobs and more value in the US.

I appreciate this opportunity to address the Committee, and I welcome your questions. Thank you.

"THE IMPACT OF SHUANGHUI INTERNATIONAL GROUP'S ACQUISITION OF SMITHFIELD FOODS"

TESTIMONY OF DANIEL M. SLANE

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

UNITED STATES SENATE

JULY 10, 2013

Chairwomen Stabenow, Ranking Member Cochran, and members of the Committee, thank you for the opportunity to appear today to discuss the proposed acquisition of Smithfield Foods by China's Shuanghui International Holdings, Ltd. The US-China Economic and Security Review Commission (the "Commission"), on which I serve, has not taken a position on this proposed transaction and has not made any public statements on it. I will share the commission's recommendation regarding foreign investment in the United States with you, however, the views I present today are entirely my own.

OVERVIEW

Shuanghui's purchase of Smithfield will have major implications for the US and the global economy. The transaction is worth $ 7.1 billion dollars and represents the largest purchase of a US firm by a Chinese company. Globally, Chinese agribusinesses have so far invested little in meat processing, focusing instead on crops, dairy and agrochemicals. That shows just how important the meat industry has become for China. Shuanghui is not investing in just any US meat company – Smithfield is a vertically integrated, multinational enterprise that leads the US pork market in hogs and slaughtering capacity. Smithfield has 25 US plants, and 7 more in Mexico, Romania and Poland. They employ 46,000 workers and control 26% of the US pork market and 28% of the domestic sows.

Smithfield owns 460 farms and has contracts with 2,100 farmers in 12 states.

Shuanghui is a Chinese state-controlled[1] company that owns the majority of the shares of Henan Shuanghui. Shuanghui sells 13.3% of the pork sold in China under

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[1] For China, the question of state ownership or control can be particularly complicated, because the government's role is not always straightforward or disclosed. Despite economic reforms and moves toward privatization, much of the Chinese economy remains under the ownership or control of various parts of the Chinese government. In addition to outright ownership or direct control, the government or the Communist Party can also exert control by deciding the composition of corporate boards and the corporation's management team. China's state-owned banks may use below-market rate loans or loan forgiveness as a

the Shineway brand. It operates 20 processing plants, slaughters 15 million hogs a year, employs 60,000 workers and is investing $800 million to build 4 more plants. In 2012, Shuanghui sold $6.2 billion worth of pork and had assets of $1.6 billion.

A central issue implied in this transaction is China's rising outbound investments. Beijing has issued a directive to their state-owned and state-controlled entities to "Go Abroad." I recognize that, as China's economy matures, its companies will seek to acquire assets and enter new markets overseas, a process that can aid China's transition to a new growth model. I remain concerned about how China is making these investments. 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 Communist Party. These companies are also tapping into the huge foreign exchange reserves that the central bank has accumulated through currency manipulation and capital controls.

I am also concerned that China's outbound investment is part of a concerted effort to acquire strategic assets, either downstream in intellectual property and brands, or upstream in natural resources. China has built its economic success on labor-intensive manufacturing, backed by state control over their economy. A big reason why China's companies are "going abroad" is to compensate for the deficiencies in this growth model. The trouble is that Chinese companies often have perverse incentives to use resources inefficiently and constantly disregard intellectual property rights.

Since China joined to the WTO in 2001, agriculture has been one of the few sectors in which the United States has enjoyed a trade surplus. For the past three years, China has become the number one destination for US food and agriculture exports.

But in many ways, our food and agriculture trade with China has not met expectations. About seventy (70%) of what the United States exports to China today is soybeans and other bulk commodities. Conversely, in consumer foods, we have run a cumulative trade deficit with China of nearly $5 billion from 2008 to 2012. According to the US Trade Representative, China has erected unfair trade barriers that violate its WTO commitments. Some of the most egregious barriers are based on unscientific food safety concerns and have little to do with China's legitimate consumer protection and a lot to do with its industrial policy and its agricultural policy of self-sufficiency.

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tool to dictate to the management of corporations. The government favors certain sectors of the economy, such as high technology manufacturers, with extensive subsidies, including tax abatements, and may prohibit participation or investment by foreigners. Chinese companies seeking to invest abroad must first receive government approval. In these and other ways, the government directs the activities of companies that may be listed as private on the three Chinese stock exchanges but are in fact government owned or controlled.

With these issues in mind, I would like to turn to three areas of discussion: First, an examination of why China wants Smithfield. Second the potential impact of the acquisition on our economy. And, finally, a recommendation offered by the Commission in its 2012 annual report for your consideration.

WHY SMITHFIELD?

To understand why China has focused on Smithfield, it is important to understand the changes that are occurring in China today, specifically their diet and the growing demand for meat and meat protein.

Over the last few decades, China has brought 300 million people from abject poverty into the Chinese middle class. These people are demanding western diets, especially meat and meat protein. Over the next ten years, based on their rate of growth, the CIA predicts they will add 500 million more, including 240 million migrant workers.

With 21% of the world's population, China has only 7% of the productive farmland. The country suffers from severe water shortages in its northern half and extensive surface water and air pollution. When you couple this with the growing demand for meat, you can begin to understand the enormous challenges faced by China's leadership and its agro industry.

China does not have sufficient farmland to grow the feedstock required to produce the amount of meat and dairy demanded by its citizens.

Despite China's very strong preference for self-sufficiency in meat, especially pork, the people face periodic shortages and large price increases. The country consumes 50% of all pork globally and the rising demand for pork is pushing the system beyond its limits.

Consequently, China is scouring the planet for agricultural assets that can be utilized by the world's most populous nation.

China is on track this year to spend a record amount on the purchase of food assets and farms. Their drive for agricultural assets in South America, Australia, Africa, and other locations has ignited concerns from lawmakers around the world.

In my view, the purchase of Smithfield by China is the first of what I expect will be many forays into rural America.

China's purchase of Smithfield is driven by several considerations:

1. 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. 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. During China's explosive growth they were exposed to the coal and iron ore markets and paid a

very high price. They have learned it's in their best interest to purchase the mines rather than buying the raw materials.

2. The Chinese want Smithfield's very valuable technology and hog genetics. Smithfield has developed high-value hog genetic strains that it contends are "the leanest hogs commercially available." Smithfield also has some of the most advanced meat processing technology and manure management techniques that helped foster industrial-scale hog production. It's interesting to note that US taxpayers help finance much of Smithfield's growth. The USDA awarded close to 200 research grants related to swine genetics between 2000 and 2012. The 2,100 contract farms that produce hogs for Smithfield are dependent on USDA-backed operating and land loans to finance their operations. Their world-class manure management techniques were developed with the support of USDA grants. I should also point out that Smithfield paid $15 million dollars to North Carolina State University to develop "environmentally superior technologies" for waste management.

The Chinese Government is seeking better technologies to increase productivity of its livestock. According to Delta Farm Press, a leading agriculture publication in the US, China is now capitalizing on decades of cutting-edge US agricultural research. In particular, Chinese producers are looking to forge more uniform herds based on the most efficient breeds, like Duroc, Yorkshire and Landrace.

3. In order to become a leading multinational company in their industry, the Chinese need Smithfield's advanced management, marketing and operating expertise, especially as it applies to industrial hog production and food safety.

4. Smithfield's brand name and reputation is enormously valuable in China. Due to the poor food safety record of Chinese companies, including Shuanghui, many Chinese consumers do not trust Chinese brands. They prefer the safety of foreign brands, especially US companies.

5. Finally, Smithfield allows China to enjoy the profits of a value added processor, as opposed to just importing hogs or pork products.

When you consider the above benefits, it's easy to see why the Chinese have offered to pay a 31% premium for Smithfield.

NOW I WOULD LIKE TO TURN TO THE POTENTIAL IMPACT THIS PURCHASE MAY HAVE ON OUR ECONOMY.

1. Shuanghui's takeover of Smithfield will exacerbate a pattern in US-China trade relations that have taken hold over the past ten years, whereby value added production is shifted to China, to the detriment of US workers and businesses. It raises the question of whether this transaction is in the best interest of the US.

If this deal is approved, it will open the door for other purchases of US food companies by Chinese firms or investors. Our agriculture and food sector is unusually concentrated, with just a few companies dominating the market in each link of our food chain. In most sectors of the US economy, the four largest firms control between 40% to 45% of the market and many economists maintain that higher levels of concentration can start to erode competitiveness. According to data compiled by the University of Missouri in 2012, in the agriculture and food sector, the four largest companies control 82% of the beef packing industry, 85% of soybean processing, 63% of pork packing and 53% of broiler chicken processing. These national concentration measurements can conceal even higher levels of concentration at the regional or local levels.

Agribusiness consolidation contributes to the decline in independent, medium and small livestock producers that can drain the economic vitality of rural communities.

2. Another risk is that this deal will do little to improve overall market access for US pork. China is unlikely to abandon its policy of self-sufficient meat production. A more likely result is a closed market of intra-company trade between Shuanghui and Smithfield. Given Smithfield's massive output, it alone might suffice to satisfy China's limited "quota" for US pork. Smithfield has developed a special relationship with Shuanghui over several years. At its plant in North Carolina, the largest of its kind in the world, it is already producing ractopamine-free pork at Shuanghui's request. Other pork processing plants in the US could still find it hard to export to China, either because the cost of complying with ractopamine restrictions are too high, or because they do not enjoy the special privileges of a firm directly owned by a Chinese parent company.

Even if China does import more US pork, US pork processors could lose out. Under China's 12th Five Year plan (2011-2015), China has begun to consolidate and industrialize operations. It is shutting down backyard pig farms in favor of large, vertically integrated operations. Shuanghui is one of 6 companies designated by the government to carry out the policy. Shuanghui has invested huge sums in building large industrial facilities to slaughter and process pork, but lacks the hogs to fill them. Lacking control over hog farms, it sources meat from smaller producers, which leads to erratic quality and output. Until they are able to fully increase hog production, importing pig carcasses from Smithfield appears to be a more expedient solution.

In keeping with China's industrial policy, some of this processed pork could even be exported to the world market.

3. This deal has been promoted as a way to facilitate US pork exports to China, but ultimately Shuanghui could export pork back to us. A significant potion of US pork exports are half-hog carcasses where they are processed into value-added pork cuts by firms like Shuanghui. The adoption of Smithfield hog genetics and processing technologies will dramatically improve hog production in China and could allow Shuanghui to reverse the global flow of pork products and begin the export of

Chinese pork products to the US. Currently, the United States does not permit imported pork from China, but that could change. I would expect Shuanghui to apply for approval to re-export pork products processed from imported US hogs and may even apply to ship pork from hogs raised in China. All of these products could bear labels from the familiar Smithfield brands. Because processed pork products, like ham, bacon and sausage are exempt from mandatory country of labeling requirements, American consumers would be unaware that these products were imported from China.

4. Providing foreign competitors access to Smithfield's technology and intellectual property could disadvantage our domestic hog industry, both here and globally. Shuanghui is expected to adopt Smithfield's hog genetic lines that could weaken the US pork export opportunities. Shuanghui has an extensive supply chain and distribution system in China and throughout Asia, with operations in Japan, and South Korea. The merger would improve the position of Shuanghui's Mainland China processing plants by sharing US technology and expertise and potentially allow Shuanghui to undercut US pork exports to the Pacific Rim.

CONCLUSION

I think it is reasonable for you to expect a wave of Chinese investments into our food and agriculture industry and this potential purchase is not a one off. Today it's Smithfield, but tomorrow it could be Consolidated Grain, ConAgra or Tyson Foods. With that in mind, the Commission, in its report to Congress last year, made the following recommendation:

"CONGRESS EXAMINE FOREIGN DIRECT INVESTMENT FROM CHINA TO THE UNITED STATES AND ASSESS WHETHER THERE IS A NEED TO AMEND THE CFIUS STATUTE TO: 1. REQUIRE A MANDATORY REVIEW OF ALL CONTROLLING TRANSACTIONS BY CHINESE STATE OWNED OR STATE CONTROLLED COMPANIES INVESTING IN THE UNITED STATES; 2. ADD A NEW ECONOMIC BENEFITS TEST TO THE EXISTING NATIONAL SECURITY TEST THAT CFIUS ADMINISTERS; AND 3. PROHIBIT AN INVESTMENT IN A US INDUSTRY BY A FOREIGN COMPANY WHOSE GOVERNMENT PROHIBITS FOREIGN INVESTMENT IN THAT SAME INDUSTRY.

Chairman Stabenow and ranking member Cochran, thank you for allowing me to appear before you today. I appreciate the Committee's focus on this important issue and I look forward to your questions.

United States Senate
Committee on Agriculture, Nutrition, and Forestry

"Smithfield and Beyond:
Examining Foreign Purchases of American Food Companies"

Hearing Testimony of Matthew J. Slaughter

Wednesday, July 10, 2013 562 Hart Senate Office Building

Introduction

Committee Chairwoman Stabenow, Ranking Member Cochran, and fellow Members, thank you very much for inviting me to testify on these important and timely issues of how foreign purchases of American companies affect U.S. jobs and overall economic strength.

My name is Matt Slaughter, and I am currently Associate Dean for Faculty and Signal Companies' Professor of Management at the Tuck School of Business at Dartmouth, Research Associate at the National Bureau of Economic Research, and adjunct Senior Fellow at the Council on Foreign Relations. From 2005 to 2007 I also served as a Senate-confirmed Member on the Council of Economic Advisers, where my international portfolio spanned topics on the competitiveness of the American economy and included my active service on the Committee on Foreign Investment in the United States (CFIUS).[1] More recently I was a founding member of the Squam Lake Group, a non-partisan group of 15 academics who came together in the fall of 2008 to offer guidance on reform of financial regulation amidst the World Financial Crisis.[2]

The topic of today's hearing is extremely important. The purchase by Chinese conglomerate Shuanghui of Smithfield Foods, the world's largest pork processor and hog producer, would be the largest acquisition of an American company by a Chinese one. There are indeed legitimate concerns about China's economy and China's economic policies—e.g., intellectual-property theft and cyber-espionage. But there is much to welcome about rising foreign direct investment (FDI) from China and other emerging markets. Based on all publicly available information, I without hesitation endorse the Shuanghui purchase of Smithfield as a welcome, beneficial transaction for Smithfield stakeholders and for the broader U.S. economy overall.

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[1] In the past two years, I have not received any Federal research grants. Currently, in addition to the affiliations listed above I serve as a member of the academic advisory board of the International Tax Policy Forum; a member of the Congressional Budget Office's Panel of Economic Advisers; and a member of the U.S. State Department's Advisory Committee on International Economic Policy. For many years I have consulted both to individual firms and also to industry organizations that support dialogue on issues of international trade, investment, and taxation. For a listing of such activities, please consult my curriculum vitae posted on my web page maintained by the Tuck School of Business at Dartmouth.

[2] The book our Group co-authored that discusses the challenges in understanding and aiming to prevent financial crises is *The Squam Lake Report: Fixing the Financial System,* with Kenneth R. French, Martin N. Baily, John Y. Campbell, John H. Cochrane, Douglas W. Diamond, Darrell Duffie, Anil K Kashyap, Frederic S. Mishkin, Raghuram G. Rajan, David S. Scharfstein, Robert J. Shiller, Hyun Song Shin, Matthew J. Slaughter, Jeremy C. Stein, and Rene M. Stulz; Princeton University Press, June 2010.

In my testimony, I will stress three main points that together help explain the many benefits of the Shuanghui acquisition of Smithfield Foods.

1. Merger-and-acquisition transactions have long been the main strategy the long-standing strategy by which global companies establish and expand operations in America.
2. The U.S. affiliates of global companies—despite accounting for far less than 1% of U.S. businesses—have long performed large shares of America's productivity-enhancing activities that lead to high average compensation for millions of American workers.
3. All public information about the Shuanghui-Smithfield transaction indicates it will benefit Smithfield stakeholders—including, importantly, its employees—and the broader U.S. economy. There is nothing inherently worrisome or unusual about the Chinese and food aspects of this transaction. Chinese purchases of American companies will help strengthen both China's own development efforts and its commitment to market- and rules-based engagement with the global economy. The United States already has substantial inward FDI in agriculture and food processing.

M&A Transactions: The Main Mode of Inward FDI into America

Acquisitions of U.S. companies by foreign entities are practically an everyday reality in the modern global economy. Indeed, there have been nearly 500 such acquisitions just this year—about three every business day. Smithfield notwithstanding, China is still a small fraction of this total. So far in 2013, only 10 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.

Mergers and acquisitions have long been the main way in which global companies start their U.S. operations. These transactions have long been critical for the United States to benefit from inward FDI, and they constitute an important share of all U.S. M&A activity.

In principle, there are two methods by which a global company can undertake new FDI into and thereby create a new affiliate in the United States. One way is to establish a new U.S. company—i.e., undertake a "greenfield" investment that creates a new U.S. business. The other way is to merge with or acquire an existing U.S. company via an M&A transaction of all or part of that company.

Actual M&A transactions take many forms in what is often called "the market for corporate control": e.g., two peer companies merge as full equals; one company purchases particular assets, divisions, or lines of business of another; one company takes a stake in another but keeps it separate; or one company buys all of another outright and merges the two into one. There are well-known tradeoffs between the two options of acquiring or establishing a new affiliate. For example, acquisitions often yield quicker presence in a foreign market than building new operations from scratch. Acquisitions can also build on target-firm assets such as advanced technologies, brand equity, and managerial talent. Greenfield investments, in contrast, often make more sense if successful market presence requires the parent to transfer into the affiliate new and/or proprietary technology.

How much new FDI into the United States arises through these two channels of acquiring or establishing new affiliates? For decades, the vast majority of new FDI has come in the form of M&A. From 1987-2006, the United States received $2 trillion in new FDI — of which 88.8% ($1.78 trillion) was accounted for by inward M&A, i.e., by foreign companies buying U.S. companies, rather than by greenfield activity establishing new businesses.

This predominant role of inward M&A belies the idea that new FDI into the United States arises only from breaking ground on establishing new companies at ceremonies with leaders wearing construction helmets and wielding shiny shovels. Greenfield investment does happen, and it is important. But the very large majority of new FDI into the United States has long been via M&A.

The same is true worldwide. Around the world, as in the United States, M&A transactions account for the large majority of FDI inflows. Each year since 2000, M&A has accounted for somewhere between 67.1% and about 85% of total global FDI inflows. Looking farther back in time shows a similar picture: e.g., in 1990 cross-border M&A was 74.8% of the global total. Around the world, establishing new affiliates via greenfield investment is important—but M&A transactions account for the large majority of total new FDI.

Some commentators look askance at M&A transactions and argue they destroy rather than create economic value. This is not the case. Yes, not every single transaction ends up performing as envisioned by the parties involved. But a large number of academic studies have examined the performance consequences of M&A transactions in the United States, and the repeated finding is that most M&A transactions improve the productivity and overall performance—such as employment—of acquired companies.

Consistent with this evidence that M&A improves the performance of acquired U.S. businesses, other academic studies of many countries around the world have repeatedly found that plants and/or companies acquired by foreign multinationals tend to subsequently enjoy faster growth in employment, wages, investment, and productivity. As the next section of this testimony discusses, an important reason for these productivity improvements is that global multinational companies tend to be very high-productivity companies at the frontier of knowledge, innovation, and investment.

One final M&A point to emphasize is that acquisitions of U.S. companies by companies headquartered in emerging markets such as China are part of a long-term trend that is likely to continue. Last year there were 132 U.S. companies in the Fortune Global 500 largest companies. As recently as 2005, there were 176. During this period, the number of China-headquartered companies on the Global 500 list has increased to 73 from just 16.

With companies in China and other developing countries seeking new ideas, new brands, and new customers beyond their fast-growing home markets, the trend of investment into the United States from fast-growth emerging markets like China is likely to continue.[3]

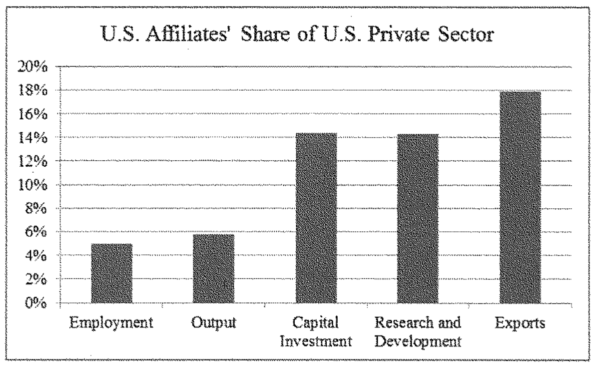
[3]Many of the statistics on M&A transactions cited in this section come from the analysis and discussion in my white paper, *Insourcing Mergers & Acquisitions*, Organization for International Investment, Washington, D.C.

Inward FDI Accounts for Millions of High-Quality, High-Paying Jobs in America

Research for the United States and many other countries has documented that globally engaged companies—both the U.S. parents of U.S.-based multinationals and also the U.S. subsidiaries of foreign-based multinationals —tend to perform better than purely domestic companies. Globally engaged companies enhance the American economy by their capital investment, their exports, their research and development, and by supporting good-paying American jobs.[4]

The U.S. affiliates of global companies—despite long accounting for far less than 1% of U.S. businesses—perform large shares of America's productivity-enhancing activities that lead to high average compensation for American workers.

While making up a relatively small share of the U.S. business community, the American operations of foreign companies account for a disproportionately large share of critical economic activities whose benefits accrue throughout the country. The following figure documents these shares for the most recent year of data, 2011 for employment and 2010 for all other items.[5]



- *Output*: U.S. subsidiaries of global companies produced $649.3 billion in output (measured in terms of value added), approximately 5.8% of all private-sector output.
- *Capital Investment*: U.S. subsidiaries of global companies purchased $149.0 billion in new property, plant, and equipment—14.4% of all non-residential private-sector capital investment.

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[4]See, for example, "A Warning Sign from Global Companies," by Matthew J. Slaughter and Laura D'Andrea Tyson, *Harvard Business Review*, March 2012. See also *American Jobs, American Infrastructure, and American Global Competitiveness*, by Matthew J. Slaughter, Organization for International Investment research report, spring 2011. See also *American Companies and Global Supply Networks: Driving U.S. Economic Growth and Jobs by Connecting with the World*, by Matthew J. Slaughter and U.S. Council Federation, Business Roundtable research report, January 2013.

[5]All data cited in this passage come from data available on-line at www.bea.gov from the Bureau of Economic Analysis of the U.S. Department of Commerce. The data all refer to majority-owned affiliates. In 2009 there were in America 4,662 majority-owned affiliates of foreign-headquartered multinationals.

- *Research and Development:* To discover new products and processes, in U.S. subsidiaries of global companies performed $41.3 billion of research and development. This was about 14.3% of the total R&D performed by all U.S. companies.
- *Exports:* U.S. subsidiaries of global companies exported $229.3 billion of goods to the rest of the world, 17.9% of the U.S. total.
- *Intermediate Inputs:* To produce their goods and services, U.S. subsidiaries of global companies purchased over $1.9 trillion in intermediate inputs from other U.S. companies, which was about 78.7% of their total input purchases.

All these activities contribute to millions of well-paying jobs in America. In 2011, these U.S. affiliates employed 5.6 million U.S. workers, 5.0% of total private-sector payroll employment. In 2010 their total compensation was $408.0 billion—a per-worker average of $77,409, more than a third above the average for the rest of the private sector. Of these jobs, 37.7%—nearly 2.0 million—were in manufacturing, far higher than manufacturing's 10.5% share of all jobs in the overall U.S. private sector today. And U.S. subsidiaries of global companies have long had relatively high unionization rates. In 2007 12.4% of these firms' U.S. employees were covered by collective bargaining, versus just 8.2% of all private-sector workers.

In the late 20th century the U.S. presence of these global companies expanded considerably. Between 1987 and 2002 their U.S. employment more than doubled, from 2.6 million to 5.6 million—an average annual rate of growth of 5.25%. Over this period many of their other activities, such as capital investment, at least doubled as well. The last part of the 20th century, then, was a period where the U.S. economy enjoyed a steadily rising presence of and benefits from the foreign direct investment (FDI) of U.S. subsidiaries of global companies.

The Many Likely Benefits of the Shuanghui-Smithfield Transaction

All public information about the Shuanghui-Smithfield transaction indicates it will benefit Smithfield stakeholders—including, importantly, its employees—and the broader U.S. economy by maintaining a high-productivity, high-innovation enterprise.

A primary motivation for Shuanghui is to access and learn from Smithfield's global expertise in a number of related areas. In the words of Shuanghui Chairman Wan Long, "Shuanghui will gain access to high-quality, competitively-priced and safe U.S. products, as well as Smithfield's best practices and operational expertise. We were especially attracted to Smithfield for its strong management team, leading brands, and vertically integrated model."

This motivation accords with much of the broader pattern of inward FDI into America. The United States historically offers several strengths that are well suited to many high-value, firm-wide functions for global companies: e.g., highly educated workers, deep capital markets, and a culture of innovation and risk-taking. These American advantages can be well matched with a variety of global strengths: world-class technology, know-how, and components in other advanced countries; abundant labor well-suited to labor-intensive tasks in many emerging markets. Thus do companies operating in America connect to the world with well-paying U.S. jobs that involve some of the most integrative, innovative, and technologically advanced parts of global supply networks such as R&D, skilled production, logistics, management, and marketing.

Consistent with this overall pattern, post-acquisition Smithfield Foods plans to operate largely as it does today. Mr. Larry Pope will continue as president and CEO; all key management teams will remain in place; all collective-bargaining agreements will be honored with Smithfield's represented employees; all wage-and-benefit arrangements will be honored with all non-represented employees; no Smithfield plants or facilities will be closed; Smithfield's headquarters will remain in Smithfield, VA; and current philanthropic and sustainability initiatives will continue.

There is nothing inherently worrisome or unusual about the Chinese aspect of this transaction. Chinese purchases of American companies will help strengthen both China's own development efforts and its commitment to market- and rules-based engagement with the global economy.

Because of China's ongoing current-account surpluses, the country on net needs to acquire assets from the rest of the world. Much of this buying has traditionally been focused on U.S. Treasury securities. The Smithfield acquisition suggests a desire of key Chinese actors to diversify away from U.S. debt—something that should be welcomed by those who fear the size of China's Treasury holdings. Chinese firms operating in the U.S. employed fewer than 10,000 people five years ago. By the end of last year, the number had risen to 30,000.

What about the risks of state-owned enterprises? Although SOEs remain prominent in China's economy, Shuanghui isn't one. In fact, its stakeholders include Goldman Sachs and Singapore's sovereign wealth fund. And this reflects recent trends. A recent analysis published prior to the Smithfield deal being announced, reported that since the start of 2012, private Chinese firms accounted for 50% of the value transactions involving the acquisitions of U.S. companies—up from 30% during the 2000-2011 period. And in the 17 deals recorded in the first quarter of 2013, 16 involved private Chinese firms.[6]

What about possible risks to Smithfield's intellectual property? IP theft in China has quickly become one of the gravest threats to the global economic system—and, as part of this, to American jobs. A recent report by the U.S. International Trade Commission surveyed 5,051 U.S. companies in industries such as high-tech manufacturing, publishing, and software to gauge the incidence and extent of infringement of their copyright, trademark, and other intellectual property rights in China. Firms say infringement there is widespread, and it affects not just large multinational firms but many small and medium-sized U.S. companies as well. Extrapolating from survey responses, ITC estimates all U.S. IP-intensive firms lost about $48.2 billion in 2009—perhaps even as much as $90.5 billion—from foregone sales, royalties, and license fees.

Surveyed companies further reported that improved IPR protection in China could boost their revenue there by as much as 20%—over $100 billion—thanks to both higher U.S. exports and higher local-market sales by their Chinese affiliates. More revenue, in turn, would expand their U.S. labor demand by as much as 5%—which could mean over 900,000 new U.S. IP jobs. And thanks to supplier linkages, expansion by IP-intensive firms would boost sales and hiring in dozens of U.S. industries. ITC economists calculate that up to 2.1 million new U.S. jobs could be created in total if China raised its IPR protection to U.S. levels.

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[6] See the Rhodium Group, at http://rhg.com/notes/chinese-fdi-in-the-united-states-q1-2013-update.

All the analysis in this careful ITC report underscores that America today retains a comparative advantage in knowledge-intensive activities, thanks to its ongoing strengths that include outstanding universities and a culture of risk-taking.[7] For American IP-intensive companies, weak IPR protection abroad curtails their sales and hiring opportunities every bit as much as do traditional trade barriers like tariffs and quotas.

In the context of America's legitimate concerns about IP theft from China, it is important to see that the Shuanghui-Smithfield transaction offers Exhibit A of the ideal solution: American companies being paid by Chinese companies billions of dollars for their ideas (per the statement from Mr. Wan quoted above stressing Smithfield's IP assets) in a transparent, market-based deal—and at a 31% premium above Smithfield's pre-announcement stock-market value.

Indeed, Shuanghui seeks to deploy Smithfield's expertise, products, and brands in China largely through boosting Smithfield's exports to China: exports into Shuanghui's network there to better meet surging pork demand in China driven by rising household income growth. This enhanced export intensity of Smithfield accords with the economy-wide evidence of U.S. exports by global companies presented in the previous section. More generally, higher U.S. pork exports to China will help reduce the U.S.-China bilateral trade imbalance that last year reached a record $315 billion.

Stronger IP protection in China would help not just America but China as well. China has achieved remarkable productivity and income gains since its liberalization began in 1978, and its current five-year economic plan wisely aims to expand employment in knowledge-intensive "strategic emerging industries." To continue expanding its technologies towards the global frontier, China will need to continue strengthening its IP laws and practices—for not just U.S. firms but Chinese firms as well. China will not become a global leader in innovation if its government does not adequately safeguard the fruits of knowledge discovery.

There also appears to be nothing inherently worrisome or unusual about the food aspect of the Shuanghui-Smithfield transaction. As with many other industries, in food manufacturing global companies have long played an important role in the U.S. economy. In 2010, the U.S. affiliates of global companies in food manufacturing employed 207,400 U.S. workers—10.4% of total manufacturing jobs at U.S. subsidiaries—at an average annual compensation of $59,426. These food affiliates that year invested $33.1 billion in property, plant and equipment; spent $486 million in research and development; and exported $6.8 billion of goods.

Given the size of the proposed Smithfield acquisition and the desire of both parties, it will likely be subject to review by CFIUS. I see no obvious national-security implications of this food-company acquisition, in part because Smithfield's U.S. operations post-acquisition will still fall within the regulatory purview of agencies such as the U.S. Food and Drug Administration and U.S. Department of Agriculture. That said, a timely and efficient CFIUS review seems like an additional U.S. regulatory check that makes good sense.

[7] This ITC report is, "China: Effects of Intellectual Property Infringement and Indigenous Innovation Policies on the U.S. Economy."

Conclusion

America today continues to confront a competitiveness challenge of too few jobs and too little economic growth. Over 22 million Americans remain unemployed or underemployed; rates of job creation are little ahead of population growth; and real earnings for most of those working are not rising.

The good news is there is a future in which America can create millions of good jobs connected to the world via international trade and investment. Doing so will require bold and thoughtful U.S. policies, however, that extend beyond fiscal and monetary stimulus whose viability and impact are questionable. Greater FDI into the United States holds great potential to spur growth in output, jobs, and incomes for American workers.

Should it ultimately go through, the acquisition of Smithfield can serve as an example of a large U.S. company being acquired by a Chinese entity without controversy. Inbound foreign investment has long benefitted the U.S. economy, and a smooth Smithfield purchase would send a valuable signal to China and to the broader world that the United States welcomes such investment at a time where that investment is especially needed. Beyond the economic benefits of this transaction itself, this broader symbolic benefit matters as well.

Thank you again for your time and interest in my testimony. I look forward to answering any questions you may have.

DOCUMENTS SUBMITTED FOR THE RECORD

JULY 10, 2013

Statement of Joseph T. Hansen
International President
of the
United Food and Commercial Workers International Union
Submitted to the
United States Senate Committee on Agriculture, Nutrition & Forestry

The United Food and Commercial Workers International Union (UFCW) represents more than 1.3 million workers, primarily in the grocery, retail, meatpacking, and food processing industries. The UFCW is the largest North American union in the food/meat manufacturing industry, representing roughly 250,000 workers. This includes the 16,000 Smithfield UFCW members in Iowa, Nebraska, Massachusetts, Ohio, Kansas, Kentucky, Georgia, South Dakota, Illinois, Missouri, California, Wisconsin, and North Carolina.

Behind me are workers from Smithfield plants across the nation. These leaders represent workers not only at their respective plants but the rural communities which depend on those plants. They are here today show their support for the opportunity to grow jobs in their plants as a result of Shuanghui's acquisition of Smithfield.

U.S. per capita pork consumption is declining. Over the past decade, per capita pork consumption fell from 66 pounds in 2002 to 58 pounds in 2012. From 2009 to 2012, the pork consumption growth rate was less than zero while the population growth rate was around 1 percent. Thus, overall domestic demand for pork is growing less than the U.S. population.

However, worldwide demand for pork is increasing and that demand is being driven by fast growing Asian countries – China in particular. The future growth of the U.S. pork industry is linked to pork exports to China.

At this moment, China is the single biggest consumer and producer of pork in the world. Historically, as incomes in developing countries grew, their per capita meat consumption also grew. This is true for China and their demand for pork is soaring. In per capita terms, Chinese pork consumption grew from 70 pounds in 2002 to 86 pounds in 2012.

However, China's domestic pork industry is having difficulty meeting current demand and is unlikely to be able to meet future demand without highly destabilizing price increases. (See attached story on China pork prices and inflation)

Chinese agriculture is extremely fragmented and half of China's hog herd is in small farmers' backyards. Small scale hog production is on the decline and is unlikely to be replaced by industrial scale hog production, which requires large amounts of corn and soy as animal feed. The "backyard" hog production mode is expensive and unsustainable because of the relatively small amount of arable land and the relative difficulty to grow hogs profitably.

Additionally, China's fragmented and small scale hog production leaves it very susceptible to disease and other food safety issues. These food safety concerns will add to Chinese demand for American produced pork. We at UFCW are proud of our members' contribution to the production of safe food. As this Committee knows, U.S. meat production – as good as it is -- is not perfect. We are attaching a summary of a study we have done which shows that plants with unions where workers feel free to identify problems are less likely to have recalls of meat than plants where workers are not represented by unions.

In contrast to China, the U.S. is the world's leader in efficient and safe hog production. This is reflected in our growth of exports. In 1995, pork exports accounted for less than 5% of total U.S. production; in 2012, exports were 27% of production. Today, the U.S. is the world's largest exporter.

We at the UFCW have a long history of working with international companies in the meat industry. There are multiple examples of foreign companies acquiring American food companies, but one in particular stands out.

In 2007, Brazil's JBS purchased the Swift company. The UFCW and JBS have enjoyed a productive relationship ever since. JBS has continued to grow and thrive and now operates plants in Arkansas, Colorado, Georgia, Iowa, Kentucky, Michigan, Minnesota and Nebraska. We heard very little about food safety when JBS purchased Swift or complaints about Brazil "owning our food." Similarly, we've heard no objections to Switzerland-based Nestlé, the world's largest food company, operating in the United States.

Many of the concerns about this merger seem to imply that we could be threatened by imports of Chinese meat into the United States. From our understanding of the relative economics of raising pork in China versus the U.S., this seems highly unlikely. Company officials have reiterated to us and the American public that this merger is not about Chinese imports to the U.S., but rather U.S. exports to China.

We believe that this transaction is designed to export our high quality pork to China. We further believe that this would be a good thing for the U.S. domestic meat industry, American workers, and, indeed, for Chinese workers who would have the opportunity to enjoy our U.S. produced quality pork.

I'm sure the Committee members will agree that increased exports to China would be good for the nation's trade balance with China and would help to alleviate national security concerns over the impact of China's trade surplus with the US.

The UFCW thinks this is a historic transaction which will be a win-win for U.S. and Chinese citizens. We are committed to working with all relevant stakeholders to ensure that this acquisition is beneficial for American workers and consumers.

Thank you for the opportunity to testify before the Committee today.

Summary of Data on Food Safety

The United Food and Commercial Workers' Research Department conducted a study of the recall records from 2001-2009 of the 450 largest meat and poultry plants in the U.S. to compare union and non-union plants. **The evidence shows that from 2001 to 2009, a unionized plant was less likely to have experienced a recall than a non-union plant. It also shows that non-union plants were more likely to be responsible for meat that was recalled than union plants.**

Summary data: Union vs. non-union recalls
Between 2001-2009, non-union meat and poultry plants were involved in USDA food recalls at a much higher rate than union plants.

- Food products were recalled from 21.4% of the non-union plants and only 12.0% of the union plants.

Union vs. non-union by type of plant
When plants are broken down by type, non-union plants in each category experienced higher rates of recalls, and were more likely to be responsible for recalled meat than union plants.

- Pork kill-and-cut plants:
    - Food products were recalled from 35.7% of non-union plants and 5.0% of union plants.
    - Almost none of the meat recalled came from union plants, while employment in union plants is 74.1%. (The USDA recall database did not list the amount recalled from the one union pork plant that experienced a recall.)
- Beef slaughter plants:
    - Food products were recalled from 30.8% of non-union plants, compared to 18.2% of union plants.
    - 61% of the meat recalled from came from union plants, while union employment is 62.3%.
- Poultry plants:
    - Food products were recalled from 12.9% of non-union plants and 6.5% of union plants.
    - 20.6% of the meat recalled came from union plants, while employment in union plants is 37.5%.
- Further processing plants:
    - Food products were recalled from 33.8% of non-union plants and 22.9% of union plants.
    - 2.9% of the meat recalled came from union plants, while employment in union plants is 40.1%.

Union vs. non-union by size of plant
When plants are broken down by size, non-union plants experienced more recalls in each category,

Smaller plants, between 250 and 499 workers:

    - Food products were recalled from 26.5% of non-union plants and 17.9% of union plants.
- Medium-sized plants, between 500 and 999 workers:
    - Food products were recalled from 19.4% of non-union plants and 9.4% of union plants.
- Large plants, over 1000 workers:
    - Food products were recalled from 16.9% of the non-union plants and 9.4% of the union plants.

Union vs. non-union by severity of recall
Recalls at non-union plants tended to be for reasons posing a greater risk to the public's health than recalls at union plants did.

- "Class I" recalls, the most risky level according to the USDA, happened at 16.2% of the non-union plants and 8.2% of the union plants.
- 44.6% of the recalls from the non-unionized plants involved products possibly contaminated with E. coli, Salmonella, Listeria, and botulism, while only 23.3% of the recalls from the unionized plants involved products possibly contaminated with such pathogens.

Explanation of data

There are several reasons why union plants have better recall records.

1. Union plants may experience lower turnover

Union plants, therefore, have a better-trained, more-experienced set of workers. They are much more likely to correctly follow food safety procedures and to be aware of potential food safety problems.

2. Union workers are more empowered to speak up about potential food safety problems

Whistleblower protections, job security, and union grievance procedures afforded by a union contract might make union workers feel safer to alert plant managers and USDA inspectors to food safety problems.

3. Unionized workers can negotiate with management over equipment and staffing

The union can bargain with management to make sure that a plant is properly staffed, and that lines are running at reasonable speeds, so that workers can minimize errors that can lead to food safety problems. There is also a process in union plants where the union can bring in an industrial engineer to perform a time-study of the work, in order to ensure that it is being properly staffed. Unionized workers can also bargain for necessary equipment to minimize food safety problems, like sharp knives or properly-disinfected clothing.

4. Union plants have a culture of safety

Union plants take worker health and safety much more seriously. Union stewards instill what could be called a culture of safety and awareness among workers. We can assume that the focus on workers' safety has a spillover effect on food safety, as much more attention is paid to details and more care is generally taken.

5. Unionized workers can negotiate to have more time off

This time off, which can come in the form of vacation, holidays, or sick leave, means that the workforce is generally more rested and healthy. Workers are therefore more focused and attentive, and less likely to make the kinds of mistakes that lead to food safety problems.

WALL STREET JOURNAL

September 6, 2011

China Food Prices Continue Climb

BEIJING—China's food prices continued to rise last week with pork prices hitting a record high, signaling that inflationary pressures have yet to ease significantly.

The latest weekly figures, released by the Commerce Ministry on Tuesday, come ahead of closely watched inflation data Friday for the month of August. The results will offer a gauge of the effectiveness of Beijing's efforts to tame inflation at a time when officials struggle to find a balance between controlling prices and nurturing economic growth.

Last week's price data show food—especially pork, a staple of the Chinese diet—continues to put upward pressure on overall prices. "We think food prices will remain high for a long time," said HSBC economist Ma Xiaoping, noting the still-high price of pork.

A separate poll of economists by Dow Jones Newswires points to a slightly slower rise in consumer prices of 6.1% for August, after inflation hit a three-year high of 6.5% in July from a year ago.

China's pork prices rose 0.4% in the week ended Sunday from a week earlier, when they gained 0.3%, as processors purchased more meat ahead of key holidays, according to the Ministry of Commerce. The Mid-Autumn Festival will fall on Monday, while the seven-day National Day holidays are in early October.

Pork prices, a key contributor to consumer inflation in recent months, hit a record 26.22 yuan ($4.10) a kilogram last week, the ministry said. This was the fourth-straight week of gains for pork prices, which make up about 3% of the consumer price index.

Meanwhile, prices of vegetables, edible oil, flour and rice rose at a slightly moderated pace last week from a week earlier, while prices of aquatic products were little changed during the period, the ministry said.

An academic with China's central bank said in a recent interview that inflation likely peaked in July and will gradually ease in the coming months, so China is unlikely to launch more monetary tightening measures this year. China's tightening measures this year—including three interest-rate increases and six increase in the reserve requirement ratio—have helped curb credit expansion, so the People's Bank of China needn't lift the interest rate or the reserve ratio any further, Wang Yong, a professor at the central bank's training institute in Zhengzhou, Henan province, told The Wall Street Journal.

While Mr. Wang's views may contribute to China's internal policy debate, they don't necessarily represent official thinking.

Citigroup economist Shuang Ding said he expects the rise in China's consumer-price index will begin to show a more marked easing in October, as the supply of pork increases and prices of nonfood items rise at a slower pace as the economy slows.

"High food price rises in [early] September aren't out of our expectations," he said, adding that he expects inflation of about 5.9% in August and at a similar level in September.

The National Bureau of Statistics is also scheduled to issue Friday the latest producer price index and figures on industrial production and fixed-asset investment.

--Liu Li and Jolin Gong

QUESTIONS AND ANSWERS

JULY 10, 2013

Senator Debbie Stabenow
Questions for the Record
"Smithfield and Beyond: Examining Foreign Purchases of American Food Companies
July 10, 2013

1. Commissioner Slane, as a businessperson who has conducted business in China what concerns are raised when a publicly traded company that answers to shareholders is acquired by a private Chinese company, especially in matters of corporate governance, operational issues such as contracts with producers and employees, and dealing with difficult matters such as environmental and food safety concerns?

2. Mr. Pope, I understand that you and the executive team have agreed to stay on for 3 years. What assurances in these matters do you have? What kind of certainty have you been given for the longer term?

3. Dr. Haley, What should we be looking at in terms of potential downsides for our US producers consumers and workers? Can you draw upon your research in other industries to help us understand broader history?

Senator Sherrod Brown
Questions for the Record
"Smithfield and Beyond: Examining Foreign Purchases of American Food Companies
July 10, 2013

Questions for Smithfield CEO, Larry Pope

- With this sale, Shuanghui not only acquires the physical assets of Smithfield, but also your company's sterling reputation. We know Chinese companies – including the one acquiring Smithfield – have had several high profile food safety problems, both domestically and with its exports to the US. We also know that food safety data in China is difficult to access or evaluate.

  Can Shuanghui simply use these more advanced technologies and Smithfield's brand to deliver safe food to Chinese consumers?

  How can this be done without the strong food safety regulatory framework the U.S. has built?

- Meat processing is one of the most dangerous jobs in the country. Production lines move at blinding speeds and injuries are frequent. Workplace safety was one of the reasons I remember Smithfield workers trying to collectively bargain despite serious opposition from management. This was not all that long ago. Smithfield workers testified before Congress on labor law reforms in 2007. Should this deal be approved, would the next labor contract be negotiated with Smithfield executives or with Shuanghui management? Are there any assurances written into the proposed deal about the treatment of workers and workplace safety? How long do you expect new ownership to continue the practices that Smithfield has traditionally followed?

- You stated in your testimony that Shaunghui wants American pork to meet Chinese demand, and that this deal will increase market access for American pork producers. What prevents access to this market now? Why can't

American pork companies sell directly to the Chinese market? What increased market access does this deal provide that a basic free market wouldn't provide?

- Do you anticipate Shuanghui monopolizing the Chinese pork processing industry?

- What are the exact loan terms that Shuanghui received from Bank of China to finance the deal?

<u>Questions for Dan Slane</u>

- How likely is it that Shuanghui will compete against U.S. pork producers in third-party countries, such as Japan or Mexico?

- As we've seen with poultry, China is actively trying to export chickens to the United States. Isn't it likely that once Shuanghui adopts Smithfield's hog genetic lines and other processing technologies, other U.S. pork producers could be at a competitive disadvantage when competing with a firm that has the backing of a national bank?

- Mr. Pope and others have noted the demand for pork in China and they need for exports to help meet this demand. In your opinion, is there anything currently stopping Smithfield and other American pork producers from increasing exports into China? If not, do you believe this sale should be blocked by CFIUS?

<u>Questions for Usha Haley</u>

- The US has historically benefited from foreign investment and US affiliates of foreign companies can be exceptionally productive. However, is this model threatened when investments are not only about anticipated market returns but also about strategic economic investments by foreign companies acting for or with foreign governments?

- Is there a difference between the acquisition of a domestic company by a foreign, market-based competitor and when a company is acquired by a foreign competitor that is either state-owned or the beneficiary of extensive, implicit state subsidies?

- When large agribusinesses are being acquired, do you think that USDA should be involved in the CFIUS process?
- Given your research into Chinese subsidies, can you discuss what role subsidies – including state ownership from 1994-2006 – played in the growth of Shuangui? In this acquisition?

- China's role as a global economic actor is certain. This will not be the last acquisition of an American company by a Chinese one. What are things that can be done to assure the American public that such acquisitions are market-based?

Questions for Dartmouth Economist Matt Slaughter

- You talked a lot about the benefits of direct foreign investment and the trend towards increasing global mergers and acquisitions. Here, in a single transaction, 26% of US pork processing will be Chinese owned. Three additional transactions could drive that number to 63%, if Chinese firms decided to acquire the next three largest producers. The same argument can be made for other food industries. At what point should we be become concerned about foreign control over our domestic food supply chains?

Senate Committee on Agriculture, Nutrition & Forestry
Smithfield and Beyond: Examining Foreign Purchases of American Food Companies
Questions for the Record
Dr. Matthew Slaughter
July 10, 2013

Senator Cochran

Questions for Dr. Matthew Slaughter

1) As the Senate Agriculture Committee discusses foreign direct investment in American agriculture, your testimony regarding the merits of this form of investment is particularly noteworthy. Can you expound on reasons why U.S. recipients of foreign investment through mergers and acquisitions often experience higher productivity and overall performance? Do the studies referenced in your testimony regarding performance of merger and acquisition transactions include analysis of the food or agriculture industries?

2) You note in your testimony that a "timely and efficient CFIUS review is an additional U.S. regulatory check that makes good sense." Please elaborate on what you mean by "timely and efficient." In your opinion, does the current CFIUS process accomplish this objective?

3) Can you explain your view that the United States should welcome sound acquisitions of U.S. companies by Chinese companies, since these deals are in stark contrast to allegations of intellectual property theft from U.S. businesses by the Chinese?

Senate Committee on Agriculture, Nutrition & Forestry
Smithfield and Beyond: Examining Foreign Purchases of American Food Companies
10 July 2013
Questions for the record

Senator Gillibrand

Questions for Mr. Larry Pope (CEO, Smithfield)

1. Shuanghui International was found in 2011 to have committed a deceptive and illegal act of using Clenbuterol to increase production efficiency in its pigs, which sickened nearly 100 people in China. This drug is banned in both the US and China due to its serious human health risks. Will the Chinese management of Shaunghui have influence over animal health and food safety practices at Smithfield?

2. Question: The veterinarians of Murphy-Brown, your company for raising live pigs, are an integral part of ensuring food safety. Does this proposed sale create any risk that would threaten their ability to practice medicine and uphold their oath to protect public health? How will this sale impact Murphy-Brown's veterinarians and producers as they begin to reduce the use of medically important antibiotics as consistent with the Food & Drug Administration's Guidance for Industry 209 and Draft Guidance for Industry 213, which will eliminate non-therapeutic uses like growth promotion and will require significantly more veterinary oversight of antibiotics important to human health? Will Shuanghui maintain at minimum the current number of veterinarians and allied animal health professionals you employ?

3. Question: Antibiotic drugs are integral to public health and animal health, and antimicrobial resistance is a global public health and security concern. Your company, including its producers and veterinarians at Murphy Brown, will be under pressure to produce food safer, and to reduce antimicrobial drug use in the future, as well as to improve alternative means of infection control and prevention. Do you anticipate that Shuanghui will in fact reduce the current average level of antimicrobial drug use in pork production and the average animal exposure level of pigs to active antimicrobial ingredients of medical importance over the next 5 years?

4. In negotiating this sale, to what extent are their assurances Shuanghui will not reduce Smithfield's current level of occupational safety, food safety, environmental compliance, commitment to meet our domestic demands for pork products, and to rely on American farms and processors for its products? Do you anticipate any level of loss of domestic jobs or wages? And if so, to what extent?

5. Can you please delineate how long the current contracts for the following groups will have legal power of enjoining Shuanghui to honor, and when the contracts will be up for renegotiation: Any employees of processing, slaughtering, transport operations, including those that may be part of a union, as well as contract growers involved in live pig reproduction, farrowing, weaning, and finishing. Please include contracts involving wages, job security, and occupational safety and health agreements.

6. Safe food production is integral to America's public health. What assurances has Shuanghui provided, and for how long and to what extent, that they will continue complying with at minimum Smithfield's current plans, policies, and performance standards for your company's Hazard Analysis and Critical Control Point (HACCP) plan, Good Manufacturing Practices (GMPs), those related to Sanitation and Hygiene, and Systematic Animal Handling Plans, respectively?

7. A reliable supply of safe, wholesome, and sustainable food is critical to our nation's domestic operation. Smithfield, your company, has stated that you will produce 50% of pork without Ractopamine shortly, as only pork free of this drug is eligible to export for China. Will your company continue to reduce Ractopamine use beyond this level, and to what extent, under the agreement with Shuanghui? Your company has also stated you will phase-out gestation crates in live production by 2017, will this timeline be complied with under the agreement with Shuanghui?

8. You stated that Shuanghui has a commitment to keeping the management team in place at Smithfield, which is an important piece of Smithfield. This agreement includes retention bonuses and job security for at least the next 3 years. Shareholders of Smithfield will also enjoy immediate cash benefits per each share of stock. However, apart from extension of current employee and contract producer agreements, will your company's employees and farmers see any direct financial gain from this proposed sale?

Questions for Mr. Daniel Slane(Commissioner, US Chamber of Commerce)

1. **Question**: Smithfield is both America's and the world's largest pig and pork producer. Shuanghui is the largest meat producer in China. What are the domestic and global food security implications of consolidating the world's pork production under a single, foreign-owned corporation, and particularly what are the long-term hazards of increasing China's control of US domestic food production?

2. **Question**: Shuanghui International was found in 2011 to have committed a deceptive and illegal act of using Clenbuterol to increase production efficiency in its pigs, which sickened nearly 100 people in China. This drug is banned in both the US and China due to its serious

human health risks. Will the Chinese management of Shaunghui have influence over the animal health and food safety practices of Smithfield?

Questions for Dr. Usha Haley (West Virginia University)

1. Our nation's great agriculture system is empowered by significant investment by our federal and state governments in research and extension. With the largest pork and pig producing corporation being controlled by a Chinese entity, how will we ensure American tax dollars invest in research that supports American agricultural advancement, and does not subsidize foreign agriculture systems with our citizen's tax dollars? Also, what is the level of risk that China subsidizes Shuanghui International in a way that disadvantages other American-based meat and poultry corporations?

2. The US and China have long had trade disputes on sanitary trade barriers for fresh pork. If Shaunghui acquires Smithfield, they will become a global oligarch of pork production and supply. How will the U.S. ensure China and Shaunghui will not wield undue power to influence the trade of animals and animal products between the US and China, including World Trade Organization reference standards of Codex Alimentarius and the Office International Des Epizooties (OIE)? And between the US and other nations?

3. Foodborne illness is estimated to cost the United States. The Centers for Disease Control & Prevention estimate that 1 in 6 Americans get a foodborne illness each year, that 128,000 are hospitalized, and that 3,000 die. A recent study by the Emerging Pathogens Institute found that the annual economic costs of the top 14 foodborne pathogens is over 14 billion dollars. Given the public health and economic impacts of foodborne illness, would you agree that food safety and food security are integral to our national security?

4. Shuanghui International was found in 2011 to have committed a deceptive and illegal act of using Clenbuterol to increase production efficiency in its pigs, which sickened nearly 100 people in China. This drug is banned in both the US and China due to its serious human health risks. Will the Chinese management of Shaunghui have influence over the animal health and food safety practices of Smithfield?

Questions Submitted by Senator Chuck Grassley, U.S. Senate Agriculture Committee Hearing on Shuanghui International's Purchase of Smithfield Foods, July 10, 2013

Questions are for all hearing witnesses.

1. Increased vertical integration, expanded packer ownership, exclusive contracting and captive supply are adversely impacting the ability of independent producers to compete in the domestic and global marketplace. Will the proposed purchase aggravate this situation? Do you have any concerns that this transaction could reduce the already limited number of buyers for the commodities of small, independent pork producers, both in the short and long term? Will this transaction accelerate the trend toward contract producers and squeeze out independent producers?

2. I've had a longstanding concern about U.S. companies being required to transfer technology and other compulsory tech transfers in the context of mergers and acquisitions. This would give an advantage to Shuanghui and allow it to increase its production of value added products. Specifically, Shuanghui would be able to gain an advantage by obtaining and being able to leverage U.S. technology, management, business practices, genetics research, trademark and other intellectual property. Chinese companies would learn how U.S. companies organize and operate, which would seem to erode the competiveness of the U.S. pork industry in the long term. Do you agree with these concerns? Why or why not? What will be the impact of the transfer of Smithfield's intellectual property, hog genetics and other technology and proprietary methods to Shuanghui relative to the long term competitiveness of the U.S. pork industry, both domestically and internationally?

3. How will the proposed transaction impact the supply chain of pork into and out of the United States? If pork is produced and imported from China, will that deprive U.S. farmers of value added opportunities? Wouldn't this acquisition lead to the erosion of competitiveness of value added products where the United States historically has had an advantage? Why or why not?

4. What impact will this merger have on the ability of U.S. companies to compete in the global marketplace, including increasing exports to countries in competition with Shuanghui? What assurances are there that all U.S. pork producers, including smaller independent pork producers, will have access to the Chinese market? Or will Smithfield have preferential access to the Chinese market as a Chinese-owned company?

5. We're all aware of unsafe Chinese products that have been imported into the United States and harmed American children and consumers. How is this transaction going to change the supply chain of pork products? Right now Americans buy raw pork and other pork products made from pork produced by trusted, safe Iowa hog farmers. But we can't anticipate how a combined Shuanghui-Smithfield will organize its supply chain in the long term. Will Smithfield brand products now be produced with Chinese pork? Will these products now be made of co-mingled Chinese and American pork? How will American consumers know where the raw pork is coming from?

6. Do you see sourcing changes in terms of raw pork? Will Smithfield brand products now favor Chinese pork over, let's say, Iowa pork?

Senate Committee on Agriculture, Nutrition and Forestry

"Smithfield and Beyond: Examining Foreign Purchases of American Food Companies

Questions for the Record

July 10, 2013

Dr. Usha Haley

Chairwoman Debbie Stabenow

1) Dr. Haley, What should we be looking at in terms of potential downsides for our U.S. producers, consumers and workers?

Answer: Several potential downsides exist for U.S. producers and U.S. workers. As a favored Chinese company operating in a strategically important industry, Shuanghui-Smithfield has no pressing need to be profitable. Simultaneously, Smithfield's financial statements will no longer be publicly available to investors or for government oversight. With lessened profit pressures in the short and medium terms, or with no need to make profits because of high Chinese government subsidies, Smithfield could undercut American competitors, driving them either into bankruptcy or to other waiting Chinese buyers. Other U.S. producers will also lose export markets in Japan, Mexico and elsewhere as Shuanghui-Smithfield uses Smithfield's distribution channels, hog technology and brand name to export goods from China, contributing to our trade deficit. Currently, agriculture is our largest exporting sector, and this will be affected detrimentally overall, although Smithfield's exports may go up.

As regards U.S. consumers, they will no longer be able to tell where their processed pork products come from; given China's history of food-safety violations, I doubt many U.S. or global consumers would knowingly prefer to buy their processed pork and other food products from China. However, Chinese subsidies and supporting regulation would likely lead to a bifurcation in food processing, with Smithfield becoming the lowest rung of the commodity supply chain to China's higher-value-added food processing. Essentially, higher-value manufacturing would move to China, while lower-value, lower-technology manufacturing would remain in the United States. One danger here is that Shuanghui could mix its plentiful supply of local hogs into this supply chain and re-export the higher-value-added processed food back to the U.S. and our export markets under the Smithfield brand.

In the long term, the scenario is more disturbing. In U.S. federal court in March 2013, Chinese Vitamin C manufacturers who were convicted of price fixing stated that the Chinese government told them to do so. The government is likely to dictate prices for Shuanghui-Smithfield as well. So after pricing out domestic competitors, Shuanghui-Smithfield may raise prices for domestic consumers. The Smithfield acquisition is a foot in the U.S. door for Chinese agricultural companies, closely watched by many other companies in this strategic Chinese sector. In less than 5 years, we stand to lose control of this vitally important domestic sector, and highest source of worldwide exports, to China as well as control of our clean water and clean land.

Smithfield is also one of the largest producers of crude heparin, the crucial ingredient of a blood thinner used by about 12 million Americans. Heparin is experiencing supply strains in the U.S., China and indeed globally. How would this acquisition affect the production of heparin, its availability and pricing? Will China hold U.S. consumers hostage on heparin when our government or companies do something that it sees as detrimentally affecting Chinese interests? This is not so farfetched – observe the 2012 holding back of rare earths to Japan by private Chinese firms during the Senkoku island disputes, which deliberately disrupted Japanese autos. auto parts, glass and electronics production.

2.) Can you draw upon your research in other industries to help us understand broader history?

Answer: Since 2001, after China joined the World Trade Organization (WTO), subsidies have annually financed over 20 percent of industrial expansion for both large private firms in strategic industries (such as Shuanghui) and State Owned Enterprises (SOEs). The state has willingly paid the price of economic inefficiency to accomplish political, social, economic, and diplomatic goals. Huge Chinese subsidies have led to massive excess global capacity, increased exports, depressed worldwide prices, and hollowed out other countries' manufacturing bases. This will likely happen in pork-processing.

The changes will occur very fast, giving us little time for strategic action, just for reaction. If we wish to maintain control of our agricultural sector--the time to act is now, not later when we have far fewer strategic options. In the industries we studied, steel, glass, paper, auto parts and solar, China had no particular comparative advantage when it joined the WTO in 2001. The Chinese industries we studied were highly fragmented, labor was under 7 percent of the costs of production (both in China and globally), the companies had no technological advantage, and no scale economies. Yet in these industries and in less than 5 years, China moved from net importer and bit player to one of the largest manufacturers and exporters in the world, with detrimental effects for U.S. producers and labor.

China in this case already has the largest number of pigs in the world, though most are from small farms—indeed, Smithfield's entire pig production is less than 3 percent of what China produces: Smithfield is not providing "protein" for China as Mr. Pope argued in his testimony. Rather, China is using this Smithfield acquisition to move up the value-added chain into food processing and biogenetics which officals have identified as strategically important industries for the country. Such acquisitions help China to create higher-value domestic jobs, with ripple effects through interconnected sectors, as well as become a price maker rather than taker. Food processing will be moved to China; the high-polluting, water-hungry, commodity business of hog raising will remain in the U.S. As mentioned in my testimony the U.S. now imports 560 percent more technologically advanced products from China than it exports to that country, and this trend will continue to manifest.

However, price competition in Chinese markets is intense. As in China, Shuanghui-Smithfield will initially put severe pricing pressures on U.S. pig farmers; as in China, Shuanghui-Smithfield may also pressure U.S. farmers to use illicit means to achieve fast growth and leanness. The reputation of American agriculture, especially American pork will plummet. Eventually, as with the other strategically important industries we studied, our exports of hogs to China will increase, but our imports of processed foods from China will increase even faster leading to a widening trade deficit. For consumers, food-safety violations may unfortunately become a daily problem as for the vast majority of Chinese consumers.

Senator Sherrod Brown

1) The U.S. has historically benefited from foreign investment and U.S. affiliates of foreign companies can be exceptionally productive. However, is this model threatened when investments are not only about anticipated market returns but also about strategic economic investments by foreign companies acting for or with foreign governments?

Answer: The Western economic model is threatened in the situation you identified. When international investors do not seek profits as their primary goal, classical economic theories no longer operate and our assumptions fail. Chinese government subsidies and steep negative externalities (pollution caused by intensified hog rearing) will also cause markets to fail. Foreign powers can then manipulate the economic system for political purposes.

China has demonstrated its willingness to use trade and resources to punish independent governments – denying rare earths to Japan over the Senkoku Islands; and, cutting mineral purchases from Australia after the government permitted the establishment of a small U.S. base in Northern Australia. The Chinese government will try to manipulate U.S. agricultural interests to support pro-China policies in the U.S. Congress. China's Vitamin C manufacturers provide an example of this threat. In March 2013, a U.S. federal court found Chinese Vitamin C manufacturers guilty of price fixing. In their defense, the Chinese companies stated that the Chinese government ordered them to raise their prices, and they had no choice but to follow these orders. Regardless, the Chinese government has threatened retaliation if the U.S. court's ruling is upheld as the U.S. court is interfering with Chinese domestic policies.

2) Is there a difference between the acquisition of a domestic company by a foreign, market-based competitor and when a company is acquired by a foreign competitor that is either state-owned or the beneficiary of extensive, implicit state subsidies?

Answer: Yes, a foreign market-based competitor should generally act in an economically rational manner and so its influences in the industry would be fairly predictable to external observers. However, a company that is free from many economic constraints, through either government ownership or subsidies, can maintain less efficient and loss-making facilities as well as drive more efficient competitors out of business. Consequently, especially in oligopolistic industries such as pork-processing, more efficient competitors may fail to benefit from their greater efficiencies or superior technologies because of the higher uncertainty attending a major competitor's primarily political agenda. The greater the uncertainty, the greater the profits needed to justify a competitor's continuing in the business, leading to cut-throat competition, lowered standards and retrenchment.

3) When large agribusinesses are being acquired, do you think that USDA should be involved in the CFIUS process?

Answer: Yes. All affected government agencies would have had a say in China in this strategically important industry if the situation was reversed. In the U.S., the USDA, the FDA and any other government agency such as the House Energy and Commerce Committee (Smithfield is the largest supplier of raw heparin) that may have affected businesses operations under its purview, should contribute their expertise to the risk analysis of this acquisition.

4) Given your research into Chinese subsidies, can you discuss what role subsidies – including state ownership from 1994-2006 – played in the growth of Shuanghui? In this acquisition?

Answer: Shuanghui traces its origins to the province of Henan and its wholly-owned pork-producing subsidiary, Henan Shuanghui Investment & Development Co, the province's largest employer. The food industry is one of Henan's pillar industries; through assiduous state support, Henan has evolved from becoming the nation's granary into the nation's kitchen. Through state subsidies, Henan upgraded its industry, agriculture, forestry and high-tech industries and helped all industries including pork production expand production scale, achieve broad integration, extend supply chains and expand markets at home and abroad.

Shuanghui had all the advantages of a Chinese state-owned enterprise in its early years. Government bureaucrats (managers of this Chinese SOE) took the company private; it is unlikely they would have surrendered SOE benefits (such as subsidies) without assurance that these benefits would continue conditional on Shuanghui's good behavior. A state owned bank, China Development Bank, is financing the purchase of Smithfield above market value.

In China, what you see is not what you get. We found that Chinese companies could expand domestically and internationally only because of subsidies they received from China's central and provincial governments. Subsidies in strategically important Chinese manufacturing industries, such as pork-processing, appear in dollar terms to exceed over 30 percent of industrial output.The subsidies took the form of free or low-cost loans; artificially cheap raw materials, components, energy, and land; and support for R&D and technology acquisitions.

China's local governments are the source of nearly all subsidies to private companies such as Shuanghui. Many subsidies come in the form of cash or tax rebates from city and provincial governments, given to support companies' employment, R&D spending, and similar activities that aid the local economy. Once companies start getting large subsidies, they tend to continue, contributing to supply-chain inefficiencies and other logistical problems. As the province's largest employer, Shuanghui's wholly-owned subsidiary almost certainly gets a great many "unconditional" subsidies from the provincial Henan government, probably in line with subsidies that others receive in this industry, such as Yurun Pork Products that revealed subsidies to net profit of 36 percent. I can only infer the amount of subsidies that Shuanghui gets as the secretive company does not release its profitability figures.

The food-processing industry in which Shuanghui operates has also benefitted from Beijing's trade policy of indigenous innovation that subsidizes domestic production and includes networks of regulation that advance state goals. Technology transfer, such as with Smithfield's animal-gene technologies, becomes the prerequisite for foreign companies to access China's markets and to move China into higher-value-added and innovative manufacturing. It is highly likely that this acquisition will get Chinese subsidies, including free or low-cost loans.

Several pieces of regulation provided and will continue to provide financial aid to Shuanghui. In 2006, the Chinese Communist Party's Central Committee and the State Council issued a *Decision on Implementing the Science and Technology Plan and Strengthening the Indigenous*

Innovation (the "*Innovation Decision*") to carry out the landmark *National Mid and Long-term Science and Technology Development Plan (2006-2020)* issued a year earlier. This plan identifies subsidies for applied research in pork processing through Government grants; Preferential lending; IP protection; Construction of public forums; Tax incentives; Government procurement; Incentives to attract and retain talent; and International cooperation.

The *12th Five Year Plan* emphasizes the development of seven strategic emerging industries (SEIs) including Biology (biomedicines, biomedical engineering products, and biological agriculture). Article 27 of China's new *Enterprise Income Tax* law provides that income generated from agriculture, forestry, husbandry, or fisheries may be exempted from tax. The State Council issued the *National Strategic Emerging Industries 12th Five Year Development Plan* in July 2012. The plan also calls for further development of the biopharmaceutical, biomedical engineering, bio-agriculture, and bio-manufacturing industries through supporting policies for SEIs, including establishing an SEI special development fund, improving and implementing tax incentives, and encouraging financial institutions to increase lending. Various Chinese governmental agencies disburse indigenous-innovation subsidies. China's Ministry of Science and Technology funds science parks, research labs, and megaprojects. The state-owned China Development Bank provides soft loans for projects and may help finance the Smithfield takeover though cheap loans or cash grants. The Export-Import Bank of China creates special accounts for innovative enterprises such as Shuanghui to lower their costs and to increase their exports.

5) China's role as a global economic actor is certain. This will not be the last acquisition of an American company by a Chinese one. What are things that can be done to assure the American public that such acquisitions are market-based?

Answer: We can limit the effects of non-market, foreign, political calculations by limiting the industries in which state-capitalist economies such as China can invest. So, for example, I see little danger to the Chinese investing in movie theatres. However, food production is a strategically important industry for us with deep and sweeping ramifications for various stakeholders. Consequently this Chinese investment in Smithfield is a matter of national security for the U.S. and other countries' political considerations should be drastically circumscribed.

Senator Kirsten Gillibrand

1) Our nation's great agriculture system is empowered by significant investment by our federal and state governments in research and extension. With the largest pork and pig producing corporation being controlled by a Chinese entity, how will we ensure American tax dollars invest in research that supports American agricultural advancement, and does not subsidize foreign agriculture systems with our citizen's tax dollars?

Answer: If China controls the largest pig-producing entity in the U.S.A., I can think of no way to ensure that U.S. tax dollars do not subsidize Chinese agricultural systems. The lobbying power of the secretive Smithfield-Shuanghui entity will be immense and our consumers and national competitive advantage will be detrimentally affected.

1B.) Also, what is the level of risk that China subsidizes Shuanghui International in a way that disadvantages other American-based meat and poultry corporations?

Answer: 100 percent. Unreported cash and non-cash transfers from the Chinese government will flow through Shuanghui to Smithfield thereby guaranteeing the latter's ability to dominate the U.S. domestic market as well as U.S. export markets.

2.) The U.S. and China have long had trade disputes on sanitary trade barriers for fresh pork. If Shaunghui acquires Smithfield, they will become a global oligarch of pork production and supply. How will the U.S. ensure China and Shuanghui will not wield undue power to influence the trade of animals and animal products between the U.S. and China, including World Trade Organization reference standards of Codex Alimentarius and the Office International Des Epizooties (OIE)? And between the U.S. and other nations?

Answer: We will not be able to ensure the maintenance of reference standards. Using the past as a predictor of the future, China will use any advantage it has or it perceives itself to have to further its own political or economic interests. The Chinese central and provincial governments will expect any U.S. subsidiary to cooperate with China on achieving the state's goals and desired outcomes; ownership will force compliance, if necessary. Witness Husky Oil's decision on its oil-sands pipeline. Hong Kong businessman Li Ka Shing controls Husky Oil, one of Canada's largest companies. The economically justifiable decision for shipping the oil generated through Husky's oil-sands project required running a relatively short pipeline southward to connect with U.S. pipelines. Instead, amid rampant rumors that the Chinese government was preparing to seize Mr. Li's ownership interest, Husky decided to export oil through a long pipeline to Vancouver. Today, Mr. Li retains control of Husky Oil, which has joint projects with China's state-owned CNOOC in the South China Sea.

3) Foodborne illness is estimated to cost the United States. The Centers for Disease Control & Prevention estimate that 1 in 6 Americans get a foodborne illness each year, that 128,000 are hospitalized, and that 3,000 die. A recent study by the Emerging Pathogens Institute found that the annual economic costs of the top 14 foodborne pathogens is over 14 billion dollars. Given the public health and economic impacts of foodborne illness, would you agree that food safety and food security are integral to our national security?

Answer: Unreservedly, yes, and not just food safety, but also a plentiful, secure water supply. Indeed in the 21st century, as world population continues to increase, control over clean water and clean land will become one of the deciding resources to assume or to maintain world power.

4) Shuanghui International was found in 2011 to have committed a deceptive and illegal act of using Clenbuterol to increase production efficiency in its pigs, which sickened nearly 100 people in China. This drug is banned in both the U.S. and China due to its serious human health risks. Will the Chinese management of Shaunghui have influence over the animal health and food safety practices of Smithfield?

Answer: Shuanghui's use of clenbuteral sickened more than 100 people -- we may never know how many as the Henan provincial government stopped the reporting of the human suffering that Shuanghui caused. As the province's largest employer, Shuanghui was too big to fail. Provincial officials stated that farmers across China widely used clenbuteral and the company should not be held to higher standards than others. Yes, these lax managerial practices and participatory Chinese regulatory environments will detrimentally affect health practices at Smithfield and in this U.S. oligopolistic industry where one competitor can significantly affect business environments. It's naïve to assume that all managerial influences will flow one way from Smithfield to Shuanghui. Despite Smithfield's assurances, as Shuanghui's employees, Smithfield's managers and labor will be expected to follow orders from managers in China. The Chinese management culture is mostly top-down with little tolerance for individuality and deviance. I have seen nothing in Shuanghui's work culture to make me change my generic opinion. Shuanghui's buyers put intense pressure on Chinese farmers over a period of years to employ clenbuterol; they will likely put the same kinds of pressure on U.S. farmers to cut corners and to find loopholes through their obedient Smithfield employees.

Senator Charles Grassley

1) Increased vertical integration, expanded packer ownership, exclusive contracting and captive supply are adversely impacting the ability of independent producers to compete in the domestic and global marketplace. Will the proposed purchase aggravate this situation? Do you have any concerns that this transaction could reduce the already limited number of buyers for the commodities of small, independent pork producers, both in the short and long term? Will this transaction accelerate the trend toward contract producers and squeeze out independent producers?

Answer: Yes, Shuanghui-Smithfield's operations will most likely squeeze out independent U.S. producers as the company's American competitors consolidate, expand vertically or sell themselves to foreign buyers to remain viable. Independent farmers will lose bargaining power in the value chain and may have to sell themselves to contract producers or to exit – regardless, they would emerge as price takers, not price setters. Their hope for independent survival may lie in building premium, boutique brands to sell in limited, local markets. Yet, small farmers will have less access to credit, technology, and markets so that agricultural productivity increases will start floundering or slip for this segment.

2) I've had a longstanding concern about U.S. companies being required to transfer technology and other compulsory tech transfers in the context of mergers and acquisitions. This would give an advantage to Shuanghui and allow it to increase its production of value added products. Specifically, Shuanghui would be able to gain an advantage by obtaining and being able to leverage U.S. technology, management, business practices, genetics research, trademark and other intellectual property. Chinese companies would learn how U.S. companies organize and operate, which would seem to erode the competiveness of the U.S. pork industry in the long term. Do you agree with these concerns? Why or why not? What will be the impact of the transfer of Smithfield's intellectual property, hog genetics and other technology and proprietary methods to Shuanghui relative to the long term competitiveness of the U.S. pork industry, both domestically and internationally?

Answer: I agree with your concerns. Shuanghui would exploit U.S. research and technology, intellectual property, logistical practice and trademarks to the maximum degree possible. Indeed, that is the major purpose of this acquisition and supported by a web of indigenous innovation policies in China as I elaborated in my written testimony. Any significant degree of technology transfer will cause great damage to U.S. companies' competitive positions. Combining Shuanghui's speedier management and low overhead and quality-control costs with Smithfield's production efficiency and brand position, will create an immediate short-term disadvantage for other U.S. producers; medium- and long-term disadvantages will follow as U.S. brands' value is damaged and market share falls through Shanghui's using comparable technology, as well as other Chinese local companies' brand infringement and trademark violations. Consequently, other U.S. producers will have higher unit costs, less valuable trademarks and reduced competitiveness.

3) How will the proposed transaction impact the supply chain of pork into and out of the United States? If pork is produced and imported from China, will that deprive U.S. farmers of value

added opportunities? Wouldn't this acquisition lead to the erosion of competitiveness of value added products where the United States historically has had an advantage? Why or why not?

Answer: Yes, Shuanghui will use Chinese provincial and central government subsidies such as free land, cash grants, lax regulatory standards, free electricity, and loans that never have to be repaid for the life of the loan to underwrite their increased Chinese processing capacity and U.S. expansion into the processed-food market; below-cost pricing will likely force the closure of large swathes of U.S. processing capacity, thereby reducing the number of potential customers for U.S. pork farmers. With the reduction of U.S. processing competitiveness and processors, U.S. farmers will lose bargaining power and profits; they will have less access to markets and to technology and will be unable to maintain productivity increases.

4) What impact will this merger have on the ability of U.S. companies to compete in the global marketplace, including increasing exports to countries in competition with Shuanghui? What assurances are there that all U.S. pork producers, including smaller independent pork producers, will have access to the Chinese market? Or will Smithfield have preferential access to the Chinese market as a Chinese-owned company?

Answer: With its close Chinese government connections, Smithfield will have preferential access to the Chinese market. Neither the Chinese government nor Shuanghui have made assurances of other U.S. producers gaining access to the Chinese market; regardless, such assurances would lack credibility because of China's indigenous-innovation policies in this sector. These indigenous-innovation policies make transfer of technology and knowhow a condition to access Chinese markets. U.S. producers will lose some of their international competitiveness through losses of industry technology (whose development was subsidized by U.S. tax payers), distribution channels and export markets. Globally and domestically, U.S. brands may suffer damage because of poor-quality control in Chinese production facilities used for export, brand and trademark infringement by lower-quality, even toxic, Chinese products, and because of Chinese and U.S. pork co-mingling in these Chinese facilities. Foreign markets will not differentiate between Shuanghui-Smithfield and U.S. companies' brands, without a significant price premium and expensive differentiation, which in turn will reduce U.S. producers' profitability.

5) We're all aware of unsafe Chinese products that have been imported into the United States and harmed American children and consumers. How is this transaction going to change the supply chain of pork products? Right now Americans buy raw pork and other pork products made from pork produced by trusted, safe Iowa hog farmers. But we can't anticipate how a combined Shuanghui-Smithfield will organize its supply chain in the long term. Will Smithfield brand products now be produced with Chinese pork? Will these products now be made of co-mingled Chinese and American pork? How will American consumers know where the raw pork is coming from?

Answer: Smithfield products will most likely incorporate co-mingled Chinese-U.S. pork. If this strategically important industry follows the trajectory of others we have studied, China will experience double-digit growth rate in its food-processing industry, mostly for exports, with attendant build-up of excess capacity in this industry approximating at least 20 percent in 3 years. It is unlikely that increased Smithfield pork production (currently 3 percent of all Chinese production) will keep up with Chinese processing demand, despite contributing to increased U.S. pollution, pork shortages and higher prices for U.S. consumers. Based on our research, I believe higher value-added pork processing will be done in China. From a business point of view, it's unlikely that separate plants will handle U.S. pork exports and Chinese domestically-produced pork; hence both will be processed in the same plants and co-mingled. Americans will likely not know from which country their Smithfield pork products originate.

6) Do you see sourcing changes in terms of raw pork? Will Smithfield brand products now favor Chinese pork over, let's say, Iowa pork?

Answer: There is more Chinese pork than Iowa pork. Indeed, China has half the pigs in the world and all of Smithfield's production only accounts for 3 percent of China's. More Smithfield products will be produced in China and these will proportionately use less Iowa pork (from Smithfield) than Chinese pork. Pork is a strategically important industry for China. The

Chinese government will favor Smithfield's shipping pork to China rather than to other markets that could be more profitable, and as with Husky Oil and the Chinese Vitamin C manufacturers, Shuanghui's managers will have no choice but to acquiesce. Shuanghui-Smithfield will then shift its reduced margins across the supply chain and reduce payments to both upstream contractors and independent farmers.

China's indigenous-innovation policies and official procurement catalogs wall off 17 percent of China's $5.9 trillion economy from foreign participation. As I noted in written testimony, several pieces of regulation support indigenous innovation in pork production. If other strategic industries serve as indicators, it is unlikely that other U.S. competitors will be allowed into the pork-processing industry in China without transferring their technology, or even be able to export pork to China at competitive prices.

Senate Committee on Agriculture, Nutrition and Forestry
"Smithfield and Beyond: Examining Foreign Purchases of American Food Companies
Questions for the Record
July 10, 2013
Mr. Larry Pope

Chairwoman Debbie Stabenow

2) Mr Pope, I understand that you and the executive team have agreed to stay on for 3 years. What assurances in these matters do you have? What kind of certainty have you been given for the longer term?

> **Smithfield will operate as a wholly-owned subsidiary of Shuanghui International and our headquarters will remain in Smithfield, Virginia. We have enjoyed a longstanding, positive business relationship with Shuanghui. Our partners at Shuanghui appreciate our brand, our employees and management, as well as our commitment to quality. This explains why they place such a great value on our company and why they have committed to maintaining Smithfield and its operations as is.**
>
> **Shuanghui has publicly agreed to honor all contracts, including the collective bargaining agreements in place with Smithfield's union-represented employees, as well as existing wage and benefit packages for non-represented employees. These commitments, combined with the opportunities for growth created by this transaction, have earned the support of The Union of Food and Commercial Workers International Union (UFCW) and our employees for this merger.**
>
> **Moreover, the retention agreements that are written into this transaction are a strong incentive for existing management to stay with Smithfield and maintain continuity with all of our operations.**
>
> **It would not make sense from a business standpoint for Shuanghui to acquire Smithfield, and to then take any actions that would disrupt our efficient and profitable operations. Shuanghui has a strong business motivation to uphold Smithfield's commitments across America.**

Senator Sherrod Brown

1) With this sale, Shuanghui not only acquires the physical assets of Smithfield, but also your company's sterling reputation. We know Chinese companies – including the one acquiring Smithfield – have had several high profile food safety problems, both domestically and with its exports to the US. We also know that food safety data in China is difficult to access or evaluate.

a) Can Shuanghui simply use these more advanced technologies and Smithfield's brand to deliver safe food to Chinese consumers?

Shuanghui is committed to food safety and delivering top quality food to millions of consumers. It has introduced inspection and other safety protocols to ensure it continues to adhere to international food safety standards and best practices. When Shuanghui has detected problems, it has fixed them. Additionally, this transaction will allow Shuanghui to deploy Smithfield's established standards and practices to further improve their food safety record and public health. We believe that this deal will raise food safety standards globally, as Shuanghui learns from and implements Smithfield's processes, technologies and standards.

b) How can this be done without the strong food safety regulatory framework the US has built?

The US food safety regulatory framework is vitally important to protecting public health; however Smithfield's internal standards often exceed regulatory standards. This transaction will allow Shuanghui to deploy Smithfield's established standards and practices to further improve their food safety record and public health in China. Additionally, all of our facilities and all products produced and sold in the US will remain subject to full and rigorous USDA inspection. That will include production in US facilities that will be exported to Chinese consumers. The change in ownership will have absolutely no effect on our internal safety standards and the applicable USDA standards. We believe that this transaction will raise standards globally, and that food will be safer as a result of this transaction.

2) Meat processing is one of the most dangerous jobs in the country. Production lines move at blinding speeds and injuries are frequent. Workplace safety was one of the reasons I remember Smithfield workers trying to collectively bargain despite serious opposition from management. This was not all that long ago. Smithfield workers testified before Congress on labor law reforms in 2007. Should this deal be approved, would the next labor contract be negotiated with Smithfield executives or with Shuanghui management? Are there any assurances written into the proposed deal about the treatment of workers and workplace safety? How long do you expect new ownership to continue the practices that Smithfield has traditionally followed?

Among Smithfield's highest priorities are the safety and well being of our valued employees. Our dedicated workforce has built our company into what it is today, and working closely with our union partners is an important part of our business. Shuanghui understands the importance of our workforce to our success and shares our commitment to maintaining a safe and productive work environment. This will not change as a result of this transaction. We expect Shuanghui to continue our tradition of good labor relations at Smithfield.

Smithfield will operate as a wholly-owned subsidiary of Shuanghui International and our headquarters will remain in Smithfield, Virginia. We will continue to comply with all federal labor regulations and workplace safety rules at all our facilities. Relations with our workforce will continue to managed by the labor professionals who work for Smithfield.

Shuanghui has publicly agreed to honor all contracts, including the collective bargaining agreements in place with Smithfield's union-represented employees, as well as existing wage and benefit packages for non-represented employees. These commitments, combined with the opportunities for growth created by this transaction, have earned the support of The United Food and Commercial Workers International Union (UFCW) and our employees for this merger.

3) You stated in your testimony that Shaunghui wants American pork to meet Chinese demand, and that this deal will increase market access for American pork producers. What prevents access to this market now? Why can't American pork companies sell directly to the Chinese market? What increased market access does this deal provide that a basic free market wouldn't provide?

Smithfield and other American pork companies can and do sell to the Chinese market on a very successful and growing basis. China is already the third-largest destination for US pork exports, and this transaction will enhance our trade relationship.

Additionally, the Chinese market is open for US investment in food and agriculture. Numerous US food companies have invested in businesses and other ventures in China. For example, Tyson Foods, a competitor of Smithfield's, recently signed an agreement to take a majority shareholder position in China-based chicken producer Hubei Tong Xing Agriculture Co. Ltd.

4) Do you anticipate Shuanghui monopolizing the Chinese pork processing industry?

No. Shuanghui owns the leading pork processor in China, but has less than five percent of Chinese market share and there are many companies in China that compete in this business. We do not expect, and we doubt that the Chinese government would allow Shuanghui or any company to monopolize the industry.

5) What are the exact loan terms that Shuanghui received from Bank of China to finance the deal?

The details of the financing for the transaction are contained in the proxy materials filed in connection with the transaction.

<u>**Senator Kirsten Gillibrand**</u>

1) Shuanghui International was found in 2011 to have committed a deceptive and illegal act of using Clenbuterol to increase production efficiency in its pigs, which sickened nearly 100 people in China. This drug is banned in both the US and China due to its serious human health risks. Will the Chinese management of Shaunghui have influence over animal health and food safety practices at Smithfield?

Smithfield's food safety practices will continue to meet the highest standards. All of our facilities will remain subject to full and rigorous USDA inspection and the change in ownership will have absolutely no effect on our internal safety standards and the applicable USDA standards. Nothing about how our products are made, inspected or distributed will change.

Shuanghui is committed to food safety and delivering top quality food to millions of consumers. It has introduced inspection and other safety protocols to ensure it continues to adhere to international food safety standards and best practices. When Shuanghui has detected problems, it has fixed them. In the 2011 incident, a supplier to one of Shuanghui's plants was found to have violated the Chinese restrictions on feeding clenbuterol to hogs, and Chinese authorities jailed persons involved. Shuanghui fired the plant manager and subordinates responsible for that plant.

Additionally, this transaction will allow Shuanghui to deploy Smithfield's established standards and practices to further improve their food safety record and public health. We believe that the merger will raise food safety standards globally, as Shuanghui learns from and implements Smithfield's technologies and standards.

Shuanghui has a strong commercial interest in making sure that Smithfield's excellent food safety record and high standards for quality remain in place. The value of our brand is tied to the reliability, consistency and safety of our products. No one will want to do anything that undermines that value.

2) The veterinarians of Murphy-Brown, your company for raising live pigs, are an integral part of ensuring food safety. Does this proposed sale create any risk that would threaten their ability to practice medicine and uphold their oath to protect public health? How will this sale impact Murphy-Brown's veterinarians and producers as they begin to reduce the use of medically important antibiotics as consistent with the Food & Drug Administration's Guidance for Industry 209 and Draft Guidance for Industry 213, which will eliminate non-therapeutic uses like growth promotion and will require significantly more veterinary oversight of antibiotics important to human health? Will Shuanghui maintain at minimum the current number of veterinarians and allied animal health professionals you employ?

Nothing will change about our animal safety or animal welfare practices as a result of this transaction. Our company veterinarians are integral to what we do, and this transaction will have no impact on their role or ability to do their jobs.

Shuanghui has a strong commercial interest in making sure that Smithfield's excellent food safety record and high standards for quality remain in place. The value of our brand is tied to the reliability, consistency and safety of our products. No one will want to do anything that undermines that value.

3) Antibiotic drugs are integral to public health and animal health, and antimicrobial resistance is a global public health and security concern. Your company, including its producers and veterinarians at Murphy Brown, will be under pressure to produce food safer, and to reduce antimicrobial drug use in the future, as well as to improve alternative means of infection control

and prevention. Do you anticipate that Shuanghui will in fact reduce the current average level of antimicrobial drug use in pork production and the average animal exposure level of pigs to active antimicrobial ingredients of medical importance over the next 5 years?

Our policy clearly states that we do not use antibiotics to promote animal growth, and that our company and contract farmers use antibiotics only to treat sick or injured animals and/or to prevent disease. There should be no noticeable impact on how we do business operationally in America and around the world as a result of this transaction, except we will do more of it. We expect this transaction will lead to increased US pork production, which is a good thing. Smithfield aims to raise healthy animals by promoting their safety and overall well-being, and we have a long history of industry leadership in responsible animal production.

Above all, producing safe, high-quality, and nourishing food is the most important thing we do as a business. Smithfield and our independent operating companies (IOCs) work together to provide the highest-quality meats and packaged foods to our customers. Shuanghui sought out Smithfield because of our industry-leading standards in food safety, which will continue under the new merger.

4) In negotiating this sale, to what extent are their assurances Shuanghui will not reduce Smithfield's current level of occupational safety, food safety, environmental compliance, commitment to meet our domestic demands for pork products, and to rely on American farms and processors for its products? Do you anticipate any level of loss of domestic jobs or wages? And if so, to what extent?

One of the key benefits of the Shuanghui-Smithfield transaction is the stability and continuity it ensures. Shuanghui recognizes Smithfield's best-in-class operations, outstanding food safety practices and 46,000 hard-working employees. There will be no impact on how we do business operationally in America and around the world as a result of this transaction. Shuanghui is committed to maintaining Smithfield's operations, its staff and its management. Shuanghui is also committed to continuing the long-term growth of Smithfield and continuing to work with American producers and suppliers who play a key role in our success.

Shuanghui has publicly agreed to honor all contracts, including the collective bargaining agreements in place with Smithfield's union-represented employees, as well as existing wage and benefit packages for non-represented employees. These commitments, combined with the opportunities for growth created by this transaction, have earned the support of The United Food and Commercial Workers International Union (UFCW) and our employees for this merger.

Smithfield will operate as a wholly-owned subsidiary of Shuanghui International and our headquarters will remain in Smithfield, Virginia. We have enjoyed a longstanding, positive business relationship with Shuanghui. Our partners at Shuanghui appreciate our brand, our employees and management, as well as our commitment to quality. This explains why they place such a great value on our

company and why they have committed to maintaining Smithfield and its operations as is.

It would not make sense from a business standpoint for Shuanghui to acquire Smithfield, and to then take any actions that would disrupt our efficient and profitable operations. Shuanghui has a strong business motivation to uphold Smithfield's commitments across America.

5) Can you please delineate how long the current contracts for the following groups will have legal power of enjoining Shuanghui to honor, and when the contracts will be up for renegotiation: Any employees of processing, slaughtering, transport operations, including those that may be part of a union, as well as contract growers involved in live pig reproduction, farrowing, weaning, and finishing. Please include contracts involving wages, job security, and occupational safety and health agreements.

Smithfield union contracts generally have a four-year duration. As a matter of company policy, we do not disclose non-public contract information. We are pleased that Shuanghui has publicly agreed to honor all contracts, and to keep Smithfield's operations and management the same. Going forward, we expect to grow and expand, creating more opportunities for our employees, growers, contractors and vendors.

6) Safe food production is integral to America's public health. What assurances has Shuanghui provided, and for how long and to what extent, that they will continue complying with at minimum Smithfield's current plans, policies, and performance standards for your company's Hazard Analysis and Critical Control Point (HACCP) plan, Good Manufacturing Practices (GMPs), those related to Sanitation and Hygiene, and Systematic Animal Handling Plans, respectively?

Shuanghui is committed to maintaining our current operations as is, with no changes to the industry-leading performance, food safety, GMPs, and animal welfare standards to which we hold our company and our employees.

7) A reliable supply of safe, wholesome, and sustainable food is critical to our nation's domestic operation. Smithfield, your company, has stated that you will produce 50% of pork without Ractopamine shortly, as only pork free of this drug is eligible to export for China. Will your company continue to reduce Ractopamine use beyond this level, and to what extent, under the agreement with Shuanghui? Your company has also stated you will phase-out gestation crates in live production by 2017, will this timeline be complied with under the agreement with Shuanghui?

The US and other countries have found some levels of ractopamine use to be safe. We have no reason to disagree with that. We produce many different products to meet consumer demands, including ractopamine-free pork. Roughly half of our domestic production is ractopamine-free to meet the demands of export markets in

China, Taiwan, and the European Union. We expect for those markets to grow, but we also hope to grow in the US and other markets as well.

Regarding gestation stalls, Smithfield remains on track toward our goal of phasing out individual gestation stalls for pregnant sows at all company-owned sow farms by 2017, and Shuanghui is committed to continuing in this important effort.

Converting to gestation pens is a complex process that cannot be done overnight. Group housing systems require nearly double the square footage of individual pens. To maintain the same number of sows on a farm, we need to either build new barns or expand existing ones. Employees must also be retrained. We are confident, however, that we will meet our goal for total conversion by 2017.

8) You stated that Shuanghui has a commitment to keeping the management team in place at Smithfield, which is an important piece of Smithfield. This agreement includes retention bonuses and job security for at least the next 3 years. Shareholders of Smithfield will also enjoy immediate cash benefits per each share of stock. However, apart from extension of current employee and contract producer agreements, will your company's employees and farmers see any direct financial gain from this proposed sale?

Our employees and growers are essential to the success of Smithfield, and we deeply appreciate their contributions. The Smithfield-Shuanghui merger is a partnership that is all about growth, and improving the agricultural environment in both the US and China. We are building a leading, vertically-integrated global pork enterprise. This growth, coupled with Shuanghui's commitment to retain all management, staff, and contracts, is a great outcome for our employees and growers, who have been very supportive of this transaction.

Senator Charles Grassley

1) Increased vertical integration, expanded packer ownership, exclusive contracting and captive supply are adversely impacting the ability of independent producers to compete in the domestic and global marketplace. Will the proposed purchase aggravate this situation? Do you have any concerns that this transaction could reduce the already limited number of buyers for the commodities of small, independent pork producers, both in the short and long term? Will this transaction accelerate the trend toward contract producers and squeeze out independent producers?

No. We believe this transaction will have a very positive impact for all US agriculture, including small and independent producers. The reaction from the US agricultural community to this transaction has been overwhelmingly positive.

Our new combined company expects to meet the growing demand for pork in China by exporting high-quality meat products from the US. This means more

opportunities for US producers, more jobs in processing and more exports for the US economy.

US consumers will continue to have broad choices on where they want to buy their pork. US pork producers are the best and most efficient in the world, and that competitive advantage will not be upended, but rather enhanced, by this merger. Small and independent producers are a major part of the US competitive advantage and will continue to be after this merger. Their ability to produce high quality pork for a variety of markets continues to be attractive to consumers, and our transaction should have no effect on that.

We note that, as we announced on July 12, 2013, the required waiting period has expired under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 in connection with the Shuanghui-Smithfield transaction.

2) I've had a longstanding concern about US companies being required to transfer technology and other compulsory tech transfers in the context of mergers and acquisitions. This would give an advantage to Shuanghui and allow it to increase its production of value added products. Specifically, Shuanghui would be able to gain an advantage by obtaining and being able to leverage US technology, management, business practices, genetics research, trademark and other intellectual property. Chinese companies would learn how US companies organize and operate, which would seem to erode the competiveness of the US pork industry in the long term. Do you agree with these concerns? Why or why not? What will be the impact of the transfer of Smithfield's intellectual property, hog genetics and other technology and proprietary methods to Shuanghui relative to the long term competitiveness of the US pork industry, both domestically and internationally?

We do not agree that this transaction will result in an erosion of US competitiveness in the pork industry. Shuanghui will purchase Smithfield's technology, processes and methods, for which they are willing to pay a premium. However, many of these technologies are readily available from vendors inside and outside of the US, and our processes and methods are neither proprietary nor unknown to our competitors in the meat business. Many of our production methods are taught by American land grant universities, and this instruction is publicly available.

With respect to intellectual property, Smithfield holds no patents. While we understand the Committee's interest, Shuanghui and other pork producers can already acquire the hog genetics that Smithfield uses on the open market, without having to spend $7.1 billion.

American agriculture is noted worldwide for its high productivity, quality and efficiency. Compared to China, the US maintains a relatively low cost of production for pork due primarily to access to comparatively low priced grains – a factor that will not change as a result of this transaction.

US pork producers and processors are the best and most efficient in the world, and that competitive advantage will not be upended, but rather enhanced, by this merger. Producers and our competitors support this transaction, because they know it will build more US capacity, exports, and jobs.

3) How will the proposed transaction impact the supply chain of pork into and out of the United States? If pork is produced and imported from China, will that deprive US farmers of value added opportunities? Wouldn't this acquisition lead to the erosion of competitiveness of value added products where the United States historically has had an advantage? Why or why not?

This transaction is about exporting high-quality meat products from the US to China to meet the growing global demand for pork and increase global food safety standards. This combination will not result in any US imports of food from China.

4) What impact will this merger have on the ability of US companies to compete in the global marketplace, including increasing exports to countries in competition with Shuanghui? What assurances are there that all US pork producers, including smaller independent pork producers, will have access to the Chinese market? Or will Smithfield have preferential access to the Chinese market as a Chinese-owned company?

This transaction will benefit US pork producers as much as their Chinese counterparts by matching US supply with Chinese demand for high-quality meat. This transaction is about exporting high-quality meat products from the US to China to meet the growing demand for pork and increase global food safety standards. China has a domestic shortage of pork, not a surplus. This combination will be good for the American economy and for American jobs.

This transaction should not impact the export of pork from China to other countries. By growing the market for American pork abroad, we think our transaction will help the US gain, not lose, market share globally. Numerous commentators have highlighted the net benefits of this deal to the US economy and jobs , including economists, leading international trade academics, and the editorial boards of *The New York Times* and *The Wall Street Journal.*

With respect to Chinese market access, the reaction from the US agricultural community to this transaction has been overwhelmingly positive, and pork producer associations across the country have expressed public support for this transaction as they believe it will increase export opportunities and growth for all. Many analysts and experts also believe that our new partnership is good for US-China relations. This is an important step in deepening the US-China agricultural trade relationship.

Smithfield will not receive preferential treatment in the Chinese market. We expect to be treated like every other US exporter of pork, regardless of our ownership structure.

5) We're all aware of unsafe Chinese products that have been imported into the United States and harmed American children and consumers. How is this transaction going to change the supply chain of pork products? Right now Americans buy raw pork and other pork products made from pork produced by trusted, safe Iowa hog farmers. But we can't anticipate how a combined Shuanghui-Smithfield will organize its supply chain in the long term. Will Smithfield brand products now be produced with Chinese pork? Will these products now be made of co-mingled Chinese and American pork? How will American consumers know where the raw pork is coming from?

This transaction is about exporting high-quality meat products from the US to China to meet the growing global demand for pork and increase global food safety standards. This combination will not result in any US imports of food from China.

Smithfield will continue to source its pork from the more than 400 company-owned farms and 2,000 contract growers across the country, from Iowa to North Carolina to Missouri to Utah, with whom we already work.

With respect to brands, Smithfield remains subject to the applicable USDA standards and inspections. Nothing about that will change as a result of the transaction. By undertaking this transaction, Shuanghui has put skin in the game-they are paying $7.1 billion for a company with a substantial amount tied to the value of the brands. Shuanghui has a strong commercial interest in making sure that Smithfield's excellent food safety record and standards remain in place. The value of our brand is tied to the reliability, consistency and safety of our products. No one will want to do anything that undermines that value.

6) Do you see sourcing changes in terms of raw pork? Will Smithfield brand products now favor Chinese pork over, let's say, Iowa pork?

No.

Senate Committee on Agriculture, Nutrition and Forestry

Smithfield and Beyond: Examining Foreign Purchases of American Food Companies

Answers to Questions for the Record

July 28, 2013

Commissioner Dan Slane

Chairwoman Debbie Stabenow

1) Commissioner Slane, as a businessperson who has conducted business in China what concerns are raised when a publicly traded company that answers to shareholders is squired by a private Chinese company, especially in matters of corporate governance, operational issues such as contracts with producers and employees, and dealing with difficult matters such as environmental and food safety concerns?

Chairwoman Stabenow:

1. The biggest concern is the lack of transparency and the restraints imposed by regulators and shareholders to act in the best interest of Smithfield. Chairman Wan Long is motivated to do what is best for Shuanghui and is under pressure to operate his company in the best interest of China since they are financing, supporting and approving his purchase. This would certainly include, over time, moving as many jobs as possible back to China where he can enjoy considerable savings in wages and benefits.

   While his U.S. operation is subject to U.S. laws and regulations, it is much easier to operate on the edge and only function at the lowest minimum requirements when you are a private company, especially dealing with environmental and food safety issues.

Senator Sherrod Brown

1) How likely is it that Shuanghui will compete against U.S. pork producers in third-party countries, such as Japan or Mexico?

2) As we've seen with poultry, China is actively trying to export chickens to the United States. Isn't it likely that once Shuanghui adopts Smithfield's hog genetics lines and other processing technologies, other U.S. pork producers could be at a competitive disadvantage when competing with a firm that has the backing of a national bank?

3) Mr. Pope and others have noticed the demand for pork in China and they need exports to help meet this demand. In your opinion, is there anything currently stopping Smithfield and other American pork producers from increasing exports into China? If not, do you believe this sale should be blocked by CFIUS?

Senator Brown:

1. It is certain that Shuanghui will be a formidable competitor in both Mexico and Japan. Smithfield has meat processing facilities and distribution networks in Mexico. Shuanghui has plants and distribution logistics in Japan, Singapore, the Philippines and South Korea. The acquisition of Smithfield will make Shuanghui a much stronger company. U.S. pork producers will not be competing with a Chinese company but with the Chinese Government. There is no way they can win this competition.

2. Shuanghui has little or no cost of capital in addition to numerous other subsidies. It also has easy access to capital for expansion. Small and medium sized US businesses have limited access to credit making it hard for them to expand.

3. China only allows a limited amounts of pork to be imported depending upon the inability of domestic suppliers to fill the demand. They use rectopomine (a drug used as a feed additive to promote leanness in animals raised for their meat) as a trade barrier. Their overriding policy is to achieve self-sufficiency in pork production. Pork is the leading source of protein in China, and the government does not want to be dependent upon foreign producers. The Chinese Government is preventing increasing pork imports through a variety of non tariff trade barriers. Yes, it is my opinion that this sale should be blocked by CFIUS because it will ultimately harm U.S. producers and negatively affect effect our food supply. Over time Shuanghai will dominate the pork industry in the U.S.

Senator Kirsten Gilllibrand

1) Smithfield is both America's and the world's largest pig and port producer. Shuanghui is the largest meat producer in China. What are the domestic and global food security implications of consolidating the world's pork production under a single, foreign-owned corporation, and particularly what are the log-term hazards of increasing China's control of US domestic food production?

2) Shuanghui International was found in 2011 to have committed a deceptive and illegal act of using Clenbuterol to increase production efficiency in its pigs, which sickened nearly 100 people in China. This drug is banned in both the US and China due to its serious human health risks. Will the Chinese management of Shuanghui have influence over the animal health and food safety practices of Smithfield?

Senator Gillibrand:

1. China has a history of acquiring technology, either by buying it, stealing it or forcing the transfer and then having their State owned or controlled companies implement it to dominate industries. The solar panel industry is a prime example. Once Shuanghui is able to master Smithfield's technology, including their managerial and operational expertise, and with help from the Chinese Government, they will be able to dominate the world pork

industry. Smithfield has plants and distribution networks in Mexico and Europe and Shuanghui already has plants and distribution networks in Japan, Singapore, The Philippines, and South Korea. China is all about control and pork is the leading source of protein in China and has been for 5,000 years. As hundreds of millions more Chinese enter the middle class over the next decade, there will be a huge demand for pork, thus China's motivation for controlling the industry so they are not captive to the commodities markets. Long term, we will be importing our pork from China under the Smithfield brand. They will dominate our domestic pork producers and if history is any lesson, we can expect that many of our domestic producers will go out of business.

2. Yes, but food safety is finally becoming a priority with the Chinese Government and I would expect Shuanghui to adopt Smithfield's food safety practices, both here and in China. They are also intimidated by our legal system, and I would not expect Shuanghui to lower standards. However, China's food supply has suffered from "economically driven adulteration" and a culture of adulteration exists in China's food and agriculture industries. The issue is does Shuanghui have the ability to overcome this culture of adulteration from their hog producers. Chinese farmers operate on the edge and to compete they will cut corners, sell diseased hogs and rely on adulteration to maximize their competitive edge. China's regulatory system has been ineffective. Once Shuanghui is granted approval to import pork, this issue becomes critical for our consumers.

Senator Charles Grassley

1) Increased vertical integration, expanded packer ownership, exclusive contracting and captive supply are adversely impacting the ability of independent producers to compete in the domestic and global marketplace. Will the proposed purchase aggravate this situation? Do you have any concerns that this transaction could reduce the already limited number of buyers for the commodities of small, independent pork producers, both in the short and long term? Will this transaction accelerate the trend toward contract producers and squeeze out independent producers?

2) I've had a longstanding concern about U.S. companies being required to transfer technology and other compulsory tech transfers in the context of mergers and acquisitions. This would give an advantage to Shuanghui and allow it to increase its production of value added products. Specifically, Shuanghui would be able to gain and advantage by obtaining and being able to leverage U.S. technology, management, business practices, genetics research, trademark and other intellectual property. Chinese companies would learn how U.S. companies organize and operate, which would seem to erode the competiveness of the U.S. pork industry in the long term. Do you agree with these concerns? Why or why not?

3) How will the proposed transaction impact the supply chain of pork into and out of the United States? If pork is produced and imported from China, will that deprive U.S. farmers of value added opportunities? Wouldn't this acquisition lead to the erosion of competitiveness of value added products where the United States historically has an advantage? Why or why not?

4) What impact will this merger have on the ability of U.S. companies to compete in the global marketplace, including increasing exports to countries in competition with Shuanghui? What assurances are there that all U.S. pork producers, including smaller independent pork producers, will have access to the Chinese market? Or will Smithfield have preferential access to the Chinese market as a Chinese-owned company?

5) We're all aware of unsafe Chinese products that have been imported into the United States and harmed American children and consumers. How is this transaction going to change the supply chain of pork products? Right now Americans buy raw pork and other pork products made from pork produced by trusted, safe Iowa hog farmers. But we can anticipate how a combined Shuanghui-Smithfield will organize its supply chain in the long term. Will Smithfield brand products now be produced with Chinese pork? Will these products now be made of co-mingled Chinese and American pork? How will American consumers know where the raw pork is coming from?

6) Do you see sourcing changes in terms of raw pork? Will Smithfield brand products now favor Chinese pork over, let's say, Iowa pork?

Senator Grassley:

1. Yes, absolutely. In the short term, independent, domestic pork producers will enjoy increased demand for their product. In the long term, Shuanghui will fully implement Smithfield's technology and their managerial and operational expertise. This will lead to more contract producers and will squeeze out independent producers. China, and by extension Shuanghui, is all about control of the market.

2. Yes, I am in total agreement. What most people fail to see is the enormous value of Smithfield's managerial and operational expertise, in additional to their cutting edge intellectual property (IP). In my opinion, this is more important to Shuanghui then the acquired technology. Smithfield is successful because of their world class business practices and their ability to efficiently produce pork. Shuanghui is successful, in large part, because of support from the Chinese Government in financing and numerous subsidies. Shuanghui would have difficulty competing in the world market without the business expertise and IP of Smithfield.

3. In the long term, acquiring Smithfield's technology will allow Shuanghui to dominate the world pork market. That is their directive from the Chinese Government and their end game. Pork is the leading source of protein in China and has been for 5,000 years. As millions of more Chinese enter the middle class over the next decade, the demand for pork will dramatically increase. China, and by extension Shuanghui, are all about control and they do not want to be subject to the swings of the world commodities markets. Ultimately, if history is any lesson, Shuanghui will dominate the market to the detriment of our domestic producers. The farm raised fish industry is just one example. Once China mastered the technology and increased production, they wiped out many of our domestic producers of fish.

4. Once this transaction is concluded, I would expect Shuanghui to apply for approval to import pork products from U.S. raised hogs that they ship to China, under the Smithfield label. This will have a negative effect on the supply chain. China learned from their experience in the coal and iron ore markets that it was much better to own the mines and benefit from the value added then it was to simply import the commodity. They are implementing that lesson here and it will deprive many of our domestic pork producers of value added opportunities. In addition, rural communities who depend upon large and medium size livestock operations that pump money into their communities will suffer. In the long term, Shuanghui will implement Smithfield's world-class business and IP and ultimately dominate pork production in the U.S.

5. By acquiring Smithfield, they will own pork processing plants and distribution networks in Mexico and Europe. Shuanghui also owns plants and extensive distribution networks in Japan, Singapore, the Philippines and South Korea. It is reasonable to assume that they will expand to other world markets. Shuanghui has been directed and supported by the Chinese Government to become the dominate international pork producer. U.S. companies will not be competing with a Chinese company, but with the Chinese Government and there is no way they can succeed. China will do everything in their power to protect Shuanghui's Chinese domestic market. The overriding agricultural policy in China is self sufficiency. Smithfield, by virtue of their ownership, will definitely have preferential access to the Chinese market. The only time that U.S. pork producers will have access to China is during periods when demand far exceeds China's ability to supply the market with pork. When these shortages occur, China will waive their import restrictions due their fear that higher pork prices will lead to instability. In 2012, Chinese consumers ate 119.5 billion pounds of pork and only 1.5 billion pounds were imported. Smithfield could easily meet this demand.

6. Once Shuanghui is granted permission to import pork from U.S. raised hogs, they will press to import Chinese raised pork. It is reasonable to assume that over time we will be importing co-mingled Chinese and American pork. Unfortunately, these products will come into our food supply chain under the Smithfield iconic label, and the U.S. consumer will not be able to determine where the pork was raised (processed pork products like ham, bacon and sausage are exempt from mandatory country of origin labeling). Most U.S. consumers will assume it is U.S. raised pork.

   Historically what China has done, is to implement our IP and ultimately over produce in China in an attempt to dominate the market by directly or indirectly dumping (using Hong Kong and other techniques). Steel, tires, glass, solar panels, etc are some of the many examples. You can expect China to do the same with pork and it will have a negative effect on Iowa pork in the long term.

Senate Committee on Agriculture, Nutrition and Forestry
"Smithfield and Beyond: Examining Foreign Purchases of American Food Companies
Questions for the Record
July 10, 2013
Dr. Matt Slaughter

Ranking Member Thad Cochran

1) As the Senate Agriculture Committee discusses foreign direct investment in American agriculture, your testimony regarding the merits of this form of investment is particularly noteworthy. Can you expound on reasons why U.S. recipients of foreign investment through mergers and acquisitions often experience higher productivity and overall performance? Do the studies referenced in your testimony regarding performance of merger and acquisition transactions include analysis of the food or agriculture industries?

M&A transactions often entail the buyer bringing new ideas and methods to the acquired company that enhances the latter on a number of fronts, including productivity growth. A number of peer-reviewed publications in academic refereed journals has documented this fact. Of course, this is not to say that every single M&A transaction succeeds this way. Some don't. In particular, transactions with the largest purchase prices often destroy rather than create market value. a large number of academic studies have examined the performance consequences of M&A transactions in the United States, and the repeated finding is that most M&A transactions improve the productivity and overall performance—such as employment—of acquired companies. Because of various restrictions on the U.S.-government data that are often used in these academic studies, examining patterns in particular industries such as food is not possible.

2) You note in your testimony that a "timely and efficient CFIUS review is an additional U.S. regulatory check that makes good sense." Please elaborate on what you mean by "timely and efficient." In your opinion, does the current CFIUS process accomplish this objective?

Yes, I believe that current U.S. CFIUS policies are both timely and efficient.

3) Can you explain your view that the United States should welcome sound acquisitions of U.S. companies by Chinese companies, since these deals are in stark contrast to allegations of intellectual property theft from U.S. businesses by the Chinese?

In the context of America's legitimate concerns about IP theft from China, it is important to see that the Shuanghui-Smithfield transaction offers Exhibit A of the ideal solution: American companies being paid by Chinese companies billions of dollars for their ideas in a transparent, market-based deal—and at a 31% premium above Smithfield's pre-announcement stock-market value. Indeed, Shuanghui seeks to deploy Smithfield's expertise, products, and brands in China largely through boosting Smithfield's exports to China: exports into Shuanghui's network there to better meet surging pork demand in China driven by rising household income growth.

Senator Sherrod Brown

1) You talked a lot about the benefits of direct foreign investment and the trend towards increasing global mergers and acquisitions. Here, in a single transaction, 26% of US pork processing will be Chinese owned. Three additional transactions could drive that number to 63%, if Chinese firms decided to acquire the next three largest producers. The same argument can be made for other food industries. At what point should we be become concerned about foreign control over our domestic food supply chains?

Existing U.S. antitrust laws and regulations—for agriculture as for all other industries—should fully apply to this particular transaction. But there is no reason to apply differential standards to the competitive analysis of this particular transaction.

Senator Charles Grassley

1) Increased vertical integration, expanded packer ownership, exclusive contracting and captive supply are adversely impacting the ability of independent producers to compete in the domestic and global marketplace. Will the proposed purchase aggravate this situation? Do you have any concerns that this transaction could reduce the already limited number of buyers for the commodities of small, independent pork producers, both in the short and long term? Will this transaction accelerate the trend toward contract producers and squeeze out independent producers?

Existing U.S. antitrust laws and regulations—for agriculture as for all other industries—should fully apply to this particular transaction. But there is no reason to apply differential standards to the competitive analysis of this particular transaction. I am not sufficiently knowledgeable of the current industrial organization of this industry to comment in great detail here. That said, the change in ownership per se provides no obvious reason to worry about changing market dynamics, as Shuanghui currently does not own any U.S. assets.

2) I've had a longstanding concern about U.S. companies being required to transfer technology and other compulsory tech transfers in the context of mergers and acquisitions. This would give an advantage to Shuanghui and allow it to increase its production of value added products. Specifically, Shuanghui would be able to gain an advantage by obtaining and being able to leverage U.S. technology, management, business practices, genetics research, trademark and other intellectual property. Chinese companies would learn how U.S. companies organize and operate, which would seem to erode the competiveness of the U.S. pork industry in the long term. Do you agree with these concerns? Why or why not? What will be the impact of the transfer of Smithfield's intellectual property, hog genetics and other technology and proprietary methods to Shuanghui relative to the long term competitiveness of the U.S. pork industry, both domestically and internationally?

In the context of America's legitimate concerns about IP theft from China, it is important to see that the Shuanghui-Smithfield transaction offers Exhibit A of the ideal solution: American companies being paid by Chinese companies billions of dollars for their ideas in a transparent, *market-based deal—and at a 31% premium above Smithfield's pre-announcement stock-market value. Indeed, Shuanghui seeks to deploy Smithfield's expertise, products, and brands in China largely through boosting Smithfield's exports to China: exports into Shuanghui's network there to better meet surging pork demand in China driven by rising household income growth. The creation of American IP—whether it is related to food or any other industry—is enhanced, not reduced, when that IP can be deployed around the world in expanded markets. Larger markets induce innovators in America—whether part of a U.S. company or a foreign company alike—to experiment, research, and develop more, not less.*

3) How will the proposed transaction impact the supply chain of pork into and out of the United States? If pork is produced and imported from China, will that deprive U.S. farmers of value added opportunities? Wouldn't this acquisition lead to the erosion of competitiveness of value added products where the United States historically has had an advantage? Why or why not?

The proper competitive space for U.S. pork companies in the global economy will be determined by largely the same set of forces whether or not Smithfield is purchased. It is the overall worldwide supply-and-demand dynamics of this industry, not any particular company, that shapes which country's companies perform which activities.

4) What impact will this merger have on the ability of U.S. companies to compete in the global marketplace, including increasing exports to countries in competition with Shuanghui? What assurances are there that all U.S. pork producers, including smaller independent pork producers, will have access to the Chinese market? Or will Smithfield have preferential access to the Chinese market as a Chinese-owned company?

The market-access of American companies to the Chinese market is broadly set by China's accession agreements to the World Trade Organization, regardless of the corporate structure of Smithfield. Of course, if the Chinese government disadvantages American companies aiming to enter and compete in China then all legal means to remedy this wrong should be undertaken. That is true regardless of this transaction.

5) We're all aware of unsafe Chinese products that have been imported into the United States and harmed American children and consumers. How is this transaction going to change the supply chain of pork products? Right now Americans buy raw pork and other pork products made from pork produced by trusted, safe Iowa hog farmers. But we can't anticipate how a combined Shuanghui-Smithfield will organize its supply chain in the long term. Will Smithfield brand products now be produced with Chinese pork? Will these products now be made of co-mingled Chinese and American pork? How will American consumers know where the raw pork is coming from?

The safety of American consumer is always a paramount legal and regulatory concern of the U.S. FDA and other related agencies. Foreign companies receive no special treatment in this regard. As for global food safety, Shuanghui seeks to deploy Smithfield's expertise, products, and brands in China largely through boosting Smithfield's exports to China. This all will hopefully enhance food safety in China, not reduce it.

6) Do you see sourcing changes in terms of raw pork? Will Smithfield brand products now favor Chinese pork over, let's say, Iowa pork?

I simply don't know enough about the details of the raw-pork industry to comment here.

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