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Sino-Genta?

And soon there will be three. Joy of six heads towards a “ménage à trois”

For more background, see ETC Group’s recent report: [Breaking Bad: Big Ag Mega-Mergers in Play](#)¹

For a decade, six multinationals have controlled 75% of the world’s high-tech seeds and pesticides businesses. Late last year, **Dow** and **DuPont** agreed to merge and now state-owned **ChemChina** is buying **Syngenta** for \$43 billion. This means that **Monsanto** needs a merger to stay in the game. Or, is the game about to be called?

If regulators allow these two mergers to go through – and that’s by no means certain – then the Big Six will become a Fat Five: Dow-DuPont’s agribusiness spinoff (“Deep Doodoo”?) will lead the pack, followed by ChemChina – already #7 in global pesticides – and Syngenta, which is #1 in pesticides and # 3 in seeds (“Sino-genta”?). That leaves Monsanto in third position trailed by **Bayer** and **BASF**. Monsanto was repeatedly rebuffed by Syngenta, but it desperately needs to step up its pesticides game. Either one or both of Bayer and BASF could spin off their agricultural interests to Monsanto or one of the German Giants might put Monsanto out of its misery with a takeover. Another possibility is that one of the three huge farm machinery companies – most likely **Deere & Company** – rolls in and digs Monsanto out of its hole (“Demonsanto”?) because of synergies in their Big Data agricultural technologies. Business as usual is not an option.

Would national regulators step aside to watch 75% of global private sector agricultural research fall under the heel of five or fewer enterprises? Perhaps not if they realize that a third shoe is about to drop. The Dow – DuPont wedding is already raising hackles on both sides of the Atlantic. A ChemChina – Syngenta tryst is, arguably, of less concern since the Chinese company has a comparatively small footprint in agriculture. But once these deals are accepted, Monsanto might make a political case for following in their footsteps – claiming that they must either wed or walk. Allowing the first two mega-mergers, anti-combines offices may feel they have to accept a third.

US and European regulators have a well-deserved reputation for being myopic, moronic and anemic when asked to go toe-to-toe with well-heeled corporate lawyers. Recently, however, the US Department of Justice has put its foot down on two big food company mergers, and Germany has tripped up a couple more. Shareholders can’t be certain the deals will go through.

It is even less likely that a Dow-DuPont merger or another one involving Monsanto would play well in the all-important emerging markets of China, Brazil, India and Argentina. These four countries account for a third of the global pesticide market – the part that is actually growing these days. China won't nix a hookup involving its own champion, but it has recently blocked a **Coca-Cola** deal and put serious constraints on two fertilizer deals involving Russian companies. More importantly, China, Brazil and India have national champions – parastatal or private sector – they would like to see, someday, on the global stage. Allowing five – or likely three – multinationals to strengthen their oligopoly in seeds and chemicals would put the kibosh on those aspirations while increasing costs and further decreasing choices for their farmers.

ChemChina's subsidiary **ADAMA** is the world's seventh largest agrochemical company, but the world's biggest seller of off-patent agrochemicals (more than \$3 billion worth in 2014). Also note that just two companies – **Syngenta-ChemChina** and **Dow-DuPont** – would account for more than half (51.4%) of global agrochemical sales, based on 2014 sales, pro forma.

Agrochemicals	2014 sales, US\$ millions	% Market Share
Syngenta-ChemChina	14,602	25.8
DuPont-Dow	14,503	25.6
Monsanto	5,115	<u>9.0</u>
		60.4
Seeds		
Syngenta-ChemChina	3,155	7.9
DuPont-Dow	4,091	10.1
Monsanto	10,740	<u>26.5</u>
		44.5

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Background: *The Joy of Six becomes a ménage à trois?*

The world's 6 largest agricultural input enterprises (Monsanto, DuPont, Syngenta, Bayer, BASF and Dow) acquired at least 200 other seed or pesticide companies since the introduction of GM crops 20 years ago² and, prior to the current merger talks, these six account for 75% of all private sector agricultural R&D and control 75% of agrochemical sales and 63% of commercial seed sales. Again, in advance of mergers, 3 companies (Monsanto, DuPont and Syngenta) control 55% of commercial seed sales and 51% of crop chemical sales (Syngenta, BASF and Bayer).³

Recent Regulatory Interventions in Food and Agriculture Mergers:

- In 2009 the Ministry of Commerce in China prohibited a proposed transaction: a takeover of Huiyuan (a Chinese brand of juice) by Coca-Cola worth \$2.4 billion.⁴
- In 2010, the Russian fertilizer company Uralkali agreed to buy Silvinit, its competitor for \$7.8 billion in cash and shares.⁵ The Chinese Ministry of Commerce (MOFCOM) approved their merger conditionally. The MOFCOM concluded that the market for potassium chloride would be highly concentrated; the merged firm would be the second largest producer and exporter, controlling a third of the market. Together with the leading producer, the two companies would control roughly 70% of this market. The Chinese agency imposed behavioral conditions such as maintaining preexisting sales processes and procedures when dealing with customers in China and to continue to meet the demands of Chinese customers. Also a monitoring trustee was appointed to ensure these conditions were met.⁶
- In 2015, Thai Union Group, the world's largest canned tuna producer tried to acquire Bumble Bee Seafoods for \$1.5 billion. However, US authorities said the deal would be harmful to competition in the seafood market and blocked the deal.⁷
- In 2015, the US Department of Justice blocked the merger of Sysco and US Foods, two American food distributors, arguing they would have pricing power nationwide over restaurants, hospitals and other food buyers.⁸
- In 2014, the German Federal Cartel Office banned the supermarket EDEKA from forcing suppliers to grant special rebates (in the form of additional payments and benefits) following its acquisition of Plus in 2009, claiming they were abusive and unlawful.⁹
- In 2015, the Federal Cartel Office blocked the takeover by the food retailer EDEKA of Kaiser's Supermarkets claiming an eventual highly concentrated market in a few cities in Germany. However, just this month, the German Economics minister Sigmar Gabriel overruled anti-trust authorities and cleared, with conditions, the merger between Edeka and Kaiser.¹⁰ This move was highly contested and another food retailer, REWE, is threatening to go to court. EDEKA recorded 46.4 billion Euros (\$59.3 billion) in sales in 2013 and Kaiser's 451 stores and 16,000 employees represent a turnover of 1.8 billion Euros (\$2.3 billion).

¹ETC Group, "Breaking Bad: BigAg Mega-Mergers in Play Dow+Dupont in the Pocket? Next: Demonsanto?" Communiqué 115, December 2015.

http://www.etcgroup.org/sites/www.etcgroup.org/files/files/etc_breakbad_23dec15.pdf

² Anonymous, "Agricultural suppliers – Controversial hybrids", *The Economist*, electronic edition, August 27, 2015.

³ ETC Group, "Mega-Mergers in the Global Agricultural Inputs Sector: Threats to Food Security & Climate Resilience", September 2015 p.6. [to be published]

⁴ Sundeep Tucker, Peter Smith and Jamil Anderlini, "China blocks Coca-Cola bid for Huiyuan", *Financial Times*, March 19, 2009. <http://www.ft.com/intl/cms/s/0/5c645830-1391-11de-9e32-0000779fd2ac.html#axzz3z7jm531Z>

⁵ Maria Kolesnikova and Ilya Khrennikov, "Uralkali Agrees on \$7.8 Billion Takeover of Silvinit", *Bloomberg Business*, December 20, 2010. <http://www.bloomberg.com/news/articles/2010-12-20/uralkali-offers-to-buy-silvinit-to-become-second-largest-potash-producer>

⁶ Davis Polk & Wardwell LLP, "China Anti-Trust Review 2011", *Davis Polk & Wardwell LLP*, February 1, 2012: http://www.davispolk.com/sites/default/files/files/Publication/96100535-04cf-491a-8e3d-9392f4d09164/Preview/PublicationAttachment/f7ab9474-d68a-4919-8ded-95c3e186632a/020112_China.Antitrust.Review.2011.pdf

⁷ Reuters and CNBC, "Thai Union Group scraps \$1.5 billion plan to buy Bumble Bee", *CNBC*, - *Mergers and Acquisitions*, December 4, 2015. <http://www.cnbc.com/2015/12/04/chicken-of-the-sea-and-bumble-bee-foods-ditch-merger-on-doj-concerns.html>

⁸ Anonymous, "Mergers and antitrust in America: Pushing the limits", *The Economist*, December 12, 2015. <http://www.economist.com/news/business/21679810-frenzy-deals-awakening-americas-antitrust-regulators-pushing-limits>

⁹ Anonymous, "Germany: Federal Cartel Office bans food retail giant EDEKA from squeezing suppliers Edeka goes to Court", *Eversheds*, August 12, 2014. http://www.eversheds.com/global/en/what/articles/index.page?ArticleID=en/Competition_EU_and_Regulatory/Germany_Federal_Cartel_Office_bans_food_retail_giant_from_squeezing_suppliers

¹⁰ Dana Heide and Christopher Cermak, "EDEKA Gets Surprise Takeover Boost", *Handelsblatt*, N°344, January 12, 2015. <https://global.handelsblatt.com/edition/344/ressort/companies-markets/article/edeka-gets-surprise-takeover-boost>