GMOs, seed availability, national security concerns threaten Syngenta-ChemChina deal

Why is there so much concern about a potential takeover of Syngenta, one of the largest pesticide agri-business companies in the world, by a Chinese-state-owned chemical company? Although Europe, Brazil and the United States—the world's leading agricultural regions—have all pledged tough scrutiny over national security concerns, future of the seed market, particularly in genetically modified seeds.

First, let's review the merger details. In February, Syngenta agreed to be acquired by China National Chemical Corp., as ChemChina is formally known, for $43 billion cash. Syngenta had similar offers, including one from rival agrochemical and seed giant Monsanto but chose ChemChina's offer because it was entirely in cash and because it anticipated an easier regulatory road. It is the most ambitious overseas acquisition by a Chinese company ever.

While the Chinese government appears to be in full favor of the deal, the reaction in the United States is more cautious. Numerous senators have expressed their concerns, most particularly Senator Marco Rubio (FL-R) in a letter to the president:

> *ChemChina's acquisition of Syngenta has raised valid questions as to how Beijing, if approved, will then treat U.S. farm products. Our nation grows in population, and with it, an increased need for food security. The concerns raised by many, through the lens of trade, biosecurity, food safety and our farming sector, must be properly addressed prior to approving the proposed acquisition.*

One thing these politicians are worried about is national security. Syngenta operates many of its global enterprises in the U.S., including a number of chemical and pesticide manufacturing plants. Many of these are close to U.S. military and covert American government facilities. These Syngenta plants would now be owned and operated by a Chinese government run company.

The other major concern is that Chinese ownership of genetically engineered seeds could cause problems for U.S. farmers. Currently, Syngenta provides 10 percent of U.S. soybean seeds and 6 percent of corn seeds, and its biotech division is located in the United States. But the Chinese have had a volatile relationship with GMO regulations, and have previously rejected U.S. exports during trade spats—a huge disruption to U.S. farmers that depend on a reliable export market. China is a large buyer of agricultural commodities and the country is the U.S.'s largest export market for many crops. To what degree would ChemChina operate independently of Chinese trade and foreign policy issues? In effect, China might both be selling and regulating the same crops, something U.S. leaders fear could be used to block sales of food by U.S. farmers to the massive Chinese market.

U.S. Secretary of Agriculture Tom Vilsack and Senator Chuck Grassley are also worried the deal could mean less biotechnology research and fewer seed options for farmers going forward. According to Vilsack:

> *I have a watchful eye on all of this and continue to be extremely concerned about the way in which biotechnology and innovation is being treated and impeded by a system in China that often times is not based on science and appears to be based more on politics.*

Grassley has arguably been the most outspoken in his disapproval of the deal. The U.S. needs to ensure, "we're not permitting the sale of too much of our food industry, especially when government-controlled entities like ChemChina are the buyers," he's said. He believes this deal, and other similar mergers, may reduce farmer's choices, "I remain troubled about the long-term effects of continued consolidation in the seed industry and what that will mean (to) the farmers who have fewer companies to buy seed from."

But it's not just politicians who are worried about affect the deal will have on U.S. farmers, Jana Linderman, president of the Iowa Farmers Union, outlined these concerns in a recent interview with WNAX in South Dakota:

> *When you see mergers like this, you know inputs are not going to get cheaper, certainly, and your very likely to see decreases in really much needed research which we have already seen as a result of these mergers. Private sector research is way down. The number of new products being put onto the market in response to what farmers need has gone way down. We have already seen these effects because these mergers have already been happening.*

Will the U.S. block deal?

Syngenta shareholders remain optimistic about a deal, approving on April 26 a special dividend to be paid after—and if—the deal closes. But the U.S. could be a spoiler. Because Syngenta has several U.S.-based assets, Syngenta and ChemChina must bring the merger before the Committee on Foreign Investment in the U.S (CFIUS), an interdepartmental committee chaired by the Secretary of the Treasury that includes representatives of 16 U.S. governmental agencies like State, Commerce, Defense and Homeland Security. The committee's role is to review acquisitions of U.S. assets by foreign investors for potential national security risks. It can recommend the president block the deal on these grounds. Normally, the review board does not contain members from the FDA or the USDA, but Grassley, Rubio and others are lobbying to make sure these agencies have a say in the review.

CFIUS will review whether the deal threatens U.S. food security and will it put Chinese-owned property, like Syngenta's U.S. chemical plants, too close to U.S. military bases. The board has a recent history of blocking deals on these grounds. In 2012, it stopped a Chinese company from buying a wind farm in Oregon on the grounds that the facility was too close to a training site for unmanned drones. It also blocked China's Northwest Non Ferrous International Investment from acquiring Firstgold Corp., whichhad property near Fallon Naval Air Station in Nevada in 2009.

The board did approve the purchase of U.S. assets of a Canadian company by China's biggest offshore oil and natural gas producer, Cnooc Ltd. But the US barred the company from operating oil fields in the Gulf of Mexico because the fields were too close—50 miles—to a Naval base in Louisiana. This same base is 80 miles from a Syngenta pesticide manufacturing facility. Another chemical facility is located some 10 miles outside of Offutt Air Force Base in Nebraska. While food and farming are expected to play a major role in the review of this deal, CFIUS has reportedly never blocked a deal on the grounds of food security. In 2013, it approved the purchase of Smithfield Foods Inc. by a Chinese company despite some politicians raising food security issues.

View from China

The Chinese central government is said to be in full favor of the deal, and the company's Chairman Ren Jianxin has been adamant that the move is purely profit based and not political. One of the most lucrative parts of this deal for ChemChina is said to be Syngenta's intellectual property, which includes seeds for GMO corn and soy—neither of which are commercially grown in the country as yet. Many see this proposed acquisition as another step for China towards full acceptance of GMOs.

The country does permit the growth and commercialization of these crops, but acceptance and commercialization has slowed over political issues. In 1997, China approved the commercialization of GM cotton, which is still grown widely today and in 2014 was grown at a similar level as in the U.S. But the country has not approved a new GMO since it approved for import the Hawaiian virus-resistant papaya in 2006. One of the hold ups to further commercialization is public opinion against the crops, much of which is said to be based on anti-Western sentiment, as well as myth spread by activists like Greenpeace.

China's current state of agriculture is in dire need of an upgrade. The country has 1/5th of the world's population but its farming yields have been stagnant. This is why it is hard to see this move as merely driven by the profits for one company. This is particularly true in light of the Chinese Communist Party's latest five-year plan, which named biotech and agriculture as one of seven "Strategic Emerging Industries." Another sign is that the country's No. 1 Central Document, for the 13th year in a row, focused on Agriculture and farmer related issues. Chinese President Xi Jinping has spoken positively about the technology in the passed, but has noted he worries the country could be flooded by GMOs from other country's, an opinion shared by many citizens of the country. Certainly buying Syngenta, one of the world's largest agricultural companies, would be a way for the government to ensure the GMOs within its borders are homegrown.

Syngenta's response to U.S. criticisms

In response to some of the criticisms, Syngenta Chief Operating Officer Davor Pisk, wrote a letter to the editor in *The Washington Post* in early April, maintaining that not much would change for the company as a result of the deal. He pointed out that Syngenta would maintain its headquarters in Basel, Switzerland and will still operate under foreign status in China. Syngenta's Chairman Michel Demare echoed this when he told CNBC in February the deal was not "Chinese nationalization." He also reassured investors at the company's annual meeting on April 26 that CFIUS poses no threat to the deal.

Officials from both Syngenta and ChemChina expect the deal to be completed by the end of 2016 which is possible as CFIUS normally completes its review of deals in 75 days—although it has not yet begun. However, with the bi-partisan criticisms over the deal so vocal it is hard to share the companies' optimism. A report from CLSA (Credit Lyonnais Securities Asia), a research-driven equity broker, estimated the deal has just a 35 percent chance of being approved by the U.S. CLSA analyst Mark Connelly said that the deal would be bad for the US and for its farm industry: "The U.S. has the most to lose strategically from the acquisition."

Nicholas Staropoli is the associate director of GLP and director of the Epigenetics Literacy Project. He has an M.A. in biology from DePaul University and a B.S. in biomedical sciences from Marist College. Follow him on twitter @NickfrmBoston.