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Secretary Chuck Hagel
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Secretary John Kerry
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Secretary Dr. Ernest Moniz
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Ambassador Michael Froman
U.S. Trade Representative
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Washington, DC 20508

Secretary Tom Vilsack
U.S. Department of Agriculture
1400 Independence Avenue SW
Washington, DC 20250

BY FACSIMILE AND POST

July 9, 2013

Re: Shuanghui's International Holdings, Ltd. proposed purchase of Smithfield Foods

Dear Secretary Lew, Attorney General Holder, Secretaries Napolitano, Pritzker, Hagel, Kerry, Moritz, Ambassador Froman and Secretary Vilsack:

The undersigned farm, producer, consumer, and rural organizations urge the Committee on Foreign Investment in the United States (CFIUS) to oppose the proposed acquisition of Smithfield Foods (Smithfield) by Shuanghui International Holdings, Ltd. (Shaunghui).

The proposed takeover of a major U.S. food manufacturer poses significant potential threats to U.S. security interests; undermines food security in the United States and worldwide; threatens the safety of the U.S. food supply; transfers technology, assets and intellectual property that was developed in part by taxpayer-financed resources to a foreign company; and accelerates the international consolidation of the food and agribusiness industry to the detriment of American farmers, rural communities, the environment and consumers.

The purchase of Smithfield Foods represents the largest purchase of a U.S. firm by a Chinese company.[1] Shaunghui offered $4.7 billion for Smithfield, a purchase worth more than $7 billion including Smithfield's debt.[2] Smithfield is the largest pork processor and hog producer in the United States and has a significant impact on the U.S. food supply. Smithfield had 25 U.S. plants (7 more in Mexico, Romania and Poland) with 46,000 workers that slaughtered 27.7 million hogs in 2012, controlling a quarter (26 percent) of the U.S. pork market.[3] Smithfield also dominates hog production, with 862,000 sows producing litters for hog production in the United States in 2012 (28 percent of the domestic sows) and another 227,000 sows in Mexico, Poland and Romania.[4]

Shuanghui is a private firm that owns the majority of the shares in China's largest meat company, the publicly traded Henan Shuanghui.[5] Shuanghui sells 13.5 percent of the pork sold in China under the Shineway brand.[6] It operates 20 processing plants, slaughters 15 million hogs a year, employs 60,000 workers and is investing more than $800 million to build four more plants.[7] In 2012, Shuanghui sold $6.2 billion worth of pork and had assets worth $1.6 billion.[8]

A cross-border acquisition of this scale would have tremendous impacts on the U.S. food supply. This purchase has traditional national security implications (such as the legitimate risk of espionage from Smithfield's plants and property), but it also has broader security implications for the U.S. economy. The purchase has the potential to disrupt the critical infrastructure and systems of the U.S. food supply, agricultural land and rural economies. The Foreign Investment and National Security Act of 2007 (FINSA) regulations define critical infrastructure as any "system or asset" that is "so vital to the United States that the incapacity or destruction of the particular asset" by the foreign purchasing company "would have a debilitating impact on national security."[9]

In the simplest terms, Smithfield is a significant supplier of pork products to U.S. military installations. If the merger were approved by CFIUS, the Chinese-owned Smithfield would control a portion of the food supplied to U.S. troops. The law requires CFIUS to take into account the potential impact on domestic production to meet domestic military requirements.[10] Smithfield has contracts to provide $12.5 million worth of pork to U.S. military facilities.[11] The

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[1] Erman, Michael and Greg Roumeliotis. "China Inc.'s Smithfield bid expected to pass Washington test." *Reuters*. May 31, 2013.
[2] Ho, Prudence, Cynthia Koons and Nopparat Chaichaleammongkol. "Morgan Stanley to provide $3bn in Smithfield bid." *Wall Street Journal*. May 31, 2013; Felerbaum, Michael. "China's Shuanghui in $4.7B deal for Smithfield." *Associated Press*. May 29, 2013.
[3] Gelles, David and Gregory Meyer. "Deal saves pig farmer from a break-up." *Financial Times*. May 30, 2013; Smithfield Foods. U.S. Securities and Exchange Commission (SEC) filing 10-K. July 31, 2012 at 13, 24 to 25.
[4] "Top 25 U.S. Pork Powerhouses 2012." *Successful Farming*. December 2012.
[5] Mattioli, Dana and David Kesmodel. "China makes biggest U.S. play." *Wall Street Journal*. May 31, 2013.
[6] Waldmeir, Patti and Jamil Anderlini. "Chinese meat hit by additive allegations." *Financial Times*. March 15, 2011.
[7] Fielding, Michael. "With merger, Smithfield gains massive Chinese distribution network." *Meatingplace*. May 29, 2013; Mattioli and Kesmodel. May 31, 2013.
[8] Ho, Koons and Chaichaleammongkol. May 31, 2013; De la Merced, Michael J. and Mark Scott. "Smithfield to be sold to Chinese meat processor." *New York Times*. May 29, 2013.
[9] §800.208. 73 Fed. Reg. 226. November 21, 2008.
[10] 50USCApp.2170(f)(1-2).
[11] Zajac, Andrew and Sara Forden. "Smithfield's Sale Likely to Clear U.S. Security Review." *Bloomberg*. May 31, 2013.

Shuanghui purchase could potentially disrupt the supply of food to U.S. military facilities, either deliberately or because a higher percentage of Smithfield's processing output was diverted to exports.[12] The CFIUS review should further consider whether Smithfield's military customers transmit classified or sensitive material, such as the delivery addresses for secure military facilities when making purchases.[13]

But CFIUS should also consider the broader impact on food security. The law gives CFIUS wide latitude to consider cross-border purchases that deliver "the control of domestic industries and commercial activity by foreign citizens as it affects the capability and capacity of the United States."[14] The proposed purchase threatens the integrity, security and safety of the U.S. food supply and should be prohibited.

Global Food Security

Global food security is widely recognized as an important component of U.S. national security.[15] The proposed takeover would further China's efforts to secure and control worldwide food production resources. The Chinese government and Chinese companies are aggressively purchasing farmland in the developing world to secure access to productive agricultural land and water resources.[16] China sovereign wealth funds, Chinese government entities and Chinese companies have pursued or finalized at least 37 land deals in the developing world covering 8.9 million acres between 2006 and 2012.[17]

By investing in farmland and food processing, China and Chinese investors are increasing the nation's role on the global food landscape and providing a stronger and potentially more destabilizing role in global food security. The proposed purchase will further these ends. Smithfield is a major hog and pork producer not just in the United States but also in Poland, Romania, and Mexico, which increases Chinese industries' reach across the globe.[18]

U.S. Food Prices

The stated purpose of the merger is to increase Smithfield's pork exports to China.[19] Chinese consumers eat 119.5 billion pounds of pork a year (1.5 billion of it imported).[20] The merger would provide a steady demand from Shuanghui for pork exports from Smithfield plants and the

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[12] Doering, Christopher. "Secretive panel eyes China Smithfield deal." *Gannett News Service*. June 9, 2013.
[13] De la Merced, Michael and David Barboza. "China, in need of pork, to buy U.S. supplier." *New York Times*. May 29, 2013.
[14] 50USCApp.2170(f)(3).
[15] President of the United States. National Security Strategy. May 2010 at 5, 33-34, 39, and 46-47.
[16] Cotula, Lorenzo et al. "Land Grab or Development Opportuinity?" UN Food and Agriculture Organization/International Fund for Agricultural Development/International Institute for Environment and Development." 2009; Kugelman, Michael and Susan L. Levenstein (eds.). "Land Grab? The Race for the World's Farmland." Woodrow Wilson International Center for Scholars. 2009.
[17] GRAIN. [Press release]. "GRAIN releases data set with over 400 land grabs." February 23, 2012.
[18] Smithfield Foods. 2012 Integrated Report. July 31, 2012 at 47.
[19] Mattioli and Kesmodel. May 31, 2013.
[20] Gelles and Meyer. May 30, 2013.

Chinese-owned firm would face fewer administrative and paperwork barriers to imports from the United States.[21]

Diverting more of Smithfield's supply to exports would tighten up U.S. pork supplies and increase U.S. retail pork prices.[22] American consumers are very price sensitive during the current economic downturn.[23] Smithfield exported 1.2 billion pounds of pork in 2012, 18 percent of its production.[24] Smithfield has been slowly shifting production to meet the global export market. Smithfield has shifted half of its pork production and processing to ractopomine-free pork, which many observers believe was designed to court Chinese buyers since China will not import pork raised with ractopomine.[25] If Shuanghui diverts fully half of Smithfield's production to export to the Chinese market, the exports from U.S. plants would increase by about 2 billion pounds.[26]

While it is difficult to precisely estimate the impact this shift would have on consumer prices, this could significantly increase the retail price of pork in the United States. According to a University of Missouri 2013 economics paper, a one percent increase in the net export of pork would increase hog prices by about 3 percent;[27] and the pass-through of hog price increases to retail pork prices can be nearly as high. Since the United States exported 5.4 billion pounds of pork in 2012, even a fraction of the potential 2 billion pound increase would have very significant impact on retail pork prices in the United States.

Food safety in U.S. plants

Shuanghui's takeover could compromise the food safety at U.S. Smithfield plants as they absorb the management culture from China's food processing industry. China's food supply has suffered from the persistent trend of "economically motivated adulteration" and a culture of adulteration in China's food and agricultural sector.[28] The purchase could export the less rigorous Chinese food manufacturing standards and business culture to Smithfield and erode its food quality and safety practices.[29]

American food processing companies like Smithfield have evolved under a system the *Wall Street Journal* has characterized as having "strong brands creating the right incentives all along supply chains, transparent regulations that are well enforced, and rule of law compensating victims of lapses."[30] In contrast, Shuanghui evolved in China's Wild West business environment that allowed many food manufacturers and processors to cut corners, sell tainted food products

[21] Gelles and Meyer. May 30, 2013; Schneider, Howard and Brady Dennis. "Smithfield Foods to be brought by Chinese firm Shuanghui International." *Associated Press*. May 30, 2013.
[22] Fielding, Michael. "Little risk for Smithfield, little impact on U.S. hog industry, analysts say." *Meatingplace*. May 30, 2013.
[23] Felerbaum. May 29, 2013.
[24] Smithfield Foods. SEC 10-K. July 31, 2012 at 5.
[25] Gee, Kelsey. "How China could make U.S. food safer." *Wall Street Journal*. Corporate Intelligence blog. May 30, 2013.
[26] Smithfield Foods. SEC 10-K. July 31, 2012 at 5.
[27] Plain, Ron. University of Missouri-Columbia. "Economic Impact of U.S. Pork trade, 1986-2012." Department of Agricultural & Applied Economics Working Paper No. AEWP 2013-2.
[28] Barboza, David and Alexei Barrionuevo. "Filler in animal feed is open secret in China." *New York Times*. April 30, 2007.
[29] Erman and Roumeliotis. May 31, 2013.
[30] Sternberg, Joseph. "Rethinking that Chinese pork takeover." *Wall Street Journal*. June 20, 2013.

and rely on adulteration to maximize their competitive advantage. Chinese officials have readily acknowledged the country's food system as "grim."[31]

The country's decentralized and overlapping regulatory system has not been able to address China's sprawling food-processing industry. Repeated government efforts to reform food safety rules have so far failed to stem the tide of adulterated food.[32] China's food safety enforcement system also lacks the transparency necessary to warn the public about dangerous products or deter dangerous food-processing practices. The U.S. Department of Agriculture (USDA) reports that the Chinese government zealously guards the food safety data it collects, making it difficult to impartially evaluate China's food safety performance.[33]

The result has been an almost constant series of alarming food safety scares. In June 2012, authorities shut down 5,700 unlicensed food businesses and discovered 15,000 cases of "substandard food" so far that year.[34] In May 2013, the Chinese arrested more than 900 people accused of passing off more than $1 million worth of rat meat as mutton.[35] Ironically, the recent discovery of more than 7,000 dead pigs in the Huangpu River was actually described as "an encouraging step forward in Chinese public health," because producers dumped diseased animals in the river rather than sell them into the food supply.[36]

Shaunghui became the dominant meatpacker in this landscape of tainted food. Shuanghui was recently embroiled in a major food safety scandal in China. In 2012, a Shuanghui meatpacking subsidiary sourced hogs treated with the illegal veterinary drug clenbuterol, which is used to produce leaner meat but is hazardous for humans to consume.[37] More than 38,000 hogs raised with the illegal drug were purchased and slaughtered without testing by the subsidiary.[38] The Shuanghui parent company fired four executives at the processing plant and ordered the factory to recall its pork products.[39] Five Shuanghui employees received prison sentences for their role in the tainted pork scandal.[40]

While Smithfield's safety record is better than Shuanghui's, the company is not without blemishes. In 2013, Smithfield recalled 38,000 pounds of sausage over concerns that the products might contain plastic fragments.[41] In 2012, Smithfield's packing plants in Poland recalled 13,600 pounds of meat products for microbial or labeling issues.[42] In 2011, Smithfield recalled 216,000 pounds of flavored pork loins that may have contained unlabeled dairy ingredients that could pose an allergy risk to consumers.[43]

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[31] "Food safety situation still grim in China." *Associated Press*. March 3, 2009.
[32] "Chinese lawmakers call for enhancing supervision of food safety." *Xinhua*. February 25, 2010.
[33] Gale, Fred and Jean Buzby. USDA ERS. "Imports from China and food safety issues." Economic Information Bulletin No. 52. July 2009 at 4.
[34] McDonald, Mark. "From Milk to Peas, A Chinese Food-Safety Mess." *International Herald Tribune*. June 21, 2012.
[35] Martina, Michael and Sally Huang. "Chinese police bust million-dollar rat-meat ring." *Reuters*. May 3, 2013.
[36] Barboza, David. "A tide of death, but this time food supply is safe." *New York Times*. March 14, 2013.
[37] Pinghui, Zhuang. "TV report on clenbuterol in pigs sees 22 people held." *South China Morning Post*. July 19, 2012.
[38] Pinghui, Zuang. "5 jailed in tainted pork scandal." *South China Morning Post*. August 14, 2012.
[39] Pinghui. July 19, 2012.
[40] "China cracks down on clenbuterol; arrests 2,000 for other offenses." *Food Chemical News*. August 4, 2011.
[41] "Smithfield Packing Co. recalls 38,000 pounds of pork sausage." *Associated Press*. February 21, 2013.
[42] Smithfield Foods. 2012 Integrated Report. July 31, 2012 at 39.
[43] Smithfield Foods. [Press release]. "North Carolina company voluntarily recalls portobello mushroom flavored pork because of possible health risk." May 4, 2011.

Smithfield would likely not operate as safely as it currently does outside the U.S. economic and regulatory landscape. The ownership of Smithfield by a Chinese food company that operates in a much more permissive food safety regulatory environment and business culture could ultimately lower the food safety culture at Smithfield.[44] Management culture tensions have caused the failure of the majority of Chinese purchases of Western firms.[45] The Shuanghui-Smithfield merger poses especial difficulties because Shuanghui is based in central China and has less exposure to Western business norms than coastal Chinese businesses.[46]

Shuanghui has flourished in a food production system with little accountability, rampant food safety problems, limited and ineffective government oversight and a near complete lack of transparency. The merger could make it more difficult to ensure that U.S. meat production and supply maintains high safety and quality standards.[47] The takeover of Smithfield is considerably more likely to dilute the management culture at Smithfield than to upgrade the culture at Shuanghui, which could ultimately pose food safety risks for American consumers.

Deal facilitates risky meat exports from China to the United States

The deal has been promoted as a way to facilitate U.S. pork exports to China, but ultimately, Shuanghui could export pork back to the United States.[48] A significant portion of U.S. pork exports are half-hog carcasses where they are processed into value-added pork cuts, including by firms like Shuanghui.[49] The adoption of Smithfield hog genetics and processing technologies could allow Shuanghui to reverse the global flow of pork products and begin the export of Chinese pork to the United States.[50]

Chinese meat processors have already sought to export chicken to the United States in a similar fashion, by re-exporting Chinese-processed poultry products made from frozen chickens imported from the United States. Currently, the United States does not permit poultry imports from China. U.S. agribusinesses have invested heavily in Chinese chicken production and processing – both to feed Chinese consumers and as a future export platform to U.S. consumers – and they have been working to get USDA approval for Chinese poultry exports to the United States. In 2006, the USDA rapidly finalized China's request to begin exporting processed chicken to the United States the very same day as a visit from China's president.[51]

But the USDA's internal inspection reports of Chinese poultry facilities showed egregious food safety problems, including mishandling raw chicken throughout the processing areas, failing to

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[44] More, Heidi. "Smithfield sale to China would come at a time of crisis for world food standards." *Guardian* (London). May 30, 2013.
[45] "This little piggy in the US market." *China Economic Review*. June 5, 2013.
[46] *Ibid*.
[47] "Stabenow worried by Smithfield acquisition, but CFIUS clearance likely." *Inside US-China Trade*. June 12, 2013.
[48] De la Merced and Barboza. May 29, 2013.
[49] Keefe, Lisa M. "Long-developing Smithfield deal to boost U.S. pork industry: Pope." May 29, 2013.
[50] Herzstein, Robert. "The dangers behind the Smithfield deal." *Washington Post*. June 1, 2013.
[51] Quaid, Libby. "U.S. to allow processed poultry shipments from China." *Associated Press*. April 20, 2006; 71 Fed. Reg. 20867–20871.

perform *E. coli* and *Salmonella* testing, and routinely using dirty tools and equipment.[52] As these internal reports emerged, Congress refused to implement the Bush Administration proposal, effectively maintaining a ban on Chinese poultry imports.[53] In January 2011, Chinese President Hu Jintao again visited the United States, cementing tens of billion of dollars in trade deals with the Obama Administration.[54] Shortly after this visit, the USDA announced new steps it had taken to honor China's request to export chicken to the United States.[55]

Currently, the USDA is working through the steps to approve China as an exporter of poultry products to the United States, with the next step in the approval process expected to be completed in the fall. This process continues to proceed, even as the poultry sector in China is suffering mounting economic damage from a growing avian influenza outbreak.[56]

The processed poultry products being considered for approval are supposed to be made in Chinese plants from birds that have been sent from "approved" sources, including the United States or Canada, but not China. But without stationing USDA inspectors in Chinese processing plants, it will be virtually impossible to verify that these products are made from birds from approved sources rather than Chinese producers.

Unfortunately, the USDA has significantly weakened the oversight of foreign meat and poultry producers. Until 2009, USDA conducted in-depth annual on-site audits of countries eligible to export meat, poultry and egg products to the United States. The department recently announced that in 2009 it replaced annual audit visits to exporting countries with a "Self-Reporting Tool" for exporters. Instead, USDA began conducting audit visits every three years and the agency stopped publishing the audit results of individual foreign meat, poultry, egg plants that exported products to the United States.

Shuanghui would almost certainly apply for a similar approval to re-export pork products processed from imported U.S. 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 including Gwaltney, Armour and Smithfield. But because processed pork products like ham, bacon and sausage are exempt from mandatory country of origin labeling requirements, American consumers would be unaware these products were imported from China.

International consolidation in the food system and meat supply

If the merger were approved, some analysts believe that it could facilitate other purchases of U.S. food companies by Chinese firms or investors.[57] Shuanghui's proposed takeover of Smithfield is only the latest in a string of foreign takeovers of U.S. meat and poultry processors over the past five years. Brazil's JBS purchased both Swift & Co.'s beef and pork business as well as the

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[52] USDA Food Safety and Inspection Service. "Final report of an initial equivalence audit carried out in China covering China's poultry inspection system." May 17 2005 at 9-11.
[53] Pub. L. 110-161. Title VII. §733.
[54] Oliphant, James. "Obama and Hu Jintao pledge cooperation, downplay differences." *Los Angeles Times*. January 19, 2011.
[55] Bottemiller, Helena. "USDA petitioned to block Chinese poultry." *Food Safety News*. January 31, 2011.
[56] "China avian flu hits poultry sector, losses mount." *UPI*. April 16, 2013.
[57] Erman and Roumeliotis. May 31, 2013.

poultry integrator Pilgrim's Pride Corp.; Brazil's Marfrig Alimentos purchased poultry processor Keystone Foods; Mexico's Sigma Alimentos bought the Bar-S Foods packaged meat business; Mexico's Industrias Bachoco took over poultry integrator OK Foods; Ukraine's Omtron made a significant partnership purchase of poultry company Townsends, Inc.; and South Korea's Harim USA bought the poultry firm Allen Family Foods.[58]

The agriculture and food sector is unusually concentrated, with just a few companies dominating the market in each link of the food chain. In most sectors of the U.S. economy, the four largest firms control between 40 and 45 percent of the market, and many economists maintain that higher levels of concentration can start to erode competitiveness.[59] Yet according to data compiled by the University of Missouri-Columbia in 2012, in the agriculture and food sector, the four largest companies controlled 82 percent of the beef packing industry, 85 percent of soybean processing, 63 percent of pork packing and 53 percent of broiler chicken processing.[60] These national concentration measurements can conceal even higher levels of concentration at the regional or local level.

Agribusiness consolidation contributes to the decline in independent, medium-sized and smaller livestock producers that can sap the economic vitality of rural communities.[61] The earnings from locally owned and locally controlled farms generate an economic "multiplier effect" when farmers buy their supplies locally and the money stays within the community.[62] These benefits to rural economies are higher with a larger number of medium-sized independent farms than with fewer large farms with tight relationships with big companies.

Fewer, larger livestock operations pump less money into rural communities. Several studies have reported that large-scale livestock operations were more likely than smaller livestock farms to bypass local suppliers for inputs like feed and equipment.[63] The economic multiplier effect is much lower with large corporate-affiliated livestock operations than with smaller independent farms.[64]

Foreign ownership exacerbates many of these problems. The earnings and profits from meatpacker-owned hog production facilities are shipped to corporate headquarters instead of invested locally, and with foreign firms these earnings are not shipped to Virginia but to China. Moreover, local communities bear the majority of the externality costs of large-scale, corporate

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[58] Johnson, Tom. "China's Shuanghui latest foreign entrant to the U.S. protein business." *Meatingplace*. May 30, 2013.
[59] Democratic Staff Report, U.S. Senate Committee on Agriculture, Nutrition and Forestry. "Economic concentration and structural change in the food and agriculture sector: Trends, consequences and policy options." October 29, 2004 at 4 to 5.
[60] James, Harvey S. Jr., Mary K. Hendrickson and Philip Howard. University of Missouri, College of Agriculture, Food & Natural Resources. "Networks, Power and Dependency in the Agrifood Industry." February 2012.
[61] Democratic Staff Report (2004) at 2.
[62] Pew Commission on Industrial Farm Animal Production. "Putting meat on the table: industrial farm animal production in America." April 2008 at 41.
[63] *See* Abeles-Allison, M. and L. Conner. Department of Agricultural Economics. Michigan State University, East Lansing. "An analysis of local benefits and costs of Michigan hog operation experiencing environmental conflicts." 1990; Goméz, M.I. and L. Zhang. "Impacts of concentration in hog production on economic growth in rural Illinois: An economic analysis." Presentation. American Agricultural Economics Association Annual Meeting. Tampa, Florida. July 31-August 2, 2000; Folz, J.D., D. Jackson-Smith and L. Chen. "Do purchasing patterns differ between large and small dairy farms? Economic evidence from three Wisconsin communities." *Agricultural Resource Economic Review*. Vol. 31, Iss. 1 at 28-38.
[64] Pew Commission on Industrial Farm Animal Production (2008) at 41.

owned and contracted hog operations, including water and air pollution resulting from industrialized livestock operations. Foreign owners have less incentive to prevent manure spills and other industrial livestock pollution than local or nationally based firms because they are less visible and harder to hold accountable than U.S. firms. The Shuanghui purchase of Smithfield would export the pork, raising pork prices and leaving the manure pollution in rural American communities.

Many states prohibit the foreign ownership of farmland, including some states where Smithfield subsidiaries operate hog farms, including Missouri.[65] Two recently passed bills in Missouri would allow foreign companies to own approximately 300,000 acres of farmland, which would allow Shuanghui to maintain Smithfield's Murphy-Brown of Missouri, LLC (formerly Premium Standard Farms) hog production facilities in that state.[66] The Missouri governor vetoed both bills, but the state assembly can override the vetoes when it returns in September.[67]

Chinese Government Involvement with Shuanghui

Shuanghui grew into the country's largest meatpacker largely through government policies and investment. It retains close relationships with the Chinese government leadership and a state-owned bank largely financed the merger and will hold the physical assets of Smithfield as collateral for the debt. Shuanghui is currently highly subsidized by the Chinese government.[68] The state-owned Bank of China is providing $4 billion to purchase Smithfield (Morgan Stanley is financing the debt) and the loan will be collateralized by both Smithfield and Shuanghui's physical assets, namely the processing plants in U.S. and China.[69]

The Chinese government provides a host of benefits to its domestic enterprises, even the privately held firms that make them more competitive than international firms that operate without state subsidies. These firms receive below-market interest rate loans from state-owned banks and often the debt from these loans is forgiven or significantly written down. China's policy to ensure food self-sufficiency provides a subsidy for domestic food processing, meatpacking and agriculture production. And China's protection and manipulation of its currency provides a benefit to Chinese firms. These state-sponsored benefits enabled Shaunghui to grow to a sufficient size to propose the purchase of Smithfield.

Shaunghui started with a single pork packing plant in Henan province in 1969.[70] The current company was founded 20 years ago as a state-run meatpacking enterprise.[71] In 2006, Goldman Sachs, CDH and a group of investors paid $250 million to privatize the government-owned meat processor.[72] The Chinese hedge fund New Horizon Capital alone invested $20 million.[73] CDH

[65] Huffstutter, P.J. et al. "Exclusive: Smithfield deal may face state hurdles as Midwest laws eyed." *Reuters*. June 9, 2013.
[66] Baertlein, Lisa and P.J Huffstutter. "Missouri legislation may help Chinese Smithfield buy." *Reuters*. June 10, 2013.
[67] Baertlein, Lisa and P.J Huffstutter. "Missouri vetoes raise questions for Smithfield-China deal." *Reuters*. July 2, 2013.
[68] Haley, George and Usha Haley. "Purchase poses strategic risks." *USA Today*. June 6, 2013.
[69] Jing, Mao. "Shuanghui gets $7.9b loan for Smithfield acquisition." *China Daily*. June 20, 2013.
[70] Ho, Koons and Chaichaleammongkol. May 31, 2013.
[71] De la Merced and Barboza. May 29, 2013.
[72] Barboza, David. "Chinese bid for U.S. pork had links to Wall Street." *New York Times*. June 2, 2013.
[73] *Ibid*.

Investments (a Chinese private equity firm) has a 34 percent stake while Goldman Sachs and New Horizon Capital each own a five percent stake.[74]

Some of Shuanghui's management and many of the investors retain close relationships with the Chinese government. The Chairman of Shuanghui, Wan Long, has strong ties to political leadership in Beijing and has been a member of the National People's Congress for 15 years.[75] The co-founder of New Horizon, Wen Jiabao, is the son of the former Chinese prime minister, but he left the investment house to become chairman of the government-owned China Satellite Communications Corporation.[76] It is unknown whether Wen or his family maintains a stake in New Horizon and, thus, Shuanghui.[77]

The relationship between Shuanghui, its management leadership, its investors and the state-owned bank financing the cross-border purchase could allow Chinese government military and security interests to exert leverage over Shuanghui that could be potential threats to U.S. security.

Proximity of Smithfield facilities to Military Installations

Smithfield operates 25 meat processing and slaughter facilities across the United States, owns 460 farms and contracts with an additional 2,100 hog farms in 12 states.[78] Smithfield pork packing plants and hog farms are close to U.S. military installations, which could provide a platform for espionage by the Chinese government.[79]

The Smithfield headquarters and a packing plant is located in the military-intensive region of Hampton Roads, Virginia.[80] The company's plant in Smithfield, Virginia, is about 10 miles from the shipbuilding facilities in Newport News, Virginia and within 20 to 25 miles of the Langly Air Force Base, the Little Creek Naval Amphibious Base, the Naval Computer & Telecommunications Area Master Station, Atlantic (Norfolk), Fort A.P. Hill, the Fleet Combat Training Center (Virginia Beach), the Norfolk Naval Station, and the Yorktown Naval Weapons Station.[81]

Other Smithfield plants are within 10 miles of military bases.[82] The Farmland Plant in Wichita, Kansas is within about seven miles of McConnell Air Force Base; the Armour-Eckrich Meats plant (operated by John Morrell) in Junction City, Kansas is seven miles from Fort Riley; the Armour-Eckrich plant in Peru, Indiana is about seven miles from Grissom Air Force Base; and

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74 Barboza. June 2, 2013; Ho, Koons and Chaichaleammongkol. May 31, 2013.
75 Mattioli and Kesmodel. May 31, 2013.
76 Barboza. June 2, 2013.
77 *Ibid*.
78 Smithfield Foods. SEC 10-K. July 31, 2012 at 23-14; Smithfield Foods. 2012 Integrated Report. July 31, 2012 at 44.
79 Geewax, Marilyn. "Can a huge hog deal pose a national security risk?" *National Public Radio*. May 31, 2013.
80 Walzer, Philip. "$7.1B Smithfield Foods takeover bid not complete yet." *Virginia Pilot*. June 1, 2013.
81 Estimate based on Smithfield Foods. SEC 10-K. July 31, 2012 at 23-14; U.S. Department of the Interior. National Park Service. "Military Bases in the Continental United States."
82 *Ibid*.

the Armour-Eckrich plant in Omaha is within nine miles of Offutt Air Force Base. Two more plants are within a mile of Air Reserve bases.[83]

The proximity to multiple U.S. bases and key military installations would provide a potential staging area for Chinese espionage efforts to advance the nation's military program. According to the Pentagon, the Chinese government is actively engaging in espionage to modernize its military, including developing an aircraft carrier fleet.[84] U.S. intelligence sources have reported that China operates a decentralized network of independent, freelance operatives searching for any information on military technology.[85] The military-backed comprehensive espionage efforts include cyber-spying and human intelligence intrusions to upgrade its military capabilities.[86]

Shuanghui is Purchasing Technology and Research Financed by U.S. Taxpayers

Shuanghui is not only purchasing the assets of Smithfield but also the technology and hog genetics that have helped build the company. U.S. taxpayers helped finance much of Smithfield's growth. The USDA awarded close to 200 research grants related to swine genetics between 2000 and 2012, amounting to an estimated $100 million in taxpayer dollars.[87] The contract farms that produce hogs for Smithfield are dependent on USDA-backed operating and land loans to finance their operations. The manure management techniques that helped foster industrial-scale hog production were developed with the support of USDA grants. Smithfield itself paid $15 million to North Carolina State University to develop "environmentally superior technologies" for waste management.[88]

Chinese businesses seek to partner or purchase Western firms in part to secure their technology and intellectual property. China frequently requires U.S. companies to share their intellectual property as a condition of securing market access to China.[89] Smithfield has developed high-value hog genetic strains that it contends are "the leanest hogs commercially available."[90] Smithfield also has some of the most advanced meat processing technology

Providing foreign competitors access to these intellectual property and technology assets could disadvantage the domestic hog industry on the global market.[91] Shuanghui is expected to adopt Smithfield's hog genetic lines that could weaken the U.S. pork export opportunities.[92] Shuanghui

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[83] The Sioux Falls, South Dakota John Morrell plant is about one mile from Joe Voss Field, South Dakota Air National Guard Base and the Patrick Cudahy Plant (operated by Smithfield subsidiary John Morrell) in Cudahy, Wisconsin is about a mile from the General Mitchell Air Reserve Base.
[84] Alexander, David and Phil Stewart. "China rejects U.S. Pentagon charges of military espionage." *Reuters*. May 7, 2013.
[85] Cooper, Simon. "How China steals U.S. military secrets." *Popular Mechanics*. July 10, 2009.
[86] Alexander and Stewart. May 7, 2013.
[87] USDA CRIS database. Available at http://cris.nifa.usda.gov/. Search includes those projects that are categorized according to USDA's manual of classification as pertaining to the field of genetics (1010) and the subject of swine (3510, 3520, 3530, 3599). Search conducted June 24, 2013. Estimate based on average award amount multiplied by total number of awards.
[88] Agreement between Attorney General of North Carolina, Smithfield Foods, Inc., Brown's Of Carolina, Inc., Carroll's Foods, Inc., Murphy Farms, Inc., Carroll's Foods of Virginia, Inc., And Quarter M Farms, Inc." July 25, 2000 at 3; Williams, C.M. "Development of environmentally superior technologies, Phase I." June 3, 2009 at 3.
[89] Schneider and Dennis. May 30, 2013.
[90] Smithfield Foods. SEC 10-K. July 31, 2012 at 6.
[91] *China Economic Review*. June 5, 2013.
[92] Herzstein. June 1, 2013.

has an extensive supply chain and distribution system in China and throughout Asia with operations in Japan, Singapore, the Philippines and South Korea and ships considerable amounts of pork to Japan and South Korea.[93] The merger would improve the position of Shuanghui's Mainland China processing plants by sharing U.S. technology and expertise and potentially allow Shuanghui to undercut U.S. pork exports to the Pacific Rim.[94]

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The cross-border acquisition poses an unacceptable national security risk, undermines the safety and security of the U.S. food supply, threatens the environment and economy of rural communities, provides significant taxpayer-financed technology and intellectual property to foreign competitors and will raise the cost of food for American consumers. CFIUS should reject the proposed Shuanghui purchase of Smithfield.

Sincerely,

Campaign for Contract Agriculture Reform
Coalition for a Prosperous America
Center for Rural Affairs
Contract Poultry Growers Association of the Virginias
Food & Water Watch
Iowa Citizens for Community Improvement
Land Stewardship Project
Missouri's Best Beef Co-Operative
Missouri Farmers Union
Missouri Rural Crisis Center
National Family Farm Coalition
National Farmers Union
Nebraska Farmers Union
Organization for Competitive Markets
Rural Advancement Foundation International—USA
R-CALF USA
Western Organization of Resource Councils

cc. Senate Agriculture Committee
Mr. Aimen Mir, Staff Chairperson, Committee on Foreign Investment in the United States

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[93] Fielding. May 29, 2013; "Shuanghui apologizes over additive scandal." *Xinhua*. March 16, 2011.
[94] "Stabenow worried by Smithfield acquisition, but CFIUS clearance likely." *Inside US-China Trade*. June 12, 2013.