THE WALL STREET JOURNAL.

Opposition to China-Smithfield Deal Seen as Muted

By: William Mauldin and Corey Boles – May 29, 2013

The proposed purchase of Smithfield Foods Inc. by China's Shuanghui International Holdings Ltd. is unlikely to face serious opposition from the U.S. committee that reviews foreign acquisitions or spark the kind of political pushback that has hurt previous bids for U.S. companies, former U.S. officials, economists and trade experts say.

In announcing their proposed combination Wednesday, the companies said the $4.7 billion deal is subject to approval by the Committee on Foreign Investment in the U.S., or CFIUS. In addition, Smithfield Chairman Joseph Luter said in an interview with The Wall Street Journal Wednesday that other bidders for the company may still come forward.

But barring such a development, several current and former officials and trade experts said the investment committee is quite likely to approve the deal, despite political concerns about the growing Chinese ownership of U.S. assets, because meat production isn't considered core to national security. The tie-up would likely represent the biggest purchase of a U.S. company by a Chinese firm.

"The administration clearly has a public policy of open arms—it's hard for me to believe that there are going to be many speed bumps in this transaction, especially a week before President Xi Jinping's summit here," said Michael Wessel, a member of the U.S. China Economic and Security Review Commission. "In my opinion, the timing is propitious."

President Barack Obama is set to meet Mr. Xi in California June 7-8.

U.S.-China relations have been marred by accusations of computer espionage, Beijing's yuan policy and concerns about growing economic and military competition between the two biggest global economies.

After a CFIUS review, President Obama last year blocked a Chinese-owned company from investing in wind-farm projects in Oregon. The stated reason was the proximity of a Navy base that hosts drones and other security apparatus. The denial marked the first time in 22 years a U.S. president had blocked a foreign investment in that manner.

On Wednesday, Sprint Nextel Corp. said its takeover by Japan's SoftBank Corp. cleared its hurdles with the committee. As part of the deal, the new Sprint must appoint a new security director who would sit on the wireless carrier's board and be approved by the government, said Sprint. The scrutiny of the Sprint deal indicated the government's concern about foreign involvement in U.S. telecommunications networks.

But the U.S. food supply is considered a less sensitive component of national security, and U.S. meat producers freely export around the world.

With the Smithfield deal, the committee would likely look at any military-supply contracts as well as the proximity of pork farms to U.S. military bases or other strategic locations, said Nancy McLernon, president of the Organization for International Investment, which lobbies for foreign companies in the U.S.

Concerns about China's food-safety standards are unlikely to derail the deal because the Department of Agriculture regulates U.S. meat production and imports and Smithfield is likely to keep its American managers.

A person close to Shuanghui said the Chinese company believes the fact that it is privately owned, rather than state controlled, will help ease any potential concerns in Washington.

A spokeswoman for the Treasury Department, which chairs the foreign investment committee, declined to comment, saying that by law information filed with the committee may not be disclosed to the public.

"I honestly do not see anything that would seriously damage or delay the process," said William Brock, a former U.S. trade representative and the current chairman of the international policy round table at the Center for Strategic and International Studies, a think tank. "The focus of those who have been concerned about Chinese investment is in the security area."

If CFIUS approves the deal, problems could still emerge later. When Dubai Ports World moved to buy U.S. shipping ports on the East Coast, CFIUS initially approved the transaction, but a campaign by U.S. senators and others concerned about national security later led to the deal's collapse.

China's Cnooc was forced to drop its $18.5 billion tie-up with oil producer Unocal Corp. in 2005 because of what it called "unprecedented political opposition." In February the foreign-investment committee approved CNOOC's bid for Canda's Nexen, which owns platforms in the U.S. Gulf of Mexico.

Lawmakers from both parties said they were concerned about the proposed deal, but they stopped short of saying they would oppose it.

Sen. Chuck Grassley (R., Iowa), the top Republican on the Senate Judiciary Committee, said he was concerned it might lead to higher pork prices and would urge the Justice Department to "take a close look at this agreement."

"I have deep doubts about whether this merger best serves American consumers and urge federal regulators to put their concerns first," said Rep. Rosa DeLauro, a Connecticut Democrat who has been a prominent voice on food-safety issues in Congress. "I will be in touch with regulators throughout this process to ensure the public health and safety of the American public is safeguarded."

Ms. DeLauro's written statement stopped short of saying she would oppose the deal.

Rep. J. Randy Forbes (R., Va.), who represents Virginia' s 4th Congressional District where Smithfield Foods is based, said in a statement that the proposed takeover "warrants robust analysis and review to ensure the safety and security of America's citizens as well as the preservation of national economic interests, food safety, and environmental standards. I look forward to following that review process closely."

Congress is on recess this week and lawmakers are dispersed around the country. Any significant opposition may not emerge until they're back in Washington.

Smithfield Foods is the world's largest pork and hog processor, but it isn't likely to be seen as critical to the U.S. infrastructure as some previous Chinese takeover targets were.

"The sector we're talking about—food production—isn't strategically sensitive in the way that energy and telecommunications are," said Daniel Rosen, a partner at the Rhodium Group, an economic consultancy that closely tracks Chinese investment in the U.S.

Edward Shapiro, a Washington partner at Latham & Watkins LLP, said that food safety hasn't typically been a cause for CFIUS concerns, adding the Department of Agriculture isn't usually involved with CFIUS. But recent reviews have led to a perception that CFIUS has become "more rigorous," he said.

In addition to the derailed Cnooc bid of Unocal Corp, more recently, Chinese telecommunications equipment maker Huawei Technologies Co. has been blocked in several attempts to make investments in or purchases of U.S. firms.

Despite high-profile failed deals, Mr. Rosen said, there have been more than 650 examples of foreign direct investment by Chinese companies.

"Whether there's pushback from Congress will depend on other domestic competitors," said Dan Ikenson, an economist at the Cato Institute, a free-market think tank. "They like to play the national-security card if they're interested in acquiring the company."

Mr. Ikenson said that while there may be some lawmakers on Capitol Hill who express concern about the takeover, there is an increasing recognition by members of Congress that it's necessary to promote the U.S. as a good place for foreign companies to do business.

The meat merger could eventually help with problem that has long bothered U.S. trade officials and the politically influential agriculture industry: difficulty gaining full access to China's markets.

"The U.S. faces a number of market access barriers in agricultural trade with China," said Daniel Price, former adviser to President George W. Bush and managing director at Rock Creek Global Advisers, an economic consultancy. "Having in that sector a Chinese investor that will also be seeking export markets—including in China—can only be helpful."