

# STRATEGIC ALLIANCE BETWEEN CHEM CHINA AND SYNGENTA AS A BASIS FOR TURNING CHINA INTO THE AGROCHEMICAL POWER

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## Abstract

The aim of the article is to recognize the impact of mergers and acquisitions conducted by Chinese companies in the area of agribusiness, on shaping the technological potential of the agri-food sector in China, on the example of a USD 43 billion worth takeover of the Swiss agribusiness giant – Syngenta, by the Chinese state owned chemical giant – ChemChina.

The analysis covers both, the circumstances that led companies to conclude this agreement and its anticipated effects in face of implementation of the Chinese government's strategy aimed at modernizing the agri-food industry of the country. An important background for the analyzes are created by the basic trends currently observed in the Chinese agri-food sector.

The basic method adopted in the article is the case study analysis, which allows for a thorough diagnosis of the subject of the study, taking into account specific factors affecting the various stages of the merging process between the analyzed companies.

The documents on the assumptions and directions of the implementation of the Chinese government's strategy in the agri-food sector, as well as reports presenting trends in the development of Chinese agribusiness and the role of new technologies in shaping this development have also been used.

**Key words:** agri – food industry, Chinese mergers and acquisitions, high technologies;

**JEL Code:** L14, O1, Q16;

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## Introduction

In the literature, the problem of international mergers and acquisitions has been a subject of analysis for some time now. Sudarsanam P. S. (2010) for example presents a broad spectrum of contemporary challenges and problems, as well as a comprehensive review of concepts and techniques in the field of conducting merger and acquisition agreements, as well as their

implementation under various market conditions. The author presents an international and multidisciplinary research perspective, focused on agreements such as mergers and acquisitions carried out in the world.

Weston (1990), in turn, presented the principles that are necessary to meet, in order to conduct mergers and acquisitions agreements successfully.

Sherman A. J. (2010) presented the whole process related to conducting such agreements and its consequences, considering each stage of this process by analyzing the specific cases of companies that engaged in merger and acquisition agreements.

While Hopkins (1999) and Vasconcellos (1998) are focusing on the study of international mergers and acquisitions, specifically the strategic importance of these agreements and integration strategies following their establishment. In their research, the authors take into account the financial and economic bases affecting the direction and scale of the integration.

The analyzes show that in many countries of the world that transform their economies, merger and acquisition arrangements are treated as important tools of economic development and building competitiveness. (Fernández, Triguero, & Alfaro-Cortés, 2019; Shah, 2019)

### **Main trends in Chinese agri – food sector**

Currently in China, where keeping the population well fed is considered the highest priority in order to fuel the economic and social development of the country, agriculture is considered the area of fundamental importance. Therefore its modernization is crucial in increasing the agriculture industry integrated production capacity, and thus, long – term food security and sustainable development, considered as so environmentally friendly.

Due to a shortage of arable land and a still growing population of China, the development of innovation in the field of agriculture has become the top of the Chinese government's priority list. For without addressing this problem, China as the most populated country in the world would not be able to move forward and achieve its desired growth rate.

However, it should be emphasized that achieving this goal is possible only thanks to research and technological work in the agri – food sector, that have been intensified properly (Zhang, 2017). Therefore, in accordance with the provisions of the Thirteenth Five-Year Plan of China's Economic Development, the following two main paths of action have been adopted:

- the development of Chinese agriculture and natural sciences,
- the stimulation of technological innovations.

Therefore, it can be expected that in the coming years China will focus primarily on improving the high – tech industry in agriculture. However achieving this goal requires the strengthening of the key areas, i.e. the ones related to: biotechnology, intelligent machines, new agricultural materials, modern food production and agri – environmental protection. Moreover, a regular construction of science and technology parks and agricultural incubators, which should encourage the use of innovations to improve the quality of current processes, business models and customer service, as well as the development of innovative high – tech companies in the agri – food sector, is being planned.

Secondly, it is planned to develop and strengthen international cooperation in the field of agricultural sciences and applied technology. For this purpose, the main strategy of the Chinese government – *Go Global*, will be used. This will create a wider scope for the agriculture development and the largest possible use of markets covered by this initiative and the resources it will generate. This, in turn, will improve China's ability to create innovation in key areas of agriculture. In this way, international cooperation of states in the field of conducting the bilateral and multilateral research and development of agricultural technologies will also be strengthened.

In other words, the main goal that China will try to pursue over the next few years is to build an efficient and environmentally friendly farming system that saves resources and sustains the supply of agricultural products, while at the same time improves the economic situation of farmers.

Forecasts indicate that (compared to 2015) by 2020 grain production in China will grow by 50 mln tons, and will reach 550 mln tons. At the same time, a significant increase in agricultural productivity from 30 000 yuan (in 2015) to over 47 000 yuan (in 2020) is being expected.

However, in order to achieve the target, the Chinese State Council initiated a campaign on agricultural reforms. The restructuring includes: modernization of the current plantation structure and the fishing industry, as well as the quality of animal husbandry improvement. The government also emphasizes the need for sustainable agricultural development and improvements in the field of agricultural technology. For this reason, it is necessary to develop a plan tailored to the agricultural resources and capacity of each region, in order to maximize the level of land efficiency achieved.

To ensure the quality of the Chinese agricultural product and food safety, as well as in order to improve the standard production capacity, it is planned to create a special system for monitoring agricultural production.

Moreover, the Chinese government declared its readiness to intensify the financial support for agriculture. It covers the optimization of investment policy for investments carried out in the field of agriculture and improvement in the areas of: credit support, agricultural subsidies, agricultural insurance and market regulation regarding the use of land and agricultural products. (Demaree, 2016)

It should be emphasized that for over a decade Chinese investors have perceived, mergers and acquisitions as an effective tool for developing the technological potential and innovation of Chinese enterprises, bringing them closer to moving from the model *made in China* to the *created in China* model. This is also supported by the data collected by PwC in the form of a report, which shows that the scale of mergers and acquisitions carried out by Chinese enterprises between 2008 and 2016, despite some slight deviations, is generally growing, reaching a record level, not only in terms of number, but also in terms of value of transactions conducted, in the year of 2016. For in case of the number, Chinese M&A transactions conducted, increased from 126 contracts completed in 2008, to 920 contracts concluded in 2016. At the same time, the value of these contracts increased from USD 10.4 billion to USD 208.7 billion (Geall & Ely, 2019; Brondino, 2019; Brown & Chan, 2018).

## **1 Acquisition of Syngenta by ChemChina**

In 2017, after a year – long negotiations, the Chinese concern ChemChina finalized a USD 43 billion worth deal and took over, one of the largest chemical companies in the world – Syngenta.

Negotiations took so long to finalize, since, due to the scale of the acquisition and the global scope of Syngenta's business activity, as well as the related food safety and security issues, it was required for the partnership agreement to be approved by a number of important global bodies, including: Foreign Investment Committee in the United States (CFIUS), panels of European governments and the Australian Commission on Competition and Consumers. Despite the fact that the agreement was approved by CFIUS (August 2016) and the Australian Commission on Competition and Consumers (December 2016), the merger was still awaiting the regulatory review and concessions granted by the European Commission, as well as the completion of European anti – trust investigations. For Syngenta has a very strong presence in the countries of the European Union (e.g. in Poland, with 20% market share, it occupies the first place in the sale of plant protection products).

The acquisition was accepted by the European Commissioner for Competition and the American Federal Trade Commission in April 2017, and ChemChina declared to eliminate: abamectin, paraquat, and chlorothalonil from its future production of pesticides, as well as to sell ChemChina's Agrochemical subsidiary – ADAMA Agricultural Solutions (with all its related products) to the company's affiliated Chinese partner – Sanonda. These actions referred to the European Commission's concerns regarding the plant growth regulators used so far and the related (possible) distortion of competition on the market.

Currently, ChemChina holds over 98% of Syngenta shares and therefore the company filed an application with the Basel Court of Appeals for cancellation of Syngenta's remaining shares, which are not held by ChemChina or any of its affiliates. (Scott, 2016)

### 1.1 Characteristics of the companies

**Syngenta** is one of the largest global concerns producing plant protection chemicals. The company is based in Basel (Switzerland) and was established in 2000 as a result of a merger of two companies: Novartis Agribusiness and Zeneca Agrochemicals.

As a biotechnology company, Syngenta conducts genomic research. Since 2014, Syngenta is the world's largest producer of chemicals used for agricultural crops. Since 2009, the company has been third in sales level of seeds – in 2015, Syngenta achieved a sales level of USD 13.4 billion, of which more than half came from emerging markets.

Syngenta describes itself as a company focused on balancing the nutrition of the growing population in order to ensure food security in the world. According to the company, this objective depends on the sustainability of natural resources, the development of healthy ecosystems and prosperous rural communities. Therefore, by using the innovations and science of the highest class, the company aims to change the way in which the plants are cultivated, so that millions of breeders can use the available resources more rationally.

It should be emphasized here that the principles of the Syngenta corporate governance are compliant with international standards and help the company achieve, not only its business goals, but also create value for society, as evidenced by the positive results of the company's operations in this field (both of an environmental and social nature).

**ChemChina (China National Chemical Corporation)**, in turn, is a state – owned company under the supervision of the Ministry of Chemical Industry of the People's Republic of China, operating in the field of agrochemicals, rubber products, plastics, specialized chemical products, industrial equipment and petrochemical processing. In terms of an income generated

(USD 57,989 mln in 2018), ChemChina is the richest chemical company in the world, ranking 167<sup>th</sup> on the list of the 500 richest companies published in 2018. ChemChina has been included in this ranking for eight years, when it took 475<sup>th</sup> place, and its current result is an expression of the development aspirations of the company, which is gradually improving, in 2018 advancing by 44 places, from 211<sup>th</sup>, occupied in 2017.

Over the last decade, ChemChina has bought ten foreign companies, including German machine manufacturer – KraussMaffei and the Italian tire company – Pirelli, which proves that the company is an active player on the international mergers and acquisitions market. Currently ChemChina is negotiating a USD 100 billion worth (approximately) agreement with the Sinochem group.

### **1.2 Premises and strategic objectives of the acquisition**

Representatives of both, ChemChina and Syngenta, claim that both companies will benefit from this transaction. ChemChina was tempted by the Swiss company's rich portfolio of chemicals used for crops and patented seeds. For access to these products will allow China to improve the efficiency of its agriculture. ChemChina also counts on acquiring Syngenta's knowledge and experience, which would facilitate the company's expansion, both in China and throughout the Asian market.

In turn, experts predict that the deal will help Syngenta to develop its influence on the Chinese market, while at the same time, contributing to the development and raising of the Chinese agriculture's standards to the global level.

One cannot also forget about the very important stimulus that prompted ChemChina to conclude this transaction, which is the currently implemented policy of the Chinese government. For it is based on the search for a new technologies to increase the productivity of Chinese farms, and to limit the use of chemicals in agricultural crops cultivation, in the already heavily polluted soil (Syngenta, 2019).

### **1.3. Results of the acquisition**

New Roman, According to the annual report of the Swiss company, published in February 2019, after ChemChina's acquisition, Syngenta recorded a 7% increase in its financial results from USD 12.6 billion in 2017 to USD 13.5 billion in 2018 (Tab.1). Sales of plant protection products increased by 7%, seed sales by 6%, and flowers by 7% (Tab.2). This was mainly

caused by such factors as: record cash flows (from USD 1.68 billion in 2017 to USD 1.76 billion in 2018), higher number of sold goods and a significant improvement in the company's efficiency (Syngenta, 2019).

**Tab. 1. Syngenta Financial Highlights 2018**

	2018 (USD mln)	2017 (USD mln)	Actual %
<b>Sales</b>	13,523	12,649	7
<b>Net income</b>	1,438	(98)	-
<b>EBITDA</b>	2,613	2,603	-

Source: Own elaboration based on: (Syngenta, 2019)

**Tab. 2. Syngenta Business Highlights 2018**

Regional sales	Full Year		Growth	
	2018 (USD mln)	2017 (USD mln)	Actual %	CER%
<b>Europe, Africa, Middle East</b>	3,877	3,871	-	-4
<b>North America</b>	3,514	3,487	+1	-
<b>Latin America</b>	3,646	2,907	+25	+41
<b>Asia Pacific</b>	1,667	1,642	+2	+4
<b>China</b>	319	300	+6	+3
<b>Other</b>	300	256	n/a	n/a
<b>Total regional sales</b>	13,323	12,463	+7	+9
<b>Syngenta Group sales</b>				
<b>Crop Protection</b>	10,413	9,739	+7	+10
<b>Seeds</b>	3,004	2,826	+6	+8
<b>Total</b>	13,323	12,463	+7	+9
<b>Flowers</b>	200	186	+7	+2
<b>Group sales</b>	13,523	12,649	+7	+9

Source: Own elaboration based on: (Syngenta, 2019)

It was also a response to a strong increase in the demand for plant protection products, seeds resistant to pests, drought and suitable for mechanized harvesting. Therefore, for these

particular reasons, in 2018 Syngenta allocated USD 2 mln to intensify appropriate cultivation care activities in Beijing.

As for now, the company is responsible for merely 1% of seed sales in China, however, the acquisition of the company by ChemChina opened the door for Syngenta to the Chinese seed industry, which at the end of 2015, up to 4600 enterprises operated in, and to which access for foreign companies is still limited.

Moreover, the acquired (through partnership with ChemChina) status of the "Chinese company" created Syngenta the opportunity to work on the Chinese market in order to develop genetically modified plants. The company has already established a business agreement in this area with Yuan Longping High – tech Agriculture Co. Ltd, i.e. a rapidly growing company, supported by the state conglomerate CITIC (and thus by the Chinese government itself). Under the agreement, the companies are to focus on the development and sale of a new maize varieties, including maize with GMO characteristics. Experts in the industry emphasizes, however, that if Syngenta hopes to take a leading position in the Chinese seed market, it needs to be ready to face the challenges of the Chinese corn sector, such as overcapacity or surplus stocks. For this market is still suffering from a huge supply of seeds (especially corn) and illegal planting of genetically modified plants. Therefore the right regulation of such a turbulent market will require Syngenta to transfer its best practices into the Chinese seed industry, and this means also, the cooperation with local governments, which can be quite a challenge.

So far however, the company is aiming to increase its potential through acquisitions of a USD 17 billion worth seeds on the Chinese market. For gaining an advantage in China (the second largest market for agricultural production resources in the world) will help the company gain an advantage over global rivals (such as: Monsanto and DowDuPont) in the seed market, and in time, advance from the currently occupied third place to the second place in terms of production seeds in the world. Moreover, Syngenta is planning to strengthen its position as a global leader in the field of crop chemistry, also developing this area of operation in the Chinese market (where it currently owns a 7% share and is one of the market leaders) (Patton, 2018).

## **Conclusion**

ChemChina's acquisition of Syngenta is considered the largest such purchase conducted in history by a Chinese company. This transaction is focused on the growth and development of both parties and creating strong foundations for successful partnership in the long run.

Despite holding 98% of the Swiss partner's share capital, ChemChina wants for Syngenta to maintain the independence of its operations. The cooperation of the companies is to be based on: intensive investments in the development of innovation, promotion of agriculture based on modern technologies and active involvement in sustainable development and environmental protection.

Joint development of the companies, based on this set of priorities will not only be an important contribution to global food security in the long run, but will also increase the growth potential of modern agriculture in China.

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