Agribusiness: Consolidating against the farmer*

C.P. Chandrasekhar

In an acceleration of a trend towards mega-mergers in the agribusiness area, German pharma and agrochemicals major Bayer has announced an all-cash $66 billion deal to take over American seed major Monsanto. To clinch the deal, Bayer raised its initial bid thrice from $122 to $128 a share, to touch a level that implies a 44 per cent premium over Monsanto's early-May stock market price.

On the surface, the deal seems to bring together firms with activities that complement each other. Monsanto is a controversial seed company producing genetically modified seeds for different crops, while Bayer is focused on agricultural chemicals. As a result, the takeover if cleared would create the world's largest supplier of seeds and agricultural chemicals, since Monsanto accounted for 26 per cent of the global seed market in 2013 and Bayer for 18 per cent of the pesticides market.

Sixty per cent of Monsanto's revenues come from the US, whereas Bayer has a substantial European and Asian presence. But Monsanto has an important presence in India, for example. So the merger creates a company that would service farmers across the globe in multiple ways. It would also give it an oligopolistic position in some markets. If the combination passed regulatory scrutiny, the new entity would be responsible for 70 per cent of the area on which cotton seed is sown in the US, a major GM seed user. This may partly account for Bayer's eagerness to swallow up Monsanto. According to one unconfirmed estimate by Bernstein Research quoted by the Financial Times, the deal value for Monsanto (including its debt) could involve a 60 per cent premium on the firm's actual worth. Despite having substantial interests in the pharma and healthcare business, Bayer has obviously decided to pay a high price to hugely expand its presence in the agribusiness market.

Despite its large size, the Bayer-Monsanto merger is not completely unexpected. Agribusiness companies have been striving for some time now to grow in size and scope sustain profitability. This attempt at union is the third in a series of recent merger/takeover bids in the agribusiness area, preceded by one between equals Dow Chemical and Du Pont (valued at $130 billion) and another by ChemChina of Syngenta (valued at $47 billion).To meet anti-trust requirements Dow-Du Pont is expected to split into three units, one of which would focus on the agricultural seeds and pesticides areas. The EU Competition Commissioner Margrethe Vestager sees the potential size of that hived-off entity as adequate to warrant an investigation of the effect that the merger would have on prices and innovation and on the livelihoods of farmers. Not surprising, since it is estimated that the entity would account for around 40 per cent of the corn and soybean seed market in the US.

Similarly, by acquiring Syngenta, ChemChina obtained access to an entity that provides around 20 per cent of the world's pesticides and 10 per cent of the soyabean seeds sold to US farmers. These mega-mergers too occurred in the wake of a process of long-run consolidation and increasing concentration in the industry. Starting from a scenario in which there were a large number of independent seed companies in the mid-1990s, the industry evolved along directions that resulted in the six leading companies—Monsanto, Syngenta, Bayer, DuPont, Dow Chemical and BASF—

controlling close to two-thirds of the global seed market. Now there is a possibility that these six would make way for four entities with a similar market share in seeds and a huge presence in agro-chemicals.

Mergers or acquisitions seem to have been central to the strategy of all the majors. Thus, in May-to-August 2015 Monsanto had made a $46 billion bid to take over Syngenta, but lost out finally to ChemChina. And before its takeover by Bayer, Monsanto was reportedly in talks with BASF for a deal in which it could add the latter's agrochemicals to its own seed capacities. An important explanation for this trend is that the end of the commodity boom and low commodity prices are affecting the ability of agribusiness firms to sustain their profitability. Profits were earlier built on extremely high and rising prices charged for GMO seeds by producers with substantial market power. In the US, farmer spend on seeds is reported to have increased four-fold since the mid-1990s. With final commodity prices falling, farmers are not able to meet these costs and stay above water. Moreover, the principal market for genetically modified seeds, the United States, is reaching saturation levels in terms of size with as much as 94 per cent of soybean acreage and 92 per cent of corn acreage under GM varieties.

Also, there is evidence that some GM technologies are losing their potency. Monsanto's Roundup Ready seeds (soybean, cotton, maize, etc) were genetically engineered to remain unaffected by Glyphosate (brand name Roundup), which attacks the ability of plants to produce the proteins they need to survive. But since Glyphosate is broad-spectrum it destroys weeds while leaving the GM plants unscathed. The difficulty is that overtime weeds emerge that develop resistance to Glyphosate, generating superweeds that need to be killed with other herbicides. That raises costs. The fact that Roundup Ready seeds increased productivity and reduced the need for multiple chemical inputs is what made it possible to charge farmers high prices for seed and for herbicides like Roundup without eroding their profits. That ability is under challenge at a time when prices farmers receive for most crops are low.

The problem is that agribusiness firms are taking the farmers down with them. Those farmers who have tied themselves into cultivation systems that are based on the seeds and chemicals sold by these companies find that their revenues are not rising as fast as their costs. The resulting losses or fall in profits is hurting them, while the agribusiness firms who are able to exercise market power and keep prices high profit. But over time farmers may just walk out of cultivation or revert to older modes of producing seeds and cultivation. That could affect market share and hurt the agribusiness firms as well.

If this is the challenge faced by agribusiness to which the response is acquisitions and mergers, the presumption must be that expanding size and scope of operations will reduce costs substantially, some of which can be passed on to farmers to shore up demand for seeds and chemical inputs. Not surprisingly, all merger proposals talk of the cost reduction that can come from synergies and economies of various kinds. But past experience suggests that these promises are not often realized.

So there is reason to believe that the real reason for the merger boom is that under pressure from shareholders who are seeing agribusiness profits in decline, firms are trying to buy their way into new markets where they can exploit their monopoly power to price high and rake in profits. Many of these new markets are in the developing countries. India is one such country where the new aggression of agribusiness is quite visible. India, like many other countries such as Argentina, Brazil and Mexico does not grant patents on plants and animals, including seeds that have been engineered by adding or modifying a gene. Genetic modification is not seen as an act of invention. Yet Monsanto has earned royalties from licences it grants to Indian companies to produce seeds incorporating its GMO technology. Since this resulted in a sharp increase in prices of the seeds and affected farmers adversely, the government through the Cotton Seeds Price (Control) Order, 2015, addressed the problem by capping seed prices. To be fair to the Indian firms selling the seeds, it ordered a 70 per cent reduction in royalties charged by Monsanto's Indian arm Mahyco Monsanto Biotech from private seed companies using its patented Bollgard gene technology.

Monsanto has mobilized the forces of other transnational firms, challenged the government's order in court and more recently withdrawn its application to introduce Bollgard III, the next generation of its genetically modified seeds, in India as a means of pressurizing the government. Introducing Bollgard III is presented as important given the reduction in the efficacy of Bollgard II due to prolonged usage. But this may not upset farmers too much because of evidence that while Bollgard protects the crop against bollworms, it could not prevent a Whitefly attack that devastated the cotton crop in Northern India last year. Farmers, encouraged by the government are turning back to desi varieties that can face up to multiple threats.

Nevertheless, Monsanto's aggression against the government not granting its seeds a patent, capping seed prices to protect farmers and slashing huge royalty payments shows that using technology to profiteer at the farmers' expense is the agribusiness strategy. So the mega merger movement in the global agribusiness area may be less about cutting costs and more about protecting profits, even though falling commodity prices make it extremely difficult for farmers to cover their costs and earn a living, forcing some of them to suicide.

* **This article was originally published in the Frontline Print edition: October 14, 2016.**