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# Antitrust Review of concentration between Agriculture Companies

**Anti-Monopoly Bureau of the  
Ministry of Commerce**

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The content in this presentation represents personal opinions only.

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## I. Major Agriculture Related Cases

1. Merger of Dow Chemical and DuPont, USD 130 billion;
2. Acquisition of Syngenta by China National Agrochemical Corporation , USD 43 billion;
3. Acquisition of Monsanto by Bayer, USD 66 billion.

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## II. Effects on China's Market

### (1) Main Products

**1. Merger of Dow Chemical and DuPont**, mainly involves agrochemical products, including cereal-selective herbicides, rice-selective herbicides, vegetable insecticides, fruit trees insecticides, rice insecticides, cotton insecticides, vegetable fungicides, fruit tree fungicides, potato fungicides, etc

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## II. Effects on China's Market

**2. Acquisition of Syngenta by China National Agrochemical Corporation**, mainly involves agrochemical products, including corn-selective herbicides, rice-selective herbicides, cotton-selective herbicides, wheat-selective herbicides, vegetable-selective herbicides, non-selective herbicides, rice pesticides, cotton insecticides, wheat insecticides, vegetable insecticides, rice fungicides, wheat fungicides and vegetable fungicides.

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## II. Effects on China's Market

**3. Acquisition of Monsanto by Bayer** , mainly involves agrochemical products and seeds, including non-selective herbicides, cabbage seeds, cucumber seeds, carrot seeds, onion seeds, tomato seeds, pepper seeds and markets of other commodities, corn seed germicidal coating agents, corn seed insecticide coating agents and corn seeds.

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## II. Effects on China's Market

### (2) Effects on the Chinese Market

The transactions may exclude and restrict the competition effects in the markets of some of the products, with the details shown below

- (1) It may further increase the control of markets of the parties of the transaction;
- (2) It may damage the interests of downstream distributors;
- (3) It may increase Dow DuPont's control to the sales channels, increasing market entry barrier.
- (4) New effective competitor is fairly difficult to appear in a short time
- (5) It may result in negative effect on technology advancement

Thus, the Ministry of Commerce decides to approve the merger of Dow Chemical and DuPont with conditions.

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### III. Main Issues

#### 1. Definition of Agricultural Product Market

**Agrochemical products** include pesticides (herbicides, pesticides, fungicides), plant growth regulators and fertilizers. The classification of agricultural products is fairly complicated.

- (1) Whether the active ingredients and the formulations should be defined as different markets;
- (2) whether the pesticides should be further broken down according to their applicable regions;
- (3) whether it should be further broken down according to the active ingredients and the mechanisms of action
- (4) whether it should be further broken down according to patented products and non-patented products;
- (5) whether it should be further broken down according to the prices

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### III. Main Issues

#### 2. Definition of Geographical Markets

The definition of geographical markets is the Chinese market, with the following reasons:

First, herbicides, pesticides, fungicides and other products have to register with the applicable Chinese authorities before entering the market and field experiments have to be conducted.

Second, the compositions and usages of herbicides, pesticides and fungicides vary depending on the geographical locations, and they are depended on the specific conditions of the environment, climate, characteristics of the soil, terrain features and farmer's practices.

Third, Chinese domestic customers and agriculture platform companies mostly purchase related products in China, and they rarely purchase them overseas.

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### III. Main Issues

#### **2. Definition of Geographical Markets.**

**Issue:** Some agricultural active ingredients are extremely active in global trade, and the import of certain products accounts for 70% to 80% of the consumption in China. China is the largest supplier country of agricultural raw materials (active ingredients, etc) in the world, with a large export volume.

For the agricultural products that are fairly active in global trade, whether making its definition of geographical market a market of a country is accurate, and whether we should conduct a comprehensive examination from a global market viewpoint.

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### III. Main Issues

#### **3. Competitive Evaluation Thoughts (Merger of Dow Chemical and DuPont)**

There are large differences in terms of competition conditions between the global market and the Chinese market. How to comprehensively evaluate the effects of the transaction on the Chinese market is the issue that the review team first needs to resolve.

### III. Main Issues

The review team focused on the following issues:

First, characteristics of the global and Chinese agricultural and chemical markets

Global Agricultural Chemicals market	China's market for Agricultural Chemicals
Higher and higher market concentration. 6 companies, namely Syngenta, Bayer, BASF, Dow, Monsanto and Dupont form the tier one group, taking 77% of the global market.	The number of enterprises is increasing, mainly SME's, with low concentration, mostly lower than 20%
Polarization among competitors: the tier one companies are strong in R&D, warehousing capacity of diversified products, large number of patents, capital, market promotion. All these facilitate them to form a effective business model, from R&D, production to high margin. The tier one compies belong to the type of "innovative agricultural chemical producers". The other 2 types are pure generic agricultural chemicals producers and "mainly generic agricultural chemicals producers". The last two types of companies can hardly compete with the first type companies.	Weak innovative ability among agricultural chemicals producers; low-end products; highly homogeneous products; intensive competition. Generic chemical products, with low added values takes a large share on the China's agricultural chemicals market. The market is lack of innovative capacity, with high level of homogenization, high competition on price, even Deterioration of competition
It becomes more and more difficult to develop new products. Development of new products requires large investment, with high risks and long cycles. The success rate of AIs screening has been decreasing, and R&D investment increasing. The protection period of patents are shortened and the standards for environment protection has become higher and higher.	Over-capacity and lack of high efficiency and high quality products co-exist. High level of overlapping of low-end products.

### III. Main Issues

**Second, Dow has the control of the market, and DuPont has a very important position on the market, and has its competitive advantages;**

**Dow:**

Positioned No. 1 on the market for a long term, with market share far higher than its competitors (market share)

Limited restrictions of competition from other competitors (market competition)

Has certain ability to control the sales market (sales market)

Superior financial and technological conditions (financial and technological conditions)

**DuPont:**

An important competitor in related markets (strong innovative and manufacturing ability, market share, important competitor)

Owns mainstream products, higher profit margin than average (important substitute product)

Owns important potential products that have yet to participate in the competitions (overseas products on market, products under research and development)

Has certain control of the sales market (exclusive distributorship model in different provinces)

Superior financial and technological conditions (financial and technological conditions)

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### **Third, the effect on technological advancement of this concentration**

Before the transaction, Dow and DuPont were important forces of innovation in the market, with large investment in research and development, product reserves, and innovation ability. After the transaction, it may reduce the expenses on innovation, delaying the speed of new products coming on the market, creating negative effects on the technological advancements of the product market

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### **Fourth, the effects of the transaction to downstream distributors**

Dow and DuPont rank No. 1 in the rice-selective herbicides and rice insecticides market in China, respectively, with superior product sales and profit margins, as well as **advantages negotiation positions in the sales market.**

**The distributors are in a relatively inferior negotiation position,** as they are more dependent on the manufacturers in terms of product pricing, promotional investment, and technical services.

According to the revised "Regulations on the Administration of Pesticides of the People's Republic of China", distributors (pesticide operators) and manufacturing enterprises will be responsible for the safety and effectiveness of pesticides. Therefore, the downstream dealers are more dependent on the manufacturers, **more willing to be the distributors of the products of high profile multinational companies.**

After this merger/concentration is completed, the competition of Dow and DuPont in the rice-selective herbicide and rice pesticide supply area is eliminated. **As there were no overlapping distribution resources in different provinces before, the distribution resources in different provinces for the two companies before face the danger of being consolidated or eliminated, further weakening their negotiation power, possibly damaging their interests**

Fifth, potential market entry.

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**Fifth, potential market entry**

The competition in the agricultural and chemical product market is a comprehensive competition of financial resources, technology, and the ability in research and development. It is hard to appear new and effective competitors in a short time with the declining success rate of new active ingredient screening, increased costs for research and development, shortened patent protection period, increased environmental protection standards, increased difficulty and cycles of getting approvals of new products.

In fact, in the last 10 years, there has been no new, competitive market entrants in the related markets in China that can form effective competition restraints.

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**IV. China-EU Collaboration on Agriculture related cases**

The review team made multiple regulatory exchanges with the Directorate-General for Competition of the European Union regarding the merger of Dow Chemical and DuPont, and exchanged views on the case. The review progress was coordinated, and it has resulted in a very good reference and promotional efforts in the examination works of both sides.

Both sides are currently having collaboration regarding the case of acquisition of Monsanto by Bayer.



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**Thank you !**

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