Smithfield Foods: A Corporate Profile

The Story Behind the World’s Largest Pork Producer

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When it’s not violating U.S. water pollution and labor laws, Smithfield Foods, Inc. is gulping up its American and foreign competitors in the meat packing industry. Not content with being the world’s largest pig producer and seller of processed pork, Smithfield, as one newspaper described it, is the company that “still wants to be the biggest hog at the trough.”

In the meantime, as its hunger to absorb smaller pork and other meat companies around the world continues, Smithfield has been charged with violating federal anti-trust laws over a four-year period.

But to Smithfield executives, the company’s strategy of buying out vulnerable companies is simply taking a sow’s ear and making a nice silk purse. “Opportunistic acquisitions...are fundamentally part of how we do business,” Smithfield President and CEO C. Larry Pope recently told stock market analysts. “We buy them at the right price. We know how to integrate them into our organization. That integration does not include gutting the new purchases.”

Tell that to the people who owned Pennexx Foods, Inc., once a leading meat processor in Pennsylvania that entered into a joint venture with Smithfield, only to see its meat plant seized by Smithfield when it got into financial trouble in 2003.

Pennexx was founded in 1999 and quickly became a leading meat provider – and Smithfield competitor – to supermarkets in the northeastern United States. Its deal in 2001 to borrow money from Smithfield to expand its Philadelphia beef processing plant would be Pennexx’s undoing. In 2002, the company suffered a net loss due to expenses from its planned new, 145,000 square-foot plant.

Smithfield, in the position to seize Pennexx because the company had failed to meet a minimum net worth requirement in the loan contract, agreed to hold off. But that didn’t last long. On June 11, 2003, Pennexx, with foreclosure by Smithfield only days away, surrendered the deed to the plant to Smithfield, which then sold Pennexx’s
assets to itself.6

Rendered a penny stock with no property or assets, Pennexx filed suit against Smithfield in December 2003, seeking $226 million in damages.7 In the suit, Pennexx alleged that after first loaning the company $6 million in 2001, Smithfield engaged in a “predatory strategy” to take over Pennexx. Smithfield’s scheme, Pennexx charged, involved delivering less meat than Pennexx ordered, charging higher prices to Pennexx than other Smithfield customers and allowing operating problems to develop in Pennexx’s meat packing plant.8

Smithfield had taken over Pennexx’s assets for a song – for only the $13 million that Pennexx had borrowed over two years. Maurice Mitts, one of Pennexx’s attorneys, told the Philadelphia Inquirer that Smithfield “eliminated a competitor for a fraction of the value of the company.”9

Pennexx serves as the perfect example of Smithfield’s carnivorous corporate policy of taking over competing companies to eliminate competition – from North America and South America to Europe and Asia – in the multi-billion-dollar global processed meat market.

A History of Buying Weak Competitors

If left to its devices, Smithfield would become the world’s only provider of “packaged animal protein.” That appears to be the motivation of Smithfield Chairman Joseph W. Luter III, whose father started the family’s ham curing business in Smithfield, Virginia, in 1936.

After his father died in 1966 during Luter’s senior year in college, the younger Luter took over the company. He then sold the firm in 1969 and opened a ski resort in Virginia.10 When the company was failing in the mid-1970s, the younger Luter, lured back by management, seized the opportunity to buy out other investors’ shares for a fraction of their worth – according to one analyst, just 10 cents on the dollar. He cut costs by firing managers and embarked on a growth plan centered on buying up other meat companies.

His big break came in 1981, when he snatched up a top but troubled competitor, Gwaltney Packing, for only 35 cents on the dollar. Luter also swooped in and got other meat packers, like Hancock’s Country Hams. By 1987, Smithfield was raising and slaughtering pigs and processing the meat – into hot dogs, bacon, sausage and cold cuts – for wholesale and retail markets.11

Luter’s blueprint for success was clear – acquire competing pork companies in order to buy more. Luter told a news reporter in 2001 that he focuses on the future, leaving the operational stuff to underlings. “It’s more fun building a business than running a business,” he said.12

In 1998, Smithfield branched out to buy companies outside the United States. From 1999 to 2003, when its sales reached $8 billion, Smithfield spent more than $1 billion to buy all or portions of 17 companies. It now owns or holds significant interests in meat companies in Poland, Spain, France, China, Brazil, Mexico and Great Britain.13 In May 2004, Smithfield was said to be interested in buying Pick, a meat-processing firm in Hungary.14 As of 2003, Smithfield’s foreign sales totaled $1.3 billion.15

Smithfield easily takes the biggest bite
out of the U.S. pork industry. The company grows and sells pieces of 27 million pigs each year, a 27 percent share of the whole American hog market. About 41 percent of the pigs Smithfield butchers are reared on enormous, company-controlled pig operations.

Its most profitable products are ham and bacon, which made up 51 percent of the company’s revenues in 2003, and serve as the focus of the company’s growth strategy along with buying beleaguered meat companies.16

Polluting Facility Draws Record Clean Water Act Fine

“Factory farms” full of thousands of pigs generate tons of liquid and solid waste that not only produce an overwhelming stench but a major potential health hazard to humans and wildlife. On large industrial pig operations like those managed by Smithfield – known as confined animal feeding operations (CAFOs) – thousands of pigs are crammed together and are typically unable to see sunlight, breath fresh air, or move naturally.

The rivers of swine feces and urine from these CAFOs are maneuvered into open-air “lagoons.” These lagoons are often enormous, covering 6 to 7.5 acres, with as much as 20 to 45 millions gallons of wastewater.17 In one such farm in North Carolina, about 2,500 pigs can annually produce 26 million gallons of liquid waste, plus a million gallons worth of sludge and 21 million gallons of slurry, per year. All told, hogs send 27 billion gallons of water waste into U.S. lagoons each year.18

The solid and liquid waste in these lake-like lagoons contain massive quantities of toxic bacteria that place adjacent cropland and groundwater at risk. The waste also releases malodorous hazardous gases that pollute the air.19

CAFOs, however, are legally permitted to allow this waste to seep down and endanger groundwater. These lagoons can be ticking time bombs – if they overflow or burst, the result can be an environmental disaster if the waste flows into rivers, streams, lakes or wetlands. Swine waste contains pathogens 10 to 100 times more concentrated than in human waste.20 Further, farm animals in the United States produce 130 times more waste than people.21

Pig manure and urine contain high levels of the pollutants phosphorus and nitrogen that contaminate drinking water and kill fish by removing oxygen from water. Hog manure also contains pathogens such as fecal coliform bacteria that lead to gastric illnesses in adults and even death in infants and emits hydrogen sulfide, a toxic gas that in one documented case caused dizziness, nausea, vomiting and other health problems to people living near a hog farm in Renville County, Minnesota.

Another way that CAFO waste pollutes is through the “sprayfield” system, which is supposedly meant to fertilize crops. The untreated liquid manure is drawn from the lagoon and sprayed over cropland and pastures using large sprinklers. But often too much of the waste is sprayed, resulting in crop damage and contaminated soil and groundwater.22

Meanwhile, the pork companies attempt to evade responsibility for the pollution their lagoons cause. They often sign contracts with contractors who own the land and run the facility, whereby the company owns the hogs, and the contractor owns the waste product to be sold as fertilizer, thus permitting the producers to point the finger at the contractors if any pollution results from lagoon leakage or overspraying.23

As the world’s leading hog producer, through shoddy management and carelessness about the potential dangers of its waste, Smithfield has been a leading polluter. One of its hog farms in North Carolina has polluted the Cape Fear River 40 times.24

In another case, in 1995, a lagoon run by
a Smithfield subsidiary in North Carolina poured two million gallons of waste into a tributary of the Cape Fear River. In 1996, a million gallons of hog waste from a Smithfield plant spilled into the Trent River in North Carolina.25

But Smithfield really distinguished itself at its slaughterhouse in Smithfield, Virginia, in 1997. That year, Smithfield and its Gwaltney subsidiary - charged by regulators with sending waste into the Pagan River - were slapped with the largest U.S. civil penalty ever levied for violating the Clean Water Act, a fine of $12.6 million.26

Overall, the U.S. government found that Smithfield’s failure to install decent pollution control equipment and treat its waste resulted in 5,000 violations of the company’s permitted limits for phosphorous, fecal coliform and other pollutants over more than five years. Smithfield for years allowed its dangerous pollution to flow into Virginia’s Pagan River, James River and the Chesapeake Bay.

The federal judge in the case ruled that Smithfield’s “violations of the effluent limits were extremely serious.” The Environmental Protection Agency had “found serious chronic violations of discharge limits for several pollutants, including phosphorous, ammonia, cyanide, oil, grease, and fecal coliform...Sampling of the Pagan River revealed excess fecal coliform levels, an indicator of the presence of intestinal wastes from warm-blooded animals...that is often associated with bacteria known to cause serious illness in humans.”27

But that’s not all – Smithfield also engaged in a cover-up to avoid detection in Virginia. The federal government determined that Smithfield “had falsified documents and destroyed water quality records.”28 Meanwhile, officials in Virginia ordered Smithfield to pay a separate fine of $3.8 million for 22,000 pollution law violations.29

After its Virginia debacle, Smithfield found itself the target of protests from angry environmentalists, farmers, and citizens over the ecological hazards posed by the company’s lakes of pig waste. Concerns over how pig waste can ruin the environment have all but halted Smithfield’s ability to acquire new hog farms in the United States.30

Objections to its waste-filled factory farms forced the company to turn more toward consumer marketing. Now, 52 percent of its sales come from supermarket chains, led by Wal-Mart, and others such as Food Lion and Kroger. After that, 24 percent of its sales go to restaurant giants McDonald’s, Wendy’s and Applebee’s. With U.S. anti-trust officials breathing down its neck over expanding its control of the pork market in stores, Smithfield has expanded by buying companies that control 6 percent of the American beef market and other firms with 11 percent of the turkey market.31

Meanwhile, Smithfield, in its foray into the foreign pork market, has been exporting its pollution problems. In 2003, in Byszkowo, Poland, a frozen lagoon full of pig waste from a Smithfield subsidiary melted and made its way into the local water supply. The water took on a brown color, one child developed an eye infection and rashes while swimming in contaminated lake water, and villagers endured the terrible stench that pervaded the air.

Smithfield’s response, from company vice president Dennis Treacy, was condescending: “We are obeying Polish law and safe farming practices.”32

**Federal Regulators Can’t Stomach Smithfield’s Antics**

In March 2003, a paralegal named Michael J. Forquer was sent by the U.S. Department of Justice to five supermarkets in Washington, D.C., to shop for pork products. What he found on the shelves served as evidence in the DOJ’s anti-trust case against
Smithfield, filed in February 2003. The company’s more than dominant position in the pork market was clear as day – one Safeway store in northwest Washington stocked 47 different brands of meats produced by Smithfield; a Giant market in the same area stocked 41 Smithfield-owned brands. 33

The government’s case charges Smithfield with two counts of violating the Hart-Scott-Rodino anti-trust law in relation to the company’s scheme in 1998 to buy a minority position in IBP, Inc. – then the second largest U.S. processor of pork after Smithfield – with the intent not to just invest in IBP but to buy the company entirely. The DOJ charged that Smithfield violated the anti-trust law in 1998 and from 1999-2001 by failing to report its “pre-merger” investments in IBP as required by law, and asked the court to fine the company $5.47 million. 34

In November 2000, Smithfield, trying to prevent an investment group from acquiring IBP, made a counter offer of $4.1 billion for IBP. The attempt drew immediate criticism from farm groups and was as well as both Republicans and Democrats in Congress. The National Farmers Union called on the DOJ to reject the merger because it would encourage concentration in the pork market.

The National Farmers Organization also opposed it, saying that it would close down independent hog producers. The American Farm Bureau Federation called for a “thorough investigation” by federal officials on how it might impact U.S. pork farmers. 35

Sen. Charles Grassley (R-IA) sent letters to Attorney General Janet Reno and Federal Trade Commission Chairman Robert Pitofsky calling for “vigorous scrutiny” of the proposed merger. Grassley said that since Smithfield controlled 18.4 percent of the nation’s pork slaughter capacity and IBP controlled 17.7 percent, combining the two “would reduce the already limited number of buyers for the commodities of small, independent producers. [The government] has a responsibility to understand the ramifications of any further concentration in agriculture to ensure competition for the independent producers who get caught in the middle.” 36

In the merger, Smithfield lost out in its bid for IBP to Tyson Foods, which paid $3.2 billion (plus $1.5 billion of IBP’s debt) making Tyson the biggest meat producer and packer in the world. 37

But the anti-trust case based on Smithfield’s interest in IBP continues. Smithfield’s lawyers lost several attempts to throw the case out on procedural grounds. From 2000 to 2002, Smithfield contributed $650,000 in soft money to the Republican Party committees in Washington, D.C., including $365,000 to the Republican National Committee and $25,000 to the President’s Dinner Committee. 38

But clearly, Smithfield’s pork juice in Washington only goes so far, and the DOJ thought it was time to rein in the company’s quest for ownership of meat counters everywhere.

**Threats, Intimidation, Labor Laws Violated**

Less than half of Smithfield’s 44,100 employees are covered by union labor contracts. 39 But Smithfield has steadfastly resisted organizing efforts by unions, even resorting to threatening and intimidating employees to vote “no” in union elections. The National Labor Relations Board in 2001 ruled that Smithfield committed numerous unfair labor practices during a 1997 election held by the United Food & Commercial Workers at the firm’s plant in Tar Heel, N.C. 40

Yet more unfair practices, described as “repeated and pervasive,” were attributed to Smithfield by another NLRB judge, over organizing activities at a plant in Wilson, N.C. 41 And in 2002, a federal jury in Raleigh, N.C., awarded $755,000 to a pair of union
organizers who claimed a Smithfield security guard — doubling as a deputy sheriff — used excessive force and falsely arrested them during the Tar Heel election, although an appeals court later reversed the judgment on the grounds that the company was not responsible for his actions while he was acting as the deputy sheriff.42

Broadening the Trough Abroad

With its name sullied by pollution back home, and many states enacting moratoriums on new CAFOs, Smithfield looked overseas. The company embarked on an aggressive hunt for foreign pork butchers and packers in 1998, which since has evolved into $1.3 billion in annual sales. Smithfield bought Societe Bretonne de Salaisons, one of the largest private pork processors in France, in 1998, and a year later bought Animex, a leading meat processor in Poland.

It took over Schneider Corp., of Ontario, Canada, in November 1998. The next year the Mexican pork-packing firm, Agroindustrial del Noroeste, agreed to sell 50 percent and become a partner. Two other Canadian companies fell under its spell in 2001. Smithfield entered a joint venture with a Chinese firm in 2002.43

Smithfield’s holdings in Poland are particularly extensive. Its Animex operator, which took in $338 million in 2003, sells nine brands of meats to Poles, operates six subsidiary companies and seven processing plants, and has a payroll of 5,300 people.44 In addition, one of Smithfield’s main American subsidiaries, John Morrell & Co., with 11 brands of meats, exports its wares for sale in Poland.45

In Canada in 2003, Schneider had sales of $770 million.46 Smithfield’s SBS company in France (2003 sales: $208 million) churns out four brands of wrapped meats from three production plants employing 1,250 people.47 In 2004, Smithfield bought a 15 percent stake in Spain-based meat packer Campofrio,48 and acquired 100 percent of the British meat firms Norwich Food and Ridpath Pek.49

In Europe, Smithfield’s expansion strategy is wedded to the expanding European Union, which brought in 10 new countries in May 2004, including Poland. Poland’s vast agricultural land may serve as the food bowl of the EU, and Smithfield doesn’t want to miss out on that opportunity.

The company began sniffing around Poland back in 1999 when it bought its ownership stake in Animex. Two years later, two businessmen from Poland, representing a company called Prima Foods, started buying out hog farms in northwestern Poland and signing deals with small-scale farmers.

Soon, Polish authorities would learn that Smithfield was using Prima as a kind of front company, providing the funds for buying the farms. This cozy relationship permitted Prima to grab the land without violating a Polish law that restricted foreign companies from buying more farmland.50

Marek Kryda, spokesman for the Animal Welfare Institute in Poland that is trying to put a halt to Smithfield’s growth there, told The Washington Post in February 2004: “Smithfield doesn’t play by the rules. They basically are saying, ‘Don’t mess with us, because we’re too big.’51

With its huge investments in Animex and Prima, Smithfield unfortunately has had its way in Poland. After environmental activists complained about pollution from Smithfield’s pig farms, political backers of Smithfield successfully changed Polish rules governing fertilizer by classifying liquid pig manure as an “agricultural product” instead of a waste product.

One independent pig farmer in Czaplinek, Poland, complained that the $8 billion U.S. company was trying to drive him out of business by increasing its production of pigs when the local market already had more...
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hogs than it could bear, causing pork prices to decline. “If this continues, we won’t be here in five years,” the farmer told The Washington Post.52

In France, Smithfield, through its company SBS, bought out French cold meat producer Jean Caby in May 2004, which a news report said “is expected to create the biggest group in the (cold meat) sector in France,” producing 95,000 tons a year.53

In Brazil, Smithfield made a commitment in 2001 to invest $100 million in pig production in the state of Mato Grosso, after the state’s government provided tax incentives.54 As of 2004, Smithfield was operating a new farm with 15,000 hogs 150 miles west of Cuiaba in Mato Grosso.55

Smithfield also is a growing player in the pork business in Central and South America. Smithfield shelled out $24 million for its share in Agroindustrial del Noroeste in Mexico, where the minimum wage for workers is $1 an hour. Smithfield is now Mexico’s third largest pork producer, with 18,000 hogs in Sonora and 14,500 in Vera Cruz as of 2001.56

In talking about Smithfield’s venture in Mexico specifically, Luter himself summed up his company’s craze for consuming as many meat companies as possible, indefinitely.

“This alliance with a well-established and well-run pork processor in Mexico is another step in Smithfield Foods’ strategic plan to become a global pork processor by acquiring or forming alliances with companies whose products, facilities and cost structures give them significant marketing advantages.”57

Flush with cash, Smithfield’s march toward a United Nations of pork appears to go on unabated, anti-trust violations or no anti-trust violations on the home front.

Notes

4 “Pennexx Foods, Inc. Reports 10.1% Increase in Revenue; Covenant Wavier Extended,” Business Wire, November 1, 2002.
5 Ibid.
9 Ibid.
12 Kilman.
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28 Ibid.
29 International Directory of Company Histories, p. 4.
30 Ibid.
31 Flores.
38 www.opensecrets.org
50 Frankel.
51 Ibid.
52 Ibid.