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August Agrochemical Notes

Please join us at the joint CPDA/CLA meeting in Nashville starting on September 12, 2023.

Jim was "on stage" twice in Miami at the Agribusiness Global "Summit". His first discussion looked at the potential for a spin-out of Bayer CropScience from Bayer. Remarks are printed elsewhere in this letter. The second discussion was a general review of current trade issues. Both forums were done "interview style", with Eric Stiligoj of ABG as the interviewer.

Special Note: As you know the MTB has not yet been enacted. This means that some of the granularity that had been the norm in the census statistics is still missing which makes pulling the necessary data for this report more difficult. At this point in time, while the new Chairman of the House Ways & Means Committee's subcommittee on Trade has signaled his support for this legislation, there is no apparent vehicle for getting this done.

Imports of Glyphosate, as acid, for the period September through August for the last 5 years as well as year-to-date are at least as much as shown below:

	22-23	21-22	20-21	19-20	18-19	17-18
August		6,507 MT	7,847 MT	4,611 MT	5,997 MT	3,364 MT
July	2,869 MT	8,414 MT	9,178 MT	7,985 MT	2,735 MT	6,562 MT
June	1,736 MT	11,592 MT	8,972 MT	6,749 MT	3,495 MT	6,333 MT
May	344 MT	12,420 MT	10,110 MT	9,029 MT	4,542 MT	12,307 MT
April	2,295 MT	16,267 MT	8,067 MT	5,584 MT	3,241 MT	9,836 MT
March	8,142 MT	12,334 MT	7,302 MT	2,927 MT	6,656 MT	10,711 MT
February	4,177 MT	11,768 MT	2,311 MT	1,636 MT	3,235 MT	8,601 MT
January	10,704 MT	8,908 MT	5,660 MT	8,950 MT	6,100 MT	6,081 MT
December	4,358 MT	7,006 MT	5,200 MT	3,800 MT	8,900 MT	7,477 MT
November	8,521 MT	9,809 MT	4,700 MT	8,000 MT	6,000 MT	5,900 MT
October	4,713 MT	9,417 MT	3,200 MT	8,000 MT	8,100 MT	3,800 MT
September	4,018 MT	10,661 MT	4,000 MT	4,700 MT	8,600 MT	4,298 MT
Total	51,877 MT	125,103 MT	76,547 MT	71,971 MT	57,511 MT	85,270 MT

June and now July imports continue the downward trend which is also reflected in Chinese export data. At this time, it appears that total imports for the year will likely be significantly less than 55,000 MT, less than 45% of what they were last year, below the levels of 2018-2019.

Some are speculating that there might be enough Glyphosate in current stocks in the USA to last well into 2024.

News:

There is not much "trade news" to report this month. However, the main topic of discussion at the ABG Summit was the very poor performance of the major agrochemical companies in their most recent financial reports. As noted above, ABG asked Jim to opine on the potential consequences of a spin-off of Bayer CropScience. The discussion, which is available on LinkedIn occurred on the same day (Wednesday) that Bayer reported that a significant reorganization might be necessary. Jim's prepared remarks follow:

Topic: Understanding the logic of spinning off Bayer CropScience - August 9, 2023

What follows are my thoughts and opinions – they were not developed in consultation with Bayer CropScience, nor am I an agent or related in any way to Bayer or Bayer CropScience!

In the beginning, all of the major Chemical companies were started around the need for synthetic colorants. There were several dominant companies, all European, many of which survive to this day, including:

- Germany: BASF, Bayer, Hoechst
- Switzerland: Ciba, Geigy, Sandoz
- UK: Imperial Chemical Industries
- France: Rhone Poulenc

From their dyestuff origins, over the next 125 years, they all grew into large integrated chemical concerns.

In the mid-1990's it was determined that shareholder value could be increased by breaking up many of these firms into smaller pieces, with the emphasis on "life sciences" being the highest multiplier. "Life Science" was defined as including both Human and Animal Health and Agrochemicals. The first major firm to undergo this transformation was Hoechst, which was broken up into 12 different companies in 1995. ICI, Ciba-Geigy, Bayer and Rhone Poulenc all eventually followed this same model. Interestingly, BASF did not as it did not have a significant presence in the pharmaceutical sector and to this day still believes that the "Verbund" is the secret to their success – and I wholeheartedly agree!

As an aside, I remain curious as to whether anyone has done a calculation to determine if "Dorman was right" that in breaking up Hoechst he created shareholder value. The perfect test would be to compare todays' value of a share of BASF, to the share value of all of the pieces of Hoechst to determine which is larger.

Over the next ten years or so, the life science model became predominant. However, over time, it became apparent that the market multiples for pharmaceuticals were higher than agrochemicals, and everyone, except Bayer, divested or merged their Agrochemical activities into separate companies.

This also occurred to a lesser extent in the USA since the "Chemical Giants" in the US in general did not have pharmaceutical divisions. American Cyanamid spun off its agrochemicals to BASF and grew their pharmaceutical side which at the time was known as Lederle Laboratories, now part of Pfizer. Similarly, Eli Lilly spun out their agrochemicals to Dow.

The two US owned major players in Agrochemicals are now “pure play Agro”. Corteva was created by combing DuPont Ag and Dow Ag, and FMC sold off everything else.

Therefore, a quick look at the current list of major Crop Protection Companies shows that Syngenta, Corteva, UPL, and FMC are “pure play Agro”. BASF remains, and likely always will be a huge Chemical Company with an Agrochemicals Division. Similarly, if you look at Syngenta’s parent companies, Sinochem and ChemChina, it is also a huge chemical company including a modest sized Pharmaceutical Group, with a huge Agrochemicals Group built by acquisition. Bayer CropScience is the only significant company left with the “life sciences” concept.

There are likely a myriad of reasons for Bayer to follow the lead of their competitors and split up into two firms:

- Clearly, the merger with Monsanto has caused a lot of consternation in their Cologne headquarters because of Glyphosate and GMO seeds. If you visit Leverkusen, there is a huge lighted sign over the complex, that can be seen for many miles. It features the Bayer “cross” which is their worldwide logo and imprinted on every Aspirin tablet as it has been for over 100 years. I mention this because it illustrates a critical point, the guiding principle for Bayer management must be “don’t do anything that can hurt the aspirin”. There likely are continuing concerns that this on-going litigation as well as simply being involved in the development and sales of GMOs, especially since they are a European based company, is “hurting the aspirin”.
- The spin out of this division should produce a “mountain of cash”. It is likely that they can achieve an increase in their stock value by utilizing these funds to lower debt and perhaps make further acquisitions in the pharmaceutical sector.
- The differences in running a successful Agrochemical enterprise versus a successful Pharmaceutical enterprise have been magnified. This is especially apparent for new product development. In large part the Pharmaceutical model forces companies to put a much higher premium (and investment) in innovation (both in-house, acquired from small start-ups, university laboratories, etc.) rather than production. Once a successful pharmaceutical product is in production, the values tend to be very high, with the volumes very low. As the Agrochemical model has become more commoditized and dominated by generic molecules, the opposite is true. While new molecules share a similar path to Pharmaceuticals, very few have been introduced in the last 20 years, versus +/- 15/year for pharmaceuticals. Many “agricultural chemical new products” are based on combining existing chemistries to produce combinations that out-perform the base components. Therefore, efficient manufacturing and supply chains (both internal and external) are the key to success. These are two entirely different skill sets that need to be managed effectively.
- It is also believed that the Pharmaceutical sector, even with significant government control over pricing, is much less cyclical than the Agrochemical sector. There can be no doubt that after several very good years, the Agrochemical sector is currently on a downward slope.
- There is little doubt that Bayer CropScience will remain a substantial presence in the Agrochemical industry as a stand-alone company. Once it is freed from having to compete with the Pharmaceutical’s group for attention and capital, it likely will have a

better future and find increased opportunities for growth! This is especially true for their seed business where restrictions in the EU have led to the need to perform most research elsewhere.
- Corteva Agriscience has proven that investors will seek out securities in large "pure play" Crop Protection/Seed companies.
- It is likely far too large to be purchased by or merged into another large company in the crop protection/seeds business. Anti-trust authorities worldwide would have significant issues to sort through that might take years. It is also highly unlikely that it could be merged with one of the larger Chinese producing companies for this same reason. It is also likely to large to be purchased by "private equity".

Once (if?) completed, the line-up of the "big six" will likely continue to be:

- Syngenta: Crop protection & seeds
    - Ownership: Sinochem/ChemChina (Government of China).
    - About to do an IPO – will still be a State Owned Enterprise.
- Bayer CropScience: Crop protection & seeds
    - Ownership: Likely publicly traded in Frankfurt.
    - Name: Unknown, but likely not including the word Bayer. Several attractive options should be available from their past or perhaps something completely new.
- Corteva Agriscience: Crop protection and seeds
    - Ownership: Publicly traded in New York.
- BASF: Crop protection & seeds
    - Ownership: Publicly traded in Frankfurt as part of BASF SE.
- UPL: Crop protection.
    - Ownership: Publicly traded in India
- FMC: Crop protection.
    - Ownership: Publicly traded in New York

I'm sure that there are plenty of other reasons that this makes sense.

I'd welcome your thoughts and comments!

<u>Other news:</u>

While the **<u>Syngenta IPO</u>** has supposedly been "green lighted" by the Shanghai Stock Exchange, surprisingly, there is nothing we can find on the public record suggesting a date for it to occur. If Syngenta's recent financial reports are as bad as their competitors, this might not be an ideal time to accomplish this task!

While we are aware that financial details covering Syngenta's performance have been released, the only copies we have seen are in Chinese. Hopefully, an English version will eventually be released so that everyone can see and review any financial disclosures which accompany this IPO.

The Biden Administration has now published a proposal for placing restrictions on U.S. private investments in certain countries. These rules, as drafted, would not appear to inhibit a U.S. citizen or company from investing in this IPO.

Taiwan: The U.S. and Taiwan have closed several chapters under the "early harvest" provisions: Trade Facilitation, Services, SME's (Small, Minority Enterprises), GRP (Good Regulatory Practices), and anticorruption. This was not a complete surprise since these subjects were considered "low hanging fruit" as they are not controversial. It is important note that the U.S. still supports a "one China" policy. There has been no change in this position. Therefore, any agreement with Taiwan will actually be between the U.S. and the "The American Institute of Taiwan". This Institute was created by the Public Law 96-8, the Taiwan Relations Act of April 10, 1979 which still governs relations between the U.S. and Taiwan.

Interestingly, though the Administration did not seek it, both houses of Congress have passed legislation to approve this pact. President Biden signed this legislation a few days ago. While it does require more direct consultation with Congress in the remaining pillars, in his signing statement he promised to ignore provision that impinges on "executive authority".

We remain puzzled by this initiative since it clearly could be seen as a provocative move against China's interests, and there is not much to gain for either party since there is no market access component.

IPEF: Negotiations continue. The "Supply Chain Pillar" is said to be essentially closed. This pillar sets up a series of committees to stay abreast of these issues with the goal of avoiding significant breakdowns in the supply chain as occurred during the COVID Pandemic.

It remains the case that the most the Chemical industry can hope for in any of these negotiations is agreements on sound science and transparency in regulatory decision-making processes, acceptance of GMO crops, improvements and less corruption in cross border flow of goods and services. There is no market opening tariffs discussion being undertaken under this, or any other discussions by this Administration.

USMCA – Mexico – GMO Corn & Glyphosate: It is surprising that there is no update on this issue since as of 1/1/2024, the importation of Glyphosate and GMO corn into Mexico will not be permitted. Mexico is the U.S.'s largest corn market, most of which goes to animal feed.

China section 301 tariffs (25% surtaxes): USTR continues to diligently work on their review of this program. There is no definitive date for the review's conclusion, though now they are predicting that a report will be ready "in the fall". Those with an interest in Paraquat or NBPT need to assume that the current exemptions will be allowed to end on September 30, 2023. We continue to believe that it is highly unlikely that there will be a change in position by the Administration prior to the 2024 election.

Special Note on the 25% surtax for Paraquat: The dominant importer of Paraquat into the U.S. is Syngenta from their plant in Huddersfield, UK. During the 4th Q of 2022, they appear to have changed the HTS number that is being used for these imports from 3808.93.15 to 2933.29.23. There is no apparent change in the bill of lading description, "Paraquat Emetic Plus". While there is no surtax on imports from the UK, there is no impact on tariff rates, this change would appear to be at odds with the existing binding ruling requiring this material to be classified in 3808. We have spent hours looking for a revision of this customs ruling since the headnotes of chapter 29 clearly allow an organic chemical to remain in chapter 29 if it includes additives for safety purposes as long as such additives do not make it "fit for purpose".

Electric Vehicles (EVs): We remain fascinated, and again tried to start a broad discussion, by the impact that the push to convert our transportation infrastructure to electric vehicles will have on the farm community. Clearly, more than 40% of US Corn and Soy is used to power vehicles. We have yet to find any literature directly related to this subject. Please let us know of your thoughts.

General observation: With the notable exception of S-Metolachlor, overall imports, especially herbicides, appear to have slowed significantly in April. This trend continued in May and June, looks to have extended into July. Please see additional details below in the notes section under "the Index".

The updated version of the "Index" which includes import details for all formulated Agrochemical imports in 3808.91, 3808.92 and 3808.93 for May is attached.

Below, please find value information for the month of June as well as totals for the first half of 2020, 2021, 2022 and 2023.

It is important to observe, that the value figures are "customs value" which would include materials entered into Free Trade Zones, but not China surtaxes.

June 2023 details, as well as the previous 3 years are as follows (000):

	6/2020	6/2021	6/2022	6/2023
3808.91 – insecticides	$24,090	$35,420	$49,339	$27,379
3808.92 – fungicides	$38,832	$85,298	$124,356	$96,215
3808.93 – herbicides	$36,876	$27,489	$53,258	$19,051

First half totals for the period (000) are shown below:

	2020	2021	2022	2023
3808.91 – insecticides	$179,234	$236,790	$271,545	$254,060
3808.92 – fungicides	$250,278	$417,932	$494,091	$499,328
3808.93 – herbicides	$284,224	$257,713	$515,415	$404,764

Please let us know how we can best be of service.

Very truly yours,

Jim

V.M. (Jim) DeLisi

VMJD: me