

Nadia Calviño
Ministro de Economía y Empresa
Paseo de la Castellana, 162
28046 Madrid
Spain

D. Luis Planas Puchades
Ministro de Agricultura, Pesca y Alimentación
Paseo de Infanta Isabel, 1
28071 Madrid
Spain

Dear Ministers,

I am writing to you regarding the reported interest by Kam Fung, a Chinese property developer, in acquiring Spanish meat processor Incarlopsa. Kam Fung's major business partner and potential partner in the acquisition, China Huarong Asset Management, has been rocked by the corruption investigation of its chairman Lai Xiaomin, who was removed in April. These issues indicate the need for further due diligence by your ministries.

As the hotel workers' union in the United States and Canada, our researchers regularly conduct due diligence of hotel owners and operators. We have set up a website, Marriott China Observer (www.marriottchinaobserver.org), to publicize the results of our research on Marriott's portfolio in China. While investigating the Renaissance Shanghai Pudong East, which is partially owned by Huarong and associates related to Kam Fung, we uncovered the issues that are discussed in this letter.

Background: Kam Fung's potential bid for Incarlopsa

On April 16th, Reuters reported that China's Kam Fung Group Company was in talks to acquire 95% of the shares in Spanish pork producer Incarlopsa in a deal that would value the company at about €1 billion. The Reuters report stated Kam Fung was in talks with a Hong Kong unit of state-owned distressed asset manager China Huarong Asset Management Co. Ltd about forming a consortium.¹

After the Reuters report Incarlopsa released a statement that it had received interest from potential buyers, but denied that the company was in a sale process.²

Kam Fung and Huarong maintained close relationship in addition to potential Incarlopsa bid

Kam Fung has maintained a close relationship with Huarong (through the Kam Fung subsidiary Guangdong Jinfeng³) long before their potential joint bid for Incarlopsa became public.

Sun Siu Kit, owner of Jinfeng and Kam Fung⁴ and President of Jinfeng,⁵ is a director of China Huarong Overseas Investment.⁶ Huarong Overseas Chinese (华融华侨) was jointly established in 2015 by Huarong, Jinfeng, and the city of Shantou.⁷ Huarong held around 51% of the company, and Jinfeng about 40%.⁸ According to the state press People.cn, Huarong Overseas Chinese was core to the Chinese State Council's development plan for the Overseas Chinese Economic and Cultural Cooperation Experimental Zone (华侨经济文化合作试验区).⁹

Part of the collaboration between Huarong, Jinfeng, and Shantou is the development of Jinfeng Overseas Chinese Town, a regional financial center kick-started in 2015.¹⁰ The complex is an economic hub with the goal of connecting overseas Chinese with the mainland. The project had a total investment of more than 30 billion yuan.¹¹

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In 2017, Lai Xiaomin, chairman and party chief of Huarong, and Sun Siu Kit, chairman of Kam Fung, joined an official business delegation to the Thai Chamber of Commerce and Industry to promote Xi Jinping's One Belt, One Road initiative.¹²

Huarong Chairman Lai Xiaomin under investigation for “serious violations of party discipline and law”

Soon after the Reuters report about Kam Fung's interest in Incarlopsa was published, Chinese business outlet Caixin reported that Huarong's chairman, Lai Xiaomin, was under investigation by the Communist Party of China's Central Commission for Discipline Inspection for “serious violations of party discipline and law.”¹³ The South China Morning Post stated that this phrase was a euphemism for graft.¹⁴

According to Caixin, Lai and Huarong arranged financing for Ningxia Tianyuan Manganese Industry Group. Caixin quoted several financial institution sources that described Ningxia Tianyuan as a “zombie enterprise,” a term referring to companies with crushing debts but little profitable business.¹⁵

According to information released during an internal meeting of senior Huarong executives in August and reported by Caixin, graft investigators found 270 million yuan in cash at properties owned by Lai. The bills of Chinese yuan and other currencies weighed nearly 3 tons.¹⁶

Chinese government support for purchases of international agricultural resources raises questions

The Chinese government has officially encouraged domestic companies to pursue purchases of international agricultural resources. A report by the US Department of Agriculture has described how Chinese authorities have pushed companies to ‘go global’ in acquiring agricultural assets.¹⁷

In the United States, the most significant Chinese purchase of agricultural assets was the 2013 purchase of Smithfield Foods, the world's largest pork producer, by Shuanghui International (now WH Group). Smithfield CEO Larry Pope told the Senate Agriculture Committee, which oversaw the deal, that Shuanghui was not a state-controlled company.¹⁸

However, there are reasons to believe that the government exercised direction over the purchase of Smithfield. Shuanghui received \$4 billion in financing from the state-owned Bank of China as part of the purchase. Bank of China described its financing of the deal as a social responsibility in support of Chinese enterprises' “going global” efforts.¹⁹ According to Usha Haley, a business professor at West Virginia University, Shuanghui received \$2 billion in subsidies from the Chinese government.²⁰

According to Robert Wan, son of Shuanghui chairman Wan Long, “Pork is considered a national security issue in China.”²¹

Conclusion: Kam Fung bid for Incarlopsa deserves heightened scrutiny

While Incarlopsa has denied that it is engaged in a sale process, Kam Fung and Huarong could make a bid for the company at any time. In the event that their acquisition plans progress, Spanish policy makers and regulators should investigate the following questions:

- Why is a real estate company like Kam Fung interested in a Spanish pork processor?
- Even if Huarong were not officially part of a resurfaced bid, considering its extensive collaborations with Kam Fung, are these two companies separable?

- What is the importance of the investigation into Huarong's former chairman?
- Does the involvement of state-owned Huarong indicate that the acquisition of Incarlopsa might be aided or directed by the Chinese government?

We are happy to assist you as you answer these questions. Please feel free to contact me at the information below.

Sincerely,

Jon Sussman
Senior Research Analyst
UNITE HERE
jsussman@unitehere.org

Cc:

European Commission Representative in Spain
His Excellency Lyu Fan, Ambassador of the People's Republic of China to Spain

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⁵ Jinfeng Group, "锦峰集团强势进军大健康产业，助力华侨城锦上添花", Group News, July 6th, 2016,
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