

Bloomberg

Cargill Defines Food Chain While Assailing Government Hoarding

By John Lippert - Jul 27, 2011

Bloomberg Markets Magazine

[Cargill](#) Inc. Chief Executive Officer Greg Page, who runs the largest agricultural company in the U.S., has a good idea whom to blame for the global surge in food prices at the end of 2010: governments.

Page urged 708 delegates and guests at the National Grain and Feed Association convention in San Diego in March to take action, Bloomberg Markets magazine reports in its September issue. He said government hoarding was the biggest contributor to the rise in prices, which had soared 15 percent from October through January and pushed 44 million people into poverty, according to the [World Bank](#).

“Ill-timed, ill planned and really a beggar-thy-neighbor strategy,” Page, 59, said of moves by [Russia](#) and others to ban grain exports as droughts and floods helped send stockpiles to their lowest levels in two generations.

Page warned that further disruptions might ratchet up costs so much that governments would jump in with more regulations -- not only on grain shipments but also on energy, trade and financial markets. Such moves could discourage investing in agriculture and hurt the poor.

“We have to make sure lawmakers share our understanding,” he said, imploring the executives to increase their lobbying to keep government hands off agricultural markets.

Private Sector

Cargill is a big fan of the private sector -- and of privacy, period. Founded in 1865 by William Cargill, son of a Scottish sea captain, the agricultural-commodities giant is in its seventh generation of family ownership, a record unmatched by any other major U.S. firm.

About 100 descendants of William Cargill control the company, which is based amid the mansions and lakes of Minneapolis suburb Wayzata, Minnesota. [Shareholder](#) equity -- the difference between assets and liabilities on Cargill’s balance sheet -- almost doubled to \$29.5 billion during the 4 1/2 years that ended in

November and included the worst U.S. recession in seven decades.

Including its [Mosaic Co. \(MOS\)](#) fertilizer unit, Cargill's revenue jumped 15 percent to \$91.8 billion in the nine months that ended in February, the month before Page called for anti-intervention lobbying. Profit in the period almost doubled to \$3.5 billion from a year earlier as food prices peaked.

‘They Are the Chain’

Through the planet's food anxiety, Cargill has kept its name out of the public eye. There are no Cargill-branded products in supermarkets, and executives seldom speak with the press.

Yet, Cargill has a huge hand in feeding the world. With 131,000 [employees](#), it runs one of the country's largest operations for converting corn into biofuels, as well as food for people and animals. It's the No. 1 U.S. salt marketer and a top buyer and seller of cocoa and sugar. The No. 2 U.S. beef producer, Cargill can slice a cow 431 ways and fashion precise cuts so [Wal-Mart Stores Inc. \(WMT\)](#) doesn't have to hire a butcher for every one of its shops.

“Cargill sells seed and chemicals to farmers, buys their grain, transports it to Cargill feedlots, kills the cattle and sells the beef,” says Dan Basse, president of Chicago-based research firm AgResource Co.

“They're not part of the food chain; they are the chain.”

Whitney MacMillan, 81, one of seven Cargill billionaires and a former CEO of the company, is among the biggest advocates for staying private, says C. Daniel Clemente. A Virginia lawyer, Clemente advised family members on governance for 11 years through 2005 and still speaks with James Cargill II, the founder's great-grandson. The marriage of MacMillan's grandfather and William Cargill's daughter, Edna, in 1895 merged the families and initiated joint control of the business.

Family Dilemma

The Cargills and MacMillans faced a family-control dilemma when the biggest shareholder, 85-year-old matriarch Margaret Cargill, died in 2006.

MacMillan and other elders opposed selling Margaret's 17.5 percent stake to fulfill her philanthropic wishes, people familiar with the situation say. The opponents worried that once her shares hit the market, younger family members would support a public offering of the whole company, the people say.

Cargill instead shed its 64 percent stake in Mosaic, North America's No. 2 fertilizer company. The split-off satisfied two sets of interests. Because Mosaic's market value had surged to \$30.5 billion in May from \$6.1

billion when Margaret died, her trustees accepted the increasingly valuable Mosaic stock in exchange for her Cargill stake. The move also defused potential support for an IPO by raising cash for family shareholders.

Respect, Not Passion

Family members and Margaret's estate received Mosaic shares worth \$11.7 billion in a May 25, 2011, distribution designed to meet tax-free requirements. Cargill itself added \$7.3 billion to its treasury. Senior managers and an employee stock plan received a combined \$400 million, bringing the split-off's total value to \$19.4 billion. Cargill's wealth helped it pull off the deal and stay private just as commodities giant Glencore International Plc launched its \$10 billion IPO.

“I can't think of any other company that can release \$19 billion without changing ownership,” says [Mark Connelly](#), a fertilizer and chemical company analyst at Credit Agricole Securities USA in [New York](#). “If Cargill hadn't owned two-thirds of Mosaic, they'd be going public right now.”

Cargill may not dodge an IPO forever. With Whitney MacMillan's eventual death, a generation that includes his daughter, Elizabeth Schmidt, will gain clout, Clemente says.

“Among the younger people I talked with, there was respect for elders like Whitney,” he says. “There wasn't a lot of passion for keeping the company private.”

Page, MacMillan, Schmidt and other family members declined to comment.

So-called Efficiencies

Patrick Woodall, research director at Washington advocacy group Food & Water Watch, says consumers and farmers lose when companies have so much clout.

In meatpacking, four companies -- [Tyson Foods Inc. \(TSN\)](#), Cargill, [JBS SA \(JBSS3\)](#) and National Beef Packing Co. -- controlled more than 80 percent of U.S. output, according to a 2008 [press release](#) from the U.S. Department of Justice. The department had sued JBS to block its proposed acquisition of National Beef.

From 1989 to 2008, the inflation-adjusted price per pound that Cargill and other middlemen paid beef farmers dropped by a third, to 80 cents, Woodall says. In comparison, inflation-adjusted retail prices for a pound of ground beef slipped by just a penny, to \$2.41, Woodall says.

“The so-called efficiencies of the market are profits squeezed out of farmers but not passed on to

consumers,” he says.

‘Nourishing People’

Cargill’s ability to shape huge swaths of the food system rankles Mary Hendrickson, a rural sociology professor at the [University of Missouri](#) in Columbia, who has studied food oligopolies.

When French Agriculture Minister Bruno Le Maire pushed Group of 20 countries to stabilize prices in June by sharing grain-reserve information and limiting export restrictions, he first met with Cargill and other agribusiness giants to get their backing.

“It used to be the role of national governments to make sure people had enough to eat,” Hendrickson says. “For-profit companies are not set up to worry about the 40 percent of the population that makes less than \$2 a day.”

Cargill donates 2 percent of pretax earnings to improving nutrition, health, education and the environment, according to its [website](#).

“Our goal is to be the global leader in nourishing people,” Page says on the site.

Chance to Dance

In his San Diego speech, Page reiterated support for free-market policies, including limits on export bans, as the best way to feed people. That’s because willing buyers and sellers -- not governments -- negotiate prices.

Page said [food safety](#) keeps him awake at night. Last year, Cargill settled, for an undisclosed amount, a lawsuit filed by Stephanie Smith, a Minnesota dance instructor who was paralyzed after eating a Cargill-produced hamburger tainted with E. coli. Smith had asked for \$100 million plus medical expenses.

In a joint [statement](#) with Cargill, Smith’s lawyer said the settlement meant she would have care for life and a chance to dance again. Cargill said it invested \$1 billion to improve safety. Three months later, it recalled beef in eight states when three more people became ill.

The world zeroed in on food contamination in May when E. coli started killing at least 49 people in 13 European countries. Officials had to test seeds from [Europe](#), [Asia](#) and [Africa](#) to identify a potential culprit.

Goldman Sachs of Trading

“We know less and less about where our food comes from,” Hendrickson says. “This knowledge resides

with Cargill and other big companies.”

Cargill developed its [expertise](#) over the course of almost 150 years. Early on, the company acquired and transported corn, wheat and soybeans in the U.S. and converted them to flour, oil and other food commodities. By 2010, as drought cut Russian harvests by a third, Cargill was so globally entrenched that it was able to ship wheat from Europe to Egypt -- the world’s largest wheat importer -- and supply Europe’s need for [animal feed](#) with U.S. corn.

“Cargill is the Goldman Sachs of commodities trading,” Connelly says. “They have real-time insight into dozens of markets and use it to add value in all their businesses.”

In 1998, Cargill began a campaign to bolster trading profits by inventing starches, sweeteners and other products that command premium prices. Forty percent of Cargill’s revenue came from trading and 40 percent from food ingredients in the six months ended on Nov. 30. Cargill focuses mainly on selling ingredients to [Sara Lee Corp. \(SLE\)](#) and other food makers and maintains only a handful of retail brands such as Robin Hood flour.

Spending More on Food

Cargill plans to invest \$18 billion during the five years through 2015, half for discretionary investments such as acquisitions, according to in-house magazine “Cargill News.”

“No matter where we do business in 66 countries, we see per capita incomes rising and consumers electing to spend more on meat, milks, eggs and confection,” Page said in a January phone interview with Bloomberg News after announcing the Mosaic split-off. He singled out emerging markets, such as India and [China](#).

Truvia Story

[Truvia](#), a Cargill-owned brand of sweetener made from a sunflower-related plant called stevia, shows Cargill’s global reach. The company pays 58,000 farmers in China and Argentina to grow the plant and then processes it in [Mexico](#), “Cargill News” says. Private-equity unit CarVal Investors LLC provides loans for farmers. A retired scientist from Cargill’s seed business bred stevia variants that resist disease. Cargill’s salt unit, whose Diamond Crystal brand is in supermarkets, helps with marketing.

Less than three years after Cargill introduced Truvia, it’s the second-largest zero-calorie sweetener and is found in products including [Coca-Cola Co. \(KO\)](#)’s vitaminwater.

Margaret Cargill's death wasn't the first time the families faced losing power. In 1994, James Cargill, the founder's grandson, and his daughter, Marianne Liebmann, came within minutes of suing to block an employee stock ownership plan that was shifting control to management, Clemente says. Whitney MacMillan had allowed the ESOP to be set up that way because he believed management -- not family -- creates value, Clemente says.

Some family members challenged MacMillan's performance as CEO that year, Clemente says. From 1990 to 1994, cash-strapped Cargills and MacMillans sold 600,000 shares back to the company at an average price of \$73.30, according to a Wasserstein Perella & Co. report. Those shares would be worth about \$40,000 apiece today based on their valuation in the Mosaic deal.

Margaret's Trusts

All sides agreed to governance reforms in 1995, says Wayne G. Broehl Jr., author of "Cargill: From Commodities to Customers" (Dartmouth College Press, 2008).

The board now consists of six outside directors and five each from the family and management. Cargill agreed to limit ESOP voting power and pay dividends equal to 10 percent of earnings, so family members wouldn't have to sell shares, according to Clemente.

The changes created stability until Margaret's death. In her later years, William Cargill's granddaughter set up trusts to support the Episcopal Church, San Diego Humane Society, American Red Cross and other charities. Lead trustee Christine Morse had to accelerate gift giving after Margaret's death or lose tax-exempt status, Mosaic CEO Jim Prokopanko says.

Saving Ecosystems

All sides were relieved when fertilizer prices rose and Morse could accept Mosaic shares in return for Margaret's stake. Morse declined to comment through spokeswoman Sallie Gaines.

After the [Margaret A. Cargill Philanthropies](#) sells its Mosaic shares, it expects to rank third in assets in the U.S., behind the [Bill & Melinda Gates Foundation](#) and the Ford Foundation, Gaines says. Its first major gifts, to protect coastal ecosystems in western [Canada](#), Alaska and Micronesia, came in July, she says.

Mosaic executives welcomed the split-off because the company couldn't grow faster while tied to Cargill, Prokopanko says. He can now consider creating shares to finance the construction of a \$4 billion potash mine. He also may issue stock or borrow to acquire potash companies in Chile or phosphate producers in Australia and Mexico.

Page described part of the company's motivation for the split-off in the January phone interview.

“We needed to meet the needs of our legacy Cargill shareholders who've expressed an energetic desire to remain private,” he said.

IPO Debates

Clemente points to James Cargill, who died in 2006 at age 82, as an example of how family members have debated an IPO. He was so opposed, Clemente says, he argued whenever the question arose. His wife, Mary Janet, who died last year, said it was absurd not to sell when the Japanese were buying trophy assets like Rockefeller Center in the 1980s, Clemente says. James II, 62, is willing to listen to pros and cons, Clemente says.

After seven generations, ties to founder William Cargill are fading. No family member has a top management job and none has been as active as Whitney MacMillan in building the company and insisting that it stay private.

Clemente says he thinks Cargill will go public within 10 years, or sooner if food prices stop surging. If that happens, Cargill, which has defied the odds by managing to stay private for 146 years, would reveal more of its hand about what it takes to feed the planet.

To contact the reporter on this story: John Lippert in Chicago at jlippert@bloomberg.net

To contact the editors responsible for this story: Laura Colby at lcolby@bloomberg.net or Simon Casey at scasey4@bloomberg.net

©2011 BLOOMBERG L.P. ALL RIGHTS RESERVED.