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Commentary

Fabian Boegershausen -- Asian potential key to Bayer-Monsanto deal

Rice is the single most important crop the agriculture giant would be exposed to. More than 470 million people in Asia partake in the production of rice, with key producers including China, Thailand and Vietnam.

One of the aims of the merger is to penetrate this market more deeply. But proponents of organic farming and groups that oppose genetically modified crops see this as a key concern. They point to a potential proliferation of gene-manipulated crops in Asia, often citing a 2006 incident when U.S. farmers were not able to export rice to the EU after their crops were "contaminated" with GM rice.

The new company would likely control close to 10% of the Asia-Pacific market for crop protection. While current sales are stagnant, the outlook for the region is positive. Yet fierce competition is likely against other emerging market superpowers. Only those with an integrated portfolio of crops and crop protection, combined with the massive scale and budget needed to develop new products, would stand a good chance of prospering.

Unleashing Monsanto's products on the global market, and especially in the Asian region, would require adjustments to the company's portfolio and sales channels. Last year, Monsanto tried and failed to take over Swiss agribusiness Syngenta, which would have offered better access to Asia.

This bottleneck could now open up for Monsanto through Bayer's tight network of local distributors and deeply embedded sales force in the region. Bayer, in turn, would be able to offer its clients a much broader product range and the promise of innovative breakthroughs in technology.

Another key criterion for the combined company's success in Asia will be dealing with regulators in key markets. Monsanto has been trying to avoid tighter Indian regulations on GM products for years and fighting media allegations of "shameless" practices said to have driven thousands of farmers to suicide. The Competition Commission of India on Oct. 4 launched its third probe of Monsanto just this year, to look into allegations of unfair business

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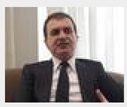

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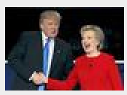

practices. Monsanto is also under scrutiny in the U.S. over its India-related lobbying activities.

In one sense the Bayer-Monsanto deal is a defensive move in light of the already pending mergers of ChinaChem and Syngenta, and of Dow Chemical and DuPont.

Yet the rationale for Bayer and Monsanto are likely also driven in part by their individual situations in the rapidly changing global market. China's economic slowdown and falling commodity prices have led crop producers to slow production growth in the region and to buy cheaper alternatives to Bayer's expensive products. At the same, it seems that Monsanto's heyday is over, with sales and profits stagnating. The American market is approaching saturation and the company's products require constant innovation as weeds gain resistance to bestselling herbicides.

The planned merger is not an attempt to build a global conspiracy against traditional small-scale farming, but an attempt by two slow moving giants to recapture global growth momentum by offering a complete product range and positioning themselves as players in the "future of farming," not least in the Asia-Pacific and other attractive growth regions.

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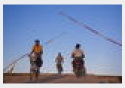

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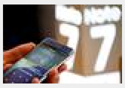

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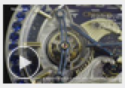

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