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## **Monsanto \$1.5 Million Fines for Genetic Engineering Bribe Illustrates Risks of GE Strategy**

*by William Baue*

The penalties, levied by the Securities and Exchange Commission and the Department of Justice, may lend credence to a shareowner resolution asking Monsanto to report on GE risks.

SocialFunds.com -- At tomorrow's annual general meeting at Monsanto (ticker: [MON](#)), the first [shareowner resolution](#) (proxy item number four) asks the company to report on its genetic engineering (GE) strategy, and enumerates a number of potential financial and reputational risks posed by GE. These GE-related risks are documented in depth in a [report](#) released on January 5, 2005 by [Innovest Strategic Value Advisors](#), a socially responsible investment (SRI) research firm. Before and after the report's release, many GE-related risks have materialized, lending weight to the resolution.

On January 6, 2005, the US Securities and Exchange Commission ([SEC](#)) announced a settlement with Monsanto over a [complaint](#) filed in US District Court that a company manager bribed an Indonesian environmental official over GE crops. Monsanto agreed to pay a \$500,000 penalty, as well a \$1 million penalty levied by the US Department of Justice ([DOJ](#)) based on the same bribe, which was intended to induce the repeal of a 2001 environmental impact assessment decree obstructing market entry for GE crops.

"Monsanto voluntarily disclosed to the governmental agencies potential financial irregularities with its Indonesian affiliates after an internal audit and follow-up review by management and outside counsel raised suspicions of possible non-compliance with company procedures," said Lori Fisher, a Monsanto spokesperson. "We accept full responsibility for the improper activities that occurred in connection with our Indonesian affiliates."

"Such behavior is not condoned nor accepted at Monsanto, and the people involved are no longer employed by Monsanto," Ms. Fisher told SocialFunds.com.

Monsanto's voluntary disclosure of the illegal bribe and the manipulation of records to

cover it up enacts the kind of transparency requested by the resolution, and its accepting accountability is commendable. However, Ms. Fisher did not comment on potential links between the material liabilities resulting from Monsanto's need to seek extralegal measures to advance its GE strategy and the need to report comprehensively to its shareowners on the risks of the strategy.

The Innovest report identifies a number of GE-related risks.

"Major market rejection and sudden business strategy reversals raise doubt that Monsanto is properly evaluating the risks of its genetically engineered products," said Michael Passoff, who heads the Corporate Social Responsibility Program of the As You Sow Foundation. As You Sow, a San Francisco-based nonprofit advocacy organization, sponsored the Innovest report and co-filed the GE resolution. "In the last 14 months Monsanto has had to abandoned plans to commercialize its most important future product, its most important future area of research, and the country with its highest level of market penetration."

According to the report, Monsanto canceled plans to commercialize GE wheat, on which it spent \$60 million in 2004, and it dropped plans to develop pharmaceutical crops. To illustrate market rejection of GE seeds, which are designed to complement Monsanto's flagship herbicide product Roundup, the report cites the example of Argentina.

"While over 95 percent of soy planted in that country is Roundup Ready, Monsanto was forced to shut down its operations there in 2004 because it could not earn revenues," writes Marc Brammer, the Innovest senior analyst who authored the report. "The acres planted and penetration numbers touted by the marketing department suggest booming profits.

"However, the balance sheet reveals a quite different story of political wrangling ending in little, if any, profit," added Mr. Brammer.

Just last week, a similar situation developed elsewhere in South America when a Brazilian court ordered a stay on royalty payments to Monsanto for Roundup Ready soy seed, as a group of 8,700 growers there assert royalties should apply only to seeds, not to the soy produced.

And while Monsanto maintains that GE is strictly regulated, the Innovest report identifies significant gaps in regulatory oversight by the US Food & Drug Administration ([FDA](#)), Environmental Protection Agency ([EPA](#)), and the US Department of Agriculture ([USDA](#)).

"The biggest misperception about genetically engineered crops is that the FDA has tested these plants and declared them safe--what the FDA has done is approved genetically engineered crop commercialization based on Monsanto's assurance that the products are safe," said Mr. Passoff. "Monsanto and its shareholders are responsible for all legal and financial liabilities."

Due to these unaddressed risks, Innovest continues to assign Monsanto a "CCC" (on a scale from AAA to CCC akin to bond ratings) on its Intangible Values Assessment (IVA), which assesses financial risks of corporate social and environmental management.

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