

DFA being investigated

By DIETER KRIEG
Farmshine Editor

FRANKLINTON, La. -- Not only is the Department of Justice investigating Dairy Farmers of America (DFA), so are journalists at the *Chicago Tribune* and the *Wall Street Journal*.

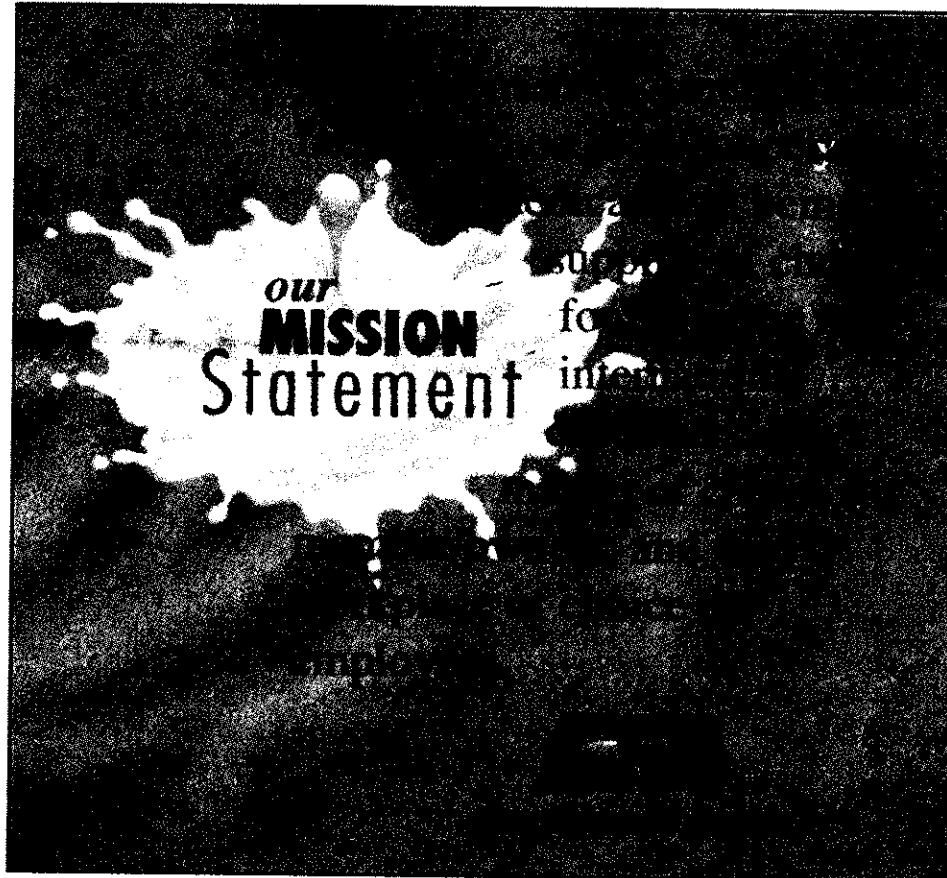
While rumors of the government's interest in DFA's business are not new, this time it's not just hearsay. It's true. An official fact-finding meeting was conducted in a farm house in this Louisiana community on August 5 and milk producers and processors who have had negative experiences with DFA are encouraged to contribute to the investigation. You are asked to file your complaints, if you have any, with:

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Meanwhile, investigative reporter Andy Martin of the *Chicago Tribune* is ready to go to press with his own 2-year long scrutiny of DFA. No word yet when the *Wall Street Journal* will publish its article, but it's likely to be soon, considering the flourish of activity and publicity that has already begun. A spokesman for the Department of Justice (DOJ) was heard to say at the Louisiana meeting: "This is bigger than Enron!"

All this comes on the heels of a report in the *Wall Street Journal* earlier this month which revealed that a couple of dairymen from Indiana and New Mexico have been fined by the federal Securities and Exchange Commission (SEC) for insider trading. According to the article, megadairyman Mike McCloskey, who milks 24,000 cows in northwestern Indiana, had used "insider information" to acquire stock in Dean Foods one day before the April 5, 2001 announcement that the company planned to merge with Suiza Foods. Also fined were Rance Miles, Louis Vallejo and Daniel Harris, all of New Mexico. No connection was made known to *Farmshine* that the insider trading incident and the DFA investigation are in any way related. What's more, the DOJ neither confirms nor denies that an investigation of DFA is being conducted or that anything at all has happened in that regard. That is standard procedure in such matters, commented Attorney Ramadhan, who -- it is known -- is the DOJ's man on the case. But he refused to share any information whatsoever, suggesting that we call Gina Talamona at the department's publicity office. Like Ramadhan, however, Ms. Talamona was unwilling to talk about the DFA case. Not a word.

When we placed a call to DFA's offices in Kansas City, Missouri, we were told that DFA had not been notified that any sort of investigation was going on, hence no comment from that office either. However, this is not the end of the story.



The mission statement of Dairy Farmers of America appears to be nearly perfect. But some folks allege that the giant cooperative's actual business practices leave a lot to be desired. The Anti-Trust Division of the Department of Justice has begun an investigation.

But Florida is by no means the only place where complaints of alleged wrongdoings by DFA have been talked about. Such talk has been surfacing quite regularly in various parts of the country for several years. One such area is Louisiana and, in fact, it is a Louisiana dairyman who persisted in his efforts to get the Department of Justice involved.

"You need to come down here and listen to other people. Not just me," Jerome Walker told Attorney Ramadhan on the phone one day during one of his many conversations with him.

"He said 'okay,' I was shocked," Walker remembers.

It was Ramadhan and another attorney from DOJ as well as an economist from the Department who came to initiate the investigation in Franklinton on August 5.

Walker, a 54-year old, third-generation dairyman with a degree in finance and a passion for principle spoke at length about what happened in the Franklinton area farm house on August 5.

But first he offered a little history and background, dating back to the days of one of DFA's predecessor cooperatives -- Mid-America Dairymen.

We next placed a call to Calvin Covington, CEO of Southeast Milk, Inc. (SMI) in Bellview, Florida. Covington confirmed that the DOJ has indeed launched an investigation of DFA. He should know because SMI has been at the receiving end of the type of marketing and membership tactics that have now drawn the DOJ's attention. "Our attorneys were notified on July 29 that we could tell our producers that the Department of Justice was looking into DFA," said Covington. "It is not a practice of the Department of Justice to send out news releases," he added.

Covington is known throughout the dairy industry as a man of talent, vision and impeccable character and was honored as the "Dairy Industry Person of the Year in 2003 by the World Dairy Exposition. While it is his cooperative that is responsible -- at least in part -- for the DOJ's interest to look into allegations of misconduct by DFA, he wishes that the step could have been avoided.

"All of us need to exist and get along, but we need to make sure that we're all on a level playing ground," he said in his typical calm and soothing tone. "We have tried to work with them (DFA) and want to work with them. We think the whole industry should work together," Covington stated. Alleging that DFA has not always conducted its business fairly, Covington declared: "I think it's time somebody challenged their activities."

According to Covington, DFA's cooperation on industry matters has been lacking. Instead there have been complaints of strong-arm tactics by DFA throughout the Southeast and elsewhere. At issue are unfair business practices with processors, producers and smaller cooperatives such as SMI, whose members are unanimous in funding their legal expenses against DFA.

Dairyman wants to stop 'giant that has ruined our industry'

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cessor cooperatives -- Mid-America Dairyman.

"When they (Mid-Am) came in here about 12 years ago they bought our markets and took over our little co-op, Gulf Dairy Association. The first time I met Gary Hanman (then CEO of Mid-Am, now CEO of DFA) he told us that he didn't care about us, he just wanted our market. At the time we were 80 to 90 percent Class I," Walker remembered.

"The first couple of months that we were with Mid-Am, we were doing okay. But then the money started disappearing from our milk checks and it was unexplained. Nobody wanted to answer our questions. It became clear that some changes needed to be made and when board elections came up, new directors were elected in six or seven districts. Things grew worse and worse and worse over the years."

According to Walker, control of the cooperative was being lost at the local level. Today he describes DFA as a huge corporation existing within the framework of an agricultural cooperative. Members have no say in DFA, he charges; "it's run by the management at the core."

An independent producer, Walker has not had membership in a dairy cooperative for the past 7 1/2 years. That's because his former small cooperative is gone and he doesn't like the alternative. Of the 312 dairy farms remaining in Louisiana, his is one of 65 that's shipping milk independently. He milks 50 Holsteins on a farm located 65 miles due north of New Orleans.

Dairy Fresh is the local company that has been taking Walker's milk and he has been pleased with that affiliation. However, last December when it was announced that Dairy Fresh was going to be purchased by National Dairy Holdings (NDH), Walker just about had a cow, as they say. The news disturbed

him so much that he promptly called the Department of Justice, telling them that this could be an anti-trust situation that they should look into. NDH, which is 92% owned by DFA, allegedly controls 96% of the fluid milk market in the state. Similar patterns of control exist all across the Southeast, where plant after plant is either owned by DFA or agreements are in place for DFA to be the sole supplier. Competition is squeezed out.

Now that these and other complaints have come to the attention of the Department of Justice, Walker says that their interest in the matter appears to be high. Ditto for reporters from the aforementioned papers. Also, as this article was being written, National Public Radio (NPR) was preparing to broadcast an interview about these developments on Thursday, August 19. Both Walker and Covington confirmed that they had been interviewed by a reporter from NPR earlier this week. Walker is hopeful that the extended publicity will lead to DFA's activities being exposed on network television.

According to Walker, the attorneys investigating the DFA situation were basically just interested in learning why dairymen are opposed to joining DFA. The simple answer was that "farmers do not control it."

The August 5th meeting was by invitation only, Walker reported. "Back in January, all of our independent producers got together and we formed a committee to decide what to do about the sale of the Dairy Fresh plants (four of them) to DFA. The committee selected the people who would attend the meeting. We were all producers, including two DFA members and one fellow from Kleinpeter Farms Dairy of Baton Rouge, which continues to remain independent."

One of the DFA members proved to be key to the investigation as he had all of his pay stubs from DFA. Compared to what the independent producers were being paid, his

checks proved to be an average of 92 1/2 cents lower per hundredweight. Another major difference: DFA members' butterfat tests were two and a half points lower than those of the independents, Walker alleged.

Walker also stated that the DFA members present at the meeting were surprised and upset upon hearing the testimony that was presented in Franklinton.

"Every dairy farmer here in the Southeast that we have lost will never return," Walker continued, beginning to sound emotional. "What I hope to accomplish will never bring back the dairies that have been lost. In Louisiana alone we have lost a thousand dairies in just the past 10 to 12 years. If I can have a minute part in stopping this, I will feel like I've been a success."

"We went to the state attorney general 10 years ago and met with attorneys there who saw all kinds of violations but they didn't follow protocol, so the case went nowhere." He hopes and prays that this time the investigation will not be derailed. "We have a

meeting with our state attorney general on Monday, August 23," he revealed. Meanwhile, the attorney general's office in Vermont has contacted Walker for information and Florida's justice department had a representative on the scene in Franklinton.

"A lot of producers had been discouraged because of the Department of Justice's inaction in the past, Walker continued. But after the meeting on August 5th he feels that investigators are very interested and that the meeting was enlightening.

"I have been reflecting on this for the past couple of weeks," Walker affirmed. "I ask 'why me?, why here? why now?' and there's only one reason that I can come up with. This started here and it will end here. This will either be a new beginning for the dairy industry or it's over. This has been very emotional for the past 10 or 12 years. As dairy farm families we have gotten closer together during these hard times. For me, the ultimate goal is stopping this giant that has ruined our industry."

Resource guide is available

MIDDLETOWN, Pa. -- An online resource guide for new or expanding dairies is available to producers and their advisers. *The Dairy Farm Planning Resource Guide*, a collaborative effort of the Pennsylvania Dairy Stakeholders, Dairy Alliance and various industry members, is located at <http://dairydevelopment.psu.edu>.

The site provides a listing of service providers and educational links that will help progressive dairies cover all their bases when considering a new operation or expansion. The guide lists names, companies and contact information for various consulting entities within the region. It also provides links to other valuable informational sites.

The Dairy Farm Planning Resource Guide

lists over 270 service providers and has over 40 informational links. It was unveiled at the 2002 Pennsylvania Dairy Stakeholders Conference. "The site helps producers find information related to every day management from cow issues to personnel management to nutrient management to financial management, along with expansion planning related links," comments Rod Hisson of Mercer Vu Farms in Mercersburg, Pa.

For their work in creating the Dairy Farm Planning Resource Guide, the site's development team received the 2003 Pathfinder Award, Penn State Outreach & Cooperative Extension Vice President's Award for Innovation.