

# Financial Scandals Stagger Giant Parmalat

by Pete Hardin

Call it “Enron-zoni” ... or “Harm-a-Lot?”

Massive financial scandals are sinking Parmalat, the global dairy and food processing giant based in Italy. Parmalat collapsed rapidly, as repeated financial misrepresentations become known. Estimated volume of fictitious, or otherwise misrepresented, assets totals around US\$10-11 BILLION ... and rising! Parmalat’s annual sales volume is about \$7 billion—revenues gained from owning more than 130 dairy and food plants globally.

Parmalat has filed for bankruptcy protection in Italy. This scandal is so prominent in Italy that the government made special changes in bankruptcy laws on only a couple days’ notice to try to save Parmalat. Italy’s leaders worry about further tarnishing of food corporations operating in that country, following a spectacular tomato processor failure in 2002.

Numerous high-level Parmalat officials have been arrested by Italian authorities. Some are spilling the beans. The Tanzi family, which holds controlling interest in Parmalat, admitted siphoning off hundreds of millions of dollars from the food businesses into a family-held travel firm. Amid tearful blaming of others, Calisto Tanzi, Parmalat’s founder and deposed board chairman, offered to give up his yacht.

The international business press has revealed spectacular misdeeds at Parmalat, day after day, for several weeks, including:

- Top-level Parmalat executives created a fictitious letter from the Bank of America that stated some \$4.6 billion in cash assets were on hand.

- A top financial officer at the firm ordered employees to use hammers to destroy computer hard-drives that held damning financial information.

- Officials claimed falsely to have bought back billions in bonds.

- Parmalat’s dairy producers in Italy have not been paid since August. Checks have bounced to milk suppliers in Brazil.

## “Business as usual” in North America

Parmalat’s operations in the U.S. and Canada report conducting “business as usual” ... *whatever* that means. So far, the North American operations have not filed bankruptcy. But holders of defaulted bonds are believed moving to push Parmalat’s North American operations into involuntary bankruptcy. If there is a bankruptcy filing, many milk suppliers to Parmalat’s North American operations will have payments interrupted. In fact, every firm providing goods or services to Parmalat should be on edge.

## U.S. operations mainly in metro NYC, Atlanta

In the U.S., Parmalat’s major dairy operations are concentrated in the extended New York metropolitan area, along with Atlanta. In the Northeast, Parmalat’s primary businesses are Farmland Dairies (Wallington, NY) and Sunnydale Farms (NYC). Parmalat packages a little more than half of all fluid milk distributed in the New York City metropolitan area.

In Atlanta, Parmalat operates Atlanta Dairies. Parmalat also has a small Ultra-High Temperature fluid milk processing plant in western Michigan (“White Knight”), and another UHT plant in Ala-

bama.

Industry scuttlebutt reports that a handful of interested parties are making their interest known for the Farmland/Sunnydale businesses in the Northeast. By the time any such major purchase is worked out, it will probably require blessings of a federal bankruptcy judge.

## Parmalat: Biggest Canadian fluid processor

Parmalat controls about 35% of all fluid milk processed and distributed in Canada, making Canada that nation’s single largest fluid processor. In Canada, raw milk sales are managed by provincial milk marketing boards.

Saputo, the Montreal-based firm that is Canada’s largest cheese manufacturer, is reported interested in acquiring Parmalat’s fluid milk processing operations in Canada. Saputo is also a suitor for at least some of Parmalat’s U.S. operations.

Saputo has been on an acquisitions-spurred growth binge in recent years, acquiring cheese companies in Canada, the U.S. and South America.

In early January, it’s impossible to predict with accuracy future events for Parmalat, except that the firm promises to become a household word, right up there with failed energy giant Enron. Parmalat is hiring a New York City-based law firm, Weil Gotshal & Manges, that specializes in global bankruptcies. The firm also represented Enron.

How could a firm create financial frauds totaling about one and a half years’ worth of its global income??? Employees of Parmalat’s European auditor, Grant Thornton, have also been arrested by Italian authorities. Billions of dollars have vanished.

## Parmalat Situation Poses Big Questions in the Northeast

by Pete Hardin

It’s impossible not to have a lot of shot nerves with a dairy firm teetering on bankruptcy’s edge when that firm:

- Processes over half the fluid milk in the metropolitan New York City market, and
- Is Canada’s largest fluid milk processor.

Will Parmalat’s North American operations be pulled into bankruptcy? Probably.

U.S. holders of defaulted bonds issued by the corporate parent are expected to grab assets by pulling Parmalat’s North American businesses into involuntary bankruptcy.

Parmalat, which operates under the Farmland and Sunnydale labels in the New York metropolitan area, directly procures milk from about 800-900 independent producers and cooperatives in New York, Pennsylvania and New Jersey. Parmalat also has often purchased extra milk from the predominant cooperative marketer, Dairy Marketing Services (DMS).

Word is that as of the end of 2003, DMS threatened to stop selling farm milk to Parmalat. Sources say that DMS had been selling 10 to 20 trailer loads per day to at the Farmland Dairies plant in Wallington, New Jersey. DFA is now on an expedited payments schedule for milk sales to Parmalat in New Jersey.

New York, Pennsylvania, and New Jersey operate various producer milk check security programs. Parmalat had qualified in New York State using a bond. That bond expired at the end of 2003, and is believed to have been replaced. However, many modern dairy security bonds have “escape hatches” for the bonding firms, if they can prove financial misrepresentations were made to them by the firm that bought the bond.

If the bond in New York is not honored, New York’s Department of Agriculture & Markets has about \$5 million in a reserve in the event of a handler default. “Normally” Ag & Markets takes about six weeks to disburse payments from the fund in the event of milk handler failure.

**Exposure by New York producers and co-ops selling milk to Parmalat is believed to exceed the \$5 million in security held by Ag & Markets.**

The Pennsylvania Milk Marketing Board recently sent out a strange, vague letter to Parmalat shippers in that state, advising that producer milk checks are covered to the extent of the bond ... whatever that means. Locals estimate that bonds filed with Pennsylvania authorities might cover 35% of producers’ at-risk milk income.

New Jersey dairy farmers selling to Parmalat can end up “sharing” on a *pro rata* basis the \$100,000 bond posed with the state agriculture department. That amount won’t go far.

## Competitors chasing Parmalat milk supply

Competing milk procurers are snapping at Parmalat’s milk supply, in upstate New York and Pennsylvania.

Consolidation of dairy procurement leaves fewer milk marketers. The most vigorous firms chasing Parmalat milk are the Dairy Farmers of America/Dairyalea combine, fronting as Dairy Marketing Services (alias, “The ‘Ds”). The “Ds” are desperately short of milk for coming obligations. Fieldmen are running wild, spreading tales about Parmalat. In the analysis of *The Milkweed*, shifting markets to the “Ds” would be like jumping from the frying pan into the fire, if fiscal chicanery is the root problem.

ADVISORY: If Parmalat producers have no option but to sell to DFA/Dairyalea/DMS, then they should insist on being put on as “independent producers.” In Southeast, DFA stops selling to Parmalat

As of the end of 2003, Dairy Farmers of America had stopped selling milk to Parmalat’s Atlanta Dairies. Locals report that Maryland & Virginia co-op is now the primary milk supplier.

Selling to a business on the verge of bankruptcy is hazardous, because bankruptcy courts may recall disbursements from the bankrupt firm that were made up to 90 days prior to filing. Is selling to Atlanta Dairies another case of “Jay Bryant strikes again?”

## Same old story: dairy farmers screwed again ...

*Wherever ... whatever ...* Parmalat promises to be another version of the same old story: dairy farmers get screwed again. As creditors, from dairy farmers to gilded Wall Street bankers, fight in bankruptcy court over who gets paid what pittance from

Parmalat’s dramatically fictionalized “assets,” it seems that no matter who makes the mistakes in dairy, the farmers end up paying the bill.

## Northeast Alert!

### Parmalat Producers:

The financial condition of Parmalat, corporate parent of Farmland and Sunnydale, is questionable.

Competing milk procurers are soliciting independent producers shipping to Farmland/Sunnydale. *The Milkweed* warns affected producers not to jump from the frying pan into fire. The “fire” means Dairy Farmers of America (DFA), Dairyalea Co-op, or their joint venture—Dairy Marketing Services (DMS).

If Farmland/Sunnydale independent producers are solicited by the “Ds” (DFA, Dairyalea, DMS), *The Milkweed* strongly advises:

- If no other milk marketing option exists, insist that you ship milk to DMS as an independent, non-member. Do not sign any agreement that locks you into a period of time. With milk supplies tightening, wait as an “independent” until better opportunities come along.

- Ask the following questions and demand answers IN WRITING:

**Question #1:** If I market my milk to DMS as an independent producer, please provide the following information about payments for my milk:

- Name and location of bank(s) from which payments are issued.
- Account number(s) and firm(s) in whose name the bank account(s) listed.
- Name and telephone number of officer of above-listed bank(s) who can confirm this information.

**Question #2:** Are the assets in the bank account(s) from which my milk check issued collateralized to any other party? If so, please detail, including relevant Uniform Commercial Code filing(s). (A UCC filing is a recorded attachment of an asset.)

**DEMAND ANSWERS IN WRITING! BEWARE OF THE “Ds” – DFA, Dairyalea and DMS.**

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