# The Milkweed

*Dairy's best marketing info and insight*

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# Dean Foods Isn't Renewing Florida Supply Contract

**by Pete Hardin**

***(Comment from the Editor/Publisher:** Of all the damphool events in the U.S. dairy industry covered by The Milkweed in the past 26 years, the following story takes the prize as the single event most contrary to common sense. We must note that Southeast Milk, Inc. subscribes to The Milkweed for its membership.)*

From what source(s) will Dean Foods obtain its raw milk for fluid processing operations in Florida, come July 1? And what will Florida's dairy co-op do with its members' milk if Dean Foods finds an alternate raw milk supplier?

Tensions between milk suppliers and processors in Florida and the Southeast are in danger of blowing wide apart. In late May, Dean Foods, the nation's largest fluid milk processor, notified Southeast Milk, Inc. (SMI) that Dean is not renewing their annual raw milk supply agreement starting July 1. SMI is the predominant dairy co-op in Florida. In jeopardy is the contract by which SMI currently provides over 60 tankers of milk per day to three Dean Foods fluid milk plants in Florida.

A series of events—not all of which are fully comprehended outside Dean Foods and its "company milk cooperative" (Dairy Farmers of America, DFA)—have escalated tensions between Dean Foods and SMI, perhaps to an intended breaking point.

**Supplying Florida's raw milk is tough**

Florida's dairy market is unique. Climate causes big seasonal swings in milk production. And the number of people in Florida *increases dramatically* during the cool months of the year—with "snowbirds" and tourists. The Florida market features the highest Class I differentials in the U.S. Florida's fluid superpool features the highest "service charges" (fees assessed by raw milk marketers above the federal milk order Class I prices, to cover marketing costs). Varying seasonal demand for dairy products, coupled with seasonal shifts in milk production, pose a great challenge in balancing supplies for cooperative milk marketers in the state.

Managing raw milk supplies for Florida's fluid processors is a tough job, because Florida producers (through their co-op and superpool) must absorb costs for exporting milk outside the state when supplies are in surplus, as well as footing the bill for "spot" purchases of supplemental milk and hauling costs when local milk supplies can't meet processors' needs. For August-October, Florida's raw milk marketers in recent years have average importing about two hundred tanker loads of milk per week from regions.

Last summer's string of four hurricanes stretched the resources of SMI's management and members, coping with disruptions in the marketplace and on the farm due to disrupted power grids, food distribution woes, school closings … and long days without electricity on many dairies.

**How will Dean Foods replace 60 trailers/day?**

Where in Sam Hill does Dean Foods' management imagine it can replace SMI's local milk supply for the firm's Florida plants? In the analysis of *The Milkweed*, a supplier outside Florida (like DFA) could not reliably supply Dean Foods' full, year-round raw milk needs.

Sixty trailers of milk per day? What costs would SMI absorb for moving that volume of milk "dislocated" from Dean plants to non-fluid plants outside the state?

Like each other or not, Dean Foods and SMI have a relationship that ought to be viewed like a marriage, if only a common-law arrangement. Dean *needs* local milk supplies because feasible, year-round alternatives do not exist. SMI *needs* Dean Foods' three fluid plants in Florida as nearby outlets for its members' raw milk. Costs to bring in outside milk supplies, as well as costs of shipping Florida-produced milk that had previously been sold to Dean Foods, would be astronomical for SMI.

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## May Class III Drops to $13.77

Declining Cheddar prices at the Chicago Mercantile Exchange as reflected by USDA's NASS weekly surveys caused the May federal order Class III (cheese milk) price to decline to at $13.77/cwt.,

# Dean, DFA Putting Pressure on Florida Co-op

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**Where to start??? Cast of characters.**

***Dean Foods*** is the nation's largest fluid milk processor, formed by merger of the nation's two largest fluid milk processors in late December 2001. The firm holds about a 35% market share of all fluid milk sales in the U.S. Dean Foods has 35% of Florida's milk sales. In some markets, that market share is far, far higher. Dean Foods is tightly connected to the Bush White House, and has operated with impunity in its acquisitions duing the past decade.

**Southeast Milk, Inc.** is the predominant dairy co-op in Florida, representing all but a handful of producers in the "Sunshine State." SMI was formed by merger of two formerly competing dairy co-ops in 1998. SMI has responded to coercive larceny in the sale of its members' raw milk by spending several million dollars the past two years on lawyers and lobbyists in an attempt to focus state/federal Antitrust officials' attention on misdeeds by DFA. In great part through SMI's efforts, a joint federal/state Antitrust task force is deep into a coast-to-coast investigation of DFA and its related marketing agencies.

**Dairy Farmers of America** is the nation's largest milk marketing cooperative. DFA is in desperate financial condition, having been downgraded by Moody's Investors Service on May 9, 2005. DFA is proof of the old German folk saying, "The biggest horse in the barn makes the most manure."

DFA and Dean Foods have a long-term, unholy alliance. Prior to the 2001 merger that created the "new" Dean Foods, DFA owned one-third of Suiza Foods (the mega-processor's predecessor) fluid milk businesses. In January 2003, Dean Foods turned over virtually its entire raw milk supply to a DFA joint venture, Dairy Marketing Services (DMS). Also in January 2003, a senior DFA employee, John Collins, stupidly put on paper extortion-like threats to SMI, threatening to take away SMI's ability to sell raw milk to Dean Foods and Velda Farms plants in Florida unless SMI paid extortion-type payments.

Curiously, in December 2001, the U.S. Department of Justice's Antitrust Division specified that DFA could not be the exclusive raw milk supplier to milk plants in areas where Antitrust had required that the two merging fluid processors sell off plants to preserve "competition."

**Velda Farms** is a fluid processing business owned by National Dairy Holdings (NDH, believed to be a wholly owned DFA subsidiary which, like its parent, is financially struggling). Velda Farms has two fluid milk plants in Florida.

**Hanman's targeted Florida for decade-plus**

About 1993, Mid-America Dairymen, the predecessor of DFA, commenced a strategic series of moves that dramatically reduced the number of markets for dairy farmers in Southeastern states outside of Florida. Mid-Am brokered mergers, full-supply contracts with private dairy processors, and other schemes to quickly wrap up the Southeast milk supply (other than Florida). Once in Mid-Am's (and subsequently, DFA's) grasp, dairy farmers in the Southeast have been dramatically underpaid for their farm milk. The presence of Mid-Am/DFA in the Southeast has been much like a scurrilous union that took over virtually all the workers in a region's industry and then sold out their labor for less than the minimum wage.

The co-op's "Southern Strategy" has remained incomplete, however, without Florida's capitulation. Controlling the flow of raw milk into and out of Florida is viewed as the ultimate "pot of gold" in dairy marketing.

**Deteriorating relations in Florida**

At this point, Dean Foods and DFA must be viewed as dairy's "evil twins." The nation's largest fluid milk processor and the nation's largest fluid milk supplier are operating in tandem. DFA controls access to all 100+ Dean Foods dairy plants across the nation (except Florida). Relations between DFA and SMI have completely soured over the past two-plus years. John Collins' January 28, 2003 extortion letter to SMI finished off any hopes of working together.

This spring, SMI informed DFA that it would stop supplying milk to the Velda Farms plants in Florida under the present contract. (DFA's NDH owns Velda.) One reason for that move was to end a deal in the Florida "super pool" (operated tenuously by SMI and DFA) that was causing SMI to pay roughly $300,000 per month in extortion fees. Thus, after June 30, DFA must supply Velda Farms with milk.

SMI's relationship with Dean Foods has also deteriorated. SMI sources indicate that Dean Foods has a dictatorial style, tending to view the fluid processing sector as its own bailiwick. Among items cited:

• Dean Foods is irked that SMI bought Gustafson's Dairy in northern Florida. SMI offered Dean Foods a partnership deal to purchase Gustafson's, but Dean Foods didn't come to terms.

• Dean Foods expressed anger the first time that Gustafson's took away business from Dean Foods. (Query: Does Dean Foods ever get irate when NDH takes away business from Dean Foods?)

• Dean was also irked that SMI did not shut down Gustafson's during the worst of the hurricane events in 2004.

• SMI is also a partner the recent purchase of Parmalat's Atlanta Dairies business by a newly formed group called "Flagship Atlanta Dairies." The former Parmalat plant is the only real competitor to Dean Foods in the Atlanta.

• SMI is also giving support to a fledgling effort to start up a new dairy producers' organization in the Southeast—USA Milk.

In general, SMI officials report that Dean Foods' management imagines it has some sort of right to tell SMI how to run its fluid processing business.

**To the present … and an uncertain future**

Dean Foods gave notice to SMI at the end of May that the milk supply contract would not be renewed. The contract has been in effect for over 20 years. Dean is in no hurry to discuss the matter. As of *The Milkweed's* June 9 deadline, no meeting with SMI officials was scheduled until June 24—a scant six days before the current contract terminates.

What rational reasons exist for Dean Foods to terminate its historic Florida milk supplier? Replacing over 60 tankers of milk per day on July 1 seems logistically impossible. Since it's impossible to turn around milk tankers within 24 hours, supplying Dean Foods plants in Florida would tie up at least 125 milk tankers and over 150 two-person driving crews.

And if history is any indicator, imports of milk entering Florida that threaten to disrupt that status quo in dairy may find truck drivers waiting a very long time to clear the scales and various other inspections by state officials.

Longer-term, *The Milkweed* views 2005's second-half milk supply picture as tight, particularly as weather woes weigh against good forage crops in many parts of the country. Even if an alternate raw milk supplier (i.e., DFA) could meet Dean Foods' raw milk needs in Florida for the first couple weeks of July, it's impossible for DFA to come up with such daily, year-round milk volumes—especially in the late summer/early fall when Florida historically needs two hundred trailers of supplemental milk each week.

Are Dean Foods and DFA operating in tandem, trying to squash SMI - a competing fluid processor and raw milk supplier?

What's going on at Dean Foods? Word is that Dean's management is trying to address sub-par profit performance in its fluid processing operations by attacking raw milk costs.

In these times of both short milk supplies and high transportation costs, it's simply absurd for dairy to contemplate the scenario of DFA *importing* roughly five dozen trailer loads of milk per day from hundreds of miles away *into* Florida … at the same time Florida's predominant dairy co-op—SMI—would be *shipping out* the same volume of milk to distant manufacturing plants, hundreds of miles away!

SMI is prepared for a worst-case contingency. Nobody in Florida's dairy industry is benefiting as Dean Foods plays "chicken" with its raw milk supplier. Questions arise about the integrity and motivations of Dean Foods' senior management.

# FMD Outbreak in China

China slowly and reluctantly has admitted to a

# Producer-Handlers Restricted

On April 13, USDA announced decisions that