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Dairy coop focus of investigations

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June is dairy month so let's begin the festivities with a look-see into the giant (black and white) elephant, the mega-cooperative Dairy Farmers of America, that, in 2007, marketed 62 billion—that's billion with a "b"—pounds of milk, raked in \$11.1 billion of revenue and, oh-oh, lost \$109 million for its 18,000 or so dairy farmer members.

As sickly as that record is—how does the biggest dog in town, DFA, market 34 percent all milk produced in the U.S. and still lose money?—2008 could be worse.

A lot worse, in fact, because, to mix farm metaphors, some of DFA's ugliest cows are coming home to roost.

In mid-March, the 10-year-old coop announced its first-ever loss. Despite that set-back, Richard Smith, DFA ceo and president, and James "Tom" Camerlo, DFA's board chairman, told their members that DFA "had a strong year, in fact, our best ever." Really?

Seven weeks later the duo dropped an even bigger bombshell.

In a May 8 letter to all DFA members, Smith and Camerlo revealed that DFA's former ceo, Gary Hanman, "played a role in arranging for the unauthorized transfer of money, to be paid through a DFA affiliate, to former DFA Board Chairman Herman Brubaker. Brubaker received \$1,000,000.00."

The 2001 movement of the moolah—"...not approved by DFA's Board of Directors," noted the letter—between the sire, Hanman, and dam, Brubaker, of DFA's 1998 birth (and both now retired), sent coop members reeling.

But neither the letter nor Smith's subsequent press conference shed new light on what he called "this disturbing" news. It did, however, encourage some bigfoots in the national press to dig into DFA.

In a May 18 piece, New York Times reporter Andrew Martin questioned Hanman's founding business plan for DFA: trucking milk "halfway across the country because the local dairy farmer and milk bottler"—largely due to DFA's handiwork—"are out of business."

That idea "may have made sense when gasoline was \$2.50 a gallon," Martin surmised, but now with \$4-and-climbing fuel, the plan and its planner, Hanman, "seemed to have made the situation worse" for DFA members.

The next day, May 19, the Wall Street Journal reported "Federal regulators are investigating allegations that the nation's largest dairy cooperative, (DFA), has manipulated milk and cheese prices, and are separately reviewing a secret transfer of cash to a former director of the organization."

More precisely, "...the Commodity Futures Trading Commission is looking into whether DFA sought to drive up the price of milk through its trading of cheese contracts at the Chicago Mercantile Exchange."

And, it went on, "The agency is preparing charges against DFA focused on an alleged coordinated effort to boost prices in 2004..."

The investigation adds to DFA's woes. Recently, a federal judge in Greenville, TN, declined to dismiss a two antitrust lawsuits brought by DFA members and customers against the coop last summer. The suits, now consolidated, will proceed.

Worse, the \$1 million payment, which DFA says has been returned (presumably by Hanman and Brubaker) with interest, could re-ignite a 2006 Justice Dept. inquiry into how DFA used its muscle to reshape milk markets.

And then there's the IRS. Missing money brings government auditors like warm milk brings barn cats.

All is bad news to all. No one with any link to milk—DFA, its members, customers and consumers—will go untouched.

Moreover, the mess again calls into question the leadership of farmer-boards in today's ag coops. If heads are to roll at DFA, many should be attached to the necks of the farmers who for years neither saw nor heard any evil while their coop soured.

They're the boss, after all, not bobbleheads.

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