For Whose Benefit Does DFA Operate?

by Pete Hardin

The nationwide, federal/state Antitrust investigation against Dairy Farmers of America is good reason to bare the nation's largest dairy cooperative for what it really is: a Stalinist-type cult that resorts to theft, intimidation, and blatant violations of the law to try to cover up its cracked foundation of massive debts and suspicious assets.

DFA President/CEO Gary Hanman and the former USSR dictator "Uncle Joe" Stalin share an identical attitude toward independent farmers: subjugate and/or eliminate. Both DFA and Stalin's Soviet Union focused powers into the hands of one individual.

The parallel tactics between DFA cult-master Hanman and Stalin's elimination of independent farmers are chilling. Hanman and Stalin have both rubbed out independent agriculturalists, forcing their output to be sold through an arbitrary system that undervalues the farm products, appropriates their assets, and either puts farmers on their knees … or six feet under.

Stalin's dirty work was done by Communist goon squads that, among other activities, shut off sale of independent farmers' products. Hanman's dirty work is enforced by exclusive contracts with a few big national processors that restrict access to milk markets, and DFA's ability to "reblend" (i.e., underpay) market values for co-op members' raw milk. Same tactic.

In Stalin's USSR, the only "law" was the dictator's edicts. At DFA, the "law" (i.e., federal Antitrust authorities) has conveniently failed to rein in Hanman's increasingly bold, anti-competitive moves. Thus, Hanman has grown to perceive himself as *above the law*.

DFA a cult? How better to explain a bobbing-head board of corporate directors that has failed to challenge Hanman's whims and predations?

The Milkweed estimates that roughly 40% of the nation's farm milk income cycles through DFA's debt-ridden, complex financial web.

Are DFA's actions in the best interests of its members?

On August 5, 2004, at a farm house near Franklinton, Louisiana, a top attorney for the U.S. Department of Justice's Antitrust Division, Allee Ramadahn, laid out the bottom line measures guiding the probe of DFA: are the co-op's actions in the best interests of its members?

"When we see that situation, we ask is there advantage to this change. On its face it doesn't appear that the producers joined (DFA) because they can do better in DFA rather than out. It is usually after the loss of their markets and the ability to market their milk, and the choice is to be able to market their milk or not," Ramadahn said.

Ramadahn observed that the dairy pricing system can be manipulated to skim money from producer proceeds. He told dairy farmers present at the August 5 meeting: "We need to follow the money and we need your help and where to look. Too much money is involved here … Benefits are flowing to someone, but you may not see it. In this country, we have recently had a number of very large corporations who got into trouble financially. And they were overseen by a number of agencies, such as the SEC and others. They were still able to abuse the system and lose a lot of money. This cooperative has more money than those companies and I am not sure who is looking at the cooperatives."

The Milkweed has painted DFA as "The Enron of the Dairy Industry." Reviewing DFA's actions and financial condition finds the cooperative has:

• Used coercion to force producers into DFA membership, in violation of a 1977 Consent Decree with DOJ's Antitrust Division.

• Extorted $300,000/month in payments from Southeast Milk Inc., (a Florida-based dairy co-op) to allow SMI to continue selling milk to designated Florida fluid processors. DFA's regional chief, John Collins, brazenly put these threats in writing on January 28, 2003.

• *Allegedly* provided Hanman with a multi-million dollar bonus a couple years ago. Hanman's compensation package has been a top secret. But suffice it to say that the bonus might qualify Hanman to play the title role if television networks ever bring back "The $6 Million Man."

• Pledged revenue of milk marketed to cover the co-op's massive debts. Without clear explanation to DFA's members (or their creditors), DFA uses farmers' unpaid milk revenues as collateral to try to cover the co-op's huge debts and obligations. DFA's debts and obligations are estimated by *The Milkweed* to total between two and three months' worth of member milk income.

• "Stole" tens of millions of dollars in spring 2004 by diverting Class III (cheese) milk from federal milk orders. In most federal milk orders around the country, DFA kept higher values of cheese receipts, instead of paying them to members.

• Counted as financial "assets" in its audit some $200 million in "Goodwill"—a bookkeeping fiction "asset". In accounting parlance, "Goodwill" is the amount paid for purchased assets in excess of their actual value. That's no real "asset."

• Listed a $160 million "deficit" in retirees' pension programs, as of 12/31/03.

• Manipulated cash Cheddar cheese prices at the Chicago Mercantile Exchange.

• Created joint ventures (like Dairy Marketing Services) to strong-arm milk marketing services of non-members. In early 2003, DMS took over nearly 3,000 independent producers who'd been selling milk to Dean Foods. DMS and DFA use the same bank accounts to pay dairy farmers.

• Underpriced raw milk sold to fluid processors in the Southeast in late 2003. DFA ended up charging local co-op members to pay millions of dollars of costs to buy and milk from other regions of the country into the Southeast. DFA's tactics of paying below-market prices are killing Southeast milk production.

• Shifted its Articles of Incorporation last year to allow the co-op to borrow against members' "equities" in a scheme that gives outside investors "preferred" equity status. These new financial instruments—worth at least $150 million—do not show up as debt on DFA's books.

• Engaged in deals with New Zealand dairy interests to import dairy products into the U.S.! Imports are generally acknowledged as harming U.S. dairy farmer income.

• Produced imitation cheese slices ("Sandwich-Mate") through its Borden Cheese subsidiary. "Sandwich-Mate" contains casein (an imported dairy ingredient) and soybean oil. How can selling imitation cheese benefit U.S. dairy farmers?

• Lumped the annual financial performance (and obligations) of its many joint ventures and subsidiaries into a couple lines on DFA's annual audit. DFA members have no accounting for the performance of diverse businesses into which the co-op has invested their money and equities. For example, DFA's trucking subsidiaries have over 800 trucks on the road, making DFA one of the nation's largest trucking firms. But there's no mention of this subsidiary in any DFA annual reports!

• Improperly tested butter fat from members' milk, resulting in underpayments to farmers for the true value of their milk.

• Spent tens of millions of dollars building a plant in Portales, New Mexico (in joint venture with New Zealand dairy interests) to manufacture Milk Protein Concentrate. MPC is not a legal food ingredient under rules of the federal Food and Drug Administration. DFA is now seeking, through selectively-paid U.S. Congressmen and Senators, a massive federal subsidy for MPC produced at Portales in order to offset low prices for finished products.

• Lavished *per diem* payments of hundreds of dollars upon directors to keep them fat, happy, and in the fold. Hanman has custom-picked and hand-fertilized a full array of DFA directors, as well as senior- and middle-level staff, to the point where no one challenges the cult-master.

• Forced cheese plants in the Upper Midwest to sell Class I (fluid) milk to DMS, instead of directly to DFA. That move runs cheese plants' revenue from sale of milk to Dean Foods through DFA's financial web.

• Created "silent" rebates to selected buyers of raw milk in federal orders #5, #7 and #33 for "promotional credits." These rebates were not available to all milk buyers, and potentially overstated fluid milk processors' charges to school districts on school milk contracts.

• Silenced through intimidation, or terminated membership of, farmers who criticized DFA's practices.

That's a partial list of DFA's significant misbehaviors. Though perhaps initially hard to grasp, the comparison of Gary Hanman and former Soviet dictator Joseph Stalin is on target. Both sought many tools to eliminate independent farmers … in pursuit of the "greater interests" of the corporation, state …or dictator's whims. Hanman's empire has been built on an infirm financial foundation—massive debts and inability to manage core businesses. To try to preserve DFA, Hanman has resorted to Stalin-like tactics.

For whose benefit does DFA operate???

The question posed by DOJ lawyer Allee Ramadahn is the ultimate measure: Is DFA operating in the interests of its members? The long list of wrong doings compiled in this article strongly suggests ***NOT***. In whose interests *does* DFA operate? Perhaps Hanman's "secret" bonus (that should earn him the nickname as "The $6 Million Man) is telling.

According to DFA's December 31, 2002 financial audit, the co-op claimed some $630 million in assets.

But appearing to offset those assets are some suspicious items contained in the audit, including:

• $105,000,000 "Accumulated Deficit"*
• $105,900,000 "Goodwill"**
• $94,100,000 "Intangibles and other assets"***
• $120,000,000 "Pension obligations in excess of pension benefits"****

Add up those suspicious "assets" and obligations from DFA's 2002 audit: Those items total $625 million. That's only $5 million less than DFA's $630 million in so-called "Members' Equity."

And Gary Hanman got a multi-million dollar bonus??? In both Stalin's USSR and Hanman's DFA, some "comrades" were more equal than others.

[Note: In September 2003, DFA assembled its delegate body to a meeting in Tennessee to vote on a proposal to give DFA's regional chairpersons (all corporate directors and big *per diem* collectors) powers to borrow against the cooperative's "equity."]

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* "Accumulated deficit" in co-op accounting parlance is an unreconciled loss.

** "Goodwill" is defined as the amount paid above actual value for an acquisition. "Goodwill" is a specious "asset" at best.

*** "Intangible" assets are of dubious value.

**** As of 12/31/02, DFA's pension programs showed a negative balance of $120 million in combined assets vs. projected obligations.