Shanghai Port Constipation May Need Year to Unravel, *IF* and *WHEN* …

by Pete Hardin

Currently, about 300 ships are anchored off the world's biggest port city – Shanghai, China.

Some ships' containers hold food and agricultural products, waiting to be unloaded and distributed to Chinese purchasers. Other vessels contain empty, intermodal shipping containers — destined to be filled with Chinese exports.

Shanghai is China's biggest city, counting a population of 25 million. To try to control human-to-human spread of the Covid virus, Shanghai's residents are basically locked down in their living quarters. Some residents have seen government workers affix metal mesh over doorways of their apartment buildings, blocking entry/exit. No dock workers are unloading and/or loading those back-logged ships. Shanghai's lock-down enforces China's government's will to attempt to get to zero coronavirus spread.

A well-informed source explained to *The Milkweed* that on a (normal) good day, workers at Shanghai's port can unload and then reload about 10-12 large container ships. If incoming ships' containers are empty, then a few more ships may be loaded and head out per day.

Bottom line: The current backlog of roughly 300 ships anchored off the coast of Shanghai could require as long as one year to be cleared, *IF* and *WHEN* normal activity is restored at Shanghai's port. Meanwhile, incoming cargoes sit unloaded and containers for exports remain stuck somewhere in China's disrupted supply chain leading to Shanghai's docks.

Inbound cargo containers holding goods that must be kept refrigerated or frozen are temperature-maintained through hook-ups to ships' electrical systems. Of course, if those containers hold refrigerated food items with "sell-by" expiration dates, such products may very likely "expire" while the ships remain at anchor.

New meaning to phrase "Shanghai-ed"

Pity the crew on those ships. They're marooned at anchor, likely for untold months. And certainly those crew members won't set foot on land in China, as long as the lock-down continues. Thus, those sailors give new meaning to the old phrase, "Shanghai-ed." (In earlier times, many sailors were involuntarily "recruited" to serve on out-bound ships leaving that infamous port. To be "Shanghai-ed" literally meant to be involuntarily consigned into shipboardservitude. But it's not politically correct to say things like that anymore.) Imagine the huge, added expenses borne by shipping companies, paying overtime to crews while their ships just sit and sit and sit.

Documents headaches need resolution

According to conversations with U.S. exporters at the recent, combined milk powder and butter conventions in Chicago, getting those back-logged ships into the Port of Shanghai for off-loading is just the beginning of headaches. Paperwork problems must also be resolved.

Depending on the size of the ship, most cargo vessels hold anywhere between 10,000 and 21,000 intermodal containers. Typically loads are a mix of 20-foot and 40-foot standard containers – with the larger one predominating. The largest ships can hold as many as 24,000 containers.

Let's take a brief time-out to detail the immensity of the paperwork challenges facing those 300 or so ships waiting off the Port of Shanghai. A common image of an ocean-going, modern container carrier is of a ship piled high with untold thousands of containers piled high — perhaps nine layers high from deck-level. But an above-deck scene depicts only *half* of the cargo. Commonly, as many layers of intermodal containers are stored *below-deck* as above-deck. After all, the ship must be properly ballasted, rather than risk being top-heavy. Our maritime shipping source estimates that a single, modern container ship may accommodate 230,000 or more containers. Multiply that approximate figure by about 300 ships stuck at anchor off Shanghai … and the immensity of the task coordinating the serveral million containers with requisite documents packets starts to become apparent.

Every one of the thousands of inter-model containers on a major ocean-going ship must be linked to its requisite paperwork – manifests, customs documents, etc. Those documents' packets are not contained on the ships, but rather are delivered by air couriers. Problem: Shanghai's airports have also been shut down for now more than four weeks, due to Covid restrictions.

Somewhere mountains of requisite documents' packages are piled up, awaiting the blessed day when the ships will be off-loaded. But those required documents packages must be available in real time, when the containers are unloaded and set on semi-trailers' chassis to head towards their belated destination in China's interior. Correlating the exact packages of documents with the correct intermodal container's unloading promises to be another logistical headache.

The bigger picture …

Major portions of the global economy are being pulled down by oceanic shipping delays. Supply-chain disruptions are just starting to be impacted by these events. Will any good evolve from this mess? First of all, the fallacy of global, "just in time" supply chain mechanics is exposed as non-functional. Second, perhaps China's ambitions to invade Taiwan – the "second shoe" of a suspected territorial grab scheme with Russia – may be delayed or deferred. But on the other hand, dictators have long engaged in foreign wars to deflect their nation's citizens from internal problems, *viz.* "Adolf" Putin.

DFA's 2021 Financial Report: (Mostly) More of the Same Old "Stuff"

byPete Hardin

The calendar 2021 financial report of Dairy Farmers of America, Inc.(DFA) was mostly the same-old, same-old, you-know-what … with a few exceptions to prior years' conflations.

Again, DFA noted in its "Selected Financial Data" that some of the data presented did not conform with United States Generally Accepted Accounting Procedures (GAAP). Elsewhere were numerous claims that the audit conformed to GAAP.

DFA was again top-heavy in specious "assets" — intangibles and "goodwill." DFA's intangibles totaled $758,257,000, while "goodwill" was listed at $1,146.062,000 (that's BILLION). "Goodwill," in accounting parlance, represents the amount overpaid for acquiring a business. Some "asset" – kind of like buying a $1,000 cow for $2,000 and them claiming $1,000 as a "goodwill" asset.

Together, DFA's intangibles and goodwill totaled $1.904 BILLION as of December 31, 2021 – a bit more than the co-op's so-called "Total Equity" of $1.777 billion.

Speaking of "equity" – here's some good news: DFA apparently paid off $150 million in so-called, "Preferred Equity Securities" during 2021. Those instruments – for which DFA was paying close to 8% annual interest rates – were borrowings against members' equity. Recently, Moody's Investors Services had labeled the "Preferred Equity Securities" at half-value. In earlier years, Moody's had alternately categorized the "Preferred Equity Securities" as debt, or in other times, alternately let it be counted as an "asset." As of 12/31/21, DFA had $225 million in remaining "Preferred Equity Securities" held by "equity holders." Listing "Preferred Equity Securities" as "equity" is a $225 million ruse, in the analysis of *The Milkweed*.

Individual affiliates' financials lacking

Dean Foods. Stremick's Heritage Foods. Borden Cheese. DFA has many untold dozens of "affiliates" – joint ventures and subsidiaries. The co-op has virtually never accounted for a specific affiliate's performance, except back in 2007, when co-investors bailed out on the financially bereft National Dairy Holdings and DFA was stuck posting those results (-$130 million) on its books.

For 2021, the "affiliates" produced $39 million of profits – a paltry sum, when considering that DFA probably has at least $3 billion invested in "affiliates" (*The Milkweed's* estimate). Word from inside the co-op in late 2021 was that the Dean Foods fluid milk processing business – acquired by DFA through bankruptcy in May 2020 – was bleeding buckets of red ink. Conversely, DFA's ownership of Stremick's Heritage Foods should have yielded big profits. Stremick's is a major processor of plant-based beverages. Same for Dean Foods. In fact, DFA – a dairy farmers' cooperative – is the nation's largest processor of plant-based beverages that compete directly with good, old-fashioned M-I-L-K.

See page 10 for more analysis.

Moody's: DFA Members' Milk Checks Subordinate to Debt; "Preferred Equity Securities" are 50% Debt/50% Asset

The most important understanding about DFA's financial condition is that the members' payments for milk sales to the co-op are subordinated to the cooperative's indebtedness and other obligations. That fact is substantiated in Moody's Investors Service analysis of DFA's financial condition. Here are selected quotes from the May 28, 2021 Credit Opinion for Dairy Farmers of America, Inc. by Moody's Investors Service:

"DFA aggregates, sells and delivers members' milk to a variety of food and beverage processors that use the milk as a raw material. DFA pays its farmers for their milk only after it determines the price it can obtain from buyers, less a small amount per volume that is paid to the cooperative to find operating costs. Hence, through this pass-through pricing mechanism, the individual farmers bear the risk of milk price volatility, while DFA's dollar profit on fluid milk sales is relatively stable."

"DFA's Articles of Incorporation and bylaws, as well as membership and marketing agreements, require all payments to members – including those for raw milk, patronage, and equity retirement payments – are subordinate to debt service payments to creditors. … In a stress scenario DFA is required to reduce payments to members in order to conserve cash needed for debt service."

"The Ba1 rating on Dairy Farmers of America's existing $375 million of preferred equity is two notches below the Baa2 senior unsecured debt rating. This reflects the preferred equity's subordinated position to all other debt. These preferred securities have certain features, including their perpetual maturity and deferrable interest, which provide financial flexibility to the cooperative that regular debt instrument do not. Because of this we apply a 50% debt and a 50% equity credit to these securities."

In 2021, DFA sold $10.486 billion dollars of members' milk. Per month, DFA's members' milk sales averaged around $875 million. Divided among DFA's 6,336 members at year's end, that averages $122,000 of monthly member income.

DFA's audit lists the indebtedness in the following manner: "Net Debt (Debt Less Cash and Cash Equivalents)." That creative presentation totals $2.129 BILLION, as of December 31, 2021. DFA's financial report for that date lists "Cash and Cash Equivalents" as $238.2 million. So the co-op's total indebtedness as of December 31, 2021 was roughly $2.367 BILLION. Divided by DFA's 6,336 members (as of 12/31/21), the co-op's debt per member figure is roughly $389,000 per member. **DFA's debts equal nearly three months of members' milk checks.**

DFA's Basic Financial Numbers for 2021 & 2020

	2021	2020
Net Sales	$19.335 bil.	$17.881 bil.
Operating Income	$269 mil.	$257.1 mil.
Net Income Attributable to	$198.5 mil.	$169.9 mil.
Avgerage Price Paid to Members	$18.37/cwt.	$17.75/cwt.
Number of Member Farms	6,336	7,032
Lbs. of Member Milk	57.2 bil.	56.6 bil.