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Vt. farmers would use cooperative

By Sue Robinson

A proposed dairy merger in New England could force most Vermont farmers to go through a single Missouri-based cooperative to sell their milk. The prospect is churning up controversy over industry consolidation, the future of family dairies, and what all this will mean to the price of milk.

Allowing a single entity to control so much of the milk market could be good or bad: To some, such a large farmer-owned group can only benefit Vermont's dairy industry because it means processors have to pay attention. There will be increased efficiencies and resources for innovations, some say, translating into better deals for customers and thus, more markets for farmer milk.

To others, the deal exacerbates the dairy industry's key problems, including the loss of local control, diminished consumer choice, and the voice of individuals drowned out in another industry dominated by a few huge players. Less competition means fewer markets, which could mean lower paychecks for farmers, perhaps.

The terms of a proposed merger between Massachusetts-based H.P. Hood and a Texas dairy giant would give Dairy Farmers of America or its marketing agent the exclusive right to supply Hood with milk. That Hood contract combined with existing deals would give DFA a hand in 90 percent of the milk that flows to processors in New England.

This concentration of market control drew the interest of federal watchdogs. The U.S. Justice Department, a slew of state attorneys general, and congressmen want to know who the players are and what is at stake for the milk market, farmers and milk drinkers.  
The Players

On the table is the proposed merger between Hood, the second largest milk processor in New England, and National Dairy Holdings of Texas, the second largest dairy processor in the nation.

Founded in 1846, Hood in Chelsea, Mass., owns 15 percent of the New England milk market. Over the years the Kaneb family built the Hood brand, which adorns milk, sour cream, ice cream, cottage cheese and other cream products. In 1997, it bought Booth Brothers in Barre.

Hood wants to grow even more.

Formed in 2001, National Dairy Holdings in Dallas is number two in the national milk market with 33 plants in 17 states, but only a sliver of share in New England. National Dairy Holdings was born when the nation's two largest dairy companies Suiza Foods and Dean Foods merged and had to shed processing plants to satisfy antitrust regulators.

National Dairy Holdings wants to get bigger too.

Formed in 1998, Dairy Farmers of America in Kansas City sells 28 percent of the nation's milk supply to companies such as Hood and National Dairy Holdings. DFA, as it is known in the industry, also owns half of National Dairy Holdings along with former Suiza executives; 15,000 farmers across the nation ship their milk to DFA.

DFA also wants to expand.

All three of these players are trying to catch or catch the attention of the industry star, Dean Foods.

Formed in 1925, Dean Foods is a \$10 billion company and the United States' biggest dairy processor. The company's brands in New England include Garelick, Stop & Shop, and Nature's Best. This month, Dean, which owns 75 percent of the milk market in New England, gave DFA coast-to-coast responsibility for supplying all its milk.

DFA's marketing contract with Dean added to Hood's 15 percent after the merger would give the cooperative control of 90 percent of the milk sold by farmers in New England. This sum attracted federal watchdog scrutiny. The deal

After the Hood merger, Vermont's 1,450 dairy farmers would have to go through a national cooperative, considered a competitor, to sell milk to 90 percent of the customers in New England whether they want to or not.

Hood and National Dairy Holdings have not released the financial details of the deal, the name of the merged processor, or the role that Dairy Farmers of America would play in the new entity. Hood's Kaneb family would control the new company, and its \$3 billion in annual revenues.

The company would be the nation's second largest processor, and gain significant market share on Dean. National Dairy Holdings' top officers would become vice chairman, president and chief operating officer of the new company.

For Hood, the deal makes sense, said Hood spokeswoman Lynne Bohan.

"Competition is a good thing for consumers because companies try to compete in product quality and product innovation," Bohan said. "This would put Hood in a better position to compete on a national basis."

For DFA, the deal makes sense.

DFA will ask its marketing agent, Dairy Marketing Services, to find the milk for Dean and Hood. DMS is an alliance of DFA and other cooperatives. Such an alliance provides a marketing strategy in which all farmers get a louder voice through DFA and DMS when speaking to processors, said DMS chief executive Rick Smith.

"I believe that farmers' best option is to align together in the face of that consolidation," Smith said. "DMS allows farmers to get together and fight in one voice. What's wrong with that?"

Hood is hoping to complete the merger by the end of the first quarter, but first it must satisfy federal antitrust investigators, said Julie Brill, assistant attorney general in Vermont.

For some farmers and Vermont's other cooperatives, the deal might not make so much sense. "What will it mean for those who buy milk products?" these regulators are asking. Federal and state investigators will concentrate on the role that Dairy Farmers of America would play in the post-merger milk marketplace, and how much power they would have to dictate terms to dairy farmers. Sweet or sour cream?

With fewer paths from cow to store shelf, some dairy industry experts worry that milk prices at the supermarket will head up, said Neil Pelsue, a dairy economist at the University of Vermont Extension. Retail milk prices have doubled in the last 20 years, even as the price paid to the farmer has remained the same, a trend Pelsue blames in part on dairy industry consolidation.

Lack of competition means processors and retailers no longer have to worry about being undersold. Stagnant wholesale prices, as the cost of doing business increases, mean farmers have a more difficult time making a living off their cows. This threatens farms survival, dairy experts say.

Dairy farms have an economic value to Vermont beyond what they produce. Farms keep the land open and green; state officials have pegged the dairy industry's impact on tourism and other economic activity at \$1.95 billion each year.

What often gets overlooked is that inside those quaint red barns is an operating small business, and small businesses need markets and customers. The Hood merger would limit those customers, said some industry experts.

Merger opponents say the real threat is that the Hood deal increases DFA's power over Vermont's milk industry, and to whom Vermont farmers sell their milk.

Local cooperatives St. Albans Cooperative Creamery and Agrimark in Massachusetts compete against Dairy Farmers of America. After the Hood merger, these cooperatives will have to go through their competition to access their former customers, said Robert Wellington, a dairy economist with Agrimark. Agrimark sells most of its beverage-bound milk to Hood.

"I'd like to see how Hood would react if we told Hood which supermarkets it could sell in, for what price," Wellington said.

Some dislike DFA's and Dairy Marketing Services' track record, which they say has not proven that farmers are better off in these organizations. John Cole ships the milk from his 50-cow Newbury farm to National Farmers Organization, which has joined Dairy Marketing Services.

"DMS is in a position to help us, but it isn't the way it seems to be working at all," Cole said.

Maureen Lehouillier, dairy farmer in Irasburg, sells her milk through Dairy Farmers of America and has attended the cooperative's annual meetings. The boasts of profits in the billions of dollars leave her astounded.

"Where does it all go? The farmers sure aren't getting any," she said.

Cooperatives have the right to split the money they get from processors evenly among all its members across the country. Currently, New England farmers are paid more for their milk than the national price to compensate for the region's higher costs. If payments were spread evenly among members around the country, New England farmers would likely lose their regional premium.

In addition, DFA has spent its money on new plants out West, not in New England, and gives premiums to its largest farms, those with thousands of animals in the West. Dairy experts such as Wellington say that means DFA's allegiance is not to Vermont farmers. Eventually, farmers' choice will be eliminated and they will be forced to join DFA, he said.

"We don't think the best decisions for farmers in New England or Vermont are going to be made in Kansas City," Wellington said.

Hood, Dairy Farmers of America and Dairy Marketing Services said these worries come from ignorance about how it would work. Hood said the details of the new company's relationship with National Dairy Holdings and its suppliers has yet to be worked out, but whatever happens, no one would be forced to join DFA.

"No farmer, no organization will be denied access to the milk market, period," DFA spokeswoman Agnes Schafer said. "Any person that claims something different does not have all the facts."

Dairy Farmers of America has always paid at or above the market price, Schafer said. Schafer and Smith also said the cooperatives have the right to dictate the terms of their own contracts. Hood promises to keep its contract with Agrimark and its other farmers "through DFA," Bohan said.

"I assure you that we understand the farmers' concerns," she said. "It is in all of our best interests to make sure the farmers are not at a disadvantage in this situation."

Farmers should be looking at this merger and the growth of DFA and its marketing agent in the region as a chance to play with the big boys, said Larry Allen, a Chelsea dairy farmer and DFA representative for Vermont.

Even Vermont's former agricultural commissioner, who stepped down from his post with the change in administration in January, believes farmers joining in a regional marketing strategy is the best way to go. Leon Graves took a job with Dairy Marketing Services in January as its director for industry affairs, convincing farmers that DMS is not the bad guy.

DMS markets about 40 percent of the market here and does have an opportunity to bargain collectively for farmers," Graves said. "That model has promise for increasing the prices paid to farmers."

St. Albans Cooperative executives said they cannot afford to ignore DFA or DMS. The 520-farmer cooperative is talking about possible marketing or supply agreements with both, as well as other cooperatives.

"Given that we continue to see various changes and challenges in this industry, we want to assure ourselves of market access," said Leon Berthiaume, general manager of the St. Albans Cooperative. "We believe that a strategic relationship with another organization is important."

Berthiaume said his cooperative will remain autonomous whatever happens.

With everybody forced to deal with the same behemoth company, DFA, autonomy is becoming just an idea, Agrimark's Wellington said. "That's the problem," he added.

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