

## Milk and Money

# How a Big Dairy Co-Op Helps Farmers Despite Legal Woes and Industry Slump

By RICHARD A. SHAFFER

Staff Reporters of THE WALL STREET JOURNAL

SAN ANTONIO — Associated Milk Producers Inc., the big dairy cooperative, has had its share of trouble. Fined for illegal gifts to the 1972 Nixon campaign, AMPI still faces charges that, with two other co-ops, it pledged another \$2 million to buy an increase in milk prices from federal officials. It is a defendant in 18 antitrust suits charging price fixing and other illegal strategies for reducing competition in the milk business.

Some onetime friends have turned against AMPI. Agriculture Secretary Earl Butz has accused it of giving the entire dairy industry a "black eye." Over the past three years, AMPI has lost 12% of its members, some of them embittered by the group's politicking. Meanwhile, despite record retail milk prices, the industry has been suffering a periodic slump that in three years has put 18% of all dairymen out of business.

But the big co-op is on the rebound. "AMPI is down, but nobody has even

*This is the second of two articles on problems of U.S. dairy farmers.*

started to count it out," a Washington observer says. "AMPI is actually healthier than it was three or four years ago," says Emerson Baab, a Purdue University agricultural economist.

The story behind AMPI's resilience tells something about how the marketing of agricultural products really works—and why harder times for the farmer don't necessarily spell lower prices in the supermarket. While no farm producers are entirely immune from the perils of the marketplace, an organization like AMPI can shield most of its members most of the time from much of the risk.

### Farm Bust of the 1920s

Today's AMPIs stem from the farm bust of the 1920s, out of which came the Capper-Volstead Act, the basic law governing agricultural cooperatives. Enacted in 1922, the law—originally intended to permit small farmers to band together to increase their control over the supply and the price of their products—permits certain monopolies. AMPI itself is only five years old. It was organized by Harold Nelson through the merger of 16 smaller cooperatives in the Southwest and the Midwest. The mergers made AMPI larger than two other big co-ops, Mid-American Dairymen Inc. and

Dairymen Inc., which also grew from mergers of smaller groups.

(Mr. Nelson, who has left AMPI, and David L. Parr, a former special counsel, were sentenced last week to four months in jail and fined \$10,000 each after pleading guilty to authorizing illegal donations of corporate money to Republicans and Democrats.)

From a conglomeration of dairy co-ops, AMPI has grown to the 155th largest industrial corporation in America, according to Fortune's list. It wholesales 12.5% of the nation's raw-milk output and dominates such major markets as Dallas, Houston, Indianapolis and Chicago. It also distributes butter and ice cream, runs milk-testing laboratories and operates the country's largest cheese-processing plant. As a co-op, it is exempt from income taxes.

Like other dairy co-ops, AMPI provides a broad range of services to members and customers, mostly designed to ameliorate economic problems caused by the stubborn insistence of cows on giving milk twice a day, whether anyone needs it or not, and giving more of it in the spring and summer—when the grass is greener but demand is lowest.

No matter what the season, AMPI can guarantee its members the highest avail-

able price for their milk. Any oversupply—some of AMPI's litigious competitors claim—may be used to flood a market and undercut competition; or a surplus merely may be used for cheese or some other milk product. Ordinarily, a dairyman would get less than the Grade-A drinking-milk price for such products. But AMPI, largely because of its control over the milk supply, can offer him that price anyway. AMPI denies ever having flooded markets to reduce competition. In a proposed settlement of an important federal antitrust suit against it, however, AMPI has agreed to consent not to do so in the future.

### A Powerful Inducement

Its price assurance offers a powerful inducement for a dairyman to sign up and stay on with AMPI. There are others. At a cost no higher than that of hiring an extra hand, a farmer can rely on AMPI to handle all his marketing, distributing and billing chores—as well as his political lobbying.

John Harvey runs a 160-head dairy farm outside China Springs, Texas. Every other day, an AMPI tank truck pulls up to pump something under 1,000 gallons of milk from Mr. Harvey's storage tank. At the same

time, the driver takes a four-ounce sample of the milk that goes to an AMPI laboratory in Houston, where it will be tested for bacteria and for butterfat content.

After four or five other stops, the truck delivers its milk to an AMPI customer, a Waco bottler. If the customer is fully supplied, however, the milk may be routed to a San Antonio processor or shipped to an AMPI plant in Muenster, Texas, to be made into powdered milk for bakers and other food producers. Once a month, AMPI collects from its customers and distributes payments to Mr. Harvey and its other members. Deducted in advance are assessments for certain AMPI costs, such as hauling and laboratory fees and "capital retains," charges that provide the co-op its working capital. In a typical month, these assessments amount to \$300 or \$350 from Mr. Harvey's gross payment of \$8,400.

Mr. Harvey's most important asset—besides his cows—is his AMPI "base," essentially the right to sell a specified amount of milk at AMPI's top drinking-milk price. Mr. Harvey's base is equivalent to 3,160 pounds of milk a day. Unless his cows produce more than that amount, Mr. Harvey will get the top price for all his milk even though some of it may wind up in products less costly than bottled milk.

Mr. Harvey's base, in effect, represents his share of the milk market. In any given market area, the total base of AMPI members is calculated to equal the estimated demand for drinking milk. When demand and prices are rising, the base system discourages larger or more efficient milk producers from increasing their output at the expense of other producers flooding the market with milk and resulting in painful price-cutting. Similarly, AMPI preserves each member's share of the market when milk demand and prices begin to fall; it does this by proportionately reducing each member's base to reflect the new level of demand.

Still, dairymen with bigger herds are sometimes tempted to quit AMPI. But this would be a risky course. San Antonio attorney John Ertel, who owns a big dairy farm, thinks AMPI is inefficient, and he believes his dairy would return more profit if he quit AMPI and marketed his milk himself. But over the years he has spent several thousands of dollars to obtain his AMPI base. And his membership agreement with AMPI provides that this base cannot be sold to anyone else unless he quits the dairy business entirely.

### Sheepishness in Washington

Thus, turning independent would force Mr. Ertel to write off a substantial investment. What's more, there might not even be a market for his milk. For years now, local processors have bought all their milk from AMPI. "At present," Mr. Ertel says, "if I want to stay in the dairy business in San Antonio, I have to stay in AMPI."

Whether consumers paying \$1.62 a gallon for milk—up from \$1.36 a year ago—are deeply concerned over Mr. Ertel's plight is arguable. Actually, however, dairymen are getting a little less for their raw milk than they were a year ago; the high retail price appears to reflect a sharp rise in processing, distribution and retail marketing costs.

In the Dallas area, a typical AMPI mar-

ket, the co-op is getting 86.54 cents for a gallon of milk. After AMPI deductions, its members net 82.21 cents a gallon. A year ago, AMPI was selling milk for 87.74 cents a gallon and returning to members 82.47 cents a gallon. Meanwhile, the standard dairy ration for cows—mostly grain and corn—has risen to \$7 a hundredweight from \$5.65; the cost of a ton of soy meal, which makes up about 16% of the standard ration, has increased to \$187 from \$158.

A complex web of government policy and action influences the fortunes of modern dairy farmers, and AMPI itself admits it has lost some of its ability to persuade government. "We are stymied at the corporate level," a spokesman says. "You almost hesitate to go to Washington. If you go see someone, they are almost embarrassed to see you."

### Political Spending Drops

Although there is no federal support price for drinking milk as such, price supports do apply to manufacturing-grade milk used for cheese and other dairy products. The government also sets a minimum price on raw milk—in the Dallas market, now 74.92 cents a gallon, well below the prevailing market price.

Partly because of objections that the measures would make the country's three largest dairy co-ops even more powerful, the Senate last year eliminated from new farm legislation several key dairy provisions. Among other things, these would have permitted farmers to transfer their federal milk-production allotments to co-ops and would have permitted the Agriculture Department to deduct assessments for co-op services from support payments to farmers, whether or not the farmers were co-op members.

Far from mounting a lushly financed effort to regain its political clout, AMPI went into the 1974 political campaign spending less than in the past. Its political war chest, in the form of contributions from AMPI

members and employes, is managed by a trust fund called the Committee for Thorough Agricultural Political Education, or C-TAPE. The trust can withhold donations amounting to just under \$100 a year from milk checks to members and paychecks to employes.

Since Watergate, donations to C-TAPE have fallen. They declined to \$427,394 in the first eight months of 1974, down 64% from the \$702,171 donated in the same period of 1972, also an election year. Still, C-TAPE went into the 1974 campaign with a \$1.7 million kitty. Common Cause, the Washington-based public-interest group, has calculated that this made C-TAPE the richest special-interest group in the nation after a coalition headed by the American Medical Association.

But some politicians have spurned C-TAPE contributions, and a few have actually returned them. As a consequence, C-TAPE's campaign spending this year fell 73% to only \$43,350 from \$162,720 in the first eight months of 1972. "Today in Washington," a congressional aide says, "milk is a four-letter word."

Political skeptics think C-TAPE money may regain some of its luster as time passes. Meanwhile, AMPI is tightening its 96-person administrative organization, partly to deal more effectively with the costly antitrust suits against it. Legal expenses are running more than \$1 million a year. Testifying in hearings and giving legal depositions is taking up 25% to 30% of its top management's time. The internal auditing department is spending almost full time sorting through a total of 2.5 million documents needed in the legal actions. A major antitrust defeat could require AMPI to pay millions of dollars in damages to some of its smaller competitors.

### The More Things Change . . . .

George L. Mehren, a former assistant secretary of agriculture in the Johnson administration, took over as general manager from founder Nelson in 1972. Mr. Mehren has cut back once-lavish expense accounts, sold the airplanes that AMPI had acquired under the high-flying Mr. Nelson and established cost controls that in less than a year reduced operating expenses by half. Perhaps more important, he steered AMPI back to the conventional methods of influencing the milk market that had been neglected in the days of huge campaign gifts.

In Mr. Mehren's view, AMPI is stronger than ever. "Few other cooperatives have faced and overcome such attacks," he wrote recently. "And today, few other cooperatives have shown results for the year as good as we have shown." Economist Baab of Purdue agrees. "If many other organizations had gone through what AMPI has, I doubt that they would have survived," he says. "But AMPI's finally got its house in order with a lot of cost-cutting and streamlining."

"Nothing's changed," says Bill Waters, general manager of a Foremost Dairies plant in San Antonio that buys all its milk from AMPI. "AMPI still just sends me a letter saying how much I've got to pay for its milk."