

Lehigh directors questioned closely on API sale

LANCASTER — Despite reporting an unaudited net margin of \$2.68 million, Lehigh Valley farmers elected and appointed officials found themselves defending the sale of assets of an auxiliary organization at their sixth annual meeting here Wednesday.

The focus of the 20 minute question-and-answer period was Atlantic Processing, Inc. (API), a federation of dairy cooperatives — Lehigh, Dairylea, Mr. Joy, Cumberland Valley and Capitol Milk.

Effective February 28, the API Board of Directors sold the organization's assets, the "bricks and mortar," to John Labatt, a Canadian food conglomerate, Lehigh President Alpheus Ruth told the 700 assembled farmer-owners and guests. Labatt recently purchased Johanna Farms, a New Jersey-based dairy processor with markets for citrus and other juices, milk and yogurt throughout the Northeast.

According to management consultant James Compton, the assets were sold "at book value," estimated at \$17 million after intense farmer questioning. The ice cream, cultured products and fluid processing plants are now operating a Lehigh Valley Dairies, Inc., a subsidiary of Johanna.

Compton estimated that the average Lehigh farmer, producing 700,000 pounds per year, would reap \$8,893 over a five-year-period, should the API board approve the revolving capital plan outlined to the farmer-owners Wednesday.

This figure includes five-year savings resulting from eliminating the 10-cent capital retain (\$3,500), repayment of past capital retains over a three-year period (\$3,866) and five years of estimated dividends from API operations (\$1,527).

However, farmers must have a minimum level of equity before they can discontinue their 10-cent capital retain.

Regardless of the financial picture presented, some member-owners continued to question the decision. One farmer said that Lehigh farmer-owners are "no longer responsible for what we are producing. We have become, in a sense, one more milk pooler." The comment was greeted with scattered applause.

Ruth, a Fleetwood dairy farmer, responded that the board felt it should "return to the producer the most dollars and cents," commenting that pride in owning bricks and mortar is not enough.

Ruth said the sale was unanimously approved by the API Board, of which he is the chairman. Moreover, he explained that API would not be dissolved. Instead, its staff will be trimmed to four people, with new manager Roy Seifert.

API remains a federation of dairy cooperatives with long-term supply contracts with Johanna and Beatrice Foods, which owns the Allentown-based cheese plant once a part of API, Ruth said.

API has a six-year contract with Beatrice to supply 33 million pounds of raw milk per month, with a provision for shipping more when necessary for balancing supplies, Compton said. The 10-year contract with Johanna-Labatt's is 70 million pounds per month.

Ruth said that he hoped "not too many Lehigh Valley Farmers leave dairying (a reference to the whole-herd buy-out) because Lehigh needs more milk." He reminded producers that more milk shipped equals more equity in API.

In justifying the sale to Labatt's Ruth said the Canadian firm has sales of \$3 billion, 11,000 employees, and 63 manufacturing and processing facilities. They are the world's largest grain processor, he said, and Canada's leading dairy company.

"I don't think we should be excited that they also own a brewing company," he said, noting that one

of the first questions he heard was just that. "The important thing is they are a diversified company that happens to own a brewing company. They don't have all their eggs in one basket."

Ruth alluded to the loss of a major customer in early 1985, an unfavorable labor relations decision and the proposed expansion of Federal Orders 2 and 4 as factors influencing the decision to sell.

The labor relations problem dealt with truck drivers at the Lansdale plant, he said. An effort to trim labor costs backfired with the arbitrator's decision to reinstate the \$40,000 per year drivers and award back pay, Ruth said.

"The main objective of the Federal Order expansion was to capture API's Schulykill-Haven plant's profits," he said. The expansion would cost API \$2 million a year, he said.

General Manager William Stout said the expansion is "in a holding pattern." After November's injunction, briefs were scheduled to be filed by March 1. A decision should be reached by summer, he said.

What position will Johanna take now that it owns the facility? The question was not asked, but the answer could be interesting, as Johanna has supported order expansion.

Treasurer Robert Gehman presented the unaudited financial statements, highlighting the \$2.68 million in net margin. The 954 million pounds of Lehigh milk is comparable to 10 percent of the total Pennsylvania production.

Stout thanked the farmers who had voluntarily earmarked six cents per hundredweight for Lehigh Valley Farmers branded products, noting that the brand advertising program has now been



James Compton

discontinued. A series of district meetings will be held in the next two weeks to report to farmers who were unable to attend Wednesday's session, according to a news release distributed at the meeting.

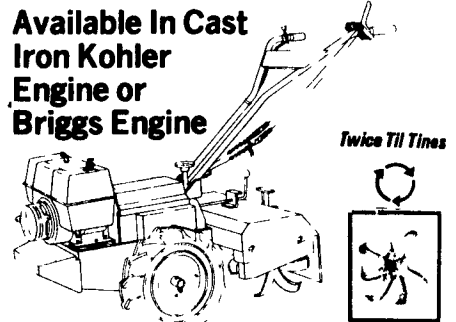
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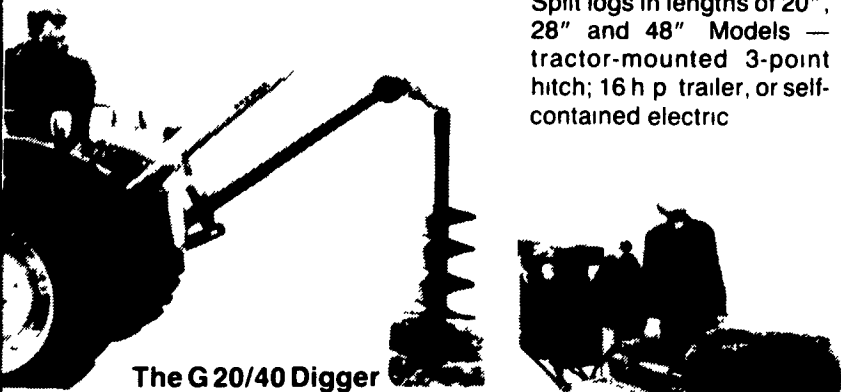
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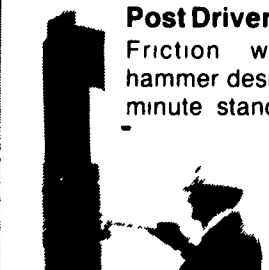
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