

**ECON 201**  
**Yoto Yotov**  
**Drexel University**

**Article Analysis # 2:**  
**Drugs: Plenty of Spilled Milk to Cry Over for Dairymen Lured to US**

*This assignment is optional. Please consult your Syllabus for further details. The deadline for submission is the day of the final exam, in class. No late works or electronic responses will be accepted!*

**Instructions:**

*The attached article is from The Wall Street Journal. The article could be accessed online. In addition, it can also be accessed through the Drexel libraries.*

*Attracted by the profits in US dairy farms and, in particular, by the success of one of their own, Dutch dairy farmers came to US in pursuit of a better life. Some of them failed. I would like you to critically analyze the article by using graphical analysis and brief explanations, and applying the tools from class. Please answer all questions.*

1. In one paragraph, summarize the article.
2. Assume that the market for milk is perfectly competitive and graphically represent a short-run equilibrium in which a representative firm (Willy van Bakel) makes economic profits.
3. Use long-run equilibrium graphical analysis to capture the effect of the influx of Dutch dairy farmers on the equilibrium price and quantity for the representative firm and for the whole industry.
4. According to the author, one for the reasons for many US dairy farmers to go out of business is weak demand. Starting with the long-run-equilibrium from part 3, use two parallel graphs to represent the effect of the fall in demand in the industry and on the representative firm.
5. (Hard! But give it a shot.) Even though in class we always assumed that costs do not change, the article claims that one for the reasons for the losses of the farmers is increase in their costs. In words, tell me how would you capture this graphically and what the consequences are for the firms and for the industry.

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**THE WALL STREET JOURNAL.**

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## Plenty of Spilled Milk to Cry Over for Dairymen Lured to U.S.

*iii Dutch Farmers Vent Udder Frustration With Mr. van Bakel as Plan Curdles*

By LAUREN ETTER

WAUSEON, Ohio—From a strip mall in this town of 7,200, Willy van Bakel built a multimillion-dollar business bringing fellow Dutch dairy farmers to America. They're "dreamers" like himself, he says.

Mr. van Bakel's company, Vreba-Hoff Dairy Development, signed up 70 Dutch immigrants over the past decade for a package deal designed to help them start dairy farms here. Typically, Mr. van Bakel helped clients sell their farms in the Netherlands and used the proceeds as seed money to finance bigger dairies with more cows in America.

He often helped arrange for immigration papers, obtained government permits and helped with incidentals like enrolling children in school. He pitched his countrymen with ads in Dutch trade magazines featuring cows in front of the Stars and Stripes saying, "Life Is Great in America!"

Today, the dream has soured. About a dozen of his clients have filed for bankruptcy protection or are being foreclosed on by banks. Sixteen farms sit idle because construction was halted for lack of financing. Mr. van Bakel says his lender reneged on an agreement to provide funding. Some of these farmers have been waiting for five years or more and still have no farm, despite having given Mr. van Bakel millions of dollars from the sale of their old farms.

Now Mr. van Bakel faces lawsuits from farmers, lenders and suppliers alleging, variously, that he owes them money and that he misused their funds. Some farmers accuse Mr. van Bakel of overcharging them for the dairies and cutting corners on construction.

"He brings people over here for only one reason and that is to strip them as quickly as he can from all the money they have," farmer Bert de Bruyn wrote in a letter seeking help from the Dutch consulate last year. The Dutch consulate declined to get involved. Mr. de Bruyn until recently leased a dairy from Vreba-Hoff and says he lost money on the arrangement.

Mr. van Bakel, who is 48 years old, denies wrongdoing. He admits that he owes money to farmers and lenders but doesn't currently have the money to repay them. He faults the recession, a steep drop in milk prices and poor money management by farmers. He says: "It's unbelievable that these same people are getting together and making a stink out of me. They just need somebody to blame."

Most of the farms Mr. van Bakel helped build are operating. Tejo Willemsen, who moved to the U.S. in 2001, says he couldn't have built his dairy without Vreba-Hoff. "It's disturbing to me that people are trying to damage" Mr. van Bakel's reputation, he says.

Posters of tulips and dairy cows decorate Mr. van Bakel's office here in Wauseon, a farm town flanked by cornfields

and grain elevators. Maps of his homeland are dotted with flags marking the former homes of farmers who came to America.

Dairy farms in the Netherlands are relatively small: Most have no more than a hundred cows. Regulations limit how much milk each farm can produce.

U.S. dairy farms often have more than 2,000 cows. In 1997, Mr. van Bakel built a 3,000-cow dairy in Hudson, Mich. It thrived. Soon, he recalls, other Dutch farmers were asking, "If this makes sense for you, can you put it together for me?"

In 1998, he established Vreba-Hoff Dairy Development and later set up an office in Wauseon. Visiting Dutch farmers toured Mr. van Bakel's farm and were chauffeured around to potential dairy sites. They ate steaks at Applebee's and drank whiskey at a Wauseon bar.

With most clients, Vreba-Hoff used farmers' own money—usually several million dollars from the sale of their Netherlands farms—to secure land and permits and start construction. For farmers who lacked capital to complete a dairy on their own, Mr. van Bakel lined up financing from banks or private investors. Generally, the company made money by charging fees for the various services and taking a cut of the final cost of new dairies, which could run more than \$10 million.

"The first time we saw his farm, we were in awe," says Evert-Jan Greving, who hired Vreba-Hoff to build his family a farm in 2000. The Greving's filed for Chapter 11 bankruptcy protection in 2008.

Mr. Greving says Mr. van Bakel talked him into spending more than he had originally anticipated to build the dairy. "As soon as we started milking...we didn't have any fat on our bones," Mr. Greving says. "The debt load per cow was too high." Mr. van Bakel says the Greving's ordered special adjustments to their dairy that drove up construction costs.

Some Vreba-Hoff farmers have done well, despite the usual hardships of farming. Bert Vander Made and his wife, Corrie, moved to Sherwood, Ohio, in November 1999, after hiring Vreba-Hoff to build a 600-cow dairy. They later expanded to 1,500 cows and were able to move into a nice house down the road. "We all knew it would be hard," Mr. Vander Made said.

In 2007, the cost of producing milk rose along with commodity prices. Last year, milk prices plunged to 30-year lows amid weak global demand, pushing many U.S. dairy farmers out of business. Mr. van Bakel says he struggled to make debt payments with shrinking milk income, as did many of his clients.

In 2008, one of Mr. van Bakel's main lenders, AgStar Financial Services of Mankato, Minn., halted a \$150 million program to build dairies that Vreba-Hoff expected to tap.

AgStar Chief Executive Paul DeBriyn said its dairy investments hadn't been meeting financial targets. The bank has initiated foreclosure proceedings on eight of 17 Vreba-Hoff-sponsored dairies.

The economic situation made finishing construction on a number of new dairies impossible, Mr. van Bakel says. Of the 16 dairies that remain unfinished, two are "nearly complete," he says, while the rest consist of sites that are excavated and "in preparation for construction."

Dirk Jan Visser moved to Ambia, Ind., in 2004, after hiring Mr. van Bakel to build his family a 1,700-cow dairy. The dairy was nearly complete when crews stopped showing up in October 2008.

Mr. van Bakel says he halted construction because he couldn't get financing.

"The whole process is emotionally draining. We didn't think it would take this long to get it going," said Mr. Visser over

*stropwafels*, a Dutch dessert, at his Ambia home.

In 2005, Peter van der Burg sold Mr. van Bakel his Netherlands dairy and moved his family to Woodville, Ohio, after hiring Vreba-Hoff to build him a new one. Today, the farm is just some piles of dirt on an otherwise empty lot.

In a lawsuit filed in Fulton County Court in Ohio, Mr. van der Burg alleges he was lured to the U.S. by Mr. van Bakel as part of a scheme to use his money as free working capital to finance older projects. He demands a refund of around \$2.6 million plus damages.

Mr. van Bakel says he owes only a fraction of that, but, "Right now our liquidity position doesn't allow me to pay back Mr. van der Berg immediately. I'm not a magician."

Mr. van Bakel says he's "on the cusp" of securing aid from at least two private investors in India. The new capital, he says, will be used to pay off lenders, buy back some of the farms in foreclosure and build more dairies—in Africa and India.

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