

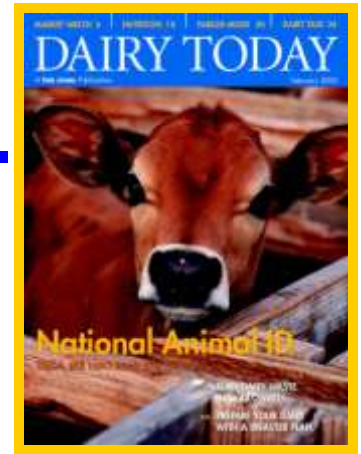
Can the South rise again?

Jim Dickrell

Editor

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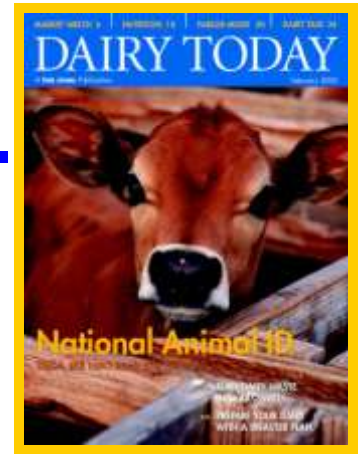


TAKING YOU WHERE
THE MARKET IS
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Is this the perfect market?

This market actually exists:

- 2,500 miles from nearest competitor
- \$25/cwt milk price
- Five days of transport time for competitors' products to reach your market
- Would you consider this favorable market?



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Is this the perfect market?

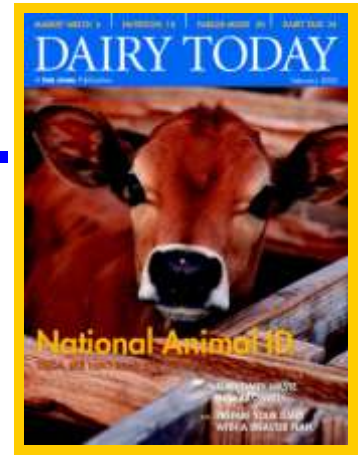
In the past 10 years, Hawaii's domestic dairy industry has collapsed:

- Cow numbers: ↓44%
- Milk production: ↓36%
- Milk per cow: ↑ 3% (14,200#)
- Dairy farm #s: ↓50% (8 commercial herds remain)



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Is this the perfect market?



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Why has it collapsed?

- Constant heat stress, perhaps even more challenging than in the Southeast
- Poor forage quality; insect and plant disease pressure a constant
- Virtually all grains must be imported
- Labor. Hotels/tourism able to pay better and offer better working conditions/hours.
- Urbanization and increasing land values.

Is this the perfect market?

What's the problem?

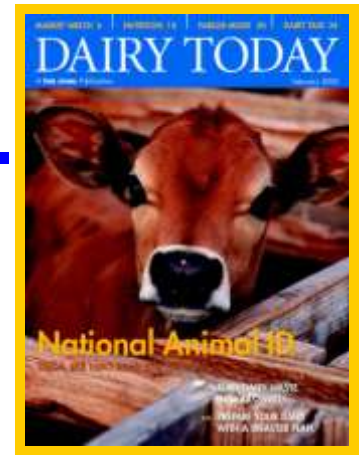
- \$25 Hawaiian milk price isn't high enough
- Hawaiian production problems overwhelm ability to compete
- California's milk price is too low; thus California marketers are seeking alternative markets
- Tanning, surfing, bikinis too distracting
- All of the above



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Government programs the answer?

- USDA's report to Congress last fall:
- Federal Orders, price supports, MILC, import controls and export enhancements raise the all-milk price 1% and producer revenues 3%
- MILC reduces the all-milk price 3%
- Federal Orders raise consumer prices for fluid, encourage milk production, lower consumer prices for butter and cheese



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Government programs the answer?

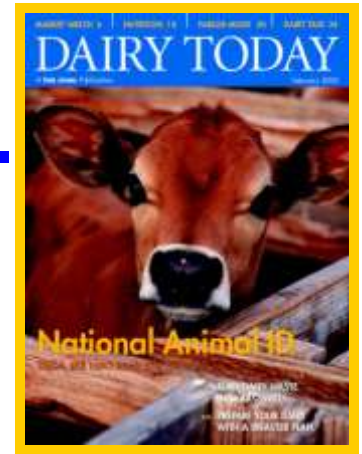
- USDA's report to Congress last fall:
- Dairy compacts could increase producer revenues in Southeast by 35% (think Hawaii)
- Dairy compacts would decrease producer revenues in the Midwest 9%, California 10% and Florida 14% (think Civil War)



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Government programs the answer?

- USDA's report to Congress last fall:
- “Attempts to shelter dairy farmers from a set of diverse, powerful forces with a complex web of policies including [all of the above, fore mentioned programs] have done little to prevent structural change.”
- In other words, economics rule



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Government programs the answer?

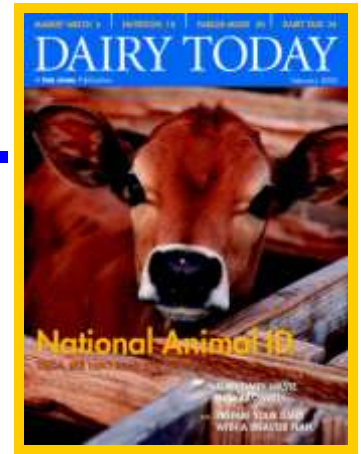
- 2006/2007 Federal Budget:
- Farm commodity programs to take 5% cut
- But dairy dodges budget bullet
- MILC extended until Sept. 30, 2007—will 5% cut apply? How? \$600 million budgeted
- Dairy price supports affected by USDA's judicious use of butter/powder tilt, not \$9.90
- Actual price reductions will depend on market forces triggering price supports/MILC



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Cargill's Seven Principles

1. Face reality as it is, not as you wish it to be
2. If you don't have a competitive advantage, don't compete
3. Change before you are forced to change
4. Learn more than you are taught
5. Be candid—with everyone
6. Manage things; lead people
7. Eliminate delays



TAKING YOU WHERE
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Cargill's Seven Principles

1. Face reality as it is, not as you wish it to be
 - For dairy producers:
 - Mailbox milk price
 - Milk per cow
 - Somatic cell count



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2. If you don't have a competitive advantage, don't compete
 - For dairy producers, what is your competitive advantage here in the Southeast?
 - Proximity to market?
 - Cost of production + hauling vis-a-vis Texas, Indiana, New York, Wisconsin?
 - Winter milk production, i.e. shipping UF milk to Minnesota?
 - Others?



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4. Learn more than you are taught.
 - For dairy producers, apply and adapt what you have learned at meetings to your operation. Network with other producers to learn what has worked on their operations—and more importantly, what hasn't and why it hasn't.
 - Does monensin make sense on your dairy? (milk fat depression?)
 - Do accelerated calf feeding strategies make sense?



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5. Be candid—with everyone.

- With yourself.
- Your spouse.
- Your employees.
- Your partners and consultants.
- Your lender.

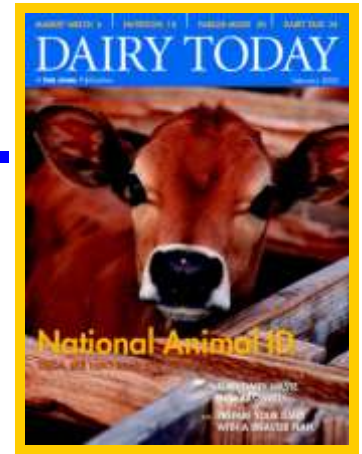


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6. Manage things; lead people.

- Manage your cows with
 - The right feed
 - The right environment and housing
 - The right health care
- Lead people by
 - Being optimistic
 - Being honest
 - Being fair and equitable



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7. Eliminate delays

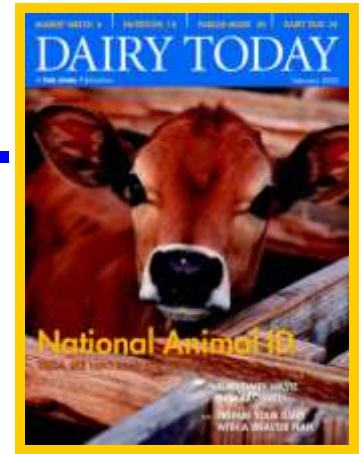
- Do it now
- Be aggressive
- Take the high road, not the shortcut



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California

- In last 10 years, production has grown 54% or 12 billion lb. = adding the production of North Carolina in each of those years.
- In last 10 years, cow #s have grown 40% or 500,000 cows = all the cows in Louisiana in each of those years.
- Annual growth of 4.5% over last decade.
- If California grows just 3.5% over next decade, it will add another 10 billion lb.



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California

- 10-15 years ago, California faced major problem with urban congestion in Chino.
- Chino Ag Preserve was broken, allowing producers to sell land (by the square foot)
- Re-invested in the San Joaquin Valley
- Learned lessons of El Nino, invested in freestall barns
- Much of the incremental growth has been financed by 4a and 4b milk prices (butter/powder and cheese, not fluid)



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California

- Producers have not relied on government programs to subsidize growth *per se*
- Producers have used the California pricing system to make their processing industry competitive, often at the expense of farmgate prices
- First week of February 2005: State hearing to bump up make allowances to foster even more plant expansion. Opponents say this will only force farm prices down. LOL/Hilmar chief advocates.



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Wisconsin

- Holding its own in milk production over last decade at 22 billion lb.
- Have done this as cow numbers have dropped 18% (287,000 head) and farm numbers have declined 30%
- Has held production by re-investment in larger farms. Wisconsin has most 200+ cow dairies in the country.



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Wisconsin

- Producers have led the way.
- Ten young, progressive producers formed the Professional Dairy Producers of Wisconsin 13 years ago.
- PDPW provides educational forums; everyone welcome regardless of herd size
- Producers themselves set agendas, ID topics and speakers
- Bring in industry critics to hear other side



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Wisconsin

- Producers have led the way.
- Subset of PDPW formed the Wisconsin Dairy Business Association to lobby on behalf of commercial dairy operations.
- Fees set by cow numbers.
- Successfully lead 4-year effort on siting legislation that creates uniform regs statewide. Brought in FB, NFO, FU as well as county and township associations.



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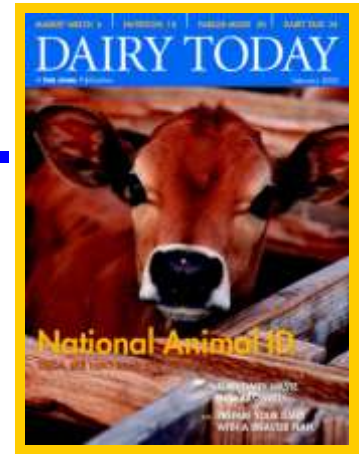
Texas

- Producers have led the way.
- Stephenville/Dublin area in decline because downstream Waco has declared no new dairies.
- Pan handle of Texas is new hot spot, with Stephenville/Dublin producers re-locating. 25 new dairies built to-date, 125,000 cows.
- Dairies for 23,000 cows under construction with permits pending on another 53,000.



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Texas



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- Pan handle offers:
- Cheap land--\$1,000 to \$1,200 /acre
- Low taxes; good feed, labor, investors
- Roswell cheddar plant, largest in world at 7 million lb/day intake, is 4 hours away.
- As a result, Texas milk production is rebounding from a low of 5.1 billion lb. in 2001 to +5.6 billion lb. today.
- Much of the rebound has come in milk/cow, +1,000 lb/cow since 2001

Minnesota

- Minnesota Milk Producers are trying to lead the way to regain market share, now #6 behind Idaho
- Progressive producers led a grass-roots movement five years ago to unseat old guard who thought milk prices were one and only answer
- State is still struggling to stop losses.



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Minnesota

- More diverse state than Wisconsin with alternatives such as corn, beans, ethanol
- Small farm advocates very anti-commercial dairy farm
- MPPA unable to bring FU, NFO, Land Stewardship group to the table
- Governor supportive, but may be too little too late
- Lesson: If you can't bring everybody to the table, no one will eat peacefully



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What has worked in CA, WI, TX

- Producers have led the charge
- Producers have been willing to work together, bringing *everyone* to the table
- Producers have been willing to risk investing in their own dairies for long-term; willing to move and cluster
- Producers have not seen government as the solution, but they have worked to make government part of the solution



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Cargill's Seven Principles

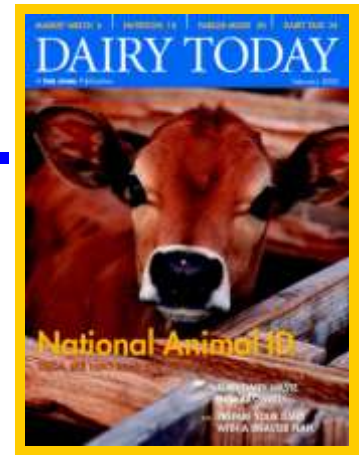
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Can the South rise again?

1. Are producers willing to honestly face up to Cargill's seven principles?
2. Are producers willing to take leadership?
3. Are producers willing to work together, bringing everyone possible to the table to find workable solutions?
4. Are producers willing to risk investing their own dollars in their industry long-term?
5. Answer must be "yes" to all of the above.



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