


The South CAN Rise Again

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The South CAN rise again?

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DAIRY TODAY

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?



DAIRY TODAY

Is this the perfect market?

Hawaii has the following dairy market conditions:

- 2,500 miles from nearest competitor—California
- \$25/cwt milk price, but +\$20 COP
- Five days of transport time for California milk to reach Honolulu via super-sized thermos containers where it must be re-pasteurized and processed

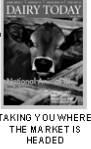


DAIRY TODAY

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 #: ↓68% (5 commercial herds remain)



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Is this the perfect market?

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.



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Is this the perfect market?

What's the problem?

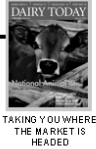
- \$25 Hawaiian milk price isn't high enough
- Hawaiian production problems overwhelm ability to compete
- California's milk price is too low; thus California marketers are seeking alternative markets
- Tanning, surfing, bikinis too distracting
- All of the above



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Expansion intentions

- Expansion intentions—FL & GA versus US
 - Based on Fam. Journal surveys of dairy producers/attitudinal/collected in last 24 months (good milk prices)
- Age distribution
- FL & GA
 - <45 & <499 cows = 21%
 - <45 & >500 cows = 26%
- U.S.
 - <45 & <499 cows = 25%
 - <45 & >500 cows = 34%

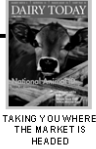


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Expansion intentions

Florida & GA vs. U.S. expansion intentions

- 1-499 cows
 - FL & GA = +23%, -7%
 - U.S. = +21%, -7%
- >500 cows
 - FL & GA = 30%, -2%
 - U.S. = 38%, -2%




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Expansion intentions

Florida & GA vs. U.S. expansion intentions

- 1-499 cows + <45 years of age
 - FL & GA = 25%, -7%
 - U.S. = 31%, -3%
- 1-499 cows + >46 years of age
 - FL & GA = 27%, -8%
 - U.S. = 20%, -9%




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Expansion intentions

Florida & GA vs. U.S. expansion intentions

- >500 cows + <45 years of age
 - FL & GA = 34%, -4%
 - U.S. = 52%, -2%
- >500 cows + >46 years of age
 - FL & GA = 35%, -3%
 - U.S. = 41%, -3%




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DAIRY TODAY

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




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DAIRY TODAY

Cargill's Seven Principles

1. Face reality as it is, not as you wish it to be
 - For Florida producers:
 - Per capita milk production down 17% since 2000
 - Licensed dairy herds down to 180 (from 190 in 2004)
 - Cow numbers down 8% since 2002; milk production down 2.6% since 2002.
 - **But** compared to other southern states, Florida (and Georgia) is still holding its own.



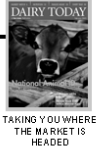
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- For dairy producers:
- Mailbox milk price—Florida 2005—\$17.64 v. \$14.78 in Wisconsin v. \$14.06 in W. Texas v. \$13.88 in CA.
- Milk per cow—16,577 in Florida v. 19,576 U.S.
- Somatic cell count—473,000 in Florida (50% >400,000 in FL and 16% >750,000) v. 296,000 average in U.S. (26% >400,000 and 5% >750,000)
- If Florida could get SCC to national average, roughly 1 lb/cow/day more milk, or 45 million lb./yr.
- 45 million lb. = 900 tankers less milk imported

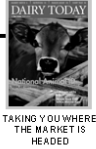


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2. If you don't have a competitive advantage, don't compete

- For dairy producers, what is your competitive advantage here in the Southeast?
- Proximity to market?
- Cost of production + hauling vs-a-vis Texas, Indiana, New York, Wisconsin?
- Winter milk production, i.e. shipping UF milk to Minnesota?
- Others?




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Cargill's Seven Principles

3. Change before you are forced to change

- For dairy producers, what is your biggest challenge and what will you do about it *this* year?
- Heat stress? Tunnel ventilation?
- Reproduction? See heat stress.
- Milk quality? Milking routine, cow com fort & cleanliness.
- Forage quality? More com silage? Purchased dairy quality hay?

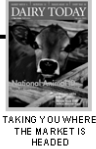


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Cargill's Seven Principles

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.
- Do monensin or BST make sense on your dairy?
- Do accelerated calf feeding strategies make sense?

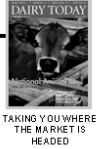


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5. Be candid—with everyone.

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




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Cargill's Seven Principles

6. Manage things; lead people.

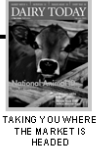
- Manage your cows with
 - The right feed
 - The right environment and housing
 - The right health care
- Lead people by
 - Being optimistic
 - Being honest
 - Being fair and equitable



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Cargill's Seven Principles

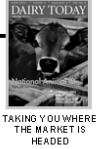
- 7. Eliminate delays
 - Do it now
 - Be aggressive
 - Take the high road, not the shortcut



DAIRY TODAY

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 (74% of Florida's annual production).
- If California grows just 3.5% over next decade, it will add another 10 billion lb. (more than four Floridas)



DAIRY TODAY

California

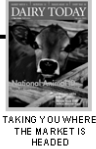
- 10-15 years ago, California faced major problem with urban congestion in Chino.
- Chino Ag Preserve was broken, allowing producers to sell land (by the square foot)
- Re-invested in the San Joaquin Valley
- Learned lessons of El Nino, invested in freestall barns
- Much of the incremental growth has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



DAIRY TODAY

California

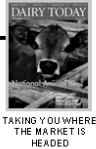
- Producers have not relied on government programs to subsidize growth *per se*
- Producers have used the California pricing system to make their processing industry competitive, often at the expense of farmgate prices
- Also instituted 1¢/cwt voluntary checkoff to raise \$750,000 for lobbying. Once goal is reached, checkoff ends until more funds needed.
- Funds used to fight for livable air regs.



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Wisconsin

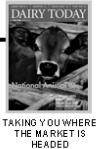
- Holding its own in milk production over last decade at 22 billion lb.
- Have done this as cow numbers have dropped 18% (287,000 head) and farm numbers have declined 30%
- Has held production by re-investment in larger farms. Wisconsin has most 200+ cow dairies in the country.
- Milk per cow has been key, up 4% last year and cow #s down 5,000 (-0.4%)



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Wisconsin

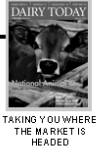
- Producers have led the way.
- Ten young, progressive producers formed the Professional Dairy Producers of Wisconsin 14 years ago.
- PDPW provides educational forums, everyone welcome regardless of herd size
- Producers themselves set agendas, ID topics and speakers
- Bring in industry critics to hear other side



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Wisconsin

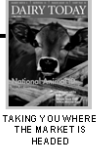
- Producers have led the way.
- Subset of PDPW formed the Wisconsin Dairy Business Association to lobby on behalf of commercial dairy operators.
- Fees set by cow numbers.
- Successfully led four-year effort on siting legislation that creates uniform regs statewide. Brought in FB, NFO, FU as well as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



DAIRY TODAY

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. 38 dairies built-to-date, 198,000 cows.
- Dairies for 46,000 cows under construction with permits pending on another 78,000.



DAIRY TODAY

Texas

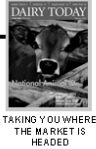
- Pan handle offers:
- Cheap land (\$1,000-\$1,200/a), low taxes, good feed, labor, investors
- Roswell cheddar plant, 7 million lb/day intake, is 4 hours away. Hilmar plant, 2 million/lb/day, under construction
- Texas milk production is rebounding from a low of 5.1 billion lb. (2001) to 6.4 billion lb. today.
- Much of the rebound has come in milk/cow, +1,000 lb/cow since 2001



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What has worked in CA, WI, TX

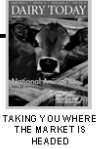
- Producers have led the charge
- Producers have been willing to work together, bringing everyone to the table
- Producers have been willing to risk investing in their own dairies for long-term; willing to move and cluster
- Producers have not seen government as the solution, but they have worked to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



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The South can rise again, if it's willing to face the issues:


1. Seasonality of milk supply. How big a problem?
 - a. 25¢/cwt deducted to import, 30¢/cwt to export. That's 2-3% of your gross.
 - b. Is shelf stable milk a possibility? Especially Hispanic market?
 - c. Re-constituted fluid milk? (We use it for cheese...)
 - d. Promote year-round school, off-season tourism (delay Easter)



DAIRY TODAY


The South can rise again, if it's willing to face the issues:

1. Production per cow? Milk quality? Improving productivity decreases costs of imports and spreads fixed costs of exports.
2. Environmental issues? Legal defense fund?
3. Turn environmental negative into positive—methane digestion and carbon credits
4. Immigration reform???
5. Product innovation—be careful not to block innovation with blind insistence on retaining dairy product standards of identity



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The South can rise again, if



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

DAIRY TODAY DAIRY TODAY Elite Producers
