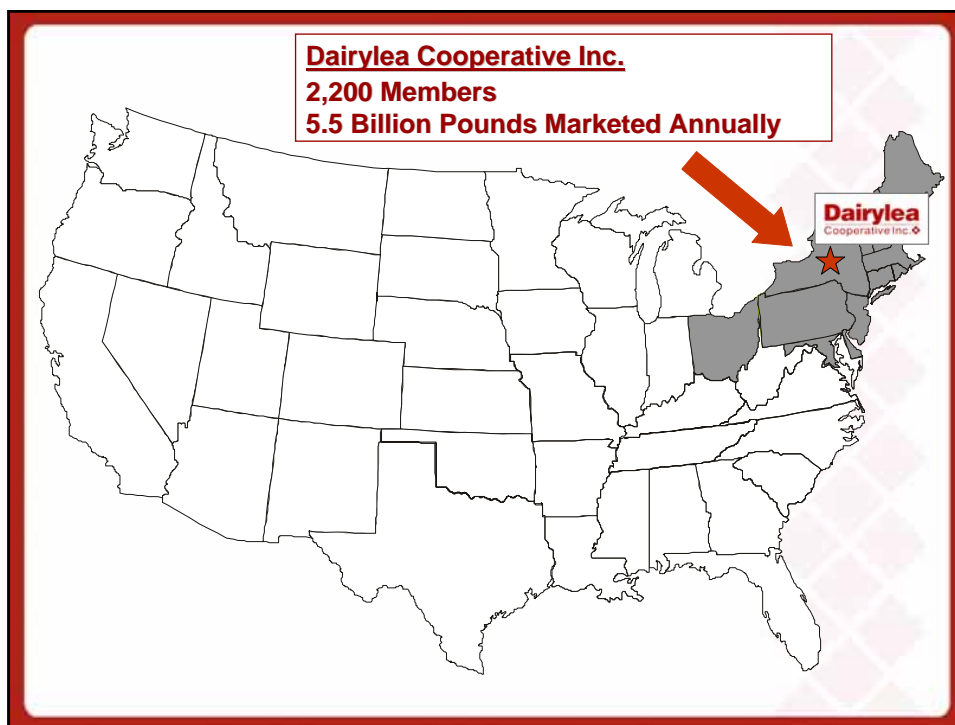


Challenges and Opportunities for the U.S. Dairy Industry

**Greg Wickham
CEO, Dairylea Cooperative Inc.**

Dairylea
Cooperative Inc. ♦



U.S. Cooperative Rankings

Rank	Dairy cooperative	Member milk volume (bil. lbs.)	Member farms
1	✓ Dairy Farmers of America Kansas City, Mo.	37.599	11,306
2	California Dairies, Inc. Visalia, Calif.	16.932	634
3	✓ Land O'Lakes, Inc. St. Paul, Minn.	12.260	3,178
4	✓ Northwest Dairy Association Seattle, Wash.	7.680	604
5	✓ Dairyland Cooperative, Inc. Syracuse, N.Y.	5.400	2,300
6	✓ Foremost Farms USA Baraboo, Wis.	5.255	2,832
7	✓ Associated Milk Producers, Inc. New Ulm, Minn.	5.100	3,400
8	Family Dairies USA Madison, Wis.	4.859	3,697
9	✓ Manitowoc Milk Producers Cooperative Manitowoc, Wis.	4.400	2,914
10	✓ Select Milk Producers, Inc. Artesia, N.M.	4.220	79

Source: Hoard's Dairyman; October 2007



***A Cooperative Milk Marketing
Joint Venture in the Northeast***

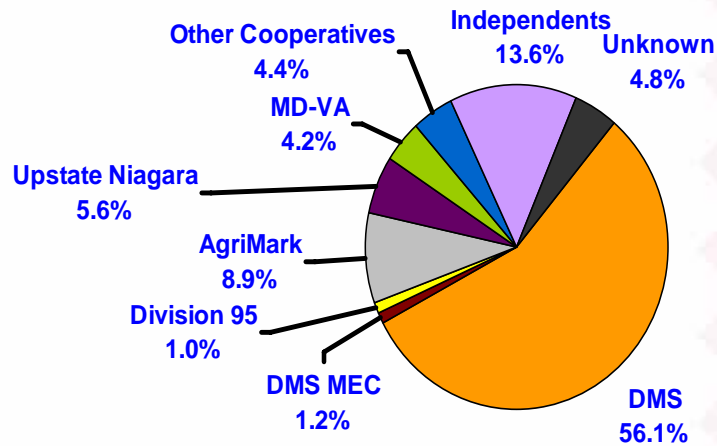
Operating Structure



- 8,000 farms
- 16 billion lbs of milk/year
- 900+ loads/day
- 120 plants to which we deliver
- 186 contract haulers in 13 states
- 1,000 drivers
- 860 rejected loads/year or .28% of total



December 2007 Northeast Market Share



7 Unique Farm Services

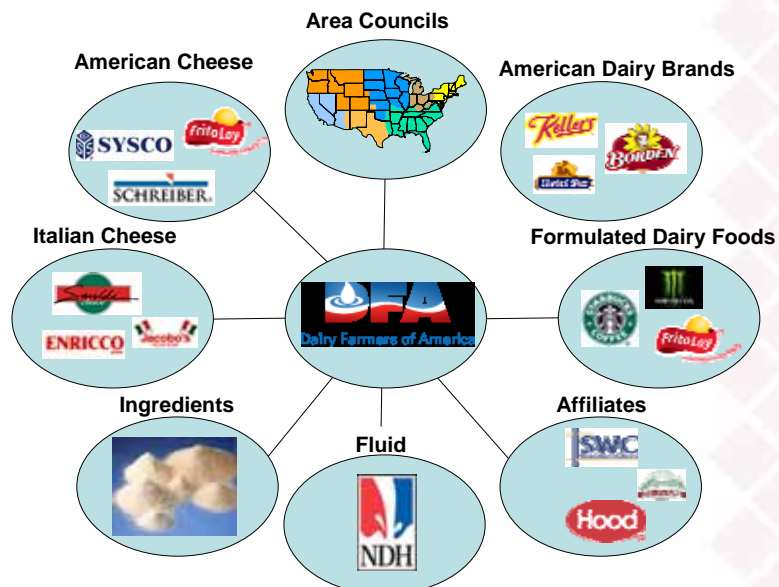


Dairylea
Cooperative Inc. ☙



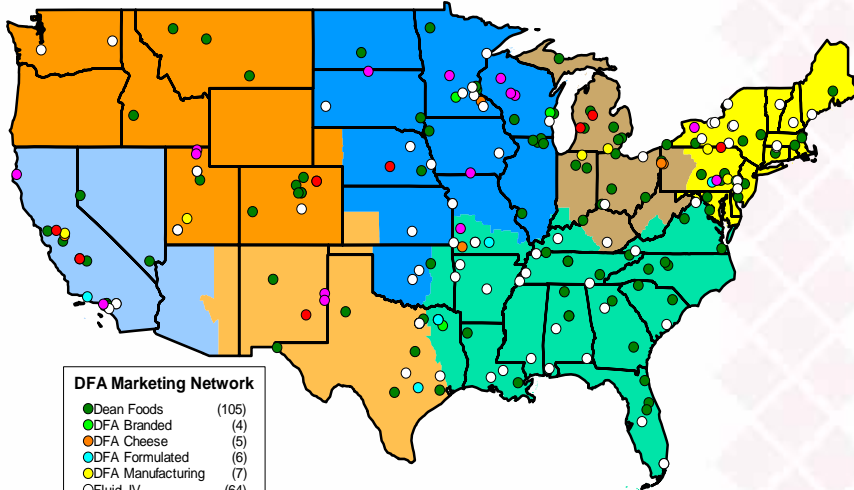
***Dairylea is a
Member Cooperative of DFA***

DFA Business Units

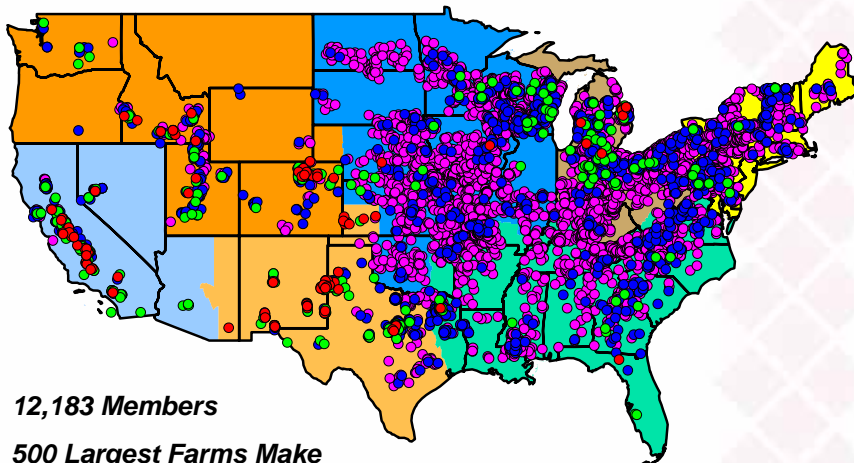


Dairy Plants

DFA Marketing Network



Member Demographics



Economics

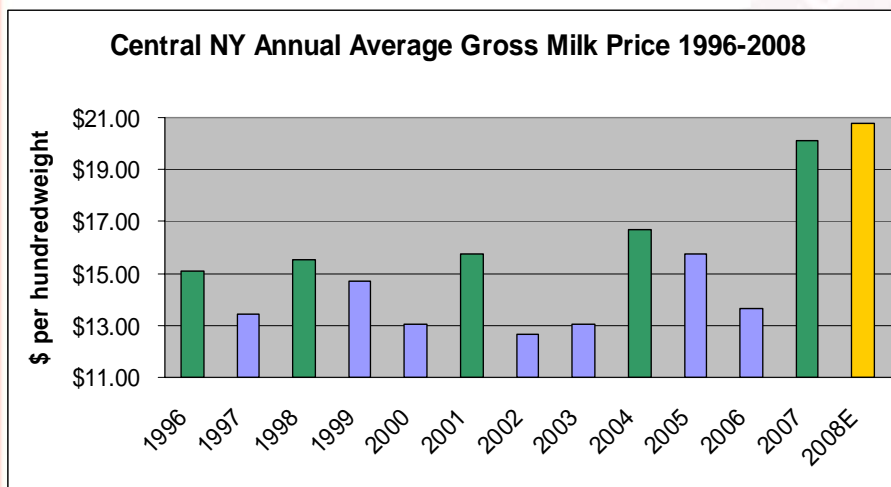
What Affects Milk Prices?

- International markets
- National milk production
- Economy
- Dairy product consumption
- CWT
- Weather
- rbST use

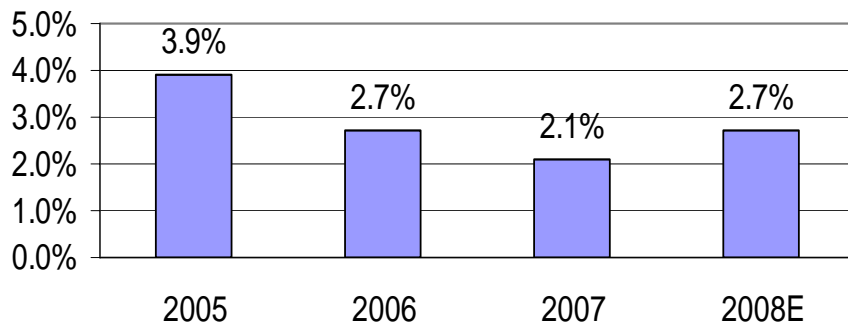


***\$7 Corn and \$120 Oil
Do not work with
\$18 Milk***

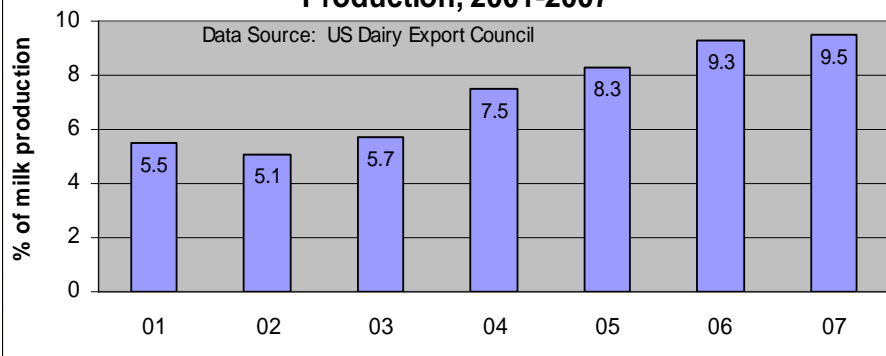
***Prices Will Continue to Cycle
but at a Higher Level***



U.S. Milk Production Growth Year-over-year, 2005-2008



U.S. Dairy Exports as a Percent of U.S. Milk Production, 2001-2007

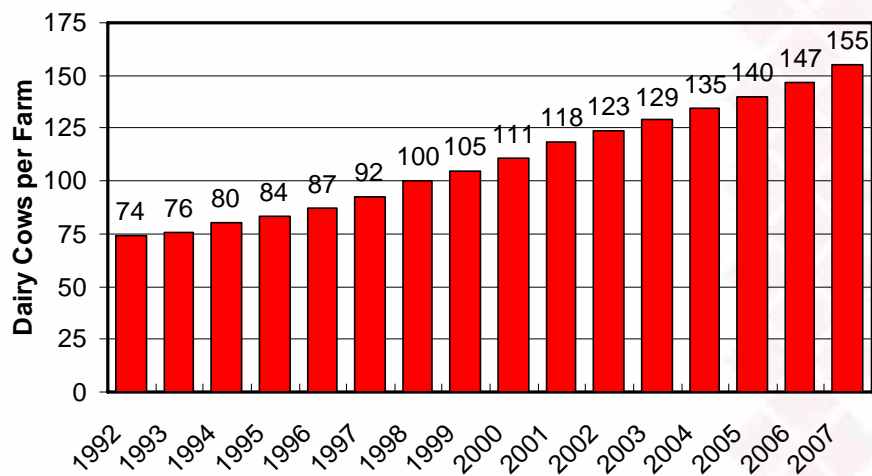


Costs Up Substantially



U.S. Dairy Industry Trends & Background

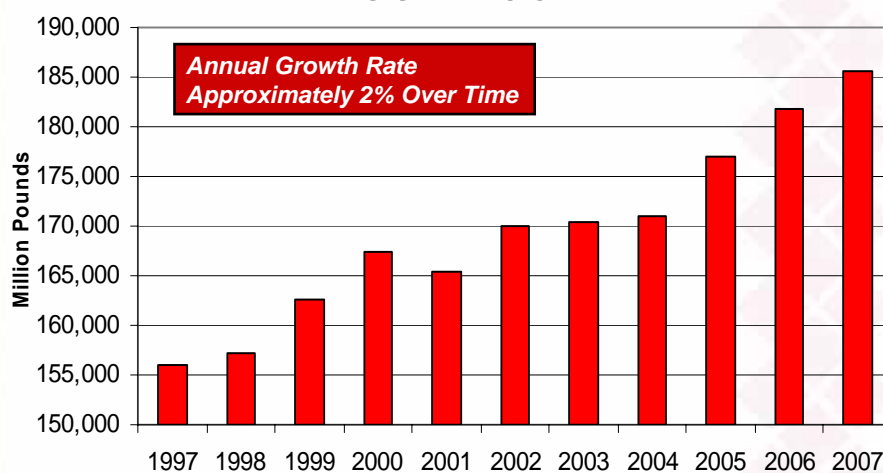
***Size of Average U.S. Dairy Farm
1992 - 2007***



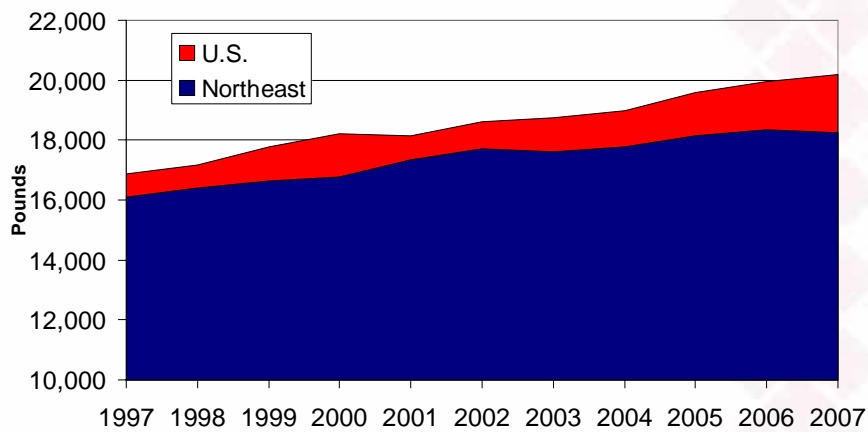
Farm Size Trends... % of Milk in U.S. by Farm Size

<u>Year</u>	<u>200-499</u>	<u>500-999</u>	<u>1,000-1,999</u>	<u>2,000+</u>	<u>Total</u>
1980	2.10%	0.50%	0%	0%	2.60%
2002	17.5%	13.9%	13.0%	15.0%	59.4%
2009	11.6%	12.3%	17.3%	33.8%	75.0%

U.S. Annual Milk Production 1997-2007

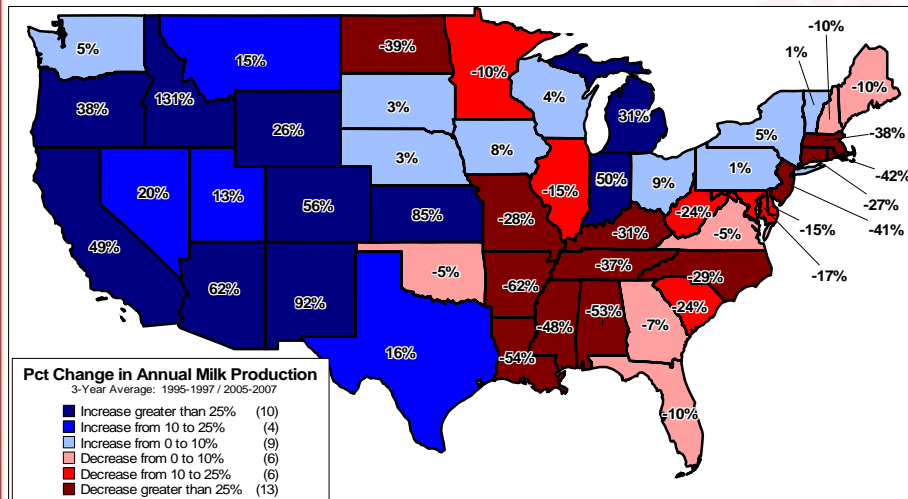


Production Per Cow 1997-2007



***The 3,000 biggest farms in the
U.S. produce more milk than
any single country in the EU!***

Regional Changes 10-Year Milk Shed Shift



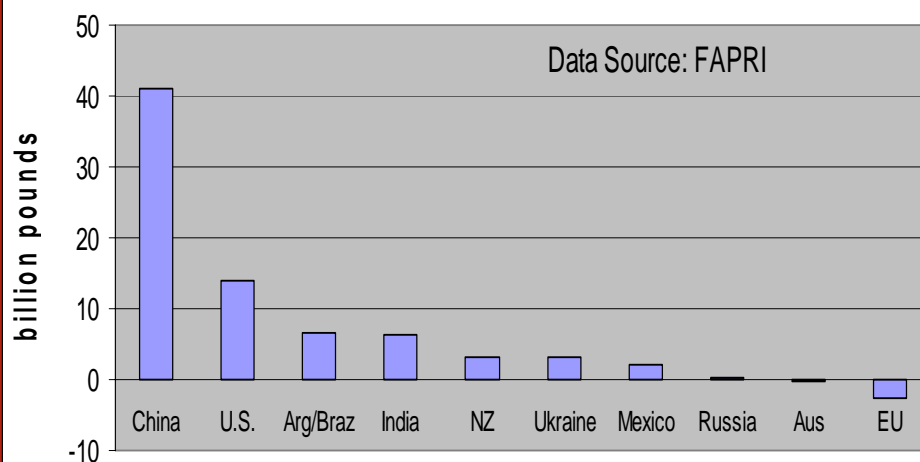
Why the Shift West?

- Land availability & price
- California Real Estate \$\$
- State incentives
- Environmental

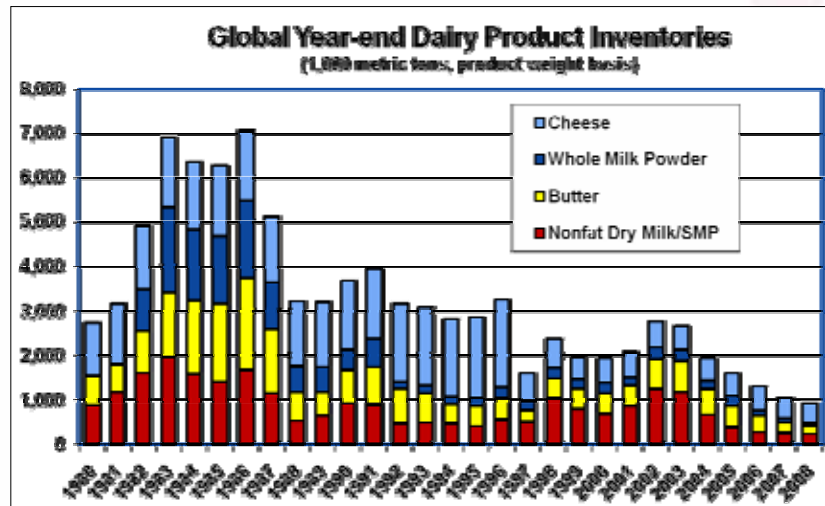


Opportunities and Challenges

**World Milk Production Growth
Selected Countries, 2000 vs 2006**

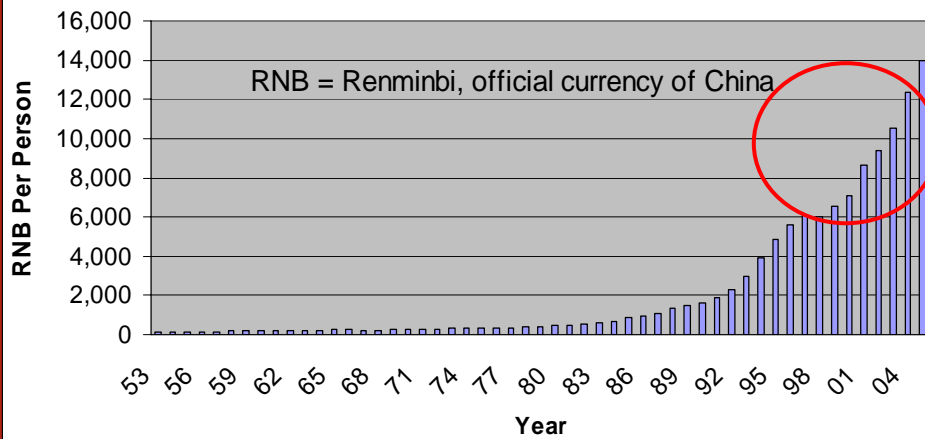


Reduced World Inventories



***Low World Stocks =
Upward Price Pressure
& More Volatility***

China's GDP Per Person, RNB, 1953-2005



- China GDP has almost doubled since 2000
- RNB 14,000 = \$ 1,866
- U.S. GDP per person = \$ 44,000

U.S. History of Exports

- **1950 – 1995**
“Anyhow Exporter”
- **1995 – 2000**
Farm Leadership
Interest in Exports
- **2000 – Present**
Industry Very
Focused on Exports



US Attitude on Dairy Exports

- Previous
 - Sell what we make
 - Price takers
 - Other countries lead world sales
- Current
 - Listen to customer needs
 - Want to be price makers
 - Desire to represent ourselves on sales

Slumping Value of the U.S. Dollar

***On Purpose?
How Much Did it Help Exports?***

Ethanol Boom or Bust...

Ethanol's story: fuel, feed and folly

Which biofuel will emerge as king of the market?

CORN is king of the biofuel feedstocks for the moment. Some 121 corn-based ethanol plants in 19 states have a 6.3 billion-gallon capacity. Another 70 plants are under construction and eight are scheduled for major expansions, piping out another 6.2 billion gallons of ethanol. But keep those numbers in perspective. The U.S. consumes about 140 billion gallons of gas annually. Down the road, cellulosic ethanol production is touted by some as the

"sustainable" process of the future. In this process, high-fiber crops like corn stalks and corn cobs and high-yielding forage crops like switchgrass are processed to break down their cellulose content into simple sugars to be fermented into ethanol. While the concept is appealing, the technology is in its infancy. Nonetheless, state and federal governments are pushing development with grant funds. Several large companies are embarking on major research programs.

Altech International, already producing livestock ration additives via fermentation, recently announced plans to create a huge research "biorefinery" in Kentucky. The goal will be to discover efficient ways of utilizing an estimated 1 billion tons of cellulose with potential to produce 70 billion gallons of ethanol. **Biodiesel competition?** Diesel fuel ultimately may come from a variety of feedstocks. Soybean oil, canola, and sunflower oil are being com-

verted to biodiesel and oil products. Rendered fats from the slaughter of livestock and poultry are another potential fuel-oil source. There's even been some debate within the plant and animal industries as to who is entitled to government subsidies justified in the energy bill. **Bottom line:** With agriculture's extreme opportunity and excitement plus extreme uncertainty and volatility, the next five to 10 years won't be for the faint!



Biofuel ... Is It Good U.S. Policy?

Is Sustainability a Passing Fad?



***If Carbon Footprint
is Important ...
How Do We Rank?***

Carbon Footprint

- **Low**
 - Maximum Technology
- **High**
 - Organic / Less Technology



Industry Consolidation

- Processors
- Cooperatives
- Dairy Farms
- Federal Orders





Will rbST RIP?





Starbucks: Hold the Hormones

Starbucks is going rBST-free. The world's largest specialty coffee retailer says it will no longer use dairy products made with the artificial growth hormone at coffeehouses in a number of regions around the country. It is investigating a similar change at stores nationwide.

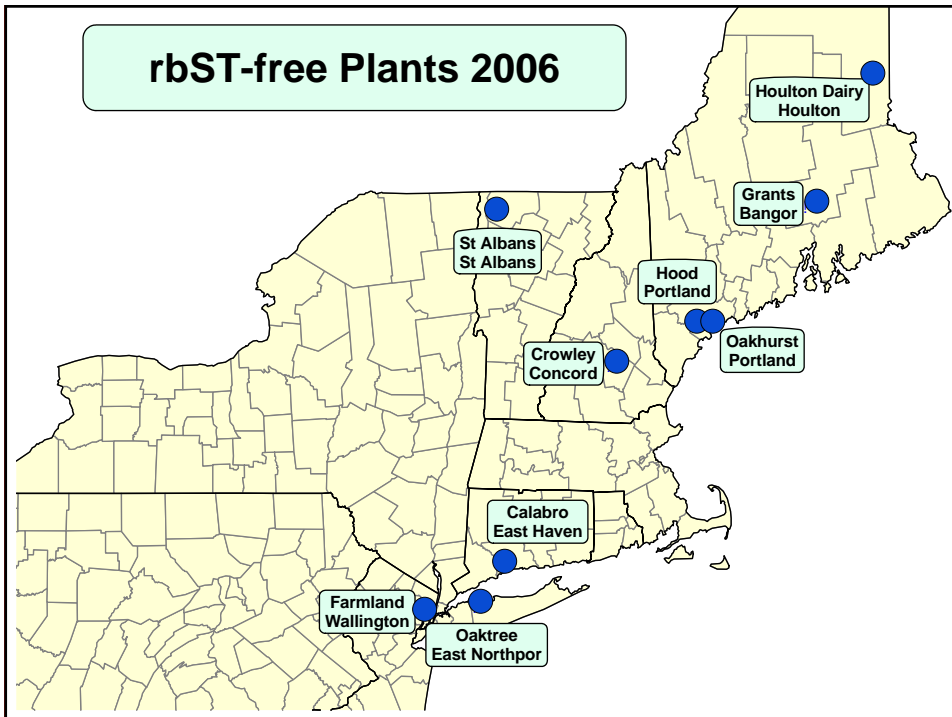
The announcement comes less than a month after Starbucks said it was halfway through a plan to phase out artery-clogging trans fats at company-owned U.S. stores.

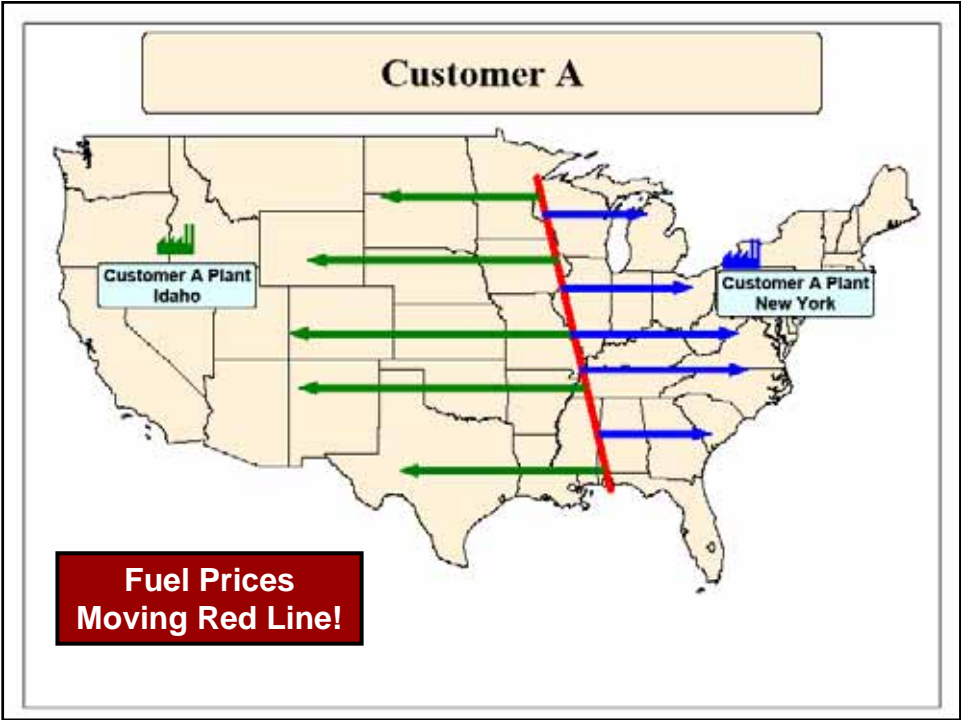
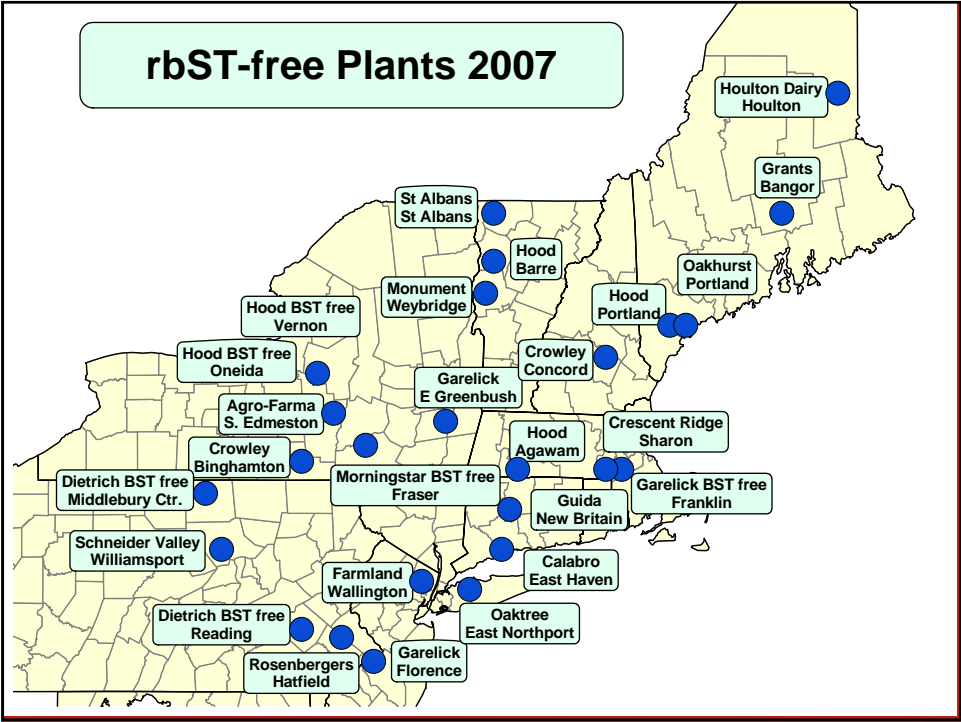
As of this January, 37% of milk, half-and-half, whipped cream and other liquid dairy products that Starbucks purchases are produced with rBST. That's an increase of about 22% from the 2006 fiscal year, a company spokesperson said.

The change affects stand-alone Starbucks stores in Washington, Oregon, Idaho, Alaska, Montana and New Mexico, and Texas, along with Northern California and New England. The company also is examining plans to phase such products out of all stores nationwide, but hasn't yet committed to making the larger change, a spokesperson said.



rbST-free Plants 2006







Immigration Reform

Can the U.S. Dairy Industry Continue To Grow?

New Technology

- Remove Water
- Genetics
- Robotics
- Fractionalization



***Will U.S. Farms
Invest Outside the
U.S.?***

Thank You