

3. Milk Market Feasibility

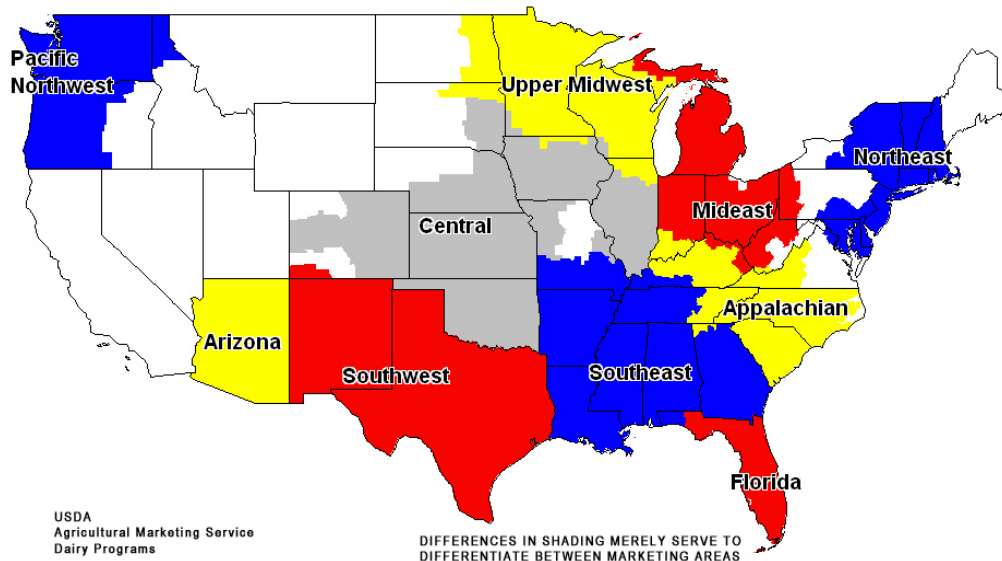
From the standpoint of a milk market, Southeast Missouri is very attractive area for dairymen to relocate based on milk pricing and competition of milk buyers. This region also has a good infrastructure of highway systems to allow milk to be transported to various regions in the United States effectively.

3.1 Milk Prices

Federal milk marketing orders set minimum prices for more than 70% of the Grade A milk produced in the U.S. and Grade A milk constitutes more than 95% of all U.S. milk. California, with about 20% of U.S. milk production, uses a state pricing system that is similar to federal order pricing. Federal orders are authorized under the Agricultural Marketing Agreement Act of 1937, revised. USDA cites three major objectives of federal milk orders:

- 1) To assure consumers of an adequate supply of wholesome milk at a reasonable price.
- 2) To promote greater producer price stability and orderly marketing.
- 3) To provide adequate producer prices to ensure an adequate current and future Grade A milk supply.

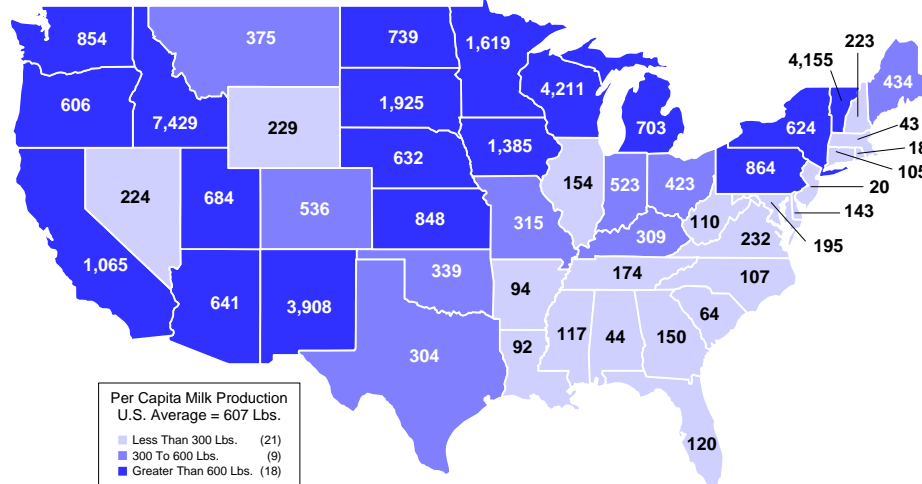
Figure 3.1-1. Federal milk marketing order areas



Currently, the Southeast Order where the proposed dairy systems in Southeast Missouri would reside has a high Class I (fluid milk) utilization of 55% to 65%. As a comparison, the Central Order in northern Missouri has a Class I utilization of 25% to 30% except when milk prices are moving upward quickly and cooperatives are depooling their milk. Because, over time Class I is the highest valued milk, orders with higher Class I utilization tend to have higher blend prices. Missouri is an increasingly milk deficit area,

as are all states to the south and east of Missouri. It is expected that milk prices in this region will show relative increases in comparison to other parts of the country over time, particularly as energy prices increases and the cost of transporting milk makes local milk more valuable.

Figure 3.1-2. 2006 Per Capita Milk Production



The per capita consumption of fluid milk and cream in the U.S. is little over 200 pounds. This indicates that any state producing less than 200 pounds of milk per person has to import milk just to satisfy fluid consumption needs. In 2006, the per capita consumption of all dairy products in U.S. was 607 pounds. This indicates that any state producing less than 607 pounds of milk per person has to import milk or processed dairy products to satisfy their consumer's needs. Missouri currently produces 315 pounds, which is slightly over half of the milk consumed by Missouri's population.

The national federal order mailbox milk price is a good measure of showing the regional differences in milk prices received throughout the United States. Mailbox milk prices reflect the **net** pay price received by dairy farmers for milk. This includes all payments received for milk sold and all costs associated with marketing the milk, including hauling. Price is a weighted average for the reporting area and is reported at the average butterfat test. Mailbox price does not include any Milk Income Loss Contract (MILC) payments. In the following figure, the map of the federal milk marketing order areas includes the average mailbox milk prices as reported for 2005. Southern Missouri had a mailbox milk price of \$14.67 in 2005. The southeast region of the United States tends to have higher milk prices received due to the high fluid milk demands and short supply of milk in this region.

Figure 3.1-3. Federal milk marketing order with avg. 2005 mailbox milk prices

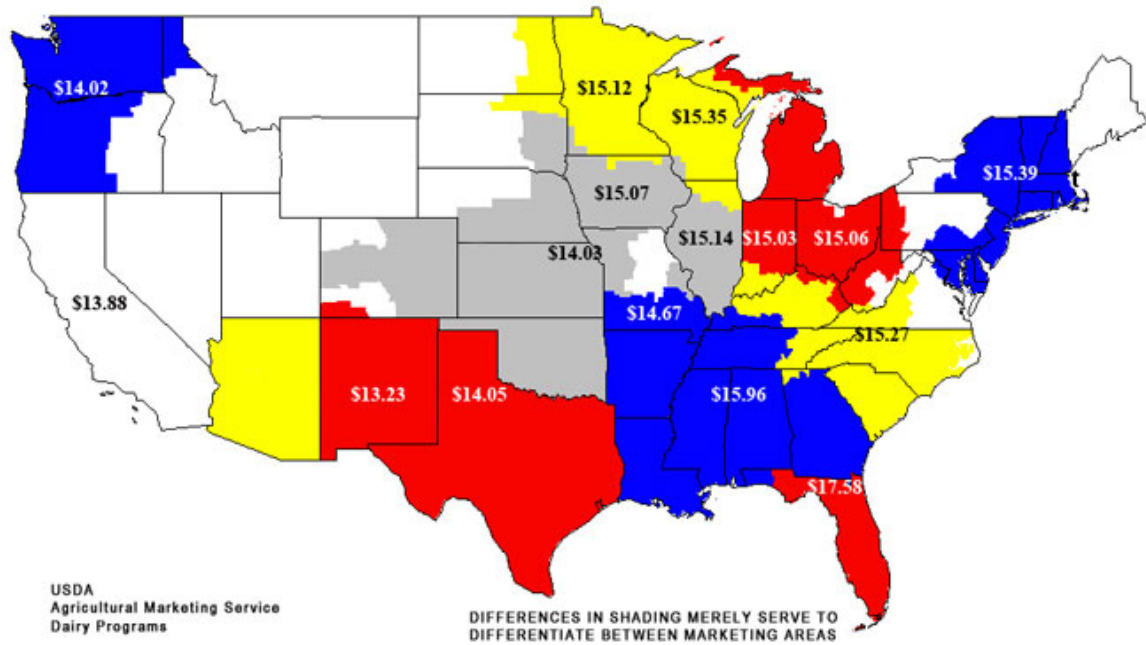


Table 3.1-1. Mailbox milk prices for selected reporting areas in federal milk orders and California

Mailbox Milk Price 2/				
Reporting Area 1/	2003 Avg.	2004 Avg.	2005 Avg.	3-year Avg.
Northeast Federal Milk Order	\$12.54	\$16.32	\$15.39	\$14.75
Appalachian States 3/	\$12.87	\$16.21	\$15.27	\$14.78
Southeast States 4/	\$13.49	\$16.81	\$15.96	\$15.42
Southern Missouri 5/	\$12.28	\$15.61	\$14.67	\$14.19
Florida	\$15.12	\$18.26	\$17.58	\$16.99
Ohio	\$12.35	\$15.87	\$15.06	\$14.43
Indiana	NA	\$16.02	\$15.03	\$15.53
Michigan	\$12.06	\$15.57	\$14.78	\$14.14
Wisconsin	\$12.64	\$16.56	\$15.35	\$14.85
Minnesota	\$12.66	\$16.29	\$15.12	\$14.69
Iowa	\$12.47	\$16.02	\$15.07	\$14.52
Illinois	\$12.49	\$16.12	\$15.14	\$14.58
Corn Belt States 6/	\$11.83	\$14.80	\$14.03	\$13.55
Western Texas 7/	\$12.08	\$15.17	\$14.05	\$13.77
New Mexico	\$11.14	\$14.09	\$13.23	\$12.82
Northwest States 8/	\$11.35	\$14.70	\$14.02	\$13.36
All Federal Order Areas 9/	\$12.34	\$15.93	\$14.98	\$14.42
California 10/	\$11.60	\$14.72	\$13.88	\$13.40
NA = Not Available.				

1/ Information is shown for those areas for which prices are reported for at least 75% of the milk marketed under Federal milk orders. The price shown is the weighted average of the prices reported for all orders that received milk from the area. 2/ Net pay price received by dairy farmers for milk. Includes all payments received for milk sold and all costs associated with marketing the milk. Price is a weighted average for the reporting area and is reported at the average butterfat test. Mailbox price does not include any Milk Income Loss Contract (MILC) payments. 3/ Includes Kentucky, North Carolina, South Carolina, Tennessee, and Virginia. 4/ Includes Alabama, Arkansas, Georgia, Louisiana, and Mississippi. 5/ The counties of Vernon, Cedar, Polk, Dallas, Laclede, Texas, Dent, Crawford, Washington, St. Francois, and Perry and all those Missouri counties to the south of these. 6/ Includes Kansas, Nebraska and the Missouri counties to the north of those listed in 5/. 7/ All counties to the west of Fanin, Hunt, Van Zandt, Henderson, Anderson, Houston, Cherokee, Nacogdoches, and Shelby. 8/ Includes Oregon and Washington. 9/ Weighted average of the information for all selected reporting areas in Federal milk orders. 10/ Calculated by California Department of Food and Agriculture, and published in "California Dairy Information Bulletin."

3.2 Milk Buyers

Currently in Southeast Missouri, there are two large milk marketing cooperatives available to market the milk from potential new Bootheel dairy operations. In addition to the two cooperatives listed below, several additional smaller regional cooperatives may have an active interest in marketing new milk in the region.

- 1) **Dairy Farmers of America (DFA)** is a dairy marketing cooperative founded January 1, 1998, by the consolidation of four regional dairy marketing cooperatives. In 2005, the cooperative marketed more than 59.7 billion pounds of milk for its then 20,631 dairy farmer members, supplying bottling plants and manufacturing plants that produce a complete line of dairy products for consumers in the United States and around the world. Their national headquarters are located in Kansas City, Missouri.

- 2) **Prairie Farms, Inc.** is a dairy marketing cooperative owned by over 800 dairy farmer members. It processes and markets branded Class I and Class II dairy food products out of its 17 plants, along with 13 others through subsidiary companies and joint ventures throughout the Midwest and Midsouth. Their national headquarters is located in Carlinville, Illinois.

Discussions were held with representatives of both Dairy Farmers of America and Prairie Farms milk cooperatives. Both milk cooperatives are looking to source new milk in the Southeast region of Missouri and may offer some milk price incentives.

3.3 Milk Logistics

The dairy operation site needs to be accessible by public roads and bridges that are capable of handling tractor trailer trucks and heavy traffic that will need to reach the site during construction and operation. The layout of the facility should also accommodate large vehicles that transport feed, animals and milk.

Ideally Southeast Missouri dairies should be located relatively near to Interstate 55 or Highway 60. This crossing of north-south and east-west transport arteries provides fast, low-cost turnaround time to milk haulers taking shipments to processing plants in Cabool, MO; St. Louis Area; Carbondale, IL; Fulton, KY and milk deficit bottling plants further south in the MidSouth region of Tennessee, Mississippi, Alabama, Louisiana, and Georgia. Currently significant amounts of milk move via tractor trailer tankers down the I-55 corridor from milk surplus areas of the west of upper Midwestern U.S. into the Midsouth.