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September 3, 2009

Dairy Farmers of America
10220 N. Ambassador Avenue
Kansas City, MO 64153

Attn: Tom Camerlo, Chairman of the Board
Rick Smith, President and C.E.O.
Corporate Board of Directors

Gentlemen:

It is time for DFA to help its membership. If those who control DFA will not pursue immediate and meaningful improvement to your membership's milk pay prices, I suggest you resign your positions and allow those who are in top management, who can more effectively balance the needs of producers and of DFA, to move this co-op forward. For more than six months, I have been communicating with various management levels, corporate and board members, and to date, there has been no effective plan proposed by DFA, to help improve the milk producers' pay prices.

Literally thousands of producers across the country have been communicating for over six months trying to gain a consensus on milk pricing concepts which will help in the short as well as long term. The attached exhibits A-2 and A-3 reflect the limited effort DFA has put into this dairy crisis. The exhibits recommend only more participation in the Co-ops Working Together (C.W.T.) program. In other words, by keeping prices low, many producers will be forced to sell out, many through the C.W.T. program, with the obvious result being less milk produced, making the industry stronger for those producers who survive. By the way, how many producers on this corporate board have been forced out of business during this year?

The following lists most of the current milk price concepts which are widely acceptable to producers across the country:

1. Stricter enforcement of the existing Pasturized Milk Ordinance (PMO) degrading milk over 750,000 s.c.c.
2. Reduce the above 750,000 s.c.c. to 450,000 s.c.c.
3. Standardize the national milk test to 3.5% butterfat and 8.7 solids
4. Milk Import Tariff Equity Act (S.1542) Increase import tariff rates on milk protein

concentrates (MPC) and casein. These milk powders escape the normal milk product tariffs, are imported cheaply and displace thousands of tanker loads of domestically produced milk.

5. Enforcement by FDA to not allow milk protein concentrates in food for human consumption, until proven safe, and then require proper labeling of the products that are made with MPC.
6. The revised Spector Bill (S-1645), a growth management and price correction plan.
7. Continuance of the C.W.T. program by converting very young dairy heifers to beef cattle, with no future export assistance.

Exhibit A-2 "DFA Action on the Dairy Crisis" reflects "DFA exists to support its members." Success is measured by results and failure leads to accountability. Not one idea expressed on page A-2 or A-3 has alleviated the financial suffocating of your members. Even your own projections presented at DFA meetings do not reflect a milk pay price exceeding cost of production, until a year from now.

Dairy Farmers of America has a duty to market the milk delivered by it's membership. The most elementary elements of marketing involve making a profit and controlling the business environment to allow for success. Although I am happy to hear that DFA will probably make \$50M - \$70M profit in 2009, DFA is failing, miserably, at supporting its members.

It is clear that DFA has the power to make big changes in the way producer pay prices are determined. We can only speculate why DFA has not helped its membership. The help you refer to in Exhibit A-2:

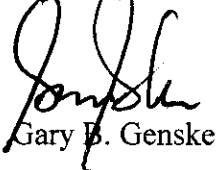
1. "Pushed USDA to implement DEIP," results in continued overproduction at current pay prices (Lucky for DFA, who makes a guaranteed profit through a 2009 increased "make allowance"), and
2. "Convincing the Secretary (Vilsack) to donate to more feeding programs" does not change the producer pay price and does not discourage overproduction, which DFA reports is the main reason for low producer pay prices, and
3. "We have pursued equal treatment for ag loans" has not helped producer pay prices either. Secretary Vilsack, after receiving input from the representatives for dairymen was able to appropriate \$760M for loan assistance through the Farm Service Agency. The message we farmers get from this misguided \$200,000 maximum loan program is: the government is here to help you farmers stay in business a little longer at these currently low pay prices, and
4. Working with DMI to help increase consumption of cheese (on pizza, etc.), (would that be cheese made from MPC's), is a step that would be taken in the normal marketing process, so how has this extra activity improved producer pay prices, and

5. Encouraging the C.W.T. officials to retire more cows with producers funds, has the effect of forcing many dairy farmers out of business. Not one activity taken by DFA has improved current producer pay prices, and you are aware of the fact that dairymen are losing an average of \$6.00 per C.W.T. of milk produced for this year.

We producers pay good salaries to hired individuals at DFA to market (not just move) the milk we produce. The 'DFA Leader', Spring 2008 Volume 11, No. 1, page 5 states "the word cooperative" means "to work together for a common benefit." Current management, although much more "transparent," is not working together for a common benefit, and has forgotten the welfare of it's producers. I estimated DFA producers have lost \$2.250 billion from operations in the first six months of 2009 and about \$4 billion in market value decline in the last year.

It is imperative that the appropriate upper management level executive at DFA respond very soon. I am not the only person asking for accountability from DFA. I have discussions with dairymen from across the country, clients or not, several times a day, discussing all these pricing issues. Politicians are not getting a complete message from this industry's leadership, and this must change. Our membership needs your help, and we need it now!

Sincerely,



Gary B. Genske



Dairy Farmers of America

Rick Smith, DFA President and CEO
Western Area Council Summer Meetings
Sacramento, Modesto, Tulare, and Chino California
July 20th, 21st and 22nd, 2009

AGENDA

Welcome

Invocation

Western Area Overview – Glenn Wallace

Council Milk Markets

Base Program

DFA Farm Services - Jackie Klippenstein

Dairy Energy Update

Grazing Conferences

Legislative Update

DEPAC

DFA Organization Overview – Rick Smith

DFA Performance Outlook

Industry Outlook

Question and Answer Session

DFA Action on the Dairy Crisis

DFA exists to support its members. During what has been an extremely challenging down price cycle, we have been actively working to improve the situation for our members. In addition to activities designed to assist on the farm, we have been engaged in a variety of activities that may help shorten this terrible crisis. Some of these activities include:

- We have pushed USDA to implement the Dairy Export Incentive Program (DEIP). Today, we learned that our efforts in this area have been successful. Secretary Vilsack made an announcement that this program is being implemented.
- We also were active in convincing the Secretary to use government purchased nonfat dry milk for donations and feeding programs.
- As the banking crisis in America is being reviewed, we have pursued equal treatment for agricultural loans.
- We have been working with DMI to identify opportunities to increase consumption of dairy products, particularly focusing on the amount of cheese on pizzas.
- We have encouraged Cooperatives Working Together (CWT) officials to retire as many cows as is practical. While we applaud the recently announced Herd Retirement Program which will take out approximately 103,000 cows, we still need to do more. One of the market realities we must face is that CWT, on its own and with just 67% of the nation's milk paying in, will not be able to manage price volatility. Once we get through this crisis, we likely will have another downturn in the future if we don't change the system.

Additionally, we remain focused on our own operations. We continuously look for ways to cut costs and generate additional revenue. We are working with other cooperatives to, among other things, swap milk to generate freight savings. Multiple Areas of DFA have implemented regional supply management programs to keep local supply and demand in balance.

With all this in mind, Chairman Tom Camerlo appointed a new Price Stabilization Study Committee at the DFA Board meeting held in May. The committee members were charged with facilitating the creation of guidelines for DFA on price stabilization. The committee members, who represent a cross section of DFA member demographics, concluded their activities this week.

The recommended guidelines will need to be approved by the Board, but due to the extreme urgency of the issue, the committee chose to expedite its circulation. The guidelines on the next page will be used by DFA in upcoming discussions on the formulation of a price stabilization program for U.S. dairy farmers. These discussions will be led by National Milk Producers Federation and will include a broad base of ideas and opinions brought by many farmer groups.

Ultimately, the goal is to mitigate future price volatility, because this volatility is devastating to dairy farmers.

DFA Price Stabilization Study Committee Recommendation

The Price Stabilization Study Committee is recommending a two-phase approach for stabilizing milk prices:

- Phase I addresses the current crisis and calls for immediate action.
- Phase II identifies guiding principles in the development of a long-term solution.

Phase I

Immediate action encouraged

The low milk prices and high production costs facing today's dairy farms, and the unprecedented stress it is causing, requires immediate action. The Cooperatives Working Together (CWT) Committee of National Milk Producers Federation (NMPF) is strongly encouraged to implement another Herd Retirement Program in conjunction with a new program that allows CWT members to participate without liquidating their entire herd.

Phase II

Guiding Principles

We strive to:

- **Be market oriented to allow for growth both domestically and internationally**
 - In spite of the recent reduction in exports, dairy consumption, both domestically and internationally, is growing over the long term. In order for our industry to remain healthy, we must have a program that allows U.S. dairy farmers to get their share of future worldwide growth.
- **Be responsive to quickly changing market conditions**
 - A responsive system will keep supply and demand more closely aligned. This will moderate market price highs and lows. Reduced price volatility results in more consistent consumer demand and producer margins. The system needs to anticipate changing market conditions and respond before they happen. It is similar to an engine running constantly with the governor automatically adjusting revolutions per minute due to changing field conditions.
- **Have 100 percent Enrollment-Voluntary Participation**
 - 100 percent enrollment in a voluntary program is the preferred outcome. A voluntary program with maximum producer participation provides optimum flexibility and industry direction. In the absence of 100 percent enrollment in a voluntary program, a mandatory program would be considered. To maximize effectiveness, all dairy farms must participate. The program must be producer/industry managed.
- **Be global in nature to consider impact of imports and exports**
 - The world is getting smaller. We have quickly become a significant player in world dairy markets. We need a program that recognizes changes in supply and demand on an international basis, and considers the potential for increased exports and avoids the threat of additional imports.
- **Be national in scope with the ability to implement regionally**
 - While there are regional differences, all U.S. dairy prices are based on nationwide commodity markets. Therefore, a national program is necessary to be fair to all producers. However, different regions of the country have very different supply and demand conditions. A program which considers regional supply and demand will be most effective and better for the industry in the long run.

A-3