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Agricultural Outlook Forum
U.S. Department of Agriculture

Presented: February 26-27, 2009

Food Prices & Markets

Chris Policinski
President & CEO
Land O'Lakes, Inc.

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MODERATOR: The next speaker on our panel is someone who will talk, not only about food opportunities and our obligations for feeding a hungry world, but someone who also is very active in the Twin Cities community in giving back and helping lots of hungry folks. Last year he was chair of the United Way Campaign in the Minneapolis area. Chris Policinski is the president and CEO of Land O'Lakes, a company with about \$12 billion in sales. Prior to that, he served as executive vice president and chief operating officer for Land O'Lakes in their Dairy Division.

He's got a long career in the food industry, working for 24 years different management positions with Pillsbury, Kraft General Foods and Bristol Myers Squibb. Policinski holds a BA in finance from the University of Notre Dame and also an MBA from New York University.

So please help me welcome Chris Policinski.

[Applause]

MR. CHRIS POLICINSKI: Thanks, Sara. And thanks to the USDA for the opportunity to be part of today's panel.

I've been asked to comment briefly on market projections for both the long-term and the short-term, and that's not such an enviable task if you think about the short-term volatility we've had in our markets and equally as important the uncertainty around the short-term demand that we have going forward.

And while I'm happy to let you know what we see in our crystal ball at Land O'Lakes in terms of near-end market projections for some of the key commodities that we all work with, I'd really like to devote the majority of my time to the longer term market prospects for our industry, because I'm very bullish about the future of the global ag industry and about the role U.S. agriculture will play in that future.

And I'll start by giving you the take-away of my comments today: Feeding a hungry world is both an obligation as well as an opportunity.

Now before I get into my specific comments, let me provide you with a little bit of background on Land O'Lakes because I suspect not all of you know who we are. But importantly let me try and get a grounding for all of you of why we're so interested in both addressing global hunger and the future of the ag markets.

Many of you probably see Land O'Lakes like this, a long-standing dairy marketing cooperative known for the strength of our brand and the quality of our butter. But today our business portfolio really goes well beyond dairy, as in the late 1920s driven by the

success of being that marketing company our owners asked us to enter the ag inputs business in feed, seed, crop protection products, and fertilizer – on their behalf.

Today, as Sara said, we're a \$12 billion company, the nation's third largest cooperative, and number 294 on the Fortune 500.

In addition to holding market leading positions in our core categories of butter, deli cheese and a range of food service products, we're also the leading food company in both livestock and lifestyle segments in the nation, the number one wholesale distributor of crop protection products, the third largest farm seed company, and the number two shell egg marketer.

So as you can see, our business and our producers' members really touch nearly all segments of U.S. agriculture.

Importantly, through all of this growth and diversification, we remain member-owned. And all of this gives us somewhat of a unique perspective on the marketplace. While a lot of folks talk about it, we truly do think in terms of farm-to-market, from the field to the barn to the grocery store to the dinner plate.

Second, and this is equally as important, our members and really our entire organization over 88 years are based on the notion of taking a long-term, in fact multi-generational view, of agriculture, our business in the food industry.

And this long-term point of view really affects how we look at everything, from the balance of short-term profits, the long-term investments, to sustainability and stewardship, to the obligation and opportunity we see in feeding a hungry world. Reflective of this long-term view and our core rural values in our organization, Land O'Lakes has a deep and longstanding interest in addressing hunger, both at home and abroad.

For example, our International Development Group has worked for nearly 30 years with the USDA, USAID, and other partners to implement ag development programs around the world. In fact, since the early '80s we've implemented more than 160 development projects in 72 countries. In addition, we've been involved in global school nutrition programs since 2001 in nine different nations.

With this background, hopefully you can see why we hold a strong opinion and strong views on the future of U.S. agriculture and the issue of global hunger.

Now let's turn to that global environment as it relates to markets, an environment that I believe presents obligation and opportunity as I said before. Analysts estimate that between 850 and 950 million people around the world go hungry every day. And as you heard earlier from Michael and the Secretary, world population at about 6.5 billion will top 9 billion by 2050. Incredible folks like the UN Food and Ag Organization tell us that world food production is going to have to double by mid-century.

All that leads to a question: Can this challenge be answered? Well, I believe it can, if U.S. agriculture and agri-business are able to continue to lead the way.

And really this chart tells a story. Sara, my numbers may be a little bit different than yours, but the content is right on the button. In 1930 the average U.S. farmer fed himself and nine other people. Today, that number stands around 150. Very simply, U.S. agriculture has an amazing record of increasing productivity. I think it's one of the great untold success stories of our era. And this productivity surge is driven fundamentally by two things: the adoption of modern business practices on-farm, as well as the adoption of safe, proven technology to drive productivity.

Think about it. Average corn yields have gone from 20 bushels an acre in 1930 to 150 bushels today. If we were in the auto industry we'd be talking about cars that got well over 100 miles a gallon today. Wheat yields have tripled since 1930, and per-cow milk production increased from 4,500 pounds per cow in 1930 to more than 20,000 pounds today.

A tremendous success story, and I applaud U.S. producers, past, present and hopefully future, for their progress and their productivity. And I really commend everybody involved: individual farmers and a host of public/private partners, many of which are represented here in the room today and at the USDA. All have helped make this progress possible.

And I suspect it's pretty obvious why our ability to continue that story is important. Remember, I indicated that food production has to double by mid-century? Couple that long-term scenario with the fact that there's little additional high-quality land available and water is becoming more and more precious, and you can see why analysts maintain that 70 percent of the necessary increase in production must come from advancing technologies.

Within this scenario there is some good news, and it goes back to that amazing American productivity story that I just told. While resources may be limited, history does tell us that within Ag, resourcefulness is not. If we can continue to use this resourcefulness to develop and implement and share advanced management practices and new technology, we can meet the challenge of global hunger. But there is a catch, and it's a simple one. Many just aren't aware of this great productivity story or of its importance to our future.

You don't have to take my word for it. Dr. Norman Borlaug, father of the Green Revolution and well-known winner of the Nobel Peace Prize, the President's Medal of Freedom, and the Congressional Gold Medal, believes we have the technology to enable us to feed 10 billion people. In his words, and this is the catch that I mentioned earlier, "The more pertinent question is whether or not we'll be able to use that technology."

Because ironically, and this is a great irony, advancing productivity itself means very few folks are actually directly involved in production agriculture. Today less than 2 percent of

the U.S. population is directly involved in production agriculture, and at the decision-making level, not surprisingly, only 12 of 535 members of Congress have an ag background. That's why preserving the right of producers to continue this productivity story, to continue to adopt modern business practices on-farm, and to continue to adopt proven safe science and technology, I think, is one of the most important challenges for all of us involved in agriculture – producers, processors, cooperatives, industry organizations, government agencies, and academia. We all must work together to represent the 2 percent to help educate the public as to the importance of continued advances in productivity, and to ensure that decisions regarding ag practices are made on the basis of sound science and fact, not emotion, political or social agendas, or even nostalgia.

When you apply that long-term point of view, the markets for our goods will continue to grow for generations to come.

Now before I close, I would like to make just a few comments on the shorter term outlook. As I said earlier, it's really not an enviable task, and I don't have much to add to what you heard from Joe this morning, but for completeness let me comment on some of the short-term trends.

And as I do that, I want to remind everybody, last year in April before planting we were looking at corn just under \$6.00 a bushel. By June I think we were seeing \$8.00 a bushel, and corn finally dropped below \$3.00 by December. So that gives you a pretty good idea of why I spent the bulk of my time talking about the long-term prospects of our industry.

Nonetheless, here's what we think at Land O'Lakes, and our views are shaped fundamentally by what comes out of the USDA, trade organizations like NCFE or National Milk Producers Federation, and a host of other economists. And let me quote Terry Barr, who had said earlier that at a meeting with our staff that "food is fundamentally a growth industry."

First, thinking about the short term, let's step back. Our environment is shaped by two primary factors that you heard this morning: strong markets and nearly across-the-board increases in production over 2007 and 2008, as well as the weakening global economy, coupled with the strengthening U.S. dollar that's driven aggregate demand down and export demand down.

Basic economics tell you that that's not a bright prospect for pricing. But a bit more specifically starting with grain markets, the combination of expanding global production of feed grains, wheat and soybeans, in response to the strong 2007 and 2008 prices, and the recent decline in demand is having the expected result on markets. Even as stocks rebound and markets decline, we still are going to see prices remaining strong by historic standards.

Looking at the year ahead we might see corn in the mid to high \$3.00 range; I think that was very consistent with what you heard from Joe. Soybeans averaging around \$9.00,

and that's a little higher than what we heard this morning. Wheat in the \$4.00 range; that's a little lower than what we heard this morning.

Moving on to livestock, the global economics lump has really made itself felt in the form of decreased demand for that industry. As a result, we've already seen a significant response on the supply side, with production down across the board in beef, pork and poultry. And we expect to see a 2 to 4 percent decline across meat production for the first half of the year.

In fact, most analysts project pork, beef, turkey and chicken production all to be down in 2009. That's the first across-the-board decline since 1973.

Given all of this, analysts tell us feed cattle prices are expected to reach spring season peaks in the low to mid \$90 range before dropping somewhat throughout the summer. In pork, as you heard this morning, last year's losses are expected to result in a reduction in both production and slaughter, somewhere in the 2 to 3 percent range. And we look for hog and pork prices to be a bit higher, in the \$67 to \$70 range versus about \$64 this time last year.

Then there's the dairy market. I think that's a quote from one of our dairy producers there. Not much good news to report in the near term. We are seeing a market shaped by very strong production and declining consumption. And that's expected to translate into very weak 2009 markets, perhaps in the \$11 range for most of the year—rising potentially to \$14 if we see a supply side response and demand remains stable. Both of those are uncertain comments, by the way.

So there is a quick look at the short-term markets, but please take these projections with a grain of salt. I include them just for completeness.

But I do want to end with my beginning comment, that our industry is a growth industry. And as we step back a half a step or a step from the short-term bumps we're experiencing, there's tremendous opportunity for all of us involved in production agriculture. But more importantly, there's tremendous obligation for us to help feed a hungry world.

Thank you very much.

[Applause]

 **LAND O'LAKES, INC.**
growingtogether



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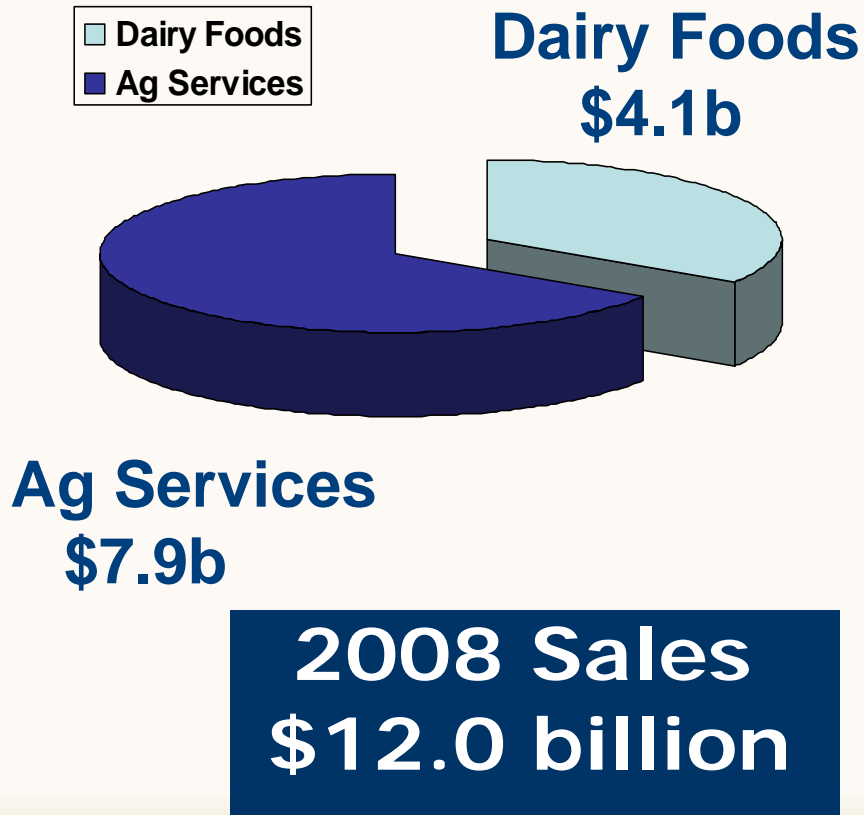
Take-Away

**Feeding a Hungry World ...
Obligation & Opportunity
for U.S. Agriculture**

Land O'Lakes—A Popular View



Land O'Lakes Today



- #294 on Fortune 500
- #3 cooperative
- 200+ facilities
- 9,000 employees
- Does business in all 50 states, 60+ countries

Land O'Lakes Today

– Leading branded goods company

- #1 in butter
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Still member owned!

- Farm-to-market perspective
- Long-term, multi-generational, point of view



Land O'Lakes Today

**We have a deep, long-standing
interest in addressing hunger ...
at home and abroad.**

Addressing Hunger

– Land O'Lakes International Development Division

- Agricultural/Economic Development
 - 2008 300 staff, 33 projects in 28 countries
 - Since 1981 ... 160+ projects in 72 countries
- School Nutrition Programs
 - 2008 ... fed 335,000 youngsters in Bangladesh, Malawi, Pakistan and Philippines
 - Since 2001, fed 1.6 million youngsters in nine countries



Land O'Lakes
INTERNATIONAL DEVELOPMENT



USAID
FROM THE AMERICAN PEOPLE

Feeding a Hungry World

- More than 850 million people go hungry every day
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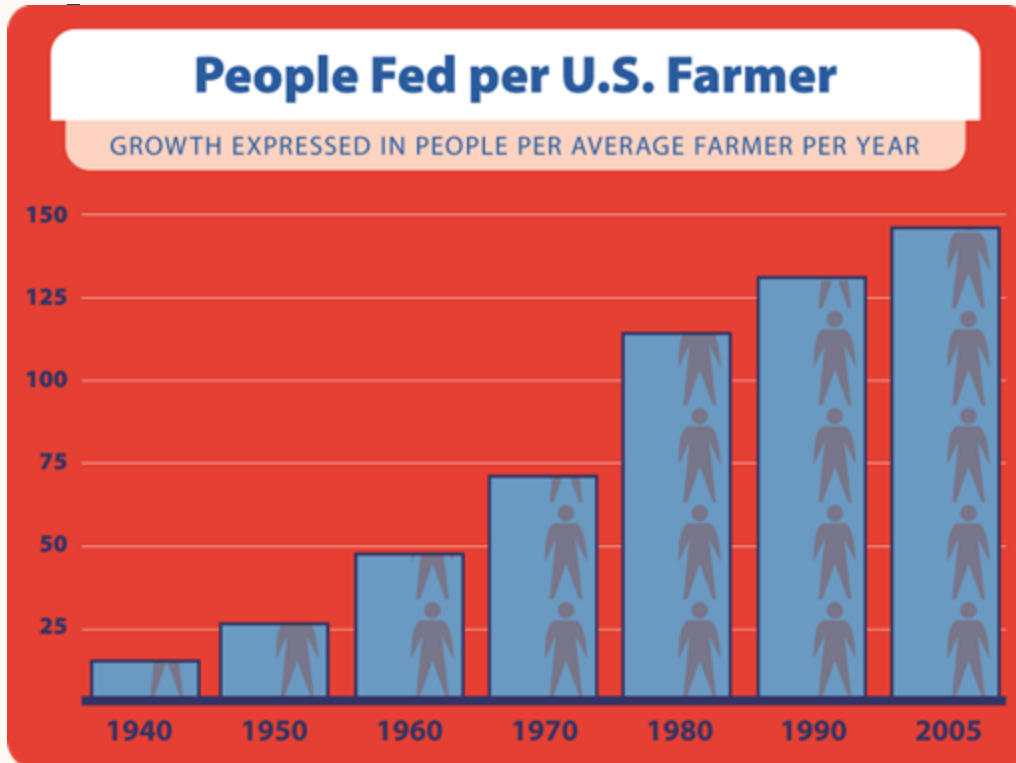
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Feeding a Hungry World

World food production will need to double by 2050 to meet growing demand.

-United Nations Food and Agricultural Organization

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Source: American Farm Bureau Federation

In 1930, the average U.S. farmer fed 10 people

Today, that figure is close to 150

U.S. Agricultural Productivity

Productivity surge driven by:

- 1. Adoption of modern production and business management practices**
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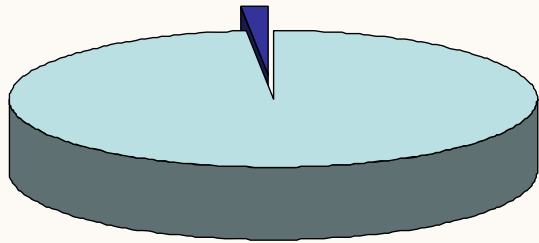
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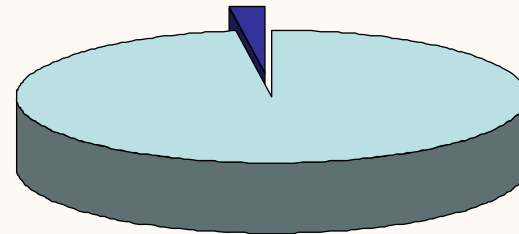
Irony of Productivity

■ Production Ag



Less than 2% of the U.S. population is directly involved in production agriculture

■ Members of Congress with Ag Background



Only 12 of 535 Members of Congress have Ag background

The Challenge

We must work together to:

- Educate the public as to the importance of continued improvement in productivity**
- Ensure decisions regarding agricultural practices are made on the basis of sound science and accurate data**

The Stakes

- **Agricultural technology can contribute to:**
 - **Productivity**
 - Our ability to feed the world
 - **Sustainability**
 - Produce more with less
 - Preserve resources for future generations

The Markets Ahead

The current economic and political situation “will present unique challenges for each commodity; but, in the end, the world will remain resource challenged.”

Terry Barr
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Food is a growth industry.

2009 Marketplace

2009 Markets ... The Analysts

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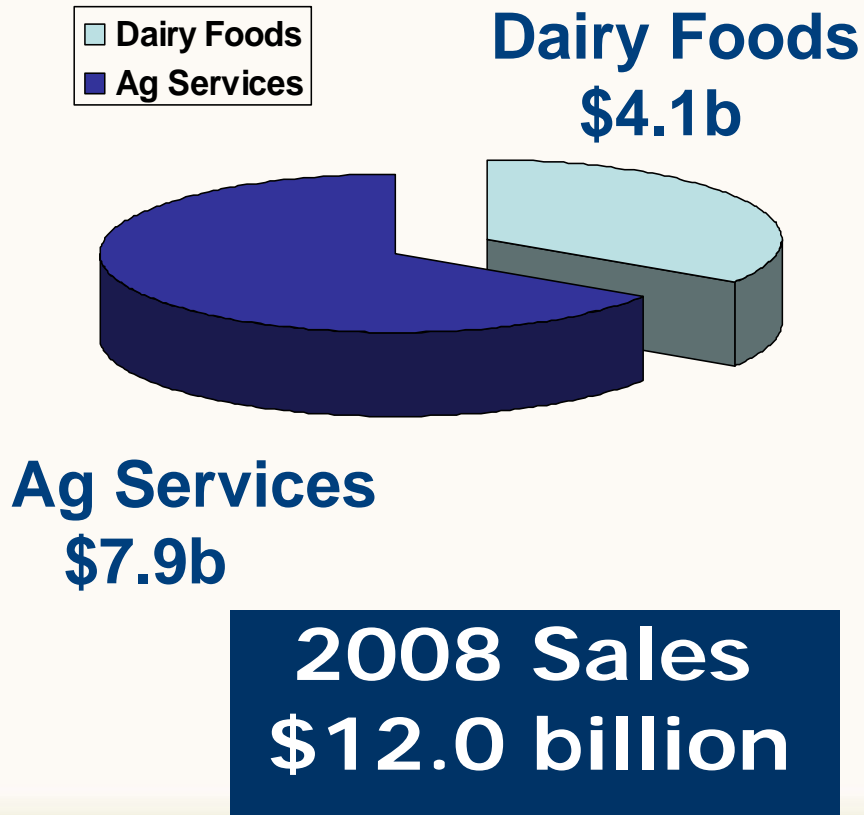
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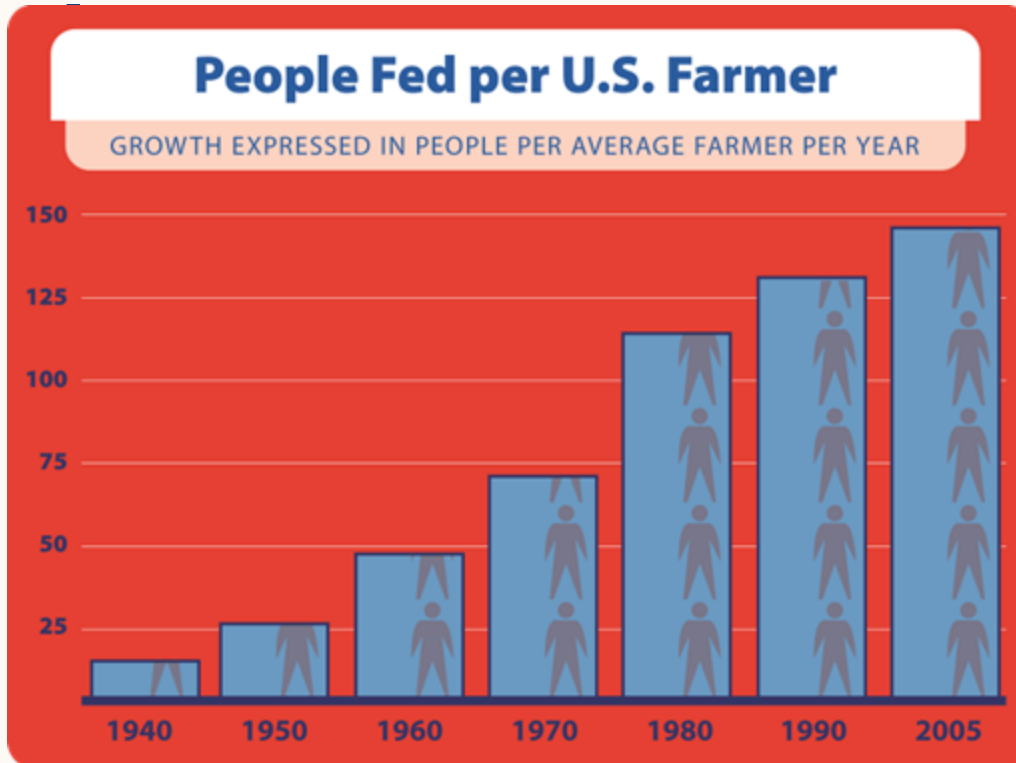
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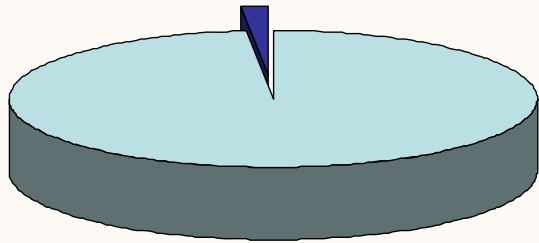
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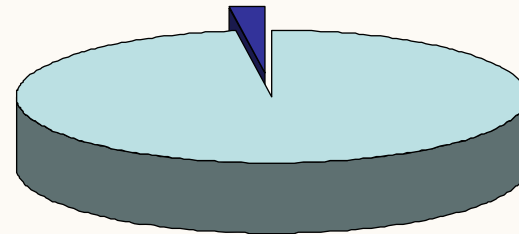
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