Capital Pork Report
JANUARY/FEBRUARY 2012

2011 Annual Report

2011 Most Successful Year For NPPC

After returning to profitability in 2010, U.S. pork producers in 2011 continued to make money, and the National Pork Producers Council helped ensure they did through its efforts in Washington. NPPC scored several important victories last year that helped producers remain in the black.

Tops among those wins was passage of the free trade agreements with Colombia, Panama and South Korea. Those FTAs were four years in the making, and, thanks to NPPC's leadership, Congress finally approved them last fall. Also in the trade arena, NPPC led an agricultural coalition in getting the Obama administration to resolve a dispute with Mexico – one that was affecting U.S. pork exports – over trucking.

Another top victory came on the so-called GIPSA rule, the U.S. Department of Agriculture's proposed regulation on the buying and selling of livestock and poultry. The agency in December issued a much-scaled back version of the rule that was proffered in June 2010 and that would have devastated the pork industry.

NPPC also stopped the U.S. Environmental Protection Agency's 2008 CAFO rule, winning a federal appeals court case against the agency. The rule would have required large livestock operations to obtain federal Clean Water Act permits if they "proposed" to discharge manure into a waterway of the United States.

Also in 2011 legal action, NPPC joined a U.S. Supreme Court case over a California law that would have banned all non-ambulatory animals from entering the food supply. Oral arguments on the lawsuit were heard in the fall. (In January, the high court sided with NPPC, rejecting California's ban, which would have prohibited fatigued hogs from being processed.)

In addition to its legislative, regulatory and legal successes, NPPC in 2011 continued to educate lawmakers and federal officials about pork industry issues and to weigh in on matters that may see action this year.

NPPC President Doug Wolf, a pork producer from Lancaster, Wis., in early May testified on general pork industry issues at a hearing of the House Agriculture Subcommittee on Livestock, Dairy, and Poultry, and Vice President Randy Spronk in September testified before the same panel on high feed-grain

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Success Breeds Success

"The toughest thing about success is that you've got to keep on being a success." – Irving Berlin.

The National Pork Producers Council was successful in 2011, fighting bad proposed public policy, opening new markets, protecting producers' livelihoods and setting the stage for further successes in 2012.

As it does every year, NPPC worked with members of Congress, executive branch officials, representatives of foreign nations and other agriculture industry groups to advance proposals beneficial to the U.S. pork industry and to stop ones that would be detrimental to pork producers. NPPC made hundreds of visits to congressional offices; attended dozens of political fund-raisers and coalition meetings; held briefings for lawmakers on critical matters, including antibiotics; gave congressional testimony on industry issues; met with U.S. Agriculture Secretary Tom Vilsack and with Environmental Protection Agency Administrator Lisa Jackson; and submitted dozens of letters to lawmakers and comments to regulatory agencies.

We weighed in on a variety of issues, from antibiotics to the MF Global bankruptcy; from environmental regulations to the mandatory price reporting law; and from free trade agreements to the ethanol issue.

Our successes last year included passage of important free trade agreements, resolution of a trade dispute with Mexico, defeat of the originally proposed regulation on livestock marketing – the GIPSA rule – and introduction of a rule to set up an animal traceability system. (See the list for all of our accomplishments in 2011.)

2011 Accomplishments

- Passed the free trade agreements with Colombia, Panama and South Korea.
- Defeated the originally proposed GIPSA rule on livestock marketing.
- Won a federal appellate court victory on EPA's 2008 CAFO rule.
- Argued in the Supreme Court against a California law to ban non-ambulatory livestock from entering the food supply.
- Resolved a trade dispute with Mexico over trucking that was adversely affecting U.S. pork producers.
- Advanced a national animal traceability system.
- Defeated efforts to include in various bills a ban on certain animal antibiotics.
- Continued work on setting air emissions standards for farms that are scientifically sound and economically sustainable.
- Backed legislation to protect producers during short corn supplies.
- Negotiated a good rule for the reporting of wholesale pork cuts.
- Held meetings of the Farm Bill Policy Task Force to make recommendations on the 2012 Farm Bill.
- Educated more than 140 producers about pork industry issues and about the public-policy process and how they can influence it.

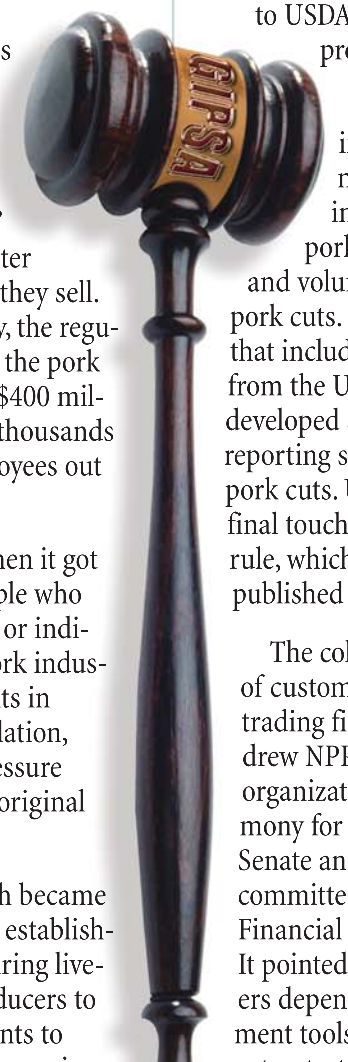
We no doubt will face a number of legislative and regulatory challenges in 2012, including a bill being championed by an animal rights group to dictate on-farm production practices and air and water rules for livestock operations. Additionally, Congress will begin debate on the 2012 Farm Bill, and we will weigh in on that important measure.

With your continued support and involvement, NPPC in 2012 will be successful. And, of course, our success means your success.

GIPSA Rule, Price Reporting, MF Global Addressed

One of the biggest wins for the National Pork Producers Council last year came on the U.S. Department of Agriculture's proposed regulation on the buying and selling of livestock and poultry – known as the GIPSA rule.

In December, USDA issued a final rule that was significantly scaled back from the version originally proposed in June 2010. That proposal would have restricted marketing agreements between producers and processors, dictated the terms of production contracts, required additional paperwork, created legal uncertainty and limited producers' ability to negotiate better prices for the animals they sell. According to one study, the regulation would have cost the pork industry alone nearly $400 million annually and put thousands of pork industry employees out of work.



As it did in 2010 when it got more than 16,500 people who make a living, directly or indirectly, from the U.S. pork industry to submit comments in opposition to the regulation, NPPC in 2011 kept pressure on USDA to scrap the original GIPSA rule proposal.

The final rule, which became effective in early 2012, establishes limitations on requiring livestock and poultry producers to make capital investments to their facilities and sets requirements for remedying a breach of contract and rules on arbitration clauses used in contracts. A provision requiring the terms "undue" or "unreasonable" preference or advantage to be defined was not included in the final rule.

NPPC also helped successfully negotiate with USDA a rule for the mandatory reporting of wholesale pork cuts. The "negotiated rulemaking" process was part of the 2010 reauthorization of the Livestock Mandatory Reporting Act, which requires meat packers to report to USDA the prices they pay producers for animals.

NPPC worked to include in that law new provisions requiring weekly reporting of pork exports – by price and volume – and of wholesale pork cuts. Last year, a committee that included a representative from the U.S. pork industry developed a framework for a reporting system for wholesale pork cuts. USDA is putting the final touches on the proposed rule, which is expected to be published soon.

The collapse of and loss of customer funds by futures trading firm MF Global also drew NPPC's attention. The organization submitted testimony for the record to the Senate and House agriculture committees and to the House Financial Services Committee. It pointed out that pork producers depend on risk-management tools, including futures contracts, to deal with the volatility in feed grain and hog prices and urged Congress to bolster confidence in the futures market in the wake of the MF Global bankruptcy.

Additionally, NPPC's Farm Bill Policy Task Force of producers and industry representatives continued discussions on pork industry priorities for the 2012 Farm Bill.

NPPC PORKPAC POLITICAL ACTION COMMITTEE

Surpasses Goal, Sets Record

Thanks to supporters of the U.S. pork industry, 2011 was a record year for the political action committee of the National Pork Producers Council – PorkPAC.

PorkPAC set a lofty goal of $220,000 for 2011 and surpassed it by raising a record-breaking $226,240, up $7,037 over 2010.

The PAC, created in 1986 to educate and support candidates at the federal level whose views represent the interests of pork producers, processors and the U.S. pork industry, contributed to the campaigns of 82 candidates in 30 states for federal office during the year.

NPPC's PorkPAC allows individuals concerned with the future of the pork industry to contribute to worthy candidates for federal office.

For more information about NPPC's PorkPAC, contact Bill Davis at 202-347-3600 or at *davisw@nppc.org*.

Big Victories On FTAs, Trucking Issue, Exports

In the trade arena, the National Pork Producers Council had its most successful year ever, with passage of three important free trade agreements, resolution of a trade dispute that was hurting U.S. pork producers and record exports.

For 2011, the U.S. pork industry sent more than $6 billion of product to foreign destinations, smashing the previous record amount of $4.9 billion that was exported in 2008. Last year's exports added more than $55 to the price producers received for each hog marketed.

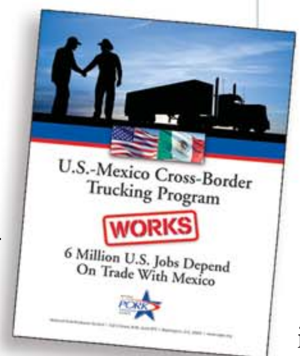
NPPC worked during the year to open new markets and to maintain existing ones – and to keep U.S. pork exports flowing.

Its top priority was passage of the free trade agreements with Colombia, Panama and South Korea. The organization testified before Congress three times in support of the trade deals and led an agricultural coalition backing the FTAs, which lawmakers approved last fall.

The deals, when fully implemented, will generate more than $770 million in additional pork exports, increase hog prices by more than $11 per head and create more than 10,000 U.S. pork industry jobs, according to Iowa State University economist Dermot Hayes.

Here are some of the actions in the trade arena NPPC took on behalf of pork producers:

Mexican Tariffs On U.S. Pork – NPPC played a significant role in helping to resolve a trade dispute between the United States and Mexico, which had resulted in the Mexican government placing import tariffs on a host of U.S. products, including pork. The long-standing dispute between the nations was over a trucking provision in the 1994 North American Free Trade Agreement (NAFTA). The provision was set to become effective in December 1995, but the United States failed to abide by it. Mexico imposed tariffs on 89 U.S. products in March 2009, after Congress failed to renew a 2-year-old pilot program that allowed a limited number of Mexican trucks into the United States. Mexico added products, including pork, in August 2010 after the Obama administration failed to present a proposal for resolving the trucking dispute. The tariffs were cut in half last July when the U.S. Department of Transportation implemented a new cross-border trucking program, and they were eliminated in October when the first Mexican truck entered the United States. NPPC also helped defeat an amendment to the fiscal 2012 transportation appropriations bill that would have prevented funding for parts of the cross-border trucking program. Mexico is the second largest market for the U.S. pork industry, which shipped more than $1 billion of pork south of the border in 2011. Since 1993 – the year before NAFTA was implemented – U.S. pork exports to Mexico have increased by 830 percent.



Trans-Pacific Strategic Economic Partnership – NPPC last year was strongly involved in the negotiations on the Trans-Pacific Partnership (TPP), pushing U.S. negotiators to get countries involved in the talks – currently Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States and Vietnam – to resolve various trade issues and positioning the U.S. pork industry to grab significant benefits from the multilateral trade agreement. Under a final TPP, U.S. pork producers could export more than $600 million of pork annually to Vietnam, for example, and more than $100 million to Malaysia. Currently, those countries limit U.S. pork through sanitary and phytosanitary barriers. NPPC also led a coalition of food and agricultural organizations in urging the Obama administration to work with Japan to smooth the way for that country's participation in the TPP negotiations. Japan last year announced its intention to join the TPP talks. In a letter sent in December to U.S. Trade Representative Ron Kirk, the

coalition said including Japan in the trade talks would generate enormous interest and support from U.S. agriculture. Japan's economy is second only to China's in the region, and it is the fourth largest agricultural export market for the United States despite the fact that it maintains substantial import barriers. Even with the barriers, U.S. exports to Japan in 2010 were nearly $12 billion. The coalition warned that Japan likely would enter free trade talks with the European Union in 2012 and with other countries if its TPP bid is rejected. NPPC has been a strong advocate of the TPP since its inception. The Asia-Pacific region is economically the fastest growing in the world, and it has the greatest potential for increased U.S. pork exports.

Russia – NPPC worked with U.S. trade officials during World Trade Organization (WTO) talks to get Russia to further open its market to U.S. pork. The organization urged the Obama administration to remedy Russia's sanitary and phytosanitary (SPS) issues before Congress determines whether to extend Permanent Normal Trade Relations (PNTR) to that country. Because of Russia's SPS barriers, U.S. pork sales to the former Soviet republic have fallen nearly 60 percent since 2008. With Russia set to join the WTO, NPPC pushed for commitments from the country on basic WTO disciplines, including recognizing the U.S. plant inspection system as equivalent to its system and eliminating SPS barriers. NPPC was successful in obtaining a large tariff rate quota (TRQ) for pork. On its accession to the WTO, Russia will provide a global TRQ of 430,000 metric tons with a zero percent tariff and the TRQ ultimately phased out by 2020.

2011 Successes

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prices and potential shortages.

Sam Carney, NPPC's immediate past president, urged the House Agriculture Committee to approve the FTAs with Colombia, Panama and South Korea; resolve the Mexican trucking dispute; and reject the GIPSA rule.

Finally, in December, NPPC submitted to the Senate and House agriculture committees and to the House Financial Services Committee written testimony addressing the collapse of futures trading firm MF Global and missing customer funds.

NPPC officers and staff met with Agriculture Secretary Tom Vilsack and with Lisa Jackson, administrator of the U.S. Environmental Protection Agency, to discuss issues of concern to pork producers. The organization also met with U.S. Trade Ambassador Ron Kirk on trade matters, including the FTAs with Colombia, Panama and South Korea and the Mexican trucking dispute.

Last March, NPPC joined with the National Pork Board and the U.S. Meat Export Federation to provide pork to Japan in the wake of the 9.0 earthquake and tsunami that hit that country. More than a half million Japanese were estimated to be without adequate shelter and food.

As an organization, NPPC in 2011 strengthened its grassroots and political power, training 122 producers through its LEADR program and 19 individuals through its Pork Leadership Institute (PLI). It also increased the coffers and clout of its political action committee – PorkPAC.

The organization welcomed a second class of swine veterinarians into its Swine Veterinarian Public Policy Advocates program and it continued to promote the "We Care" responsible pork initiative, which helps educate the public about producers' commitment to "doing the right thing" in caring for their animals, protecting the environment and public health and producing safe food.

For the year, NPPC added 110 investors to the ranks of its Strategic Investment Program. Representing a variety of farm types and sizes, NPPC's 2,637 investors are involved with more than 65 percent of the country's pigs. NPPC's revenue from its investors grew by about 23 percent in 2011 over 2010.

As it does every year, NPPC faces a host of challenges in 2012. But much of the work done in 2011 will make those challenges a little easier to handle.

Wins Scored On CAFO Rule, Ethanol, Air

The National Pork Producers Council won a significant victory in the courts on the U.S. Environmental Protection Agency's 2008 rule on concentrated animal feeding operations (CAFOs).

Last March, the U.S. Court of Appeals for the 5th Circuit in New Orleans unanimously ruled in NPPC's lawsuit against EPA that the agency cannot require livestock operations to obtain Clean Water Act (CWA) permits unless and until they have a discharge of manure into a waterway of the United States.

EPA issued its 2008 CAFO rule after the agency's core provision in the initial 2003 regulation was struck down by the U.S. Court of Appeals for the 2nd Circuit in New York City. In that 2005 decision, the court ruled that the CWA requires permits only for producers who actually discharge. EPA had sought to require permits even for operations that had a "potential" to discharge. In its 2008 rule, EPA wanted CAFOs to obtain CWA permits if they "proposed" to discharge.

In related action, NPPC questioned EPA's proposed CAFO reporting rule, which would require livestock operations to submit to the agency operational information, including location of a CAFO's production area and the number and type of animals confined.

NPPC also saw a couple of victories on the ethanol issue, including the expiration of the federal subsidies for ethanol and the introduction of legislation that would protect corn users during crop shortages.

At the end of 2011, the 45-cent per gallon tax credit for blending ethanol into gasoline and the 54-cent tariff on imported ethanol expired. NPPC supported the expiration. It also opposed congressional efforts to divert federal funds used for the tax credit to spending on ethanol infrastructure such as storage facilities and pipelines.

NPPC also backed the "Renewable Fuel Standard Flexibility Act of 2011," a bipartisan measure introduced in the fall that would reduce, in the event of a shortage of corn, the federal Renewable Fuels Standard, which mandates the amount of ethanol that annually must be produced. The legislation would provide a "safety valve" for other corn users based on corn's stocks-to-use ratio.

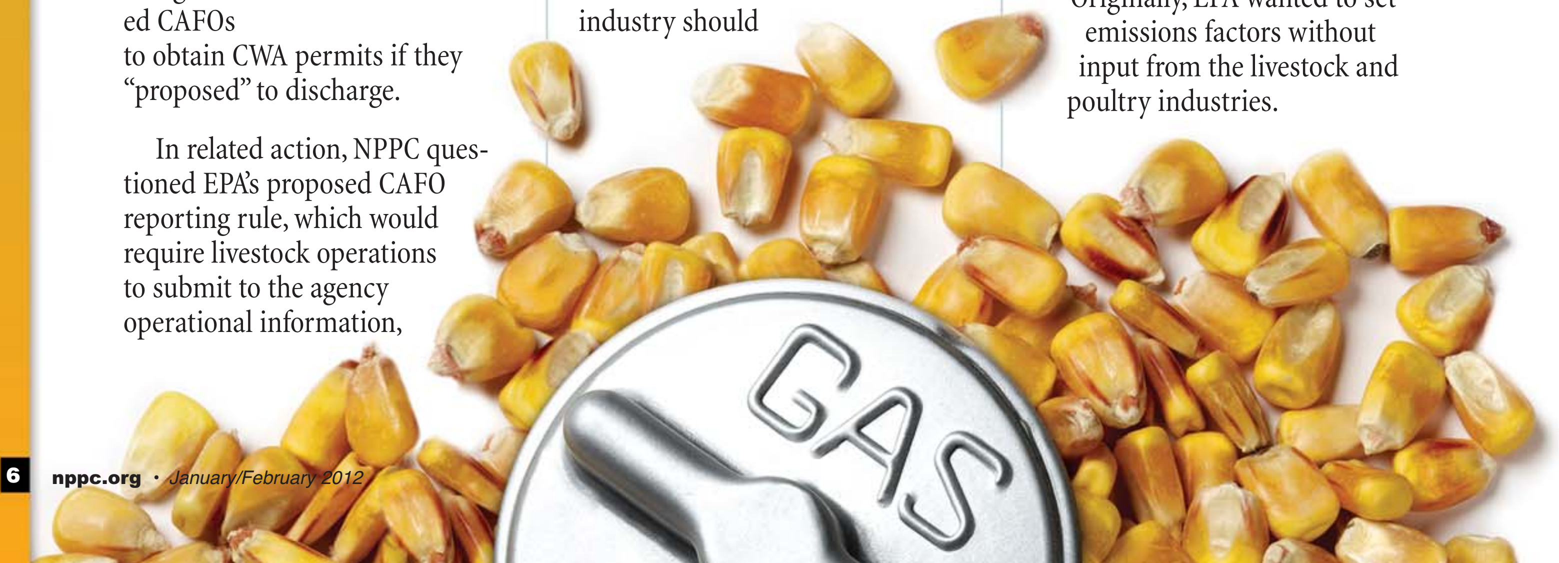
NPPC believes the ethanol industry should bear some of the same risks that pork producers and other corn users bear from market supply and price shocks.

In September, NPPC testified on the effects that tight feed-grain supplies were having on U.S. pork producers. And earlier in the year, it urged Agriculture Secretary Tom Vilsack to release early and without penalty non-environmentally sensitive farm acres enrolled in the Conservation Reserve Program so that they could be put into crop production.

NPPC also continued to work with EPA on the National Air Emissions Monitoring Study (NAEMS) of emissions from livestock and poultry farms. The organization nominated 14 candidates to EPA's Science Advisory Board to review NAEMS data.

EPA intends to convene the board in early 2012 and hold a series of meetings to explore how the agency will interpret the data collected and to consider the methodological approach to utilize as it converts the data into useable emission factors for farms. Those factors will be used to help producers determine their compliance with federal clean air laws.

Originally, EPA wanted to set emissions factors without input from the livestock and poultry industries.



NPPC Weighs In:'Fatigued' Hogs, Traceability, Antibiotics

The National Pork Producers Council filed a friend-of-the-court brief in a U.S. Supreme Court case on a California law that bans non-ambulatory livestock, including hogs, from entering the food supply.

The high court in November heard oral arguments in the case, which was brought by the National Meat Association. NMA asked the Supreme Court to rule that the Federal Meat Inspection Act pre-empts California's statute.

The California Legislature approved the law in 2008 after a video was released by an animal rights group, showing non-ambulatory, or "downed," cows at a California beef packing plant being dragged and prodded to enter the processing line. [As part of its efforts to address "mad cow" disease, the U.S. Department of Agriculture already forbids the slaughter of "downed" cattle.] A federal district court judge blocked the law, but the U.S. Court of Appeals for the Ninth Circuit in San Francisco in 2010 overturned the lower court ruling.

In its brief, which included the American Association of Swine Veterinarians, NPPC pointed out that, after transport from the farm to the packing plant, hogs can become non-ambulatory from fatigue. With rest, the overwhelming majority of them will walk, and processing them poses no food-safety or public-health risk. [The Supreme Court in January ruled in favor of NMA – and NPPC – and rejected the California law.]

After prodding from NPPC, USDA last year proposed a rule to set up an animal traceability system.

NPPC submitted comments on the rule, which would allow animal health officials to better identify, control and eradicate diseased animals during a foreign animal disease outbreak. An animal traceability program will save millions of animals, lessen the financial burden on the food-animal industry and save the American taxpayer millions of dollars.

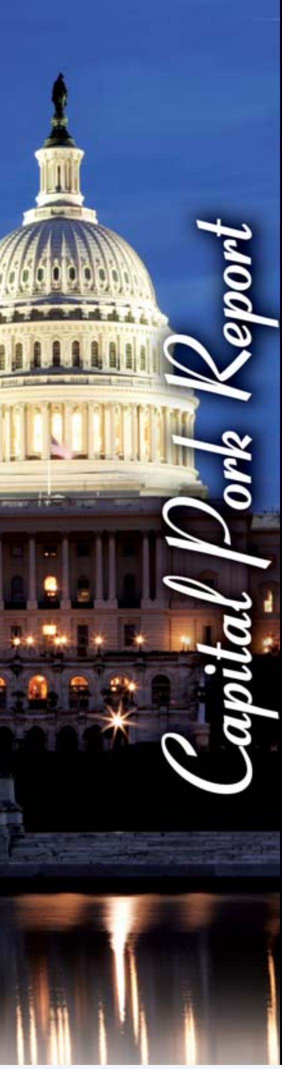
NPPC also continued to work aggressively to enhance a mandatory swine ID system that has been in place since 1988. Now, more than 95 percent of pork production sites, covering nearly all of the commercially raised hogs, have a nationally standardized premises identification number.

The organization also prompted USDA's Food Safety and Inspection Service to delay until March 1, 2012, the effective date for enforcement of the "Nutrition Labeling of Single-Ingredient Products and Ground or Chopped Meat and Poultry Products" final rule. NPPC joined a coalition of organizations representing food, agriculture and retail associations, which will be affected by the final rule, in requesting more time to implement the required nutrition labels.

NPPC – as it has done for the past several years – also was able to keep out of legislation an amendment that would ban the use in livestock of certain antibiotics. The so-called Preservation of Antibiotics for Medical Treatment Act (PAMTA) would prohibit the use of antibiotics that prevent or control diseases. NPPC pointed out that such a ban would be detrimental to the health and well-being of pigs, would increase pork producers' production costs and the price consumers pay for pork and could jeopardize public health. Efforts to attach the PAMTA measure to another bill are likely to continue in the new year.

And in related action, NPPC held for congressional staff a two-part educational briefing on antibiotics use in livestock production and on swine diseases.

Finally, staff from NPPC, the National Pork Board and the American Association of Swine Veterinarians last year met with officials from the Centers for Disease Control and Prevention to discuss nomenclature for the H1N1 flu virus. The groups presented data to CDC staff and urged them to eliminate use of the word "swine" from the H1N1 name.



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NATIONAL PORK PRODUCERS COUNCIL

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The National Pork Producers Council would like to thank the individuals and organizations who support our mission to be the global voice for the U.S. pork industry.

STRATEGIC INVESTMENT PROGRAM

PORK ALLIANCE

Packer PROCESSOR INDUSTRY COUNCIL

Because these groups invest their time and resources,
NPPC can focus on identifying and addressing critical issues.

- Develop and defend export markets
- Fight for reasonable legislation and regulation
- Inform and educate legislators

NATIONAL PORK PRODUCERS COUNCIL

NPPC encourages all of you to get involved *TODAY* to continue to strengthen our industry.

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