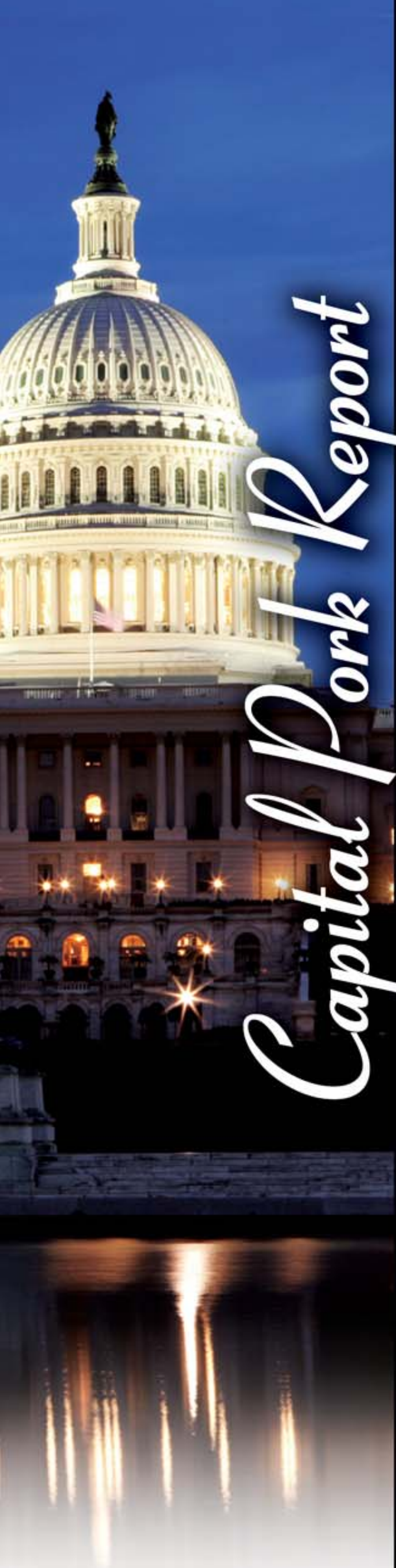
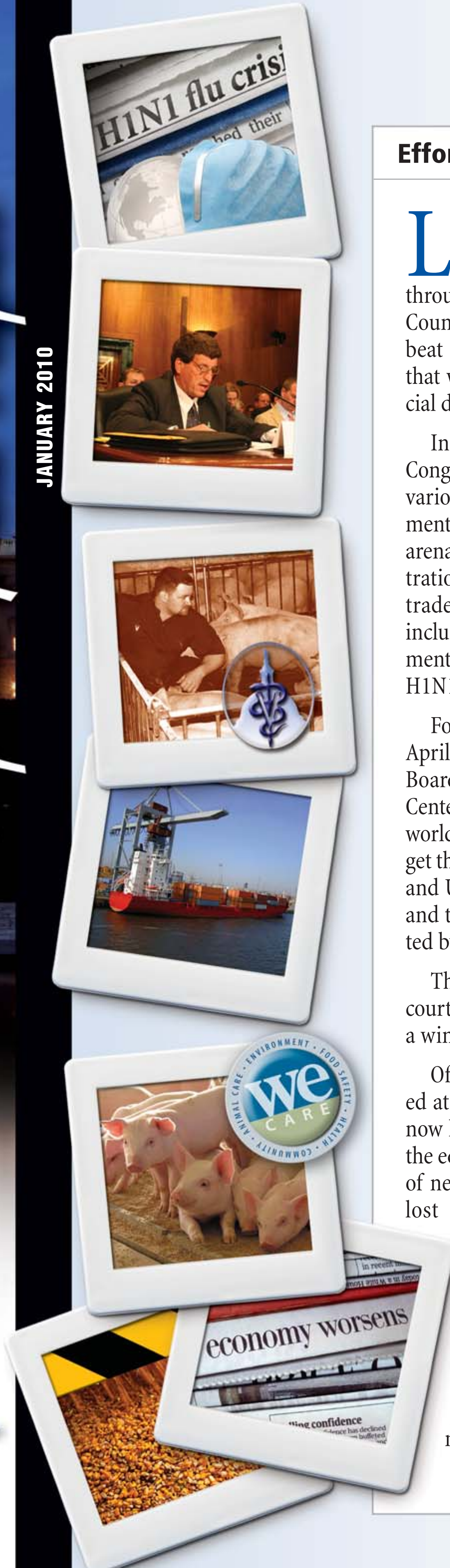


Capital Pork Report

JANUARY 2010



NATIONAL PORK PRODUCERS COUNCIL

2009 Annual Report

Efforts In 2009 Mean Success In 2010

Like 2008, last year was another trying one for the U.S. pork industry as producer losses that began in the fall of 2007 continued throughout 2009. The National Pork Producers Council worked to reverse those losses and to beat back legislative and regulatory proposals that would have added to pork producers' financial difficulties.

In 2009, NPPC four times testified before Congress, sent dozens of letters to lawmakers on various matters and submitted numerous comments on regulatory issues. In the international arena, NPPC worked with the Obama administration and with foreign countries to advance trade agreements and to settle trade issues, including the bans on U.S. pork imports implemented by some countries because of the novel H1N1 flu.

For more than three months, starting in late April, NPPC collaborated with the National Pork Board, the U.S. Department of Agriculture, the Centers for Disease Control and Prevention and world public and animal health organizations to get the word to consumers, the media, lawmakers and U.S. trading partners that pork is safe to eat and that the H1N1 flu virus cannot be transmitted by eating pork.

The organization also weighed in with the courts on important pork industry issues, scoring a win on a critical contract case.

Of course, many of NPPC's efforts were directed at the pork industry's economic crisis, which now has cost producers more than 75 percent of the equity in their operations and per head losses of nearly $24. As a whole, the industry now has lost more than $6 billion over the past 26 months.

NPPC met with Agriculture Secretary Tom Vilsack on the industry's financial situation, and NPPC President Don Butler testified on it before Congress. Those actions prompted USDA to make three supplemental purchases of pork, totaling $105 million, in 2009.

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PERSPECTIVE

Don Butler
NPPC President

Neil Dierks
NPPC CEO

Laying The Groundwork For Success

"The dictionary is the only place where success comes before work; hard work is the price we must pay for success," said the late, great football coach Vince Lombardi. Hard work is mostly what the National Pork Producers Council has to show for its efforts in 2009 – at least on the legislative front. But those labors have laid the groundwork for expected successes in 2010. And be sure, NPPC did score some important victories last year.

Once again, NPPC worked with members of Congress, Obama administration 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 issues, including the pork industry economic crisis; met with U.S. Agriculture Secretary Tom Vilsack; and generally made pork producers' voices heard on important issues affecting the pork industry through testimony, comments and letters.

Obviously, the biggest challenge our industry faced in the past year was the continuing economic crisis, so our top priority was finding ways to return producers to profitability.

Here are some of our accomplishments over the past year.

No doubt, the U.S. pork industry in 2010 will face a number of legislative and regulatory challenges, including renewed efforts to ban antibiotics, to dictate on-farm production practices and to restrict access to foreign markets. But NPPC again will work on your behalf to meet those challenges, and with the groundwork we laid in 2009 and with your help success will come.

2009 Accomplishments

- Convinced the U.S. Department of Agriculture to make three supplemental purchases of pork, totaling $105 million, as a way to provide some economic relief to the struggling U.S. pork industry.
- Blunted the effects of the media misnaming the H1N1 flu "swine" flu.
- Won an important court decision related to contracts between producers and packers.
- Made sure the livestock industry is exempt from the expanded authority the U.S. Food and Drug Administration would gain under food-safety legislation.
- Defeated efforts to include in various bills a ban on certain animal antibiotics.
- Got an exemption for livestock in climate-change legislation.
- Completed a two-year study of air emissions from pork and other livestock operations, which will be used to set scientifically sound regulations.
- Kept open to U.S. pork exports important foreign markets, including Mexico and the Philippines.
- Educated more than 150 producers about pork industry issues and about the public-policy process and how they can influence it.
- Held our first class in the Swine Veterinarian Public Policy Advocates program.

2009 Successes

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In addition to its public-policy, regulatory, international and legal efforts, NPPC strengthened its grassroots and political power during the year, training 135 producers through its Legislative Education Action Development Resource (LEADR) program and 17 individuals through its Public Policy Leadership Institute (PPLI) program. It also increased the clout of its political action committee (See Page 6).

The organization welcomed its first class of swine veterinarians in the Swine Veterinarian Public Policy Advocates program, and it continued to promote the "We Care" responsible pork initiative. A number of pork industry companies have endorsed the initiative, including in 2009 AgStar Financial Services, which contributed $50,000 for the program, and Tyson Foods, which donated $10,000.

For the year, NPPC added 120 investors to the ranks of its Strategic Investment Program. Representing a variety of farm types and sizes, NPPC's more than 2,200 investors are involved with about 64 percent of the country's pigs. NPPC's revenue from its investors also grew in 2009.

While there weren't a lot of victories in 2009, NPPC's work over the past year has helped set the stage for successes in 2010.

Program Funding, Court Victory Help Producers

In addition to its success in getting the U.S. Department of Agriculture to make supplemental purchases of pork as a way to help financially strapped pork producers, the National Pork Producers Council in 2009 got federal funding for several programs of importance to the pork industry.

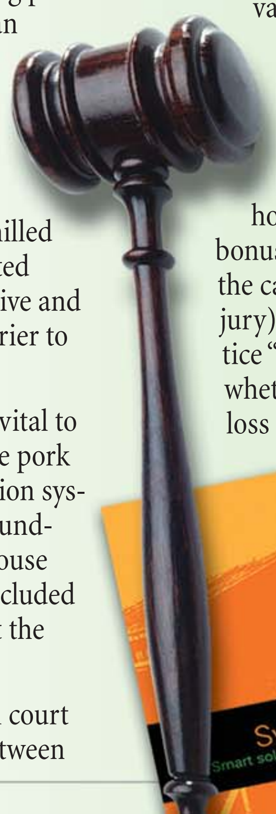
Included in the fiscal 2010 agriculture appropriations bill approved by Congress was $121.2 billion for agriculture programs, including $5.3 million for USDA's National Animal Identification System (NAIS), $2.5 million for Pseudorabies management and $350,000 for a national trichinae certification program.

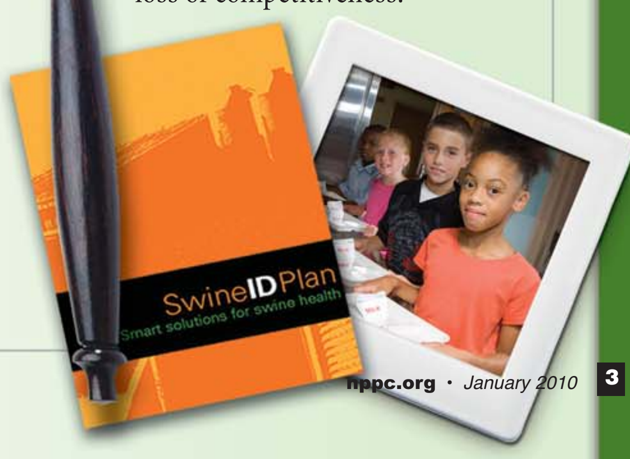
The trichinae program is extremely important for U.S. pork trade. Although the United States has an extremely low incidence of *Trichinella spiralis* in commercial production, a national certification program will help further reduce the risk of exposure to the parasite and will address concerns raised by many of the United States' biggest trading partners, including the European Union, Russia, Chile and Singapore, about the possible presence of trichinae in U.S. pork. Those countries require testing for trichinae of all fresh and chilled pork imports from the United States, tests that are expensive and that act as a significant barrier to U.S. pork exports.

Funding for the NAIS is vital to the continued success of the pork industry's swine identification system. NPPC fought to keep funding for the program. The House agriculture spending bill included no money for the NAIS, but the final bill did.

NPPC also won a critical court case related to contracts between producers and packers. In December a federal appeals court ruled that plaintiffs must show they suffered an adverse impact on competition when challenging a practice under the federal Packers and Stockyards Act (PSA). NPPC filed a friend-of-the-court brief in support of Pilgrim's Pride Corp. in the case involving several of the poultry processors' growers. The growers, who were supplied by Pilgrim's Pride with chickens, feed and supplies, were paid according to a tournament system, which took into account the number and quality of each grower's chickens. One grower, Pilgrim's Pride founder and chairman, Lonnie Pilgrim, was not subject to the tournament system.

The other growers sued under the PSA, claiming that Lonnie Pilgrim was given "undue or unreasonable preference or advantage." The full U.S. Court of Appeals for the Fifth Circuit in New Orleans overturned a ruling by a three-judge panel of the same court that "a plaintiff need not prove an adverse effect on competition to prevail" under the PSA. Under the three-judge decision, a plaintiff could have sued a packer that, for example, contracted with some but not all producers to deliver hogs on holidays, paying a bonus for the deliveries, and won the case if a factfinder (court or jury) simply deemed such a practice "unfair" without determining whether the plaintiff suffered a loss of competitiveness.





Even In An 'Off' Year, U.S. Pork Trade A Success In 2009

While they fell off from 2008's record $4.9 billion, U.S. pork exports in 2009 still topped 2007's previously second-highest total. The decrease in pork exports was attributable to a worldwide economic recession, bans by some countries on U.S. pork and non-tariff barriers erected by a few major U.S. trading partners. The National Pork Producers Council labored hard to address the latter two issues, as well as to advance free trade agreements that would increase U.S. pork exports.

Pork producers shipped to overseas destinations the second highest ever amount of pork, with sales expected to top $4 billion. (In 2007, U.S. pork exports were almost $3.2 billion.) That translates to more than $38 for each hog marketed, a significant amount given that producers, on average, lost more than $20 a head for the year.

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

H1N1 – Shortly after widespread media coverage in late April of a novel H1N1 influenza infecting humans in North America, 27 countries either announced restrictions or were rumored to be on the verge of instituting restrictions on U.S. pork imports. NPPC worked closely with Congress and the Obama administration to pressure U.S. trading partners to reopen their markets to U.S. pork exports. A letter to President Obama signed by the chairmen and ranking members of the House and Senate Agriculture committees and the Senate Finance and House Ways and Means panels underscored the importance of the matter to U.S. trading partners. NPPC was aggressive in reaching out to Washington-based foreign officials and to the World Trade Organization and other international organizations to let them know that U.S. pork was safe to eat and to urge them to pressure countries with bans on U.S. pork to lift them. With the exceptions of China and Russia, most of the country restrictions were short-lived.

Mexico – Mexico continued to be a top export destination for U.S. pork in 2009, so any restrictions on U.S. pork exports to Mexico would have had a significant impact on live U.S. hog prices. As it did in 2008, NPPC took the lead in organizing groups in the private sector to speak out on the issue of Mexican trucks entering the United States to minimize the likelihood that the Calderon administration would put restrictions on U.S. pork exports. Despite a provision in the North American Free Trade Agreement allowing them entry, Mexican trucks have been prohibited from the United States, and Mexico has retaliated by imposing high tariffs on a number of U.S. products. NPPC's activities paid huge dividends as pork was left off the trucking retaliation list.

Philippines – The Philippines early in 2009 announced it would maintain its current rules for the administration of its tariff rate quota (TRQ) for pork. This was a big victory, which preserved the ability of the U.S. pork industry to serve a large and growing market. U.S. pork sales to the Philippines in 2008 were 25,300 metric tons valued at $46 million. The Philippine government had threatened to severely restrict pork imports by denying to legitimate Philippine importers the licenses they need to import pork within the country's 54,210 metric ton pork TRQ. In response, NPPC last December filed a petition with the Office of the United States Trade Representative (USTR) that could have resulted in the withdrawal of trade benefits for the Philippines under the Generalized System of Preferences (GSP) program. GSP is designed to provide developing countries, such as the Philippines, with preferential duty access to the U.S. market. In 2007, the Philippines exported $1.1 billion worth of products to the United States under the GSP program. In filing the petition, NPPC noted that the Philippines' action would have violated World

Trade Organization rules and a 1999 Memorandum of Understanding between the United States and the Philippines.

Canada – NPPC continued to speak out about subsidies given to the Canadian pork industry. The Canadian Pork Council engaged in a significant lobbying campaign to convince its government to fund an $800 million rescue package, the cornerstone of which was a $30 per hog payment. Without question, NPPC jawboning on the subsidy issue on the heels of U.S. trade cases against Canada from a few years ago was effective in influencing the process. The Canadian government spurned the CPC proposal in favor of a more market-friendly sow buyout program. The significant sow liquidation in Canada is having a beneficial effect on North American hog prices. While producers in Canada are suffering from the same cost-input and H1N1 issues as U.S. producers, the Canadian producer problem is compounded by the strong Canadian dollar. But even before the currency realignment, the trade cases NPPC filed five years ago caused Canadian producers to slow their sow herd expansion. That farrowings in Canada in 2005 were down was, according to University of Missouri economist Ron Plain, "a dramatic change from the previous eight years." This is because the rapid growth of the Canadian sow herd was driven in part by subsidies and a reduced risk environment. The trade cases injected some discipline into the North American market by reintroducing an additional amount of risk.

Russia – NPPC successfully worked with USTR in negotiating a doubling of the pork quota for 2009 to 100,000 metric tons. Under the terms of a 2005 meat agreement between the United States and Russia, the U.S. quota for 2009 was scheduled to remain at 50,000 metric tons, with an in-quota duty of 15 percent. Russia wanted to raise the out-of-quota duty to 75 percent from 60 percent. In exchange for allowing the out-of-quota duty to rise, NPPC got the Russians to double the in-quota amount of U.S. pork that can be shipped to the country.

Trans-Pacific Strategic Economic Partnership – The Asia-Pacific region is economically the fastest growing in the world, and it has the greatest potential for increased pork exports. Consequently, NPPC was the first private-sector organization to publicly express support for negotiations between the United States and countries – Brunei, Chile, New Zealand and Singapore – now working on a Trans-Pacific Partnership trade agreement. NPPC took a leadership role in cultivating private-sector support for the trade deal, drafting a letter signed by many organizations, including manufacturing and services companies, that was sent to President Obama, urging him to enter the negotiations. The hope that U.S. participation in the TPP will encourage other nations to join in the agreement has already been realized, with Australia, Peru and Vietnam announcing they will be part of the negotiations. The great potential is for the negotiations to serve as a magnet that draws Japan and other large economies into an Asia-Pacific agreement.

China – NPPC worked with members of Congress to include in the fiscal 2010 agriculture appropriations bill language that allows the U.S. Department of Agriculture to conduct a science-based risk assessment of cooked chicken from China. Purportedly for food-safety reasons, USDA had been prohibited since 2007 from performing such risk assessments, which are required before Chinese chicken can be imported into the United States. China had used the ban on its chicken as an excuse to restrict the importation of U.S. products, including pork.

PorkPAC Has Good Year

Despite tough economic times for the U.S. pork industry, producers still dug deep to contribute to the political action committee of the National Pork Producers Council – PorkPAC.

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 pork industry, raised nearly $156,000 this past year. The average contribution from 172 contributors was $905, a significant jump from 2008's average of just over $500.

PorkPAC contributed to the campaigns of 67 candidates in 27 states for federal office during the year.

NPPC's PorkPAC provides an opportunity for individuals interested in the future of the pork industry to contribute to the support of worthy candidates for federal office.

The money raised in 2009 gives the PAC a strong base heading into the potentialy bellwether 2010 elections.

For more information about NPPC PorkPAC, contact Chelsie Redalen at (202) 347-3600 or at redalenc@nppc.org.

NPPC Wins On Climate Change, EPA Rules

Perhaps the biggest success for the National Pork Producers Council in the energy and environment arena in 2009 was keeping the U.S. pork industry out of climate-change legislation that is making its way through Congress.

NPPC convinced the House to exempt agriculture, including livestock and poultry, from its climate-change bill, which would set a limit, or cap, on the amount of greenhouse gases that specific large industries such as energy utilities could release to the atmosphere. The Senate measure also does not cover agriculture.

Despite the exemption, NPPC opposes climate-change legislation because it would raise the cost of pork production. It also has concerns about the so-called cap-and-trade provision of the bills. According to recent U.S. Department of Agriculture testimony, incentives in the House bill would cause 35 million crop acres to be converted to forest land by 2050, which, in turn, would decrease the production of feed grains and raise their prices and reduce pork production by 23 percent.

NPPC also won exemptions for pork and other livestock operations from U.S. Environmental Protection Agency rules related to greenhouse gas emissions. NPPC backed an amendment to the Interior Department appropriations bill that prohibits EPA from creating in fiscal 2010 any rule that would require Clean Air Act permits for greenhouse gas emissions from pork and other livestock operations. It also backed in the same bill a measure that stops EPA from implementing in fiscal 2010 any provision requiring livestock operations to report greenhouse gas emissions from manure management systems.

On the latter issue, NPPC early last year filed suit against EPA over its emissions reporting rule, alleging that the agency violated the due process rights of farmers by failing to develop an adequate system to accept emissions reports required by the Emergency Planning and Community Right-To-Know Act (EPCRA), making compliance with the law impossible.

Also last year, a two-year EPA study of air emissions from farms was completed. The study was part of a consent agreement livestock producers signed with EPA in 2005. The agreement protected animal feeding operations from EPA enforcement actions for past air emissions violations, as well as for violations that might have occurred while the agency conducted the monitoring study of emissions from farms. Nearly 1,900 hog operations signed the consent agreement, which was negotiated by NPPC. Data from the study will be used to set scientifically sound and economically sustainable emissions standards for animal feeding operations.

Food Safety, Antibiotics, Animal ID Top Agenda

The safety of the nation's food supply dominated congressional debate in the science and technology area in 2009, and the National Pork Producers Council was able to block from food-safety legislation new on-farm regulation of pork operations.

Senate and House bills – expected to be approved early in 2010 – would expand the U.S. Food and Drug Administration's authority over food producers. While the Senate measure does not cover livestock and poultry, the House bill would have allowed FDA to conduct on-farm inspections, to quarantine geographic areas over food-safety problems, to create a tracing system for all food and to require additional records be kept by producers. NPPC, which in April testified on the nation's food-safety system, won an exemption for livestock and poultry operations from the House bill.

In pushing for the exemption, NPPC pointed out that the U.S. Department of Agriculture and state agencies already oversee pork operations and that USDA already can quarantine animals when a state asks it to for animal health reasons. USDA also has an animal identification system that can trace back an animal to its farm of origin. NPPC also noted that farmers keep records according to state laws and industry programs and that complying with FDA record-keeping requirements would necessitate them overhauling current record-keeping systems.

Although pork producers dodged the proverbial bullet in the FDA food-safety legislation, Congress next year is expected to take up food-safety legislation that deals with USDA's Food Safety Inspection Service (FSIS), which has jurisdiction over meat and poultry.

NPPC also was able to keep out of legislation, including the FDA food-safety bills, 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.

The organization also got FSIS to issue guidance to its inspectors on handling "fatigued" or "slow" pigs at packing plants. NPPC provided the agency information about current practices used by plants and about the physiology of pigs.

NPPC submitted comments on an FSIS proposed rule to allow the interstate shipment of meat from state-inspected facilities. NPPC supports such shipments and urged FSIS to, among other things, have a robust residue, microbiological and pathological analysis capability for state-inspected meat to ensure the accuracy of residue levels and the wholesomeness of the product, which are essential for maintaining export markets. The organization also urged FSIS, the Obama administration and Congress to live up to their commitment for additional resources to implement the new program.

Along with the National Pork Board, NPPC also continued to implement the industry's swine identification system, registering thousands of hog farms during the year. Through November, nearly 61,000 swine premises, or 91 percent, had been registered. NPPC testified in March before a House Agriculture subcommittee about the need for a mandatory national animal ID system.

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Happy New Year