

Capital Pork Report

JANUARY 2009

Another Successful Year For NPPC

While the U.S. pork industry dealt with some tough economic times over the past 12 months, 2008 was another successful year for the National Pork Producers Council when it came to advancing issues to help producers operate.

Among the successes over the past year, the Farm Bill, on which negotiations began in 2007, finally was approved; a water-pollution rule for concentrated animal feeding operations was issued; an important animal health law was reauthorized and export markets were kept free from restrictions on U.S. pork.

NPPC testified before Congress several times, sent dozens of letters to lawmakers on various issues and submitted numerous comments on regulatory issues. In the international arena, NPPC worked with the Bush administration and with foreign countries to settle trade issues and to advance trade agreements. The organization also weighed in with the courts on important issues.

In addition to its public-policy, regulatory, international and legal efforts, NPPC strengthened its grass-roots and political power during the year, training 126 producers through its Legislative Education Action Development Resource program and 18 individuals through its Public Policy Leadership Institute program. It also significantly increased the clout – and coffers – of its political action committee (See Page 5).

The organization launched two major initiatives in 2008: the Swine Veterinarian Public Policy Advocates and the “We Care” programs. (See Pages 5 and 7, respectively.)

For the year, NPPC added 376 investors to the ranks of its Strategic Investment Program. Representing a variety of farm types and sizes, NPPC’s 2,019 investors are involved with about 64 percent of the country’s pigs. NPPC’s revenue from its investors grew by about 12 percent in 2008.

All in all, another successful year for NPPC and America’s pork producers.

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Neil Dierks
NPPC CEO

PERSPECTIVE

Despite Tough Times, 2008 A Success

Film maker, actor and all-around neurotic Woody Allen once said “80 percent of success is just showing up.” In 2008, the National Pork Producers Council did a lot more than show up. NPPC staff and pork producers from around the country

put in countless hours talking with members of Congress, working with Bush administration officials and representatives of foreign nations, traveling to Washington, D.C., and to other countries, attending meetings – three times during the year we met with U.S. Agriculture Secretary Ed Schafer – and making their voices heard, through testimony, comments and letters, on important issues affecting the pork industry.

Those efforts paid off for U.S. pork producers during a time of economic turmoil, and by any measure 2008 was a successful year.

Here are some of the things we accomplished this past year. ▶

As it does every year, the U.S. pork industry in 2009 faces 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 rest assured that NPPC will do more than just show up to meet those challenges, and with the groundwork we laid in 2008 and with your help, the U.S. pork industry will be successful again this year.

Bryan Black
NPPC President

Neil Dierks
NPPC CEO

2008 Accomplishments

- Finalized a Farm Bill that included a host of provisions beneficial to the U.S. pork industry.
- Convinced the U.S. Department of Agriculture to purchase an additional \$50 million of pork for various federal food programs to help ease economic pressures on producers.
- Reauthorized the Animal Drug User Fee Act and authorized the Animal Generic Drug User Fee Act, keeping out of both a provision to restrict antibiotic use.
- Got a CAFO rule that is tough but fair.
- Kept open to U.S. pork exports vital markets, including Australia, Mexico and Russia.
- Registered hundreds of swine premises as part of our Swine ID System, which will help address any disease outbreak. Nearly 53,000 premises are now registered, covering 78.5 percent of the U.S. commercial swine herd.
- Grew our political action committee to a new record level.
- Educated almost 150 producers about pork industry issues and how to affect public policy.
- Launched an initiative to tell how pork producers run their operations responsibly and a program to enlist swine veterinarians as advocates on public-policy issues for the pork industry.



2008 NPPC Victories Protected Producers

Finalizing a Farm Bill topped the legislative agenda of the National Pork Producers Council in 2008, but the organization also worked on a number of other issues.

NPPC was successful in getting included in the 2008 Farm Bill, which became law June 18, provisions that:

- Change the Mandatory Country-of-Origin Labeling law to include four new label categories for meat, including one to address Canadian feeder pigs by allowing flexibility in labeling so that producers and packers can reduce sorting costs. The law also was changed to ease recordkeeping for verifying an animal's country of origin by allowing the use of existing records, such as normal business records, animal health papers and import or customs documents.
- Require a study that looks at the costs and impacts on pork producers and consumers of requiring packers to report wholesale pork-cut prices and volumes.
- Authorize \$1.5 million over five years for a voluntary national trichinae certification program that will help boost U.S. pork exports.
- Authorize the U.S. Pork Center of Excellence, which coordinates research, teaching and extension for the pork industry on a national scale.
- Authorize research grants for mapping the swine genome.
- Authorize research and education grants for the study of antibiotic-resistant bacteria, including the movement of antibiotic-resistant bacteria into ground and surface water, and for the study of judicious use of antibiotics in veterinary and human medicine.
- Give producers the right to cancel production contracts within three days of signing.
- Allow producers, at the time of signing a contract, to opt out of using arbitration – and instead use the courts – to settle contract disputes.
- Give producers the right to settle disputes involving production or marketing contracts in the federal court district in which production occurred.
- Increase funding for the export-promoting Market Access Program and for the Foreign Market Development program.
- Direct the Grain Inspection, Packers and Stockyards Administration to provide Congress an annual report on the number and resolution of livestock cases brought under the Packers and Stockyards Act.

NPPC helped keep out of the Farm Bill amendments that would have been detrimental to the U.S. pork industry, including ones that would have:

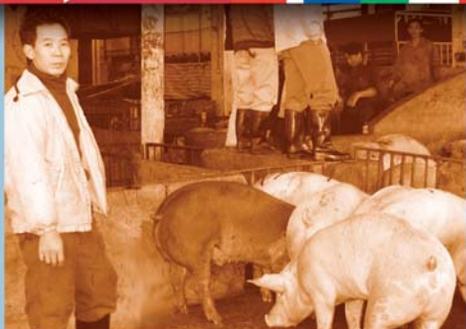
- Banned the use of formula pricing for hogs.
- Established an Office of Special Counsel to investigate livestock competition issues.
- Required parties to prove that a merger, acquisition or “other transaction” would not “substantially lessen competition” or “tend to create a monopoly in one or more geographic markets.”
- Prohibited packers from paying premiums for value-added livestock, such as “free-range,” by eliminating “business justification” as a defense against charges of unfair competition.

Other Important Issues

NPPC weighed in on immigration reform, urging Congress to reauthorize the U.S. Department of Homeland Security's E-Verify Program, also known as the Basic Pilot Program, which allows employers to verify employees' eligibility to work in the United States. The program was extended until March 2009.

NPPC submitted comments to the U.S. Department of Agriculture on an interim final rule for implementing MCOOL, which went into effect Oct. 1. Despite the “fixes” included in the Farm Bill, NPPC said the law remains costly and will be of little benefit to consumers.

The organization also submitted comments on a rule on weighing, feed and swine contractors proposed by the Grain Inspection, Packers and Stockyards Administration.



In Tough Year, Trade Saved Industry's

Exports literally saved the U.S. pork industry in 2008, and the National Pork Producers Council worked the past year to make sure producers had markets in which to sell their pork.

Pork producers again shipped a record amount of pork to overseas destinations; 2008 was the 17th consecutive year of record exports, with sales nearing \$5 billion. That translates to about \$42.50 for each hog marketed, a significant amount given that producers, on average, lost about \$30 a head for the year.

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



Australia – NPPC's efforts a few years ago to pry open the Australian market

paid off handsomely in 2008. According to Iowa State University economist Dermot Hayes, the new access in Australia was expected to translate into approximately \$50 million in U.S. pork sales each year. That forecast looks very conservative given that U.S. pork sales exceeded \$85 million in 2007 and eclipsed \$73 million in just the first nine months of 2008. That U.S. producers were able to ship pork to Australia this year at all was thanks to NPPC's efforts to counter calls by the Australian pork industry to set a quota or higher tariffs on imported

pork to protect the domestic industry. NPPC hired legal counsel and political and economic consultants to plead its case on a so-called safeguard proceeding, urging the Australian government not to place restrictions on U.S. pork. Additionally, NPPC staff traveled to Australia for high-level political meetings, and in April Australia terminated the safeguard proceeding.



Colombia, Panama and South Korea

FTAs – NPPC spearheaded the agriculture industry's effort to move these trade agreements through Congress. It drafted agriculture trade coalition letters,

brought in top speakers to agriculture trade coalition meetings and effectively mobilized many U.S. food and agriculture organizations in support of the agreements. In late-November, NPPC took a delegation of U.S. pork producers to Colombia to meet with supporters inside and outside of the government of the U.S.-Colombia Trade Promotion Agreement.



EU SPS – In addition to pushing for consolidation and expansion of the EU's pork tariff rate quotas (TRQs) and elimination or reduction of the in-quota duties in the WTO Doha negotiations, NPPC continued to press for resolution of

non-tariff impediments to U.S. pork exports in the EU. In particular, significant progress was made this year in moving the trichinae rule and obtaining funding for it in the 2008 Farm Bill. The trichinae rule will help not only in the EU but in the Trans-Pacific nations of Chile and Singapore.



Mexico – Because of the market access gained through the

North American Free Trade Agreement, Mexico was the No. 3 market for U.S. pork exports for the period January through September 2008. For U.S. producers, the Mexican market adds \$7.23 per hog sold. So any restriction on U.S. pork exports to Mexico could have a significant impact on live U.S. hog prices. To minimize the likelihood that Mexican President Calderon's administration would put restrictions on U.S. exports, NPPC worked closely with the Mexican Embassy in Washington, D.C., and with officials of the Calderon administration in Mexico City on a number of trade issues. Early in the year the focus was on trucking, specifically U.S. actions to deny Mexican trucks entry into the United States and possible retaliation by Mexico. NPPC put together an analysis of the potential impact on U.S. employment of such a response. NPPC's efforts have paid huge dividends as pork remains one of the few U.S. agriculture exports to



Bacon

Mexico without some type of restriction.



Philippines – Beginning in spring 2008, the Philippines issued a number of drafts of proposed changes to the TRQ administration rules for pork that would seriously impede the ability of legitimate Philippine pork importers to obtain import licenses. Because of political pressure generated by NPPC, the Philippines to date has backed off implementing changes to its TRQ system.



Russia – Thanks in large part to the 2005 U.S.-Russia Meat Agreement, U.S. pork exports to Russia have increased dramatically in recent years. From January through September 2008, Russia was the No. 5 value market for U.S. pork exports. Consequently, when Russia began making noises about renegotiating the terms of the meat agreement for 2009, NPPC immediately took action. The duty on the amount of pork above the import quota – the so-called out-of-quota tariff – was scheduled to fall from 60 to 40 percent in 2009. Russia told the U.S. Trade Representative it wanted to raise that duty to 95 percent. To generate leverage, Russia threatened to unilaterally cut the size of the quota,

citing false sanitary/phytosanitary issues as the reason. NPPC was able to obtain a positive outcome for U.S. pork producers. The Russians will start 2009 with the pork out-of-quota tariff at the 2008 rate of 60 percent but will have flexibility to move it as high as 75 percent. In return, the U.S. pork quota in 2009 was doubled to 100,000 metric tons. The in-quota tariff rate remains 15 percent.



Trans-Pacific Strategic Economic Partnership – NPPC

was one of the few organizations to see the importance of the free trade agreement between Chile, New Zealand, Singapore and Brunei and was the only agriculture organizations to publicly push the U.S. to begin talks to enter the so-called P4 FTA. U.S. trade officials anticipate that the Trans-Pacific arrangement will be the foundation for building an Asia-Pacific free trade region.



WTO Doha Round –

Apart from the Korea FTA, no other trade agreement presents as much opportunity for increased U.S. pork exports as a successful Doha Round agreement. In 2008 NPPC continued to focus the attention of WTO trade negotiators on Japan and the European Union, markets in which there could be a huge payoff for U.S. pork producers.

PorkPAC Has Successful Year

The political action committee of the National Pork Producers Council, PorkPAC, continued to grow in 2008, far exceeding the record amount of contributions it received in 2007.

PorkPAC raised nearly \$166,000 this past year; it took in \$142,383 in 2007. The average contribution was more than \$500. For 2009, the PAC has set a fund-raising goal of \$200,000.

PorkPAC contributed to the campaigns of 63 candidates in 26 states for federal office during the year; 59 of those candidates won their election, giving PorkPAC a 94 percent success rate.



Swine Vet Public-Policy Program Launched

The National Pork Producers Council in 2008 launched a program to educate swine veterinarians about issues of concern to the U.S. pork industry. NPPC will select 10-12 veterinarians each year for the program, which will include a look at the political landscape, how the legislative and regulatory processes work, working with lawmakers and their staff and an overview of pork industry issues. Instructors will include industry experts, swine veterinarians, government officials and key Washington lobbyists.



CAFO Rule, RFS, Farm Bill Measures Among Environment And Energy Actions

The National Pork Producers Council took its case for reasonable environmental and energy policies to Congress, the courts and regulators in 2008.

NPPC this year saw the fruits of its 10 years of work on a water-pollution rule for concentrated animal feeding operations (CAFOs) with the U.S. Environmental Protection Agency's Oct. 31 release of the final regulation. NPPC began working with EPA and environmental advocates in 1997 to craft a new system of water-quality regulations that would be sound and uniform and that would have a minimal impact on producers. The new rule, which NPPC says is "tough but fair," sets a zero-discharge standard for CAFOs.

NPPC continued to track the progress of a national air monitoring study, which was part of the air consent agreement livestock producers signed with EPA in 2005. The agreement protects animal feeding operations from EPA enforcement actions for past air emissions violations, as well as for violations that might occur while the agency conducts the monitoring study of emissions from farms. Nearly 1,900 hog operations signed the consent agreement.

With regard to the debate over ethanol, NPPC backed Texas in its request for a waiver of the federal Renewable Fuels Standard, which this past year mandated the production of 9 billion gallons of corn-based ethanol. EPA rejected the waiver, which would have reduced the production mandate to 4.5 billion gallons and helped ease price and supply pressures on corn. The RFS jumps to 10.5 billion gallons in 2009.

In September, NPPC joined the American Farm Bureau Federation, the National Cattlemen's Beef Association and the Agricultural Retailers Association in asking the U.S. Court of Appeals for the District of Columbia Circuit to strike down an EPA rule that would regulate dust on farms. The groups argued that EPA lacked authority to set a standard for non-urban coarse particulate matter (dust) in the absence of reliable evidence that it is harmful to public health. In writing the rule, EPA admitted that scientific evidence does not show that non-urban coarse PM is harmful.

NPPC also lobbied congressional lawmakers during the Farm Bill debate on a number of environmental and energy matters, scoring several successes. It was able get included in the 2008 bill measures to:

- Increase funds for the Environmental Quality Incentives Program and make it easier for pork producers to qualify for the cost-share conservation program.
- Increase funds for the Conservation Security Program to allow more acres to be enrolled and restructure the program to provide conservation stewardship payments that encourage producers to implement additional conservation practices.
- Allow the use of manure and manure biogas for advanced biofuel and renewable biomass production.
- Provide incentives for expanding production of advanced biofuels made from agricultural and forestry crops and associated waste materials, including animal manure and livestock and food processing waste.

NPPC Weighed In On Animal Health, Research Facility, ID System

The National Pork Producers Council in 2008 weighed in on a number of science and technology issues.

NPPC helped secure legislation to reauthorize the Animal Drug User Fee Act (ADUFA) and to authorize the Animal Generic Drug User Fee Act (AGDUFA), both of which were free from language that would restrict the use in livestock of certain animal drugs. During debate on the measures, some lawmakers indicated support for banning the use of certain antibiotics.

The laws allow the U.S. Food and Drug Administration to collect fees from the animal health industry for the review and approval of animal health products. The fees supplement the agency's annual congressionally-approved appropriations and have enabled FDA to dramatically reduce its review time for new animal drugs, bringing medications to the market more quickly while maintaining high standards for safety and effectiveness.

NPPC testified in May on a replacement facility for the Plum Island Animal Disease Center located off the coast of Long Island, N.Y., where research and diagnoses on, and development of vaccines for, foreign animal diseases take place. NPPC urged that a new site be

built on the U.S. mainland. The U.S. Department of Homeland Security, which oversees Plum Island, recently picked Manhattan, Kan., as the site for the National Bio and Agri-Defense Facility.

In September, NPPC testified on pork producers' use of antibiotics to keep their animals healthy and produce safe, nutritious and wholesome pork. Several bills to prohibit the use in livestock of certain antibiotics have been introduced in Congress over the years, including ones in the 110th Congress sponsored by Sen. Edward Kennedy, D-Mass., and Rep. Louise Slaughter, D-N.Y.

On the regulatory front, NPPC objected to an FDA proposal to prohibit the extra-label use of cephalosporins, which are antibiotics approved – labeled – for the treatment of livestock respiratory diseases but which also work on other animal maladies. Extra-label use refers to the use of an approved drug in a manner that is not in accordance with the approved label directions. FDA dropped the proposal.

NPPC and the National Pork Board continued to implement a swine ID system. Through November, nearly 53,000, or 78.5 percent, of the estimated 67,280 hog farms had been registered.

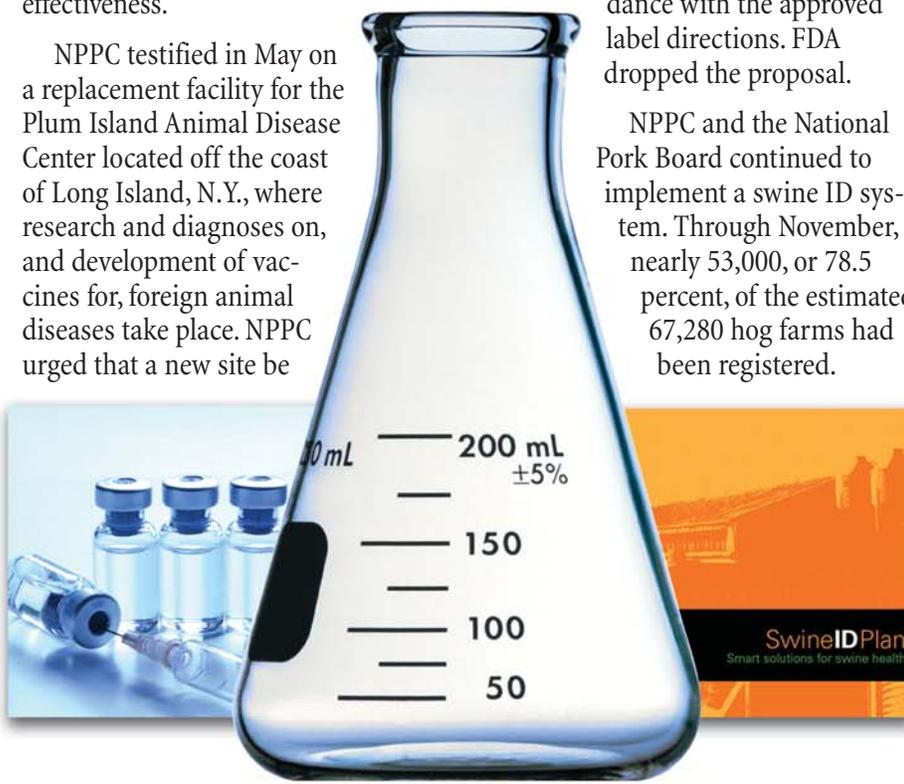


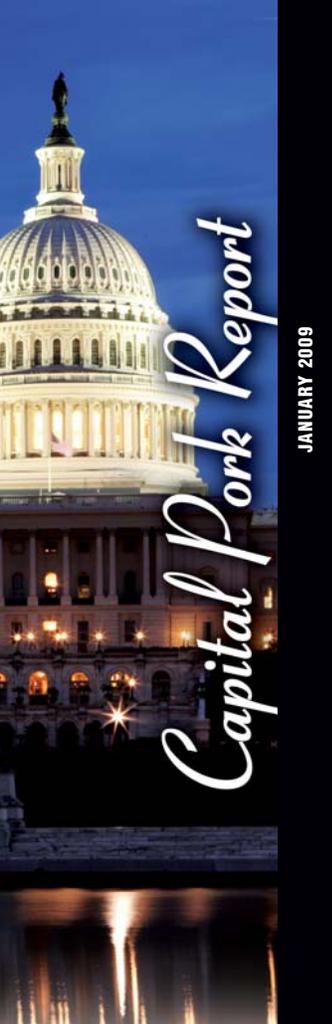
Program On Responsible Pork Production Set

The National Pork Producers Council and the National Pork Board, which administers the U.S. pork industry's mandatory check-off program, in 2008 launched "We Care," a responsible pork initiative to promote pork producers' long-standing commitment to responsible pork production and to continuous improvement in animal care, handling and transportation.

The initiative includes a set of ethical principles to which producers should adhere, including producing safe food, protecting animal well-being, respecting the environment, contributing to communities and protecting public health.

The "We Care" program also includes educating federal and state legislators about industry practices, programs and public-policy priorities; developing pork industry communication tools; and conducting research on social responsibility with select industry customers.





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Happy New Year

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.



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

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

NATIONAL

