

JANUARY 2011



NPPC Work In 2010 Sets Stage For 2011

Pork producers returned to profitability in 2010, making the year a success by any measure, particularly given the disastrous 2008 and 2009. The National Pork Producers Council worked during the year to make sure lawmakers and regulators in Washington didn't derail the industry's economic recovery.

An economic crisis that started in October 2007 and resulted in more than \$5 billion in industry losses – producers lost more than \$22 on each hog sold and nearly 75 percent of the equity in their operations – finally ended in March. For the year, producers on average will make about \$12 per head.

Those gains were made no thanks to Congress and the Obama administration. NPPC fought attempts to ban certain antibiotics from use in food-animal production and other legislative and regulatory efforts that could have added to the cost of pork production. The organization sent dozens of letters to lawmakers on various matters and submitted numerous comments on regulatory issues, particularly on environmental issues. In the international arena, NPPC worked with the administration and with foreign countries to advance free trade agreements and to settle trade issues.

NPPC met with Agriculture Secretary Tom Vilsack and with Lisa Jackson, administrator of the U.S. Environmental Protection Agency, to discuss pork industry issues and concerns. It also met with U.S. Trade Ambassador Ron Kirk on trade issues, including the U.S.-South Korea Free Trade Agreement.

For much of the year, NPPC's focus was on the so-called GIPSA rule, a proposal by the U.S.

Department of Agriculture's Grain Inspection, Packers and Stockyards Administration to regulate the buying and selling of livestock and poultry.



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National Office

10664 Justin Drive
 Urbandale, IA 50322
 p: (515) 278-8012
 f: (515) 278-8014
 www.nppc.org

Washington Public Policy Center

122 C Street, N.W., Suite 875
 Washington, D.C. 20001
 p: (202) 347-3600
 f: (202) 347-5265

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PERSPECTIVE

2010 Accomplishments

- Reauthorized the Livestock Mandatory Reporting Act and got included in it provisions requiring the reporting of wholesale pork cuts and pork exports.
- Advanced for a vote this year the U.S.-South Korea Free Trade Agreement.
- Passed an estate tax law that increases the exemption and lowers the tax rate.
- Got more than 16,500 individuals who make their living from the pork industry to submit comments in opposition to the so-called GIPSA rule.
- Re-opened to U.S. pork exports important foreign markets, including China and Russia.
- Sued the U.S. Environmental Protection Agency over its decision to allow E15 to be used in certain vehicles.
- Argued in federal court against EPA's rule on concentrated animal feeding operations.
- Defeated efforts to include in various bills a ban on certain animal antibiotics.
- Blocked climate-change legislation.
- Began work on setting for farms air emissions standards that are scientifically sound and economically sustainable.
- Set up a task force to make recommendations on the 2012 Farm Bill.
- Educated more than 250 producers about pork industry issues and about the public-policy process and how they can influence it.

Here are some of our accomplishments over the past year.

The U.S. pork industry will face many legislative and regulatory challenges in the coming year. But NPPC again will work on your behalf to meet those challenges, and with your continued support, we'll let policy-makers in Washington know what you're thinking about.

NPPC: Making Producers' Voices Heard

"The city of Washington is in some respects self-contained, and it is easy there to forget what the rest of the United States is thinking about."

— President Woodrow Wilson

The National Pork Producers Council made sure that the politicians, pundits and policy wonks in the capital of the country knew what America's pork producers were thinking about in 2010.

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 the antibiotics issue; and generally made pork producers' voices heard on important issues affecting the pork industry through testimony, comments and letters.

We weighed in on a variety of issues, from antibiotics to federal dietary guidelines; from environmental regulations to the mandatory price reporting law; and from free trade agreements to the estate tax law.

Of course, our biggest challenge in 2010 was the so-called GIPSA rule. This regulation from the U.S. Department of Agriculture could fundamentally change how the U.S. pork industry does business. The fight over the rule isn't over, but the efforts NPPC made on it and particularly the efforts of producers like you have ensured that USDA will give serious consideration to the industry's concerns in the coming year.

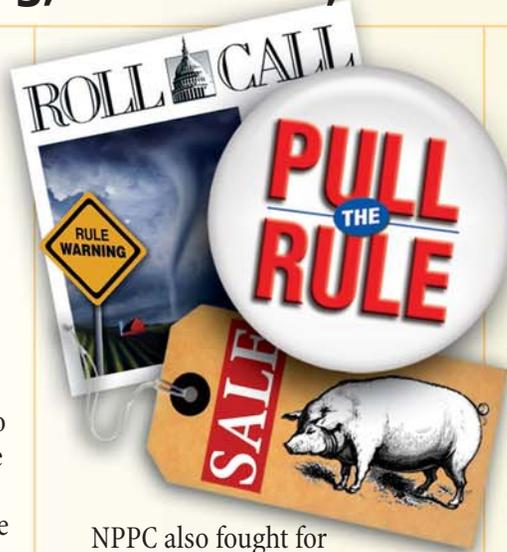
Price Reporting, Estate Tax, Funding Bills Passed

Although its main focus for much of the year was on the so-called GIPSA rule, the National Pork Producers Council did score some significant victories for pork producers in 2010.

Chief among NPPC's successes was reauthorization of the law requiring meat packers to report to the U.S. Department of Agriculture the prices they pay producers for animals. Congress extended for five years the Livestock Mandatory Reporting Act, which was set to expire Sept. 30, 2010, and included new provisions requiring weekly reporting of pork exports – by price and volume – and of wholesale pork cuts.

NPPC CEO Neil Dierks testified on the efficacy of the mandatory price reporting law before the U.S. Commodity Futures Trading Commission, telling its Agricultural Advisory Council that pork producers support accurate, timely and robust price reporting.

Another success was passage of estate tax reform. The tax is levied on the net value – less an exemption – of an owner's assets transferred at death to an heir or heirs. Congress voted to set for the next two years the exemption at \$5 million with a top tax rate of 35 percent. Under a 2001 tax law, the 2009 estate tax exemption was \$3.5 million with a maximum tax rate of 45 percent; for 2010 the estate tax was repealed. Had Congress not acted, the 2011 exemption would have reverted to its pre-2001 amount of just \$1 million, with a tax rate of 55 percent plus an extra 5 percent for estates valued over \$10 million.



NPPC also fought for funding of important pork industry programs. Before it adjourned, Congress passed a short-term funding bill that includes money for USDA's animal traceability program, which NPPC views as severely underfunded yet crucial to maintaining swine health and export markets, as well as for other USDA programs.

On the rule from USDA's Grain Inspection, Packers and Stockyards Administration (GIPSA), which was proposed June 22 to regulate the buying and selling of livestock, NPPC spent the better part of the remainder of the year fighting against it.

The organization succeeded in getting a 60-day extension of the public comment period on the rule, rallied 60 producers to attend a USDA-Department of Justice workshop in Ft. Collins, Colo., to voice opposition to it and 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.

In its own comments, NPPC said that GIPSA lacked authority or exceeded it on a number of provi-

sions in the rule. The agency, said NPPC, also failed to support the need for the regulation with evidence of problems in the pork industry and did not consider its own studies showing that restricting contracts could harm the industry.

NPPC said the rule would restrict marketing agreements between producers and meat packers, dictate the terms of production contracts, require additional paperwork, create legal uncertainty and limit producers' ability to negotiate better prices for the animals they sell.

NPPC also joined other organizations in commissioning an economic analysis of the rule. The analysis found it would result in nearly 23,000 lost jobs and reduce gross domestic product by \$1.56 billion. The cost to the pork industry would be \$333 million annually after an initial \$69 million expense.

[A final rule may be issued in late 2011. NPPC will continue to insist that USDA rewrite the regulation.]

While the fight over the rule isn't over, NPPC, along with other livestock groups and with poultry organizations, helped prevent the regulation from being "rubber stamped" by USDA.

Finally, NPPC set up a task force of producers and industry representatives to begin discussions on pork industry priorities for the 2012 Farm Bill. Congress already has begun hearings on it. NPPC will make recommendations to lawmakers on what it would like – and what it wouldn't like – in the next Farm Bill.



Exports Continue To Boost Pork Producers

Although they are unlikely to top 2008's record amount of \$4.9 billion, exports of U.S. pork were expected to grow in 2010 to their second highest level ever. The National Pork Producers Council helped U.S. producers reach that level by working to keep existing foreign markets open and to open new markets to U.S. pork.

Through October – the latest month for which data existed at press time – pork exports were nearly \$3.9 billion and were on track to be around \$4.5 billion for the year. That would be more than 2009's \$4.3 billion but less than 2008's total. That translates to more than \$56 for each hog marketed, a significant amount given that producers, on average, made only \$12 a head for the year.

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



South Korea – NPPC agreed to a compromise on pork to resolve a dispute on auto trade between the United States and South Korea that paves the way for a final free trade agreement between the countries. [A vote by Congress on the FTA is expected to come some time this year.] At NPPC's insistence, the United States had negotiated in the

agreement that was signed June 30, 2007, a zero tariff rate on most pork products going into South Korea effective Jan. 1, 2014, the same date Chile's pork and 30 months before the European Union's goes to a zero duty. Chile has an FTA with South Korea that was implemented in 2004; the EU's agreement is expected to be in force July 1, 2011. The U.S.-South Korea FTA had been held up mostly because of issues related to trade in beef and automobiles. The logjam was broken when U.S. pork producers agreed to move back the effective date on the zero tariff rate on some cuts of pork to Jan. 1, 2016. The FTA would be one of the most lucrative for the U.S. pork industry, according to NPPC, which has championed the pact for more than three years. Iowa State University economist Dermot Hayes estimates that by the end of the FTA's 10-year phase-in period U.S. live hog prices will rise by \$10 per animal, and the deal will generate an additional \$687 million in U.S. pork exports to South Korea. The Asian nation will absorb 5 percent of total U.S. pork production, and the FTA will create more than 9,000 new direct jobs in the U.S. pork industry.



China – After announcing in

October 2009 that it would lift its ban on U.S. pork imports, China in May began accepting shipments of U.S. pork. NPPC urged the Obama administration to pressure the Chinese to accept imports. The Asian nation closed its market to U.S. pork in late April 2009 in the wake of an outbreak in humans of novel H1N1 influenza, which the media misnamed "swine" flu. NPPC also continued to urge the administration to press China to address a number of other trade-related issues that limit U.S. pork imports. After dropping in 2009 by 38 percent from 2008 amounts, U.S. pork exports to China in 2010 were up 15 percent over last year.



Mexico – Despite a 5 percent tariff on most U.S. pork exports going there, Mexico continued to be a top export destination for U.S. pork in 2010. The tariff was imposed in August in retaliation for the United States prohibiting Mexican trucks from hauling freight into America. NPPC – as it did in 2008 and 2009 – took the lead in organizing groups in the private sector to prompt the U.S. government to live up to its trade obligations under the North American Free Trade Agreement, which includes a provision allowing

2010 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 243 producers through its Legislative Education Action Development Resource (LEADR) program and 14 individuals through its Pork Leadership Institute (PLI) program. It also increased the coffers and clout of its political action committee.

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 260 investors to the ranks of its Strategic Investment Program. Representing a variety of farm types and sizes, NPPC’s more than 2,500 investors are involved with about 65 percent of the country’s pigs. NPPC’s revenue from its investors grew by about 17 percent in 2010.

Many of the matters on which NPPC weighed in during 2010 have carried over to 2011, including the GIPSA rule and environmental regulations. But the organizations work last year has set the stage for success in the New Year.



Mexican trucks entry into the United States. NPPC’s on-going efforts on the trucking issue ensured that the tariff on U.S. pork was only 5 percent compared with the 20 percent duty imposed on a host of other U.S. products going to Mexico.



Russia – NPPC worked with the U.S. Department of Agriculture and the Office of the U.S. Trade Representative to get Russia to completely re-open its market to U.S. pork. By the end of 2009, Russia had delisted nearly all U.S. pork facilities, prohibiting them from shipping pork to Russia. USDA and USTR negotiated with the Russian Veterinary Service to develop a veterinary certificate to ensure that U.S. pork exports meet specific Russian microbiological and tetracycline-group residue requirements. The USDA export verification program prompted Russia to relist most U.S. pork facilities.

2010 began talks with Brunei, Chile, New Zealand and Singapore to join their Trans-Pacific Partnership trade agreement. NPPC has been a strong advocate of the so-called TPP since its inception and was the first organization to publicly push the United States to enter negotiations on it. Four negotiating sessions were concluded last year. The Asia-Pacific region is economically the fastest growing in the world, and it has the greatest potential for increased pork exports.



Cuba – While it didn’t pass Congress, legislation to lift travel restrictions and allow export financing for products going to Cuba advanced last year. The House Agriculture Committee approved the “Travel Restriction Reform and Export Enhancement Act,” which NPPC strongly supported and which would clarify how U.S. farmers and agricultural interests conduct business with Cuba and would allow direct transfers of funds from Cuban to U.S. financial institutions for products going to the island nation. According to Iowa State University economist Dermot Hayes, U.S. pork exports to Cuba would more than double if the legislation were approved.



Trans-Pacific Strategic Economic Partnership – The United States in

NPPC Sues on 'E15,' CAFO Rule; Blocks Climate Bill

The National Pork Producers Council, along with other livestock groups, in early November filed suit in federal court to overturn the U.S. Environmental Protection Agency's decision to permit gasoline to be blended with 15 percent ethanol (E15) for use in certain vehicles.

In its lawsuit, NPPC argued that EPA's decision to grant a partial waiver of the Clean Air Act – allowing E15 in cars built after model year 2006 – was not within the agency's legal authority. Under the clean air law, EPA only may grant a (full) waiver for new fuel additives if they will not cause or contribute to a failure of any emission control device or system.

NPPC opposes raising the blend rate to 15 percent from its current 10 percent because it would put upward pressure on corn stocks and, thus, raise corn prices, increasing the cost of pork production. A decision on the case is expected some time this year.

In other court action, NPPC participated in oral arguments on its lawsuit against EPA over the agency's rule on discharges from concentrated animal feeding operations. NPPC argued that the 2008 rule's duty to apply for a Clean Water Act (CWA) discharge permit "constitutes a thinly veiled effort to impose the same duty to apply that was invalidated" in 2005 by a federal appeals court. That court ruled that CAFOs need discharge permits only if they actually discharge. EPA's 2003 CAFO Rule sought to require permits even for operations that had a "potential" to discharge.

NPPC also argued that a "failure to apply" violation creates substantial economic pressure on CAFOs to apply for a CWA permit and that the rule unlawfully requires that permits include restrictions on manure applied to land even if a CAFO



only seeks permit coverage for discharges – or "proposed" discharges – from production areas. Additionally, NPPC argued that the regulation shifts to non-permitted CAFOs that have discharges the burden to establish that they did not "propose" to discharge prior to the discharge. (The rule essentially establishes a presumption that any CAFO "proposed" to discharge if any future discharge occurs.)

NPPC, as it did in 2009, helped keep climate-change legislation from passing Congress. Senate and House bills would have required reductions in greenhouse gas emissions across various economic sectors, including agriculture. The House measure, however, included drastic cuts that would have raised energy and pork production costs significantly. It also contained incentives for

landowners to convert cropland to forests – known as afforestation. A U.S. Department of Agriculture analysis – prompted by NPPC – found that as much as 50 million acres of cropland would be converted to forests, which would cut feed grain supplies and raise their costs to livestock producers. While the House approved its bill in 2009, NPPC's opposition to it and the organization's insistence that the Senate bill address the afforestation issue, in the end, led to no final action on climate-change legislation in 2010.

Also last year, NPPC helped organize a joint EPA-USDA workshop to discuss methodologies for estimating air emissions from farms. The agencies will be using data collected in 2008 and 2009 from farms, including 1,900 hog operations, to establish scientifically sound and economically sustainable air emissions standards. Members of NPPC's Environment Committee and Air Quality Task Force attended the workshop.

The data collection was part of a consent agreement livestock producers signed with EPA in 2005. The agreement, which NPPC helped negotiate, 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.

NPPC Weighed In On Antibiotics, Dietary Guidelines

Despite stepped up efforts by proponents of a ban on them, the National Pork Producers Council last year was able to block efforts to prohibit certain antibiotics from being used in food-animal production.

NPPC kept out of legislation, including Senate and House food-safety bills, an amendment that would have banned the use in livestock 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.

In a related matter, NPPC submitted comments on guidance on antibiotics use proposed by the U.S. Food and Drug Administration.

The organization also submitted comments on recommendations made by the federal Dietary Guidelines Advisory Committee



to the secretaries of Agriculture (USDA) and Health and Human Services (HHS) that will inform final dietary guidelines for Americans. The guidelines serve as the foundation for food policy, such as for the National School Lunch and Breakfast programs, and for nutrition guidance for all Americans for the next five years.

The problem with the American diet, said NPPC in its comments, is not over-consumption of lean meat – the advisory committee recommended that Americans consume only “moderate” amounts of lean meat – which provides key nutrients not available from plant-based proteins and which studies show can aid in weight loss, it is over-consumption of empty calories – foods filled with added sugars and solid fats that provide little nutritional value.

Lean meat is a nutrient-rich source of lean protein with unique attributes not offered by plant pro-

teins, NPPC said, and extensive peer-reviewed research supports a clear role for protein in the form of lean meat, including many cuts of pork, as a key part of the solution to the obesity epidemic.

NPPC got House approval of the “Veterinarian Services Investment Act,” which would direct the Secretary of Agriculture to establish a grant program to “develop, implement and sustain” veterinary service to help relieve a shortage of veterinarians, particularly large animal veterinarians. The program would include recruitment efforts and financial aid for veterinary students.

Along with the National Pork Board, NPPC continued to register thousands of hog farms for USDA's animal traceability program. Through November, nearly 66,000 swine premises, or 92 percent, covering more than 95 percent of the commercial swine herd, had been registered. NPPC also continued to urge Congress to appropriate funds for the traceability program.

Record Year For PorkPAC

The political action committee of the U.S. pork industry last year continued to grow in money and power.

PorkPAC, the political fund of the National Pork Producers Council, in 2010 raised a record \$219,203. That's up significantly from 2009's \$156,000. The average contribution from 285 contributors was \$770.

The PAC, created in 1986 to educate and support candidates at the

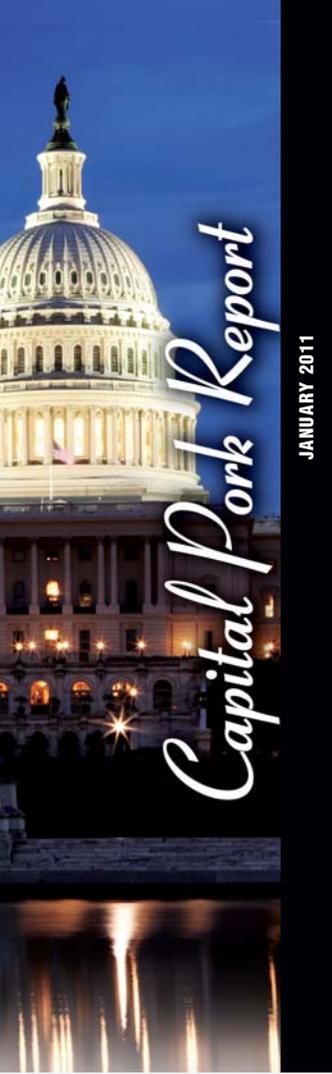
federal level whose views represent the interests of pork producers, processors and the pork industry, contributed to the campaigns of 82 candidates in 28 states for federal office in 2010; 67, or 81 percent, of those candidates won election in November.

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 who believe, and have

demonstrated their belief in, the principles to which the industry is dedicated. To further these purposes, PorkPAC is empowered to solicit directly or indirectly and accept voluntary personal contributions.



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



Capital Pork Report

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Washington Public Policy Center
 122 C Street, N.W., Suite 875
 Washington, D.C. 20001

Website: www.nppc.org



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.

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