Written Testimony of the

National Pork Producers Council

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INTRODUCTION

The National Pork Producers Council (NPPC) is an association of 43 state pork producer organizations and serves as the voice in Washington for the nation's pork producers. The U.S. pork industry represents a significant value-added activity in the agriculture economy and the overall U.S. economy. Nationwide, more than 67,000 pork producers marketed more than 110 million hogs in 2010, and those animals provided total gross receipts of $15 billion. Overall, an estimated $21 billion of personal income and $34.5 billion of gross national product are supported by the U.S. hog industry. Economists Dan Otto and John Lawrence at Iowa State University estimate that the U.S. pork industry is directly responsible for the creation of 34,720 full-time equivalent pork producing jobs and generates 127,492 jobs in the rest of agriculture. It is responsible for 110,665 jobs in the manufacturing sector, mostly in the packing industry, and 65,224 jobs in professional services such as veterinarians, real estate agents and bankers. All told, the U.S. pork industry is responsible for more than 550,000 mostly rural jobs in the U.S.

Exports of pork continue to grow. New technologies have been adopted and productivity has been increased to maintain the U.S. pork industry's international competitiveness. As a result, pork exports have hit new records for 17 of the past 19 years. In 2010, the U.S. exported more than $4.8 billion of pork, which added $56 to the price that producers received for each hog markets. Exports last year represented about 20 percent of pork production. The U.S. pork industry today provides 21 billion pounds of safe, wholesome and nutritious meat protein to consumers worldwide.

Pork producers have a keen interest in the next Farm Bill. NPPC has formed a Farm Bill Policy Task Force to gather input from producers from around the country. The task force will hold a number of meetings to review and evaluate many of the Farm Bill issues that will affect the pork industry. NPPC is committed to working with Congress to craft the 2012 Farm Bill.

PROFILE OF TODAY'S PORK INDUSTRY

Pork production has changed dramatically in this country since the early 1990s. Technology advances and new business models changed operation sizes, production systems, geographic distribution and marketing practices. The demand for meat protein is on the rise in much of the world. Global competitiveness is a function of production economics, environmental regulation, labor costs and productivity. The United States can continue to be a leader in food production and meet the needs of increased consumer demands as long as exports continue to grow and producers are allowed to operate without undue legislative and regulatory burdens.

U.S. pork farms have changed from single-site, farrow-to-finish (i.e., birth-to-market) production systems that were generally family-owned and small by today's standards to multi-site, specialized farms many of which are still family-owned. The changes were driven by the biology of the pig and the business challenges of the modern marketplace. Separate sites helped in controlling troublesome and costly diseases and enhanced the effect of specialization. Larger operations can spread overhead costs (such as environmental protection investments and expertise) over more farms and buy in large lots to garner lower input costs. The change in sizes has been the natural result of economies of scale, plain and simple.

Marketing methods have changed as well. As recently as the early 1980s, a significant number of hogs were traded through terminal auction markets. Many producers, though, began to bypass terminal markets and even country buying stations to deliver hogs directly to packing plants to minimize transportation and other transaction costs. Today, hardly any hogs are sold through terminal markets and auctions, and the vast majority of hogs are delivered directly to plants.

Pricing systems have changed dramatically, too, from live-weight auction prices to today's carcass-weight, negotiated or contracted prices, with lean premiums and discounts paid according to the predicted value of individual carcasses. The shift to lean premiums and discounts was largely responsible for the dramatic increase in leanness in pork seen in the 1990s.

Today, the prices of about 5 percent of all hogs purchased are negotiated on the day of the agreement. All of the other hogs are packer-produced or sold through marketing contracts in which prices were not negotiated one lot or load at a time but determined by the price of other hogs sold on a given day, the price of feed ingredients that week or the price of lean hog futures on the Chicago Mercantile Exchange. These newer risk-management mechanisms are entered into freely and often aggressively by producers and packers alike to ensure a market for and a supply of hogs, respectively, and to reduce the risks faced by one or both parties.

Robust pork demand in both the domestic and export markets will likely make 2011 a successful year for U.S. hog producers. Pork cutout values and farm-level hog prices are near record high, and prices of lean hog futures contracts for summer months exceed $100 per hundred pounds carcass weight. The recovering U.S. economy, the weak U.S. dollar, successful marketing efforts by producer groups, packers and processors and an expanded opportunity for pork sales to South Korea have all contributed to these strong prices.

But a major reason for higher prices is lower hog production relative to just three years ago, the result of producers' responses to sharply higher costs of production. Costs for average farrow-to-finish producers will average about $85 per hundred pounds carcass weight this year based on corn and soybean meal futures on April 1. That figures is 20 percent higher than last year and 60 percent higher than the average for 1999-2006, before the advent of federal biofuels policies. These costs are now being passed along to consumers in the form of higher retail pork prices, which set six record monthly highs during 2010 and are almost certain to set new highs this year.

The risks faced by pork producers in the coming years are greater than ever. Even with the third largest corn crop on record, projected 2011 year-end stocks-to-use ratios for both corn and soybeans are the lowest ever. Total corn usage, driven by nearly 5 billion bushels of corn going to ethanol production, is now routinely over 13 billion bushels per year and still growing because of constantly rising renewable fuels mandates and, at least at present, soaring oil and gasoline prices, which make ethanol production more profitable. The increasing demand for corn has resulted in cash corn prices of more than $6 per bushel and corn futures prices well over $7 per bushel.

Any difficulties with this year's or next year's U.S. corn and soybean crops could be disastrous for U.S. pork producers. Ethical care of animals requires producers to feed them even when feed prices are high. Producers cannot quickly stop production and feed usage, and they will do all they can to keep from destroying the animals in their care. But such action might be required should poor growing conditions develop over the next few years. The last real drought in our major corn-growing states happened in 1988, 23 years ago. The Corn Belt is overdue for a weather shock.

Finally, these higher costs have driven capital requirements to record levels. Where it once took roughly $100 to get a hog to market weight, it now takes more than $170. Loan levels and credit lines have swollen. Lenders have tightened credit terms and, in some cases, have been challenged to meet these higher capital needs.

As the next Farm Bill is written, NPPC hopes Congress will take into account the factors laid out below and current economic conditions when considering the needs of the nation's pork producers. The U.S. pork industry would like Congress, in crafting the 2012 Farm Bill, to: 1) maintain the U.S. pork industry's competitive advantage; 2) strengthen the industry's competitiveness; and 3) defend the industry's competitiveness by opposing unwarranted and costly provisions and regulations.

MAINTAIN OUR ADVANTAGE

The next Farm Bill should help the U.S. pork industry maintain its current competitive advantage. The U.S. pork industry has become the world's low-cost producer of pork and its No. 1 exporter through low production costs, a strong food-safety record and advancements in animal health and consumer-driven further processing.

Food Safety And Advancements In Animal Health

U.S. pork producers have made food safety their highest priority. Through industry programs such as Pork Quality Assurance Plus (PQA Plus) and Transport Quality Assurance (TQA), pork producers have been able to reduce the incidence of animal disease and to enhance food-safety protocols. PQA Plus – and its predecessor, PQA – is modeled after the Hazard Analysis Critical Control Point (HACCP) programs used by food manufacturers to ensure the safety of food products but customized for on-farm use. It was designed to identify the practices with potential to result in a food-safety hazard and minimize this potential risk through producer education on relevant on-farm practices. More than 53,000 pork industry workers have been certified under the PQA Plus program and about 13,000 farms have undergone a site assessment. TQA provides guidelines on handling, loading, transporting and unloading of all sizes of hogs. Specifically, these guidelines address basic handling, managing temperature, preventing heat and cold stress, using driving tools and low-stress loading and unloading. More than 26,000 producers, handlers and transporters have been certified in this education program. The U.S. pork industry works closely with USDA's Agricultural Research Service (ARS), which helps ensure that Americans have reliable, adequate supplies of high-quality food and other agricultural products through scientific discoveries that help solve problems in livestock production and protection. At the packing plant, the industry relies on USDA's Food Safety Inspection Service (FSIS) personnel to ensure the safety of pork products.

NPPC believes that adequate funding for FSIS and ARS is needed to allow the agencies to keep the U.S. pork supply safe and wholesome.

U.S. pork producers support efforts underway in USDA's Animal and Plant Health Inspection Service to address animal disease outbreaks and to implement a national animal disease surveillance program. A critical component of this initiative ought to be control of the populations of feral swine in Michigan and other pork-producing regions of the country. These animals frequently carry disease and pose serious contamination risks for domestic swine populations.

NPPC supports a national mandatory animal identification system that enables USDA to quickly identify, control and eradicate any animal disease outbreak. Such a system is imperative to keeping U.S. export markets open. (Countries will not accept U.S. meat exports if they aren't confident that the United States can control and eradicate an animal disease.) The U.S. pork industry, through a cooperative agreement with USDA, implemented an animal identification system based on its 1988 pseudorabies eradication program. Since 2007, more than 57,000 swine premises have been registered, covering more than 90 percent of the U.S. hog population.

Low Production Costs

Low production costs are the result of affordable feed ingredients and efficient production units. (Currently, it's more the latter than the former.) The Farm Bill can help the U.S. pork industry on both counts by maintaining and enhancing programs that keep feed ingredient prices competitive with the rest of the world. Feed comprises 65-75 percent of the cost of producing a market hog. (Each market pig consumes approximately 10.5 bushels of corn and 200 pounds of soybean meal, or about 4 bushels of soybeans.) U.S. pork producers are concerned about the impact on the industry of the increased use of corn for ethanol production. U.S. pork producers believe that this country needs a strong renewable energy policy. However, such a policy cannot come at the expense of livestock. The current focus on renewable fuels is laudable, but markets must be neither distorted by subsidies and taxes nor constrained by mandates to the point where they cannot send effective price signals. Research and development is needed to find other energy alternatives, such as using animal manure and fat and biomass, including switchgrass and corn stover. The U.S. pork industry wants to emphasis that the right balance is needed to meet the needs of fuel *and* feed security.

Recently, feed costs have risen dramatically, with corn prices now more than $6 a bushel. (During debate on the last Farm Bill, corn prices were under $4 a bushel.) While high feed costs are a concern to producers, more alarming is the potential for feed shortages. Despite the third largest corn crop ever in 2010, the U.S. Department of Agriculture estimated that there was only a 19-day carryover of corn stocks, a historic low. Should the Corn Belt suffer a drought or other weather event that reduces the harvest, there could be regional shortages of feed.

To address that potential feed crisis, NPPC wants productive acres now in the Conservation Reserve Program to be released without penalty so that they may be planted to crops.

Consumer-driven Further Processing

The U.S. pork industry must continue to meet the demands of its consumers. Therefore, the structure of the production and packing sectors should be allowed to change with the demands of the marketplace. This includes allowing producers and packers to change to adopt new technologies and capture economies of size and scope. The U.S. pork-packing sector is the envy of the world in terms of efficiency, and Congress must be careful not to take away or hamper this source of international advantage. Allowing producers and packers the freedom to develop new ways of doing business will only enhance the value of U.S. pork products, at home and abroad, and reduce costs and risks. A key issue here is workable immigration reform that allows the industry to maintain a viable workforce without significantly increasing labor costs or placing the law enforcement burden on pork producers and packers.

ADD TO OUR COMPETITIVENESS

In addition to maintaining the industry's competitive advantage, the next Farm Bill should add to that position by expanding and including such elements as trade assistance, research, risk-management tools and science-based conservation programs and environmental regulations.

Trade

There is considerable global demand for pork and pork products. Pork represents 44 percent of global meat protein intake, far more than beef and poultry. And there is no disputing that free trade agreements have been a major factor in the rapid growth in U.S. pork exports over the last two decades. Since the year before the North American Free Trade Agreement was implemented in 1994, for example, U.S. pork exports to Mexico have increased 780 percent to $986 million last year; since the year before the Australia FTA was implemented, U.S. pork exports to that country have grown by 1,300 percent to $148 million; since the year before the Central America FTA was implemented, U.S. pork exports to the CAFTA countries have increased by 313 percent to $119 million; and in the two years since the Peru FTA took effect, U.S. pork exports to that South American country have almost doubled to $1.2 million. The Center for Agriculture and Rural Development at Iowa State University estimates that U.S. pork prices were $56 per hog higher in 2010 than they would have been in the absence of exports. The U.S. pork industry last year exported more than 1.9 million metric tons of pork valued at $4.8 billion.

The United States is now the lowest-cost pork producer in the world, and the U.S. pork industry has established itself as the No. 1 global exporter. But the industry will not stay in that position, even as the lowest-cost producer, if competitor countries cut trade deals in key markets and the United States does not.

U.S. pork producers have been and continue to be strong supporters of trade agreements, including the deals with Colombia, Panama and South Korea, which are pending congressional approval. It is important to emphasize the need to strengthen the ability of

U.S. agriculture to compete in the global marketplace. The downside of growing exports, of course, is a larger economic impact should there be any disruption in trade. Pork producers understand this dynamic and recognize that it would be devastating for the U.S pork sector. NPPC would welcome the opportunity to work with the Committee to develop risk-management tools that would support producers and packers should U.S. export markets ever be interrupted by a serious animal disease outbreak.

<u>Risk Management</u>

During the past two years, NPPC has been reviewing the current risk-management tools available to U.S. pork producers. These tools need to be reviewed and modernized to reflect today's modern pork production as well as the economic realities of the United States as a growing pork exporting nation.

The Livestock Gross Margin Insurance Program for swine needs to be enhanced. A producer committee has held several discussions about the potential improvements to the program to assist pork producers during these volatile economic times. Although production seems to have stabilized, U.S. pork producers still face significant economic risks. First, because the U.S. pork industry today exports 20 percent of its product to foreign destinations, it faces the risk of severe market disruptions such as the one producers experienced from April 2008 to May 2009 when 29 countries shut their markets to U.S. pork because of unsubstantiated claims about the risk of H1N1 flu. This situation had a huge impact on the U.S. pork industry, which lost billions of dollars because of the H1N1-related export ban. Second, the USDA-subsidized Livestock Risk Protection program and an Iowa program, which protect livestock producers' margins above feed costs, both have had limited success because of a lack of awareness, availability and cost competitiveness. NPPC believes that USDA should evaluate both programs to determine if changes can make them more useful and thus more widely accepted by pork producers. These programs need to be improved to more accurately reflect today's pork production model, be open to all producers regardless of size or production system and should not be capped at unrealistic levels that have not increased since the program began.

Finally, NPPC believes that more attention should be given to whole-farm programs that would include livestock. Iowa was one of the pilot states for whole-farm coverage and, in most cases, demonstrated how livestock revenue assurance together with crop insurance can reduce premiums compared with insuring enterprises separately.

Conservation and the Environment

In terms of conservation and environmental protection, farmers and ranchers have adopted and will continue to adopt conservation measures to protect water quality. These measures work. USDA's Natural Resources Conservation Service (NRCS) estimates that, as of 2006, farmer conservation practices in the upper Mississippi River basin have reduced the loss of sediment by 69 percent, nitrogen by 18 percent and phosphorous by 49 percent. Similarly, NRCS estimates that in the Chesapeake Bay sediment loss is down by 57 percent, nitrogen by 36 percent and phosphorous by 39 percent. Estimates will be available this year or early next for the Great Lakes and other regions of the country. But NPPC is confident that these statistics will show similar progress by farmers everywhere.

Even with such strong accomplishments, agriculture knows that the public wants greater environmental performance from farmers and ranchers. Water quality in the Great Lakes is a top concern for Michigan residents and others in the region. Similar sentiments are being expressed in other parts of the country such as the Chesapeake Bay watershed, Long Island Sound and the entire Mississippi River basin. More is being requested, or demanded, depending on the part of the country. Fortunately, farmers can make further advances with the adoption of even more efficient conservation measures so that additional water-quality improvements will be possible.

For many farmers, USDA conservation financial assistance funds through the Environmental Quality Incentives Program (EQIP) and the Conservation Stewardship Program (CSP) will be integral to making these additional advancements more possible and able to happen more rapidly. Certainly there will be advances made by many farmers without any federal funding assistance. But conservation financial assistance will be critical for many, and it will help build a foundation of practices that can sustain conservation improvements for the long term. As such, it is critical that every effort be made in this Farm Bill to maintain funding for EQIP and the other critical working lands conservation programs.

There is another reason that funding for EQIP and other working lands programs must be maintained. The traditional Clean Water Act permitting model will never be a successful policy approach for agriculture. New models and new approaches must be found, and EQIP will be critical to making these new approaches viable. These new approaches must give farmers the certainty they need to know they can invest in new technologies and practices and be able to make them pay. These new approaches must also give farmers the flexibility to quickly adapt to changing circumstances and let them explore new methods to reduce costs, improve efficiency and reduce their overall footprint. Yet all this must be done while also giving the public the assurances it wants that agriculture is, in fact, making improvements and fulfilling its environmental protection responsibilities.

The Michigan Agriculture Environmental Assurance Program is a good example of such an innovative approach. The challenge, of course, will be to adapt such innovative efforts to literally hundreds of thousands of farms and to fund the significant educational and technical assistance this will entail. NPPC anticipates that further innovations are going to be needed that do not require a federal or state program on every farm to give the public the assurance that real and lasting improvements are being made. NPPC also anticipates that some targeting of EQIP funds will be needed in some of the critical watersheds even while funds are maintained to keep EQIP assistance broadly and generally available. The next Farm Bill should address these challenges, but it is clear that without protecting EQIP funding, this task becomes significantly more difficult.

<u>Research</u>

To maintain the U.S. pork industry’s competitive advantage, the United States must invest in research. Production agriculture research has proved essential in promoting the U.S. to the position as the top agricultural products producer in the world, and the continued focus on research will be necessary to advance animal health and to feed a growing global population. USDA's research is critical to the pork industry, whether it be improving swine genetics, testing and deploying new and improved animal vaccines to combat emerging and zoonotic diseases, improving utilization of alternative feed stuffs in the swine diet such as sorghum and wheat, improving alternative animal health management tools or further increasing animal productivity. Research can assist in monitoring diseases and preventing a disease outbreak, and it is critical that current research be meshed with a larger comprehensive disease surveillance plan. Again, NPPC supports adequate funding of USDA departments that invest in production agriculture research.

AVOID IMPOSING COSTLY REGULATIONS ON OUR INDUSTRY

The next Farm Bill should not harm the competitive position of the U.S. pork industry by imposing costs on or restricting the industry from meeting consumer demands in an economical manner. Government intervention must not stand in the way of market-based demands. NPPC will work against efforts to ban marketing contracts, activists' positions on animal care and housing and other efforts that will harm the agricultural sector.

Marketing Practices

During debate on the 2008 Farm Bill, the issues of prohibiting packer ownership of livestock, banning forward contracting and eliminating "business justification" for pricing livestock were discussed. Congress decided not to restrict or dictate contractual relationships. It did request USDA to address through regulation five specific issues:

- Criteria for determining whether an undue or unreasonable preference or advantage has been given to any producer.
- Whether a poultry dealer or swine contractor has provided sufficient time for a grower to remedy a breach of contract that could result in contract termination.
- Whether a poultry dealer has given reasonable notice of any suspension of delivery of birds to a grower under a contract.

- When a requirement of additional capital investment during the life of a contract constitutes a violation of the Packers and Stockyards Act as an unfair practice.
- The factors that comprise a fair usage of arbitration, including notification and the option for producers to opt out of automatic arbitration to resolve disputes.

The U.S. pork industry was stunned in June 2010 when USDA proposed a rule on the buying and selling of livestock and poultry that not only went well beyond the five issues Congress asked it to address but included provisions considered and rejected by Congress. If implemented as currently drafted, the GIPSA rule would have a devastating impact on livestock producers. According to an analysis of the rule conducted by Informa Economics, it would cost the U.S. pork industry nearly $400 million annually. Industry analysis of the regulation concluded that it likely will have a chilling effect on innovation and flexibility, leading to a race toward mediocrity. It will create legal uncertainty that will drive costs higher and cause an increase in vertical integration in the livestock sector, driving producers out of the business and possibly affecting supplies. NPPC continues to urge USDA to scrap the current GIPSA rule and to write a regulation that sticks to the five mandates it was given by Congress in the 2008 Farm Bill.

Today, the U.S. pork industry has developed a wide variety of marketing and pricing methods, including contracts, to meet the changing needs of a diverse marketplace. U.S. pork producers will not be well served by having Congress eliminate certain types of contracting mechanisms, which only would force the livestock markets to revert to an inefficient system used more than half a century ago in which animals were traded in small lots and at prices determined in an open-market bid system. This system was inefficient and makes no economic sense in today’s economy.

The U.S. pork industry opposes any legislation or regulations that restrict marketing opportunities or interventions into hog markets unless such actions address a clear, unequivocal instance of market failure or abuse of market power.

Miscellaneous

The U.S. pork industry has no doubt that activist groups and special interest groups will be watching this Farm Bill debate and will attempt to push their particular agendas – adding regulations to producers' business practices – be it a social, animal-rights or animal welfare issue. NPPC urges the Committee not to allow these issues to be added to the 2012 Farm Bill – a piece of legislation that has been aimed for the past 65 years at maintaining the competitiveness of U.S. agriculture and the U.S. livestock sectors and providing under-served communities with vital protein products, including pork, through federal nutrition programs. Social, animal-rights and animal welfare issues will not advance food safety or help get high-quality protein to those in need at a reasonable cost to U.S. taxpayers.

Another issue that may come up during debate on the Farm Bill is antibiotic use in livestock production. The U.S. pork industry has developed and implemented strict animal care practices and judicious use guidelines for the use of animal health products. These programs are now part of the industry's Pork Quality Assurance Plus program, which requires producers to be trained and certified to care for animals. NPPC does not believe that Congress should legislate on this issue as part of the 2012 Farm Bill.

CONCLUSION

As its Farm Bill Policy Task Force proceeds in deliberations on the development of the U.S. pork industry's positions related to the 2012 Farm Bill, NPPC would be pleased to share the industry's thoughts and suggestions. NPPC is ready to work with Congress to craft a Farm Bill that meets the objective of remaining competitive in the domestic and world meat markets.