Testimony of

Jim Dean
Chairman
United Egg Producers

on

Highly Pathogenic Avian Influenza: The Impact on the U.S. Poultry Sector and Protecting U.S. Poultry Flocks

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Mr. Chairman, Senator Stabenow and members of the committee: My name is Jim Dean and I am an egg farmer from Sioux Center, Iowa. I currently serve as Chairman of the United Egg Producers. UEP is a farmer-owned cooperative whose members independently produce and market more than 90% of all eggs in the United States.

Egg farmers appreciate the interest of this committee and other Members of Congress as we deal with the worst animal health crisis in the nation's history. About 36 million hens have been removed from the nation's laying flock as a result of this disease, and an additional 5-6 million pullets – which are young birds that would have begun laying eggs in the near future – have also been lost. Even without additional cases of highly pathogenic avian influenza (HPAI), we and our customers are dealing with the loss of 12% of the U.S. egg-laying flock. If we consider just the portion of the flock that produces eggs for further processing – that is, breaking into products such as liquid whole egg or dried egg white that are used in food manufacturing and food service – the loss is closer to 30%.

This severe supply disruption has affected us and our customers alike. Although the United States normally does not need to import eggs or egg products, the recent HPAI outbreaks have temporarily changed that reality. As producers and processors, we are in favor of our customers having access to supplies of imported egg products and shell eggs for breaking, as long as they are safe. We have worked with the U.S. Department of Agriculture and the Food and Drug Administration to facilitate approval of import procedures and provide information to companies that need temporary supplies. We would much rather our customers obtain alternate supplies temporarily than to see them make the difficult and regrettable choice of reformulating their products to reduce or eliminate egg content.

I would like to publicly thank Chairman Roberts, Ranking Member Stabenow and their staffs as well as USDA, in particular the Animal and Plant Health Inspection Service (APHIS), for responding to the HPAI crisis. This Committee and Secretary Vilsack's personal involvement has been critically important, and we appreciate the continuing leadership. In a situation like this, no response is ever perfect. Sometimes we have had disagreements with APHIS or frustrations with various aspects of their operations. As an industry, we have not always done everything perfectly either, but we were taking great pains to utilize industry best practices regarding biosecurity at our facilities. We have had an open and respectful relationship with APHIS and other USDA agencies that has permitted us to work through difficult situations. Fundamentally, we want to express our gratitude for APHIS's hard work and dedication, as well as the role played by other USDA agencies, including the Food Safety and Inspection Service and the Agricultural Marketing Service.

Egg farms have been implementing biosecurity measures for many years, starting after the high pathogen Avian Influenza outbreaks in Pennsylvania in the 1980's. Persistent cases of avian influenza during the early 2000s led to the creation of a control program for this less-virulent disease, and producers who participate in this program implement biosecurity at their farms. Biosecurity is also required by the FDA's Egg Safety Rule, which successfully combats *Salmonella* Enteritidis.

So the HPAI outbreak did not catch producers unprepared, and likewise APHIS had done research and planning in preparation for the disease. That being said, the highly-infectious nature of this virus is somewhat precedent-setting. The rapid and seemingly uncontrolled lateral spread of this particular virus has stymied the best efforts of both farmers and APHIS. As one example, the largest egg farm affected by the disease in Iowa had undergone a USDA biosecurity audit less than two months before the outbreak and was given a perfect score. That does not mean that either the farm or APHIS did anything wrong, but it does illustrate that even biosecurity is not a 'magic bullet' and that we still have more to learn about controlling the spread of the pathogen.

We can do more and are doing more. Stringent limits on movement between henhouses as well as new and additional restrictions on vehicular traffic are just some of the steps many producers have taken since the outbreaks began. Industry meetings have been turned into webinars to avoid transmitting the virus by bringing people together unnecessarily, new research is being funded and USDA has worked with UEP and the American Egg Board to disseminate the most current biosecurity information to all producers.

HPAI has already harmed local economies and led to some layoffs that we hope will be temporary. The disease puts at risk family-owned, multi-generational farming businesses; the jobs of thousands of farm workers; and the economic health of rural communities where the affected egg farms are often among the largest employers.

In Iowa, the egg industry accounts for about 3,200 jobs directly but more than 20,000 jobs when supplier employment and indirect economic impacts are considered. The industry in Iowa generates $6.6 billion in economic activity each year, amounting to more than $500 million in federal and state tax revenues. In nearby affected states, the industry is also a major presence, accounting for $3.1 billion in economic activity and 12,000 jobs in Minnesota in addition to $500 million in economic activity and 2,600 jobs in Wisconsin. Unfortunately, a very large number of these jobs must now be considered at risk.

The HPAI outbreaks will have a significant and negative impact on our industry in these and other states. That is inevitable, and frankly there is nothing the government can do to completely mitigate the harm. However, we are grateful that Congress saw fit to create a system of indemnity payments to cover the value of birds that must be destroyed, lost production, as well as cleaning and disinfection costs. For us – and for our colleagues in the turkey and other poultry industries – these indemnities can be the difference between a farm failing or surviving. By keeping farms in operation, indemnities also help keep workers employed and benefit local economies.

We have been engaged in a respectful dialogue with USDA about the formulas that are used to calculate indemnities for the egg industry. Current regulations require that indemnities reflect the value of egg production, but we are concerned that the specific formulas used to calculate payments fail to completely reflect this value.

The formulas do a relatively good job of reflecting the investment that has gone into a pullet at the start of her laying cycle at 18-19 weeks of age. A few adjustments to the pullet value are in order, and USDA

appears likely to make at least some of these changes. We appreciate very much the Department's openness to the data we have supplied and the arguments we have made.

However, the real issue with the current formula is that it does not adequately capture the value of the future stream of egg production associated with the hen. I will not take the committee's time with the technical aspects of this discussion, except to say that we very much hope that USDA will agree to make changes to its current formulas to better reflect egg production value, and we believe that the existing statutes provide ample authority for the Department to do so. I do, however, want to make sure the committee understands the fundamental difference between egg production and the production of turkeys or broilers.

These "meat birds" have a relatively short life cycle before they go to slaughter. A new flock can then be placed in fairly short order. Modern egg production does not work that way. In a multi-barn complex, the birds in one house will be of a different age than those in other houses. We deliberately "stagger" the age of hens in our barns in order to smooth out normal production cycles. A hen's egg production increases and then decreases over her useful lifetime in a predictable fashion. If all hens on a farm were of the same age, there would be times – before pullets began laying and late in the life of each flock – when the farm would have insufficient eggs for its customers as well as times in the middle of the flock's life when supplies might be greater than market needs.

By systematically staggering the ages of our flocks, we can provide a stable supply to our customers. However, this also means that if every bird on a farm must be killed at once – as is the case in an HPAI outbreak – the farmer cannot immediately replace all those birds. Rather, the farm must re-stock sequentially, house by house, over a period of months or even years. Since supplies of chicks or pullets are typically contracted far in advance, a farm could not re-stock immediately even if it wanted to; the birds would simply be unavailable.

This means that an egg farm hit by HPAI will not return to full productivity, nor will it regain normal revenue, for an extended period of time. During this time, the farm will continue to incur its fixed costs, such as debt service, utilities, pest control, taxes and, of course, labor. But there will be insufficient revenue to cover these costs.

We conservatively estimate these fixed costs incurred during unexpected down-time at 10 cents per dozen eggs that would otherwise have been produced. The private firm Agri Stats, on which USDA relies for some other aspects of its indemnity calculations, affirms that this number approximates its egg clients' costs. We are seeking to have USDA adjust its formulas to reflect this amount.

Mr. Chairman, the egg industry has suffered a severe blow this year. Our farms, our employees, our communities, and our customers have felt the impact. It is vital that all of us work closely with USDA to take every step we can to prevent more harm to our industry as well as the rest of U.S. poultry. We need, and very much appreciate, your support and that of USDA as we move forward. We pledge our best efforts to overcome this virus and re-build a healthy industry. Finally, if I could sound an optimistic tone, I'd say that the HPAI indemnity program is precisely the kind of sound government policy that keeps farmers in business and keeps government prepared for the worst. We have great confidence

that in working with USDA and APHIS, working with this Committee, and working with the appropriators on priorities like completing the Southeast Poultry Research Laboratory, HPAI can be overcome. This government response has been professional and is to be admired. We look forward to working with USDA to adjust the indemnity formula to better reflect lost production value, but we believe that is a solution that can be achieved. Thank you again for the opportunity to testify and for all of this Committee's assistance.