

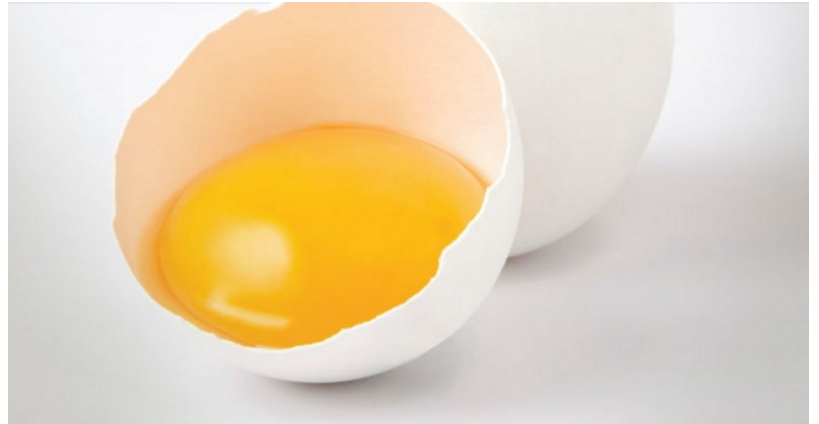


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U.S. Egg Shortage: Act of God or Man?

Have you noticed the price of eggs soaring at your local grocery store? The reputed culprit is an unprecedented outbreak of bird flu in 21 states across the nation. Since December of last year, hundreds of fowl have died after becoming infected with one of three strains of a highly pathogenic avian influenza (HPAI) virus — H5N1, H5N8, and, mostly, the H5N2 strain. In an effort to prevent the illness from spreading, government authorities have slaughtered more than 48 million birds. According to the U.S. Department of Agriculture (USDA), both commercial and backyard egg-laying flocks in 15 states are affected. Migrating waterfowl such as wild geese and ducks carrying the H5 flu strains have been found in another six states, posing a significant risk to domestic poultry in those areas because the virus is highly contagious. So far, it hasn't proven a direct threat to humans, but it is taxing their pocketbooks as shortages ensue and prices steadily rise.



Particularly hard hit is the nation's top egg producer — Iowa. In April and again in June, Governor Terry Branstad declared disaster in 18 of the state's 99 counties, and the Iowa Department of Agriculture reports more than 31 million birds killed by HPAI or culled as authorities work to control spread of the disease. Overall, nearly 10 percent of the country's egg-laying hens are dead.

Major media blames the epidemic for your higher grocery bill, though the Bureau of Labor Statistics recorded a slight decrease in retail egg prices nationwide in April and May of this year compared to the same months in 2014. However, the Bureau's Consumer Price Index confirms the cost of a dozen large Grade A eggs reached an all-time high for the first five months of the year, averaging \$2.07 this January through May.

In devastated Midwestern states, prices have increased more dramatically. Commodity market news-reporting service Urner Barry said in early June that prices on wholesale large shell eggs jumped an unprecedented 120 percent in less than two months. The *Des Moines Register* recorded that retail egg prices had tripled to \$3 per dozen in its Iowa hometown.

The good news is that the virus doesn't spread as well in warm weather, and HPAI's tide has begun to wane during the summer months. USDA's chief veterinary officer, John Clifford, anticipated that farmers would see fewer flu cases as temperatures rise, though he warned during an April 22 press conference of the need for vigilance. "I can't predict what will happen in the fall," Clifford cautioned.



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Experts forecast that, despite the seasonal hiatus, prices will continue to climb until the disease is completely eradicated, facilities are disinfected, and flocks have time to recuperate. That could take quite a while considering that the USDA Animal and Plant Health Inspection Service has to test each farm to confirm it is virus free. The process can take a few weeks to several months, depending on conditions, and farms may take another year to be fully functional. American Egg Board senior vice president John Howeth told the Associated Press, “The best-case scenario — we’re talking about a year before the availability is more robust.”

Foodservice giant Sysco Corporation is less optimistic. It estimates “at least 18 months” before the hen population recovers to pre-flu levels. In a June 3 letter to customers, the company’s senior vice president, Scott Sonnemaker, warns them to brace for higher price tags on eggs and a plethora of egg-containing products such as mayonnaise, baking mixes, soups, dressings, desserts, and breaded foods. Noting the scope of harm to the industry, he wrote, “It appears that all of us — suppliers, product manufacturers, foodservice distributors, restaurants and food operators — will be negatively affected until the egg-laying hen population is replenished.” Sonnemaker stated that Sysco is not taking any new egg customers as a result of the shortage.

American Bakers Association director of government relations, Cory Martin, told the *Des Moines Register*, “A lot of our members are struggling to find enough supply to meet demand for their own products.” His organization represents companies such as Kroger, White Castle, Pepperidge Farm, and J.M. Smucker. “We don’t see this as a short-term issue,” Martin opined. “This is definitely something that is going to affect the baking industry for the next couple years.”

Indeed, food firms nationwide are watching their expenses soar and stocks fluctuate. Reporting for investment newsletter *Wall Street Daily* in June, Tim Maverick wrote that prices on liquid eggs are “up 238 percent since the flu outbreak, from \$0.63 per dozen to \$2.13.” Cal-Maine Foods’ stock “soared about 50 percent in the past three months” because its flocks are located in uninfected areas of the United States. However, HPAI wiped out 35 percent of Post Holdings’ egg layers, dropping stock 15 percent in one month. Post has declared the situation a *force majeure* beyond its control, has discontinued several product lines as a result, and has sued egg supplier Hawkeye Pride Egg Farms of Iowa in federal court for breach of contract. KIOU Radio reports that Hawkeye Pride has lost 5.5 million egg-laying hens to the illness and therefore cannot fulfill its contractual obligation to Post.

Though large companies such as Sysco and McDonald’s are feeling the heat, smaller mom-and-pops are fried. “Egg prices have doubled in the past month and a half,” complained one Baton Rouge, Louisiana, restaurant manager to *The Acadiana Advocate*. Cases of 15-dozen eggs that cost \$20 two months ago now cost \$40, and he uses 30 cases per week. The *St. Louis Post-Dispatch* quoted Missouri Baking Company co-owner Chris Gambaro, who said that during the month of June, 30-pound pails of frozen eggs jumped from \$32 to \$79 each. St. Louis baker Michael Temm told the paper, “I have never seen this type of egg increase in the 19 years I’ve owned Wedding Wonderland.”

Rationing

Along with higher prices, some grocery and restaurant customers also face egg rationing. Texas supermarket chain H-E-B recently began limiting purchases to three cartons per customer. Signs posted in its stores warn, “Eggs not for commercial sale,” since many restaurateurs and small business owners have found a slight savings and better supply in shell eggs over their processed counterparts.



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The company released a statement on June 4, explaining, “H-E-B is committed to ensuring Texas families and households have access to eggs. The signs placed on our shelves last week are to deter commercial users from buying eggs in bulk.”

The national shortage also forced Texas fast-food chain Whataburger to adjust its breakfast schedule this spring as it looked for alternate suppliers. The restaurants served egg-containing menu items for only four hours on weekdays and six on weekends for the first three weeks of June, announcing on the 19th that the full breakfast menu would then resume from 11 p.m. to 11 a.m. daily. The company’s only explanation was that it had “secured additional egg supply.” Since the domestic egg shortage shows no letup, Whataburger’s rebound may have to do with expanded egg imports, as we shall see.

Turkeys Too

Egg-layers are not the only victims. The USDA estimates the flu has wiped out roughly 7.8 million turkeys in seven states. The number of poults — young turkeys being raised for food — is down nationwide seven percent from last year, causing media speculation of a 2015 Thanksgiving Day shortage. However, the Consumer Price Index averages show no upswing for turkey meat yet; on the contrary, costs since the outbreak reared its head in December are down 12 percent over the same months in the previous year. In fact, Sysco’s Sonnemaker described the virus as having “a minor impact on turkey” and said he expects “the effects to be minimal on our ability to provide ... turkey products,” thanks to the availability of suppliers.

But the nation’s top turkey-producing state, Minnesota, is not as lighthearted about the issue. Unlike Iowa, Minnesota has lost more turkeys than chickens — nearly nine million birds total — and new cases have been discovered in both states this summer. The Minnesota Board of Animal Health (MBAH) has canceled all poultry exhibits at county fairs, the State Fair, and private gatherings for the rest of the year, banning birds from swap meets, exotic sales, and petting zoos. The board’s assistant director, Dr. Beth Thompson, explained, “We need to do everything possible to get rid of this virus, and preventing the commingling of birds from different farms is one way to do that.” MBAH has, however, already begun a restocking program on previously infected farms that are now determined to be free of the virus. If they can ward off further infections, normal production may not be far off.

Commodities, Imports, and Exports

Production of chicken meat has remained steady throughout the epidemic. Most broiler flocks — chickens raised for meat — have been impervious to the current outbreak. Some experts speculate that broilers, with their short six- to eight-week lifespans, don’t have much time to catch the bug. Others think geography plays a role; many broiler flocks are located in warmer climes where the virus loses virulence. That hasn’t stopped HPAI from affecting poultry prices, however. *Modern Farmer* reported in late June that the price of chicken meat is down as much as 33 percent from last year because dozens of countries have stopped importing U.S. poultry products, vastly increasing domestic supply. The United States’ top 10 importers have enacted full or partial trade bans due to the bird flu (with the exception of Russia, which has banned poultry imports since August 2014 in response to U.S. sanctions over the Crimea annexation). Regardless, Reuters said that these 10 countries accounted for 66 percent of U.S. poultry exports in 2014 to the tune of \$5.5 billion, and that the USA Poultry and Egg Export Council estimated trade losses in the first quarter of 2015 at \$600 million. According to MarketWatch, shares of



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many top U.S. chicken-meat companies have plummeted.

While some countries are refusing U.S. products, others are taking advantage of the egg shortage. Normally an egg exporter, for the first time in 13 years the United States is importing chicken eggs from Europe. The Netherlands now joins Canada as a USDA-approved exporter of both shell and breaker eggs. (The latter are eggs broken and processed or used as ingredients in other foods). Other countries approved only for shell egg imports are Argentina, Chile, France, Germany, Portugal, and Spain.

Vaccine Debate

Meanwhile, as part of its efforts to control and eradicate HPAI, the USDA began in April developing a vaccine to target the H5N2 virus. Since lab tests have yet to prove its efficacy, the department refuses to release it. But industry feathers are ruffled. Many chicken farmers fear a vaccine mandate will further cripple their export market. Some foreign countries have only restricted products from flu-infested areas in the United States; a mandatory vaccine could prompt nationwide bans.

“We don’t know what our trading partners would do if the proposed vaccination strategy is adopted,” said Dr. Ashley Peterson of the National Chicken Council at a recent workshop sponsored by the U.S. Poultry & Egg Association. According to WATT Global Media’s AgNet, although Peterson warned attendees that “we need to prepare for the worst,” her organization has already petitioned the USDA to fully investigate trade ramifications of a vaccine mandate, as well as the health effects of the medicine.

The land-grant university online research bank, eXtension.org, explains that most commercial birds already receive vaccinations against a variety of common poultry plagues such as Marek’s disease, infectious bronchitis, and fowl cholera. But many poultry producers worry that birds inoculated with a live flu virus could shed the vaccine, putting other birds at undue risk. Mike Cockrell, chief financial officer of Sanderson Farms, Inc. told Reuters, “We are opposed to using it without it being fully tested.”

Others are willing to forgo economic analysis and risk adverse drug effects. Reuters also recently quoted a number of industry and policy experts who support the vaccine. U.S. Representative Collin Peterson (D-Minn.), ranking member of the House Agriculture Committee, said, “Without that vaccine I worry about the future of the industry.” Steve Olson, executive director of the Minnesota Turkey Growers Association, said that farmers in his state are eager to vaccinate before the fall brings colder weather and migrating wild birds, both of which increase avian flu risk. However, James Sumner, president of the USA Poultry and Egg Export Council, noted, “I don’t think there are too many countries that have vaccinated and found it successful for their industry.”

The California Complication

In terms of egg prices, however, no one can blame bird flu entirely. Also at fault: a strict animal-welfare law passed in California that pundits warned would instigate a coast-to-coast egg shortage and soaring prices. “Proposition 2” went into effect January 1, mandating that all eggs sold in California had to come from hens housed in cages large enough to allow them to extend their wings and move about freely. Required cage sizes are increased by more than 73 percent — from the industry standard of 67 square inches to 116 square inches. The cost of overhauling henhouses and/or reducing flock sizes was bound to spike egg prices in California, but the mandate applies to all shell eggs sold in the Golden State, no matter where they originate. On December 19, 2014 the very day the first case of bird flu was



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confirmed in the United States, The New American's senior editor William Jasper predicted the nationwide repercussions of Proposition 2:

How do California's egg regs affect the price of eggs in Iowa or Alabama? California already imports 4 billion eggs a year from other states. The new mandates will almost certainly force many California egg producers out of business and cause those that survive to increase their prices. This alone would cause a national supply-and-demand impact, as out-of-state producers rush to fill the void in California. In order to protect California farmers from the cheaper out-of-state competition, the California legislature passed Assembly Bill 1437, which applies Prop 2's standards to out-of-state eggs sold in California. Farmers in Missouri, Oklahoma, Iowa, Nebraska, Alabama, and Kentucky filed suit in federal court, claiming that this is an illegal attempt by California to protect its industry and regulate out-of-state business in violation of the U.S. Constitution's interstate commerce clause.

Jasper said preparations for the January 1 deadline had already driven egg prices to record highs in both California and around the country. Recall that the Consumer Price Index reveals higher egg prices in April and May of 2014 compared to the same months in 2015, and by last December, Grade A egg prices had climbed to an all-time monthly high of \$2.21 a dozen. At that time Iowa State University agribusiness professor Dermot J. Hayes told Bloomberg Business that Proposition 2 would raise the price of eggs further in California, by as much as 20 percent within the first six months of 2015.

With added bird flu complications, the outcome has been much worse. Shoppers at Safeway in Sacramento now pay \$5.09 for one dozen extra-large eggs. ABC affiliate KXTV quoted Ken Klippen, president of the National Association of Egg Farmers, who said, "When the California egg law went into effect January 1 ... California egg prices were \$2.75 to \$3.30 per dozen. With national prices [now] approximating \$3 per dozen, expect California egg prices to be closer to \$5 per dozen."

As for the lawsuit, the states involved have filed an appeal after U.S. District Court Judge Kimberly J. Mueller tossed it last October. Will Coggin, director of research for the Center for Consumer Freedom (CCF), praised the appellants efforts, calling Prop 2 a "barrier to free trade" and a "poorly conceived measure pushed by animal-liberation radicals at the Humane Society of the United States, who are against the consumption of eggs entirely."

Indeed, Proposition 2 can be considered the brainchild of the Humane Society of the United States (HSUS), the largest animal-rights organization in the world. HSUS spent \$10 million in 2008 on a statewide campaign to pass Prop 2. Jasper maintains that the group's ultimate objective "is to end all livestock farming," driving producers into bankruptcy if necessary to achieve their goals. Entirely unaffiliated with any local animal shelters, HSUS makes no secret of its agenda to turn mankind into herbivores. "We don't want any of these animals to be raised and killed," said HSUS Vice President Miyun Park in an interview quoted by Jasper. Park called Proposition 2 a mere "step in the right direction" because, "unfortunately we don't have the luxury of waiting until we have the opportunity to get rid of the entire industry." She bragged that HSUS will continue pushing society toward complete veganism.

But aren't large cages better for chickens? Not according to industry experts, who say that what sounds good to humans isn't necessarily best for poultry. In April the National Association of Egg Farmers (NAEF) summed up research from the Coalition for Sustainable Egg Supply, the American Veterinary Medical Association, Clemson University, and the American Farm Bureau Federation regarding the



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advantages and disadvantages of different housing systems and resulting food safety. Perhaps surprising to those outside the industry, conventional cage systems win hands down in terms of both chicken welfare — protecting weaker birds from the pecking order and resulting cannibalism from their more aggressive neighbors — and human health, since conventional cages prevent eggs from coming in contact with dangerous pathogens like salmonella in manure. More to the point in question here, conventional cages allow farmers to provide a high-quality protein product at a much lower cost than either the HSUS-dictated scheme or more labor- and resource-intensive systems such as cage free, free range, and organic farming.

NAEF mentioned further benefits of conventional cages delineated by Dr. Kenneth Anderson, a North Carolina State University poultry extension specialist: “He noted that chickens reared in conventional cages had 1. significantly greater numbers of Grade A eggs, 2. significantly greater numbers of total eggs produced, 3. significantly better feed conversion rates ... [and] 4. better immune response.” The last item on the list has particular implications for avian flu, since free-ranging poultry exacerbate spread of the virus, says NAEF.

Measures such as Proposition 2 would reverse all this. Nor is the regulation humane to humans. CCF cited a report from Iowa State University that found “low-income individuals will be disproportionately harmed” by Prop 2-inflated prices, because “they often rely on eggs as an affordable protein substitute in lieu of pricier meat-based options.” NAEF agreed, asking, “How do those prices benefit a low income family trying to make ends meet?”

Prop 2 certainly does not represent the first time California voters have shunned reality in place of radical environmental regulation, thereby wreaking havoc on the rest of the country. As The New American contributor Bob Adelman recently quoted *Modern Farmer*, “California has long been to environmental law what New York is to fashion: It leads, others follow.” Adelman noted, “The state’s draconian vehicle emission standards passed decades earlier have been adopted at the federal level, and now movements to set more [so called] humane standards for hens have been approved by voters in Oregon, Washington, Michigan and Ohio.”

Hence the bird flu could not have hit at a worse time for the egg industry, but blaming it entirely for current sweeping market disruptions is erroneous. It seems combined acts of God and man are responsible. And until voters stop assuming they know more about caring for poultry flocks than the chicken farmers do, it is unlikely the market will totally recover even after all traces of the flu have flown the coop.



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