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The United Egg Producers (UEP) and the Humane Society of the United States (HSUS) announced Thursday that they had reached an agreement to petition Congress for legislation requiring commercial egg producers to move from conventional caged housing to “enriched” colony housing. That was the report from Feedstuffs newspaper written by correspondent Rod Smith. The move follows long-standing protests and maneuvers by HSUS to end caged layer housing, an undercover video made last year that showed alleged inhumane housing and treatment of hens in an Iowa layer operation and a salmonella outbreak last year that was traced to another Iowa egg operation and was blamed, at least in part, on unsanitary conditions at both the operation and its feed mill. The groups announced that their goal is to have a law in place by June 30, 2012 and to have the new housing systems fully adopted by the end of 2029.

UEP said in a statement that the goal is to have one national standard instead of a patchwork of state laws that create challenges for both producers and customers. National legislation would also be a chance to address challenges with the language of California’s Proposition 2 which passed n 2008. Prop 2 required “expanded” space but did not tell producers how much more space they must provide. When Congress decides to “occupy the field” on an issue, the move normally means state laws are pre-empted so a national standard would pre-empt other state laws in Michigan, Oregon and Washington according to UEP. HSUS and UEP said they will not “initiate, fund or support” any further ballot initiatives or local or state legislation.

The talks began last year after HSUS recognized that there were benefits to colony systems that include enrichments such as nests, perches and scratch areas as well as sufficient space to allow birds to behave more naturally. HSUS had previously insisted that only cage-free production systems were acceptable.

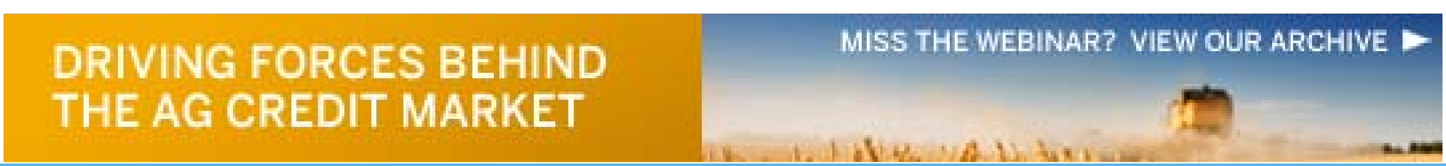
So what does this agreement mean? We are not familiar with the cost implications of changing layer housing systems but the agreement includes one factor that almost certainly reduces compliance costs: Time. Based on economic analyses of changing from gestation stalls to group housing of sows done by the National Pork Board, costs increase MUCH more if producers have to retrofit barns. Conversely, if enough time is allowed for producers to basically wear out existing barns and then replace them with new technology, the long-term costs are much lower. We would think the same applies to layer barns and 18 years strikes us as a long time horizon indeed. The HSUS/UEP announcement says that space allowances will increase and that will no doubt reduce bird densities and spread building and equipment costs over fewer hens and fewer eggs so average production costs will increase. But allowing enough time to prevent barn retrofits will very likely greatly reduce the amount of the cost increase.

The agreement also means that the pork industry will see increased pressure to make a similar deal regarding sow stalls. Several states, including Florida, Arizona and California, have passed ballot initiatives calling for stalls to be eliminated — usually 10 years hence. Oregon’s legislature passed a similar law while producers in Colorado, Michigan and Ohio have agreed with HSUS to support state laws or regulations that have the same effect. Smithfield Foods announced that it would unilaterally eliminated gestation stalls from its company-owned operations. Most laws take effect 10 to 12 years down the road. Ohio’s has a 15 year time horizon. Smithfield’s original time frame was 10 years from the January 2007 announcement. They have not changed the time line even though they did slow the process in 2008-2009 when pork industry economic conditions were so bad. Smithfield’s website says they will have 30% of their sows in group systems by the end of 2011.

The gestation stall language varies some from state to state, but all of the laws to date are similar in that they prohibit “pregnant” or “confirmed pregnant” sows from being housed in stalls. These limitations are important in that they still allow stalls to be used 35-42 days after weaning in order to allow sows to recover from lactation-related weight loss, be bred and get new embryos implanted into the uterine wall. Post-implantation mixing of sows has been found to have a smaller impact on litter size than pre-implantation mixing. These practices and well-managed group housing can result in productivity levels very similar to full-time gestation stall systems.

It appears that the federal tax credit for ethanol blenders and the tariff on imported ethanol will end on July 31 Senator Dianne Feinstein (D, Calif.) announced that she had reached an agreement with Senators Klobuchar (D, Minn.) and Thune (R, SD) to end these two facets of the federal biofuels policy. After being extended for one year last December, they were scheduled to expire at the end of 2011 had Congress not taken this action. All of the reports that we could find cite $1.3 billion in savings that would be applied to the federal deficit and $668 million that will be devoted to infrastructure issues such as pipelines and blender pumps. It is not clear where the other $4 billion of the roughly $5.4 billion ($0.45/gallon times roughly 12 billion gallons) that the blenders’ tax credit has cost U.S. taxpayers the past two years will go.

Reports also suggested that the tariff would be a boon to Brazilian ethanol producers. It may be so over the long run but in the short run we do not expect a flood of Brazilian ethanol simply because sugar prices are so high. Brazil’s sugar-based ethanol industry is widely acknowledged as having the lowest cost structure in the world — under normal conditions in the sugar market.



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