

**Testimony of  
Ron Truex  
On Behalf of  
United Egg Producers  
Before the  
Subcommittee on Livestock, Dairy, and Poultry  
House Committee on Agriculture**

**March 8, 2007**

Good morning, Mr. Chairman, Mr. Hayes and members of the subcommittee. My name is Ron Truex and I am the president and general manager of Creighton Brothers, LLC, in Warsaw, Indiana. I appreciate the opportunity to testify on behalf of United Egg Producers. About 90% of all the eggs in the United States are produced by UEP members. UEP is a farm cooperative, and in addition to performing all the functions of a trade association, we also administer a program of animal care standards called the UEP Certified Program. In addition, we negotiate and conclude export sales through our subsidiary, U.S. Egg Marketers, as well as providing egg trading, access to insurance and other services.

**The Downside of the Ethanol Boom**

I would like to thank this subcommittee for holding a hearing on livestock and poultry feed costs. The fact that you would invite all of us here today is evidence that you understand one fact of life: There is a downside to every boom.

And there is no doubt that ethanol is booming. Production has increased from 1.6 billion gallons in 2004 to 4.9 billion gallons in 2006, according to the Renewable Fuels Association<sup>1</sup>, and the U.S. Department of Agriculture projects more than 12 billion gallons by 2010.<sup>2</sup> Many believe USDA is too conservative.

In many ways, ethanol and other biofuels will benefit the United States. Increased use of biofuels has already created profitable investment opportunities in many rural communities. By expanding our use of renewable energy sources, we can reduce our

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<sup>1</sup> Robert Dinneen, "The U.S. Potential for Biofuels." Presentation at Agricultural Outlook Forum 2007. <http://www.usda.gov/oce/forum/2007%20Speeches/PDF%20PPT/BDinneen.pdf>

<sup>2</sup> U.S. Department of Agriculture, *USDA Agricultural Projections to 2016*. Report OCE-2007-1, February 2007.

dependence on imported oil and cut our overall use of fossil fuels. Needless to say, the tremendous rally in corn and soybean prices benefits farmers who grow those crops.

However, half of the U.S. farm economy is livestock, dairy and poultry. And for anyone who must buy animal feed, the swift runup in corn and other ingredient costs has meant dramatic increases in the cost of production.

### **What Feed Costs Mean to Egg Producers**

About 55% of the cost of producing a dozen eggs is feed.<sup>3</sup> About 63% of a typical layer ration is corn.<sup>4</sup> You can well imagine, then, that when corn prices are around \$4 a bushel, egg producers' costs will skyrocket.

A typical Midwest egg operation saw feed costs per ton increase 58% just from September 2006 through the end of February 2007, from \$106.23 per ton in September to \$168.19 in February for a layer ration. That increase reflected a large jump in the price of corn during this five-month period, from \$2.13 per bushel to \$4.17 per bushel. For this operation, the cost of feed to produce a dozen eggs increased from a range of 16-19 cents per dozen during most of 2006 to nearly 29 cents per dozen today. This means that the cost of delivering a dozen eggs to the grocery store is 10 cents more today than it was just a few months ago.<sup>5</sup>

Of course, costs in other areas of the country are higher than in the Midwest because of grain transportation and similar factors. So other regions of the United States have been hit even harder than producers in my area.

The producer's costs do not end when eggs are laid, of course. Washing, grading, cartoning and transporting eggs to a retail store add substantially to our industry's expense. All in all, the estimated total costs to provide a dozen eggs to retail markets in 2006 was about 78-79 cents.<sup>6</sup> Again, at current corn and soybean meal prices, production costs are likely about 10 cents per dozen higher in early 2007.

### **USDA Projections Show Rising Production Costs**

USDA published long-term projections just two weeks ago that back up these numbers. The Department projects that not only was egg production unprofitable during 2006 (many of us, unfortunately, can attest to that) – but according to the Department, egg producers will lose money in each of the next several years through 2009, largely because of higher feed costs. Measuring total production costs to deliver a dozen eggs to the

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<sup>3</sup> Don Bell, University of California Poultry Specialist, emeritus. Personal communication, February 28, 2007.

<sup>4</sup> William J. Stadelman and Owen J. Cotterill, Editors, *Egg Science and Technology*, 4<sup>th</sup> Edition. Binghamton, NY: The Haworth Press, 1995.

<sup>5</sup> Data provided by egg-laying operation in Eastern Corn Belt. Personal communication, February 27, 2007.

<sup>6</sup> Data provided by Don Bell, University of California Poultry Specialist, emeritus, and by United Egg Producers from Express Markets, Inc. Personal communications, February 27-28, 2007.

grocery store, USDA calculates 2006 costs at 71.84 cents a dozen and projects they will increase to 85.41 cents a dozen in 2007 and keep rising to reach 99.97 cents a dozen in 2010<sup>7</sup>.

We hear much discussion of dried distillers grains with solubles (DDGS) as a substitute for corn in feed rations. However, the high fiber content of this product limits its use in non-ruminants. In poultry rations, DDGS cannot exceed about 5% of the ration, so this ethanol by-product will not offset much of the increase in corn costs.

### **The Stakes for Animal Agriculture**

I am not suggesting that the nation abandon ethanol. However, it is imperative for Congress to take the livestock and poultry sector's needs into account.

We are like everyone else in production agriculture: Our ability to pass along our costs to our customers is extremely limited in the short term. Eventually, consumer prices will rise, and at that point many more people will pay attention. Unfortunately, by that time a significant number of livestock, dairy, poultry and egg producers may be out of business.

As producers sustain continued losses and are unable to continue their operations, one or both of two things will happen, and neither is desirable. In some cases, production will pass into stronger hands: The consolidation and vertical integration which we have seen for some years in the animal agriculture sector will accelerate. Mid-sized operations like mine will find it harder and harder to compete.

The other possible consequence is that some production will move outside the United States. In that case, the domestic demand base for U.S. feed grains and oilseeds will shrink. That will not be good for corn and soybean farmers.

### **What Should Congress Do?**

I would like to make several specific policy recommendations for your consideration.

First, if Congress expands the Renewable Fuels Standard, **the expansion should be limited to fuels that are made from non-corn feedstocks.** Most experts agree that the future lies in cellulosic ethanol once technologies can be commercialized. Any increase in the RFS should focus on cellulosic feedstocks – and if this is not yet realistic, then the RFS expansion should be delayed until it is. In fact, the ethanol industry itself is *not* actively seeking an increase in the RFS at this time.

Second, **Congress needs to ask whether the current 51-cent-per-gallon excise tax credit for renewable fuels is really a necessary incentive when oil prices are relatively high and corn prices are extremely high.** Analytical work at Iowa State University has shown that ethanol plants can afford to bid the price of corn up to levels

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<sup>7</sup> UEP's production cost estimates are about 11% higher than USDA's. UEP believes its data sources are reliable.

substantially above even today's high price, as long as the tax credit is available.<sup>8</sup> Does ethanol really need the same level of support when oil is \$60 per barrel that it did when oil was \$30 per barrel? We suggest that Congress explore a countercyclical tax credit that is greater when oil prices are low, but less when oil prices are high, and zero when they are very high.

**Third, Congress should encourage the Secretary of Agriculture to use his authorities to permit early release of some land in the Conservation Reserve Program**, in order to expand corn production. Internal USDA estimates suggest that several million acres could potentially be added to corn plantings in this way. Of course, this land needs to be selected in an environmentally responsible way, and it needs to be land that can be sustainably farmed in corn production. But I would remind you that the other main source of new corn acres is existing corn acres – that is, land that is now in a two-year corn-soybean rotation that might be converted to a three-year corn-corn-soybean rotation. There is a yield penalty to be paid from this sort of conversion, and the net result may be increased use of nitrogen fertilizer since the nitrogen-fixing soybean crop will be planted less often. That is also an environmental issue, and needs to be taken into account when evaluating the pros and cons of planting corn on former CRP acres.

**Fourth, we encourage Congress to expand research in several areas:** commercialization of technologies to make ethanol from cellulosic biomass, with an emphasis on operating cost reductions; modification of DDGS and other byproducts to expand their potential use in non-ruminant rations; and development of other renewable energy sources, such as power generation using manure and mortality.

**Fifth, we believe there should be greater parity of production incentives.** Any tax credits or similar benefits available to ethanol or biodiesel should also be available for other sources of renewable fuels, including products of the livestock and poultry industries: fats, tallow, animal waste and mortality.

## **Conclusion**

Mr. Chairman, I know the strong support of many members of this subcommittee for renewable energy. I am also in favor of renewable energy, but I do not believe my industry should be sacrificed so we can mandate the next billion gallons of corn-based ethanol. Everyone says that the future of ethanol is in cellulose rather than starch. Our policies, including the energy title of the 2007 farm bill, should reflect this commitment. We would like to work with you to make sure they do.

Thank you, Mr. Chairman.

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<sup>8</sup> Amani Elobeid *et al.*, "The Long-Run Impact of Corn-Based Ethanol on the Grain, Oilseed and Livestock Sectors: A Preliminary Assessment." CARD Briefing Paper 06-BP 49, November 2006.

Committee on Agriculture  
U.S. House of Representatives  
Required Witness Disclosure Form

House Rules\* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: Ronald TRUEX  
Address: 7518 West Snyder Rd  
Telephone: 574-858-9848  
Organization you represent (if any): UNITED EGG PRODUCERS

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: \_\_\_\_\_ Amount: \_\_\_\_\_

Source: \_\_\_\_\_ Amount: \_\_\_\_\_

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2004, as well as the source and the amount of each grant or contract:

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Please check here if this form is NOT applicable to you:

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Signature: Ronald Truex

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Information Required From Non-governmental Witnesses

House rules require non-governmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. Name: RONALD TRUEX

2. Business Address: P.O. Box 220  
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3. Business Phone Number: 574-267-3101

4. Organization you represent: United EGG PRODUCERS

5. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:

Employed in EGG Production Business For 37 years  
Past President Indiana, State Poultry - Past Chairman American EGG Board,  
Current Chairman United EGG Producers Government Relations Committee

6. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

7. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:

Chairman of Government Relations Committee  
UNITED EGG PRODUCERS

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