

Report: Disruptions inhibit cage-free egg conversions

Disease outbreak leads to shortage, then overproduction

By **MATEUSZ PERKOWSKI**
Capital Press

Recent economic shocks have likely convinced U.S. egg producers to back off from aggressively converting their operations to cage-free production, according to a major farm lender.

About 72 percent of the egg industry's layer flock would have to be raised cage-free by 2025 to meet commitments made by major food buyers in recent years, according to CoBank, a member of the Farm Credit System.

Volatile swings in egg supplies and prices have reduced

the chances egg producers will meet the ambitious target, said Trevor Amen, CoBank's protein economist who wrote a report on the issue.

"The conversions are still happening but the expectation is it's going to be a more cautious approach," Amen said.

Due to pressure from consumers and animal activists, more than 200 major food companies have promised to switch to cage-free eggs within less than a decade, according to the CoBank report.

Those commitments have spurred conversions in the egg industry, which has seen the cage-free proportion of the national layer flock go from 4.4 percent in 2010 to 15.6 percent in 2017, the report said.

The trend particularly began accelerating in 2015, but it coincided with a major disruption to the egg industry — an outbreak of highly pathogenic



Capital Press File

Perch pipes, nesting areas and the chickens' ability to walk about, scratch and socialize define their eggs as "cage free" — although the hens may never leave the henhouse. Egg producers are likely to proceed with caution when converting to cage-free production due to recent market volatility.

avian influenza caused major losses of layers that same year.

Egg producers who weren't affected by the disease saw their profits surge due to the

resulting egg shortage, spurring more production. At that point, conventional prices were so high that the traditional premium for cage-free

production was erased.

"The industry as a whole overshot the supply," which then caused conventional prices to crater, said Amen.

Cage-free eggs have typically commanded a premium of 120 percent over conventional eggs, but the price plunge brought the premium to about 250 percent, he said.

However, the benefit was only felt by producers who contracted to sell cage-free eggs at a fixed price or under a cost-plus agreement, under which they're reimbursed for expenses plus earn additional money to make a profit, Amen said.

Egg producers who converted to cage-free on spec, on the other hand, were forced to sell into the conventional spot market at low prices, he said.

It's tough to compete with higher-priced cage-free eggs when conventional eggs are

so cheap, Amen said. "It really hampered the demand for cage-free."

This turmoil has caused egg producers to re-evaluate their strategy.

While producing "specialty eggs" — organic or cage-free — may still be their long-term plan, over the short term, egg producers are more likely to respond to actual increases in demand, he said.

For cage-free production to keep rising, major buyers will need to live up to their commitments and consumers must show an appetite for more expensive cage-free eggs as well, Amen said.

Converting existing laying houses and building new ones to be cage-free is conservatively estimated to cost the egg industry \$10 billion, he said. "Ultimately, those costs will be passed on to the consumer."



Lamb Weston

Lamb Weston recently made a \$200 million investment in this potato processing plant in Richland, Wash. A similar investment is planned for the Lamb Weston potato plant in Hermiston, Ore.

Lamb Weston announces Hermiston fry factory expansion

Project expected to add 170 jobs within region

By **GEORGE PLAVERN**
Capital Press

To feed the world's growing appetite for french fries, Lamb Weston announced Dec. 21 it will build a new, state-of-the-art processing line at its Hermiston, Ore., facility on Westland Road.

The \$250 million expansion will add capacity for 300 million pounds of fries per year, while also creating approximately 170 full-time jobs, according to the company.

Tom Werner, president and CEO of Lamb Weston, said demand for french fries around the world has challenged the industry's capacity to keep up in recent years.

"This investment in a new french fry processing line in the Columbia Basin reflects Lamb Weston's continued commitment to support our strategic partners as they continue to grow their businesses in North America and abroad," Werner said.

Elsewhere around the basin, Lamb Weston finished a similar \$200 million expansion at its Richland, Wash., french fry factory, which opened in October.

The company also spent \$200 million to expand its Boardman, Ore., facilities at the Port of Morrow in 2014. All potatoes are sourced from local farms.

Shelby Stoolman, spokeswoman for Lamb Weston, said the Hermiston facility was established in 1972 and has 450 employees.

The new line is expected to be running by spring 2019, supporting growth in North America and overseas exports to Asia.

"It's really to keep up with demand," Stoolman said.

Mark Morgan, Hermiston assistant city manager, said the project is the largest ever investment in the Greater Hermiston Enterprise Zone, both in terms of capital investment and

annual payroll.

"We're very happy that Lamb Weston is choosing to make this investment in the Hermiston area," Morgan said. "This is an advanced operation, so these are not your run-of-the-mill processing jobs. We anticipate these full-time jobs to pay an average of at least \$18 per hour, plus benefits."

Oregon Gov. Kate Brown also approved an award from the state's Strategic Reserve Fund to move the project forward, which she said is part of her focus to boost the statewide economy.

"In addition to supporting our rural economies and booming agriculture industry, this investment provides critical workforce training opportunities in well-paying jobs in Eastern Oregon," Brown said.

Nathan Buehler, spokesman for Business Oregon, said the state is indeed finalizing the contract on a half-million-dollar loan to Lamb Weston.

That loan will include requirements for job creation, workforce training and building a wastewater system at the site.

U.S. hops set multiple records

Idaho passes Oregon for No. 2

By **DAN WHEAT**
Capital Press

YAKIMA, Wash. — U.S. hop growers set records in acreage, volume and value in 2017 and for the first time Idaho surpassed Oregon in annual production.

While the rate of growth of craft breweries has been slowing and inventories of hops have been increasing, the 2017 totals may not be peaks.

Acreage likely will increase slightly in 2018, more fields planted in recent years will come into production and some acres will shift from aroma into high alpha varieties at generally much higher yields, said Pete Mahony, vice president of supply chain management and purchasing for John I. Haas, a major processor and grower in Yakima.

"It's simply difficult to slow a fast moving train. It might take a couple of years yet for the brakes to engage," Mahony said.

Growth of craft breweries has fueled the increase of aroma variety hops in recent years but inventories have been increasing reflective of supply catching up with demand as the rate of craft brewery growth has slowed. On Sept. 1, U.S. hop stocks were 98 million pounds, up 15



Dan Wheat/Capital Press

Hops grow outside the John I. Haas building in Yakima. Washington leads the nation in hop production and 2017 was a banner year in acreage, volume and value.

percent from a year earlier.

In 2017, U.S. hop production totaled a record 104 million pounds, up 20 percent from the 2016 crop of 87.1 million pounds, according to a USDA National Agricultural Statistics report issued Dec. 19.

Acres harvested were a record 53,282, up 5 percent from the prior record of 50,857 in 2016. Value of production was a record \$618 million, up 24 percent from the record high of \$498 million in 2016.

Harvested acres increased 24 percent in Idaho, 3 percent in Washington and 1 percent in Oregon. U.S. yields were 1,959 pounds per acre, 246 pounds higher than a year ago.

The industry anticipated a large crop given June acreage estimates and good growing

conditions and ample water contributed to above average yields in most varieties, Mahony said.

Acreage in 2016 increased 17 percent and came into full production this season, boosting the crop, he said.

The 104-million-pound record surpassed No. 2 Germany which grew 91 million pounds and below average yields, he said.

Washington remains the U.S. hop gorilla with 75 percent (78.6 million pounds) of production, 38,438 acres and \$498 million in production value, according to the NASS report.

Idaho accounted for 13 percent (13.7 million pounds) of production, 6,993 acres and \$68.7 million in value.

Oregon grew 11 percent

(11.9 million pounds) of production, still led Idaho in acres at 7,851 but trailed in value at \$59.5 million.

"The U.S. crop was nearly all contracted at good prices still in place from the craft bull market," Mahony said. While production costs, particularly labor, continue to rise, 2017 contract prices remained strong, he said.

A tight supply of high alpha hops resulted in high prices on high alpha on the spot market while there was virtually no spot market for some aroma varieties due to over supply, he said.

A minor shift from aroma to high alpha production is beginning to occur, he said.

Prices of some aroma varieties that are oversupplied will soften in the next round of contracting, Mahony said.

"The key in the near term will be how quickly the industry can rebalance and adjust the supply base to the changing market conditions heading our way," he said.

Cascade, Centennial, Zeus, Simcoe, Citra and Mosaic were the six leading varieties in Washington, making up 54 percent of the crop, according to NASS.

In Idaho, Zeus, Cascade, Amarillo, Mosaic, Citra and Chinook accounted for 69 percent of production. In Oregon, Nugget, Cascade, Willamette and Citra were 53 percent of production.

Federal forecast confirms La Nina's chilly sway

NOAA updates seasonal outlook

By **DON JENKINS**
Capital Press

La Nina conditions, heralding cool and wet weather in the Pacific Northwest, are expected to persist all winter, the National Oceanic and Atmospheric Administration reports.

Climatologists, in a new three-month outlook, noted that sea-surface temperatures are below average along the equator off the coast of South America. The temperatures aren't likely to rise to normal until mid- or late spring, according to NOAA's Climate Prediction Center.

The cool ocean, or La Nina, and its effect on the atmosphere shaped the seasonal forecast. The report was similar to last

month's three-month outlook. Conditions favor snow accumulating in the mountains to supply Northwest irrigators.

NOAA predicted below-average temperatures and above-normal precipitation in Washington, most of Western Oregon and the Idaho panhandle.

To the immediate south — central Idaho, Southern Oregon and Northern California — there is no strong signal to

what the winter will be like. The southern half of the U.S., including most of California, is more likely to have a relatively warm and dry winter, according to NOAA.

La Nina has strengthened over the last two months. Between September and November, the average sea-surface temperature along the equator between Ecuador and the international dateline was 0.7 degrees Celsius below normal.



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