

An independent report examining  
the impact of EU legislation on  
the future of **UK egg production**



**Fair play or Fowl?**

# Management Summary

## Background

**The Welfare of Laying Hens Directive (EU Council Directive 1999/74/EC) comes into full force on 1 January 2012. This prohibits the use of conventional 'battery' cages and the marketing of eggs from hens housed in such cages. Egg producers in the UK have invested some £400m replacing battery cages with more animal welfare acceptable enriched 'colony' cages in time for the new legislation.**

**However there is real concern that producers in some other EU Member States will not be in a position to implement the ban. Evidence suggests that they have not invested in the new systems and therefore will not have phased out conventional caged production by 1 January 2012.**

There is a genuine danger that after this date illegal battery cage eggs will be imported into the UK undermining the market and distorting prices. European Food and Farming Partnerships (EFFP) has been commissioned by the British Egg Industry Council (BEIC) to produce a report on the likely impact of the legislation, the response from the food industry and the potential long term consequences for the UK egg industry.

## Evidence

EFFP has collected and studied evidence gathered from a range of stakeholders from egg producers through to retailers, food producers and industry representative organisations as well as the findings from the House of Commons Environment, Food & Rural Affairs Committee (EFRA) report (published 2 September 2011).



**...failure to implement the Welfare of Laying Hens Directive is likely to have a significant detrimental effect on the future of egg production in the UK**

## The situation at January 2012

- UK egg producers have undertaken a substantial investment in replacing conventional battery cages with enriched colony cages. As a result the UK is likely to be compliant with the new legislation by 1 January 2012.
- By comparison a number of egg producers in key egg producing EU Member States will not achieve full conversion to enriched cages by 2012. Despite having had 13 years to prepare for the Directive, analysis by BEIC forecasts that 84m laying hens, 23% of total EU production (or 38% of EU caged production) will remain in illegal housing in January 2012. This risk has been recognised by the European Commission in evidence to the recent EFRA enquiry.
- Most people contacted as part of this research believe that these units will stay in production. The alternative of a forced 'cull' would leave the EU short of supply and result in increased imports, inevitably from non-EU countries, the vast majority of which would not meet the current EU food safety and laying hen welfare standards.
- It is likely therefore that hens from non-compliant production units will remain in production.

## Consequences for retailers, processors and manufacturers

- Many UK food retailers, processors and manufacturers have indicated that they are making every effort to ensure their egg supply fully complies with the legislation and are committed to not marketing eggs or egg products from illegal production units.
- For shell egg marketed through the majority of retailers (46% of UK market) this will be relatively straightforward as the vast majority are UK sourced and a very high proportion carry the British Lion mark.
- A small proportion of imported shell egg may however go through wholesalers to small retailers, street markets and food service outlets which often do not specify the Lion mark. These outlets are more likely to provide an outlet for eggs from illegal cages.

- The other sectors most likely to use illegal egg are the processors of imported egg (usually into liquid) as well as food manufacturers (totalling 24% of UK market) and caterers (30% of UK market) which are using imported eggs and egg product ingredients. Like the retailers, many businesses indicated their intention to be compliant and those interviewed stated that they have or are in the process of working with their suppliers to implement this. However, in practice consumers are less aware of production history and provenance for egg products and it would appear egg supply is more difficult to police by the user or supplier due to the lack of transparency in the supply chain.

- For similar reasons, some branded products marketed through major retailers and other outlets could also potentially contain illegal egg if imported egg or egg products are used, or manufacture takes place in Europe before the end product is imported into the UK. However it is worth noting that some high profile branded manufacturers have already switched supply to non-cage production systems.

- Similarly, businesses in the food service sector which import egg or egg products may be at risk of using illegal eggs.

- Whilst many food companies should be applauded for their support of producers who have invested to comply with the Directive, it must also be recognised that such support will undoubtedly come at a cost. If the price differential between fully traceable, compliant egg and egg traded outside these supply chains widens, commercial pressure to secure cheaper supply will grow.

## Implications for UK egg producers

- The ongoing cost to egg producers will also be significant; production costs have risen but the greatest impact on businesses will be servicing the capital cost, namely interest and capital repayment or in pure accounting terms the cost of depreciation of the new investment. The number of producers is likely to decline as some have not been able to undertake



the necessary investment. However those production units that remain will be producing to higher animal welfare standards and these producers are confident of their ability to operate profitably providing they operate on a level playing field with their competitors.

- What is striking is that the UK egg industry is a success story over recent decades, developing strong links with its customers and markets whilst adhering to the demands of food safety and animal welfare without resorting to government support.

- Egg producers have invested in good faith to comply with European law and improve animal welfare. Morally few would argue against them being entitled to operate on a level playing field with their competitors. But with 20% of the UK's egg requirement being imported, the industry is likely to face the consequences of a proportion of egg coming from illegal caged units.

- It is possible that the confidence of egg producers to re-invest and innovate for the future will take a knock. Strong correlations have been made with the pig industry where a unilateral ban on stalls and tethers was enforced in the UK in 1999. The resulting 'uneven' playing field was a significant contributory factor to the 40% decline in the UK pig herd from 2000 to 2008.

- Producers do not expect the market to be tilted in their favour because of the investment they have undertaken. However if the market price becomes artificially depressed due to egg imports that do not comply with the legislation it will impact on egg producers who are having to cope with the increased costs associated with the investment.

**The conclusion of this study is that a failure to implement the Welfare of Laying Hens Directive in full is likely to have a significant detrimental effect on the future of egg production in the UK.**



# The UK Egg Industry



**With 31 million consumed every day, eggs are a key source of food and nutrition for the UK population. Around 80% of eggs consumed in the UK are home produced (just over nine billion per annum). Retail sales of shell egg are worth £868m. Over the years the industry has established a successful track record in producing, marketing and promoting the product to create this important market.**

## So how has the success of the egg sector come about?

After World War II a shortage of animal feed meant that the number of hens declined, forcing egg rationing to remain until 1953. From 1957 to 1971 the British Egg Marketing Board (BEMB) was in place to bring stability to the market and ensure a regular supply of high quality, home-produced eggs at reasonable prices. The BEMB introduced its own trademark - a Lion, which became a well-known symbol, popular with consumers, and appeared regularly on advertising and promotional material throughout the BEMB's lifetime. Many people remember the advert slogan 'Go to Work on an Egg' long after it was last shown in the 1960s. However the Lion mark disappeared with the establishment of the Eggs Authority and during the 70s and 80s egg consumption fell due to changing lifestyles, including a decline in cooked breakfasts and home baking along with health concerns about cholesterol intake, a perceived risk that has subsequently been dismissed by doctors.

## Salmonella scare threatens the industry in the 80s

In 1988, with the market already in long-term decline, the Junior Health Minister Edwina Currie MP provoked controversy by stating in an ITN interview that "*sadly most of the egg production in this country is now infected with salmonella*". The remark sparked

panic amongst British consumers with the consequence that sales of eggs dropped by 60% virtually overnight leaving the industry devastated.

## From farm to consumer - the egg industry reinvents itself

The British Egg Industry Council (BEIC) which had been established in 1986, then started a research programme to understand consumer needs, prioritise the most important groups and develop appropriate marketing campaigns. At the same time animal health companies were developing a vaccine to protect hens against salmonella. In 1998 the BEIC took the initiative to re-launch British eggs with an £8m investment package - £4m on a stringent new Code of Practice, including compulsory salmonella vaccination, and £4m on a new consumer marketing campaign to restore confidence and increase consumption. A new version of the Lion Quality mark was introduced in 1999 to reassure consumers that any egg bearing the Lion symbol had come from a hen vaccinated against salmonella.



By 2005 egg sales were showing a steady rise due to consistent promotion of the generic benefits of eggs being healthy and convenient, as well as the specific assurance of the Lion Quality mark. Edwina Currie herself stated "*The British egg industry has spent years putting its house in order and unlike many other industries has done it without subsidies*".

**In 2004 the Food Standards Agency tested more than 28,000 British eggs and no salmonella was found in any. In 2006 a major European Food Safety Authority (EFSA) report on the presence of salmonella in the environment on egg-laying farms showed the UK as having one of the best records in Europe. Further EU surveys in 2008 and 2009 showed that the UK figures had continued to improve even further.**



## Driving competitive advantage by creating premium product segmentation

Retail shoppers can now select eggs on a number of different criteria not only by pack size, but by egg size, brand (including breed of bird), price and production method. This has helped both retailers and manufacturers to produce and sell a range of premium products, providing opportunities for profitable growth.

## The versatility of eggs/egg products creates many markets and the innovation continues

Along with shell eggs there are many egg products available for caterers and food manufacturers. According to BEIC the UK egg market in 2010 (by volume) was split Retail 46%, Food Service (hotels, restaurants, catering) 30% and Processing 24%.

Recent innovations in the egg product sector include a variety of custom made products such as scrambled egg mixes as well as 'Extended Shelf Life' for liquid egg which until relatively recently has only had a shelf life of around one week. Now, as in the dairy

industry, it is possible to pasteurise the egg at higher temperatures for a shorter time. This type of egg will typically have a shelf life of up to one month.

## The UK egg industry - an important contributor to the economy

The UK is the 6th largest producer of eggs in the EU, with around 34 million laying hens producing over 9,000 million eggs per year. It employs over 10,000 people directly and another 13,000 indirectly (source: BEIC).

Overall the egg industry is one of the UK farming and food industry's great success stories. It has overcome massive challenges faced in the 70s and 80s and has invested both in improved production techniques and marketing to provide the consumer with a high quality, safe product and wide choice. Furthermore it has done this through its own resources; egg farmers have not received direct subsidies from the EU or UK Government. They have rationalised in number, invested and improved their efficiency and the health of the national flock as a whole.



**UK EGG MARKET BREAKDOWN**  
(estimated percentage 2010) Source: BEIC



...the egg industry is one of the UK farming and food industry's great success stories



# The Welfare of Laying Hens Directive

## What is it and when is it coming into force?

**The EU Council Directive 1999/74/EC on the Welfare of Laying Hens is due to come into full force on 1 January 2012. Under the Directive the use of conventional 'battery' cages for laying hens will be prohibited in the EU as will the marketing of eggs from hens housed in such cages.**

**The Directive is intended to improve further the welfare of laying hens. According to Defra *"There is clear evidence that conventional cages are detrimental to hen welfare and therefore the decision to ban them by 2012 represents a significant welfare advance across the European Union"*. It is the first piece of European legislation to phase out a method of production due to animal welfare concerns.**

## The legislation has been in the pipeline since 1999

In 1999 Member States agreed to the Welfare of Laying Hens Directive. The Directive prohibited the building or new use of conventional cage systems from January 2003 and prohibits all use of such systems from January 2012. The Directive has been incorporated into English law since 2002, most recently in the Welfare of Farmed Animals (England) Regulations 2007 and in similar but separate legislation in Wales, Scotland and Northern Ireland

## What does it affect?

Egg production in the UK is broadly divided into cage and non-cage production systems with the latter accounting for about 50% of commercial egg production. The legislation includes requirements for both cage and non-cage (ie free range and barn) production.

Conventional 'battery' cages provide each bird with 550cm<sup>2</sup> space. The new enriched 'colony' cages provide 750cm<sup>2</sup> per bird and a minimum height of 45cm along with a darkened nest area, perching space and a scratching area. Laying eggs in a nesting area has been shown to be one of the most important behavioural needs for laying hens. Hens will normally be in groups of 50-80 in each colony which provides a much larger area in total over which to move around compared with the old cage system. However, the improved conditions come with a significant increase in costs as explained later in the report.

## What is the European Commission doing?

In preparation for the implementation of the Directive, the European Commission has been collecting and collating data from Member States. Ms Joanna Darmanin, Head of Cabinet, Directorate General Health and Consumers (DG SANCO) reported to the EFRA Committee (22 March 2011) that the data received to date was 'far from optimal' and some Member States had failed to provide the required information. Member States had been asked for an action plan to show how they intended to comply with the legislation by the 1 January deadline. The Commission has said that the Directive must be implemented to the letter and takes the view that it is the responsibility of each Member State to enforce the Directive using current enforcement measures.



...the Directive is intended to improve further the welfare of laying hens

## What action might Defra take?

The Department for the Environment, Food and Rural Affairs (Defra) have indicated that they will do all they can to prevent illegally produced egg being imported into the UK but admit that the likely level of non compliance will make this difficult. They are of the view that the Commission has the responsibility to ensure the ban is implemented and enforcement measures are in place. The Minister, James Paice MP indicated to the EFRA Select Committee that Defra would wish to see an intra-community trade ban for all eggs from Member States that have failed to implement the legislation. Defra will not be drawn on whether any unilateral action might be taken to avoid the importation of illegally produced eggs.

## Animal welfare groups' views

*"The RSPCA has been impressed by the way British egg producers have responded to the imminent legislation. It is also clear that producers have listened to consumers and adopted different production techniques in order to satisfy demand. A good example of this is the move to non-cage production systems and in particular the free range flock which is now the largest in Europe.*

*What will be critical to ensuring that the efforts of British egg producers are not undermined is to provide consumers with information about*

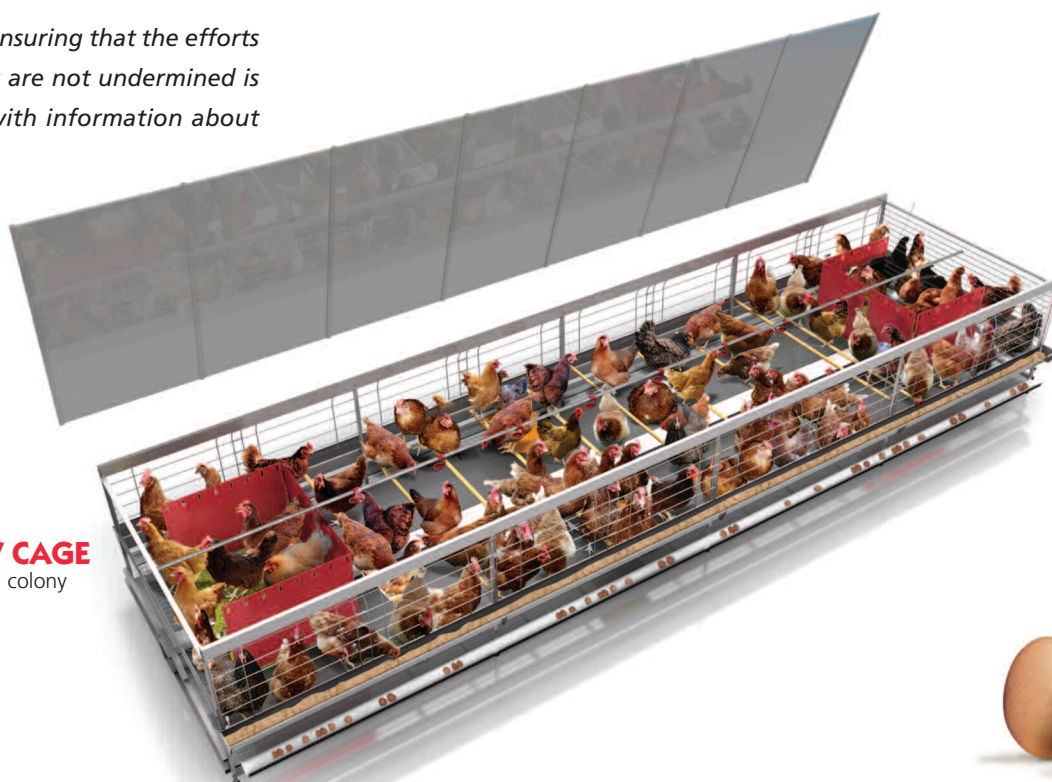
*how their eggs are produced. The Lion egg mark has made great strides in this respect, particularly on shell eggs. However, it is more difficult when it comes to processed eggs and manufactured products where supply chains are less transparent. The RSPCA believe that it should be a joint responsibility for both food companies and their supply chains as well as governments and their standards authorities to do everything they can to ensure that illegal eggs do not enter the food chain in any form."* Source: RSPCA

*"Compassion in World Farming is calling on the European Commission and individual countries' governments to make sure that EU farmers are ready for the ban on barren battery cages which comes into force on 1 January 2012.*

*We fully understand the concern of the British egg industry that they might be undercut by the import from other EU countries of illegally produced battery eggs or egg products. It is important that from 2012 British retailers, caterers and food manufacturers do not sell or use illegally produced battery eggs or egg products. It is crucial that governments across the EU enforce the ban on barren battery cages in their own countries."* Source: CIWF

## ENRICHED COLONY CAGE

Artist's impression of enriched colony cage with 80 hens



# Implementation of the Directive across Europe

## Compliance with the Directive across the EU is fragmented

The European Commission has expressed its concern about the level of data provided by Member States to demonstrate how prepared they are for the legislation coming into full force on 1 January 2012. There are a number of countries that will be compliant by that date but what is worrying is the number of larger producers such as France, Spain and Italy where non-compliance is either inevitable or information has not been submitted.

| EU Member State  | Anticipated situation on 1 January 2012 |
|--|---|
| Belgium, Bulgaria, Cyprus, France, Italy, Poland, Portugal, Romania and Slovakia | Non-compliant                           |
| Greece, Hungary, Latvia and Spain  | Don't know                              |

The European Commission suggests that approximately one third of caged production throughout the EU is likely to remain non-compliant by the 1 January 2012 deadline.

## What are the implications of non-uniform compliance?

This European picture is confirmed by the most recent conservative estimates by the BEIC (see charts

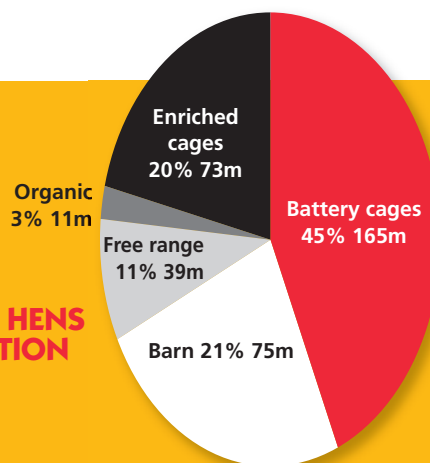
below). Whilst there has been progress towards introduction of enriched cages, it is not rapid enough to ensure completion by 2012.

23% of total EU egg production is forecast to be 'illegal' on 1 January 2012. This equates to 84 million laying hens producing some 70 million eggs a day. If the Directive comes into force on this date (as the EU Commission states that it will), then theoretically there would be a shortfall in egg production of this order. In practice the risks of shortages, higher food prices and concerns over future food security will result in an unwillingness to see these eggs being taken out of the marketplace. The commercial reality is that production of these 'illegal' eggs will continue and cheap, lower welfare eggs, especially from Southern and Eastern Member States, could be available across the EU and reach the UK.

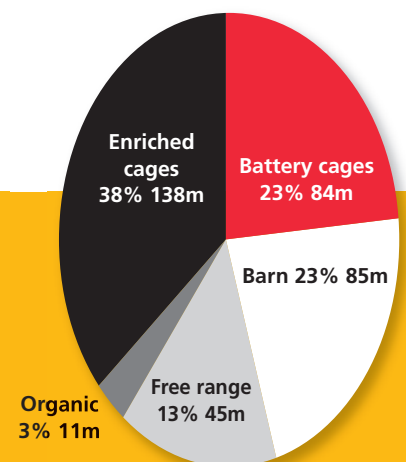
A further complication arises in the fact that there are known to be egg production units in Europe that are mixed, with a number of conventional cage houses and enriched colony cages within the same business and in some cases on the same site. Even with the best intentions this will make traceability and policing very difficult.

### EU COMMERCIAL LAYING HENS BY SYSTEM OF PRODUCTION

Source: BEIC



2010  
actual



2012  
(Forecast as at Oct 2011)



## 'Lion' Producers will comply with EU Welfare of Laying Hens Directive by 2012

British Lion egg producers have committed to full compliance from 1 January 2012 thus ensuring all Lion mark cage eggs will come from enriched cages. Some UK producers that have not invested in enriched cages will leave the industry by 2012 or face enforcement action by DEFRA/Animal Health Veterinary Laboratories Agency. This means that the UK is on course to be compliant when the Directive comes into full force.



## Response of the UK food industry

Whilst UK producers are prepared for January 2012, there will in practice be a need to continue to import eggs and egg products to satisfy consumer demand. Thus the response to the legislation by food retailers, manufacturers and food service is critical, firstly in ensuring that egg from illegal production systems is not sold as shell egg nor used in their products; and secondly that UK producers who have invested and complied with legislation are not undermined by ongoing imports of cheap illegal egg.

The food industry responses have been very positive with regard to the way that egg producers have risen to the challenge of the legislation.

## Retailers - planning is in place to ensure compliance is met by 1 January 2012

The **British Retail Consortium** (BRC) see egg producers as being part of a well structured and

market focussed industry that is leading the way, ahead of many other agricultural sectors. Its ability to adapt to new trends (now the largest free range flock in Europe), react to consumer concerns and bounce back from knocks like the salmonella scare of 1988 should demonstrate to consumers and customers alike its forward thinking approach. However there is little doubt the efforts of the industry will be undermined if the EU legislation is not implemented and policed properly.

*"UK egg producers have worked hard to meet high welfare standards ahead of parts of Europe and our retailers support them by buying as many of their eggs as they can."* Source: BRC

All the major retailers in the UK have indicated that it is their intention to sell only shell eggs and use eggs in manufacture of own label products that comply with the Directive by 1 January 2012.

*"Non-compliance with the legislative requirements by certain Member States will create a two-tier market and there is the potential for product which should only be used on a national market to end up in a wider supply chain."* Source: retailer spokesperson

Support from food companies for producers who have invested to comply with the Directive is very important. However this support will undoubtedly come at a cost. There is a large onus being placed on their supply base to secure supply now in time for 1 January 2012 whilst at the same time keeping prices down.

What should be kept in mind is that as the likely price differential between fully traceable, compliant egg and egg traded outside these supply chains widens, commercial pressure to secure cheaper supply is likely to grow.

*"The main issue will be over liquid and powdered eggs either from the EU as well as third countries which will be cheaper than compliant alternatives."* Source: retailer spokesperson





Specifically, the situation regarding own label for each of the key retailers in the UK is as follows, with a number of retailers highlighting the risk to producers being undermined if the legislation is not applied across the EU.

**ASDA** intend to continue to offer cage eggs for sale in their stores to satisfy the demands of their diverse consumer base but these will be sourced from enriched colonies and all own brands are 'Lion'. All suppliers have been contacted to ensure that the necessary quantity of egg used as ingredients is sourced so as to comply by 1 January 2012.

**The Co-operative** have since 2008 sold only free range shell eggs and since 2010 the egg used in their own brand products has also been from free range flocks.

**M&S** already use only free range eggs for both shell eggs and ingredients in their own label products. They view potential non-compliance of the Directive as having little impact on their business as they use 100% free range but believe there will be a detrimental effect on the wider industry if the legislation is not enforced and policed properly.

**Morrisons** own label shell eggs are all free range, Lion branded. Morrisons have been working with their suppliers for some time to ensure that ingredients comply with the 1 January 2012 legislation. They say the egg industry is an example for other agriculture industries in that it is well organised and market focussed. This is particularly the case in shell eggs but less so for liquid and powdered eggs.

**Sainsbury's** no longer sell cage eggs and have stated that it is their intention to move to egg products from 'cage free' systems from 1 January 2012. They see egg producers as market focussed with a good record of working with the retailer in the development of new brands.

**Tesco** intend to continue to offer cage eggs (to Lion standard) as their customers wish to have the choice. Tesco has been working with all its suppliers to ensure that all eggs are compliant on 1 January 2012.

**Waitrose** use only free range eggs for both shell eggs and ingredients in their own label products and work closely with their suppliers who have responded well to produce the quality of eggs required.

It is clear from the feedback that the Lion brand has credibility. All the retailers who responded specify Lion eggs even when they all have their own certification procedures in place, which demonstrates that the scheme and the logo is valued by them and their consumers.

**Discount retailers** were contacted as part of this research but did not respond.

**Small retailer outlets** Around two thirds of egg imported into the UK is shell egg. Some of this will go into manufacturing, some into food service and some into retail. Some smaller retailers will not always use Lion scheme eggs but as long as they use UK produced egg, stamped as such, they should be compliant from 1 January 2012. There is however some concern in the industry that cheaper imported 'untraceable' eggs could find a way into small retailers, resulting in pricing pressure on fully traceable compliant eggs, thus impacting more widely across the retail sector.

**Branded foods incorporating egg products sold in retail stores** This is a more difficult area for retailers. They are reliant on manufacturers doing the right thing and the issue of their influence on egg use in branded products was not commented on. However the sheer number of branded and own-label food products incorporating eggs or egg products that are available in UK retail outlets means that this will be a hugely complex area to police.





## ...the supply chain for egg products, liquid and powdered is less transparent and more difficult to audit

**Food manufacturers have indicated their wish to comply but believe it is also the responsibility of governments to ensure egg production is compliant with the law**

It is estimated that 24% of eggs end up in the manufacturing and processing sector, producing a variety of products for sale under both retailer own label or branded products. A recent Egg Products Market Report (source: Lion Egg Products) compiled a list of products considered to be most at risk of illegal egg imports from 1 January 2012:

- Scotch eggs (currently using 60% imported egg)
- Sandwiches (currently using 50% imported egg)
- Quiches (currently using 30% imported egg)
- Cakes and gateaux (currently using 30% imported egg)
- Yorkshire pudding (currently using 20% imported egg)

**The Food and Drink Federation (FDF)** is aware that many manufacturers are working hard to ensure that supply is sourced from compliant systems. However, it believes that food manufacturers are as entitled as consumers to expect that product placed on the market is compliant with EU legislation.

*“The onus should be placed on the authorities to ensure legal compliance and it is unreasonable to seek to place that burden solely on food manufacturers, though many will in any case have policies in place to source products/ingredients to specific standards.”* Source: FDF spokesperson

Comments from other food manufacturers indicate a desire to ensure compliance but they are also well aware of the realities of the egg production and processing industry:

*“Our egg ingredients are all British and Lion mark and we have invested substantially in this. The British shell egg industry is very good: well managed, with forward thinking producers. The processing side of the industry is less good.*

*It was never likely that Southern EU producers would conform and even less likely now given the economic situation of many countries. It was never going to work.”* Source: Branded food manufacturer

For an own label manufacturer, sourcing of egg ingredients is largely determined by the requirements and stipulations of their retailer customers. However, there is often a cost associated with this:

*“British egg (and Lion egg) is much more expensive than European egg. UK demand for eggs outweighs supply capability therefore there will always be a need for imported egg. However, around 70% of EU egg production will comply so there will be enough supply (for our business) to source from legal cages.”* Source: Own label food manufacturer

The supply chain for egg products including liquid, boiled and powdered eggs is less transparent and more challenging to audit. Furthermore consumers are less aware or less likely to concern themselves with production provenance in manufactured products. It is likely therefore that this will be the main use for illegal eggs post 1 January 2012.

*“Clearly sales in the dried and liquid egg market have proven that welfare is really not an issue for many buyers with a lot of egg now coming from Eastern Europe and India.”* Source: Egg processor





**Food service uses around 30% of all eggs consumed in the UK.**

Food service operators, from wholesale distributors to contract caterers, are also aware of the legislation coming into force on 1 January 2012. In response, many have indicated that they are working with their suppliers of both shell and egg products to ensure that supply chains are in place to deliver compliant eggs.

Like the retailers, the main issue for food service operators is the supply of liquid and powdered egg products where the supply chains are longer and more complex thereby becoming more exposed to the inclusion of egg products from non-compliant systems. Likewise, as highlighted earlier, consumers of these products appear to be less interested in the provenance and production history of the eggs used.

However, some companies are making every effort to ensure compliance. **Aramark** appear to be well prepared, with their shell eggs all being free range along with some of their liquid egg supply for certain recipes. **Sodexo** has an egg procurement policy which states that it will only use Lion branded fresh eggs. For its ingredients, it has recently surveyed all suppliers - 42% confirmed they had already moved to enriched cages or free range, 48% confirmed they will comply by Jan 2012, 8% were working with their suppliers to be compliant and 2% did not have plans to change. Sodexo stated it would seek alternatives if suppliers did not meet the enriched cage criteria on 1 January 2012.

***"An imbalance in the market will be created which will disadvantage compliant processors, who will have incurred considerable costs. Transparency within the supply chain is critical, and non-compliance will be challenging to detect."*** Source: Contract caterer



**...the main difficulty will be in ensuring that imported shell or processed egg used in manufacturing and catering products will be compliant**

## Industry will face challenges to ensure compliance

EFFP's research with UK retailers, caterers, manufacturers, processors and producers suggests that for some time many businesses have been working together to secure supply of eggs and implement traceability systems to ensure full compliance with legislation.

As a result it is anticipated that the vast majority of shell eggs and all Lion mark eggs produced in the UK will comply and that all major retailers will sell own-brand shell eggs with the Lion mark. However, anecdotal evidence suggests that the main difficulty will be in ensuring that imported shell or processed egg used in manufacturing and catering products will be compliant. This will be particularly so where eggs or egg products are imported directly from those Member States where doubts have been raised about their producers' ability to implement the legislation, but also from Member States which have taken in egg to process from non compliant producers in other Member States.

The matter is further complicated by the fact that in Member States where there will be non-compliance there are farms with both conventional cage and enriched colony cages, often on the same site, making policing and traceability very difficult. The UK is not self sufficient in its supply of eggs and egg products and therefore has an ongoing need to import. Indeed the UK does not produce any egg powder so it is inevitable that this will be imported from inside or outside the EU.

Whilst some manufacturers approached as part of this report are working with reputable suppliers and establishing traceable supply and audit systems, there is still a fear that non-compliant eggs will enter the system and ultimately undermine the best efforts of UK businesses. Most businesses suggest that whilst they have full confidence in their own supply chains, it should be the responsibility of Governments to ensure that their producers and processors comply with the legislation; the onus should not fall on the manufacturer or retailer.



# The impact of the Directive on the UK

## The biggest challenge for egg producers is the capital cost

The cost associated with conversion to enriched colony cages is twofold. Firstly some argue that producers find the system has higher ongoing production costs, which have been estimated at around an 8% increase (LEI report, Peter Van Horne). However it is also recognised that the ability of producers to strive continually for efficiency improvements with the new housing is over time likely to reduce this difference.

Secondly there is the capital cost required for buildings and equipment needed to house the enriched colony cages. This is the biggest challenge for egg producers as, for most, this investment carries a significant interest and capital repayment or depreciation cost over 10-15 years. BEIC estimates that UK producers have spent in the region of £400m on ensuring their new units comply with the Directive, equivalent to approximately 10p per dozen eggs.

## UK egg industry has concerns about unfair competition

British egg producers are concerned that if the Directive is not uniformly implemented across the EU after 1 January 2012 they will be at an unfair disadvantage because of the risk of non-compliant eggs and egg products with lower associated costs, coming into the UK.

Discussion with egg producers gave a clear message; they do not fear competition from legal eggs being imported into the UK. They are not seeking a playing field tilted in their favour but rightly expect it to be level so they can compete on equal terms. Many producers that have been interviewed were quick to draw comparisons to the pig sector which saw the pig herd decline by 40%, partly as a result of an unlevel playing field created by a UK unilateral ban on stalls and tethers in 1999.

## Case Study 1

### Shell egg production/packing and liquid egg manufacture



**Noble Foods** is Britain's largest producer of eggs and supplies all the major supermarkets with shell eggs and a wide range of food manufacturers with liquid egg as an ingredient. Noble supplies eggs across all the production types - organic, free range, barn and cage. Noble's shell and liquid egg are all produced to the Lion standard. Noble has two company owned colony production sites in Nottinghamshire and Fife in Scotland with a total of 1.5m bird places in new enriched colony housing. In total the business has spent £33m or approximately £22 per bird and the development was completed by October 2010.

Completing Noble's colony egg supply are seven other farms owned by five families who have spent £70m to complete the changeover. However Noble has lost two farmers with a further seven farms who cannot commit the investment required and will leave the industry. Andrew Joret, Technical Director at Noble states *"the investment in enriched colony housing is very substantial. Some producers, particularly those that do not have family successors who want to join the business, do not feel confident about that level of investment and have chosen to close down. Hopefully others will in due course increase production to maintain the UK's high level of self sufficiency."*

For this to happen though Andrew is adamant that there must be adherence to the legislation across Europe, *"UK egg producers have invested to achieve very high welfare standards. It would be highly detrimental to the viability of the UK egg industry if we are undermined by low cost imports of eggs and egg products that are not traceable and produced in illegal production systems."* His view is that producers in any European Member State failing to implement the new legislation should be banned from exporting any eggs or egg products until they are compliant.





## Case Study 2 Shell Eggs

**Lintz Hall Farm**, County Durham, is owned by the Tulip family, now in the fourth generation, and is run by George, his wife and his two sons, Richard and Stephen. They produce and pack their own eggs and supply two major retailers but a large proportion of their production from 140,000 enriched colony birds goes to local schools, colleges and hospitals as well as hotels and many small retailers, which are very price competitive sectors. Any second quality eggs are sold for liquid processing.

Over the last 18 months this family business has spent over £3m in converting from caged production to enriched colonies, a process now complete and fully operational. The Tulip family are independent and determined to survive through this massive change for the industry. Many small producers around Lintz Hall have decommissioned their units as they cannot afford the investment. *"We have increased our production to take up the loss of output from neighbouring farmers and we now supply those ex producers with eggs so they can maintain their customers and in some cases we employ them directly to keep local production and supply for the North East of England"* says Richard Tulip.

For a family business the Tulips have invested hugely and are confident in their business providing it is competing with European businesses on a level playing field. George Tulip states *"it will be a disaster if eggs still produced in battery cages in Europe infiltrate the market in whatever form. Our cost of production is higher than conventional cages there is no doubt, feed consumption has increased and we have substantial loans to repay. Yet many of our customers are very cost conscious and are aware of the price of eggs from any supplier, especially imports which puts our price under pressure. We have done this for animal welfare reasons, we should not accept any eggs from systems that do not meet the new standards."*

## Case Study 3 Liquid Eggs

**Lowrie Foods** is a Newcastle food business which produces approximately 40 tonnes per week of pasteurised liquid egg for supply to bakery customers. All eggs that are used are laid in the UK and the egg products division is accredited to British Retail Consortium grade A.

Managing director Tom Lowrie is very concerned that post 1 January 2012, liquid egg being imported or imports of shell egg for processing will inevitably come at least in part from conventional caged systems. *"Whatever the intention of buyers they simply will not know as there will be no transparency"*. Much of the liquid egg produced in Holland and some in Germany uses egg imported from Eastern Europe and Poland in particular. *"These are countries that will have significant production in conventional cages after the January 2012 deadline. It is inevitable that the liquid egg will be derived at least in part from illegal units."*

Tom is in no doubt this will put egg breakers using UK supply at a structural disadvantage. *"These eggs will be cheaper and risk undermining our market by pushing prices down. This will impact on processors who use UK eggs and our egg farmers who have put all the investment in. The Government may be confident that imported shell egg will be compliant but they do not understand the risk with liquid egg imports."*



**...the Government may be confident that imported shell egg will be compliant but they do not understand the risk with liquid egg imports**



# The pig industry

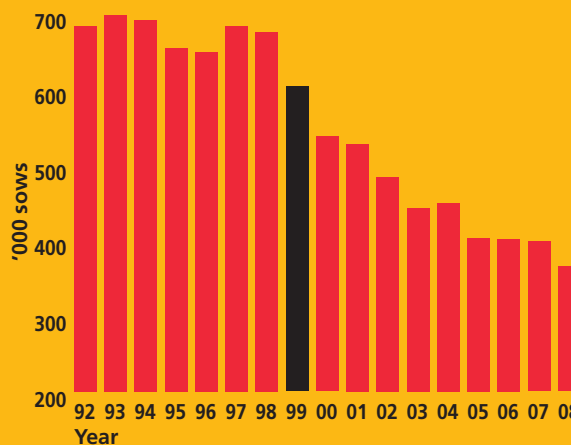
## Learning from its experiences

There is evidence from the pig sector which faced a similar situation regarding changes in production methods resulting from concerns about animal welfare. In 1999 the UK introduced a unilateral ban on tethers and close-confinement stalls for breeding sows. This measure was not replicated by other major pig producing countries in Europe. Most analysts and commentators see this imbalance as being the major contributory factor in the dramatic decline of the British pig breeding herd from 1999-2008.

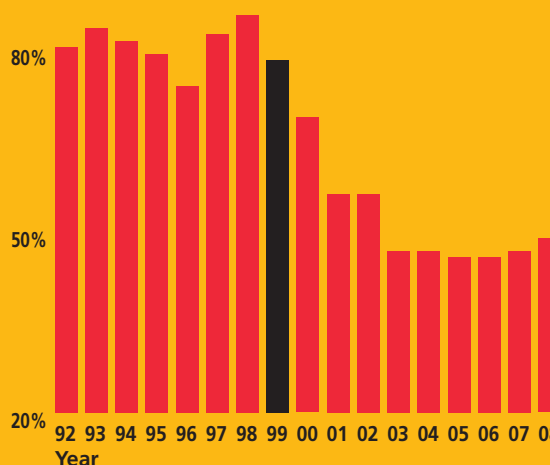
The British Pig Executive (BPEX) claimed that this added 6.4p per kg to the input costs of production and others, such as Pig World magazine estimated that the move from stalls to straw loose housing cost the industry £323m.

But most damaging has been the fact that imports were allowed to continue from countries still using stalls and tethers, producing under their existing systems at lower cost, undermining the market place. The subsequent low returns impacted on the confidence of UK pig farmers and was a major factor behind a lack of investment in production systems and ultimately the decline in productivity of the sector as a whole.

As the graphs illustrate; in 1998 the UK was approximately 84% self sufficient in pig meat but since 1999 the pig herd has declined by 40%. The decline in home production was however matched by increased imports, as a result of EU producers continuing to produce pig meat in stalls and tethers more cheaply.



UK SOWS IN PIG



UK HOME-FED PRODUCTION  
AS % OF UK SUPPLY

## National Farmers' Union view

***"British egg producers have put their businesses on the line by investing £400 million to convert to enriched cages ahead of the ban. Consumers and the food industry should back British egg producers as failure to do so could see the UK egg sector going the same way as the pig sector, which has halved in size since the Government imposed a unilateral ban on stalls and tethers in the 1990s."*** Source: Peter Kendall, NFU



Fair play or **Fowl?**

## EFFP ■■■

Report researched and written by European Food and Farming Partnerships  
a specialist agri-food business consultancy, working along the whole supply  
chain in private and public sectors operating in the UK and other parts of Europe.



Report commissioned by British Egg Industry Council  
020 7608 3760 [www.britegg.co.uk](http://www.britegg.co.uk)