Animal welfare in the EU and trading partners: between profit & protection

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Beneficiaries of EU farm animal welfare policies

- Consumers
  - Diverse opinions in EU
  - Animal welfare preferences joint with taste, food safety, food ethics, regional preferences
- Producers
  - Options for segmentation, value-adding
  - Requests for protection from international competition
- Animals
  - Improve conditions in intensive husbandry

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Outline

1. Costs on the EU farm
2. Impact on international meat and egg market
3. Policies in EU, WTO context
4. Outlook

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1. Costs on the farm

- *"Increasing requirements regarding product quality and animal welfare raise the costs of production."*

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Cost factors

- Competitiveness
  - Wages; climate; feed costs; animal disease status
- On the farm
  - Feed
  - Health care, veterinary medicine
  - Housing, animal density
  - R&D, breeds
  - Farmer skills, efficiency
- In marketing channel
  - Not all slaughter weight eligible for price premium
  - Other cuts in mainstream marketing channels, below cost-price
  - Premium must cover "fixed" costs per animal:
  - Markup on consumer prices 3-5 times production costs

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On-farm costs of animal welfare differ by label

Economic effects (comparison to mainstream pork*)

	Labels for pork meat in Netherlands (ambition)		
	Anonymous (low flyer)	Good farming welfare (case-solver)	Organic (idealist)
Additional producer costs €/kg	0,25	0,00 - 0,06	1,10
% of slaughter weight that receives the price premium	25%	40%	60%
Consumer price premium €/kg	1,25	0,00	3,30

* Producer cost 1,25 €/kg, consumer price 6,23 €/kg (averages in Netherlands 2005)

Source: Hoste (2006). Classification of labels from Ingenbleek & Meulenberg (2006)

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Assessment

- *"Increasing requirements regarding product quality and animal welfare raise the costs of production."*

- All depends on depth of standards
  - Economic implications of deviating from mainstream
- Options for marketing of upgraded product at premium prices
- Effects are farm specific
  - System, Innovation
  - Skills

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2. Impact on international market

- *"More stringent rules on farm animal welfare will evoke <u>low quality imports</u> from third countries."*

- Low quality?
- EU imports under upgraded animal welfare standards

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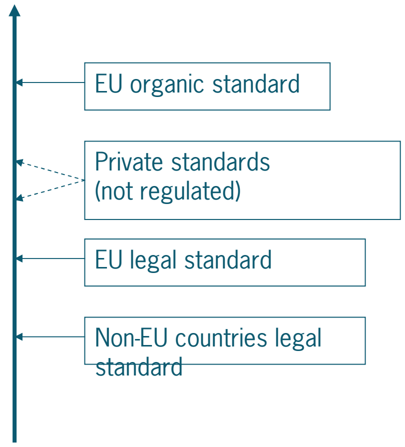
Stringent housing standards in EU, elsewhere less need for standards in meat, more for laying hens



- Many beef, broiler meat producers in Latin America, Asia comply with EU housing standards.
  - Though not all are certified…
- EU rules on housing laying hens far above international levels, after 2012 even more.
- OIE recommendations for animal welfare at transport, slaughter
- Private voluntary standards by retailers, processors vary widely

Perspectives for niche meat markets

- Pork
  - Commodity product, processed into prepared food
  - EU niche market for improved welfare <5%
- Broiler meat
  - Global trade in cuts and carcass parts
  - 75% consumed as fresh product
- Eggs
  - 75% table eggs, 25% commodity product for food industry

Competitive advantage based on regulatory standards? Case of Eggs

	Differences in regulatory standards		
	NLD	USA	BRA
Animal density (cm2/animal)	550 (2004) 750 (2012)	350	350
Beak trimming	After 5-6 weeks (ban in 2012)	After 10 days	After 10 days
Bone meal	Prohibited	Applied	Applied

Changes in Netherlands, Germany up to 2012:

- Welfare improvements: 10% increase in production costs
- Environmental measures
- Reduction of import tariffs (assumed 50% cut)

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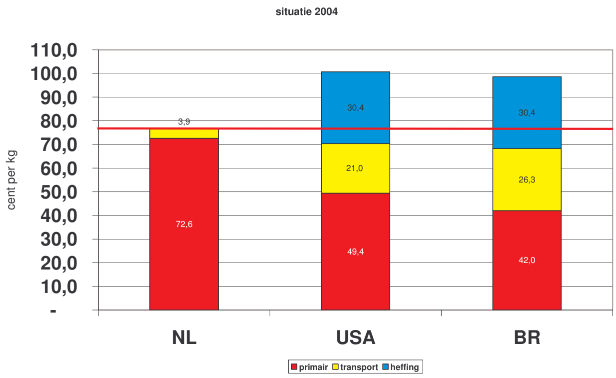
Import taxes impede market access for imported eggs in EU



tariff

trans-port

Prima ry

export cost price for fresh eggs

(ct per kg, fob Frankfurt, 2004)

Source: Horne (2005)

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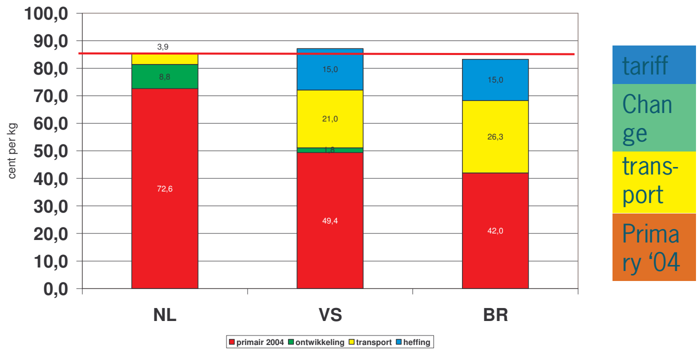
US, BR competitive suppliers to EU in 2012 – advantage only partly based on regulatory differences



- Regulations in EU reduce competitive position
- Fresh imports not feasible

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Assessment

- *"More stringent rules on farm animal welfare will evoke low quality imports from third countries."*

- EU consumer markets
  - Are niche segments expanding?
  - Processed or unprocessed product
- Competitive advantage based on regulatory standards?
  - Other factors
  - Gap widens with higher standards

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3. Policies in EU, WTO context

- *"…between profit and protection"*

What EU consumers expect from regulators

- Consumers concerns over processes and production methods in food production.
  - Though not all…
- Few consumers vote for animal welfare in their purchase behaviour.
- Regulators should
  - guarantee minimum standards
  - guide consumers through the wide variety of labels

Limited scope for WTO-compliant policies in EU

- Global standard: 1st best solution (OIE, private)
- Subsidies, producer support under CAP
  - Green Box payments no-go
  - Amber Box – why not?
- Differentiated import duties
  - Undesirable from efficiency perspective
  - Compromising « like-product » under WTO/GATT
- Creative solutions
  - Consumers providing direct support to welfare scheme

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4. Animal welfare in the EU and trade partners: outlook

1. NGOs push voluntary retail standards, modest ambition. Labelling scheme will increase visibility of animal welfare status of the product.
2. EU producers, weakly competitive, will hold positions in fresh meat and eggs; processed segment is growing and filled with imports.
   Farm support under CAP as trade-distorting support?
3. Increased openness for livestock imports into EU inevitable. Welfare status of imports from Latin America, Asia depend on retailer demands

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