Year 1 after the cage ban

Within the European Union the use of conventional cages was prohibited from 1\textsuperscript{st} January 2012 as stated in Council Directive 1999/74/EC. That means that the producers have had 12 year to comply with this new legislation.

Because of animal welfare concerns the minimum standard for the housing of laying hens is now an enriched cage. The enriched cage gives each hen 750 cm\textsuperscript{2} surface area, increased height, a perch, a nest box and litter. The alternative system described in the EU Directive most resembles the aviary system. Each hen has 1,100 cm\textsuperscript{2} living space, the surface area or part of the surface area of the house is covered with litter and in the house there are enough nest boxes and perches for the animals.

Development on layer housed in conventional cages in EU in 2012

At 1\textsuperscript{st} January 2012 13-14 of the 27 member states in the EU were not in compliance with the directive. (Table 1)

The politicians were not happy, and the market responded dramatically in late January and in February were egg prices on the spot market soared forcing at least a couple of egg product businesses into bankruptcy.

The reason for the price rises were for a large part due to speculation but in some areas there were a real shortage of eggs both for shell egg and especially for breaking.

Since then the egg prices have stabilized but at a significantly higher level (Figure 1)
In June more than 45 million of the app. 360 million layers in the EU were still housed in conventional cages (Figure 2).

Figure 1: Evolution of the weekly EU average price for Eggs for Consumption

Figure 2: Million layers in conventional cages - June 2012
During the summer the political pressure increased and the EU threaten to take the member states not in compliance with the directive to court. Also the pressure from the large multinational food companies increased because they were afraid to have their brand jeopardised on the internet, and especially in Spain things were moving really fast. Ultimo December 2012 it is estimated that app. 20 million of the app. 360 million layers in the EU is still housed in conventional cages (Figure 3).

![Mill layers in conventional cages - December 2012](image)

**Figure 3: Million layers in conventional cages - December 2012**

**Competitiveness of the EU egg industry**

The European egg industry has asked Peter van Horne for LEI Wageningen to make a report on the Competitiveness of the EU egg industry in 201 and 2012. The following text and figures originates from this report.

**Production costs of eggs in some EU countries in 2010**

The production costs of shell eggs produced by hens housed in conventional cages has been researched for the following countries: the Netherlands (NL), France (FR), Spain (ES), Italy (IT), the UK, Poland (PL) and Denmark (DK). These countries are the main egg producing countries within the EU. Germany is not included because this country already prohibited conventional cages in 2010, two years before the ban in other EU countries. The results presented in Figure 1.1 relate to the year 2010. All costs in this report are given in euros. Figure 1.1 also provides an insight into the build-up of primary production costs.

The production costs can be divided into six components: hen (cost of young hen at 20 weeks, less the revenue from the spent hen), feed (feed costs during the laying period), other (all other variable costs e.g. electricity and animal health), labour (cost of the labour of the farmer or a farm worker), housing (depreciation, interest and maintenance cost on building and equipment) and general (bookkeeping, clothing, insurance and, if relevant, manure disposal costs).
Production costs of eggs in some non-EU countries in 2010
The production costs of shell eggs for consumption have been researched for the following non-EU countries: Ukraine (UKR), the USA, Argentina (ARG) and India (IND). The last three countries were the main exporters of eggs and egg products to the EU in 2011. Ukraine is selected based on the fact that this country has the potential of becoming an exporter to the EU and because of its geographic location close to Poland and Germany.
The production costs of the third countries in 2010 are presented in Figure 1.2. This figure also provides an insight into the make-up of primary production costs, and includes a comparison with the average EU level. The hen costs are defined as the hen cost at 20 weeks, less the revenue of the spent hen.
General costs are the actual general costs plus the manure disposal costs, or less the revenue of manure.
Production costs and offer prices of shell eggs in 2012

The situation in 2012 is based on housing laying hens in enriched cages and keeping hens according to all the EU legislation on environmental protection, food safety and animal welfare. In Figure 2.3 the production costs of shell eggs in the EU are compared to Ukraine, the USA, Argentina and India. Based on the production costs, the additional cost of enriched cages and the transport costs, the offer prices of shell eggs in Frankfurt am Main (Germany) are presented. The horizontal line indicates the EU level of total costs including transport. Figure 2.3 shows that the import tariffs can protect the EU from imports of shell eggs from third countries.

Results of different scenarios

To show the impact of a possible change in import tariffs and a change in the exchange rate on the competitiveness of EU egg producers, three scenarios for the future have been developed:

1. a change in the EU import tariff on egg and egg products, as a possible result of a new multilateral (WTO) agreement or bilateral agreement; in this scenario a reduction in the import tariff of 50% is taken as an example to illustrate the impact;

2. a change in exchange rates of the US dollar, Argentine peso, Ukrainian hryvnia and Indian rupee. In this scenario a 10% lower exchange rate for the currencies of the non-EU-countries is assumed. The average exchange rate in 2010 was used to convert the production costs of all countries to euros.

3. A combination of a lower import tariff (scenario 1) and a lower exchange rate of the third countries' currencies (scenario 2) is illustrated. This is the 'worst case' scenario seen from a European egg producer’s point of view.
**Scenario 1 - Lower EU import tariff**
In the first scenario the impact of a 50% lower tariff on imports into the EU has been examined.

![Figure 3.1](image1.png)

Figure 3.1 illustrates, that in this scenario Ukraine would be the most competitive supplier of shell eggs to Frankfurt in 2012. The result of the lowering of the import tariff is that Ukraine can almost compete on the EU market. Other non-EU countries would not be competitive on the EU market.

**Scenario 2 - Change in exchange rates**
This second scenario evaluates the consequences of 10% lower exchange rates of the currencies of all non-EU countries.

![Figure 3.2](image2.png)

Lower exchange rates have less impact than the lower import tariffs of scenario 1. Figure 3.2 shows that in the case of 10% lower exchange rates, the non-EU countries would still be no real competition on the EU market.
Scenario 3 - Combination
The third scenario is a combination of the previous scenarios: 50% lower import tariffs (scenario 1) and also 10% lower exchange rates of all non-EU currencies (scenario 2). In fact this third scenario is a 'worst-case scenario'.

The consequences of the combination of a 50% lower tariff on imports and 10% lower exchange rates are indicated in Figure 3.3. In this worst-case scenario, Ukraine obtains a very competitive position on the EU market for shell eggs. Also Argentina and the USA are competitive. The remaining import tariff would make imports from India unlikely.

Summing up
The year 2012 has been a very turbulent year for the egg industry in EU. The cage ban and ever increasing feed prices have given the industry a lot of challenges. On top of that we have lost competitiveness to non-EU-countries because our productions costs have increased due to the ban on conventional cages. We certainly expect our politicians not to accept lower tariff on imports from countries with lower levels of animal welfare in bilateral and multi-lateral trade negotiations.

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