

Market Trends influencing the UK egg sector

Presentation to Irish Egg and Poultry
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British Egg Industry Council

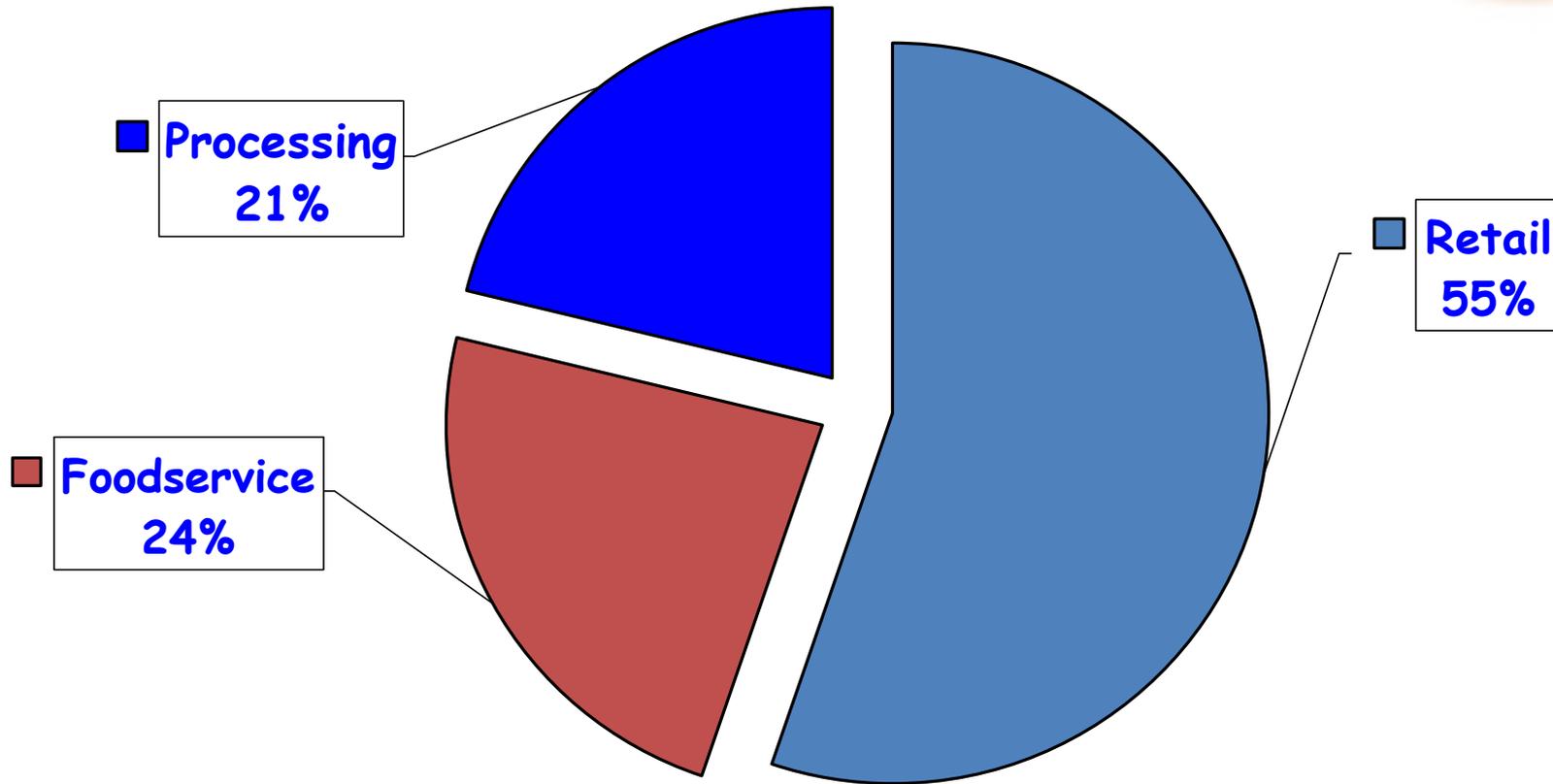
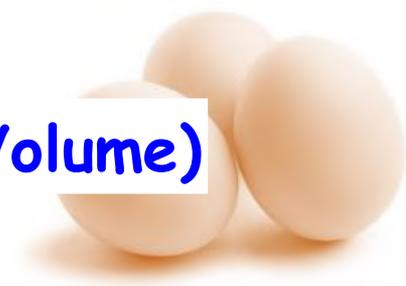
UK Egg Industry



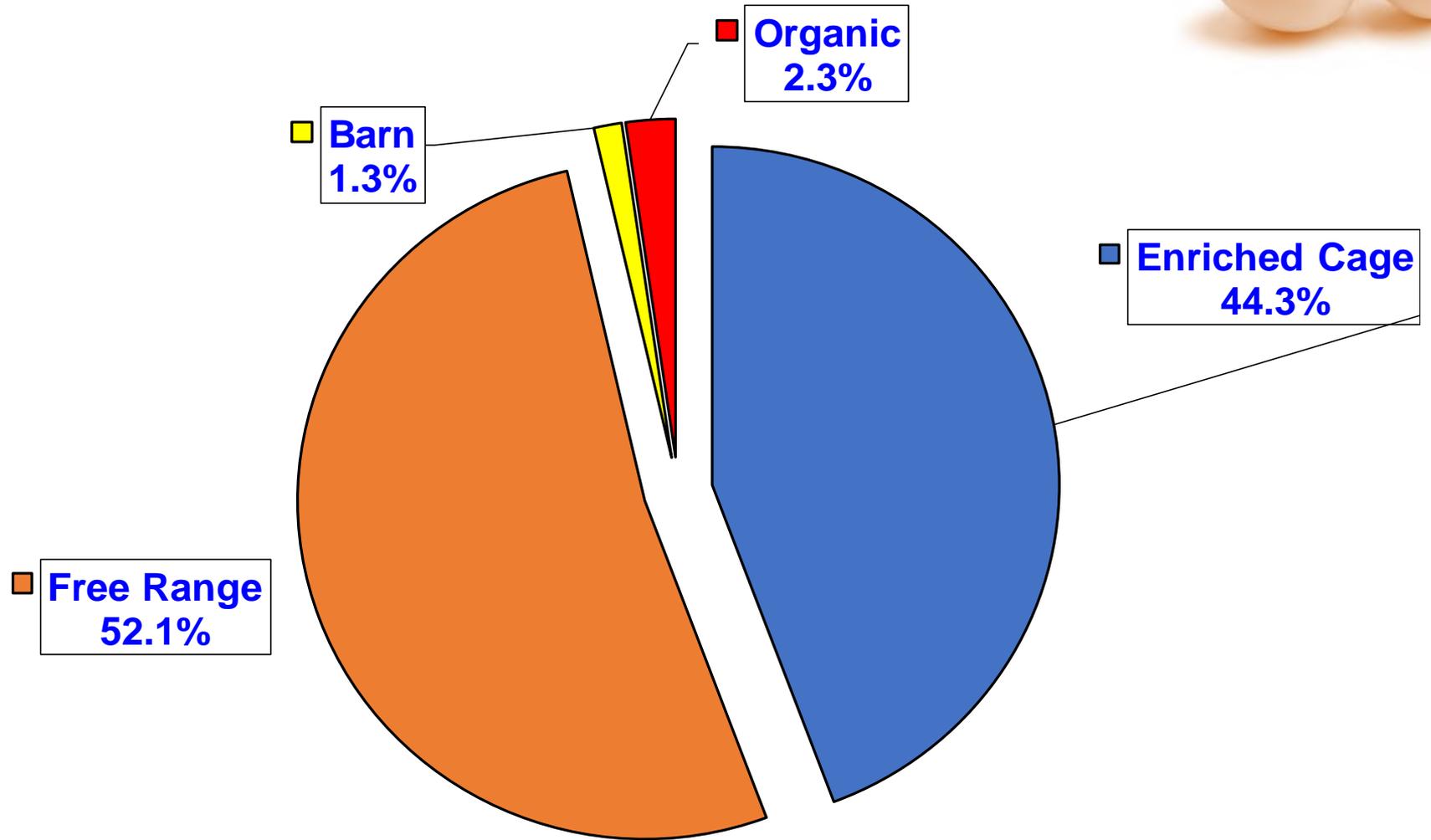
- 40 million laying hens
- Egg consumption (2017)
 - 196 eggs/capita/annum
- 86% self-sufficient (2017)



UK Egg Market make-up (2017) (Est Volume)



UK Market Split - Volume (Jan-Jun 2018)



Source: Defra



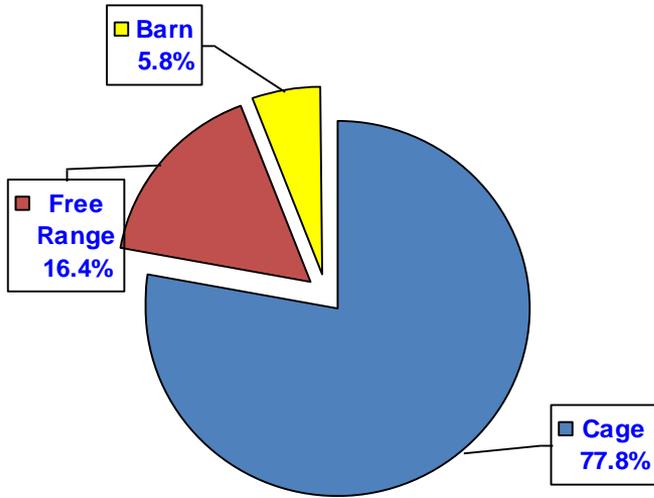
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UK Egg Market Split, by System of Production (Volume)

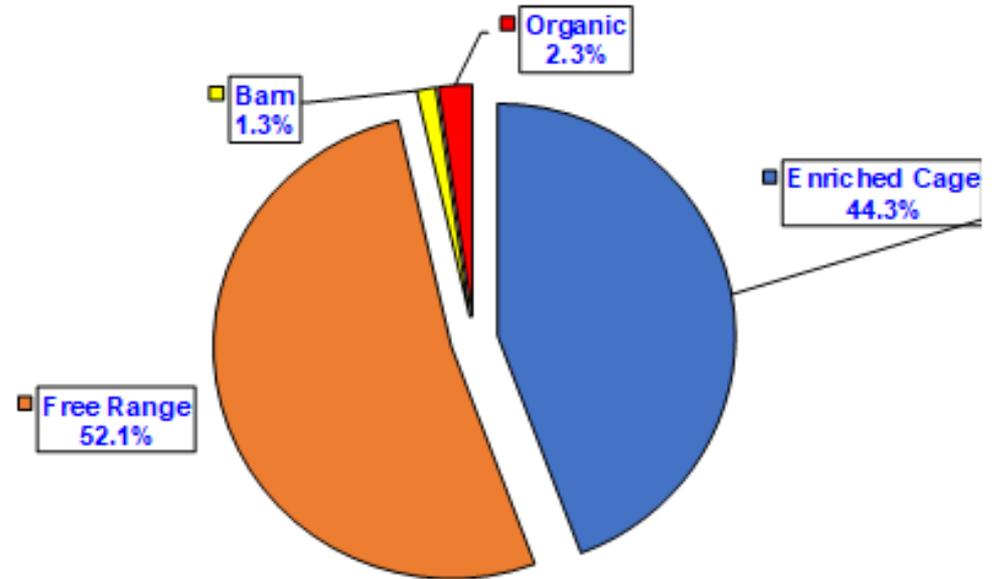
(Source: Defra, UK Packing Station Throughput)



(1999)



UK Market Split - Volume (Jan-Jun 2018)



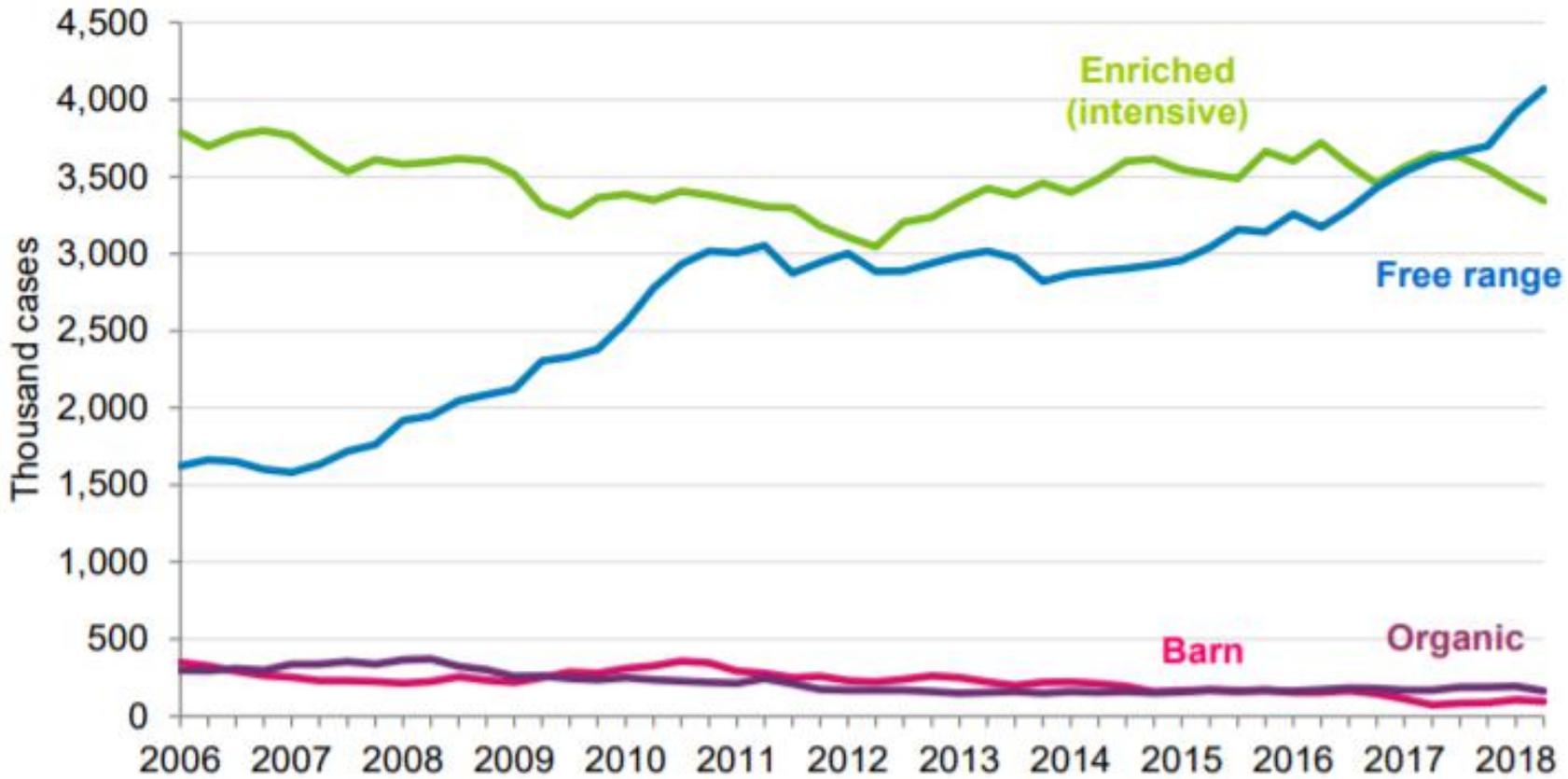
The UK egg market is led by market demand

Source: BEIC, from Defra data



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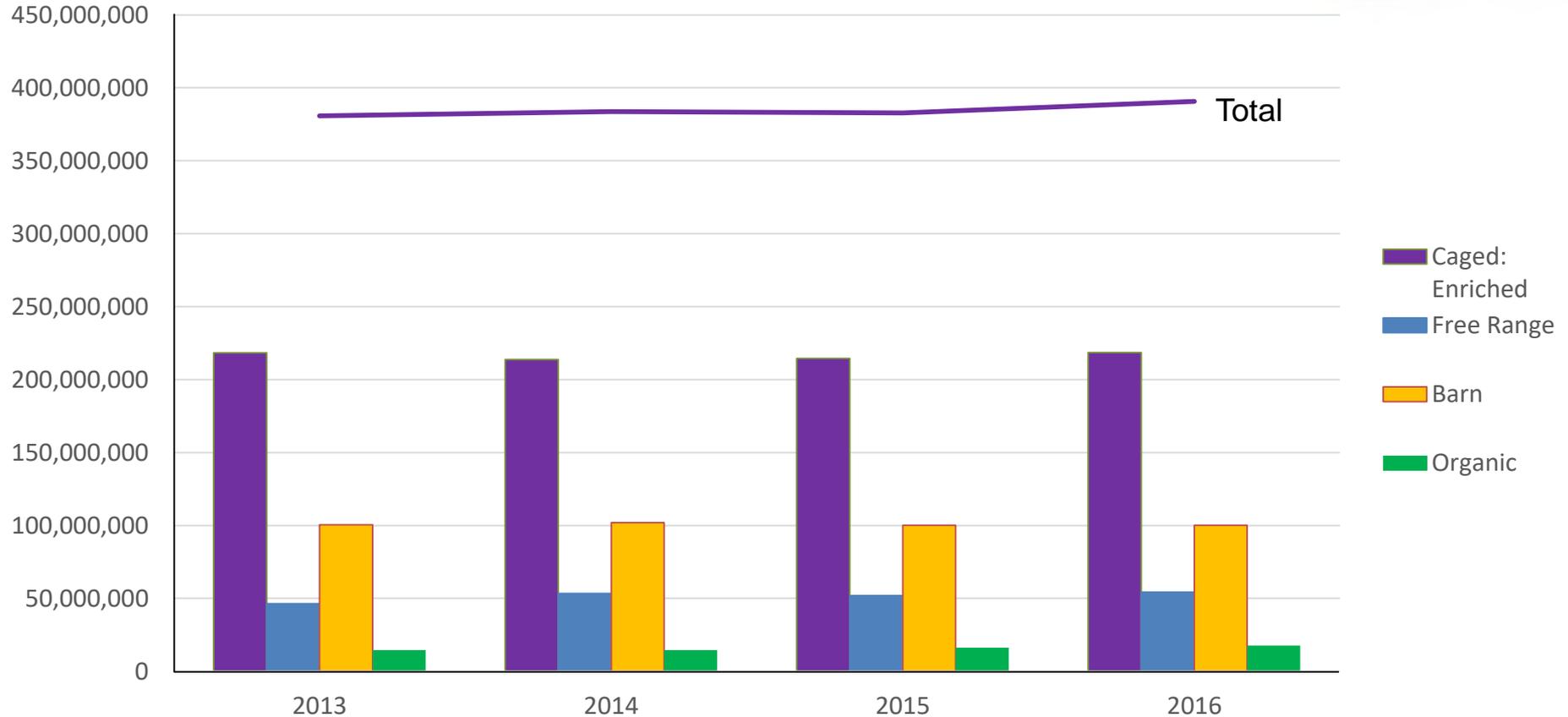
UK egg packing station throughput by system of production (2006-18)



Source: Defra



Number of Laying Hens in EU by System of Production (2013 - 2016)



The 'Cage-free' debate - USA



- Announcements by USA retailers and major food service companies
 - Approx 60% of US egg production base to be 'cage-free' by 2025
- Walmart's announcement contained a number of caveats:
 - "By 2025, our goal is to transition to a 100% cage-free egg supply chain, subject to regulatory changes and based on available supply, affordability and customer demand".*
- At 1 May 2018 - 40m birds in 'cage-free' systems (12.5% of US national flock of 305m)



The 'Cage-free' debate - USA (2)



- Issue is that US market is not currently demanding 'cage-free' eggs - more expensive than cage
- Need 225m hens by 2025 to satisfy combined demand from those customers who have announced 'cage-free' policy
- 'Consumer Beliefs, Knowledge, and Willingness-to-Pay for Sustainability-Related Poultry Production Practice Egg Survey Report (Jayson L. Lusk Ph.D., 1st January 2018)

"Ultimately, the results suggest there is potential for the market-share for cage free eggs to rise above the current state even at premiums as high as \$1.00/dozen. However, even at much more modest price premiums, the potential for cage free eggs to attain majority market share is unlikely, particularly if conventional eggs advertise other desirable attributes. Completely removing more affordable conventional eggs will significantly increase the share of consumers not buying eggs".

Source: UEP, from (USDA stats)



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UK - Background to 2025

Following momentum in the USA and the petition, in 2016 pledges were made by most UK retailers and several food service companies to remove eggs produced by hens in enriched colony cages from their supply chains



2018 - CIWF launched 'EggTrack' to keep an eye on retailers and food service companies' 2025 cage-free commitments



Source: J-P Michalski



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The 'Cage-free' debate - UK



- Cannot compare UK with egg industry in USA
 - US industry many years behind UK in terms of animal welfare
 - (Least cost production most important to US industry)
 - US is moving from conventional 'battery' cages, which were banned in the UK/EU in 2012, to 'cage-free'
 - Bird stocking density in US today is higher than in UK even before 2012
- ... **US 'cage-free' is not UK/EU 'barn'**
- If US 'cage-free' were to be marketed in UK/EU, eggs would have to be sold as No 3 'eggs from caged hens'
- 'Barn' is not understood by UK consumers and only accounts for approx. 1.5% of UK egg production
- Term 'Cage-free' may imply 'Free range' in consumers' mind



The legal definition in EU



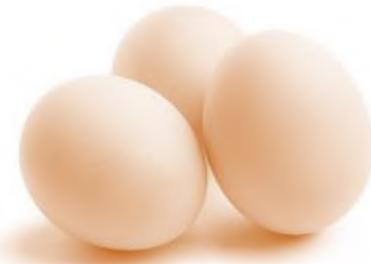
- Barn (No 2 on egg shell)

Council Directive 1999/74/EC, Art 4

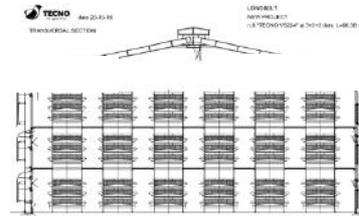
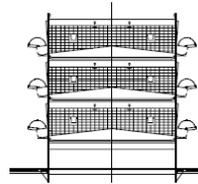
- feeders / drinkers
- at least one nest for every 7 hens (or group nest equivalent)
- 15cm/bird perch space
- at least 250 cm of littered area per hen, the litter occupying at least one third of the ground surface
- no more than four levels
- the headroom between levels must be at least 45 cm
- the levels must be arranged as to prevent droppings falling on the levels below
- The stocking density must not exceed 9 laying hens per m² usable area



Barn systems and standards



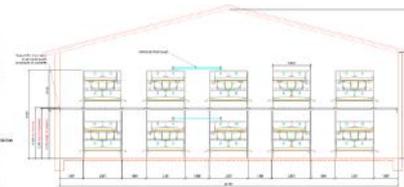
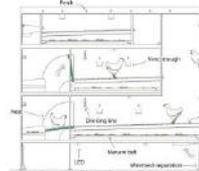
Combi Systems, EU standard production



Main points of difference

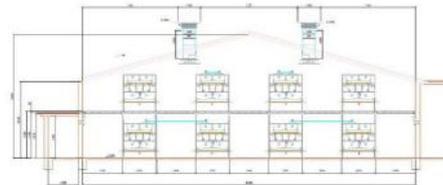
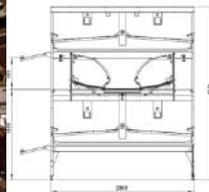
- 9 birds/m²
- No restriction on available floor space
- No restriction on bird numbers
- No restriction on nest type

Aviary, (Council Directive 99/74/EC)



- 9 birds/m²
- No restriction on available floor space
- No restriction on bird numbers
- Integral nest box with solid sides
- Raised perches integral to system design

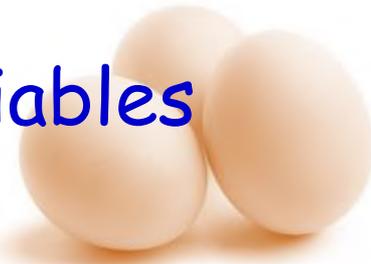
Aviary, (linked to RSPCA Assured)



- 9 birds/m²
- 15 birds/m² of available floor space
- Max flock size 48k birds?
- Integral nest box with solid sides
- (All standards roughly in line with RSPCA Assured requirements except limitations on 32k flock sizes)



Production - Initial Estimates & Variables



Combi Systems, EU standard production



Similar numbers

Aviary, (Council Directive 99/74/EC)



Circa
20 - 30%
flock
reduction

Aviary (linked to RSPCA Assured)



Circa
40-60%
flock
reduction

Variables

- Reduced bird numbers
- Lower egg production
- Floor eggs
- Higher mortality
- Higher labour costs
- Higher feed consumption
- Higher utility costs
- Additional litter costs
- CAPEX / Depreciation
- Lower In-line PC efficiencies

Risks

- Future ban on beak trimming



The financials



- UK industry invested £400m in move to enriched cages by 2012
- Investment not yet paid off
- Huge investment would be needed to re-house approx. 15m birds currently in enriched colony cages
- To maintain current bird numbers in US style 'cage-free' systems
= approx £15/bird = £255m
- However, at EU 'barn' standard, one third of birds displaced, therefore need for additional housing and equipment
= approx 5.7m birds x £30/bird = £171m

Total cost approx £426m

- Unlikely that banks would provide finance
- Cost of production +22% for barn systems
- This would necessitate large units to retain bird numbers



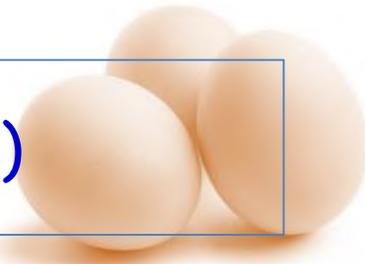
The financials (2)



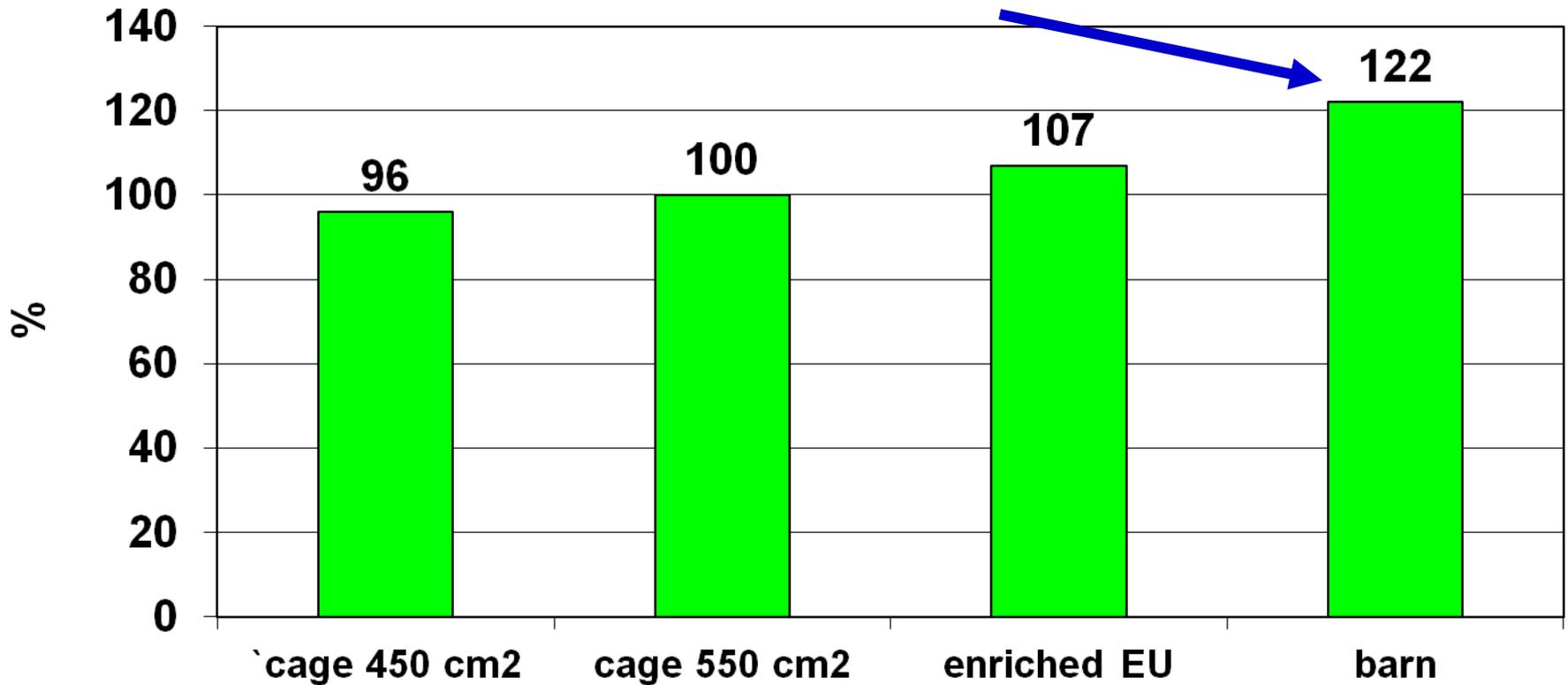
- Who is going to pay?
- Cannot produce a barn egg at enriched cage price
- Need long term commitment by customers
- Small price differential between FR and barn?
- What is tipping point? - when volume is sufficient at retail level to provide a premium?
 - Timing?
- Will consumers opt for barn, or still buy cage-free?
- Consumer focus groups -
 - cage egg buyers forced to switch to non-cage would buy fewer eggs, or be forced to find cheaper eggs elsewhere
 - Many consumers simply cannot afford to choose more expensive eggs
 - If move to barn, potential adverse effect on lower income consumers



EU legislation: 'housing systems' (Index)



Cost of Production + 22% with move to 'EU barn'



UK/EU up to 31 December 2011

UK/EU from 1 January 2012



BEIC consumer focus groups, qualitative research (October 2017)



In the time that's elapsed since the last similar qualitative study among cage egg buyers in 2010, cage egg buyers' views of egg production have changed little

2010

To

2017

Most cage egg buyers are unengaged with the issue of production and even though cognisant of the issues don't want to be forced to think about the animal welfare angle

Few see any quality, taste or health downsides in buying cage eggs ~ "An egg is an egg". This is in direct contrast to the issue of buying 'cheap' meat
However, in 2010, **price** was deemed more of an issue and priority than it appears to be today

2017

By 2017, a significant proportion already felt that animal welfare issues had been addressed, if not completely, then in large part

Qualitative research among cage egg consumers conducted on behalf of the British Egg Industry Council October 2017



British Egg Industry Council



Whereas the positive aspects of eggs noted in the wider 2015 consumer research study have not only increased but, potentially, enhanced the value of eggs

2015

To

2017

The positives of eggs remain. Indeed, historic negatives (e.g. Salmonella) have been erased in large part. Further, there's an increasing recognition of the nutritional aspects of eggs today

Fuelling a belief that eggs are good value. Perhaps even of better value than in the past (14p average price per egg compared to 17p average price in 2010, Source: Kantar)

2017

The perceived value of eggs having 'risen' means more consumers are prepared to accept that they could pay more for eggs given their 'share' of the shopping basket

Qualitative research among cage egg consumers conducted on behalf of the British Egg Industry Council October 2017



BEIC consumer focus groups, qualitative research (October 2017) - 3



“

An egg, is an egg, is an egg.
Isn't it? what the difference,
they're all the same wherever
they come from

~ Manchester

“

You crack them open and what's the
difference? that's why I always buy
the cheapest ones. What's the point?

- Birmingham

“

Can you tell the difference? I don't
think they taste any different do they?

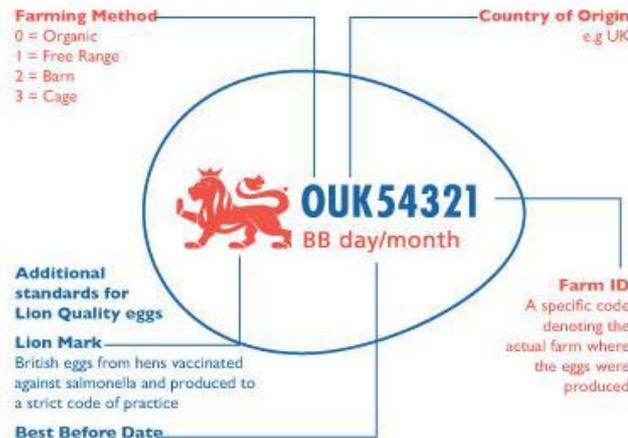
- London



Consumers



- 36.1% of all eggs sold across retail are produced in enriched cage systems (Kantar, 52 weeks to 7 October 2018)
- Eggs are clearly marked with system of production
- Egg packs carry 'understanding egg codes' key
- It is clear to shoppers what they are buying
- Lion Code bans misleading terms/illustrations on packs



The unknowns



- Will animal activist groups move on to criticize barn systems?
 - Need to engage
- Humane League - threatening email to some marketing companies to move from enriched cages
- CIWF - email to marketing companies - Egg Track report
- CIWF - leading on European Citizens Initiative to ban caged farming
 - Needs 1 m signatures from 7 member states
 - Commission then obliged to consider proposal
 - Can choose whether or not to act on it by changing or creating a policy
 - Can choose to take no action



The Future?

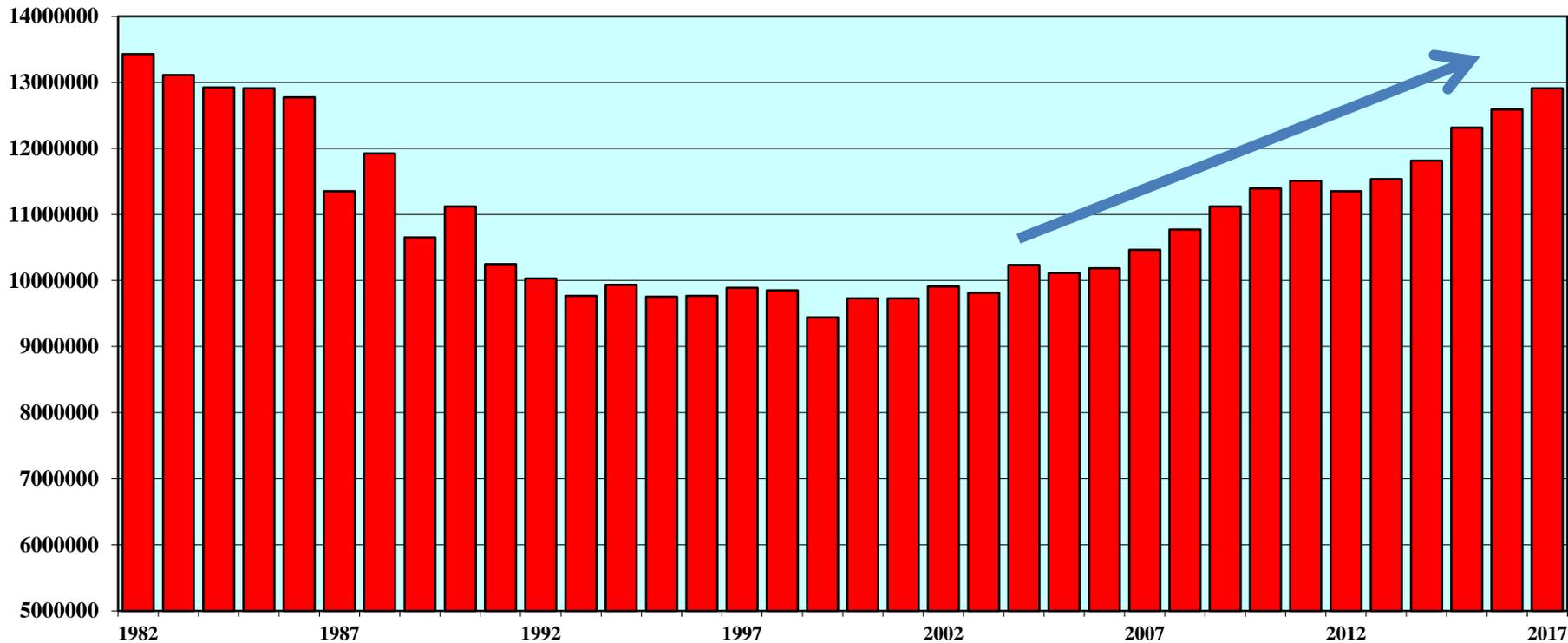
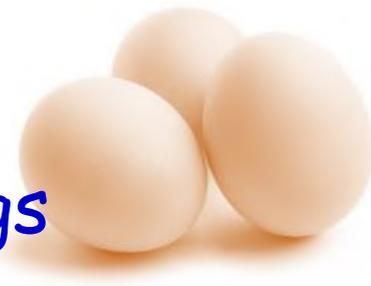


- The market will decide
 - UK market clearly moving towards free range
- But UK will ultimately need entry level egg
 - But what will it be?
- Brexit complication
- No real account currently being taken of environmental issues
- Move away from cage production on continent
 - Germany 2025
 - Austria 2020
- Consumers understand 'cage' and 'free range', but not 'barn'
- Consumers should be provided with choice of eggs which are clearly labeled



UK egg market 1982 to 2017

Egg consumption trends - '000 eggs



Data: Industry estimates



British Egg Industry Council

Conclusions



- UK/EU has one of the most modern industry's in the world
 - Huge investment
 - Uncertainty as to what UK industry will look like in 2025
 - Hopefully will be clarified soon as only approx. 4 flock cycles away





Thank you for listening

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