

ANNEX A REGULATORY APPRAISAL

1. Purpose and intended effect

This amendment to the Welfare of Farmed Animals will implement in Wales specific rules on the welfare of laying hens as set down in EU Directive 99/74/EC. Similar regulations will be made in England, Scotland and Northern Ireland.

2. Objectives

- i) revised standards for hens to be kept in battery cages. The use of such cages will be prohibited with effect from 1 January 2012; in addition, after 1 January 2003, no such cages may be built or brought into service for the first time.
- ii) minimum standards for hens kept in alternative systems (non-cage systems such as barns and free range) with effect from 1 January 2007; from 6 August 2002, the new minimum standards apply to all newly built or rebuilt systems of production, and any brought into production for the first time.
- iii) minimum standards for hens kept in enriched cages from 6 August 2002.

3. Risk Assessment

3.1 The 'risk' in this context primarily relates to the welfare of laying hens:

- i. Battery cages meeting current minimum requirements are considered to prevent the hen performing the full range of natural behaviours because of a lack of available space, and other facilities such as nest boxes and dustbaths (enriched cages). The EU Council of Ministers has therefore concluded that this system of production should be phased out and that the only cages permissible after 1 January 2012 will be enriched cages.
- ii. In 'alternative systems' ie barn, perchery and free range, birds are more able to express normal behaviour. The new Directive addresses the need for minimum standards for these types of systems as none currently exist.

3.2 The second area of risk would arise by our failure to implement Directive 99/74/EC whereby we may be subject to infraction proceedings and ultimately ECJ action.

4. Options

Producers of eggs from birds kept in cages will have the choice of two alternative courses of action:

Option 1 - Switch from existing 'barren' battery cages to 'enriched' cages –

However, producers may be unwilling to make this change until the existing specifications for the 'enriched' cage have been reviewed in 2005 (as required by Directive 99/74/EC). Producers retaining the use of "barren" battery cages

until they are banned on 1 January 2012 will have to increase the space allowance per bird from 1 January 2003.

Option 2 - Switch to alternative systems

The likely financial impact of this Directive has been calculated on a UK basis for these two options using information provided by the industry in response to the consultation exercise.

5. Benefits

The following benefits are applicable to both options:

- i) The implementation of the Directive will meet the Assembly's objective of ensuring that laying hens will benefit from higher standards of welfare. As this has been agreed at an EU level, this objective will be met without our producers being disadvantaged by imports produced to lower welfare standards elsewhere in the EU.
- ii) Together with the associated amended Egg Marketing Regulations, this Directive will enable consumers to have greater confidence about the welfare standards observed by EU egg producers.

6. Costs

6.1 There are approximately 29.2 million laying hens in the UK, of which:

21.4 million (73.3%) are kept in battery cages

6.2 million (21.2%) are kept in free-range systems

1.6 million (5.5%) are kept in barn/perchery systems

6.2 Compliance costs for a Typical Business

Information on the size of a typical business was received from the consultation exercise.

The adopted strategy for conforming with the Regulations will differ between producers so the compliance cost estimate is indicative of a hypothetical business average. This gives compliance costs for a typical business as follows:

Small business	12,000 birds	£167,000
Medium business	100,000 birds	£1,390,000
Large business	400,000 birds	£5,570,000

6.3 Total Compliance Costs

Annex 1 details the assumptions on which these costs were calculated.

Annex 2 provides further detail of the cost calculations.

Applying the assumptions given in Annex 1 gives a net present value total cost (capital/investment and running costs) (discounted at 6%) from the beginning of 2000

to the end of 2011 of **£409 million**. This equates to **£46 million per annum** (from 2000 into perpetuity).

7. Consultation

7.1 Consultation and feedback received was limited in Wales and so feedback from both England and Wales has been amalgamated :

7.2 Industry, welfare and other organisations have been given the opportunity to comment on the draft legislation, Code of recommendations and Regulatory Impact Assessment.

7.4 Some respondents to the consultation felt that implementation of the Directive would place UK producers at an unfair trading disadvantage against imports from third countries which do not meet the same high welfare standards. Whilst it is accepted that it is difficult to address this under current WTO rules, it was suggested that all eggs from third countries, and products made from them, are labelled accordingly.

7.5 Many organisations expressed concern that the Directive should be fully implemented and enforced in all EU Member States, including those likely to become members.

7.6 Industry provided data on the number of birds kept in different production systems, the likely rate of switch to different systems and the costs involved. This information has been used to provide amended compliance cost estimates. The industry have recently provided updated figures to DEFRA colleagues but, as the impact remains high (in excess of £400 million), we have not further amended the RIA.

7.7 Several respondents called for Government funding to assist producers in meeting the costs of adapting to the requirements of the Directive.

7.8 The benefits of the legislation in terms of bird welfare were questioned in the light of industry implementation costs of over £400 million.

7.9 Some gold-plating issues were raised but one which has been accepted by the Minister of Rural Affairs was that we would consult industry further on the proposal to ban the use of “enriched” as well as battery cages from 1 January 2012, in conjunction with DEFRA colleagues and in line with a number of other Member states.

8. Review

8.1 In order to ensure uniform application of EU legislation, the EU Commission has responsibility for monitoring enforcement by Member States. It is also required to draw up a code of rules to which Member States should adhere in carrying out of inspections, including the form and contents of reports and the frequency with which they are submitted; this has yet to be done for the Directive in question.

8.2 Member States are, in turn, responsible for taking the necessary measures to ensure that the competent authority carries out inspections to monitor compliance

with the provisions of this Directive. Enforcement in the UK will be by the State Veterinary Service, possibly with assistance from the Egg Marketing Inspectorate. Inspections will be carried out to check for compliance with welfare legislation and codes. In addition to carrying out ad hoc inspections to meet EU requirements all complaints or allegations of poor welfare will be followed up.

8.3 The effectiveness of UK enforcement procedures is kept under review. Any evidence of failure to enforce in other Member States will be drawn to the attention of the Commission.

9. Summary

9.1 The Government is required to implement 99/74/EC. The Government has made clear its view that conventional cage egg production does not allow hens to perform the full range of natural behaviours and that it considers their welfare to be compromised as a result. It was, therefore, keen to gain agreement at EU level to the reform of the existing laying hen welfare rules and to provide for higher standards of welfare while ensuring a level playing field for our producers with others in the EU. There has been concern about cheaper imports from non-EU countries that may have been produced to lower welfare standards. The Council of Ministers, in agreeing the Directive, recognised this issue and therefore, mandated the EU Commission to progress the animal welfare agenda in WTO discussions. The EU's comprehensive negotiating proposal submitted to the WTO Agriculture Agreement in December 2000 includes a number of possible actions to address these concerns, namely:

- a. development of multilateral agreements;
- b. appropriate labelling rules; and
- c. exemption of compensation of additional costs to meet animal welfare standards from reduction commitments where it can be shown that these costs stem directly from the adoption of higher standards.

9.2 At the WTO 4th Ministerial held in Doha last year, UK Ministers recognised the importance of the importance of non-trade concerns and required that these be taken into account in the agricultural negotiations, including animal welfare.

9.3 Meanwhile, the UK Government is continuing to explore ways in which it might forge an international consensus on animal welfare.

ANNEX 1

Compliance costs for the Laying Hens Directive are based on the following assumptions:

1. Number of hens in the UK remains at 29.2 million with the current split between production systems as indicated at para 5.1.

Cage Systems

2. From 1 January 2003, the Directive requires floor space per bird in existing battery cages to be increased from 450 sq.cm. to 550 sq.cm.

3. For 7.5 million birds, this new space requirement will be met by moving forward the cage front, at a cost of 60 pence per bird.

4. For the remaining 13.9 million birds, the space requirement will be met by removing one bird from each cage and rehousing them.

5. By 1 January 2012, all cages will require modification (increased space allowance and “enrichment” through the provision of a perch, nest box and litter for scratching and pecking).

6. It is estimated that 50% of birds currently kept in conventional battery cages will be moved into “enriched” cages, at the rate of:

(i) 20% into new cages in new houses (at a cost of £23.66 per bird); and

(ii) 30% into new cages in existing houses (cost £9 per bird)

This is implemented in the costings by applying a weighted average cost of £14.86 per bird. The costings and proportions used are those supplied by the industry in response to the consultation exercise.

Alternative Systems

7. The EU Directive will have the effect of reducing maximum stocking density from 12 hens to 9 hens per square metre from 1 January 2012.

8. It is assumed that for 50% of these birds, the additional space requirement will be met by building verandas onto existing houses (at a cost of £5 per bird).

9. The remaining 50% of the birds that will require rehousing will be moved into new houses at a capital cost of £25 per bird for free range systems and £19.14 for barn systems.

Details of assumptions made to obtain £409m estimate

<u>Assumptions</u>	<u>data source</u>
CAGE SYSTEMS:	
Number of new battery cage systems coming into production after July 1999	0 Farming press
Life of existing cages (years)	20 Farming press
Enriched cages stocking density up to 31/12/2001	4 Based on likely interpretation of the directive
Stage 1	
Number of birds remaining in existing cages but fronts moved forward	7,500,000 Industry information from consultation
Number of cage birds left in existing small cages	13,975,372 Industry information from consultation
Percentage of cage birds which will require new housing before 1/1/2003	20.0 Assumes 5 birds a cage reduced to 4
Number of cage birds which will require new housing before 1/1/2003	2,795,074 Derived from the above
Percentage of the above not rehoused	0.0 Variable assumption
Number of birds not rehoused, i.e.: reduction in national flock	0 Derived from the above
Percentage of birds actually rehoused before 1/1/2003	20.0 Derived from the above
Number of birds actually rehoused before 1/1/2003	2,795,074 Derived from the above
Percentage of ex-cage birds rehoused in barn systems	0.0 Variable assumption
Number of birds rehoused in barn systems	0 Derived from the above
Percentage of ex-cage birds rehoused in free-range systems	50.0 Variable assumption
Number of birds rehoused in free-range systems	1,397,537 Derived from the above
Percentage of ex-battery cage birds rehoused in enriched cage systems	50.0 Derived from the above
Number of birds rehoused in enriched cage systems	1,397,537 Derived from the above
Percentage of stage 1 cage sector rehousing in 1999	0 Assumption
Percentage of stage 1 cage sector rehousing in 2000	10 Variable assumption
Percentage of stage 1 cage sector rehousing in 2001	20 Variable assumption
Percentage of stage 1 cage sector rehousing in 2002	70 Derived from the above
Stage 2	
Percentage of cage birds which will require new housing from 1/1/2012	80.0 Assumes 5 birds a cage reduced to 4
Number of cage birds which will require new housing from 1/1/2012	18,680,298 Derived from the above
Percentage of the above not rehoused	0.0 Variable assumption
Number of birds not rehoused, i.e.: reduction in national flock	0 Derived from the above
Percentage of birds actually rehoused from 1/1/2012	80.0 Derived from the above
Number of birds actually rehoused from 1/1/2012	18,680,298 Derived from the above
Percentage of ex-cage birds rehoused in barn systems	0.0 Variable assumption
Number of birds rehoused in barn systems	0 Derived from the above
Percentage of ex-cage birds rehoused in free-range systems	50.0 Variable assumption
Number of birds rehoused in free-range systems	9,340,149 Derived from the above
Percentage of ex-battery cage birds rehoused in enriched cage systems	50.0 Derived from the above
Number of birds rehoused in enriched cage systems	9,340,149 Derived from the above
Percent in new houses	20 Assumption from industry (AWD 8 Oct01)
Percent in existing houses	30 Derived from the above
Number of birds in enriched cages in new houses	1,868,030 Derived from the above
Number of birds in enriched cages in existing houses	2,802,045 Derived from the above
Total reduction in national flock as a result of changes to cage systems at 1/1/2012	0 Derived from the above
Percentage of stage 2 cage sector rehousing in 1999	0 Assumption
Percentage of stage 2 cage sector rehousing in 2000	1 Variable assumption
Percentage of stage 2 cage sector rehousing in 2001	1 Variable assumption
Percentage of stage 2 cage sector rehousing in 2002	1 Variable assumption
Percentage of stage 2 cage sector rehousing in 2003	1 Variable assumption
Percentage of stage 2 cage sector rehousing in 2004	1 Variable assumption

Percentage of stage 2 cage sector rehousing in 2005	5	Variable assumption
Percentage of stage 2 cage sector rehousing in 2006	5	Variable assumption
Percentage of stage 2 cage sector rehousing in 2007	10	Variable assumption
Percentage of stage 2 cage sector rehousing in 2008	15	Variable assumption
Percentage of stage 2 cage sector rehousing in 2009	20	Variable assumption
Percentage of stage 2 cage sector rehousing in 2010	20	Variable assumption
Percentage of stage 2 cage sector rehousing in 2011	20	Derived from the above
<i>Capital costs</i>		
Cost of extending battery cage (£/bird)	0.6	Industry information from consultation
Cost of current cage (£ per bird)	14	para 4 in S.Filsell minute, 5 April 2000
Cost of enriched cage in new/existing house (£ per bird)	14.86	Industry information from consultation
Cost of converting cage (£ per bird)	3.33	para 5.7, e mail from S Filsell 10 Sept 1998
<i>Production costs</i>		
Cages: additional labour cost for modified cages (£/bird/year)	0.095	Minute, D.Linskey, 4 July 2000.
Cages: additional cost of services incl maintenance for md. cages (£/bird/year)	0.168	Estimate
Cages: additional labour cost for enriched cages (£/bird/year)	0.507	Minute, D.Linskey, 4 July 2000.
Cages: additional cost of services incl maintenance for en. cages (£/bird/year)	0.335	Estimate
Cages: additional feed requirement to offset heat loss via destocking (%)	3.45	Minute, D.Linskey, 4 July 2000.
Cages: additional feed requirement to offset heat loss via destocking (Kg/bird/year)	1.55	Minute, D.Linskey, 4 July 2000.
Cages: Feed cost (£/Kg)	0.125	Typical figure from NFU egg production bulletin
Cages: Additional feed costs for lower stocking densities (£/bird/year)	0.19	Derived from the above
Cages: Total cost for old battery cages (£/bird/year)	10.06	Typical figure from NFU egg production bulletin
Cages: additional total cost for modified cages (£/bird/year)	0.46	Derived from the above
Cages: Total cost for modified battery cages (£/bird/year)	10.52	Derived from the above
Cages: additional total cost for enriched cages (£/bird/year)	1.04	Derived from the above
Cages: Total cost for enriched cages (£/bird/year)	11.10	Derived from the above
Cages: additional cost for barn (£/bird/year)	1.92	Derived from the above
Cages: Total cost for barn (£/bird/year)	11.98	From below
Cages: additional cost for free-range (£/bird/year)	4.09	Derived from the above
Cages: Total cost for free-range (£/bird/year)	14.15	From below
Cages: maintenance cost of battery cages used beyond 20 years (£/bird/year)	0.05	Variable assumption
ALTERNATIVE SYSTEMS:		
Number of alternative system operating currently >12 hens per m2	0	Telephone conversation with AWD, 20 Sep. 2000
Percentage of birds in both alternative systems requiring new housing from 1/1/2012	23	Industry information from consultation
Numbers of birds in barn systems requiring new housing	363,384	Derived from the above
Numbers of birds in free-range systems requiring new housing	1,426,620	Derived from the above
Numbers of birds switching to other systems	0	Industry information
Numbers of birds withdrawn from production	0	Industry information
Reduction in flock	0	Industry information
BARN:		
<i>Capital costs</i>		
Cost of new barn building at 12 birds per m2 (£/bird)	14.73	Poultry Forum (sept/oct 1999)
Cost of new barn building at 9 birds per m2 (£/bird)	19.14	Poultry Forum (sept/oct 1999) and industry info 8 oct 2001
Cost of converted building for birds currently in barn systems (£ per bird)	5	Industry information, updated 8 oct 2001
<i>Production costs</i>		
Barn systems: production costs 12msq. (£/bird/yr)	11.33	Typical figure from NFU egg production bulletin
Barn: additional labour cost for stocking rates (£ /bird/year)	0.49	Estimate
Barn systems: additional feed cost (£/bird/year)	0	Industry information
Barn systems: additional misc. cost (£/bird/yr)	0.16	Industry information
Total	0.65	
Barn systems: production costs 9msq. (£/bird/yr)	11.96	Derived from the above

FREE-RANGE:

<i>Capital costs</i>	
Cost of new free-range building at 12 birds per m2 (£/bird)	20.61 Poultry Forum (sept/oct 1999)
Cost of new free-range building at 9 birds per m2 (£/bird)	25.00 Poultry Forum (sept/oct 1999)
Cost of converted building for birds currently in free-range systems (£ per bird)	5 Industry information
<i>Production costs</i>	
Free-range systems: production costs 12msq. (£/bird/yr)	13.25 Typical figure from NFU egg production bulletin
Free-range: additional labour cost for stocking rates (£ /bird/year)	0.729 Estimate
Free-range systems: additional feed cost (£/bird/year)	0 Industry information
Free-range systems: additional misc. cost (£/bird/yr)	0.17 Industry information
Total	0.899 Derived from the above
Free-range systems: production costs 9msq. (£/bird/yr)	14.15 Derived from the above

Figures derived from DEFRA information as at January 2002