

Submissions on the ACCC interim assessment of the AECL application to register an Egg Standard CTM

I became aware of the call for submissions on the ACCC interim assessment of the AECL application to register an Egg Standard CTM for labelling free-range eggs from a Canberra Times article but I have been overseas most of the latter part of 2012. I would hope comments on the interim assessment would be provided or sought from those who have researched or have expertise in this area such as the Productivity Commission, ABARES, DAFF, Australian and overseas academics (e.g. Judy Macarthur Clark 2008), some of whom I have referenced below or within these references.

The egg industry is an area I have researched since the early 1980s when I headed Bureau of Agricultural Economics (BAE) research on egg marketing arrangements (Trewin et al 1983) which led to the deregulation of the industry. Most recently in 2009, I undertook research for the Food and Agricultural Organisation (FAO) on poultry industry support and protection, structural change and disease risk (Trewin 2009) which formed part of its annual State of Agriculture report. One piece of highly relevant research was that for Rural Industry Research and Development Corporation (RIRDC) over 2001-02 on the economics of regulated changes to the Australian egg industry (Trewin 2001 and Trewin 2002) which included the development and application of an economic framework for assessing production systems and labelling. I draw on this research on eggs, and that of others, in the following comments on the ACCC interim assessment. Labelling is specifically dealt with in Trewin (2001) <<http://ageconsearch.vmn.edu/bistream/125981/2/Trewin.pdf>>

Economics seems to have had very scant consideration in the ACCC report which fits more the “regulation based on scientific and political assessments” approaches that were mentioned in the last referenced paper, in contrast to the social cost-benefit analysis framework the paper recommended. This scant consideration is not only at the assessment level but also in basic costs and benefits. Actual costs associated with labelling of the various definitions of free-range put forward (e.g. implementation, inspection, audit, and enforcement costs), which can be substantial, are not mentioned. Nor are the benefits apart from the Choice survey that found the majority of consumers they surveyed did not know what the suggested main labelling descriptor of maximum stocking density should be and thus obtained no benefits from such labelling. There is no evidence-based policy analysis in this interim assessment, only some “policy-based evidence” (Banks 2009)

As just mentioned, labelling decisions seem to be based on:

- Regulations elsewhere (This provides a range with the suggested maximum density lower than that endorsed by animal welfare agencies in the UK (e.g. RSPCA), and Australia for that matter, which have strong reputations in this area supported by some retailers (e.g. Marks and Spencers) only selling free-range eggs. It is also surprising that the US, one of the world’s largest egg producers, was not mentioned as not having any density standard in their free-range definition which is about access to the outside part of the time or barn roaming. Similarly, it was surprising that Switzerland or one of the other few countries which followed it in banning cage production and so do not have the

difference in system scale economies mentioned as a problem in the interim assessment, were not included in the comparison so that some analysis of what the premiums might represent could be undertaken rather than this being conjectured as due completely to animal welfare concerns. Moreover, these countries' subsequent experiences of countervailing animal welfare and health issues as discussed later would also have been of interest. The sample of international regulations presented appears very narrow.);

- A (pseudo) scientific basis (A much wider range is provided by the variety of different scientific views in this area, for example with perching and cannibalism which is more of a possibility in free-range systems and can involve a trade-off with another animal welfare issue of beak trimming); or
- A popularity basis (This is in respect of submissions in the assessment, a misrepresentative sample of society's preferences as illustrated by revealed preferences in the market and by surveys such as that undertaken by Choice which would be somewhat more representative but not completely representative of all Australian consumers.).

Such labelling decisions should be based on the costs and benefits of doing so, including non-market values (e.g. environmental values)(see Productivity Commission 1998). The existence of a market failure is not sufficient for government intervention, the costs of addressing this, including any possible government failure, need to be covered by the benefits from the intervention. As shown in Trewin (2001), labelling can involve large costs, especially if undertaken on farm. Lower maximum densities might involve more costs, for example requiring greater inspection given the greater incentives to go above the maximum densities at the higher premiums that would come with lower maximum densities. And there appears few benefits, with such labelling having been shown not to increase demand in the past for example. Lower densities would result in less free-range consumers and beneficiaries. On the other hand, densities that were higher than those that free-range egg consumers who looked to such measures would expect would lower the animal welfare benefits, perhaps to an extent that the associated costs would dominate.

Those consumers who care get the information they require, especially when producers can draw some premium from providing such information, whilst others are indifferent as shown by the Choice survey (38 per cent of consumers rely solely on the words "free-range" which means many more important things to consumers than animal welfare, a fact that is inconsistent with the ACCC view of animal welfare dominating consumer expectations and understanding). There are more factors in the premium for free-range eggs than animal welfare, including the status of a premium priced product. Research by Rolf et al (1997) showed a significant proportion of consumers say they buy eggs labelled as free-range when they do not. Other research by Rolf (1999), consistent with the recent Choice survey, showed that consumers buy free-range eggs on the basis of perceived health benefits in the main but also on the grounds of taste, quality, helping small producers, and improving the environment. Simple terms like cage-free or barn-laid as used in Coles with simple descriptions might convey as much information as an average consumer wants on animal welfare, whereas relatively complex definitions involving density that are not well understood may just confuse.

In respect of the health aspects of free-range eggs (food safety and bio-security), the health quality implications of the preferred labelling definition based on density seem to be ignored in favour of the ACCC's perceived but misplaced view of consumers' expectations and understanding on animal welfare aspects. Free-range systems are inherently less food safe and bio-secure. Most of the food poisoning incidents associated with eggs, as with Silo Bakery in Canberra last year, involve free-range eggs production which is less quarantined from disease risks, less vigilant with the collection of eggs, etc. If there is a breakout of poultry diseases then free-range systems are closed down first (Trewin 2009). There needs to be a warning of such risks in the free-range labelling. Those in the know will buy barn-laid eggs if they are worried about the health aspects but still put some (lesser than health) value on animal welfare. Presumably this is why the US has introduced the new free-range term of "barn roaming". Moreover, the practice of being able to cascade free-range eggs into barn-laid and then caged egg packs, which gives free-range eggs the economic advantage of a secondary market for its surplus production, should be prohibited on the basis of mislabelling which could have health implications.

Finally, there seems to be a confusion on scale and size in the assessment (Point 106 on controlling both density and flock size) (Dollery and Fleming 2005). There could be bigger-sized operations involving multiple barns with the same density as smaller sized operations but centrally administered or prepared for market. This is different from an increase in scale where all inputs, including poultry and administration, market preparation etc increases at the same rate. Scale and size need not be directly related. Large sized operations with some economies from this size (e.g. from amalgamated administration and market preparation) could have similar densities. There also appears some confusion in some of the submissions with a market requiring a certain number of (non large) operators to be competitive. A market can be contestable (freedom of entry and exit) with a small number of operators.

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