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Abstract

This paper studies the role of animal welfare (AW) institutionally and for large scale retail and its value in consolidating trust between institutions-taxpayers and large scale retail-consumers. The first section analyses AW in the new CAP and current strategies of retail with regard to expectations of taxpayers and consumers respectively. The second section analyses interviews on AW carried out in large scale and traditional retailing on the Italian market, and puts forward short and medium term forecasts of the importance that AW could have in distribution strategies in trust building with consumers and in relationships with institutional and other interlocutors of the retail trade.

Keywords: *CAP, animal welfare, modern retail, free-riders, pro-active and reactive strategies*

1. CAP, consumer trust and animal welfare

The evolution of the Common Agricultural Policy (CAP), and the justification for financial contributions to agriculture is motivated by the need to satisfy social requirements at a time of social, economic and environmental change in Europe.

In this context, the initial justification for transfer payments to the agricultural sector was the need to produce food and meet food safety requirements, while at the same time ensure fair prices for consumers and a satisfactory standard of living for rural inhabitants (Art. 39 Treaty of Rome). But social, economic and environmental changes have altered objectives over time and forced the CAP to take on board new guidelines through a series of reforms. These reforms have radically altered the citizen / taxpayer relationship and the world of farming, and altered the objectives of farm subsidies.

From the beginning of the CAP up to the McSharry reform, the principal objective was to increase self-sufficiency in food production through aid coupled to production, with no consideration of environmental aspects. But the McSharry reform altered this. Payments became more in the way of compensation and rural policy was more finely tuned. The new CAP objective was to protect farm incomes in spite of variations in the GATT agreements. At the same time farms were given the opportunity to introduce more environmentally friendly measures, (Reg. 2078/92). Today, the change in direction given by the Mid term review (MTR) of the CAP, introduces on one hand single payments per farm but on the other, also obliges farmers to follow good farm practice on animal welfare through cross-compliance. In

other words, animal welfare has become part of the multifunctional nature of farms and thus helps to justify the payment by society for positive functions of agriculture.

This leads us to several questions with implications for the whole agri-food supply chain.

Our first question is why the EU considers animal welfare so important that it has become a requirement for single payments. The second question is what the effects of this could be on the relationship between farm producer and large-scale distribution, and for the consumer.

1.1 Trends in agriculture

Statistics on the recent evolution of structure of farms (ISTAT, 2000) show clearly that selection is taking place. On one hand, farms are growing in size (greater UAA and higher number of livestock). On the other hand there are 'residual' farms with a high level of older farmers and no younger generation ready to take over, and these are not increasing production. Both types of farm now are aiming to lower production costs as far as possible. 'Residual' farms tend to use more environmentally friendly practices, but larger farms pursue the objective of higher productivity through intensive farming and higher unit costs, greater use of technology, more productive feedstuff and by lowering fixed unit costs by increasing the number of livestock in the farm.

It is inevitable that farms will try to lower total unit costs, because of the price decreases on the commodities market nationally and internationally, among other reasons. This makes it even more likely that they will try to decrease costs through measures that are verging on the illegal. The risk is greater when single farm payments are made, as the quality of output is not rewarded by the market. Where the only aim is cost reduction, there is room for non-environmentally friendly policies that do not take animal welfare into account.

And it is the possibility that food production is escaping control that makes consumers more attentive towards food safety. Recent food scandals such as BSE, dioxin, ethanol in wine, etc., all stemmed from an attempt to reduce production costs by various links in the supply chain, not only by farmers. The scandals led to lobby action against political decision makers on the part of society as a whole, led by consumer associations.

Looking at legislation on animal welfare (Dir.(CE) 58/98, Reg.(CE)1782/03), it appears that animal welfare norms are the expression of a collective ethical approach. They may also serve to prevent disloyalty by farmers tempted to compete on the market by pricing policies, and thus they may help to rebuild trust between farm producers and consumers, even though they are effected by public intervention and in some cases subsidies.

Farm producers are actually obliged to respect minimum levels of good practice in land management and animal welfare; there is consequently a minimum level of quality. From the point of view of public policy, this is a real positive externality in that it meets a need expressed by part of society and its value is not recognised by the market but desired, and sometimes financed, by the taxpayer.

1.2 The role and policies of processors and modern retail

We now examine the role and policies of processors and modern retail in animal welfare which are not private initiatives but rather public policy. We mainly refer to modern retail,

which is no longer only distribution but also provides guarantees to the consumer through brand names and organises and selects products on the market. There are often direct supply contracts with individual farm producers or associations. These options depend on the competitive strategy of the supermarket chain.

In fact, price competition is no longer as important as in the past; in many cases it has been replaced by non price or quality competition, where the competitive factor is the quality of the product or store. But given the economic crisis prevailing in many countries, often the two types of competition obtain in diverse measure. Different retail chains guarantee a certain level of quality at prices that are stable or even falling. There is still a lot of price competition; currently both elements are present.

In the context of this type of competition, modern retail has three possible strategies for AW goods:

1. No interest. This is typical of hard discount chains which basically aim to keep prices low and sell to consumers with no interest in the issue. AW is neither mentioned to consumers nor part of the stores' supply guidelines.
2. Interest in AW products limited to satisfying minimum CAP requirements. This reactive policy consists of taking the opportunity to sell AW products with an increase in quality without making any effort or commitment to the policy building or trade organisation
3. Interest in AW products over and above CAP standard regulations. This adds higher quality to the product with the objective of meeting customer satisfaction on credence, where this is considered strategically important enough to be differentiated from ethics and food safety.

1.3 Implications for the food-chain

We now aim to create a theoretical framework for animal welfare policies, relationships with consumers and taxpayers and food processors and large scale retail. There are three aspects:

1. The relationship between farmers and CAP. CAP regulations concern positive externalities which are internalised only by cross compliance. These policies make farmers less competitive as they increase costs. Where a livestock farmer receives compensation for a characteristic of a product, as specified by cross compliance, it should not have to be the consumer who pays for this characteristic as taxpayer's money has already been spent on it.

2. There are types of relationship between CAP farmers and processors and large scale retail:
 - a) Reactive. Processors and large scale retailers are free riders if they only adopt AW guidelines without informing consumers, potential free riders, of this, or if they inform consumers but make it appear that AW is company policy. If the stores do not inform consumers, they at least take note of AW without discriminating against brands without the AW characteristic. If however they make it appear that AW is a company policy, they are taking maximum advantage of a product on the market and improving their own reputation amongst customers without paying for quality enhancement.

- b) Pro-active. Processors and large scale retailers make AW requirements stricter than legislation on the basis of company policy towards a certain target group of consumers. These companies require and pay for new AW characteristics. This acts as selection along the supply chain as it sets up an inclusion / exclusion mechanism between suppliers on the basis of quality. There can sometimes be conflict between the requirements of legislation and company requirements.

2. The animal welfare presence in retailers strategies by an empirical survey¹

Our survey focused on 14 different retail outlets in both modern and traditional distribution, in order to test for the presence on the consumer market of certain categories of food products supplying information, on the label or packaging, on the treatment of the animals.

The survey included eleven supermarkets in the main chains in Italy, (Esselunga, Conad, Coop, Gruppo GS, Standa, Sigma, Despar, Lidl, NaturaS, Proda) and three traditional butchers shops in the Emilia Romagna region. We looked at own-label and manufacturer branded products in the categories: beef, pork, poultry, dairy and eggs. Overall 83 products were found showing information about animal welfare and treatment on the label or packaging, and 40 of these were labeled as organic as specified by regulations (CE) 2092/91 e 1804/99.

From the point of view of different categories, there were few beef products showing information or guarantees on animal welfare. There were just five products, two own label and three manufacturer label. For poultry we found 22 products, of which ten were own label. There was a negligible quantity of game meat products with the information, and for pork there was just one product. There were thirty dairy products, of which twelve were own label and ten manufacturer. Eggs were the product that most frequently mentioned animal welfare, and twenty products gave information on hen conditions. Only four products were manufacturer label.

From the point of view of communication, information tends to focus on two main aspects, the rearing conditions and non GM feed of the poultry. Some examples are listed below:

- “Semi-wild farm. Feed with no added animal fats. No antibiotic additives”.
- “The turkeys are fed exclusively on vegetable-based feeds, and grow according to a day-night alternation, without the use of artificial light, are not fed on GM feed, are not cage-reared, are not fed on animal fats, are not reared using growth-promoting antibiotics”.

There is frequent mention of the traditional nature of rearing and place, in response to the Italian consumer interest in products of typical and Italian origin:

- “This race is reared using traditional methods and in green pastures away from pollution, which are essential factors for the production of lean meat with strong organoleptic characteristics”.
- “The Mila Filiera Natura chain: fresh milk from the South Tyrol mountains, collected daily. Cows fed naturally (pasture, hay and non-GM vegetable-based products). Traditional Alpine farms (small, with an average of eight cows per byre)”.

1. This study is part of the Welfare Quality research project co-financed by the European Commission, within the 6th Framework Programme, contract No. FOOD-CT-2004-506508. The text represents the authors' views and does not necessarily represent a position of the Commission, which is not liable for the use made of such information.

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- This information often emphasizes the role of animal welfare in guaranteeing food safety and quality:
- “Organic chickens are reared in large open spaces, with great care given to their well-being. The long period allowed for growing, which is almost double that of traditional farming, makes the meat particularly firm”.
- “Interest in animal well-being, the limited production and the respect for the strictest hygiene standards in all production phases ensure the high quality of these eggs”.
- “A well-treated and well-nourished cow produces good milk”.

But there is some information on animal welfare which does not mention product quality:

- “The hens are reared in the open in large areas and are fed on organic, vegetable-based and non-genetically modified products. They are treated following the principles of natural medicine, using homeopathic remedies. They are reared using organic methods to protect their health and stimulate their immune systems without using growth substances or hormones”.
-

Information on some products includes appeal to consumer emotional response by mentioning an unrealistic and imaginary world of farming:

- “The magnificent forest offers rich pasture for the animals. We rear cattle born up here, and in summer they are free to roam in the pastures, with stable shelter during the winter months”. Their forage grows at an altitude of more than 1,000 metres, against a background of uncontaminated nature”.

The graphics reinforce the message of the words although there is variation; for some products the packaging is simple and for others very elaborate and creative. There is similarity between the styles of language and the graphics; if the message is strictly informative the packaging is usually simple (Fig.1) while a more detailed or emotive message is usually accompanied by more elaborate graphics. (Fig.s 2, 3 e 4).



Figure 1. Esselunga beef, Naturama line

This is not particularly attractive graphically. Consumer information is confined to the feeding and rearing conditions of the cattle.



Figure 2. Boldini eggs, Conad

The photograph shows the farm as seen by the producer. The content is informative but is presented more attractively than Fig.1



Figure3. Liberelle eggs, Conad

Information content with carefully designed graphics. The name 'Liberelle' gives an idea of freedom.



Information is accompanied by an image of naturalness and family harmony.



Figure 4. Almaverde Bio chicken, from Natura Sì and Corte eggs, Coccodì, from HyperCoop

Traditional shops proved to be less sensitive to animal welfare, probably for two reasons. Most products are sold without packaging and information is usually transmitted directly by the seller to the customer. In fact it is the shopkeeper who often provides a personal guarantee of the product. Generally speaking, the only information given is that laid down by legal requirements (Reg. CE 1760/2000), except for poultry which is labelled with the names of the slaughterhouse and packaging companies, the type of feed and rearing.

3. Modern distribution strategy towards animal welfare

We can divide retailers in Italy into three categories with regard to their sensitivity to communicating animal welfare. The three categories are listed below in descending order.

- Retailers which offer numerous animal welfare friendly products. (Natura Sì, Esselunga, Coop Conad)
- Retailers which carry some animal welfare friendly products (Despar, Proda, Sigma, Standa, GS-Carrefour)
- Retailers which do not sell animal welfare friendly products. (Lidl)

Apart from NaturaSì, which is a specialist organic supermarket, three other supermarkets, Esselunga, Coop Conad offer a wide range of animal welfare friendly products, mainly with manufacturer labels. No retailer has an own label dedicated only to animal welfare. Own labels tend to concentrate on other issues such as food safety, traceability, controlled chain of production, organic production or typical regional products.

Some of the main supermarket own labels in Italy are: Esselunga Bio, (organic label of Esselunga), Percorso qualità (Conad), Filiera controllata (Auchan), Terre d'Italia (Carrefour), Viver sano (Carrefour) (Fig.5).



Figure 5. Examples of private label big supermarket own labels in Italy. (Bio Esselunga, Percorso qualità Conad, Terre d'Italia Carrefour, Filiera Controllata Auchan, Viver sano (Carrefour)

On one hand the absence of a manufacturer label of animal welfare can be explained by the low market share held by supermarket labels, which is much lower than in other European countries (market share of own labels in 2004 was 11,2 % of total grocery in Italy, 40,6 % in the UK, 38,2% in Belgium and 22,1% in France, figures AcNielsen 2005). On the other hand retailers in Italy tend to focus on other aspects of products.

This does not mean that conditions imposed by large scale distribution on suppliers do not include animal welfare requisites, but these are just one part of the 'package' and it is not so important to inform consumers about them. For Esselunga, animal welfare is just one aspect of the company mission to offer ethical values such as workers' rights, fair trade and

environmental protection. For Coop and Conad, animal welfare is part of a much wider aim of product quality. The focus on food quality and the typical or speciality nature of the product make it difficult to assess how far retailers use animal welfare as a strategic instrument.

Roe and Murdoch (2004) claim that in the UK two extremes of strategies are represented by Sainsbury on one hand and Tesco, Somerfield, Asda and Morrison on the other. Sainsbury informs customers directly of the origins of the food on their shelves. The others put over the message 'You can trust us' and claim to be absolute guarantors of product quality in the widest possible sense. Italian retailers appear to lean towards the second strategy, but put most effort into guaranteeing food safety.

So companies give limited information on animal welfare and usually as a way of guaranteeing and informing about production methods, (organic growing or rearing), supply chain inspection, geographic origin, etc.

The strategy of manufacturer labels is slightly different. Animal welfare is not yet used as a strategic element, but it is starting to appear alongside hygiene and health standards and taste and smell characteristics, and is becoming more important than for supermarket own labels.

4. Observations

The survey shows that consumer trust activated by claims of quality has an important role in company information and policy in large scale distribution. We need to ask whether these are pro-active or reactive strategies and whether the retailers are acting as true or potential free riders.

A preliminary observation is necessary regarding the classification of strategies. Once it is ascertained that animal welfare is not given enough emphasis to act as a strategic lever we need to know what requirements supermarkets make of suppliers regarding animal welfare, in other words whether their requirements are those laid down legally, where they exist, or whether different or higher standards are required.

We found only one example of a chain which has an animal welfare project based on parameters different from legislation, or in areas where there is no legislation. There is for example no legislation on the welfare of dairy cattle. Coop Italia is currently developing this type of project with the collaboration of research institutes, but it has not yet been applied to food supplier requirements. So there is as yet no evidence of this policy or strategy on the retail market; as yet modern distribution does no more than follow current legal requirements without imposing stricter or different requirements. So we can exclude the possibility that companies are adopting a strategy towards a particular consumer target by proactively guaranteeing animal welfare. Their behaviour is reactive.

We now ask if companies behave as potential free riders, or true free riders. Potential free riders pay no additional costs for animal welfare friendly products in that they confine themselves to obeying legal requirements without investing in communication. True free riders would invest in communicating their products are animal welfare friendly. Our survey showed that animal welfare plays a marginal role in consumer information, so that companies tend to be potential free riders.

5. Conclusions

It is important to establish why the behaviours of manufacturer and own brand labels do not perfectly coincide. If both used the same strategy, and animal welfare characteristics were not emphasised by either type of label, the reason could be that the Italian consumer was considered uninformed and unwilling to pay extra for animal welfare friendly products. But this is clearly not the case, and supermarket chains appear to be using different strategies compared to manufactures. It is possible that the tendency to behave as a potential free rider depends on the fear that own brand animal welfare friendly products will cannibalise the share of non animal welfare friendly products. This hypothesis is supported by the fact that modern distribution in Italy is lagging behind that in Northern European countries. In the UK, for example, several of the main retailers have launched animal welfare friendly ranges of food products and opted for a strategy similar to manufacturer labels. Under this scenario, large scale distribution is thus increasing its contractual hold and imposing its own rhythms.

Many of the biggest producers are involved, especially those producing supermarket own label products. Modern distribution has also started to require suppliers to reserve one or more production lines exclusively for their own label (Giacomini, Mancini, 2005).

If Italian distribution system continues to follow the same path as distribution in Northern Europe, which seems likely, we can hypothesise that Italian companies too will adopt strategies of producer rather than distribution companies, and move from being potential to true or proactive free riders.

Going back to the above mentioned hypothesis, some considerations follow:

a) *Increasing trust and reputation by proactive policy.* This policy is very difficult to implement, at least in the Italian context, because it implies more costs for the companies involved in the chain without a clear comparative advantage and great difficulties to communicate the “quality plus” of AW friendly products to the consumers. Trust and reputation can be reached with other factors, easier to communicate.

b) *Increasing trust and reputation by reactive policy.* In this option, an extension of AW standards to the private labelled products is feasible, without extra costs for processors and retailers, by following the legislation and promoting the AW friendly products to the consumers interested in this issue .

c) *AW becomes a pre-requisite for the animal products.* If AW becomes a public policy, the whole chain is involved and the comparative advantage among firms disappears. The AW quality attributes are not perceived as a qualitative aspect useful to increase trust and reputation. On the other hand, the level of trust in Institutions and public bodies by the consumers becomes determinant.

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