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Cost-effectiveness assessment of improving animal welfare standards in the European Agriculture

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Selected Paper prepared for presentation at the International Association of Agricultural Economists (IAAE) Triennial Conference, Foz do Iguaçu, Brazil, 18-24 August, 2012.

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Key words: animal welfare, upgraded standards, cost and benefits, Agmemod, farm, trade implications,

ABSTRACT

In the paper some findings from quantitative assessments of upgrading Animal Welfare standards in selected livestock sectors (pigs and cattle) in the EU countries are presented. Consequences of imposing upgraded animal welfare standards are discussed at the farm, EU production and international trade levels. For the farm level considerations costs - effectiveness analysis was applied, whilst impacts of the upgraded standards on international trade and competitiveness was assessed with the use of the partial equilibrium Agmemod model. Introducing upgraded Animal Welfare standards at the farm level would increase costs of production in pigs and beef cattle sectors. In dairy sector upgrading cows welfare standards results with higher benefits than costs. Accordingly, Agmemod results indicate that on the pork and beef markets international competitive position of the EU producers may be undermined.

1. Introduction

Animals have been used by people for centuries to produce food, which has changed their natural environment and perhaps caused physical and mental suffering. Animal husbandry practices have become increasingly intensified. The availability of competing products, growing costs of production and distribution have created pressures on farmers who try to increase production efficiency through enlarging herd sizes and adopting new housing, nutrition, health care and genetics technologies. The process of intensification and concentration of animal production seems to be continuing [Mench 2008]. However, consumers are becoming more and more conscious about food quality and safety and its attributes such as production methods and animal welfare standards [Tsakiridou et al.2010, den Ouden et al. 1997].

Animal welfare has been defined in many ways [Broom 1991]. Veterinarians and farmers perceive animal welfare mainly in terms of the body and physical condition [Hewson 2003]. Other approaches focus on ability of animals to adapt to their environment [Broom 1996] or on animals' feelings (fear, frustration) [Duncan 1996, Duncan 2002]. All the definitions based on animals' rights to be treated humanely in accordance with their nature and natural

environment [Benson, Rollin 2004] lead to the conclusion that animals have fundamental needs which should be satisfied [Petherick, Rushen 1997, Bennet and Blaney 2003].

Animal welfare issues have risen up the public debate agenda due to a growing political and social interest, which has resulted in increased policy attention. In the European Union the first animal welfare requirements were formulated in a legal directive in the nineties [Council Directives 1991, 1993, 1998]. Animal welfare has been taken into account by the most recent EU policies, and is reflected in the Strategy for the Protection and Welfare of animals 2011–2015, which continues of the EU Action Plan on Animal Welfare 2006-2010. Animal Welfare is increasingly gaining importance for today's societies [Horgan, Gavinelli 2006]. A policy reflection of this trend is a continued discussion at the level of the European Commission and in the EU member states about upgrading animal welfare standards above the current legislated level. Several countries like for example Sweden, Great Britain and Germany have already legislated national reforms in this area [Berg, Hammarström 2006, Ferrari P*. et al* 2010]. The legislation establishing enforceable minimum standards for livestock welfare coexists with a number of private animal welfare standards and initiatives that regulate different aspects of animal husbandry on farm, during transport, and at slaughter (Schmid et al 2010). Private standards formulate animal welfare requirements that often go above the minimum welfare standards as imposed by the different EU regulations.

A potential conflict exists between society's preferences regarding animal welfare and interests of the producers [Toma et al., 2008], creating a challenge to balance both points of view. Complex studies on Animal Welfare economics and implications of imposing AW standards for the farming sector as well as for the entire food chain have not been presented in the literature before, but several studies on particular markets show increased costs of production ranging from 5% to 50% [Appelby 2003, Tweeten 2009, Bornett et al. 2002]. Quantifiable financial benefits are also reported in some cases (Lawrence 2009, Corazzin 2010). Another important issue regarding improving animal welfare through government regulations is their impact on international trade [Frank 2002, Fraser 2008, Grethe 2007] and competitive position of the EU livestock farms and food producers on the global market.

There is an undoubted public desire for improved standards of farm animal welfare, but unfortunately not fully matched with an increased demand due to limited willingness of consumers to pay for high welfare standard products [Tawse 2010, Pouta et. al 2010]. Already announced or likely attempts of further changes in the EU legislation on Animal Welfare that may introduce upgraded standards requiring from farmers to change the animal husbandry practices raises the questions of what the financial implications for the farming sector in the EU countries will be, as well as the impacts on international trade.

In this paper some findings from quantitative assessments made within the complex study on Animal Welfare issues designed in a framework of the Econwelfare project[1] are presented.

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[1] The study was prepared within the EU 7FP Econ-Welfare as a response to the 7th Framework Programme call KBBE-2007-1-4-15: "Assessing the socio-economic consequences of measures promoting good animal welfare".

Consequences of imposing upgraded animal welfare standards in selected sectors (pigs and cattle) are discussed at the farm, EU production and international trade levels. For the farm level considerations costs - effectiveness analysis was applied, whilst impacts of the upgraded standards on international trade and competitiveness were assessed with the use of the partial equilibrium Agmemod model.

2. Farm level implications of upgraded AW standards

2.1 Methodology of the analysis

The cost-effectiveness analysis (CEA) approach was used to estimate the financial consequences of upgrading Animal Welfare standards at the farm level. In the analysis e "benefits" were identified and quantified as positive factors (effects) which add financial value to revenues from an activity, whilst "costs" represent additional costs (negatives) associated with a course of alternative actions. Quantitative analysis of financial impacts at the farm level was performed on the basis of a number of case studies reflecting the selected livestock sectors in Europe:

- dairy cows,
- beef & veal cattle,
- pigs.

For all case studies the upgraded standards were constructed based on the animal welfare initiatives from different European countries as identified within the EconWelfare project. These countries were Poland, Spain, UK, Sweden, Italy, FYR Macedonia, The Netherlands and Germany.

Upgraded Animal Welfare standards

For each of the case studies considered in the cost/effectiveness analyses, upgraded animal welfare standards that introduce specific requirements above the existing EU regulations were constructed. Standards are composed of "norms" that relate to different aspects of animal husbandry. For constructing standards only those norms were chosen which are measurable, are more restrictive or more precisely defined than existing EU regulations and result in apparent and quantifiable positive effects and/or additional inputs and costs. Potential norms, even if important for providing better animal welfare, were omitted if they had negligible costs and/or benefits. 2010 was the baseline year for comparisons with livestock keeping systems based on upgraded Animal Welfare standards.

Two levels of standards were identified:

- **"Moderate"** - less restrictive and considered applicable for large scale operations and more likely to be adopted by a greater number of commercial farms;

- **"Premium"** - more restrictive, largely based on standards for organic production and most likely applicable to small size herds of livestock, and to less commonly adopted throughout the sector.

The standards, subject to further impact assessment are presented in tables 1-2.

Table 1. Upgraded Animal Welfare standards for fattening pigs and sows

Norms - Fattening Pigs	**EU regulation – baseline**	**Standard - Moderate**	**Standard - Premium**
Allowance of roughage	Not regulated	Roughage (straw) added to the daily ration	Fresh or dried fodder, or silage added to the daily ration
Facilities to avoid competition for feed	Not regulated	33cm per fattening pig	
Bedding materials in laying area on farm	Not regulated	Lying areas must be sufficiently covered with straw	
Avoidance or limitation of slatted floors	Slatted floors allowed with no limits	50% of the indoor surface area shall be solid	100% of the indoor surface area shall be solid
Lightening on farm	Pigs must be kept in light with an intensity of at least 40 lux for at least 8 hours/day	Ratio Floor: Window must be 15:1, additional electric lightening, at least 50 lux	
Space allowance (indoor)	>30 up to 50 kg – 0,40m2; >50 up to 85 kg – 0,55m2; >85 up to 110 kg – 0,65m2; >110 kg - 1m2	>30 up to 50 kg – 0.52 m2; >50 up to 85 kg – 0.72 m2; >85 up to 110 kg – 0.85 m2; >110 kg - 1,3 m2	>30 up to 50 kg – 0.8 m2; >50 up to 85 kg – 1.1 m2; >85 up to 110 kg – 1.3 m2; >110 kg - 2 m2
Access to outdoor run on farm	Not regulated	Not required (not feasible for large scale)	>30 up to 50 kg – 0.6 m2; >50 up to 85 kg – 0.8 m2; >85 up to 110 kg – 1 m2; >110 kg - 1.2 m2 (outdoor)
Norms - Sows and piglets	**EU regulation – baseline**	**Standard - Moderate**	**Standard - Premium**
Minimum age at weaning	28 days	42 days	49 days
Bedding materials in laying area on farm	Not regulated	Lying areas must be sufficiently covered with straw	Lying areas must be sufficiently covered with straw
Avoidance or limitation of slatted floors	Not regulated	57% of the indoor surface area shall be solid	100% of the indoor surface area shall be solid
Lightening on farm	Pigs must be kept in light with an intensity of at least 40 lux for at least 8 hours/day	Light intensity at least 50 lux Ratio Floor: Window must be 15:1	Light intensity at least 60 lux, Ratio Floor: Window must be 20:1
Space allowance on farm + access to outdoor run	The total unobstructed floor area available to each gilt after service and to each sow when gilts and/or sows are kept in groups must be at least 1,64 m2 and 2,25 m2 respectively.	Farrowing pen for sow and piglets at least 5 m2. Pregnant sows grouped indoor at least 2.40 m2 in barn and 1.25 m2 in outdoor run.	Pens for sow with piglets <40 days: at least 7.5m2 indoor + 2.5m2 outdoor. Pens for pregnant sow: 2.5m2 indoor + 1.9m2 outdoor
Breeding (avoidance of fast growing/hyper muscled breeds)	Not regulated	No breeds that cannot give birth to their offspring in a natural way.	Preferred robust and resistant races and crosses. Not allowed are races susceptible to stress.
Avoidance of tooth clipping/grinding	Allowed	Tooth grinding rather than tooth clipping	Not permitted
Avoidance of castration	Allowed	Castration of male animals only with anaesthesia	Not permitted
Avoidance of tail docking	Allowed	Allowed with vet approval only	Not permitted

Table 2. Upgraded Animal Welfare standard for dairy cows and beef cattle

Norms - Dairy cows	**EU regulation – baseline**	**Standard - Moderate**	**Standard - Premium**
Allowance of roughage on farm	Not regulated	At least 50% of the dry matter in the daily ration must be roughage	At least 60% of the dry matter in the daily ration must be roughage
Natural milk for young calves	Not regulated	Natural milk for at least 3 days following the birth must be provided	Natural milk for at least 5 days following the birth must be provided
Bedding materials in laying area	Not regulated	Ample dry bedding strewn with litter material shall be provided in the rest area.	
Avoidance or limitation of slatted floors	Not regulated	No fully slatted floors, max. 50% of total area.	Completely forbidden.
Air quality in buildings (toxic gases, dust)	not harmful to the animals	Inhalable dust and ammonia levels should not exceed 10 mg/m3 and 25 ppm respectively. Building ventilation must aim to achieve a relative humidity below 80% when ambient conditions allow.	
Avoidance of tethering - small scale farms	Not regulated	Tethering allowed when cows have an access to pasture	No tethering only open run systems.
Space allowance on farm with open run system	Space must not be restricted in such a way as to cause suffering or injury of animals	-	Dairy cow 6m2 indoor +4.5m2 outdoor
Access to pasture	Not regulated	Grazing during whole growing season	
Norms - Beef & veal cattle	**EU regulation – baseline**	**Standard - Moderate**	**Standard - Premium**
Allowance of roughage	Not regulated	At least 50% of the dry matter in the daily ration must be roughage.	At least 60% of the dry matter in the daily ration must be roughage.
Bedding materials in laying area	Appropriate bedding must be provided for all calves less than two weeks old	Ample dry bedding strewn with litter material shall be provided in the rest area.	
Avoidance or limitation of slatted floors	Not regulated	Max. 50% of total area as slatted floors allowed	Slatted floors completely forbidden.
Air quality in buildings	not harmful to the animals	Inhalable dust should not exceed 10 mg/m3, ammonia levels should not exceed 25 ppm. Building ventilation must aim to achieve a relative humidity below 80% when ambient conditions allow.	
Avoidance of tethering (<1 year)	Calves shall not be tethered, with the exception of group-housed calves - may be tethered for not more than 1 hour	No tethering only open run systems	
Limitation of tethering- cattle > than 1 year	Allowed	Allowed	Forbidden
Space allowance	1,5 m2/calf - live weight < 150 kg; at least 1,7 m2/calf - live weight of 150 kg - 220 kg; at least 1,8 m2/calf with a live weight > 220 kg.	Unobstructed floor area: Cattle (-100kg) 1.5m2 indoor + 1.1m2 outdoor; (-200kg) 2.5m2 indoor + 1.9m2 outdoor; (-350kg) 4m2 indoor + 3m2 outdoor; (350kg+) 5m2, min.1m2/100kg indoor + 2.5m2, min. 0.75m2/100kg outdoor.	
Outdoor run or pasture - cattle < 1 year	Not regulated	An outdoor run and feeding with fresh forage	Grazing during whole growing season
Outdoor run or pasture - cattle > 1 year	Not regulated	An outdoor run and feeding with fresh forage	Outdoor run and feeding with fresh forage

Source: own calculations

For the purpose of the Cost/Effectiveness Analysis a spreadsheet model was constructed. The partial budgeting model calculates net gain or loss in revenues for an average farm assuming existing animal welfare standards are replaced with the upgraded standard (consisting of the specific sets of norms identified above). For calculations the following assumptions were made:

- each of the upgraded norms in the model refers to a common practice (specific animal husbandry practices: the most typical for the livestock farming in a country);
- for all norms constituting standards, estimates of potential benefits and/or inputs, required by the new norms compared with current practice were made by the experts on animal husbandry and/or animal welfare. These estimates are supported by results of research in specific areas, practical knowledge and expert judgment in some cases, where scientific evidence could not be provided;
- the percentage of livestock kept on farms which don't already comply with the new requirements was estimated (for each single norm) based on the expert's knowledge of the farming practice in the country.

Apart of the assumptions listed above there were other technological and economic parameters of the model provided by partners from countries represented in the project. There were several sources of parameters used - statistical, normative and farm survey data.

An example of the C/E calculation for a single norm is presented in table 3. There were six areas distinguished in which upgrading animal welfare standards may result with increased revenues or savings on costs (benefits) or, the opposite, may cause reduction of revenues or increase of costs of production (costs): veterinary costs, labour input, mortality of animals, feed requirements, productivity (yield or price change), investments required to comply with upgraded welfare standards. Calculation of costs and benefits included any direct investment cost (eg. replacing slatted floors, establishing outdoor area, installing enriched cages for hens, etc.) counted in the model at the value of annual depreciation of investment in these fixed assets.

Farm level modelling results were further aggregated to the country scale for each of the species. To be able to do so, it was assumed that the new ‘higher welfare’ situation in a country would mean that 80% of farmers will introduce "Moderate" standard and the remaining 20% the "Premium" standard. Estimates of the number of farms already complying with the requirements of upgraded standards are taken into account in the aggregation procedure. Thus, the aggregated results (total net costs or benefits for the sector, per average farm and per unit of production) reflect the implications of introducing upgraded standards for those farms which would need to change animal husbandry practices according to assumptions made on the percentage of compliance with upgrades for individual norms within standards.

All the results are net values (additional costs minus potential benefits) relative to the base year 2010.

Table 3. Example of cost/benefit analysis for the norm "allowance of roughage" - fattening pigs (Polish case study)

Norm			**Allowance of roughage**									
Percentage of farm which don't comply with requirement			**75%**	**Moderate**				**90%**	**Premium**			
			Number of units	**Unit price (EUR)**	**Share of herd affected (%)**	**BENEFIT (€/kg lw)**	**COST (€/kg lw)**	**Number of units**	**Unit price (EUR)**	**Share of herd affected (%)**	**BENEFIT (€/kg lw)**	**COST (€/kg lw)**
Veterinary	Less cannibalism, lower veterinary costs of treating injured pigs	Piglet	1,00	1,25	10%	**0,09**	0	1,00	5,00	10%	**0,11**	0
Labour	Less cannibalism, less labour to separate injured pigs	Hours/piglet	0,03	3,25	10%	**0,01**	0	0,03	13,00	100%	**0,09**	0
	Additional labour for feeding with silage	hours/fattener	-	-	-	-	-	1,20	13,00	100%	0	**3,51**
Mortality	Reduced mortality that results from injuries due to cannibalism - lost sales (50% of live weight)	Head	1,00	49,88	0,5%	**0,19**	0	1,00	199,50	0,5%	**0,22**	0
Feed	Reduced dose of concentrates (% of concentrates kg/pig)	kg/fattener	0,00	0,19	100%	0	0	14,00	0,75	100%	**2,36**	0
	Costs of roughage (silage) - kg/fattener*price **[Premium]**	kg/fattener	-	-	-	-	-	90,00	0,15	100%	0	**3,04**
	Costs of roughage (straw) - kg/fattener*price **[Moderate]**	kg/fattener (0,1kg/day)	36,50	0,03	100%	0	**0,82**	-	-	-	-	-
Productivity	Better utilization of concentrates - less feed due to shorter feeding period of pigs saved from injures resulting from cannibalism	Kg	7	0,19	10%	**0,10**	0	67,20	0,75	10%	**1,13**	0
	Lower carcass ratio due to feeding with silage	kg of carcass	-	-	-	-	-	2,00	5,40	100%	0	**2,43**
	Lower meatness (1,8% of dw price reduction)	kg of carcass	0,00	0,02	100%	0,00	0,00	75,00	0,10	100%	0	**1,64**
TOTAL COSTS or BENEFITS						**0,39**	**0,82**				**3,91**	**10,62**

Source: own calculations

2.2. Cost/Effectiveness Analysis - farm results

Impacts of the defined, upgraded animal welfare standards on financial results at the farm level differ between species as well as between countries.

The results show that the most affected species are **pigs,** both fattening pigs and sows (figures 1 and 2). In all case studies additional costs significantly exceed potential benefits resulting with an increase of direct costs of production, thus potentially reducing farm incomes of pig farmers. Net cost increase in pig farms was generated mainly due to additional requirements such as roughage in the diet, avoidance of slatted floor, more space allowance and outdoor run. This applies to both the Moderate and Premium standards. The most costly norms in the upgraded standards (except density reductions) have a relatively high potential to generate benefits (which are allowed for in these net cost estimates). Thus, lowering the requirements would not significantly change the net C/B analysis results for those species.

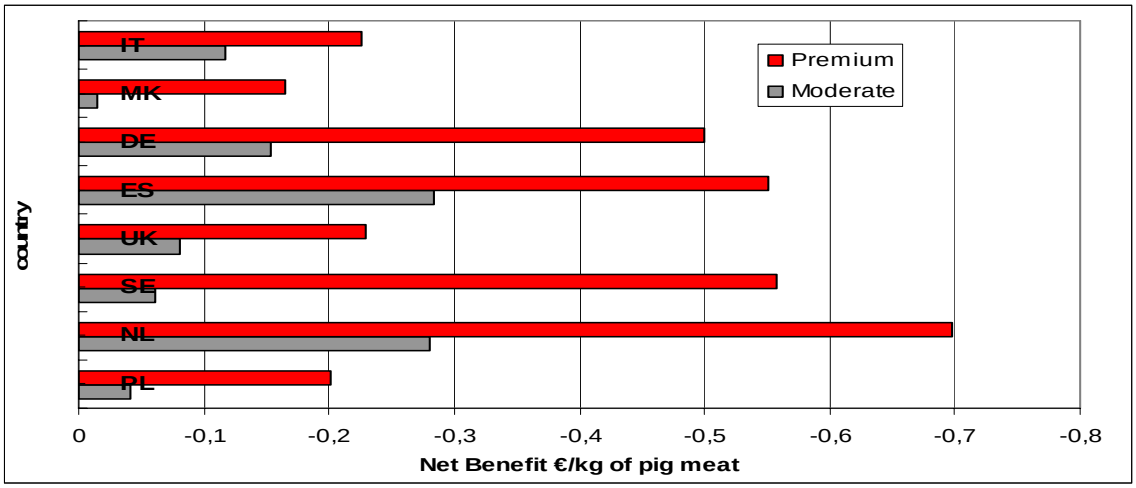

Fig. 1. Farm level Net benefit or cost of upgrading Animal Welfare standards - fattening pigs
Source: deliverable of Econwelfare project

Cost of keeping sows change with the similar pattern (fig. 2), although the relative impact per country differs.

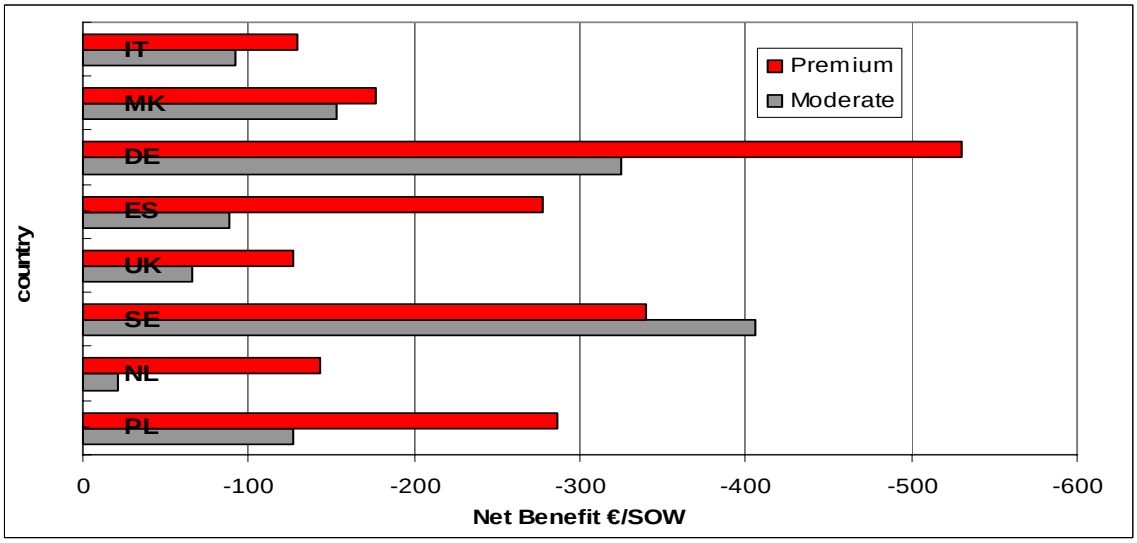

Fig. 2. Farm level Net benefit of upgrading Animal Welfare standards for sows
Source: deliverable of Econwelfare project

Implementing the "Premium" standard always generates higher net additional cost compared with the "Moderate". Improvement of animal welfare in the more restrictive standard for pigs is more costly and does not generate sufficient benefits to compensate the costs.

Adopting upgraded standard for Fattening Pigs would generate additional costs in all countries represented in the project. However there are noticeable differences in the level of additional costs between countries. This is largely due to significant differences between countries in labour costs, average yields, prices of inputs, that explain to some extent a divergence in final results of the cost/effectiveness analyses. In some countries (mainly the UK) existing animal welfare standards are already relatively high, thus adjustments to upgraded standards generate lower additional costs.

We did not identify any substantial financial impacts of upgrading AW standards in **beef & veal** production although a net additional cost is generated in the model (fig. 3). The main reason for this is that in the upgraded standards there are no significant restrictions on density of cattle so that these higher standards, as reflected in our chosen norms, do not generate substantially higher costs, though do offer some benefits (in terms of increased productivity.

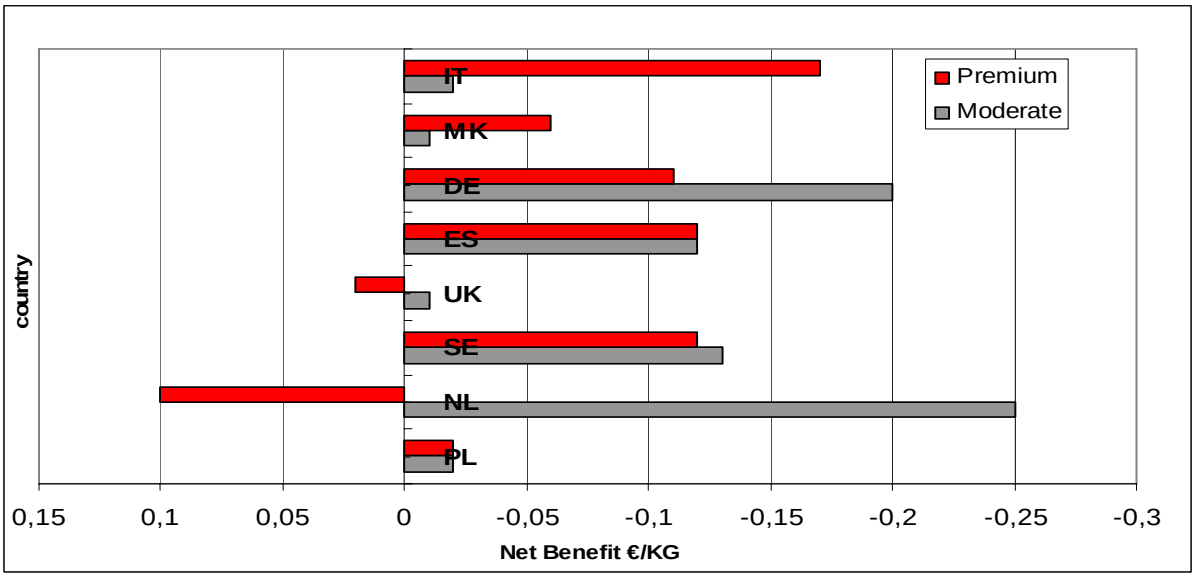

Fig. 3. Farm level Net benefit of upgrading Animal Welfare standards for beef & veal cattle
Source: deliverable of Econwelfare project

Animal Welfare upgrades introduced to dairy farms for cows result in small net benefits (fig. 4).

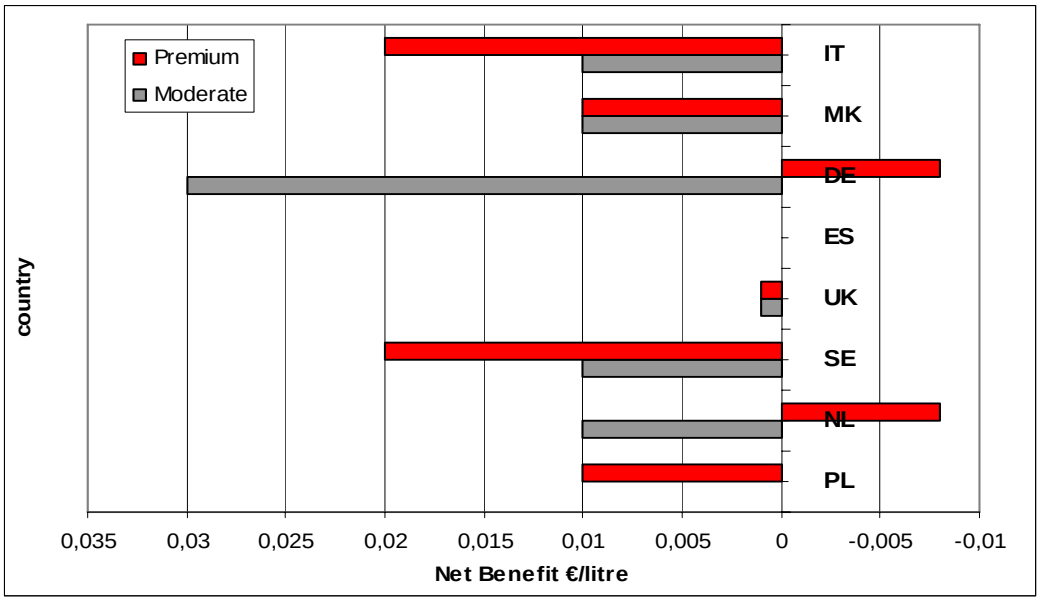

Fig. 4. Farm level Net benefit of upgrading Animal Welfare standards - dairy cows

Source: deliverable of Econwelfare project

In the **dairy cow** sector existing EU and national regulations seem to achieve a relatively high standard of animal welfare and there were no major improvements possible for the constructed animal welfare standard. Moreover, some of the requirements introduced in the upgraded standard have a high potential of generating benefits (eg. increased access of dairy cows to pasture allows for a higher milk yields and/or reduced culling). Another important factor that influences modelling results for cows, thus generating less additional costs, is a high percentage of cattle farms already complying with requirements of the upgraded standards.

2.3 Costs and Benefits - aggregated sector results

The modelling results were aggregated to the sector (country) scale under our basic assumption that 80% of farmers will introduce the Moderate standard, and the remaining 20% will adopt the Premium. The final outcome of the aggregation is calculated as a weighted average for all standards considered, taking into account proportions of animals kept in different systems and estimated share of farms that already comply with the requirements of the upgraded standards.

Figure 5. illustrates the total effect expressed as the ratio of average total costs of production after upgrade (for each country), to the average total costs of production in the base year 2010. The cost increases include both additional variable costs and also additional fixed costs per unit of production associated with any density reductions required by the upgraded standards (mainly for pigs).

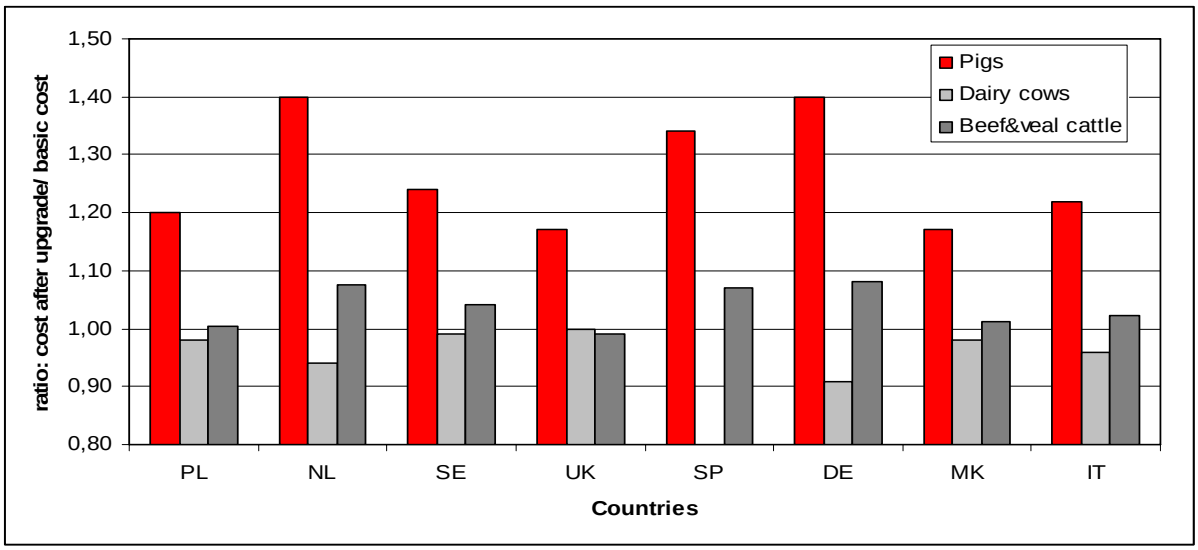

Fig. 5. Cost change ratio after introducing upgraded standards.

Source: own calculations

In the table 4 an increase of prices needed to compensate additional costs of upgrading animal welfare standard are presented.

Table 4. Price increases [%] necessary to compensate costs of upgrading animal welfare standards (related to prices from the year 2010)

Species	PL	NL	SE	UK	SP	DE	MK	IT
PIGS	18,39%	36,21%	21,85%	15,03%	30,46%	36,32%	15,47%	19,60%
COWS	-0,20%	-0,38%	-0,25%	-0,12%	x	-4,25%	-0,19%	-0,92%
BEEF CATTLE	0,46%	7,60%	4,04%	0,09%	6,92%	8,14%	1,23%	2,22%

Source: own calculations

2.4 Conclusions from cost/benefit analysis

Introducing upgraded Animal Welfare standards to a level where 80% of farms comply with a 'Moderate' increase and 20% with a 'Premium' increase will result in an increased costs of production on farm in all species considered, except dairy cows.

Dairy farms benefit from introduction of upgraded standards due to a high potential to generate benefits (milk yield increase) and/or costs reductions. According to the farm level analysis, we would expect these improvements to be adopted over time, even if nothing else changes, since they would apparently improve productivity. This result seems to imply that the dairy sector is somewhat less competitive at the farm level than the other sectors – since otherwise we would expect that these improvements would already be widely adopted. It

may be that the extent and nature of CAP support and protection for the dairy sector has limited the competitive pressures.

The most affected are pigs because of requirements such as use of roughage in the diet, avoidance of slatted floors, space allowance (also causing density reduction) and outdoor run. In the countries which already have a high level of animal welfare standards (the UK, Sweden) net costs of upgrading standards are relatively lower.

Maintaining the economic viability of the primary sector in the face of such improved standards depends largely on the ability of markets (consumers' willingness to pay) to compensate for the additional costs of upgrading Animal Welfare standards. If the EU unilaterally introduces upgraded standards and costs are not compensated, the competitive position of the EU livestock sectors on the international markets may be undermined.

3. Agmemod Model of EU Agriculture - consequences for production and international trade

Based on the results of the farm level cost/effectiveness analysis the consequences of the associated cost changes on EU production, consumption and self-sufficiency levels (changes in net-trade positions) by country were assessed with the use of the Agmemod2 model.

The Agmemod is a model of EU agriculture and food demand which uses a set of econometric equations to simulate production and consumption (and hence net trade) in each of the EU member states for each of the major agricultural commodities, including animal products. The Agmemod model works as a system of aggregated local models and is able to produce forecasts and scenario analyses of various policy and external conditions' changes for the Member States separately as well as for the entire EU (Donnellan et. all 2002; Chantreuil and Hanrahan 2007). The work in the project was inaugurated in 2001 by the institutions representing the Old Member States (OMS) and resulted in a coherent system of models able to produce the aggregated forecasts for the EU-15 (Chantreuil and Hanrahan 2007). In the subsequent years, the project was extended to the EU's New Member States.

Each particular country model consists of a set of sub-models of the main agricultural products: grains, oilseeds and the derived products, industrial plants, milk and dairy products, livestock and meat as well as some other less important and more locally grown products. The variables entering in each sub-model represent consecutive positions in the supply/demand balance sheet of each market. On the supply side the beginning stocks, production and imports are included, and on the demand side domestic use, exports and

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[2] Agmemod is an acronym of the name of the project: **Ag**riculture **Me**mber States **Mod**eling, constructed within the 5th and 6th EU Framework Project in cooperation with several European research institutes (Agmemod, 2005). This research was supported by EU FP6 research funding, contract SSPE-CT-2005-021543, by contributions from the partners' institutes throughout the EU and through associated projects for the Institute for Prospective and Technological Studies (IPTS). The authors acknowledge the work of the AGMEMOD Partners in the development of the model used for this study. http://www.agmemod.eu/."

ending stock are modelled. The respective domestic prices are modelled for each product in each country, and also for the whole EU (where the EU price is treated as the key price).

Country market models are solved independently, nevertheless the behaviour of supply and demand variables in each member state market model is driven by a common key price for this particular product. For each market included in the AGMEMOD model, the key price is the price of the product in the country which is its most important producer in the EU. In most cases, the country price of a given commodity depends on a simultaneous development of the key price, lagged domestic and EU (or key country) self-sufficiency rates and other variables. The determinants of key prices include the respective world prices (which are exogenous in the model), the EU self sufficiency rate, the EU intervention prices and other variables important for the behaviour of key market prices (e.g. exchange rates, tariff rates, quota limits and subsidized export limits) (Chantreuil, Tabeau, van Leeuwen 2008; Esposti and Camaioni 2007).

The EU net export variable is used as the closing variable at the EU level, with net exports being adjusted to ensure EU equilibrium prices. The necessary solution condition for the model is the equality between supply and demand in each market (including net trade as the balance between exports and imports) in each country must hold. The general structure of the model is shown in Figure 6.

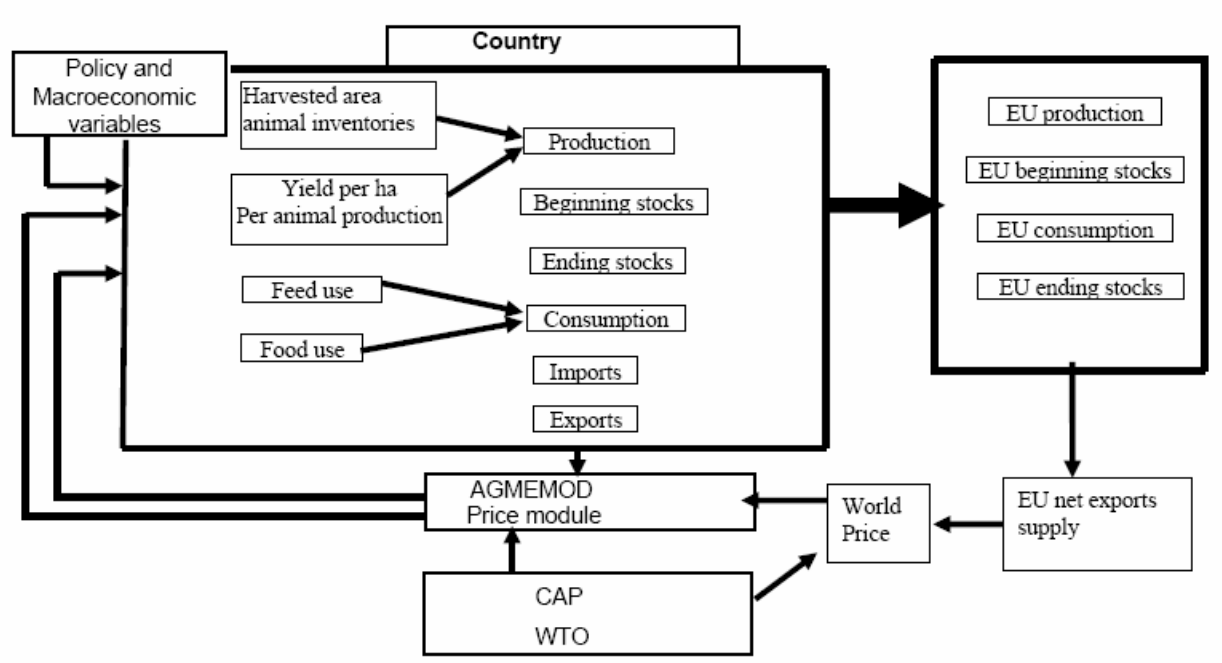

Figure 6. Structure of the AGMEMOD model
Source: Chantreuil F., Tabeau A., Van Leeuwen M. (2008).

The disaggregation of the agricultural sector into the specific markets as well as the decentralisation of the model allows the instruments of the CAP to be modelled in a very detailed manner. The instruments range from market-specific (quotas, subsidies, production levies, coupled payments) to more general ones, such as decoupled payments. Their influence can be traced in each market separately and the specificity of the agricultural policy in each member state is taken into account. This advantage of partial equilibrium

models such as AGMEMOD allows the analysis and simulations of a large spectrum of policy changes (AGMEMOD 2005).

Agmemod Model Results

In this case, we model the stylised representations of changes in animal welfare standards, which are handled as changes in the costs of production. In case of dairy production milk yields (productivity) change was also introduced into the model. The indicative standards analysed at the farm level for dairy cows actually generated cost reductions at the farm level, rather than cost increases, since the adoption of the standards was estimated to improve productivity and yields rather than reduce them.

For those EU member states not participating in the EconWelfare project, for which no independent assessments of the changes in costs were modelled at the farm level, it was assumed that their cost changes are the same as those estimated for similar participating countries (table 5). To simulate effects of introducing upgraded AW standards, the Agmemod equations for total costs (cost index) as well as milk yield were modified. The impacts of improving welfare standards were calculated by comparison with the baseline scenario (that is considered to be continuation of the current system). All results presented here are made for the year 2020.

Table 5. Changes of the costs of production and milk yields used in Agmemod simulations (scenario)

Country	Pig meat costs change [%]	Beef & veal costs change [%]	Milk costs change [%]	Milk yields change [%]
AT	40.36	8.24	-9.36	2.8
BE	40.36	8.24	-9.36	2.8
BG	17.19	1.31	-2.34	1.07
CZ	20.44	0.55	-2.47	1.07
DE	40.36	8.24	-9.36	2.8
DK	20.18	1.75	-0.85	0.47
EE	20.44	0.55	-2.47	1.07
SP	33.84	7.2	-4.2	1.42
FI	20.18	1.75	-0.85	0.47
FR	31.18	7.12	-6.78	2.11
GR	17.19	1.31	-2.34	1.07
HU	20.44	0.55	-2.47	1.07
IE	16.22	-0.83	-0.17	0.02
IT	22	2.3	-4.2	1.42
LT	20.44	0.55	-2.47	1.07
LV	20.44	0.55	-2.47	1.07
NL	40.15	5.41	-6.09	0.56
PL	20.44	0.55	-2.47	1.07
PT	33.84	7.2	-4.2	1.42
RO	17.19	1.31	-2.34	1.07
SE	24.15	4.32	-1.52	0.92
SI	20.44	0.55	-2.47	1.07
SK	20.44	0.55	-2.47	1.07
UK	16.22	-0.83	-0.17	0.02

Source: own calculations based on Econwelfare project.

Figures 7 – 9 show the percentage changes in production and self-sufficiency in each country (except for milk, where the changes are in production and deliveries to dairies) generated by the Agmemod model, as a result of changing average costs of production and milk yield in each member state according to table 5. In general, the model's supply response to increase production costs is to reduce production, which results in an increase in market prices. Consumer response to rising prices is a decrease in consumption. However, due to the low price elasticity of demand the consumption decline is relatively small compared to changes in production.

Each country's market equilibrium is achieved through the supply/disposition balance, with price-linkage equations which relate price in each member state to the self-sufficiency ratio (production divided by domestic use) in each member state, to the previous year's market price and some other exogenous variables such as exchange rates, tariff rates, the EU's intervention prices for the commodity and the world price for the commodity. These linkage equations represent the price relationships between each member state market and the rest of the EU and the world market (Salamon, 2008). In addition, price reactions are damped by world prices, which are taken as exogenous in the Agmemod model, so the effects of changed EU production levels on world prices is largely ignored in this model.

As Figures 7– 9 illustrate there is no simple correspondence between the costs changes in each member state and the consequences for self-sufficiency ratios (or domestic production in the case of dairy). The consequences depend on, *inter alia*, the relative changes in domestic (member state) costs, relative to both other commodities within each member state and their substitutability or complementarity with each other on both the supply and demand sides of the market, and also on the relative changes between member states and with the rest of the world. The specific effects depend on a complex way on these relationships within the Agmemod model, and also (of course, and probably somewhat differently) in the real world.

For instance, a relatively high increase in pork production costs compared to small raise in the cost of beef production may cause changes in consumer preferences. As a result in some countries production and consumption of beef and veal could not decrease according to the simple cost/price relation. An even stronger relationship exists between production of milk and production of beef and veal.

The pig market is most affected by improving animal welfare standards in the European Union (Figure 7) in this model, as would be expected since the cost increases associated with the improved standards are estimated to be greatest in this sector (table 5). Simulations indicate that pig meat production in the EU27 in 2020 would decrease by 6.7% in comparison to the baseline as a result of upgrading animal welfare standards.

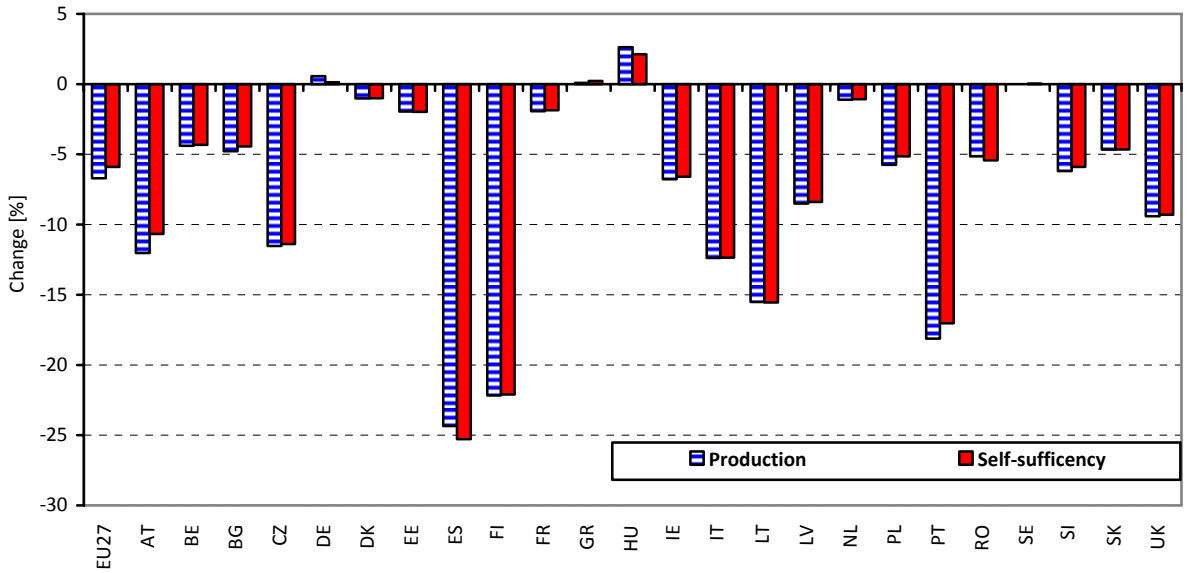

Figure 7. Agmemod results for a pig market
Source: own calculations.

Lowering of supply will directly affect pork prices. According to the Agmemod simulation market price would increase by 2.1% in Germany (key price) and by 2.7% in the EU27 on average. Buyer reaction on higher prices would reduce pig meat consumption by 0.4% in the model. As a result of changes of production and consumption self-sufficiency in would be lower by 5.9%. The most negatively affected countries would be Spain and Finland. In these countries self-sufficiency decreases by more than 20%.

The impact of upgrading standard on beef and veal market is less significant and more diversified than in case of pig market (Figure 8). There is an estimated decrease in production of 0.52%. Self-sufficiency reductions are smaller (0.32%) as a result of a marginal (0.20%) decrease in beef and veal consumption. Upgrading animal welfare standards will cause an increase of market prices of beef and veal. Increases in EU countries range between 0.5% to 2.5%.

The strongest decrease of production, according to Agmemod simulations, is in Portugal (over 3.8%) and is negatively correlated with substantial increase of costs of production. On the other side the most noticeable positive impact of changes of the welfare standards would be in Austria where increase of production and self-sufficiency is over 2.5%. The increase in beef and veal production and improvement net trade position in Austria results from A substantial decrease in costs of production of milk (over 9%) coupled with a 2.8% increase in milk yields, which increases both milk production and dairy cow numbers, which in turn increase beef and veal production.

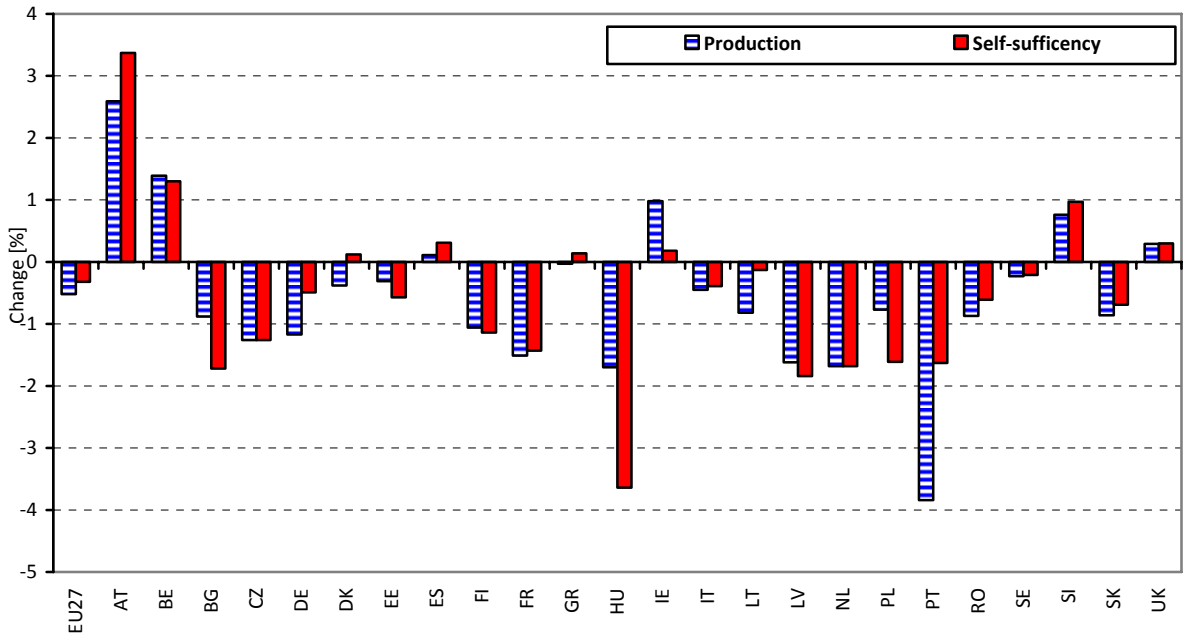

Figure 8. Agmemod results for a beef and veal market
Source: own calculations.

Simulated changes in Agmemod milk production are strongly correlated with changes of costs adopted in the model. Milk production is increased most in Belgium and Austria, respectively: 6.05 and 5.39%. In these countries the costs are estimated to decrease by 9.36%. Also, the positive impact the raising of standards takes place in the major milk producers in the EU (Germany and France). Among the countries in which, according to Agmemod simulations, we have to deal with the largest decrease in production (approximately 2%) are Latvia, the Netherlands, the UK and Lithuania (Figure 9).

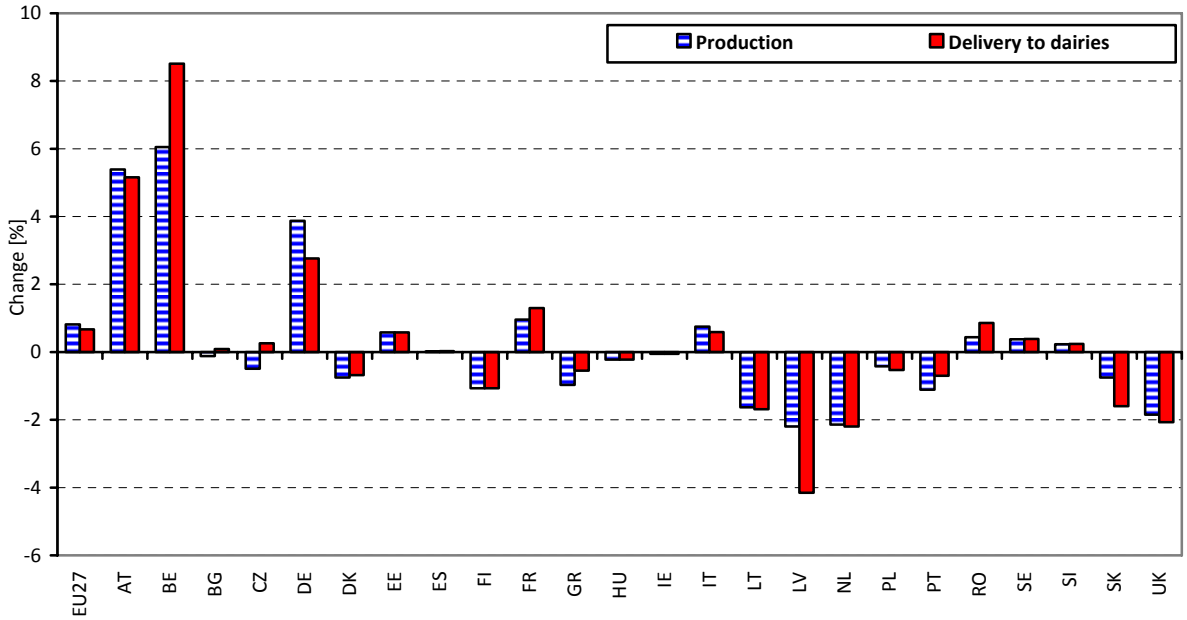

Figure 9. Agmemod results for a raw milk market
Source: own calculations.

Given our estimated changes in net benefits resulting from the higher standards (Table 4), milk production in the European Union is estimated in Agmemod to increase by 0.82%, and deliveries to dairies by 0.67%. The increase in market supply is reflected in lower prices of milk delivered to dairies. The simulated drop in the key price is 4.5%, while the arithmetic mean of price declines in individual countries is 3.0%.

Price reductions should lead to increased consumption of dairy products in particular countries of EU27. For example, the simulated increase in the consumption of butter is 1.24% and the consumption of cheese – 0.67%. This translates directly to changes in foreign trade dairy products. The simulated impact of upgrading of animal welfare standards on dairy product net trade positions varies both between countries and products. For example the self-sufficiency ratio for the EU27 declines in case of butter by 0.5% and increases for cheese market by 0.66%.

Conclusions

The simple economic analysis of the consequences of improving animal welfare on international trade and supply chain competitiveness implies that the twin objectives are likely to be in conflict. Improving animal welfare, in otherwise competitive markets, would be supposed to increase the costs of producing animal products, which (other things being equal) will reduce competitiveness of the producers relative to their international competitors (and, as far as consumers are concerned) relative to other goods and services.

However, as our simulation analysis shows, there are both supply conditions and demand side circumstances which may well resolve the apparent conflict between animal welfare and chain competitiveness. On the supply side, it is apparent that there are animal welfare improvements that can be made without compromising competitiveness at all – rather the opposite in the case of dairy according to our characterisation of potential improved standards. Not everyone is doing as well as they could (industry best practice), so supply chain information, education and training may well be able to improve both animal welfare and competitiveness. In addition, better understanding of both animal welfare and animal productivity (through R&D) can be expected to lead to improvements in both objectives.

On the demand side, it is clear that at least some people are both interested in and willing to support improved animal welfare, both by supporting animal welfare advocacy groups and by seeking out animal welfare friendly products and supply chains. The proportion of the total population who are more kindly disposed towards farmed animal welfare is also likely to increase both with income and with public education. Provision of more reliable labels (or incorporation of improved animal welfare standards within more general brands and trademarks), backed with verifiable standards, will re-inforce and extend the ‘market’ for improved animal welfare.

It is also clear that conditions and circumstances change over time – societies develop and evolve. These complex dynamics have not been examined in this paper, and indeed there are no substantive analytical frameworks that are capable of dealing with this complexity. However, it is apparent from the history of animal welfare in Europe that societies do become more aware of and concerned about animal welfare over time (as they become better off, more secure, better educated and informed). As they do so, producers, suppliers and retailers become more aware of and responsive to both citizen and consumer demands

for better treatment of animals. The processes of governed market competition become more focused on both resolving the simple conflict between animal welfare and commercial survival (competitiveness) and harmonising private initiatives with market regulation and public support.

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