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Book reviews

The Economics of Regulation in Agriculture: Compliance with Public and Private Standards, by Floor Brouwer, Glenn Fox, Roel Jongeneel. Published by CAB International, \$160.00 (Hardback).

The authors of this new book took on a major task in commissioning and coordinating 15 articles covering a wide range of agricultural regulations, analysed from different perspectives, and covering the European Union, the United States, Canada, Australia, New Zealand and Brazil. The book is broken down into three sections, each addressing various aspects of this broad topic: public concerns – a regional perspective; trade, competitiveness and public concerns – a commodity approach; and emerging policy perspectives. The common theme that runs through most of the articles is around the costs that fall on farmers and consumers from regulations that respond to public concerns around animal welfare and the environmental impact of agriculture.

Hart, Farmer and Baldock provide an essential introduction to the role of cross-compliance in greening the EU agricultural policy. They discuss environmental conditionality, the EU framework of ‘Good Agricultural and Environmental Conditions’ (GAEC), and offer some evidence for cross-compliance in practice. Some of the points raised are essential for a proper understanding of later chapters. We learn that many individual EU states ‘have demonstrated a very low level of ambition in designing GAEC standards, choosing to ... introduce standards that simply approximate normal farming practice on the majority of farms’ and that ‘very few additional costs that arise at the farm level can be attributed to cross-compliance’ because standards did not substantially change after the introduction of cross-compliance.

Part II describes the effects of agricultural regulation on trade and competitiveness and includes material on the EU, United States, Canada and Spain and analysis of the dairy, beef, hog, cereal and fruit and vegetable sectors. We are told in Chapter 7 that ‘an EU study assessing the administrative burden on farms arising from the common agricultural policy identifies that cross-compliance controls represent 1 per cent of the total administrative costs’. These cross-compliance costs include the cost of meeting environmental, food safety, animal and plant health and animal welfare requirements, as well as the standards of good agricultural and environmental conditions – so 1 per cent would seem like a surprisingly low figure, except for the observation by Hart, Farmer and Baldock that standards did not substantially change after the introduction of cross-compliance.

Subsequent authors also report generally low compliance cost estimates. On page 127, we learn that the percentage change in EU trade balance due to compliance with various standards is <1 per cent, which may be smaller

than the margin of error. The most noteworthy effect would come from a ban on hormone use in the United States which would increase EU dairy sector exports by 2.4 per cent. These computable general equilibrium (CGE) modelling results (Chapter 7) provide useful insights, although as always there are limitations around the accuracy of source data. To be fair, the authors are well aware of these and note that cost differences induced by environmental and other regulations are only one factor explaining farm sector competitiveness. Another problem with the cross-country cost comparisons is that these cost levels are entirely dependent on the specifics of each regulatory instrument (as well as often being highly heterogeneous across farms, farm types and regions).

A review of EU/US nutrient management polices and growth hormone bans in the beef sector (Chapter 8) also finds generally low costs. Many farms will not be affected by the Nitrates Framework Directive, and only 6.7 per cent of cattle farms will face an increase in costs (5.8 per cent or 0.155 Euro per kg beef for affected farms). In the United States 'compliance costs result in a 0.55 per cent increase in total feedlot production costs, as compared to a 5.8 per cent cost increase in a large feedlot in Italy which has to comply with the Nitrates Directive'. On a similar note, in Chapter 10 that focuses on the hog sector, we learn that producers in Italy, the Netherlands and Belgium will face a cost increase, which varies from 1.1 per cent to 2.5 per cent as a result of the Nitrates Directive. As always, trade effects are greater where regulations are not harmonised across the main trade participants, so full EU compliance with the nitrate directive would lead to a 3 per cent decrease in market share and export volume if there was no increase in compliance costs in the United States and Canada.

Various EU directives prohibit practices such as isolation, tying and slatted floors for sows and provide for minimum space standards and maximum stocking rates. These practices are expected to increase total production costs by no more than 0.1 per cent. It may have been useful if the authors had considered some of the wider equilibrium effects of such regulations, along the lines of Bicknell (2010) who explores 'the question of whether domestic animal welfare policies could possibly have the 'perverse' effect of actually reducing the amount of welfare embodied in the meat we consume'.

Chapter (9) on 'good agricultural and environmental conditions (GAEC) in the EU and their implications for international trade in cereals' includes a striking table (9.6) of yields and total costs for cereal production. Costs in France (Euro 1183/ha) are three times higher than in the other main exporting countries. Luckily, reported yields are also three times as high, so on a per-tonne basis, costs in France are somewhat lower than in the United States while still being 35 per cent above the lowest cost producer – Australia. World trade in cereals (mainly wheat and maize) is heavily influenced by United States and EU government policies. The EU's renewable energy directive mandates 10 per cent biofuel by 2020, which will require 50 million tonnes of cereals, equivalent

to 36 per cent of EU wheat production in 2009. Clearly, this and other biofuel policies will have a *major* environmental impact.

Jongeneel, Poux and Fox provide a ten-page review of cereal production in the EU before getting down to the issue of the costs imposed by environmental standards. They promote the need for balance between better integration of environmental concerns in cereal production, while not imposing constraints that would threaten the competitiveness of the most widely produced crop in the EU. We learn that the increase in costs associated with 'good agricultural and environmental conditions' (GAEC) is <1 per cent. This is because many of the practices required under GAEC are in farmers' interests and so already practised by many farmers. A similar conclusion is reached by Varela-Ortega and Esteve for environmental standards in the fruit and vegetable sector of Spain (Chapter 11). They find that compliance costs 'would probably be slight (or even zero or beneficial in some specific cases)'.

As with many publications like this, there is a risk that material can be out of date even before the publication date. For example, in New Zealand, the 'decentralised, outcome oriented management' described by Meister and Beechey is rapidly changing towards more central control and farm-level regulation of nitrate leaching. But this is a minor quibble and almost inevitable in a book of edited chapters. My main concern is that the book is all about costs. Surely, a book on the economics of regulation should consider both marginal costs and benefits. I would have liked to see at least one chapter that explored whether a set of regulations are justified and whether the level of regulation is appropriate given the trade-offs involved.

I learned a lot from this book. If you want to sit down and read a good overview of the costs of compliance with regulations in agriculture, then this one is for you. My overall take is that these costs are really quite low and commonly comparable across countries. If we could make a world where farmers must pay for the costs that they impose on others, then they would be taking many of the actions covered by these regulations and searching for better and cheaper ways of doing this.

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Reference

Bicknell, K. (2010). Economic Considerations of Animal Welfare Policy New, Zealand Agricultural and Resource Economics Society Conference; 26–27 Aug 2010, Nelson, New Zealand. Available from URL: <http://purl.umn.edu/115718> [accessed 5 Feb 2013].