The Economics of Animal Welfare Issues

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Animal welfare issues are becoming more prominent in the international trade arena. While many nations and cultures have norms for the treatment of animals, industrialized nations have recently begun to take more of an interest in animal welfare. As their consumers grow wealthier, and are able to afford an adequate quantity of food, they are able to devote more resources to meeting consumer preferences for both food quality and the methods through which food is produced. While most industrialized nations have laws and regulations about animal welfare, the EU has, over the last decade, enacted a number of laws that create very specific obligations for livestock producers.

Animal welfare laws generally impose restrictions on the conditions under which producers may keep their animals, how often the animals must be fed, or how the animals must be slaughtered. Livestock producers, like most other farm owners, generally use the lowest cost technology available to produce a product of a given quality. In some cases, high standards for animal welfare are part of the lowest cost technology, and some livestock producers note that treating animals well is a profit-maximizing practice. In other cases, requiring producers to change production methods to adapt to animal welfare strategies increases costs. For example, larger space requirements mean that either more land must be purchased or fewer animals must be kept. This increase in per animal resource requirements increases the per animal production costs.

How much will costs rise? Various studies indicate that costs could rise anywhere from 5 percent to 30 percent depending on the exact animal welfare law enacted (Blandford and Fulponi, 1999, 2000, Bennett, 1997). Increased production costs raise consumer food prices. Evidence suggests that some consumers in the EU are willing to pay more, even enough to cover higher costs, for some “animal-friendly products”, like free-range eggs (Bennett, 1997, MORI, 1995). However, the magnitudes of consumer willingness to pay and the increase in producer costs, will vary from regulation to regulation and from income group to income group. Any policy that imposes costs on domestic firms but not foreign firms can put domestic firms at a disadvantage. Because the domestic goods will be costlier, some consumers are likely to purchase inexpensive imported goods instead of domestic goods (Blandford and Fulponi, 1999).

Because domestic producers understand the consequences of differences in regulation among countries, they sometimes apply political pressure to block imports from countries that don’t have similar regulations. When the restrictive legislation benefits consumers, the domestic firms are frequently joined by consumer groups in their lobbying efforts (Vogel, 1995).

If countries with stringent animal welfare laws impose trade restrictions, such restrictions could have an effect on imports from countries that don’t have similar animal welfare laws. The reduced demand from the import-restricting country could reduce the prices of animal products in the exporting country. The domestic prices in the country restricting trade could rise, because supply is restricted to more expensive domestic production. The size of the impact depends on the volume of trade that would occur in animal products in the absence of such regulations, and the response of consumers and producers to changes in prices.

The EU has submitted a proposal to the WTO on animal welfare that stresses three main points. The EU believes that each country should have the right to its desired animal welfare standards, and it is concerned about the effects of having higher animal welfare standards on domestic producers, noting that consumers might not be informed about “the welfare standards to which imported products are produced.” The EU also notes that it is not interested in protectionism, or imposing domestic animal welfare standards on imports. The EU believes that animal welfare should be addressed in the WTO through a multilateral agreement, labeling, and/or minimally trade-distorting subsidies for producers who produce with humane methods.

References

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