

## Results of the study

# Costs of European environmental standards and additional regulations for German agriculture

A farm-level and sector-level analysis and aggregation

### Background | Problem setting

Cost issues present a common theme in the public debate concerning future developments of German agriculture and the Common Agricultural Policy (CAP) of the European Union (EU). In this context, the term “public goods only for public services” is often dis-

cussed. Oftentimes environmental costs caused by the agricultural sector are heavily discussed. However, the efforts and expenses already incurred for environmental protection and other societal benefits by the agricultural sector are often neglected.

### Objectives of the study

This is precisely what the following study aims to calculate. The joint work of Prof Dr Karl (Ruhr University Bochum) and Dr Noleppa (Research Institute HFFA Research GmbH) presents a comprehensive analysis of the additional costs for German agriculture, which are incurred through different environmental standards and additional regulations in the EU. These additional

costs are then compared to the corresponding costs of important competing non-EU competitor countries. Consequently, the goal of this study is to minimize this particular knowledge deficit; but it does not aim to compare, for example, environmental costs caused by the agricultural sector to the costs incurred through environmental standards and regulations.

### Methodological approach | Using a dual concept

First, the accessible data and information regarding the different environmental standards and additional regulations for the agricultural sector are gathered. This information is then utilized to calculate the individual costs. These calculations are conducted in a manner which allows extrapolation not only to the sectoral level in Germany, but also to a single farm level. Therefore, costs are defined as increases in production costs, as well as foregone revenue due to individual standards and regulations.

Special emphasis is placed on the costs caused by the following standards and regulations: The Water Frame-

work Directive (WFD), the new Fertilizer Ordinance, additional plant protection regulation (specifically the EU Regulation 1107/2009 concerning the placing of plant protection products on the market), specific standards and regulations regarding animal husbandry, further costs acquired by bureaucracy and cross-compliance within the framework of the CAP, greening, and the potential changes to the Technical Instructions on Air Quality Control.

The effects on German agriculture, which are related to the relevant standards and regulations, are summarised within the following pages.

## Water protection | Water Framework Directive

In light of the WFD, it is possible to directly allocate costs incurred through water protection for single farms, as well as associated cooperation and consulting costs. Primarily, costs for water protection (in accordance to cross-compliance) are acquired in particular through liquid manure storage facilities and fertiliser application; also, abatement expenses regarding plant protection and horticulture (especially in the context of the EU Directive 2009/128/EC on the sus-

tainable use of pesticides), as well as costs for small septic tanks, fuel stations for on-farm use and input storage facilities in accordance with cross-compliance play a role. Cooperation and consulting costs are foremost borne by efficiency controls and also incurred through the necessary counselling and increasing awareness for WFD topics. In Germany, all these costs sum up to 91.96 EUR/ha agricultural land. In total, the costs amount nationally to 1.539 billion EUR.

## Fertilization | New German Fertilizer Ordinance

Compliance to the Nitrates Directive presents a central cost factor within the WFD and is implemented through the Fertilizer Ordinance. This German legislation is currently undergoing a transformation. The costs incurred through the revised Fertilizer Ordinance, which became effective on June 1, 2017, are not included in the calculations of the costs already attributed to the WFD. It is expected that the compliance costs for the German agricultural sector exceed the 191.2 million EUR indicated by legislators. Further costs arise due to the application of liquid manure in a way which minimises emissions, on the one hand. This

amounts to additional costs of 245.2 million EUR. On the other hand, a larger area is needed for the application of organic fertilizer incurring extra costs of about 33.6 million EUR. Finally, reduced nitrogen and phosphorus feeding strategies generate extra expenses. These incurred costs are about 22.5 million EUR for pig fattening and milk production. In total, the additional costs caused by the revised German Fertilizer Ordinance are 492.5 million EUR. The crop specific extra expenses vary between 22 EUR/ha for cereals and 63 EUR/ha for silage maize.

## Plant protection

In the context of the WFD some costs caused by the EU Directive 2009/128/EC on the sustainable use of pesticides have already been discussed. These expenses are incurred by the agricultural sector due to, for example, the reduction of chemical plant protection to the necessary "minimal amount" and banning the application of certain substances near to water. However, the costs incurred by German agriculture through the implementation of EU Regulation 1107/2009 concerning the placing of plant protection products on the market are not considered in this context. This regulation has intended "cut-off" criteria for the approval of

active ingredients. This means that the continued application of specific active ingredients can be denied. The costs of such a denial have been calculated for two examples: a ban on neonicotinoids and a (potential) ban on active ingredients, which are considered endocrine disruptors. For main arable crops (namely wheat, barley, corn, oilseed rape, potato, and sugar beet), a ban on the two aforementioned examples would lead to costs of 1.118 billion EUR. Crop specific incurred costs have a large spectrum ranging from 105 EUR/ha for wheat to 568 EUR/ha for potatoes.

## Livestock farming | Animal welfare

In animal husbandry, additional costs are expected beyond the expenses incurred by the EU Nitrate Directive (see above), due to the fulfilment of various other environmental standards and regulations. More than 15 EU directives and regulations regarding animal welfare, animal health and food safety, must be taken into account. Thus, the additional protection of animal welfare surrounding milk production costs about 1.95 EUR/t milk. In pig fattening, animal welfare costs 33.20 EUR/t carcass weight. Additional expenses of

2.93 EUR/t milk are caused by the consideration of food safety and animal health issues. The same factors are responsible for incurred costs of 32.10 EUR/t carcass weight in beef production. In pig fattening, food safety and animal health standards cause extra costs of approximately 29.20 EUR/t carcass weight, and the costs of food safety, animal health and animal welfare regulations are 47.15 EUR/t carcass weight for poultry farming. The aggregated effect is significant: The aforementioned aspects cost 696.0 million EUR.

## Cross Compliance | Bureaucracy

The already analysed environmental standards and regulations include some costs caused by bureaucracy and many expenses as regards the provisions of Cross Compliance. However, two additional aspects pertaining to the costs incurred by bureaucracy and cross compliance must be mentioned. First, the costs incurred by the application for EU direct payments must be noted. These are approximately 14.94 EUR/ha in

Germany. Hence, the applications for EU direct payments cause total costs of 250.1 million EUR. Second, the costs of adherence to minimum food safety standards for cereal production of 7.7 million EUR need to be taken into account. These two aspects, which were not included in the previously conducted calculations, add up to 257.8 million EUR extra costs for bureaucracy and Cross Compliance.

## Greening

The implementation of greening measures on the basis of the EU's CAP is a relatively new policy requirement. Greening aims to increase the environmental performance and protect the climate by diversifying crops, maintaining permanent grassland and the implementation of "Ecological Focus Areas" (EFA). EFA cost in total 835.6 million EUR in German arable farming, and the average gross margin loss is 49.87 EUR/ha. As a response to the long-term trend of converting grassland into arable land, greening also aims to protect

environmentally sensitive areas especially by maintaining permanent grassland. This leads to additional greening costs for farmers, since the gross margin is higher for crop production on arable land than it is for convertible grassland. After three years, sectoral costs due to this particular measure have been calculated at 31.2 million EUR. This means that the accumulated costs incurred through greening are at least 866.8 million EUR.

## Air Quality | German Technical Instructions on Air Quality Control

Currently, a revision of the Technical Instructions on Air Quality Control is being discussed in Germany. For swine production, the incurred costs can be approxi-

mated. In pig fattening, costs have been calculated at 237.9 million EUR, and for pig breeding at 68.4 million EUR. In total, the costs amount to 306.3 million EUR.

## Impact on German agricultural sector

The depicted facts for lost revenue and/or extra production costs in the German agricultural sector caused by environmental standards and additional regulations can be summarised in the following figure. Clearly, the sum of the considered costs for the agricultural sector

exceed 5.2 billion EUR. Transferred to the total hectares of agricultural land in Germany, the costs incurred are about 315 EUR. This number is too large to be marginal or economically negligible and constitutes a large burden for the German agricultural sector.

### Costs incurred by environmental standards and additional regulations in the German agricultural sector (in million EUR)

Thematic focus	Specific costs
Costs incurred by the Water Framework Directive	1,539
Costs incurred by new Fertilizer Ordinance	493
Costs incurred by additional plant protection regulation	1,118
Costs incurred by specific standards of animal husbandry	696
Additional costs incurred by Cross Compliance/Bureaucracy	258
Costs incurred by Greening	867
Costs incurred by the Instructions on Air Quality Control	306
<b>Total costs considered in this analysis</b>	<b>5,277</b>

Source: Research Institute HFFA Research GmbH, September 2017

## Impact at farm level

This impact is also apparent on the single farm level. The annual financial burden caused by the aforementioned EU standards and additional regulations is almost 28,000 EUR for an average commercial family farm in Germany. This is about 367 EUR/ha agricultural land. An average larger farm in Germany, which is run

as a corporate entity, incurs annual costs of over 400,000 EUR due to environmental standards and additional regulation, which corresponds to about 356 EUR/ha agricultural land. An average cattle farm faces a financial burden of “merely” 278 EUR/ha agricultural land.

## Not quantifiable cost areas

These are the results of a comprehensive literature analysis and own calculations reflecting the state of knowledge about costs resulting from environmental standards and additional regulations for the German agricultural sector. However, the analysis is limited and must be further developed. This is due to the fact that there is no reliable data or information regarding the cost effects of certain standards or regulations. Thus, some quantifications in the context of this study are still not possible. With reference to the new Fertiliser Ordinance, for example, it is expected that

farmers will fertilise more at the “margin” than as a means for maximum yield. This may lead to foregone revenue. Also, a number of active ingredients in plant protection products are topics of public discussions. In the context of the EU Regulation 1107/2009 concerning the placing of plant protection products on the market, more potential bans on active ingredients are expected. It is possible that these bans alone could cause another billion EUR in sectoral costs. Further animal welfare measures are also expected in the future, which could also cost billions of EUR. Costs

incurred due to crop diversification and banning plant protection products on EFA as a part of greening must also be mentioned here. All these developments point to the fact that the costs of German agriculture due to

environmental standards and additional regulations are higher than the total monetary effects determined above.

## Not considered cost areas

The about 5.3 billion EUR are on the lower scale of the actual financial strain, which is understood as the monetary effect of foregone revenue and additional production costs. This is additionally made clear when taking into account agricultural services which are not

rewarded adequately in this study, such as the preservation of the cultural landscape (the willingness to pay for this in Germany is in the range of several billion EUR), and costs incurred by different social standards.

## Comparison of the situation in Germany with non-EU competitor countries

What does the corresponding financial burden look like for competitors outside the EU? This is the second central question to be answered in this analysis. It must be noted that it is hard to give a complete answer. The available data and information makes this task particularly challenging. However, arguments can be found on the basis of case studies. When comprehensively analysed, the case studies indicate that the costs due to standards and regulations in German agriculture are (currently much) higher than those in non-EU competitor countries.

### Results from case studies

For example, the costs incurred by standards and regulations in Australian cattle farming are between about 16 and almost 35 percent of the costs incurred by cattle farms in Germany. Another extensive international study comparatively analysed the costs incurred from animal welfare, food safety and animal health standards, environmentally safe nitrogen management and plant protection regulations in selected non-EU competitor countries. On average, these countries only incurred 34 percent of comparable costs in Germany. For poultry farming, the costs incurred by standards and regulations are also (sometimes far) lower in all important competitor countries of Germany. On average, these costs are only 64 percent of German average costs. Reflecting the various case studies, it is

finally important to recall that American water laws are far less restrictive than the EU's. Hence, they are not a particularly strong cost driver in the USA.

### Situation in the analysed non-EU competitor countries

When comparing costs caused by standards and regulations in Germany to other non-EU competitor countries, it is also important to keep in mind that many cost-effective standards and regulations have no relevance for the competitors. Namely these are the changes in the new Fertiliser Ordinance, the EU Regulation 1107/2009 concerning the placing of plant protection products on the market, greening, and the potential changes to the Technical Instructions on Air Quality Control. Also, the costs of the application for EU direct payments are not relevant in non-EU countries. In sum, costs of 3,034 million EUR are irrelevant in Germany's non-EU competitor countries. The aforementioned standards and regulations, which lead to almost 57 percent of Germany's costs, simply do not exist in these competitor countries.

### Lower standards and lower costs in the analysed non-EU competitor countries

It becomes apparent: For a direct comparison between the costs caused by standards and regulations in non-EU competitor countries, only some cost aspects are

relevant in the context of this study. These are the costs of the WFD, the costs incurred by specific standards and regulations in animal husbandry and the costs caused by ensuring food safety for plant products. These amount to 2,242 million EUR. Based on the case studies' findings, it can be assumed that German farmers would not have to bear these financial sums, if the aforementioned standards and regulations were

the same in Germany as those in non-EU competitor countries. The figure below presents (a) the product-specific costs carried by farmers in Germany due to the aforementioned standards and regulations. It also shows (b) how high their product-specific financial burden would be if they merely had the average costs of a non-EU competitor country as regards these standards and regulations.

### Cost comparison for German farmers with standards and regulations as in Germany versus the scenario based situation in non-EU competitor countries (in EUR/hectar or EUR/livestock unit)

	Reference situation (current standards / regulations in the EU / Germany)	Scenario (analogous standards / regulations of a non-EU competitor country)
Wheat	256.22	49.69
Barley	255.92	49.69
Other cereals	306.79	70.52
Oilseed rape	327.63	56.44
Potato	763.51	58.64
Sugar beet	535.19	31.10
Silage maize	221.56	139.42
Other arable crops	222.98	106.19
Meadows and pastures	124.28	41.44
Cattle (w/o dairy cows)	26.51	14.86
Dairy cows	57.08	21.84
Swine	154.15	33.41
Poultry	49.66	34.93

Source: Research Institute HFFA Research GmbH, September 2017

#### High burden of costs for German farmers

Generally, a large cost reduction may be expected for German farmers, if the German standards and regulations were identical to those in non-EU competitor countries. This is a clear argument that German farmers have a significant financial burden imposed on them, due to societally motivated very high environmental standards and additional regulations. This ad-

ditional financial burden is above 3.0 billion EUR and constitutes 181 EUR extra costs per hectare agricultural land. Following the scenario from figure B, the financial burden would be lower by ca. 246 EUR/ha agricultural land. Currently, the incurred costs are 315 EUR/ha, the costs in the scenario are by comparison only 69 EUR/ha agricultural land.

### **Income and competitive disadvantages for farmers in Germany**

The comparison with the non-EU competitor countries analysed in the study explains lower incomes and a large competitive disadvantage for farmers in Germany. It furthermore influences private sector decisions and has political implications. Consequently, the large financial burden through environmental standards and additional regulations – especially when compared to non-EU competitors – must be taken into account in discussions regarding the further development of the EU's CAP. To potentially negate this would mean to forego competitiveness within our diverse agrarian structures.

### **Standards require continuous investment**

It is also important to note that the standards and regulations influence farmers in making investments at large scale. This is increasingly essential because the pertinent regulations in the EU and Germany are likely to become even tighter.

### **Further research challenges**

Apart from these policy and investment aspects, research challenges are also brought to light. A more precise measurement of the actual costs due to the already discussed standards and regulations, as well as the costs of those not discussed, is needed on the one hand. On the other hand, future analysis must focus

more substantially on the analogous costs in competitor countries. Only with this information will it be possible to analyse the competitive disadvantage of German farmers in more detail. Both of these needed analyses require a larger data and information basis. This is why continuous monitoring of scientific and technical literature is advised. However, decision-makers must also be involved in the growth of the information basis through, for example, collecting and aggregating data for relevant costs on single farm level. On this basis, more suitable policy (and private) decisions can be made.

### **Contribution to objectification of the public debate**

Having in mind such decision-making, the findings of this paper make an important contribution to the very crucial objectivity of the debate surrounding the future of the CAP in the EU. Especially the knowledge gap regarding the costs pertaining to environmental standards and additional regulations is reduced. The results in this study offer information for a more informed decision-making and clarify the accusation that farmers cause environmental and societal costs, without contributing themselves to a better environment. In reality, the agricultural sector contributes to numerous public interests. Standards and regulations are seen as an expression of societal preferences, which farmers recognize and help to carry.

## DBV's key conclusions on the study

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- German farmers stand by the high European and German standards for agriculture and food production unconditionally. This applies in particular to environmental, climate, and animal protection, but also to other areas. In conditions of open markets, our European and German standards are services of agriculture for the public and desired by the public, which must be valued. In the public debate, however, the argument of public goods must be properly dealt with and the entire range of such services must be included.
- The burden of government regulation and standards must be taken into account when discussing the future of agriculture. In German agriculture, the analysed thematic areas lead to additional costs and foregone revenue amounting to more than 5.2 billion EUR annually. This amount is significant and represents a considerable factor, which has an impact on the competitiveness and income situation of farmers.
- The comparison with important non-EU competitor countries clearly shows the additional burdens for German farmers. This is a competitive disadvantage for agriculture, which must be taken into account in the political debate on the CAP and EU agricultural payments. This is particularly true with regard to the competitiveness of agriculture in its existing form with diverse agricultural structures.
- In open markets and with regard to many products, German farmers are working in direct competition with suppliers who have lower or no standards to meet. This development is a consequence of the deregulation and opening of agricultural markets, which has been politically predetermined since the early 1990s. Against the background of the numerous trade agreements under negotiation or in the planning stage, it is to be expected that this development will continue and that the mentioned conflict will become even more critical.
- New challenges and compliance with existing regulations and standards demand continuous investment from farmers to meet these requirements. The associated additional costs and improved quality of the products are rarely or not at all rewarded via the producer price. The study shows that direct payments – no matter in what form – have to be seen alongside public goods of considerable size. This must be taken into account in the discussion on the future CAP.