

Joint (Industry/Government) Working Group on Sharing Responsibilities and Costs of Animal Disease

Cost Sharing for Exotic Disease – Some Thoughts*

Definition of terms

1. Costs are taken to mean the total (direct?) costs of disease and its control within GB regardless of where those costs fall. This in itself is not straightforward. For example, there may be indirect, unintended/unforeseen consequential costs as a result of disease control whereby third parties are affected (e.g. costs to the tourist industry of the policy response to the 2001 FMD outbreak in GB). It may be therefore that it is agreed that some elements of consequential costs are not included in a cost sharing calculation.

Objectives of cost sharing

2. It is assumed that there are two main objectives of cost sharing that should not be forgotten.

1. To achieve an appropriate and fair balance of costs along the food supply chain.

2. Improvement of animal health and welfare (e.g. through appropriate incentives to good practice etc.).

Principles for cost sharing

3. Costs could be shared according to:

1) Responsibilities. This is linked closely with liability and benefit. What are the responsibilities of various stakeholders?

2) Liability – i.e. the Polluter-Pays Principle – in this case those who create the risk or contribute to the magnitude of the impact by their activities pay accordingly.

3) Distribution of benefits and costs (winners and losers). Costs shared according to who gains and who loses from disease and disease control. The assumption is that gainers from policy should compensate losers.

4. None of these is straightforward to determine.

Responsibilities and liabilities

5. Liabilities and who creates risk may be arguable as are responsibilities of stakeholders. For example, in the case of exotic disease livestock farmers may argue that Government is liable since Government has the responsibility

for border protection because neither individual livestock owners nor the livestock industries can undertake border control. However, it could be argued that just because Government undertakes border protection does not mean that this should be paid for by taxpayers or should be free for livestock keepers. Moreover, practices by livestock producers domestically may increase disease risks or increase the magnitude of disease losses from an exotic disease (e.g. by poor on-farm biosecurity practices).

6. The issue of responsibilities may be so fraught with subjective arguments as to be impractical as a basis for decisions concerning cost sharing. Similarly, although the polluter-pays-principle is a widely accepted one and should not be ignored, it may not be easy, in an animal disease context, to obtain consensus on who the polluters are and what their liability is. For example, one livestock keeper unknowingly sells an animal with a contagious disease affecting production to another livestock keeper. As a result, the animal dies but before doing so infects all of the other animals on the farm. Where does the liability lie and how far does it stretch? Is it with the seller as the polluter who should pay for all the adverse consequences resulting from the sale of the diseased animal or does the buyer have some responsibility for testing for disease or for isolating bought in animals before introducing them into the herd/flock? If the latter, then the farmer who sells may be liable for the loss of the sold animal but not for the consequential loss to the whole herd/flock.

Distribution of benefits and costs

7. The winners and losers from disease and from disease control are relatively easy to identify and the benefits and costs involved can be estimated. Although the general principle is less open to value judgements, there is no golden rule that says that winners should compensate losers by the same amount – this may be open to bargaining.

8. Distribution of benefits and costs of disease will depend on the precise nature of the disease incident. Thus, who gains and who loses and by how much will vary depending on the disease in question, the extent and rapidity of its spread, its impacts on livestock production and other industries along the food supply chain and external to it (e.g. rural businesses in the 2001 FMD outbreak in Great Britain), disease control and its impacts etc. Thus for every disease incident the distribution of costs and benefits will be different. This makes generic rules for cost sharing – such as a 50:50 split between industry and government - difficult to specify. Moreover, since costs and benefits may be shared along the food supply chain, and external to it, there is an issue as to who should be included in cost sharing – should it be just government and livestock keepers or does the principle extend to others such as food manufacturers, food retailers or consumers? In reality, because of the market system, both costs and benefits of disease and its control will be, in part, distributed along the supply chain by means of market prices and product quantities. Nonetheless, inclusion of the entire food supply chain may lead to the need, for example, to consider cost sharing whereby costs are

recovered elsewhere along the chain than at the producer level, such as at the retail level (which might include both domestically-produced meat, milk etc. and imported – although this is unlikely to be acceptable under international trade agreements). In addition, increased costs (of cost sharing) borne directly by domestic livestock producers could have a substantial impact on profitability and competitiveness, depending on their magnitude.

Disease categories

9. Some general guides as to the likely distribution of costs and benefits of disease and its control may be possible and a number of disease problem categories could be defined. For example, in the context of exotic disease:

1. Non-zoonotic exotic disease with slow spread and relatively straightforward to control at farm level. Farmers can control the disease, there is no risk to human health and so farmers benefit from control rather than society generally. For such a disease, the primary loss and benefits of control of the disease fall to the individual livestock keeper and to livestock keepers generally, with some, relatively minor, public benefit of disease control being the contribution to citizens in GB and consumers domestically and overseas of a 'healthy' cattle population. There may be a role for government in terms of border protection and again, some benefit to the livestock industry and GB of preventing entry of an exotic disease that trading partners may also wish to avoid. In this instance, there is a case for livestock keepers to pay for the economic losses and to pay for disease control more than for others along the food supply chain or for society generally. In this case, the share of costs of the disease and its control might be in the range of 70%-95% for producers and 30%-5% for government (on behalf of taxpayers).

2. Non-zoonotic exotic disease with rapid spread, uncertain/difficult control at individual farm level, substantial impacts on production, no risk to human health although there are potentially serious negative externalities associated with animal welfare problems and a substantial threat to international trade (e.g. FMD). In this case, the losses from the disease are primarily felt by livestock farmers generally and the benefits of disease control would also largely accrue to livestock farmers but also with some benefit to the economy/country in terms of addressing animal welfare problems (public good) and safeguarding against potential trade restrictions (which would damage the economy). Government is likely to take the responsibility for border protection (the cost of which would be included in cost share calculations). Farmers have a significant responsibility to control spread but much depends on the actions of others in this regard. Costs of the disease fall largely on livestock keepers but with implications along the food supply chain. In this case, the share of costs of the disease and its control might be in the range of 40%-70% for producers and 60%-30% for government (on behalf of taxpayers).

3. Zoonotic exotic disease with rapid spread, potentially difficult to control, substantial impacts on production and animal welfare, substantial threat to international trade (e.g. Avian Influenza). This case has similar characteristics to that above with the added public health dimension. There are clear potential costs and benefits to both livestock keepers and those along the food supply chain, and to society generally (primarily in terms of human health, but also in terms of animal welfare and international trade). In this case, the share of costs of the disease and its control might be in the range of 10%-50% for producers and 90%-50% for government (on behalf of taxpayers).

10. These categories and the associated ranges of cost sharing are merely indicative examples. Agreement on shares will need to be on the basis of information on current costs and by whom they are borne and a more in-depth examination of the share of benefits of disease control for each disease/disease category.

Appropriate incentives to good practice to improve health and welfare

11. There are a number of incentives to encourage good practice broadly characterised into 'carrots and sticks'.

1). Carrots – (a) incentive payments for good practice (biosecurity, hygiene etc.). These may be direct payments (e.g. per litre of milk), grants to implement measures (potential through EU rural development policies and agri-environment support), reductions in levy payments (although this may be difficult to administer) etc. (b) demonstrated improved profitability from undertaking good practice (due to lower disease losses etc.)

2). Sticks – (a) taxation for not adopting good practice through levy (again this may be difficult unless done on a very simple basis), cross-compliance, reduced compensation payments, lower product price (e.g. milk price). (b) Denied membership of farm assurance or other marketing scheme with subsequent effects on market access and price (c) disease losses and their impact on profitability.

12. The implications of these incentives for cost sharing are:

1. No cost sharing agreement should entirely nullify farmer costs of disease because this removes the primary economic incentive to livestock keepers to avoid disease. In particular, great care must be taken in compensating farmers or others that perverse incentives are not created.
2. Compensation, if paid, should be linked to the individual actions of livestock keepers and reduced accordingly if good practice is not

followed or if the livestock keeper has acted negligently (perhaps a case for not paying compensation at all) or not with due diligence.

3. If an animal health/disease control levy is used it needs to act as an incentive and this is best undertaken as a prospective payment.
4. Incentives to industry to cost share, make levy payments etc. will be enhanced by the opportunity for those sharing the costs to be involved in the decision making process.

Cost sharing agreements

13. Some general guides to cost sharing can be developed from the above principles and these are combined below with some tentative thoughts concerning cost sharing agreements.

1) Share of costs to be agreed for each disease (or disease category) in the light of information on the current and potential future costs incurred due to disease losses and disease control expenditures and according to estimates of the shares of benefits of disease control between livestock keepers and society more generally. Benefits and costs along the entire food supply chain should be considered but an adjustment in cost sharing along the chain may prove difficult to agree and to administer.

2) Where there is an imbalance of costs according to the cost shares agreed, for example with livestock producers needing to pay more towards the costs of disease control and compensation, then a prospective levy should be used to collect monies from livestock producers according to predictions of future disease costs. The levy should be applied to output such as per litre of milk, per head of animal sent for slaughter etc. and based on the estimated disease costs for each species/production system (e.g. dairy, beef, pigs, sheep, layers, broilers). The levy should not be set too high in the first instance but could be progressive, allowing producers to 'buy-in' to the principle more easily. The levy could be reduced to incentivise and reward good practice and/or increased to discourage bad practice (although this may be difficult to administer unless kept very simple). A retrospective adjustment to the levy would be made according to actual costs of disease outbreaks over time. The levy could be compulsory or voluntary, although if taken up by assurance schemes/food retailers as a requirement then would effectively become compulsory. If voluntary, those that do not pay the levy would not get the (full or any) benefits of compensation.

3) Where compensation is paid (to encourage reporting of disease etc.) it should be at such a level that there is still a strong incentive to the individual producer to avoid the disease. Moreover, failure to comply with basic rules of disease reporting, biosecurity etc. should result in compensation not being paid.

4) A joint industry and Government body (probably an NDPB set up by statute) would administer an animal disease fund raised from levy payments and Government contributions (the role of collecting the levy could be given to other appropriate bodies – such as MLC). The body would be responsible for developing disease control policy together with Defra and industry

consultations and for deciding how the fund is administered and how monies are spent.

5) The principle of cost sharing, the use of a reasonable levy and involvement of producers on an NDPB responsible for administering an animal disease fund all help to engender a partnership approach to disease management and to incentivise good practice to improve animal health and welfare. The process will also help to give a clearer understanding to producers and others of the costs and benefits of disease and disease control practices and to better understand and accept roles and responsibilities.

Richard Bennett*

University of Reading

January 2006

*The views expressed in this paper are those of the author and do not necessarily reflect those of the England Implementation Group of the Animal Health and Welfare Strategy.

**JIGWG SECRETARIAT
February 2006**