



# Pathways to finance a socially accepted animal husbandry

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A recent report on how the public evaluates animal welfare in Europe revealed that an overwhelming majority (92%) perceived the current legislation as inadequate to guarantee animals' needs (European Commission 2022). This is just one study of many showing that citizens rate the current legislation for conventional livestock farming, and therewith the prevailing conditions for farm animals as “socially unacceptable”. This conclusion, drawn by the Scientific Advisory Board on Agricultural Policy of the German Government in March 2015, had sparked considerable debate at the time (WBA 2015). Seven years later, this conclusion has been largely understood in agricultural policy. However, the ways to achieve the goal are now being heavily discussed.

When asking citizens how sustainable livestock production should look like, more space, straw bedding, and outdoor access, preferably pasture access, are the most mentioned aspects. Currently, these points are only (partly) fulfilled by organic production, while the clear majority of agricultural husbandry systems are far from meeting these expectations. Thus, it can be assumed that the animal industry is at risk to lose the “social license to operate” unless comprehensive transformation takes place.

In Germany, two major government commissions were formed by all relevant stakeholders, and they recently unanimously called for a transformation of livestock farming (Kompetenznetzwerk 2020; Zukunftskommission Landwirtschaft 2021). Both commissions propose, for example, that animals should no longer be kept in completely enclosed barns in the future. If such a transformation is not achieved, meat consumption in Germany, which has already decreased significantly (by about 8 kg within 10 years to the current 55 kg per capita/year), will probably continue to decline. Especially younger consumers are increasingly choosing alternatives to meat and milk products. This generation has

grown up with a different perception, and has an even more critical view on conventional animal farming.

Small changes such as currently defined in some (entry levels of) animal welfare labels, e.g. “Initiative Tierwohl” in Germany or the Dutch “Beter Leven” one-star label, will not be sufficient to change consumers' view on conventional animal farming: Mainly, the involved criteria include slightly more space (about 10%), or the availability of roughage for the animals. Although more space is of great importance in the view of consumers, it is doubtful that a 10% increase will be perceived as sufficient enough. In our image-based studies, subjects are not able to detect any differences at all (Busch et al. 2015). It is further known that the provision of some roughage or other manipulable material will not increase consumers' acceptance of conventional husbandry systems (Schütz et al. 2020).

In an unpublished study about the current labeling system established by German food retailers (“Haltungskennzeichnung”) we determined meat consumers' (n = 1223) expectations on and assessment of the four label levels. The results revealed that respondents expect that for level one and level two animals are mainly kept in an indoor housing system and have some more space and at least some parts of the floor are covered by straw in level two. The latter is not true. Consumer expectations are therefore somewhat higher than the actual criteria. Nevertheless, most consumers (> 80%) reject the statement that animals kept in systems according to levels one and two are healthy and feel well. This supports the findings of other studies that a leap in acceptance can only be achieved with the implementation of the levels three or four, meaning significantly more space, access to outdoor climate stimuli, and straw bedding.

Nevertheless, the current market share of animal products meeting the criteria for the labeling of levels three or four is very low (< 5%). Farmers, further unsettled by the African swine fever-related price crisis, are currently reluctant to invest without clear contractual safeguards. Outdoor access and straw bedding often require long-term investments and incur higher running costs—to raise animal welfare in

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Germany to this level would induce costs of around 3 billion euros per year.

The question of how such a comprehensive transformation of livestock farming can be achieved includes many facets and is not easy to answer. However, the issue of how to finance the transformation is at the heart of the debate. It seems unlikely that farmers will be able to bear these costs alone. The issue of financing is of great importance as an increase in animal welfare standards on a national level in an open European market would result in a migration of animal husbandry to other countries with lower animal welfare standards. Three main financial solutions are conceivable:

1. consumers increasingly buy products with animal welfare labels, i.e. the classic market-based solution,
2. large retailers de-list animal products with low standards—thus again customers will pay for it,
3. the government permanently finances the additional costs of animal-friendly production through subsidies.

There are two possibilities how these subsidies might be generated. If the money is taken from the general state budget, all taxpayers pay, if it comes from an increase in value-added tax, again only customers pay. Mixed forms of these three variants are also feasible.

**Ad 1.** A market-driven transformation of the whole livestock farming towards substantial more animal welfare would require consumers to be willing to pay more, so that farmers can cover investments and higher operating costs. This is challenged by the fact that not all consumers are willing or able to do so, although most state a preference for it in surveys. This customer-citizen gap is reasoned by several aspects such as unreliable marketing of animal welfare, high prices combined with limited financial resources of consumers, and also the suppression of animal welfare concerns while buying animal food products (i.e. meat paradox). Overall, research on sustainability has clearly demonstrated that a fundamental transformation process does not occur solely through changes in individual purchasing behavior. Transparency and (mandatory) labels are important and there is much room for improvement, but relying on consumers is not sufficient.

**Ad 2.** A market-driven solution based on the power of large retailers is limited due to the fact that the share of fresh meat in the German retail sector only amounts to about a quarter of the total production. Therefore, an animal welfare commitment by the retailers only reaches the processed products to a limited extent, and the fragmented out-of-home market not at all. Finally, an animal welfare commitment in a tight oligopoly is fragile and not unproblematic in terms of antitrust law. However, three of the four largest German retailing companies have committed themselves to de-list the first and second levels of husbandry labeling

(“Haltungskennzeichnung”). It remains open if politicians are able to exert informal pressure on the other marketing channels or if a mandatory animal welfare labeling could also include sausages and the entire catering industry.

**Ad 3.** A transformation of European agricultural subsidies from direct payments to finance sustainable production methods is becoming apparent, but it will take several years. Furthermore, it is questionable whether the money will be available for the transformation of animal husbandry as the budget might probably be absorbed to finance the challenges of climate protection and biodiversity. Alternative funding from the federal budget is also unlikely, as the government treasury is strained due to the Corona pandemic and the war in Ukraine. Germany has earmarked one billion euros for animal welfare investments for the period 2023–2026, but this will not be enough. Therefore, new taxes would be needed, e.g. an increase in VAT for animal products or a specific animal welfare levy. However, tax increases have so far been ruled out by the current federal government.

From a citizen’s point of view, financing through European subsidies is clearly preferred, followed by the purchase of animal welfare products, while a general increase in meat price and especially a meat tax finds less (but growing) support. The underlying thinking might be that only those who consume animal products and who also care about animal welfare should pay for it. Nevertheless, there is a smaller group at least that would accept an animal welfare tax. Attitudes towards different financing concepts also depend on how citizens evaluate current animal husbandry and who they see as primarily responsible for ensuring it. Citizens who see the responsibility primarily with the state and/or see less need for improvement in animal welfare are unlikely to be willing to pay more for animal welfare products. The existence of this consumer group again highlights that a solely market-driven solution will probably not work, and that a political incentive system is needed for ensuring the large-scale transformation of livestock farming. From an academic perspective, this sector transformation is an exciting lesson in a wicked policy processes.

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