International diffusion of gains from biotechnology and the European Union’s Common Agricultural Policy
by
Hans van Meijl and Frank van Tongeren

Aim of paper
• Study the impact of adopting or rejecting genetically modified organisms (GMOs) in the EU, taking into account the Common agricultural policy (CAP)

• Main idea:
  – GMO’s increase productivity in maize and soybean sectors. A ban excludes EU from these productivity gains.
  – Productivity effects differ across GMO crops: factor biases
  – International knowledge spillovers are not perfect
  – Policy is important: EU-CAP isolates EU farmers

Productivity impact differs across crops: factor biases
• Herbicide tolerant (HT) soybeans:
  – insert a herbicide tolerant gene into a plant, such that the plant is tolerant to a wide spectrum of herbicides
  – Saves on pesticides and labour
  – 52% of total GM sowing, one third of total soybean area.
  – USA and Argentina have 94% of total GM soybean area

• Bacillus thuringiensis (Bt) corn:
  – Insert genetic material from the Bt into seeds, these crops produce their own insecticides
  – Yield increasing
  – 27% of total GM sowing, 8% of total corn area
  – USA 91% of total GM corn

GM soybean and corn area, 1999
Source: Commission of European Union, 2001

Endogenous international knowledge spillovers
• HYPOTHESES: spillovers not perfect

• H1: Trade linkages: knowledge embodied in traded commodities
  – amount of knowledge

• H2: effectiveness of imported knowledge:
  – absorption capacity (H); more educated
  – structural similarity (D); larger operations
  – social acceptance (S); consumer resistance

Spillover equation
Modelling CAP essentials: price insulation

**Price insulation** for grains

- Imports: insulate domestic economy from world price changes
  - variable import tariff

- **Exports:**
  - variable export subsidies (swap tx with intervention price)

- **Intervention price:**
  - price transmission mechanism between intervention and import price, dependent on net-export position (extra-EU trade position).

**Received potential spillovers**

*in all regions by 5% productivity increase in NAM (social acceptance not taken into account)*

% change production and farm income of coarse grains sector in EU

**Costs in terms of welfare**

**Conclusions**

- Simulation results (production, income, welfare) are dependent on
  - imperfect international knowledge spillovers
  - factor biased technology change
  - an improved representation of CAP policies
- Inclusion of endogenous spillover mechanism brings adoption close to observed patterns: not all countries gain in same way
- CAP policies shield production from developments in other countries
- With CAP, consumer concerns are of little concern to EU farmers – they are protected from international competition (no negative impact from productivity gains in GMO adopting countries as is in A&N paper)
- Welfare impact of CAP and not adopting GM technologies is negative in EU, Banning GMO’s at all has severe negative implications for EU and US.

**Experiments**

- Spillovers (I)
  - Hicks neutral productivity shock of 5% in cereal grains and oilseed, innovation originating in NAM, with endogenous spillover mechanism (without social acceptance)

- Spillovers and CAP (II)
  - (I) with CAP implementation

- No spillovers and CAP (III)
  - as II, however GMO production is not socially accepted in EU

- Compare results with Nielsen and Anderson (2000) paper: GMO’s, trade policy, and welfare in rich and poor countries