

Economic Impact of Banning Methyl Bromide

Li Ninghui¹

Methyl bromide (MB) is an agricultural fumigant that controls nematodes, weeds, fungi and other soilborne pathogens. China has been both a consumer and a producer of MB for more than 45 years. Initially MB was used only for the fumigation of cotton seed, perishables and for quarantine purpose in China. With the reform and the development of agriculture economy, the growers found that the soil-borne diseases and nematodes became more and more serious than ever. Since 1980's, many soil fumigation experiments have been conducted on tobacco seedbeds, tomato and cucumber in plastic tunnels, and strawberry. All the experiments have gained good results and significant profit, especially with the release of tinned MB (681g) to market in 1995. The consumption of MB has been increased significantly since then.

It is, however, recognized that MB contributes significantly to ozone depletion. As a consequence many countries, including China, are currently restricting consumption and production in order to face an eventual phase out of MB for use in agriculture. Therefore, while MB use is booming in agricultural production, China is going to meet the requirement of phasing out MB according to the Montreal Protocol. At present, in China, more than 95% of the MB used for soil fumigation is dedicated to four crops: tobacco seedlings, strawberries, vegetables (mainly tomato, cucumber and pepper) and medical herbs (mainly ginseng). Fortunately, the alternatives (mainly floating tray) to MB for soil fumigation in tobacco seedlings have been developed well and worked as well as MB without increase in the cost of input. But for other products, there are still not effective alternatives.

This article is aimed at evaluating the economic impact of banning methyl bromide on the production of vegetable, strawberries and medical hers (mainly ginseng) in China by developing a two-stage model. The first stage is to maximize the production of each crop that use methyl bromide, given the prices of methyl bromide and of its substitutes, subjecting to budget constraint. The second stage is to maximize the total output of all the three crops, given the maximized production of each crop, subjecting to all the required constraints. The evaluation is done in three scenarios differing in the quantity of reducing MB use after 2005. This article points out that China's total net present value of the loss incurred from 2003 to 2015 is about 10 billion Chinese Yuan (1 US\$ = 8.277 Yuan).

I. Introduction

China is both a consumer and a producer of methyl bromide (MB) and has used it and produced it for more than 45 years. Initially MB was used only for the fumigation of cotton seed, perishables and for quarantine purpose. With the reform and the development of agriculture economy, the growers found that the soil-borne diseases and nematodes became more and more serious than ever. Since 1980's, many soil fumigation experiments have been conducted on tobacco seedbeds, tomato and cucumber in plastic tunnels, and strawberry. All the experiments have gained good results and significant profit, especially with the release of tinned MB (681g) to market in 1995. The farmers mastered the technique very quickly. The consumption of MB has been increased significantly since then.

It is, however, recognized that MB contributes significantly to ozone depletion. As a

¹ Ph.D. in Economics, Associate Professor, Institute of Agricultural Economics, Chinese Academy of Agricultural Sciences. 12 Zhong Guancun Nandajie, Beijing, China, 100081.
Email: lininghui@hotmail.com, ninghui@mail.caas.net.cn.

consequence many countries are currently restricting consumption and production in order to face an eventual phase out of MB for use in agriculture. The reduction of MB is an essential step that the countries can take towards overcoming one of the most serious problems contributing to environmental degradation. China was among the first countries in requesting international assistance to conduct demonstration trials of alternatives for soil fumigation.

The Vienna Convention for the Protection of the Ozone Layer (1985) and the subsequent Montreal Protocol (1990) have formed the basis for global, multilateral cooperation to deal with the problem. The Multilateral Fund for the Implementation of the Montreal Protocol (MFMP) has been set up to help developing countries, which have fewer resources (Article 5 Countries), to cover the costs for phasing-out ozone-depleting substances (ODS).

The Parties to the Montreal Protocol in the 9th Meeting held in Montreal in 1997 (Montreal Amendment), for countries operating under Article 5, agreed that:

- From 1st January 2002, the production and consumption of MB will be frozen at the average consumption level for 1995-1998 (Base-line).
- From 1st January 2005, the production and consumption of MB will be reduced in 20%, based on the average levels for 1995-1998 (Base-line).
- In 2003, decisions would be taken on further reductions on MB for the period 2005 and beyond.
- From 1st January 2015, complete MB phase-out.
- MB used for quarantine and pre-shipment (QPS) purposes is exempted from the agreements.

While the use of MB is booming in agricultural production, China is going to meet the requirement of phasing out MB according to the Montreal Protocol. This kind of restriction will inevitably harm producers. In China more than 95% of the MB used for soil fumigation is dedicated to four crops: tobacco seedlings, strawberries, vegetables (mainly tomato, cucumber and pepper) and medical herbs (mainly ginseng). Fortunately, the alternatives (mainly floating tray) to MB for soil fumigation in tobacco seedlings have been developed well and worked as well as MB without increase in the cost of input. Therefore, there will be less economic impact of banning MB on the production of tobacco. But for other products, there are still not effective alternatives. In this case, it is necessary to evaluate the economic impacts of banning MB on the production of the other three crops.

II. Theoretical Structure

The methodology to evaluate the impact of banning methyl bromide is to maximize the total production of crops, which use methyl bromide, by adjusting cultivated area and use of substitutes of methyl bromide, subjecting to various constraints.

II.1. Production model for each product

The problem to solve is to maximize the production of each crop that use methyl bromide, given the prices of methyl bromide and of its substitutes, subjecting to budget constraint.

$$F_i(v, w_i, E) = \underset{m_i, s_i}{Max} f_i(m_i, s_i) \quad (1.1)$$

$$s.t. \quad vm_i + w_i s_i = E_i \quad (1.2)$$

where:

- i : the i^{th} crop
 $f_i(m_i, s_i)$: production of the i^{th} crop per mu
 v : market price of methyl bromide (Yuan/mt)
 m_i : quantity of methyl bromide used by the i^{th} crop (mt/ha)
 w_i : composite price of the inputs other than of methyl bromide used by the i^{th} crop (Yuan/ha)
 s_i : composite quantity of the inputs other than methyl bromide used by the i^{th} crop (mt/ha)
 E_i : total cost of the i^{th} crop in its production (Yuan)

Here, for the seek of simplification, we assume that 1) the prices of methyl bromide used in all crops are the same, 2) all the inputs into the production of each crop other than methyl bromide are considered as one composite input with one composite price, 3) the production of each crop is the function of quantity of methyl bromide used and composite quantity of the inputs used other than methyl bromide. Further, we assume the function is Cobb-Douglas:

$$f_i(m_i, s_i) = B_i m_i^{a_i} s_i^{b_i} \quad (1.3)$$

Thus, the problem can be reduced to be

$$\text{Max}_{m_i, s_i} a_i \ln m_i + b_i \ln s_i \quad (1.4)$$

$$\text{s.t.} \quad v m_i + w_i s_i = E_i$$

FOC:

$$\frac{\partial L}{\partial m_i} = \frac{a_i}{m_i} - \lambda v = 0 \quad (1.5)$$

$$\frac{\partial L}{\partial s_i} = \frac{b_i}{s_i} - \lambda w_i = 0 \quad (1.6)$$

$$v m_i + w_i s_i = E_i$$

Dividing (1.5) by (1.6), we have

$$\frac{a_i}{b_i} = \frac{v m_i}{w_i s_i}$$

That is, the ration of α_i to β_i equals the ration of the expenditure of methyl bromide to that of other inputs. Furthermore, we assume that $\alpha_i + \beta_i = 1$, i.e., constant return to scale. Thus, α_i is the share of the expenditure of methyl bromide and β_i is the share of the expenditure of other inputs.

From FOC, we get:

$$m_i(v, w_i, E_i) = \alpha_i E_i / v,$$

$$s_i(v, w_i, E_i) = \beta_i E_i / w_i,$$

$$F_i(v, w_i, E_i) = B_i E_i \left(\frac{a_i}{v} \right)^{a_i} \left(\frac{b_i}{w_i} \right)^{b_i}.$$

II.2. Total production model

For the total production of all crops that use methyl bromide, the problem is to maximize the total output of all crops that use methyl bromide, given the maximized production of each crop, subjecting to all the required constraints.

$$\pi(M, E_1, E_2, \dots, p_i, w_1, w_2, \dots) = \underset{v, A_i}{Max} \sum_i p_i F_i(v, w_i, E_i) A_i \quad (2.1)$$

s.t.

$$A_i \geq 0; \quad (2.2)$$

$$M \geq \sum_i m_i A_i; \quad (2.3)$$

$$m_i = \alpha_i E_i / v. \quad (2.4)$$

where:

p_i : market price of the i^{th} crop (Yuan/mt)

A_i : total cultivated area of the i^{th} crop (ha)

M : total quantity of methyl bromide used (mt)

In terms of the form of function $F_i(v, w_i, E)$, the problem can be reduced to be:

$$\underset{v, A_i}{Max} \sum_i (-a_i \ln v - b_i \ln w_i + \ln A_i) \quad (2.5)$$

s.t.

$$A_i \geq 0;$$

$$M \geq \sum_i m_i A_i;$$

$$m_i = \alpha_i E_i / v.$$

The augmented objective function is

$$L = \sum_i (-\alpha_i \ln v - \beta_i \ln w_i + \ln A_i) + \sum_i \lambda_i A_i + \gamma (M - \sum_i (\alpha_i E_i / v) A_i)$$

FOC:

$$\gamma = (\sum_i \alpha_i) / M \quad (2.6)$$

$$\lambda_i = 0, \quad (A_i > 0)$$

$$\gamma = v / (A_i \alpha_i E_i) \quad (2.7)$$

$$M = \sum_i m_i A_i;$$

$$m_i = \alpha_i E_i / v.$$

γ is the shadow price of methyl bromide used in the crops, it is equal to the increase in total production derived from a relaxation of the corresponding constraint, that is, from a marginal increase in the available quantity of methyl bromide. From (2.6) and (2.7), we have

$$M = \frac{A_i E_i \alpha_i \sum_i \alpha_i}{v} \quad (2.8)$$

(2.8) gives us the relation of total quantity of methyl bromide, M , total cultivated area of the i^{th} crop, A_i , market price of methyl bromide, v , total cost of the i^{th} crop in its production, E_i , the share of the expenditure of methyl bromide used in the i^{th} crop, α_i , and the summation of the shares $\sum_i \alpha_i$.

III. Database and the scenarios of phasing out MB

III.1 Database

It is estimated that the production of strawberries, vegetables (mainly tomato, cucumber and pepper) and medical herbs (mainly ginseng) will increase rapidly in China in order to meet the

increasing demand in the period of 2002-2015. While the productions of the three crops expand, the allocation of various inputs into the production will be subject to be adjusted. Based on the history data and in line with the path of expansion, we have the estimation of the cultivated areas and the input costs of the three crops.

Table 3.1. Estimation of the cultivated areas and input costs of vegetable, strawberries and medical herbs (1 Mu = 1/15 Ha)

Year	Areas (Ha)			Input cost (Yuan/Mu)		
	Vegetable	strawberries	medical herbs	Vegetable	strawberries	medical herbs
2002	1440	1125	333	6207	3030	10100
2003	2300	1350	1000	6249	3060	10201
2004	3690	1620	2000	6292	3091	10303
2005	5530	1944	3000	6334	3122	10406
2006	7740	2294	3300	6377	3153	10510
2007	10060	2707	3366	6420	3185	10615
2008	12080	3140	3433	6464	3216	10721
2009	13280	3642	3502	6507	3249	10829
2010	14610	4189	3572	6552	3281	10937
2011	16070	4733	3643	6596	3314	11046
2012	17680	5348	3716	6641	3347	11157
2013	19450	5990	3791	6685	3380	11268
2014	21390	6709	3866	6731	3414	11381
2015	23530	7380	3944	6776	3448	11495

Without considering the phasing-out of MB, we estimate the quantities of MB demanded by the production of the three crops in the future in line with the trend of expansion (Table 3.2). Meanwhile, we assume that the price of MB will be fixed at 17 Yuan per tin (0.681 g). By formula (2.8), we get the share of the expenditure of MB in total cost.

Table 3.2. Estimation of MB used in the production of vegetable, strawberries and medical herbs, and of share of the expenditure of MB in total cost of each crop

Year	Quantity of MB (mt)				Share of MB cost		
	Vegetable	strawberries	medical herbs	Total	Vegetable	strawberries	medical herbs
2002	738	576	171	1485	0.370629	0.526233	0.288425
2003	1152	675	500	2327	0.365214	0.513119	0.281427
2004	1843	810	1000	3653	0.363491	0.506480	0.277974
2005	2765	972	1500	5237	0.362431	0.499927	0.274563
2006	3871	1147	1650	6668	0.361258	0.493450	0.271194
2007	5032	1353	1683	8068	0.360077	0.487058	0.267867
2008	6038	1570	1717	9325	0.358746	0.480766	0.264580
2009	6642	1821	1751	10214	0.357646	0.474571	0.261333
2010	7306	2094	1786	11187	0.356418	0.468392	0.258127

III.2. Scenarios of phasing-out

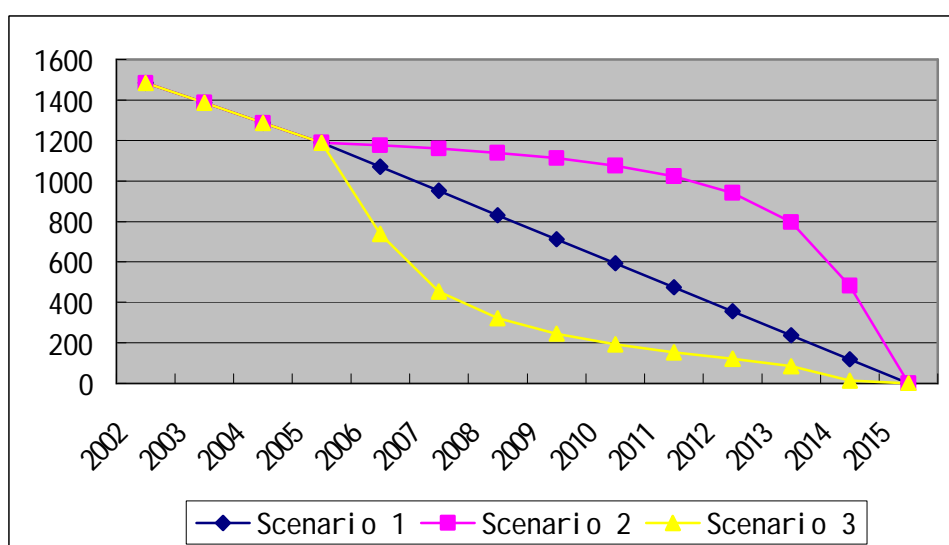
In terms of the Montreal Protocol, we design three scenarios for phasing out MB used in the production of these three crops. In these scenarios, the total quantity of MB used in the production of the three crops from 2002 to 2005 is reduced in terms of the Protocol. The difference among the three scenarios is the rationed use of MB after 2005 (Figure 3.1).

In scenario 1, MB use will be reduced equally in each year until being zero in 2015.

In scenario 2, MB use will be reduced at the speed from low to high with a constant acceleration until being zero in 2015.

In scenario 3, MB use will be reduced at the speed from high to low with a constant acceleration until being zero in 2015.

Figure 3.1. Three scenarios of phasing out MB



After total quantity of MB used in each scenario is determined, it will be allocated into the production of three crops in each scenario by the following rules:

- 1) To allocate total quantity of MB in 2002 among the three crops according to the share of MB used in the production of the three crops in 2001.
- 2) After that, to reduce the quantity of MB used in the production of vegetable by the quantity equal to the total quantity of MB reduced at the same year until being zero, keeping the quantity of MB used in other two crops unchanged.
- 3) Then, to reduce the quantity of MB used in the production of strawberries by the quantity equal to the total quantity of MB reduced at the same year until being zero, keeping the quantity of MB used in medical herbs unchanged.
- 4) Then, to reduce the quantity of MB used in the production of medical herbs by the quantity equal to the total quantity of MB reduced at the same year until being zero.

Table 3.3. The quantity of MB used in vegetable, strawberries and medical herbs from 2002 to 2015 in scenario 1

Year	Total	Vegetable	strawberries	medical herbs
------	-------	-----------	--------------	---------------

2002	1485	738	576	171
2003	1386	639	576	171
2004	1287	540	576	171
2005	1188	441	576	171
2006	1069	322	576	171
2007	950	203	576	171
2008	832	84	576	171
2009	713	0	542	171
2010	594	0	423	171
2011	475	0	304	171
2012	356	0	186	171
2013	238	0	67	171
2014	119	0	0	119
2015	0	0	0	0

Table 3.4. The quantity of MB used in vegetable, strawberries and medical herbs from 2002 to 2015 in scenario 2

Year	Total	Vegetable	strawberries	medical herbs
2002	1485	738	576	171
2003	1386	639	576	171
2004	1287	540	576	171
2005	1188	441	576	171
2006	1175	428	576	171
2007	1159	411	576	171
2008	1138	391	576	171
2009	1111	364	576	171
2010	1075	328	576	171
2011	1023	275	576	171
2012	941	194	576	171
2013	796	49	576	171
2014	483	0	312	171
2015	0	0	0	0

Table 3.5. The quantity of MB used in vegetable, strawberries and medical herbs from 2002 to 2015 in scenario 3

Year	Total	Vegetable	strawberries	medical herbs
2002	1485	738	576	171
2003	1386	639	576	171
2004	1287	540	576	171
2005	1188	441	576	171
2006	738	0	568	171

2007	453	0	283	171
2008	321	0	150	171
2009	244	0	73	171
2010	193	0	22	171
2011	154	0	0	154
2012	120	0	0	120
2013	83	0	0	83
2014	12	0	0	12
2015	0	0	0	0

IV. Economic loss incurred by phasing out MB

To evaluate the economic impact of phasing out MB on the production of the three crops based on the scenarios given above, attentions should be given on:

- 1) Farmers' behaviors in response to the anticipated the restriction of MB use in agricultural production. Here, we assume that farmers' behaviors are rational. They are able to adjust production structure, production mode and factor inputs to maximize their profits. These assumptions are also required by the model developed in II.1 and II.2.
- 2) Given the assumption that farmers are able to adjust production structure, production mode and factor inputs, the economic loss of rationing MB use mainly come from two resources: unreachable scale of economy which would be reached without restioned use of MB, and decrease in the production efficiency brought by the restricted use of MB. Obviously, the former is implicit, and the latter is explicit. Both the costs should be embodied in the evaluation of economic impact.

Therefore, the shortage of MB due to the restriction is: the quantity of MB that would be used (table 3.2, the quantity after 2010 is fixed at that in 2010) – rationed quantity of MB (table 3.3, 3.4 and 3.5). Then, we can calculate the reduction of planting area due to the restricted use of MB by formula (2.8).

Table 4.1. The reduction of planting area of vegetable, strawberries and medical herbs due to the restricted use of MB (Ha)

Year	Scenario 1			Scenario 2			Scenario 3		
	Vegetable	Strawberries	medical herbs	Vegetable	Strawberries	medical herbs	Vegetable	Strawberries	medical herbs
2002	0	0	0	0	0	0	0	0	0
2003	1025	197	658	1025	197	658	1025	197	658
2004	2609	467	1658	2609	467	1658	2609	467	1658
2005	4648	791	2658	4648	791	2658	4648	791	2658
2006	7096	1141	2958	6885	1141	2958	7740	1159	2958
2007	9654	1554	3024	9237	1554	3024	10060	2142	3024
2008	11911	1987	3092	11298	1987	3092	12080	2840	3092

2009	13280	2558	3160	12552	2489	3160	13280	3496	3160
2010	14610	3343	3230	13955	3036	3230	14610	4145	3230
2011	14512	3488	3152	13965	2958	3152	14512	4081	3184
2012	14414	3624	3075	14032	2882	3075	14414	3976	3171
2013	14317	3751	3000	14221	2808	3000	14317	3874	3163
2014	14221	3775	3021	14221	3212	2927	14221	3775	3215
2015	14126	3677	3157	14126	3677	3157	14126	3677	3157

The survey data collected from 287 households of 47 villages in Tonghua (Jilin), Donggang (Liaoning), Jinan, Qingzhou, Linyi (Shandong), Mangchen, Shunping, Yixian, Anguo (Hebei), shows that, averagely, farmers can get more profit from agricultural production by using MB than alternatives. The differences are 35279 Yuan/Ha in vegetable production, 43609 Yuan/Ha in strawberries, 450000 Yuan/Ha in medical herbs.

With all the data required, the economic loss incurred by the restricted use of MB in the three crops in three scenarios can be estimated separately. The net present value of loss after 2002 is calculated by discounting the loss in that year with 6% of discount rate. Table 4.2 shows that the loss increases yearly. The economic impact of banning MB use on medical herbs production will be shown with 5 years delayed because of the duration of ginseng growth, which is the main component of medical herbs in this study, is usually 5 years.

Table 4.2. Economic loss incurred by banning MB used in the production of vegetable, strawberries, medical herbs (10,000 Yuan)

	Vegetable			Strawberries			Medical Herbs		
	Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
NPV in									
2002	297375	288929	300665	79344	71746	91532	609740	609740	610426
2003	3615	3615	3615	860	860	860	0	0	0
2004	9205	9205	9205	2037	2037	2037	0	0	0
2005	16399	16399	16399	3450	3450	3450	0	0	0
2006	25034	24289	27306	4976	4976	5053	0	0	0
2007	34057	32589	35491	6777	6777	9341	29629	29629	29629
2008	42021	39858	42617	8666	8666	12386	74629	74629	74629
2009	46851	44282	46851	11155	10855	15244	119629	119629	119629
2010	51543	49231	51543	14576	13240	18076	133129	133129	133129
2011	51196	49267	51196	15211	12900	17798	136099	136099	136099
2012	50852	49505	50852	15804	12568	17341	139128	139128	139128
2013	50510	50171	50510	16356	12245	16895	142218	142218	142218
2014	50171	50171	50171	16460	14007	16460	145370	145370	145370
2015	49834	49834	49834	16037	16037	16037	141825	141825	143288

Table 4.2 shows that the loss under scenario 2 is the least (in terms of NPV in 2002) for each of the three crops.

Table 4.3. Total Economic loss incurred by banning MB used in the production of vegetable, strawberries, medical herbs (10,000 Yuan)

	Scenario 1	Scenario 2	Scenario 3
NPV in 2002	986459	970416	1002624
2003	4475	4475	4475
2004	11243	11243	11243
2005	19849	19849	19849
2006	30011	29265	32359
2007	70464	68995	74460
2008	125316	123153	129633
2009	177635	174766	181724
2010	199248	195600	202748
2011	202506	198266	205093
2012	205784	201201	207321
2013	209085	204634	209623
2014	212001	209548	212001
2015	207695	207695	209159

References

1. Cao Aochen, 2002, Economic Evaluation of Methyl Bromide Use. Unpublished.
2. M.S. Deepak, Thomas H. Spreen, and John J. VanSickle, *An Analysis of the Impact of a Ban of Methyl Bromide on the U.S. Winter Fresh Vegetable Market*, Journal of Agricultural and Applied Economics, 28.2 (December 1996): 433-443.
3. Lori Lynch and Janet Carpenter, *The Impacts of Allocation Strategies for Spatially Regulated Chemical Use*, Economics of Pesticides, Sustainable Food Production and Organic Food Markets, Volume 4, pages 209-230.
4. United Nations Industrial Development Organization, 1999, *Demonstration Project on Alternatives to the Use of Methyl Bromide in Soil Fumigation*.