

PART II

Chapter 21

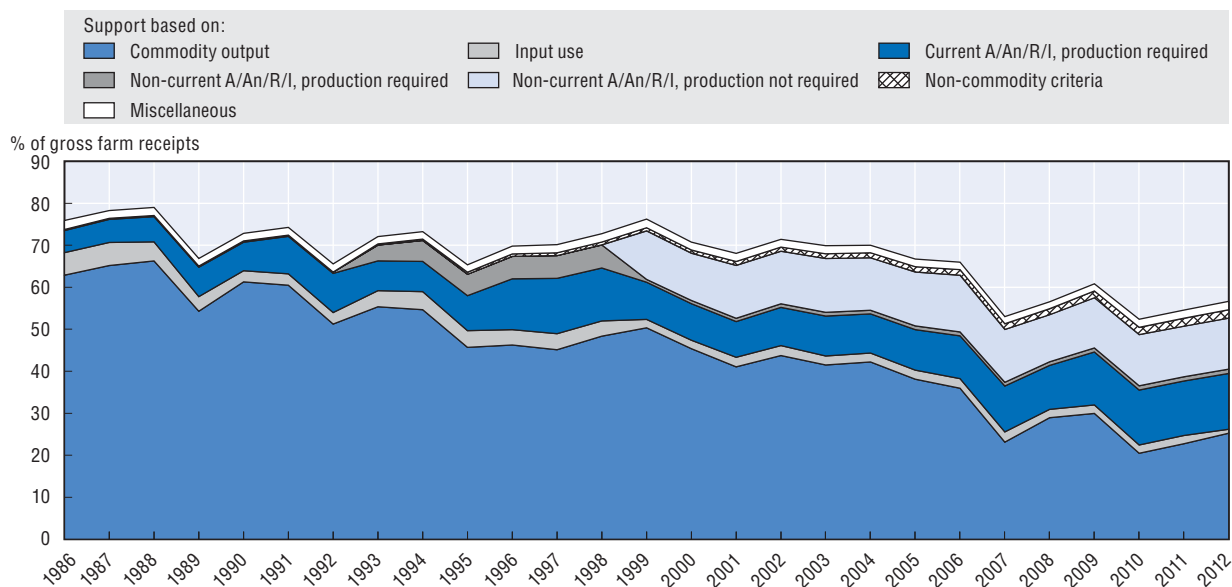
## Switzerland

*The Switzerland country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2011-12 and in the longer term perspective, and a brief description of the main policy developments in 2012-13.*


### Evaluation of policy developments

- With the reforms started in the mid-1990s, gradual progress has been achieved in improved market orientation. The share of market price support and the potentially most production and trade distorting forms of support declined. Production and trade distorting policies represented 43% of total support in 2010-12, compared with 70% in the mid-1990s. Due to an increase in direct payment over the same period, the total level support to agriculture reduced at a slower pace and remains almost three times higher than the OECD average.
- The removal of milk price controls and the milk quota, together with the elimination of export subsidies on primary agricultural products and the reduction of some tariff barriers has a potential to improve economic efficiency of the sector and to contribute to the food security objective.
- The move away from market price support and the simultaneous increase in direct payments implemented by the Agricultural Policy reform 2011 (2008-13), made an increasing part of support decoupled from production. However, most of these payments are general direct payments which are rather poorly targeted to the declared policy objectives such as rural development, environmental and animal welfare issues.
- The steps outlined in the Agricultural Policy 2014, to eliminate the general area payment and to replace the headage payments by area payments for pasture area are steps in the right direction. Focus should be put on developing a set of better targeted direct payments to meet the various societal concerns more efficiently and to further reduce border protection.

Figure 21.1. **Switzerland: PSE level and composition by support categories, 1986-2012**



Source: OECD, PSE/CSE Database, 2013.

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## Contextual information

Switzerland is a relatively small economy with a high GDP per capita and relatively low inflation and unemployment rates. The relative importance of agriculture in the Swiss economy is low with its share in domestic product falling to around 1%, while its share in employment is below 4%. This is mainly due to highly developed industrial and services sectors in the economy. Switzerland has consistently been a net agro-food importer; its share of agro-food imports in total imports is around 6%, while the share of agro-food exports in total exports is around 4%. The farm structure is dominated by relatively small family farms. Most of farming areas in hills and mountain areas are used extensively, while most of farming areas in lowlands are used more intensively. Arable land and irrigated land represents respectively 27% and 2% of total agricultural area.

Table 21.1. **Switzerland: Contextual indicators, 1995, 2011**

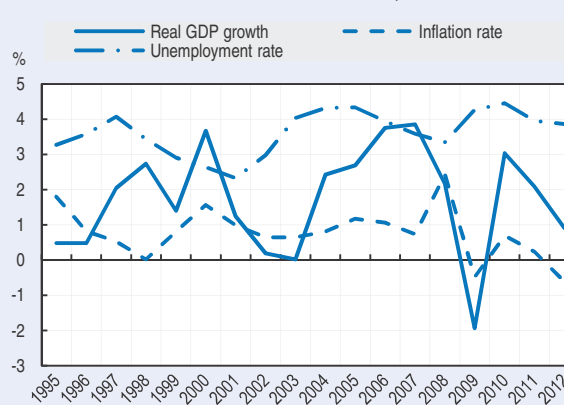
	1995	2011*
<b>Economic context</b>		
GDP (USD billion)	324	661
Population (million)	7	8
Land area (thousand km <sup>2</sup> )	40	40
Population density (inhabitants/ km <sup>2</sup> )	170	187
GDP per capita, PPP (USD)	27 248	51 507
Trade as % of GDP	25.0	33.5
<b>Agriculture in the economy</b>		
Agriculture in GDP (%)	1.7	0.8
Agriculture share in employment (%)	4.4	3.7
Agro-food exports (% of total exports)	3.3	3.9
Agro-food imports (% of total imports)	7.0	6.0
<b>Characteristics of the agricultural sector</b>		
Agro-food trade balance (USD million)	-2 937	-3 465
Crop in total agricultural production (%)	30	31
Livestock in total agricultural production (%)	70	69
Agricultural area (AA) (thousand ha)	1 581	1 525
Share of arable land in AA (%)	27	27
Share of irrigated land in AA (%)	2	2
Share of agriculture in water consumption (%)	..	..
Nitrogen Balance, Kg/ha	73	68

\* or latest available year.

Sources: OECD statistical Databases, ITCS, World Development Indicators and national data.

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Figure 21.2. **Switzerland: Main macroeconomic indicators, 1995-2012**



Source: OECD statistics.


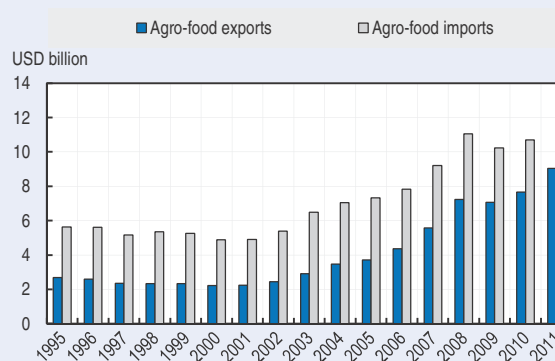

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Figure 21.3. **Switzerland: Agro-food trade, 1995-2011**



Source: International Trade by Commodity Statistics (ITCS) Database.

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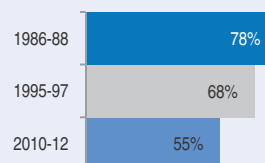
Note: Detailed definitions of contextual indicators and their sources are provided in Annex II.1.

## Development of support to agriculture

Switzerland has progressively reduced its support to agriculture and especially its most trade and production distorting forms of support since 1986-88. However, support remains high relative to the OECD average. The level of price distortions has been significantly reduced as shown by the NPC, although domestic prices remain on average 48% above world prices. Within direct payments, the general area and headage payments dominate, but the share of payments targeted towards environment and animal welfare is steadily increasing.

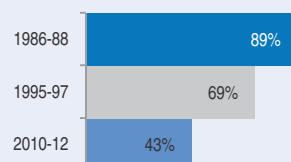
### PSE as % of receipts (%PSE)

Switzerland has reduced its support to farmers by 23 percentage points between 1986-88 and 2010-12. Despite this gradual reduction, overall support remains almost three times higher than the OECD average of 19%. After an increase of 3 percentage points in 2011, the %PSE increased by another 2 percentage points in 2012.



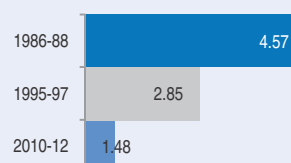
### Potentially most distorting support as % of PSE

As the budgetary expenditures financing market price support measures were further reallocated to direct payments as part of the AP 2011 reforms, the most production and trade distorting support (based on output and variable input use – without constraints) dropped to less than half of the PSE.



### Ratio of producer price to border price (NPC)

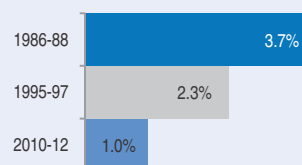
In the long term the ratio of producer price to border price was substantially reduced. Overall, the prices paid to the farming sector were 1.5 times higher than world prices in 2010-12 as measured by the NPC. The highest NPCs are for poultry and eggs.



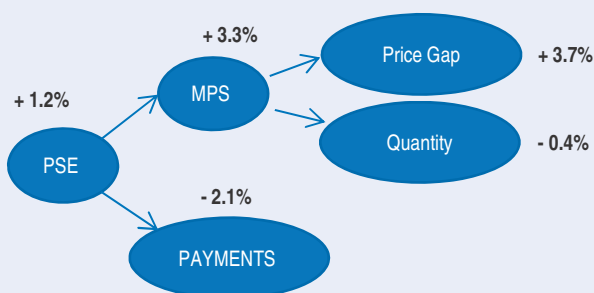
### TSE as % of GDP

Total support was 1% of GDP in 2010-12 and the expenditure on general services represented 8% of the Total Support Estimate.

The Single Commodity Transfers (SCT) represented 42% of the total PSE in 2010-12. The share of the SCT in the commodity gross farm receipt is lowest for sugar at 10% of commodity receipts, and above 70% for poultry and eggs.



### Decomposition of change in PSE, 2011 to 2012



The level of support increased slightly in 2012 as a combination of increased MPS (due to an increased price gap mainly due to a reduction of world prices) and reduced direct payments.

### Transfer to specific commodities (SCT), 2010-12

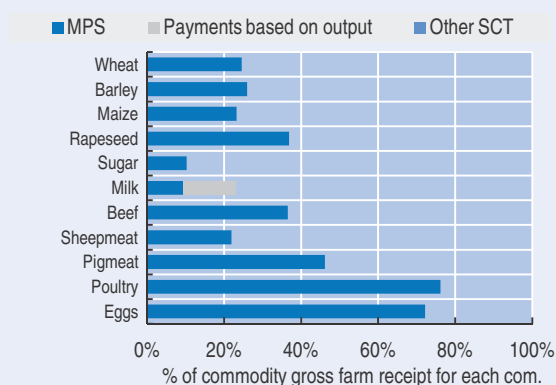


Table 21.2. **Switzerland: Estimates of support to agriculture**

CHF million

	1986-88	1995-97	2010-12	2010	2011	2012p
<b>Total value of production (at farm gate)</b>	<b>9 482</b>	<b>8 236</b>	<b>6 527</b>	<b>6 541</b>	<b>6 590</b>	<b>6 452</b>
of which: share of MPS commodities, percentage	82	82	72	73	71	71
<b>Total value of consumption (at farm gate)</b>	<b>11 394</b>	<b>9 557</b>	<b>7 938</b>	<b>8 094</b>	<b>7 908</b>	<b>7 810</b>
<b>Producer Support Estimate (PSE)</b>	<b>8 507</b>	<b>7 362</b>	<b>5 444</b>	<b>5 253</b>	<b>5 507</b>	<b>5 573</b>
Support based on commodity output	7 091	4 918	2 278	2 054	2 296	2 485
Market Price Support	7 049	4 835	1 985	1 765	2 004	2 187
Payments based on output	42	83	293	289	292	298
Payments based on input use	561	411	163	198	198	92
Based on variable input use	454	309	81	81	81	81
with input constraints	0	180	14	14	14	14
Based on fixed capital formation	70	78	81	116	116	10
with input constraints	0	0	0	0	0	0
Based on on-farm services	36	25	1	1	1	1
with input constraints	0	0	0	0	0	0
Payments based on current A/An/R/I, production required <sup>1</sup>	612	1 203	1 309	1 311	1 309	1 307
Based on Receipts / Income	15	0	0	0	0	0
Based on Area planted / Animal numbers	597	1 203	1 309	1 311	1 309	1 307
with input constraints	340	1 050	1 298	1 300	1 297	1 295
Payments based on non-current A/An/R/I, production required	28	569	101	101	102	101
Payments based on non-current A/An/R/I, production not required	0	0	1 211	1 221	1 218	1 195
With variable payment rates	0	0	0	0	0	0
with commodity exceptions	0	0	0	0	0	0
With fixed payment rates	0	0	1 211	1 221	1 218	1 195
with commodity exceptions	0	0	0	0	0	0
Payments based on non-commodity criteria	0	61	187	175	190	195
Based on long-term resource retirement	0	0	0	0	0	0
Based on a specific non-commodity output	0	61	187	175	190	195
Based on other non-commodity criteria	0	0	0	0	0	0
Miscellaneous payments	216	200	195	192	195	197
<b>Percentage PSE</b>	<b>78</b>	<b>68</b>	<b>55</b>	<b>52</b>	<b>55</b>	<b>57</b>
<b>Producer NPC</b>	<b>4.57</b>	<b>2.85</b>	<b>1.48</b>	<b>1.45</b>	<b>1.45</b>	<b>1.53</b>
<b>Producer NAC</b>	<b>4.50</b>	<b>3.18</b>	<b>2.20</b>	<b>2.10</b>	<b>2.20</b>	<b>2.31</b>
<b>General Services Support Estimate (GSSE)</b>	<b>688</b>	<b>591</b>	<b>486</b>	<b>485</b>	<b>482</b>	<b>491</b>
Research and development	135	126	103	101	102	107
Agricultural schools	38	38	12	12	12	12
Inspection services	14	15	11	11	11	11
Infrastructure	137	84	85	85	83	87
Marketing and promotion	45	45	56	56	55	56
Public stockholding	103	83	40	40	40	39
Miscellaneous	216	200	179	179	179	179
<b>GSSE as a share of TSE (%)</b>	<b>6.7</b>	<b>6.6</b>	<b>8.2</b>	<b>8.4</b>	<b>8.0</b>	<b>8.1</b>
<b>Consumer Support Estimate (CSE)</b>	<b>-7 544</b>	<b>-4 995</b>	<b>-2 461</b>	<b>-2 552</b>	<b>-2 321</b>	<b>-2 511</b>
Transfers to producers from consumers	-7 088	-5 053	-1 901	-1 832	-1 846	-2 025
Other transfers from consumers	-1 767	-1 221	-589	-760	-496	-511
Transfers to consumers from taxpayers	1 089	1 052	4	3	5	4
Excess feed cost	221	227	25	37	16	22
<b>Percentage CSE</b>	<b>-73</b>	<b>-59</b>	<b>-31</b>	<b>-32</b>	<b>-29</b>	<b>-32</b>
<b>Consumer NPC</b>	<b>4.50</b>	<b>2.91</b>	<b>1.46</b>	<b>1.47</b>	<b>1.42</b>	<b>1.48</b>
<b>Consumer NAC</b>	<b>3.74</b>	<b>2.42</b>	<b>1.45</b>	<b>1.46</b>	<b>1.42</b>	<b>1.47</b>
<b>Total Support Estimate (TSE)</b>	<b>10 285</b>	<b>9 005</b>	<b>5 934</b>	<b>5 741</b>	<b>5 994</b>	<b>6 068</b>
Transfers from consumers	8 855	6 274	2 490	2 592	2 342	2 537
Transfers from taxpayers	3 197	3 952	4 033	3 909	4 148	4 042
Budget revenues	-1 767	-1 221	-589	-760	-496	-511
<b>Percentage TSE (expressed as share of GDP)</b>	<b>3.74</b>	<b>2.32</b>	<b>1.01</b>	<b>1.00</b>	<b>1.02</b>	<b>1.02</b>
<b>GDP deflator 1986-1988=100</b>	<b>100</b>	<b>125</b>	<b>142</b>	<b>142</b>	<b>143</b>	<b>143</b>

Note: p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Switzerland are: wheat, maize, barley, colza, sugar, milk, beef and veal, sheep meat, pigmeat, poultry and eggs.

1. A (area planted) / An (animal numbers) / R (receipts) / I (income).

Source: OECD (2013), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database).

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## Policy developments

### Main policy instruments

The period 2011-13 are final years of implementing of policy reforms decided under the *Agricultural policy reform 2011 (AP 2011)* which started in 2008. The key feature of AP 2011 was a further reduction of 30% in budgetary expenditures for market price support. The outlays were transferred to direct payments for roughage-consuming cattle, to compensate for difficult production conditions, to enhance sustainable use of natural resources and animal welfare practices. All export subsidies for primary agricultural products were eliminated by 1 January 2010, while those for some processed agricultural products were maintained. All state guarantees for prices and sales had already been abolished in 1999. For feed grains and animal feed, imports remain subject to variable custom duties based on threshold prices. Despite some gradual reductions, import measures consist of a combination of low in quota tariffs and high out-of quota tariffs within a system of tariff rate quotas (TRQs) for most products. The resulting Market Price Support represented 36% of the total estimated support to agriculture in 2010-12.

There are two main categories of direct payments. *General direct payments* are mainly granted in the form of payments per hectare of farmland and payments per cattle head. They also include payments to farmers operating in difficult conditions. *Ecological direct payments* are mainly granted in the form of area and headage payments to farmers who voluntarily apply stricter farming practices than those required by public regulations and the ecological proof of performance (*Prestations écologiques requises – PER*) which is compulsory to both general and ecological direct payments (cross-compliance). A relatively important share of the ecological direct payments is provided in the form of contributions to stimulate voluntary adoption of practices to improve animal welfare (*ethological contributions*). There are limited payments based on output related to milk production (milk used for cheese processing and milk produced without silage). Overall, the share of direct payments in total PSE is gradually increasing and represented 64% of the support in 2010-12.

Switzerland has adopted a new policy framework for years 2014-17 (*Politique Agricole 2014-17 – PA 14-17*) and its detailed legislation is currently under discussion with adoption planned for autumn 2013. The main element of the policy framework is a system of direct payments better targeted to the various objectives. The main change is the suppression of general area payments and reallocation to payment related to specific objectives (agricultural practices) and to transition payments. Also, the headage payments to livestock will be replaced by area payments to pastures. The budgeted annual amount of these payments remains stable for the whole period (CHF 2 814 million) which is around the same level as in 2012 (CHF 2 809 million).

### Domestic policy developments in 2012-13

Since the abolition of the **milk quotas** in May 2009, all dairy farmers are obliged to conclude milk delivery contracts with their milk purchasers. The obligation remains in force until 31 December 2013. For 2014 inter-branch organizations for milk are responsible for standard milk delivery contracts that may be made compulsory by the Federal Council. Exempted are those farmers who sell their milk directly to final consumers and farmers who produce cheeses and other dairy products on farm. Due to border measures the price paid to milk producers remains on average 32% above the world market prices (producer NPC) in 2010-12. **Price support** expenditures for dairy products consist from 2010 only for the allowance for milk transformed into cheese and

the additional allowance when milk was produced without silage feed. These payments reached CHF 293 million (USD 260 million) in 2011 and CHF 298 million (USD 308 million) in 2012.

Table 21.3. **Switzerland: Outlays for direct payments<sup>1</sup>, 2010-12**

CHF million

Type of payment	2010	2011	2012p	Percentage change	
				2010 to 2011	2011 to 2012p
<b>General direct payments</b>	<b>2201</b>	<b>2192</b>	<b>2178</b>	<b>-0.4</b>	<b>-0.6</b>
of which:					
Area payments	1221	1218	1195	-0.3	-1.9
Holding of roughage-consuming animals	510	508	503	-0.4	-1.0
Payments for farming in difficult production locations	470	466	466	-0.7	-0.1
Holding of livestock under difficult conditions	354	352	352	-0.5	-0.1
Farming on steep slopes	104	103	102.3	-1.3	-0.3
Wine cultivation on steep slopes	11	11	11.4	0.0	0.9
<b>Ecological payments</b>	<b>598</b>	<b>618</b>	<b>631</b>	<b>3.3</b>	<b>2.1</b>
of which:					
Ecological compensation	128	134	139	4.3	4.3
Contributions for environmental quality	62	72	75	15.3	4.9
Extensive cereal and rapeseed farming	29	29	30	-1.0	2.4
Organic farming	30	31	33	5.1	5.8
Regularly keeping animals outdoors	164	165	165	0.7	-0.1
Animal welfare through housing systems	62	64	64	3.6	0.2
Summer pasturing	101	102	101	0.5	-0.5
Water protection, sustainable use of natural resources	21	22	24	5.2	7.1
<b>Total</b>	<b>2799</b>	<b>2810</b>	<b>2809</b>	<b>0.4</b>	<b>0.0</b>

p: provisional

1. Direct payments are subject to restrictions of environmental and farm management practices.

Source: Federal Office of Agriculture, Bern, 2012

StatLink  <http://dx.doi.org/10.1787/888932877052>

The structure of the programmes and the eligibility conditions applied within the *General direct payments* and the *Ecological direct payments* have remained largely unchanged under the AP 2011 (implemented from 2008). Also the level of these payments remained around the 2010 level in 2011 and 2012 (Table 21.3). Around 78% of the total payments is granted under *General direct payments*, which were slightly declining in 2011 and 2012. *Ecological Direct Payments* increased by 3.3% in 2011 and 2.1% in 2012, mainly reflecting the increasing payments for *Contributions for environmental quality*, *Ecological compensations* and funding of regional programmes of *Sustainable use of natural resources*.

## Trade policy developments in 2012-13

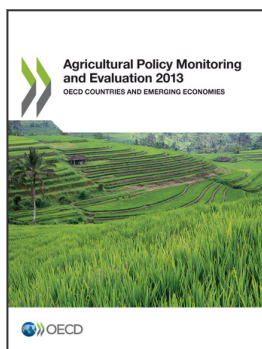
Agro-food imports to Switzerland are regulated either by single tariffs or, for a number of products, by a combination of relatively low in-quota tariffs and high out-of-quota **import tariffs** within a system of **Tariff Rate Quotas** (TRQ). These cover a number of basic agricultural and food products, in particular, meat, milk products, potatoes, fruits, vegetables, bread cereals and wine. Since 1999, allocated TRQ volumes have been transferable from one importer to another. An auctioning system has been used to allocate some of the TRQs to traders.

All **export subsidies** for basic agricultural products were phased-out at the end of 2009. Nevertheless, Switzerland compensates the price handicap of exported processed products due to higher prices of incorporated domestic basic agricultural products (such as milk products, wheat flour or eggs) through a system of **import duties and price compensation mechanism for processed agricultural products** according to the products incorporated. Export refunds under this scheme have been phased out for eggs in 2012.

In November 2008, Switzerland and the EU launched negotiations on full trade liberalisation in the agro-food sector. So far, three comprehensive rounds of negotiations have taken place. The negotiations have however slowed down due among other things to open institutional issues. As a member of EFTA, Switzerland participates in ongoing free trade negotiations between EFTA and, respectively, **India, Indonesia, Viet Nam**, the customs union **Russia/Belarus/Kazakhstan, and Bosnia-Herzegovina** as well as Central American States (**Costa Rica, Guatemala, Honduras and Panama**). Negotiations started with **Algeria** and **Thailand** are on hold for the moment. Negotiations with **Hong Kong, China** and **Montenegro** have been completed and the agreement with Hong Kong, China came into force 1 November 2012. On a bilateral basis, Switzerland recently completed on a technical level free trade negotiations with **China**. The mentioned Free Trade Agreements and the negotiations include all processed agricultural products and a range of basic agricultural products.

**Preferential tariff rates** are applied to imports from developing countries under a system of preferences scheme. In the context of the initiative of the Swiss government to grant zero tariffs on all products imported from least developed countries (LDC), since September 2009 all agricultural imports from LDC countries are duty and quota free.





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