

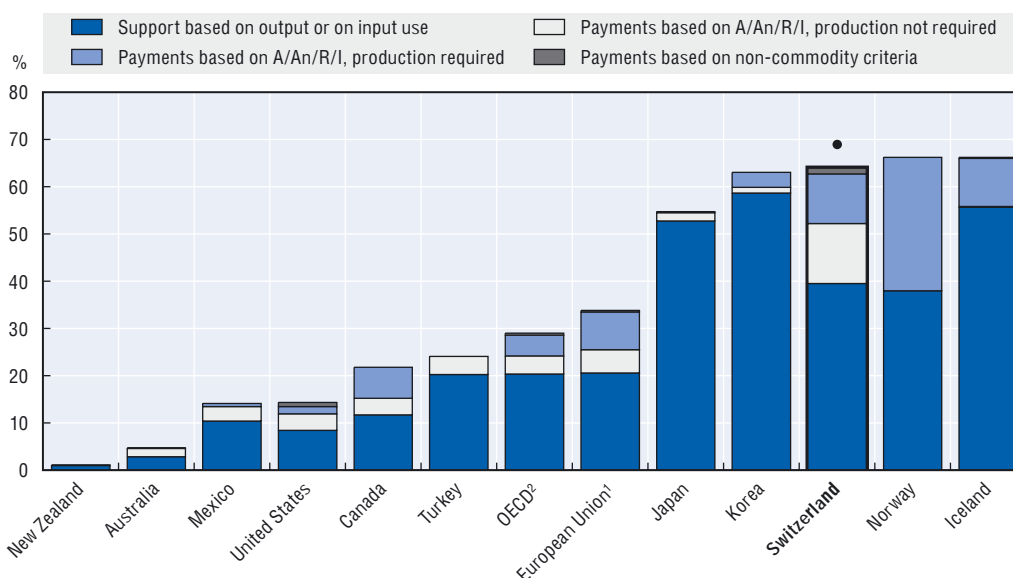
Chapter 13

Switzerland

Evaluation of policy developments

- Overall, there has been a gradual fall in the level of support since 1986-88, and the share of market price has decreased significantly. However, production and trade distorting policies still account for more support than half of the support, and the level of support remains very high.
- The removal of milk price control and the gradual elimination of the milk quota system will contribute to improve the economic efficiency of the sector. The adoption of greater flexibility and transparency in the administration of the tariff rate quota system and further reduction of some tariff barriers (grains, animal feed) will also strengthen the role of the market and improve economic efficiency in the livestock sector.
- Almost all the payments to farmers are conditional on compliance with environmental standards and farming practices (*prestations ecologiques requises*). However, among budgetary payments a relatively small part is targeted to specific societal and consumer concerns – such as animal welfare, environmental issues, organic farming. These payments are conditional on implementing more restrictive farming practices, which should improve environmental performance, and are among the least production and trade distorting forms of support.
- The proposal in AP 2011 to continue to move away from market price support measures is a welcome development. Further progress to reduce market protection and better targeted budgetary payments is needed to meet policy objectives in less production and trade distorting ways.

Figure 13.1. **Switzerland: Producer Support Estimate by country, 2004-06**
Per cent of value of gross farm receipts



A (area planted), An (animal numbers), R (receipts) or I (income).

1. EU25. 2. The OECD total does not include the six non-OECD EU member states.

Source: OECD PSE/CSE database, 2007.

1

2

<http://dx.doi.org/10.1787/073280401136>

Summary of policy developments

The main policy developments in 2005 and 2006 were the gradual phase out of the milk quota production system. By 2006, some 63% of producers producing 75% of production had already left the quota production system. There were no significant changes in the structure and the level of *General Direct Payments* and *Ecological Direct Payments*. New payments per animal provided to slaughterhouses and producers were introduced as compensation for the BSE-related additional costs incurred in disposing of by-products from slaughtering. To limit the risk of the spread of avian flu the federal government issued temporary bans on keeping poultry in the open air. The regulations for imports, custom declarations and Tariff Rate Quotas administration were further simplified, with more use of information technology and less administration.

- The level of support to producers declined from 78% in 1986-88 to 66% in 2004-06, which remains twice the average level of support in the OECD.
- The share of the most distortive forms of support (commodity output and variable input based support) has fallen from 90% in 1986-88 to less than 60% in 2004-06. The share of the least distortive support (payments which place no requirement to produce) reached 20% in 2004-06 (no such payments in 1986-88).
- In 1986-88 average producer and consumer prices at the farmgate were almost five times greater than world prices, while by 2004-06 they were just over double world prices (NPC). Consequently, the implicit tax on consumers decreased from 73% in 1986-88 to 52% in 2004-06.
- Overall, the total receipts of the farming sector (including budgetary payments) were over 4 times higher than they would have been at world prices in 1986-88 and 3 times higher in 2004-06 (NAC).
- Transfers provided directly to commodities (SCT) represented 86% of total PSE in 1986-88 and had dropped to 57% by 2004-06. In 2004-06, these transfers varied from 35% of commodity gross receipts for wheat to 80% for poultry. The commodities with the highest relative levels of support provided through single commodity transfers were poultry, eggs and sugar.
- Support for general services has changed little between 1986-88 and 2004-06 at around nearly 7% of total support to agriculture. Total support to agriculture was 1.6% of GDP in 2004-06, less than half the level estimated in 1986-88.

Figure 13.2. **Switzerland: PSE level and composition by support categories, 1986-2006**

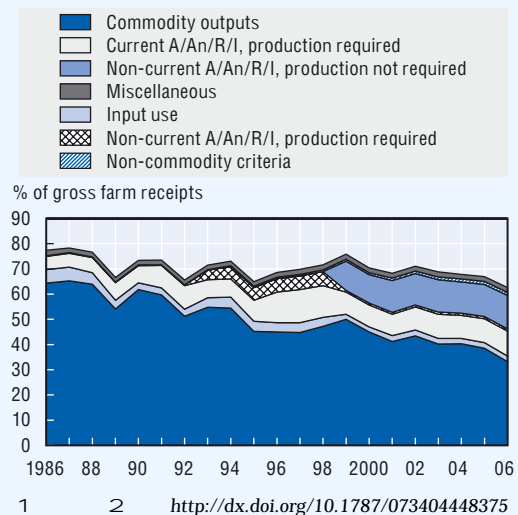


Figure 13.3. **Switzerland: Producer SCT by commodity, 2004-06**

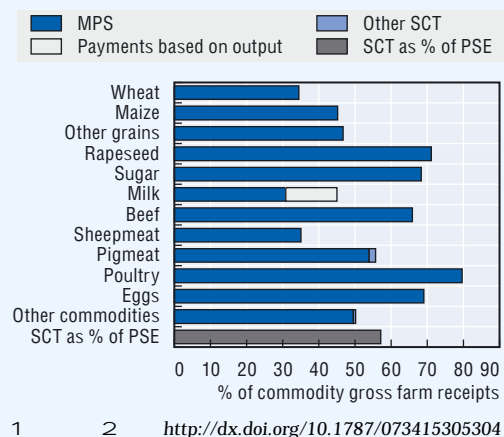


Table 13.1. **Switzerland: Estimates of support to agriculture**

CHF million

	1986-88	2004-06	2004	2005	2006p
Total value of production (at farm gate)	9 482	7 081	7 389	7 124	6 730
<i>Of which share of MPS commodities (%)</i>	<i>84</i>	<i>73</i>	<i>72</i>	<i>71</i>	<i>76</i>
Total value of consumption (at farm gate)	11 661	8 670	8 988	8 722	8 299
Producer Support Estimate (PSE)	8 474	6 820	7 221	6 958	6 280
Support based on commodity output	7 057	3 876	4 292	4 013	3 325
<i>Market Price Support</i>	7 015	3 542	3 960	3 683	2 983
<i>Payments based on output</i>	42	335	332	330	342
Payments based on input use	561	224	224	223	226
<i>Variable input use</i>	454	107	109	105	106
<i>Fixed capital formation</i>	70	103	100	103	106
<i>On-farm services</i>	36	15	15	15	15
Payments based on current A/An/R/I ¹ production required	612	991	983	992	998
<i>Of a single commodity</i>	166	11	11	11	11
<i>Of a group of commodities</i>	445	980	972	981	986
<i>Of all commodities</i>	0	0	0	0	0
Payments based on non-current A/An/R/I ¹ production required	28	91	91	92	91
Payments based on non-current A/An/R/I ¹ production not required	0	1 319	1 318	1 320	1 320
<i>Variable rates</i>	0	0	0	0	0
<i>Fixed rates</i>	0	1 319	1 318	1 320	1 320
Payments based on non-commodity criteria:	0	129	125	130	133
<i>Long-term resource retirement</i>	0	0	0	0	0
<i>Specific non-commodity output</i>	0	129	125	130	133
<i>Other non-commodity criteria</i>	0	0	0	0	0
Miscellaneous payments	216	188	189	188	188
Percentage PSE	77	66	68	67	63
Producer NPC	4.88	2.19	2.36	2.26	1.95
Producer NAC	4.44	2.93	3.11	3.02	2.68
General Services Support Estimate (GSSE)	688	501	504	490	509
Research and development	135	89	91	89	89
Agricultural schools	38	18	18	19	18
Inspection services	14	12	12	12	12
Infrastructure	137	96	95	85	108
Marketing and promotion	45	55	56	55	55
Public stockholding	103	42	43	42	41
Miscellaneous	216	188	189	188	188
GSSE as a share of TSE (%)	6.7	6.7	6.4	6.4	7.4
Consumer Support Estimate (CSE)	-7 759	-4 455	-4 848	-4 629	-3 887
Transfers to producers from consumers	-7 240	-3 645	-4 066	-3 786	-3 082
Other transfers from consumers	-1 982	-1 059	-1 074	-1 096	-1 007
Transfers to consumers from taxpayers	1 089	146	184	147	107
Excess feed cost	374	103	108	106	95
Percentage CSE	-73	-52	-55	-54	-47
Consumer NPC	4.78	2.19	2.34	2.27	1.97
Consumer NAC	3.76	2.10	2.23	2.17	1.90
Total Support Estimate (TSE)	10 251	7 466	7 909	7 594	6 896
Transfers from consumers	9 222	4 704	5 140	4 882	4 089
Transfers from taxpayers	3 011	3 822	3 843	3 808	3 814
Budget revenues	-1 982	-1 059	-1 074	-1 096	-1 007
Percentage TSE (expressed as share of GDP)	3.86	1.63	1.77	1.67	1.46
GDP deflator 1986-88 = 100	100	132	132	131	133

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

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

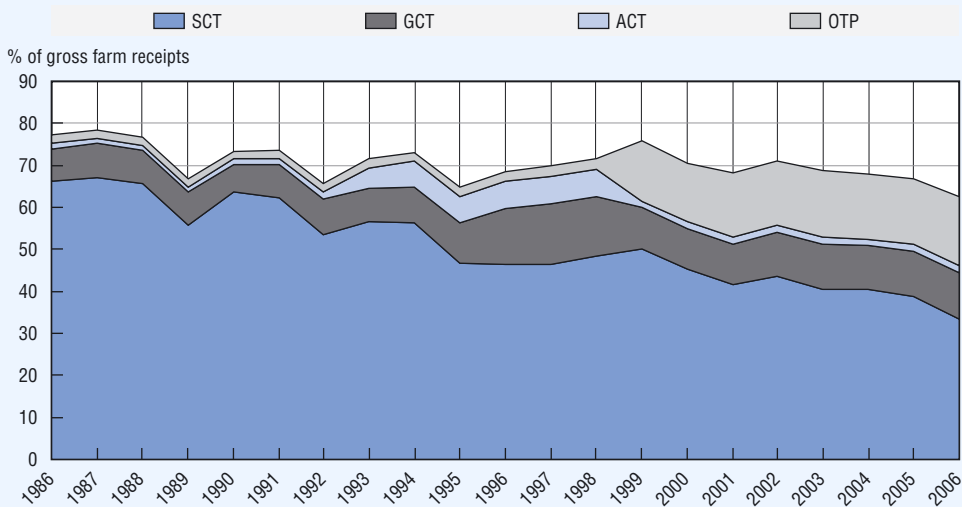
MPS commodities for Switzerland are: wheat, maize, other grains, oilseeds, sugar, milk, beef and veal, sheepmeat, pigmeat, poultry and eggs. Market price support is net of producer levies and excess feed costs.

Source: OECD, PSE/CSE database, 2007.

Box 13.1. Switzerland: Commodity-Specificity of Support

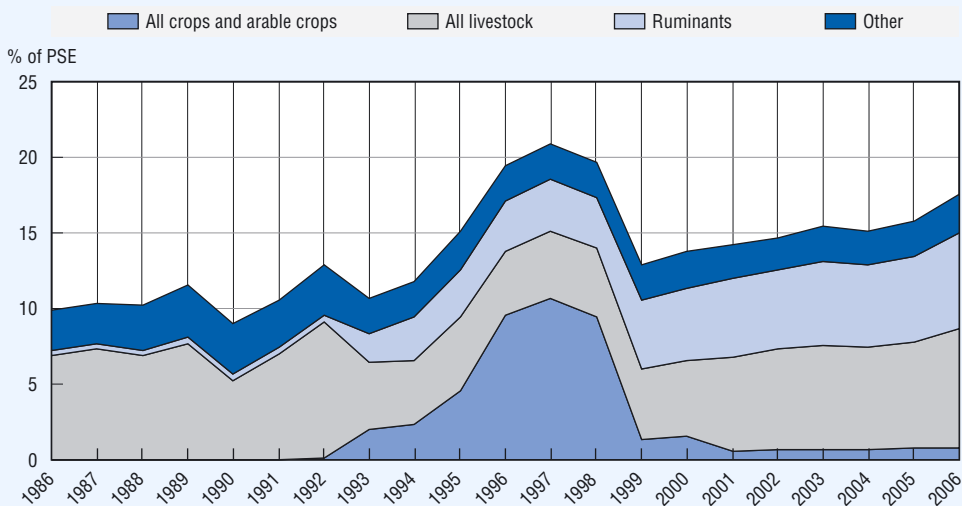
Single Commodity Transfers (SCT) in 2004-06 made up 57% of the PSE, a reduction from 86% in 1986-88. Group Commodity Transfers (GCT), where producers have the option to produce any one of a specified group of commodities as part of programme eligibility, made up 16% of the PSE in 2004-06, an increase of 6 percentage points from 1986-88. Transfers provided under the headings All Commodity Transfers (ACT) and Other Transfers to Producers (OTP) place no restriction on commodities that farmers choose to produce or do not require any commodity production at all.¹ Together these made up 27% of the PSE in 2004-06, a substantial increase from 5% in 1986-88.

Figure 13.4. Switzerland: PSE level and commodity specificity, 1986-2006



1 2 <http://dx.doi.org/10.1787/073440523532>

Figure 13.5. Switzerland: Components of GCT



Source: OECD PSE/CSE database, 2007.

Box 13.1. Switzerland: Commodity-Specificity of Support (cont.)

Support in Switzerland has become less commodity specific over the period, as the payments to group of commodities or all commodities were introduced (or increased) to compensate for the reduction of market price support. Over the whole period an important part of the GCT was provided to all categories of livestock (cattle, sheep, pigs and poultry) raised in difficult conditions (*Livestock in mountain areas, 1986-98; livestock in difficult conditions, 1999-2006*) and a general payment to ruminants (beef, sheep and goats, horses, lamas, alpagas, etc.) introduced in 1993. Payments for animal welfare (*Payments for Animal housing systems, from 1996; and Payments for keeping animal outdoors, from 1999*) also contributed to increase payments within the group all livestock. In the period 1993-98 important transfers were provided to groups all commodities and arable commodities, which led to an increase in the share of GCT in total PSE. From 1999 these payments (as well as part of payments to livestock groups) were replaced by by more general area and farm payments which contributed to the relative increase of OTP in the overall level of support.

1. The definition of the categories SCT, GCT, ACT and OTP are provided in the Chapter I.3 of this report including an annex with the list of groups used in specific countries in the period 1986-2006.

Description of policy developments

Main policy instruments

The AP 2007 agricultural policy reform programme provides the basic legislative framework governing agricultural policy for the period 2004-07. Border measures and budgetary payments remain the main policy instruments used to support agriculture in Switzerland. Production quotas and deficiency payments have been further reduced since 2004. All state guarantees for prices and sales were abolished and budgetary payments are subject to environmental and other cross-compliance requirements. Import measures consist of relatively high tariffs for most products and a system of tariff rate quotas (TRQs) to support prices on the domestic market. For some products, such as feed grains and animal feed, imports are subject to custom duties based on threshold prices. The federal Parliament is presently debating the legislative changes proposed for AP 2011 – Agricultural policy reform programme to be implemented in 2008-11 (Box 13.2).

Box 13.2. Switzerland: Agricultural Policy 2011

Since the introduction of the new Agriculture Act in 1999, legislative changes and funding for Swiss agriculture is granted by Parliament for a 4-year period.

The proposals of the Swiss Federal Council presently being discussed in Parliament pursue three objectives. Firstly, the potential for lowering costs to consumers and taxpayers in the food sector. At the same time, this should make Swiss agricultural and food sector more competitive and less vulnerable to the impact of future trade liberalization measures. Secondly, the reform steps should be implemented at a pace which is socially sustainable. And finally, the progress achieved over the past few years with regard to ecological aspects should be consolidated and agriculture should be encouraged to make further improvements. The key feature of Agricultural Policy 2011 is a further reduction of 50% in market price support with the savings thus made being used for direct payments. All remaining export subsidies for agricultural commodities are to be eliminated by 2009, and customs duties on imported fodder and cereals are to be reduced. It is widely accepted that farmers carry out tasks for the benefit of the whole population, helping to ensure sufficient food supplies, preserving culturally valuable landscape or safeguarding natural resources, and contributing to settlement in remote and economically disadvantaged areas. The provision of these services involves costs to farmers which are remunerated by way of public payments.

The modifications planned for Agricultural Policy 2011 will be finalized during the summer or autumn 2007, and implementation measures are to be adopted in late 2007.

There are two main categories of direct payments. *General Direct Payments* are mainly granted in the form of general area and headage payments, and to a lesser extent also includes payments to farmers operating in less-favoured conditions. *General Direct Payments* are based on the condition that farmers comply with a set of environmental farm management practice requirements (*prestations écologiques requises – PER*). *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 regulations and the farm management practice requirements (*PER*).

Domestic policy

Milk quotas are to be progressively abolished by 2009. From May 2009, the milk quota system will be abolished for all dairy farmers, although until May 2012 they will only be able to sell milk under the terms of contracts drawn up with buyers. As from May 2006, branch organisations or dairy farmers' associations with a significant regional processor can decide production quantities independently. Dairy farmers who are members of such an organisation can be exempted from the state quota system. In 2006, 9 producers' organisations and 18 producer and processor organisations decided to leave the state milk quota system ahead of schedule. This represents 63% of milk producers and 75% of milk production.

As in previous years, price support expenditures (price supplements, domestic price support and export refunds) for dairy products were reduced in 2005 and 2006 by 5.8% and 8.8% respectively to reach CHF 393 million (USD 313 million) in 2006. Payments for the price supplement paid to processors for milk transformed into cheese and the non-silage use premium for milk increased slightly in 2006, while domestic market support for butter and export subsidies for cheeses and other milk products were further reduced. In January 2005, **new payments per head of animal** provided to slaughterhouses and producers were introduced as compensation for the BSE-related additional costs incurred in disposing of by-products from slaughtering. The payment rates for slaughterhouses are CHF 25 (USD 19) for bovine animals and CHF 4.50 (USD 3.50) for sheep, goats and swine. The rate for producers is CHF 25 (USD 19) per calf as compensation for cost incurred because of earmarking, reporting etc. In 2006, these payments were maintained at the same level.

While the structure of the programmes and the eligibility conditions applied within the *General Direct Payments* and the *Ecological Direct Payments* categories have remained unchanged under the AP 2007 (implemented from 2004), the payment rates for some programmes have increased. Outlays to farmers for these two categories remained stable in 2005 and 2006 (Table 13.2). About 80% of the total is granted under **General Direct Payments**. Area payments per hectare of arable land and permanent cropland is the most important single category and accounts for 66% of general direct payments. The other important category of general payments is the payment per livestock unit (LU) for roughage-consuming animals. For beef cattle, buffalos, horses, sheep and goats for milk production the payment per LU was set at CHF 900, while for other sheep and goats, lamas, alpacas and deers the payment was set at CHF 400 per LU. The upper limit to qualify for payments for holding livestock under "difficult conditions" in mountain areas is set at 20 LU. Headage payments for roughage-consuming animals and animals raised in difficult conditions together account for 29% of general direct payments. The remaining 5% of General Direct Payments are paid to cultivate the steep slopes in mountain regions.

Ecological Direct Payments increased overall by less than 1% to CHF 484 million (USD 385 million) in 2006. About 40% of total are provided to improve animal welfare and these payments also increased the most in 2006. Payments for animal friendly husbandry systems and headage payments for animals kept outdoors increased by 2.2% and 4.7% respectively (Table 13.2). Another 26% of total ecological payments are granted for "ecological compensation": payments for extensive meadows, litter areas, hedges, floral and rotation fallow, extensive area strips and high-stem fruit trees. The level of these payments remained unchanged compared with previous years, while the remaining

Table 13.2. **Switzerland: Outlays for direct payments**

Type of payment	2005		2006p		Change in CHF price 2005 to 2006p
	mn CHF	mn USD	mn CHF	mn USD	%
General direct payments	2000	1605	2000	1591	0.0
<i>of which:</i>					
Area payments	1320	1059	1320	1050	0.0
Holding of roughage-consuming animals	292	234	295	235	1.1
Payments for farming in difficult production locations	388	311	384	306	-1.0
<i>Holding of livestock under difficult conditions</i>	282	226	280	223	-0.8
<i>Farming on steep slopes</i>	95	76	93	74	-1.9
<i>Wine cultivation on steep slopes</i>	11	9	11	9	1.8
Ecological payments	480	385	484	385	1.0
<i>of which:</i>					
Ecological compensation	126	101	126	101	0.3
Extensive cereal and rapeseed farming	32	25	31	25	-1.6
Organic farming	29	23	29	23	-0.3
Regularly keeping animals outdoors	149	119	152	121	2.2
Animal welfare through housing systems	47	38	49	39	4.7
Summer pasturing	92	74	91	72	-0.7
Water protection	6	5	6	5	0.0
Total	2 479	1 990	2 484	1 976	0.2

p: provisional

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

Source: Federal Office of Agriculture, Bern, 2006.

ecological payments were slightly reduced (Table 13.2). Summer pasturing accounts for less than 20%, payments supporting extensive grain and rapeseed production for just over 6%, and organic farming for 6%, of total ecological payments.

To limit the risk of the spread of **avian flu** the federal government issued a ban on keeping poultry in the open air for the periods 21 October 2005-15 December 2005 and 20 February 2006-early May 2006. However, premiums for keeping animals outdoor were paid even for those periods, and the appropriate marketing labels could still be used (provided it was completed by a notice on the temporary ban).

Trade policy

In 2005, the regulations for imports, custom declarations and Tariff Rate Quota (TRQ) administration were further simplified, with more use of information technology and less administration. In order to increase the competitiveness of Swiss meat and egg producers, the **threshold price** for imported animal feed (feed grains and protein feed) was reduced as of 1 July 2005. The in-quota tariff rate on bread grains was also reduced.

TRQs cover a number of basic agricultural and food products, in particular, meat, milk products, potatoes, fruits, vegetables, bread grain and wine. Since 1999, allocated TRQ volumes have been transferable from one importer to another. As a part of AP 2007, the auctioning system has been progressively extended, in particular in the meat sector. In 2005 and 2006, one-third and two-thirds of meat TRQs respectively were allocated through auctioning. The volume of the TRQs remained generally unchanged, with autonomous increases especially for potatoes. The AP 2007 also entails a greater flexibility in the administration of the TRQ for butter in so far as a larger number of importers are

authorised to import and the TRQs will not longer be reserved for the downstream and upstream sector. The special safeguard closes were not invoked during 2005 and 2006.

Export subsidies are applied mainly to dairy products (around 85% of total export subsidies in 2005 and 2006), the remaining 15% were essentially for live animal exports, and to a lesser extent for fruits and potatoes. In accordance with the bilateral **trade agreement** with the EU which became effective on 1 May 2002, tariffs for a number of agricultural products, including cheese, certain other dairy products, and fruits and vegetables, as well as export subsidies for cheese, will be eliminated by 2007. In fact, export subsidies were no longer applied to cheese exports to the EU as from 2005. Preferential tariff rates are applied to imports from developing countries. In the context of the initiative of the Swiss government to grant zero tariffs on all products from least developed countries by 2007, a further 50% reduction to that implemented in 2002 has been effective as from April 2004. The third step towards full tariff elimination in favour of the least developed countries will be implemented in 2007 with the exception of sugar and broken rice for feeding purposes, both of which will have a longer dismantling period up to 2009.