

# **Switzerland's Agricultural Trade Strategy**

## **The triple challenge of the WTO, the EU and the USA\***

### **1. Introduction**

As I understand it, this presentation comes at a time when agricultural policy in Japan is being challenged in a number of international for a as well as at the national level. Until today and despite WTO membership, border protection is arguably the single most important policy tool for all countries with high producer support, even though this fact may not be clearly understood by politicians. Yet Japan is located in a geographic area where tariffs are eroding rapidly. In a foreseeable future they are even likely to disappear altogether. Moreover, structural aspects such as demography, climate change, economic and fiscal crises, energy issues or new trends in consumer demand, but also important recent developments at home, and new policy perspectives for agriculture and agriculture-related issues, may demand a rethinking of the present agricultural policy.

It is not for me as an academic, who is a trade lawyer and a former trade diplomat, to comment or to give advice on policy choices in Japan. I will relate Switzerland's experience and policy reforms in some of these areas 'beyond agriculture', and I can offer my opinion on the compatibility of Japan's WTO obligations of certain policy measures. Furthermore, I am happy to discuss with my academic colleagues on ways and means for science to assist the public debate and to inform government decisions. But my presentation here at Waseda University has a different purpose. I have been asked to present Switzerland's experience with agricultural trade liberalisation made by the government and in a context of different international and national challenges.

I will start with the WTO and relate the regulatory changes which were required in the context of Switzerland's accession to the new trade organisation, taking into account the evolution of Swiss agriculture since WW2 (Section 2).

My second and third topics are the experiences made soon thereafter with our own 'Big Brother', the EU, and with Switzerland's then second most important trading partner, the USA (Sections 3 and 4).

Finally, I will draw a number of conclusions on the results of these developments and on the impact of possible future agricultural policy liberalisation, in the hope this is found useful as a basis for further discussions (Section 5).

My previous publications on these topics as well as additional literature can be gleaned in footnotes to this text, or on my website.<sup>1</sup>

## 2. Accession to WTO

The objective of the WTO Agreement on Agriculture (AoA), according to its Preamble, is 'to establish a fair and market-oriented agricultural trading system', where 'commitments under the reform programme should be made in an equitable way among all Members, having regard to non-trade concerns, including food security and the need to protect the environment.'

For the first time in history world agricultural trade is now regulated in basically three ways (the so-called three pillars of the AoA): (i) all domestic subsidies with a price support effect are limited, (ii) historic amounts and volumes of export subsidies have been reduced and new ones are prohibited, and (iii) all border protection measures must now consist in tariffs only, and these tariffs were bound and somewhat reduced.

The main changes brought about by the WTO and, in particular, the AoA are basically the same for all countries. Of course, countries with higher levels of tariffs and support were more affected than others, and more than most developing countries to which lesser disciplines apply.

The below OECD table shows the combined effect of border protection and producer support in OECD countries, expressed in "Producer Support Equivalents" (PSE). Even today, Japan and Switzerland are the biggest supporters of their farmers, together with Norway, Iceland, and Korea.<sup>2</sup> But Switzerland is the country with the highest scheduled agricultural tariffs and one of the highest overall producer support systems. Please note that this is not the same as "trade distor-

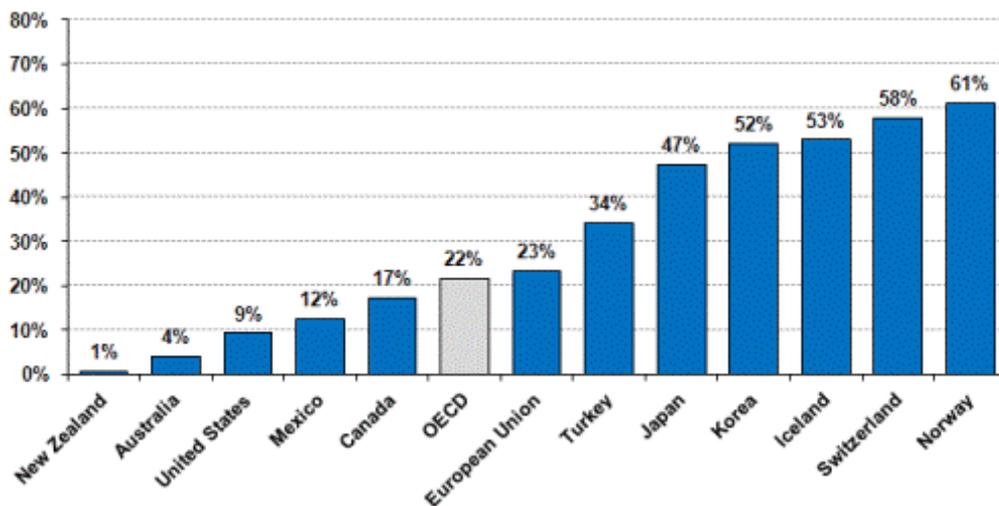
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<sup>1</sup> <http://www.nccr-trade.org/people/haeberli>

<sup>2</sup> According to OECD, *Agricultural Policies in OECD Countries: At a Glance 2010*, The level of producer support (expressed as % of producer revenues) in OECD countries in 2007-09 ranged widely: it was less than 1% in New Zealand, 4% in Australia, 9% in the United States, 12% in Mexico, 17% in Canada, 23% in the European Union, 34% in Turkey, 47% in Japan, 52% in Korea, 53% in Iceland, 58% in Switzerland and 61% in Norway. The structure of support also varies considerably among countries. Among the countries with the highest level of support the share of the potentially most distorting policies represents around 90% in Japan and Korea, it is around 70% in Iceland and around a half in Norway and Switzerland.

tion”, and that it does not correspond to the presently applied domestic support levels allowed in WTO.

Producer Support Estimates as % of gross farm receipts, 2007-09 average



Source: OECD, PSE/CSE database, 2010.

In Switzerland, the main changes brought about by the WTO, requiring legislative and other regulatory modifications were the following:

#### 1. Tariffication and Border Protection

Switzerland's GATT accession in 1966 was negotiated on a basis of "carte blanche for agriculture vs lowest industrial tariffs of all GATT Contracting Parties".<sup>3</sup>

Tariffication as decided in the Uruguay Round was therefore a particularly daunting challenge. Implementation was made easier by the fact that (i) our main trading partner, the EU, refused to talk with us throughout the Uruguay Round and (ii) the time for the verification of the WTO schedules was so short that attention focused on bigger economies. Besides, and contrarily to what many exporters and some scholars now say, so-called 'dirty tariffication' was part of a deal called "(almost) 100% tariffication vs high tariffs". In fact, tariffication at higher than formula levels was almost the rule, and not an exception.

Like others, Switzerland made ample use of high tariffs e.g. when tariffying converting import prohibitions and quantitative restrictions. Nevertheless, the border protection today is systemically very different from GATT times when we could basically decide what to import, when, and how much. Today there are considerable out-of-quota imports (despite OQTR of 300% and more e.g. for ham). But

<sup>3</sup> See [http://www.wto.org/english/res\\_e/booksp\\_e/gatt\\_ai\\_e/art33\\_e.doc](http://www.wto.org/english/res_e/booksp_e/gatt_ai_e/art33_e.doc) accessed 14 February 2012, p.1023.

fresh fruits and vegetables can still be managed by opening or not opening the TRQ (outside the minimum period scheduled for unlimited IQTR imports). On the other hand, the Special Safeguard (Art.5 AoA) was only used once, for pork meat, and even that was “too little too late”, because the Trade Division had for a long time opposed the proposal made by the Agriculture Division.<sup>4</sup>

Similarly, the duty-free quota-free preferences for Least Developed Countries (LDC) envisaged at the WTO Hong Kong Ministerial in 2005 had by 2009 been fully implemented by Switzerland – but with an autonomous safeguard allowing the Ministry of Economy to suspend or withdraw this preference in case of serious prejudice to Swiss agricultural interests.<sup>5</sup>

A conclusion of the Doha Round negotiations on agriculture anywhere near the reduction formulae envisaged in the so-called “modalities” in December 2008 would clearly pose an altogether different and much more serious threat to Swiss agricultural production. I will revert to that in my conclusions.<sup>6</sup>

## 2. Direct payments

Direct payments constitute a key element in Swiss agricultural policy and make it possible for price policy to be separated from incomes policy. They represent compensation for services provided by farmers for the common good. A distinction is made between general and ecological direct payments. Measures to be taken to improve structures will improve living standards and incomes in rural areas. This applies in particular to mountain regions and peripheral areas.

The introduction of this new policy instrument dates back to 1992. Heated debates, a change in the agricultural policy mandate laid down in the Federal constitution, and another referendum, preceded the introduction. Moreover, this came at a time when the contours of the Uruguay Round applying to domestic support were already foreseeable. This being, the Swiss direct payments system can be seen as a truly innovative solution later adopted by many other countries especially in the G10 and beyond. It has helped acceptance of another major re-

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<sup>4</sup> Switzerland has a federal government with only 7 Ministers, including the President. The Ministry of Economy is therefore (like others) rather big and includes Trade, Industry, Agriculture, Veterinary and Plant Protection, Housing, Stockpile policy and a few others.

<sup>5</sup> See p.47 of my Working Paper “Market Access in Switzerland and in the EU for Agricultural Products from Least Developed Countries” ([http://phase1.nccr-trade.org/index.php%3Foption=com\\_content&task=view&id=1402&Itemid=199.html](http://phase1.nccr-trade.org/index.php%3Foption=com_content&task=view&id=1402&Itemid=199.html)) The criteria for deciding whether Swiss agricultural interests are being violated are the following: “une hausse inhabituelle des quantités importées, une augmentation de l’offre domestique et une stagnation de la demande indigène qui conduisent ou risquent de conduire à un effondrement des prix des producteurs indigènes”.

<sup>6</sup> Please also refer to my article in Annex 3 which analyses this impact in detail.

form step, the abolition of milk production quotas in May 2009 which had been introduced in the 1970ies. Switzerland is together with Australia the only country which has taken this bold step. Repeated requests for a reintroduction of production limitations have so far been refused by the Government, but there are some implicit measures like mandatory butter disposal contributions with a similar effect. Other "planned economy mishaps" include 50'000 tons of food potatoes and 14'000 tons of bread wheat downgraded into hog feed. Also, after a bumper harvest for sugar beet the sugar quota farmers have to accept "Class C" types of prices and sometimes the exceeding quantities have been dumped on the world market, in violation of Switzerland's WTO commitments.

Today, direct payments are a well-established instrument, both politically (large consensus, easy budget approvals) and financially (SFR 2.8bn vs total agriculture and food subsidies of around SFR 3.5bn/year, or 6% of total expenditures at the federal level). Smaller and bigger revisions ("greening") are important for insiders and all stakeholders including NGO but do no longer interest politicians at large.

#### *Remuneration for services provided for the common good*

Services provided by agriculture for the common good<sup>7</sup> are remunerated through general direct payments. These include payments based on acreage and payments for grazing animals. Their aim is to ensure the appropriate use and care of all agricultural land. The more difficult farming conditions in hilly and mountainous regions are compensated for through additional payments for steep terrain and for keeping animals under difficult conditions. With the exception of payments for summer pasturing, direct payments are conditional upon proof of ecological performance (PEP).

#### *Compensation for special performance with regard to the environment and livestock*

Ecological, ethological, eco-quality, summering and water protection payments are an incentive for achieving levels beyond PEP stipulations. The federal authorities' aims in this respect are the following:

- to promote biodiversity in agricultural areas,
- to reduce the level of nitrates and phosphates in rivers and lakes,
- to reduce the use of fertilisers and pesticides,
- to promote especially animal-friendly conditions for livestock,

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<sup>7</sup> 'Public goods' production as defined in the OECD literature on multifunctionality

- to ensure the sustainable use of summer pastures.

The further development of the direct payment system (and other support policies) will soon be debated and decided in the Swiss Parliament. A proposal by the Government submitted on 1 February 2012 foresees similar financial support for what is called the "Politique agricole 2014-17", but it also proposes an abolition of the general direct payments in favour of the direct payments with specific purposes and conditionalities. Another major modification is the abolition of the animal per head contributions and the introduction of new payments for the food security role of Swiss agriculture as per its constitutional mandate. Many farmers are opposed to this and prefer price support subsidies and income guarantees, recalling their objective to ensure a "producing agriculture". Socialist and environmentalist parties, as well as consumers, advocate on the contrary for even more rural development, environmental and ethological conditionalities than is the case today. OECD standards and WTO disciplines seem to matter little in this debate.

On this topic and for further information please consult the website of the Agriculture Division, in English or, more complete, in French (Federal Office for Agriculture FOAG).<sup>8</sup>

### 3. Export subsidies

Like all WTO Members having subsidised agricultural exports in the base period 1986-90, Switzerland had to reduce the volumes and financial outlays for these subsidies by 21 and 36%, respectively. No WTO Member is allowed to exceed the scheduled quantities and volumes, or to introduce new subsidies for other products. This new discipline prevents certain product developments but it also secures sustainability and contributes to more transparency and efficiency in agricultural trade.

In the context of the so-called "Politique agricole 2011" Switzerland has gone beyond its WTO obligations and phased out all export subsidies by 2009, except for processed agricultural products. However, since then export subsidies for butter were reintroduced on a privately-organised basis, with the above-mentioned governmental approval of mandatory milk producer contributions which in turn finance such exports. Requests for a reintroduction of livestock export subsidies were, however, refused at governmental and parliamentary levels.

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<sup>8</sup> <http://www.blw.admin.ch/index.html?lang=en>

#### 4. Geographical Indications

Switzerland has introduced legislation for the protection of geographical indications in the 1997, along the system established by the EU. Presently 28 products are protected, with 13 applications pending, as well as some demands for revisions of the registered fabrication methods or for the region where production is authorised.<sup>9</sup>

Before and during the Doha Round negotiations Switzerland consistently argued that the absolute protection for wines and spirits under the TRIPS Agreement must be extended to GIs as part and parcel of the Doha Round; unfortunately without much success and with little support from the Asian members of the G10.

With the EU a new Mutual Recognition Agreement has entered into force on 1 December 2011 as a new Annex 12 to the bilateral Agreement on Agriculture (see above), after a protracted and emotional multi-year negotiation about Swiss Gruyère and Emmental cheeses.<sup>10</sup>

In many Free Trade Agreements (FTA) concluded by Switzerland, all or some of these GIs are also recognised, including in the bilateral FTA with Japan: Annex X protects 4 names for Japanese spirits, and Sake, and for Switzerland there is a long list of 13 cheese names, 2 meat-based products, 5 pastries, 5 spirits, and producer names of origin for 9 wines, 4 watchmaker regions, for 3 textiles and for 2 chemical products.<sup>11</sup>

It is important to emphasise that the value-added and the effectiveness of the GI protection of names are debatable and depend on a whole lot of conditions and circumstances.<sup>12</sup> In my opinion protection alone is clearly not sufficient. Close producer-processor cooperation, strict controls of quality and commodity origin, and important joint marketing efforts with or without the support of the state are essential ingredients and the same is true for enforcement (possibilities) in cases of usurpation. Basically, in my view the most important function of a GI is to protect a name whose market value has been and must continuously be promoted by publicity and marketing, all along the food chain which benefits from this

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<sup>9</sup> <http://www.blw.admin.ch/themen/00013/00085/00094/index.html?lang=fr>

<sup>10</sup> Cf <http://www.blw.admin.ch/themen/00009/00813/index.html?lang=fr>

<sup>11</sup> <http://www.seco.admin.ch/themen/00513/02655/02731/02970/index.html?lang=en>

<sup>12</sup> References to severable studies undertaken by NCCR Trade are available on our website (<http://www.nccr-trade.org/> under “Phase I/Archive”).

value. Moreover, there are limits to 'GI protection' e.g. for Mexican tequila (5 manufacturers trying to prohibit the use of the name 'agave-based' for spirits in all other regions of Mexico).

#### 5. Other promotional instruments used in Switzerland

Even under the WTO/AoA framework there are numerous ways of protecting and promoting farm products other than by way of GIs. Four of them are described here, but there are others.

1. *Organic agriculture* has reached a record 10% of consumption in Switzerland but is unlikely to further increase. "Organic" does not mean domestic, of course. And a MRA with the EU on organic agriculture has been enshrined as an annex to the bilateral 1999 Agreement on Agriculture. Nevertheless, a substantial share of organic products on the Swiss market is of national origin.
2. An "Ordinance on the *labelling* of agricultural products obtained using methods which are banned in Switzerland" regulates the conditions under which all imports e.g. of hormone-treated beef meat and eggs from caged laying-hens must be labelled at retail and restaurant levels. The Federal Office for Agriculture (FOAG) is responsible for the recognition of equivalent bans on production methods (legislation and private-law agreements) and the recognition of foreign certification authorities. These regulations are applied according to legislation on agriculture and implemented by cantonal health authorities (food inspection).
3. Another instrument is a "*Swiss made*" label regulation in the context of Switzerland's decision to autonomously apply the so-called "Cassis de Dijon" doctrine applied by the EU for all parallel intra-EU imports. This is a contested issue where farmer and food industry interests are sometimes conflicting on a case-by-case basis.<sup>13</sup>
4. Other intellectual property instruments involving upstream agricultural production are *collective trademarks* and *brands*.

I recently saw an interesting way of export promotion practised by the Italian Ministry of Agriculture "certifying" Italian restaurants in Switzerland – even a little pizzeria in Geneva.

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<sup>13</sup> Switzerland has for decades practised a "Swiss made" regulation for watches, with varying conditions for minimum local content requirements.

A similar initiative by Japan, extending to restaurants in Europe and to 'Kobe' beef, seems to have lost steam but I don't know any details. But in Brussels I once ate 'Kobe Beef' which was made in Belgium...

Finally, as Japanese experts know very well since the 'Shochu' case, tariff discrimination for 'like products' is not allowed.<sup>14</sup>

#### 6. Export tariffs and restrictions

An old topic concerns export restrictions, differential export tariffs and other export restrictions. Commodity-poor countries have an essential interest in free sourcing of their import needs. For agriculture, feed grains. Switzerland is the only country which has consistently advocated the abolition of all export taxes by way of adequate WTO rules, in particular in Article XI of the GATT 1994. Even Japan which for decades was a victim of so-called 'voluntary export restrictions'<sup>15</sup> and which basically shares these concerns of all countries without abundant natural resources has only partly sided with Switzerland and (more recently) the EU. A new attempt has been made in the G20 and in the context of the food security debate, so far without endorsement by the WTO. And a first litigation case has shed light on this serious lack in terms of WTO disciplines – especially in a context of ever dwindling import protection.<sup>16</sup>

### 3. Agricultural Trade with the EU

The European Union (EU) is by far Switzerland's most important trading partner. This is due not only to the EU's political and economic weight, but also to Switzerland's close geographical and cultural proximity to the countries of the EU. The Swiss economy is heavily outward-oriented, with almost half the GDP earned through international goods and services trade, including tourism.

Switzerland earns one franc out of three in its exchanges with the EU (and approximately half its GNP is export-related). 60 % of Swiss exports go to the EU, 80 % of its imports come from there. An active European policy is therefore essential.

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<sup>14</sup> Cf. [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/1pagesum\\_e/ds10sum\\_e.pdf](http://www.wto.org/english/tratop_e/dispu_e/cases_e/1pagesum_e/ds10sum_e.pdf)

<sup>15</sup> On VERs cf. [http://www.wto.org/english/tratop\\_e/tpr\\_e/tp5\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tp5_e.htm).

<sup>16</sup> Cf. *China — Measures Related to the Exportation of Various Raw Materials* (DS 394/395/398 at [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds394\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds394_e.htm))

## Basic Economic Data Switzerland - EU

### Commercial exchange with the EU (2010)

<i>Product categories</i>	<i>Part commercial trade with the EU (%)</i>	
	Export	Import
Agriculture and forestry	4.84	7.70
Chemical products	38.54	22.53
Metals	8.65	9.17
Machines	18.10	18.76
Precision instruments, watches, jewels	13.87	6.47
Others	16.00	35.37

*Source:* Swiss Federal Customs Administration FCA

### Manpower in Swiss Firms Abroad

Year	Total	EU (%)
2009	2'629'117	1'179'683 (44.9)

### Direct investment

(in mio CHF)	Swiss investment abroad		Foreign investment in Switzerland	
	Total	in EU (in %)	Total	from EU (in %)
Year				
2009	865'517	377'662 (43.6)	512'789	428'690 (83.5)

*Source:* Die Volkswirtschaft 03-2011

Switzerland is not a member of the European Union; instead it conducts its relations with the EU on the basis of bilateral agreements. Specific questions and issues are regulated with the EU via a series of treaties in clearly defined areas. Swiss-EU relations have developed and deepened over the decades.

A Free Trade Agreement dated 1972, with annexes, regulates all trade in industrial goods and for processed agricultural products. Since the Free Trade Agreement of 1972, an ever denser network of agreements has been developed in several steps. After the rejection by Swiss voters of Swiss accession to the European Economic Area (EEA) in 1992, Switzerland and the EU concluded, among other things, seven agreements in 1999 (Bilaterals I), covering seven specific areas: the free movement of persons, the elimination of technical barriers to

trade, public procurement markets, civil aviation, overland transport, agriculture and research.

The Agreement on Agriculture is the cornerstone for trade in agriculture. A closer look shows a both bold and very careful design with a view to the establishment of a common market including in many non-tariff matters.

#### **The Swiss – EU Agreement on Agriculture (1999; in force since 2002)**

The EU is the main export market for Swiss agricultural exports.

Partly liberalises the agricultural market. It simplifies trade in agricultural products in certain areas (cheese, meat, fruits and vegetables, processed products etc), partly through the dismantling of tariffs (free trade only for cheese since 01.6.2007, reduced tariffs and tariff-rate quotas for other agricultural products) and partly by the mutual recognition of the validity of regulations in the areas of veterinary medicine, plant protection and organic agriculture. Cheese exports to the EU have risen by 14% since then.

On 01.12.2011 the Protocol for the Mutual Protection of Designations of Origin (GUB/GGA) entered into force.

These were followed by the “Bilaterals II” (eight agreements and one exchange of letters) in 2004. These agreements provide both parties with extensive market access and form the basis for close cooperation in such key policy areas as research, security, asylum, the environment and cultural affairs. This bilateral approach allows Switzerland to conduct a policy of openness and close collaboration with all its European neighbours. It has been submitted to the Swiss electorate and endorsed at regular intervals, the last time being the clear approval of voters to the extension of the Agreement on the Free Movement of Persons, on 8 February 2009.

In its report on the assessment of Swiss European policy in 2010 the Federal Council concludes that the bilateral way remains the most suitable instrument for Switzerland's European Policy at this point in time. Institutional questions that have arisen in the framework of the bilateral agreements are being reviewed together with the EU with a view to finding solutions that will facilitate the application of the agreements and ensure respect for the sovereignty of the two parties and the smooth functioning of their institutions. The institutional questions concerned include the modalities for adjusting existing agreements to new develop-

ments in EU law, the interpretation of the agreements, and the settlement of disputes.

### **Total free trade in agriculture with the EU?**

Since November 2008, Switzerland and the European Union have been conducting negotiations on opening up entirely their respective food production and processing sectors and on establishing closer cooperation in the areas of food and product safety and public health.

So far, three comprehensive rounds of negotiations have taken place.

*Agriculture, food and product safety, and public health* are closely related. For this reason, the Federal Council has decided to group them together in one single negotiating mandate. But the negotiations then came to a halt due among other things (i) to open institutional issues on behalf of the EU, and (ii) to clear opposition to EU accession and (iii) opposition to free agricultural trade by most political parties in Switzerland. The talks with the EU on technical issues will be continued. Recently a parliamentary committee (“Ways and Means” of the Swiss Senate) has rejected proposals to formally terminate these negotiations.

In my opinion, absent a breakthrough of multilateral negotiations along the results envisaged in the now dead Doha Round, the chances for a conclusion, within the present decade, of free trade on food and agriculture between Switzerland and the EU are nil. Whether the agricultural reform process, in the meantime, continues is another question. In my opinion rather the opposite is presently the case.

The outline of a new agriculture agreement Switzerland – EU might nonetheless be of interest here.

## Agriculture, Food safety, Product safety and Public health

Coordination of the negotiations			
Agriculture	Food Safety Veterinary law	Product safety	Public health
<p>Full mutual <b>market access</b> for agricultural products and foodstuffs through</p> <p>(i) Dismantling of customs barriers and quantitative restrictions</p> <p>(ii) Further harmonisation of norms</p>	<p>Cooperation with the European Food Safety Authority (<b>EFSA</b>).</p> <p>Participation in the Rapid Alert System for Food and Feed (<b>RASFF</b>).</p>	<p>Participation in the Rapid Alert System for Non-Food Consumer Products (<b>RAPEX</b>).</p>	<p>Cooperation with the European Centre for Disease Control and Prevention (<b>ECDC</b>).</p> <p>Participation in the Early Warning Response System (<b>EWRS</b>).</p> <p>Participation in EU Health Programme 2008-2013.</p>

Agriculture: In its bilateral negotiations on agriculture, the Federal Council is seeking full access to the EU agricultural and food markets. The agreement would cover all levels of the food production and processing chain, which include:

- the so-called upstream level, which refers to production equipment and investment goods (e.g. fertilisers, seeds, machines);
- agriculture per se, i.e. the production of raw materials (e.g. milk, fruit, cereals, livestock);
- the so-called downstream level, i.e. the processing of agricultural products. This comprises initial processing (such as milk and cheese production, meat processing and milling) as well as second-level processing (products such as biscuits, pasta and chocolate).

Full access to the agricultural and food markets means that there will be no more customs duties on the import or export of agricultural goods, no export subsidies and no quotas. Alongside the dismantling of these so-called tariff barriers, all non-tariff barriers will also be eliminated, i.e. various production-related regulations (e.g. with regard to the use of additives), specifications (e.g. fruit content in yoghurt) or the certification of products (e.g. pesticides).

So far, the question of trade-distorting domestic support seems however to remain excluded from these negotiations. Fortunately for Switzerland – but even the EU and its Member states provide some highly doubtful support, from a WTO

and OECD vantage point, to its farmers (Single Farm Payment) and to its food industry (industrial subsidies).

Opening Switzerland's agricultural sector to the EU would continue existing efforts to reform agricultural policy. A new agreement on agriculture would help ensure that the agricultural and food processing sectors will be ready to meet the challenges associated with the global trend to liberalisation of agricultural markets.

In the framework of a future WTO Doha Round result, Switzerland would also be forced to significantly lower its currently high level of protection in the agricultural sector – gaps in this protection have already appeared.

These agreements are expected to secure jobs in agriculture and in the upstream and downstream sectors in the long term, by opening up new markets for the agricultural and food processing sectors and by increasing its competitiveness. Only through liberalisation of the upstream levels (production goods, investment goods) will it be possible to reduce farmers' production costs.

It is clear that mutual access to markets in the food sector will increase pressure on Swiss farmers. Sector income for agriculture is likely to fall more quickly in the short term. There will be a gradual reduction of income throughout the agricultural sector: in a protected market cannot increase the amount of products sold at will. Technological progress would lead into the same direction even without the opening of access to the EU.

Thanks to the reciprocal opening of markets, the agreement with the EU creates better conditions than the present system for attaining increased productivity in the medium and long term. Swiss products have a high level of quality and good prospects of selling well on the European market.

A working group mandated by the Federal Council has designed a number of parallel measures to cushion the immediate impact of opening the agricultural market. The focus will be on the strengths of the Swiss agricultural and food-processing sectors, notably by enhancing the conditions for positioning, ensuring the quality, and marketing the sustainable and animal-friendly production of high-quality Swiss products.

In view of the opening up of the borders, the strategy currently being developed on ensuring high quality standards in Swiss agricultural and food processing is

indicative of future trends. Compensatory payments to farmers are expected to make these changes socially tolerable.

#### Food safety:

The mutual opening of markets in the area of foodstuffs requires measures to ensure that a high level of food safety is maintained. Incidents such as dioxin in pork meat or melamine in baby food underline the necessity of international coordination as well as swift and comprehensive information to the public about possible dangers. Switzerland is therefore striving, in the framework of the bilateral negotiations on food safety, for collaboration with the European Food Safety Authority (EFSA). Based in Parma (Italy) the EFSA ensures uniform risk assessment on the basis of the harmonised EU-food law and thus makes a rapid and coordinated procedure possible in all of the concerned states. The Federal Council's objective of participation in the Rapid Alert System for Food and Feed (RASFF) follows the same goal. The RASFF is responsible for the exchange of information on dangerous foodstuffs or animal feed within the EU.

#### Product safety:

International coordination is also necessary in the non-food sector to ensure the safety of consumers and to prevent the distribution and sale of hazardous products (such as lead paint on children's toys). Switzerland is therefore negotiating participation in the EU's «Rapid Alert System for Non Food Consumer Products» (RAPEX), in order to maintain a high level of safety for Swiss consumers.

#### Public health:

Switzerland and the EU share a common interest in deepening their cooperation in the area of public health. In the public health sector negotiations, the focus is on Swiss cooperation with the European Centre for Disease Control and Prevention (ECDC), as well as participation in the Early Warning Response System (EWRS) and in the EU Health Programme 2008-2013. The ECDC has been responsible, since 2005, for efforts to strengthen protection against such infectious diseases as influenza, SARS, HIV/Aids and the swine flu pandemic (H1N1). It is essential to protect the health of the population in view of a possible global spread of infectious diseases. The aim of the EU Health Programme 2008-2013 is to offer EU citizens better health protection and to reduce inequalities in healthcare. This includes health promotion measures in

areas such as food, alcohol and smoking, as well as a better and more rapid exchange of information, for example on rare diseases and in the area of children's health.

#### 4. Why no FTA with the USA?

Economic relations between Switzerland and the United States of America (USA) are important and enjoy a longstanding tradition, even though it was a not an always untainted history.

##### **Swiss-U.S. economic relations: Trade and investment, and Employment Impact**

- Swiss Exports of goods to the USA CHF 18.8bn = 10% of Swiss Exports (2009)
- Swiss Imports of goods from the USA CHF 9.9bn = 5.8% of Swiss Imports (2009)
- U.S. Imports of Services from Switzerland USD 14.8bn = 4.1% of U.S. Imports of Services (2008)
- U.S. Exports of Services to Switzerland USD 17.2bn = 3.3% of U.S. Exports of Services (2008)
- Swiss foreign direct investments in the USA (capital stock) CHF 149.4bn (2008) 18.5% of Swiss foreign direct investments (2008)
- U.S. foreign direct investments in Switzerland (capital stock) CHF 86.5bn = 18.5% of foreign direct investments in Switzerland (2008)
- Swiss firms employ around 350'000 persons in the U.S. Relations are further strengthened by more than one million U.S. citizens with Swiss roots and 75'000 Swiss living in the U.S.
- In turn, 16'500 U.S. citizens live in Switzerland.

*Sources: Swiss Customs Administration, Swiss National Bank, U.S. Department of Commerce*

The idea of a Free Trade Agreement (FTA) with the USA was launched in a politically difficult context (Bank secrecy, WWII holocaust accounts etc). From the inception it was clear that only a comprehensive agreement covering all sectors including agriculture would stand a chance in the US Congress.

##### **Example: Trade in meat**

Swiss meat exports to the U.S. never exceeded a small volume and were limited to Swiss specialities such as air-dried beef ("Viande des Grisons"). Following the outbreak of Bovine Spongiform Encephalopathy (BSE) in Switzerland, the U.S. rigorously restricts since 1996 the import of Swiss meat and meat products. In 2001, the U.S. suspended imports of all meat stored or processed in Switzerland. This ban primarily affects exports of "Viande des Grisons" processed in Switzerland using meat originating in a "BSE-free" third country (Argentina, Brazil).

Since 2001, no Swiss meat has been exported to the U.S., although Switzerland meets presently all the international requirements.

Under the Swiss-U.S. Trade and Investment Cooperation Forum, Switzerland and the U.S. Department for Agriculture (USDA) have set up a roadmap to re-launch Swiss meat exports to the U.S.. The process is very slow and mainly depends on U.S. rulemaking. In addition, firms must comply with U.S. requirements (costly additional controls and specific laboratory tests: CHF 10-15 per kilo) which do not bring any additional benefit regarding food safety. Presently, Switzerland discusses these issues with the USDA.

*Source: Fact Sheet: Swiss-U.S. Trade and Investment Cooperation Forum 2008-02-14/380 \ COO.2101.104.5.1566943 4/4*

Exploratory talks commenced on a substantial level in 2005. They involved the lead agency (Trade Division in the Ministry of Economy) and every line agency with a trade interest in the matter (including the Agriculture Office in the Ministry of Economy). Stakeholders from the private sector, political parties, trade unions and NGOs were associated in part. A baseline study was conducted by a US-based think tank directed by Gary Hufbauer.

Numerous impact studies were conducted, followed by meetings and videoconferences with US counterpart agencies during more than one year. Details of a lacking negotiating capacity transpired e.g. for wrist watch leather armbands. Another little “non-negotiable” glitch was on the “yarn forward” rules of origin advocated by the US textile industry – quite unacceptable for the Swiss textiles which incorporate non-Swiss basic products. A similar bad experience made under the NAFTA rules of origin for car parts surfaced again. A more serious consequence of a Swiss-US FTA became apparent for intellectual property where, according to the competent Swiss agency, Switzerland would have been obliged to leave the European Patent Convention.

When the various export interests in Switzerland were informed of the possible gains, and limits, of such an agreement political support dwindled rapidly. The fact that the actual duty rates in the US were not very high were also considered in this context.

Based on these talks, and on the reactions from the various stakeholders, the Minister of Economy made a proposal for a formal negotiating mandate from the Federal Council (Swiss Government). This proposal was rejected by 6:1 votes.

The matter has not been raised again since. On 25 May 2006 an Agreement on the Swiss-U.S. Trade and Investment Cooperation Forum was signed between the two parties. It is mainly in this forum that the bilateral economic relations are being addressed.

### **Other Economic Agreements between Switzerland and the USA**

- Vertrag der Freundschaft, der gegenseitigen Niederlassung, des Handels und der Auslieferung der Verbrecher vom 25. November 1850 (SR 0.142.113.361)
- Abkommen zur Vermeidung der Doppelbesteuerung auf dem Gebiete der Steuern vom Einkommen vom 2. Oktober 1996, in Kraft getreten am 19. Dezember 1997 (ersetzt das Abkommen von 1951) (SR 0.672.933.61). Zugehörige Verordnung: SR 672.933.61.
- Briefwechsel von 1968 über GMP (Good Manufacturing Practice) im Bereich der Herstellung pharmazeutischer Substanzen und Erzeugnisse
- Memorandum of Understanding von 1985 über GLP (Good Laboratory Practice) mit der FDA im Bereich nicht-klinischer Laboruntersuchungen (pharmazeutische Produkte für die Anwendung im human- und veterinärmedizinischen Bereich)
- Memorandum of Understanding von 1988 zu GLP (Good Laboratory Practice) mit der EPA im Bereich nicht-klinischer Laboruntersuchungen (Industriechemische Produkte und Pestizide)
- Gemeinsame Erklärung zur Errichtung einer Bilateralen Wirtschaftskommission (Joint Economic Commission; JEC); unterzeichnet am 29. Januar 2000
- Memorandum of Understanding vom 23. September 2003 betreffend die Zusammenarbeit und den Informationsaustausch zwischen Swissmedic und der FDA
- Memorandum of Understanding Establishing a Framework for Intensified Cooperation, zwischen EDA und U.S. State Department, unterzeichnet am 11. Mai 2006
- Joint Declaration of the Swiss Confederation and the USA on Cooperation and Promotion regarding Electronic Commerce, unterzeichnet 10. Oktober 2008
- Briefwechsel zur Errichtung eines "U.S.-Swiss Safe Harbor Framework" zur Übermittlung von personenbezogenen Daten zwischen Unternehmen in Schweiz und in den USA, unterzeichnet am 1. resp. 12. Dezember 2008. Am 16. Februar 2009 in Kraft getreten.
- Bilaterales Abkommen zur vertieften wissenschaftlichen und technologischen Zusammenarbeit, unterzeichnet 1. April 2009.

Source (partly in French):

<http://www.seco.admin.ch/themen/00513/00561/00566/index.html?lang=fr>

## **5. Prospects for and Impact of further liberalisation**

The Doha Round is clinically dead. There is no date for a resumption of real negotiations, and even partial results for agriculture appear difficult in a "single undertaking" philosophy. There are certainly several possibilities for self-contained partial results (e.g. the GPA revision approved in December 2011), and for 'sectoral initiatives (e.g. ACTA). Regardless of the present stalemate in Agriculture (and even more so in NAMA), it is clear to me that any future multilateral nego-

tiation will start where the Doha Round ended, i.e. with the "Modalities" in December 2008. For academics, this has the positive consequence that our WTO-related research can take this text as a basis for some time to come!

In this situation, free trade in agriculture with the EU is in my opinion politically impossible. The difference in border protection is simply too big. Even so, the Swiss Parliament has approved a kind of "saving scheme" whereby agricultural import duty receipts will be set aside and used for future compensation measures if and when future liberalisation steps are decided.

For the time being, however, the reform process has come to a halt and in some instances is even in reverse gear. Some export subsidies have been reintroduced – sometimes with doubtful WTO-compatibility to say the least. Some price support comes back too. Most of all, structural adjustment is slower than ever. While throughout the post-war period the rate of annual farm disappearance was between 2 and 3% p.a. it has dropped to 1.5%.<sup>17</sup> This is clearly insufficient to improve the competitive position of Swiss agriculture. Moreover, absolute and relative incomes are on the decrease, and there are numerous complaints on working hours, working conditions and work accidents, lack of holidays, finding a wife willing to live on the (remote) farm etc. But the agricultural schools are full. Many farmers want to buy their neighbours' land, and this may imply considerable tension at the village level. In other villages, intensive agriculture like hog farms leads to production constraints and delocalisation. Nonetheless, social, ecological and ethological performances are still increasing. Climate change adaptation has started (e.g. with more irrigation), but the overall impact of global warming is estimated to be positive despite expectations of more erratic weather changes and irregular/untimely rainfalls.

At the same time, agricultural trade is developing satisfactorily. In 2010 imports remained stable and exports increased despite the penalising strength of the Swiss franc. The deficit of SFR 3.7bn reached a record low. Self-sufficiency (defined as the percentage of inland production in total consumption of agricultural products) increased by almost 2 percent to 63.3% (2009). Net self-sufficiency (including imported feed grains incorporated in animal production) also increased

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<sup>17</sup> Cf. Rapport agricole 2011 p.10 (<http://www.blw.admin.ch/dokumentation/00018/00498/index.html?lang=fr>)

to 56.0% despite the continuously increasing animal feed imports which reached almost 1'300 million metric tons in 2009.<sup>18</sup>

In 2010 we have calculated the impact of a tariff-free and Green Box only regime on Swiss agriculture.<sup>19</sup> Our "WTO+" scenario is of course highly unlikely for the next 20 years. Nevertheless, to our surprise we find that the total agricultural land under cultivation will not diminish. In other words there will be less farmers, and substantially different production, but the landscape will not be very different from today. This matters in the public debate because many voters care more for the landscape than for the number of farmers. Even so, in our scenario farm revenues will diminish, especially in the plains, unless additional productivity efforts are undertaken, structural adjustment accelerates, and better support programmes are designed.

In conclusion I will repeat here that the international impasse is not, as some would have it, "time gained for Swiss farmers" but an additional challenge for domestic reform. Switzerland is a country where total agriculture employment is less than 3%, and less than 1.5% of GDP. The federal structure and long-time traditions provide farmers with a more than proportionate say in politics, especially at the village level. Public interest today tends to focus on other issues. Agriculture is still considered very important, including for food security reasons. Nonetheless, farmers can not take support for granted notwithstanding all other competing public interests. In the absence of international and national reform drives, and as long as they are incapable of self-reform, uncompetitive farmers in Switzerland and elsewhere will have to face the consequences of procrastination.

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<sup>18</sup> *Ibidem* p.14

<sup>19</sup> Cf. <http://www.nccr-trade.org/publication/a-beyond-wto-scenario-for-swiss-agriculture-consequences-for-income-generation-and-the-provis/>