



RELEVANCE OF BORDER PROTECTION FOR AGRICULTURE IN SWITZERLAND

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Key messages

- Border protection is a key instrument of Swiss agricultural policy
 - But it does not deliver the environmental, social and animal welfare outcomes demanded by Swiss society
 - And it imposes significant costs on the Swiss economy and reduces the competitiveness of Swiss food industries
- Alternative policies to meet Switzerland's environmental, social and animal welfare objectives would
 - Directly target the outcomes desired by Swiss society and
 - Help farmers cope with new market conditions

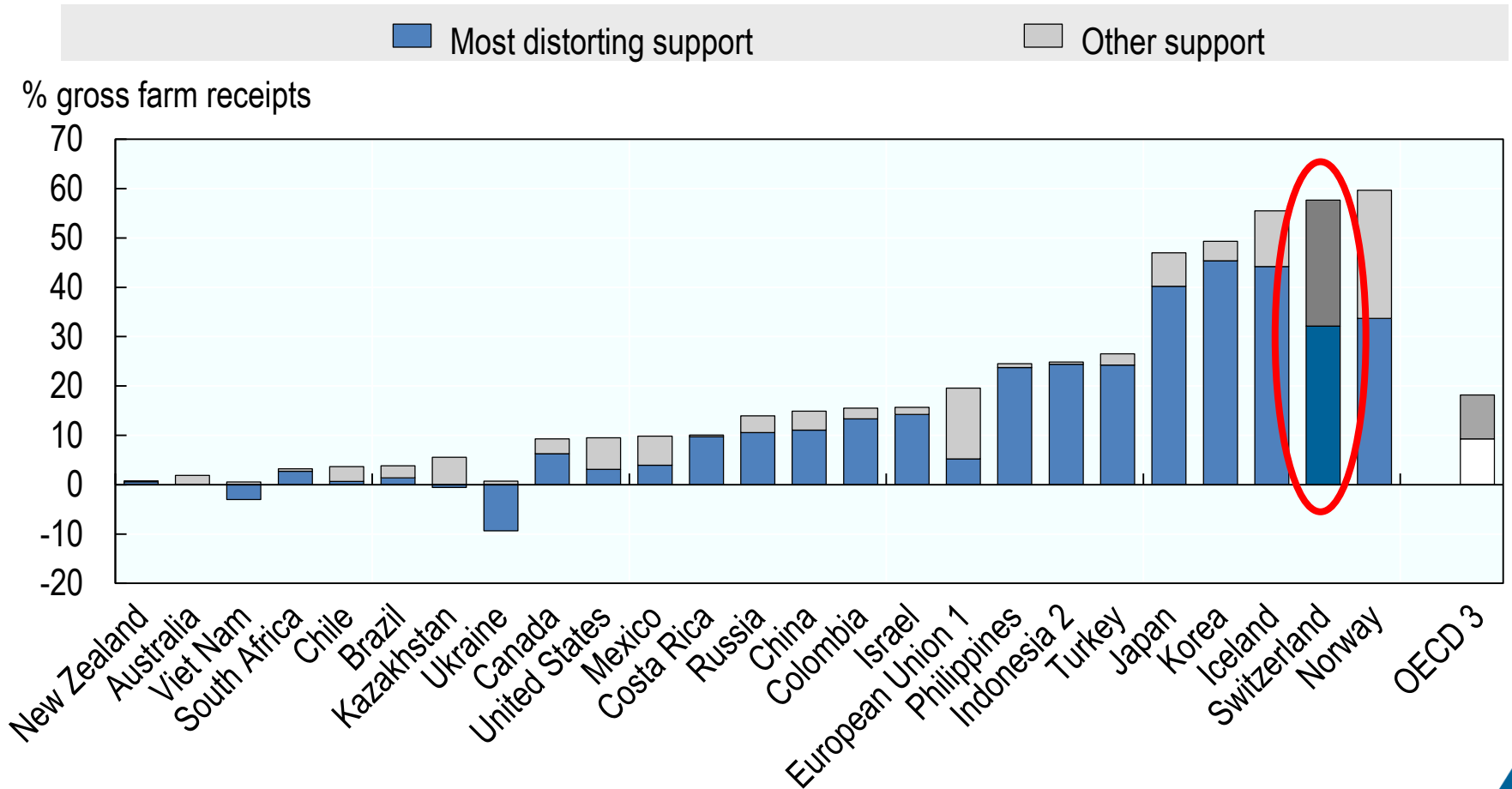


Agricultural policy context

- Agriculture is expected to provide public goods: improved environmental, social and animal welfare outcomes
- The sector receives high levels of support to help it do this
 - Includes support provided through border protection (TRQs or single tariffs on agriculture and food imports) to create favourable conditions for production and sale
- Why? Because the sector's ability to provide public goods is thought to be put at risk if farm incomes or agricultural production decline



Agriculture receives high levels of support...

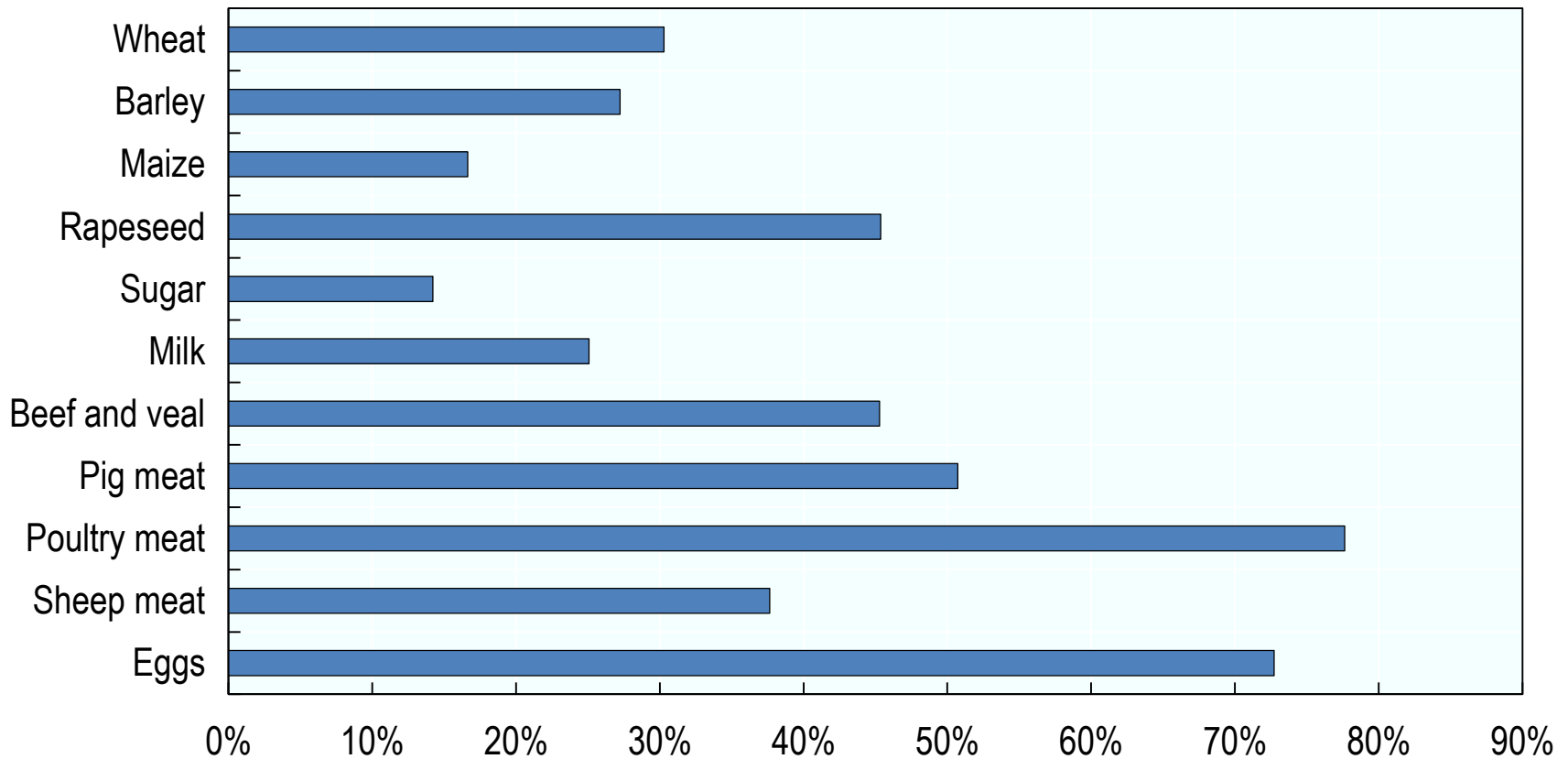


Source: OECD (2017), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database), <http://dx.doi.org/10.1787/agr-pcse-data-en>



...including support provided through MPS

Market price support to specific commodities as a percentage of gross farm receipts, 2014-16



Source: OECD (2017), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database), <http://dx.doi.org/10.1787/agr-pcse-data-en>



Is border protection relevant for agriculture's public goods?

- Encouraging decentralised settlement?
 - There is only a weak link between agriculture and economically and socially viable rural areas
 - Public services, infrastructure and jobs are more important
- Maintaining agricultural land in a cultivated state?
 - Agricultural land may be abandoned / taken out of production without public support
 - But support provided by direct payments ensures land is used



Is border protection relevant for agriculture's public goods? continued...

- Preserving natural resources?
 - Farmers' land use decisions and choice of farming practices and system can increase or reduce pressure on natural resources
 - Addressed by environmental regulations and cross-compliance
 - Border protection encourages more intensive production
- Guaranteeing animal welfare?
 - Switzerland has stringent animal welfare regulations
 - Lower farm incomes reduce participation in voluntary programmes?
 - But high prices overall make it hard for farmers to differentiate on the basis of animal welfare and earn premiums

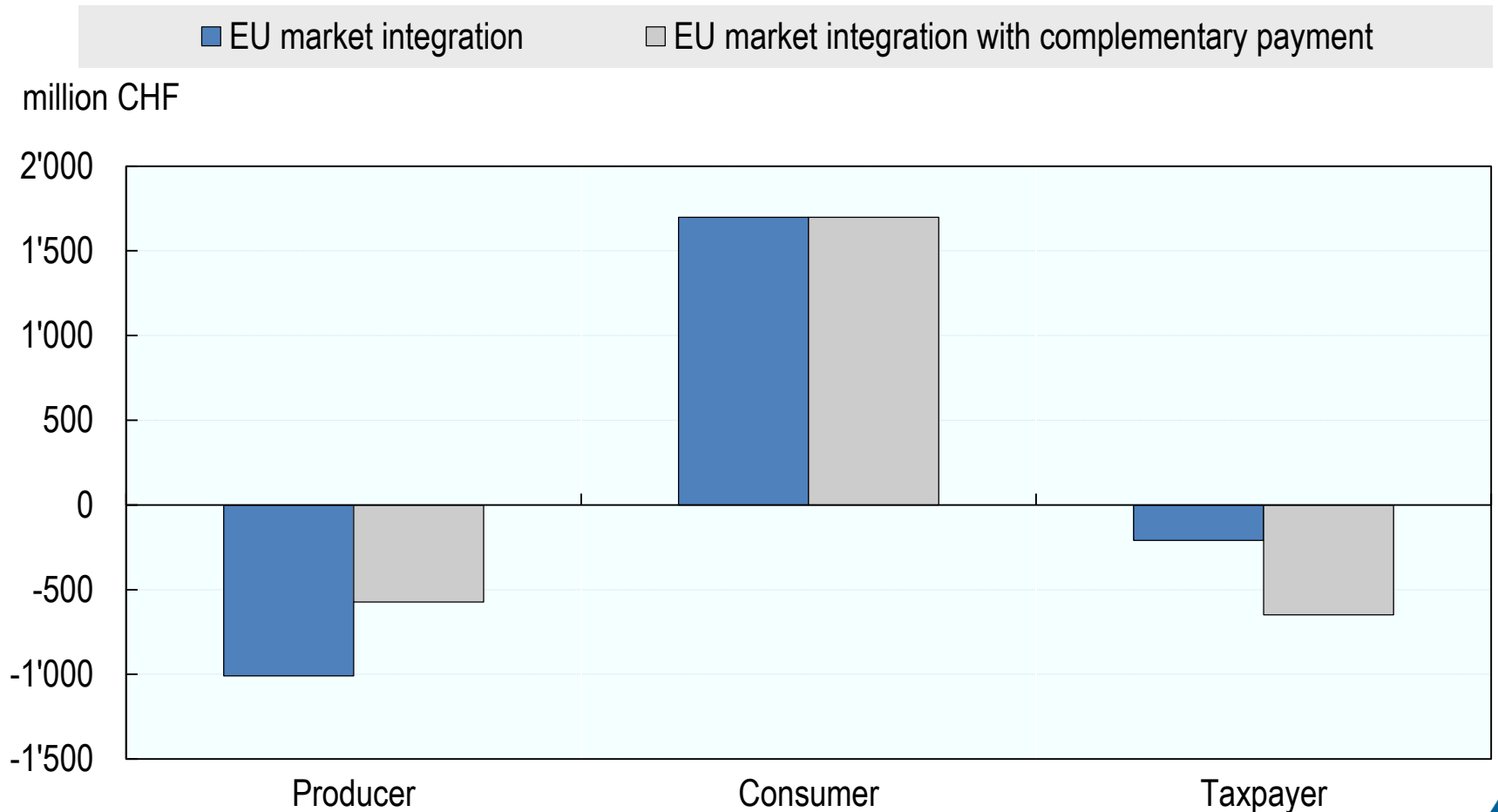


Is border protection relevant for agriculture's public goods? continued...

- Ensuring food supplies for the population?
 - Trade liberalisation would reduce gross food production by 8-15%
 - Largest impacts in meat sectors, but dairy largely unaffected
- Border protection (and direct payments) keep domestic production at a high level...but at a cost
 - Increases costs for Swiss consumers and food industries, reducing consumer choice and economic welfare
 - Constrains growth in less protected and more efficient sectors, including in agriculture



Economic impacts of EU market integration



Source: Model simulation with OECD Policy Evaluation Model. In OECD (2015), *OECD Review of Agricultural Policies: Switzerland 2015*

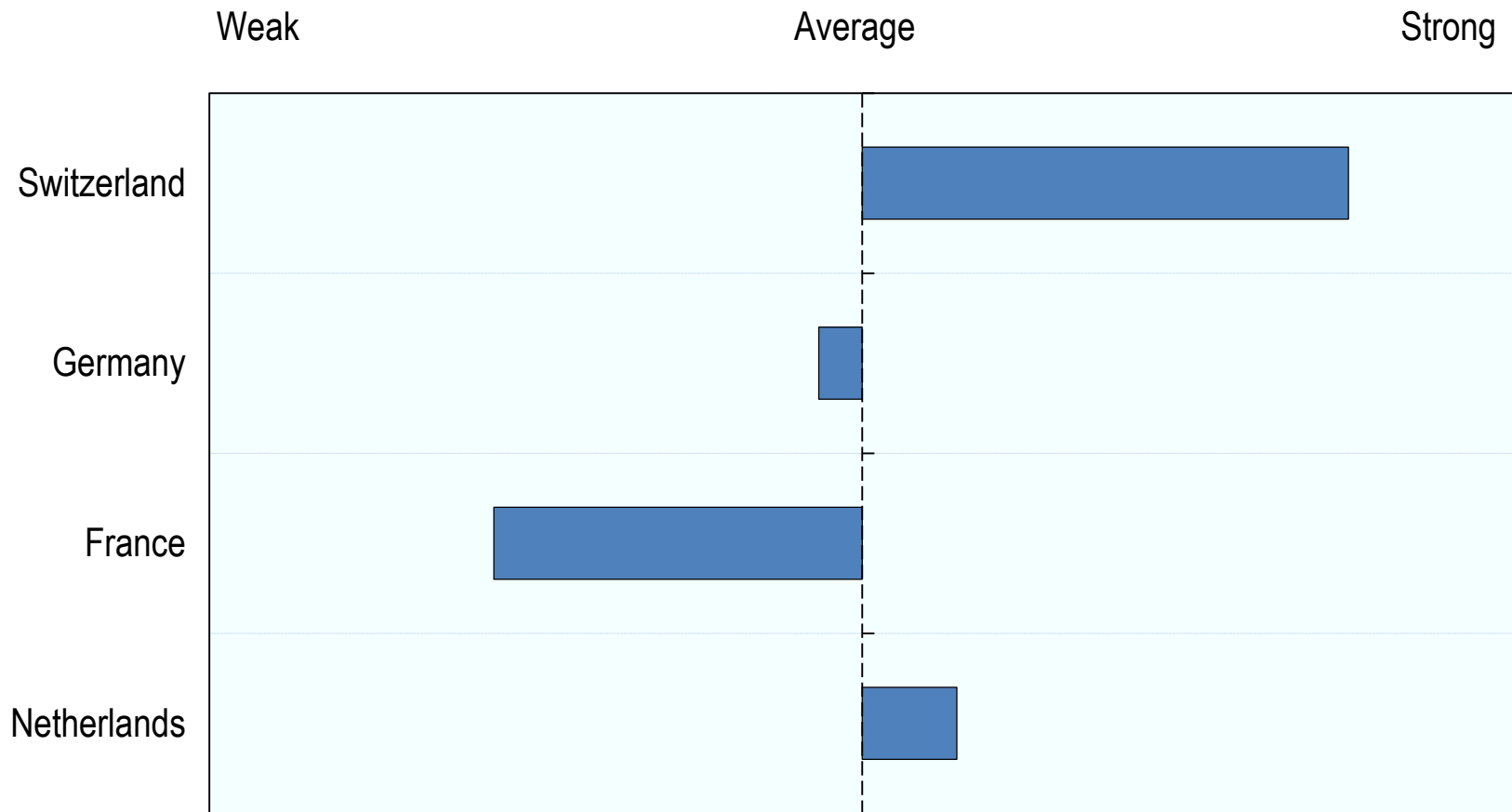


Competitiveness of Swiss food industries

- As a whole, Swiss food and beverage manufacturing is strong compared to benchmark EU countries
 - Driven by a very strong competitive position of the “other food” industry and beverage industry (72% of Swiss agro-food exports)
 - In these sectors a major part of raw materials is imported or non-agricultural (mineral water)
- The weakest sectors (meat, dairy) are those largely based on domestic raw materials
 - These industries have to pay a relatively high price for their agricultural inputs
 - Additionally these less competitive sectors have a relatively low growth in labour productivity.



Overall competitiveness of food and beverage manufacturing

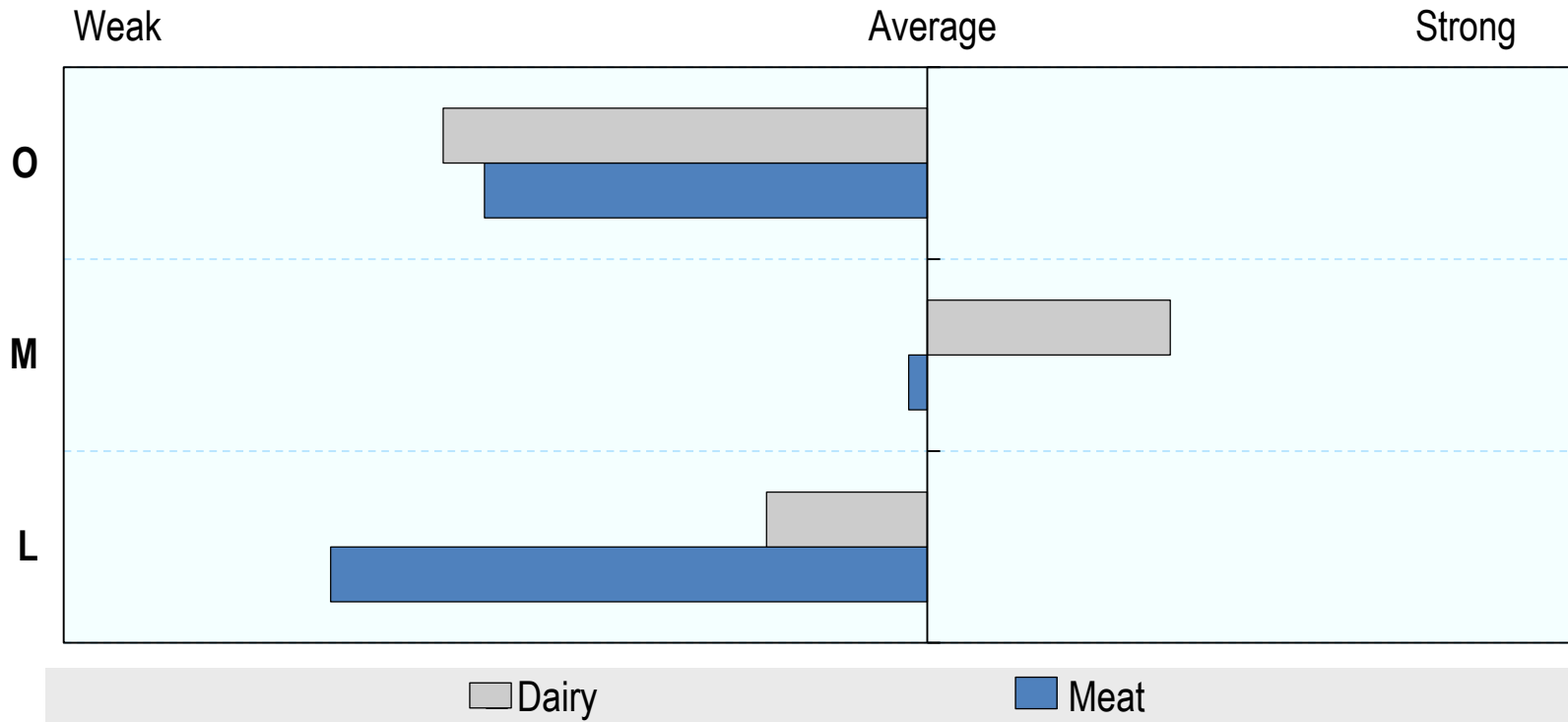


Note: Manufacture of food products and beverages (C10-C11)

Source: LEI calculations based on Eurostat and FBS, in OECD (2015), *OECD Review of Agricultural Policies: Switzerland 2015*



Competitiveness of meat and dairy industries



O Overall competitiveness

M Difference world market share 2011 minus 2000

L Annual growth rate labour productivity (2001-2011); CH (2001-2008)

Note: Processing and preserving of meat and production of meat products (C101)

Source: LEI calculations based on Eurostat and FBS, in OECD (2015), *OECD Review of Agricultural Policies: Switzerland 2015*



Summary: border protection is costly and ineffective

- Not conditional on delivery of improved environmental, social and animal welfare outcomes
- Untargeted towards the activity or factor of production most strongly related to those outcomes
- Untargeted to regions that are valued by society for services beyond agricultural production.
- May lead to conflicting outcomes between objectives
- Imposes significant costs on the Swiss economy



Alternative instruments

Restructure existing instruments to directly target environmental and animal welfare outcomes:

- Differentiate direct payments by region
 - To target environmental challenges and land at risk of abandonment and/or with leisure value
- Strengthen environmental standards
 - Incorporate current cross-compliance conditions into mandatory requirements & increase stringency of conditions for voluntary payments
- Consumer information system
 - Invest in promoting the “Swiss” brand to help farmers offset costs of guaranteeing animal welfare (and meeting other goals)



Alternative instruments

New risk management instruments to help farmers cope with new market conditions

- Farm risk account
 - Voluntary savings account that can be accessed in the case of income losses due to market volatility or unexpected weather conditions
 - Encourage farmers to better manage normal risk
- Disaster payments
 - Define triggering criteria and types and levels of assistance for helping farmers cope with catastrophic risks



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