



# RELEVANCE OF BORDER PROTECTION FOR AGRICULTURE IN SWITZERLAND

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## Key messages

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- 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



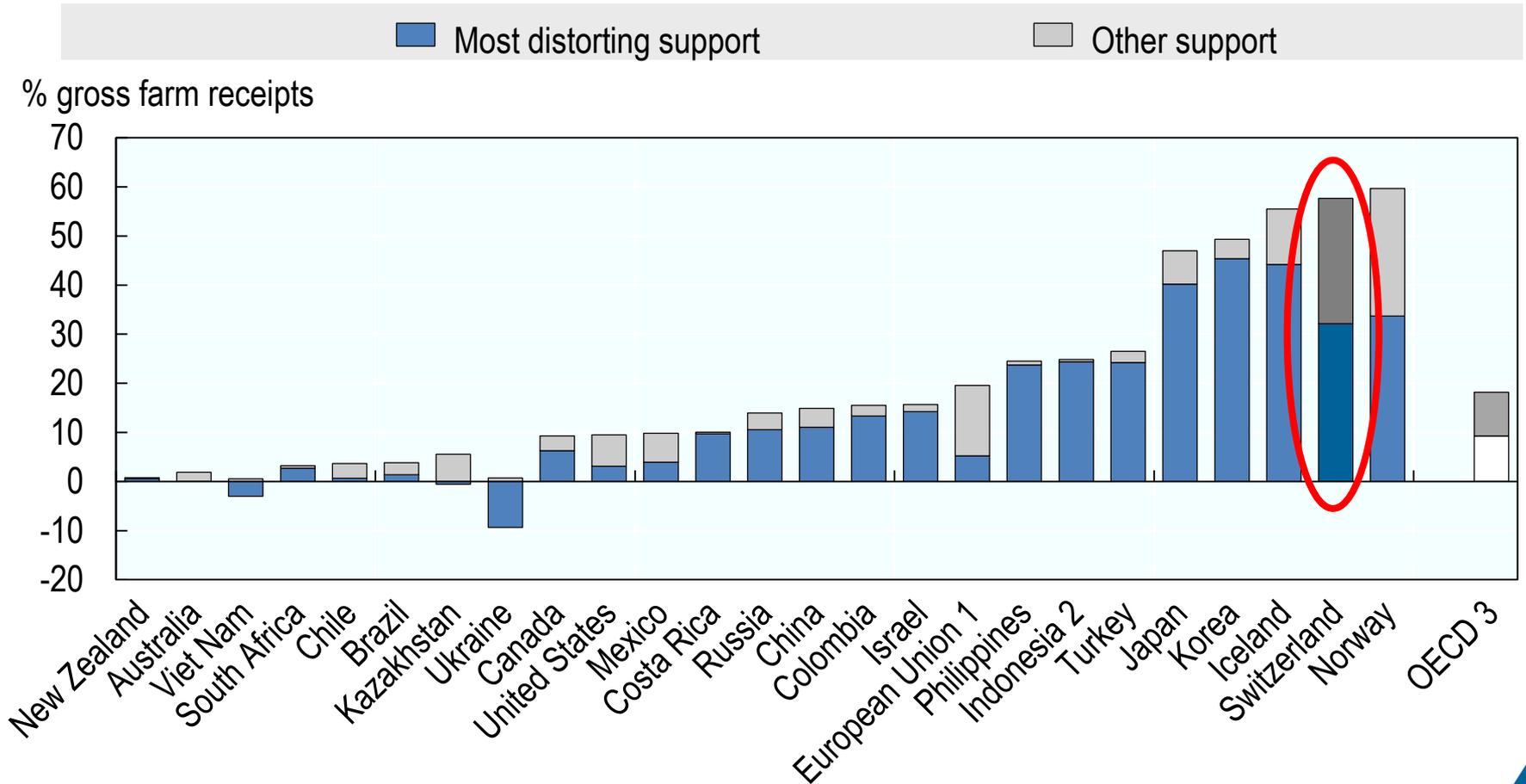
# Agricultural policy context

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- 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...

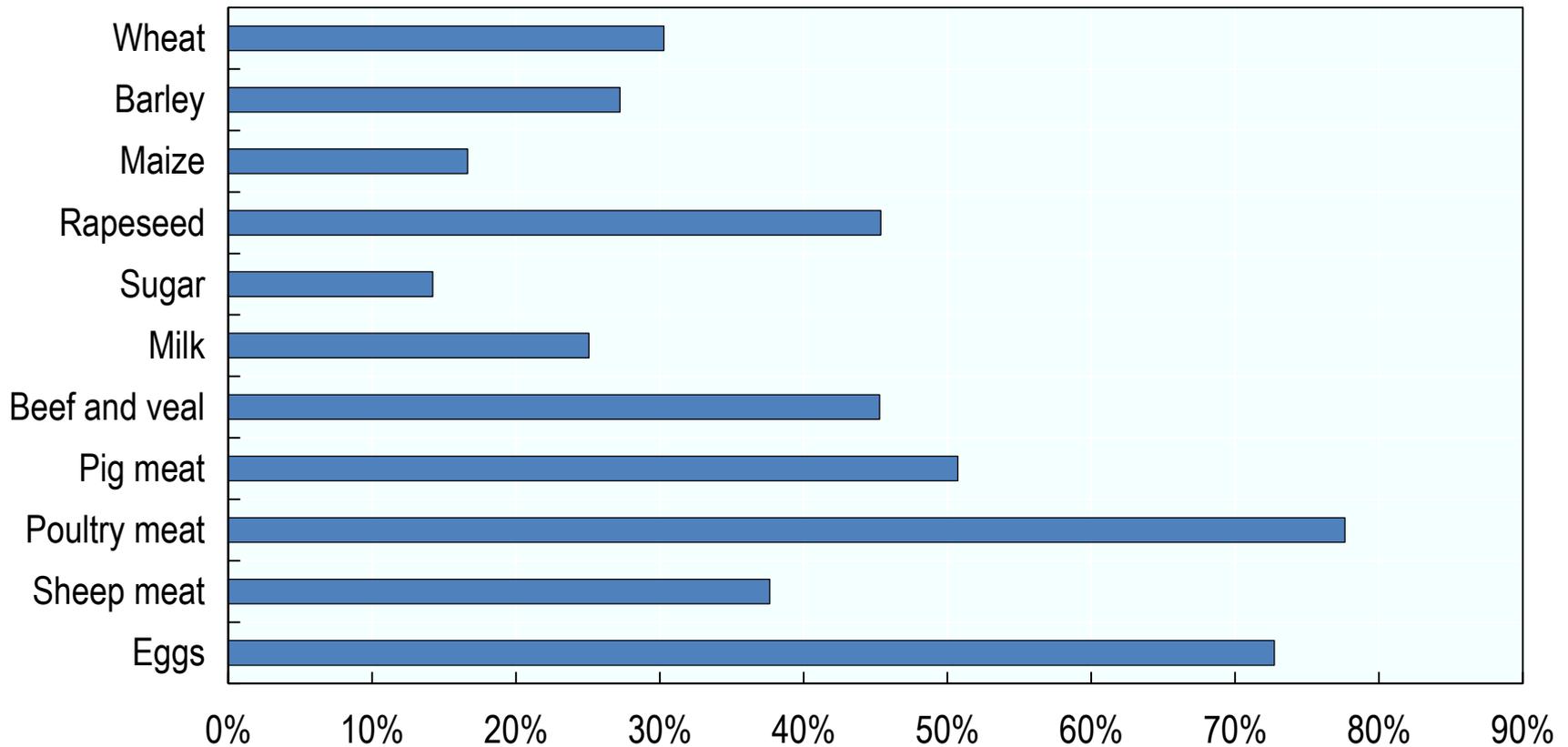


Source: OECD (2017), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database), <http://dx.doi.org/10.1787/agr-pcse-data-en>



# ...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?

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- 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...

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- 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



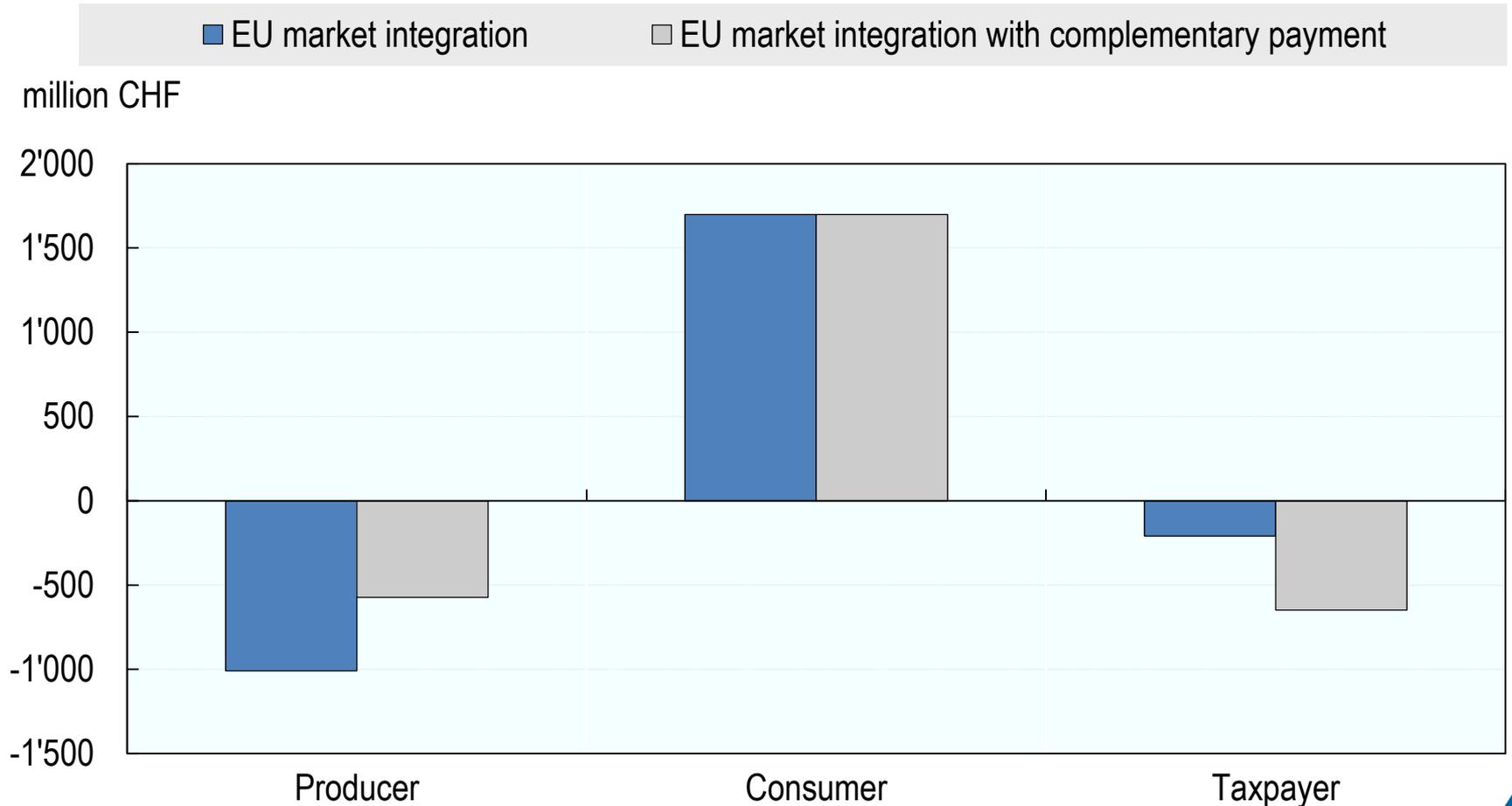
## Is border protection relevant for agriculture's public goods? continued...

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- 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*



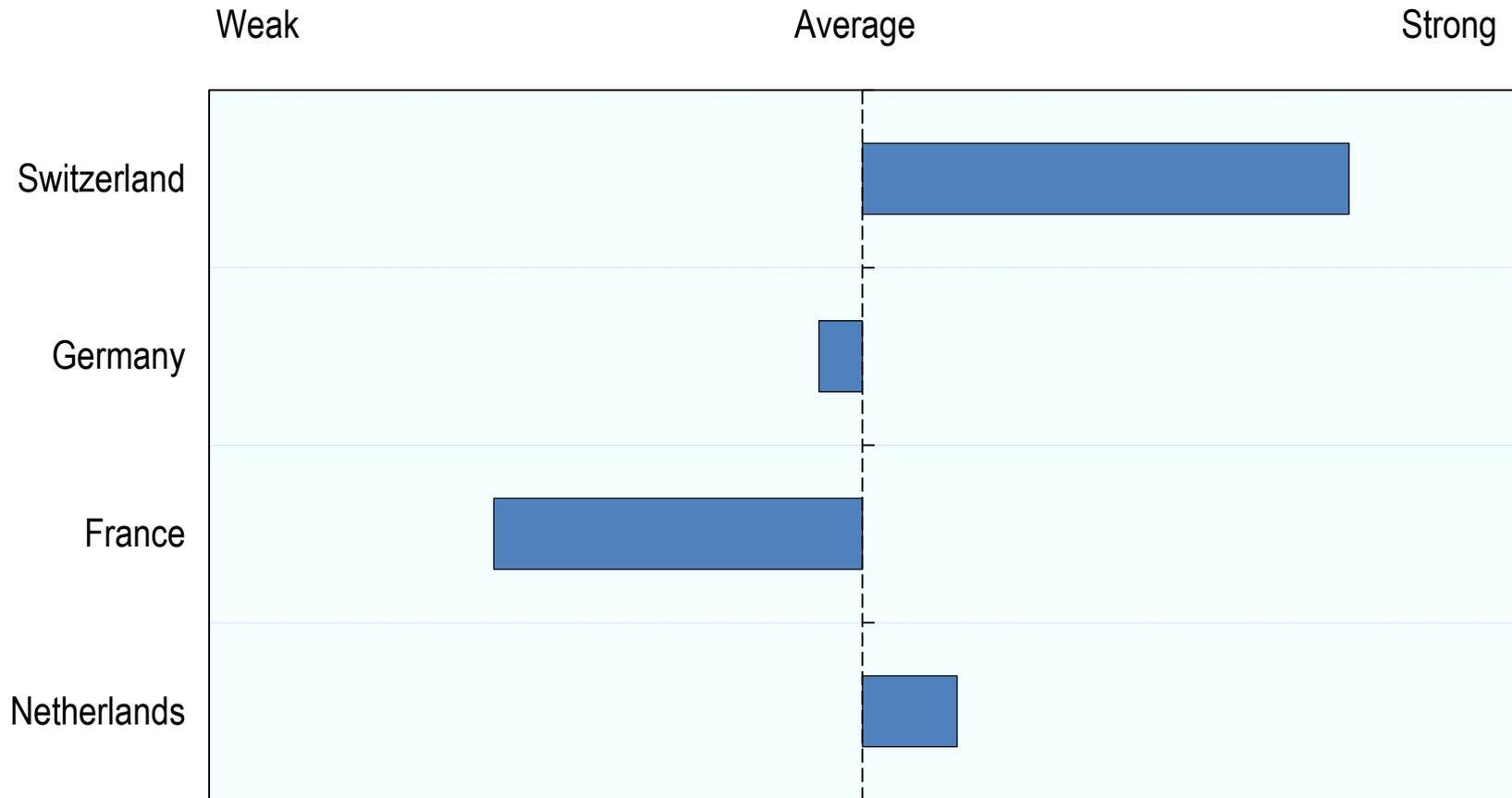
# Competitiveness of Swiss food industries

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- 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

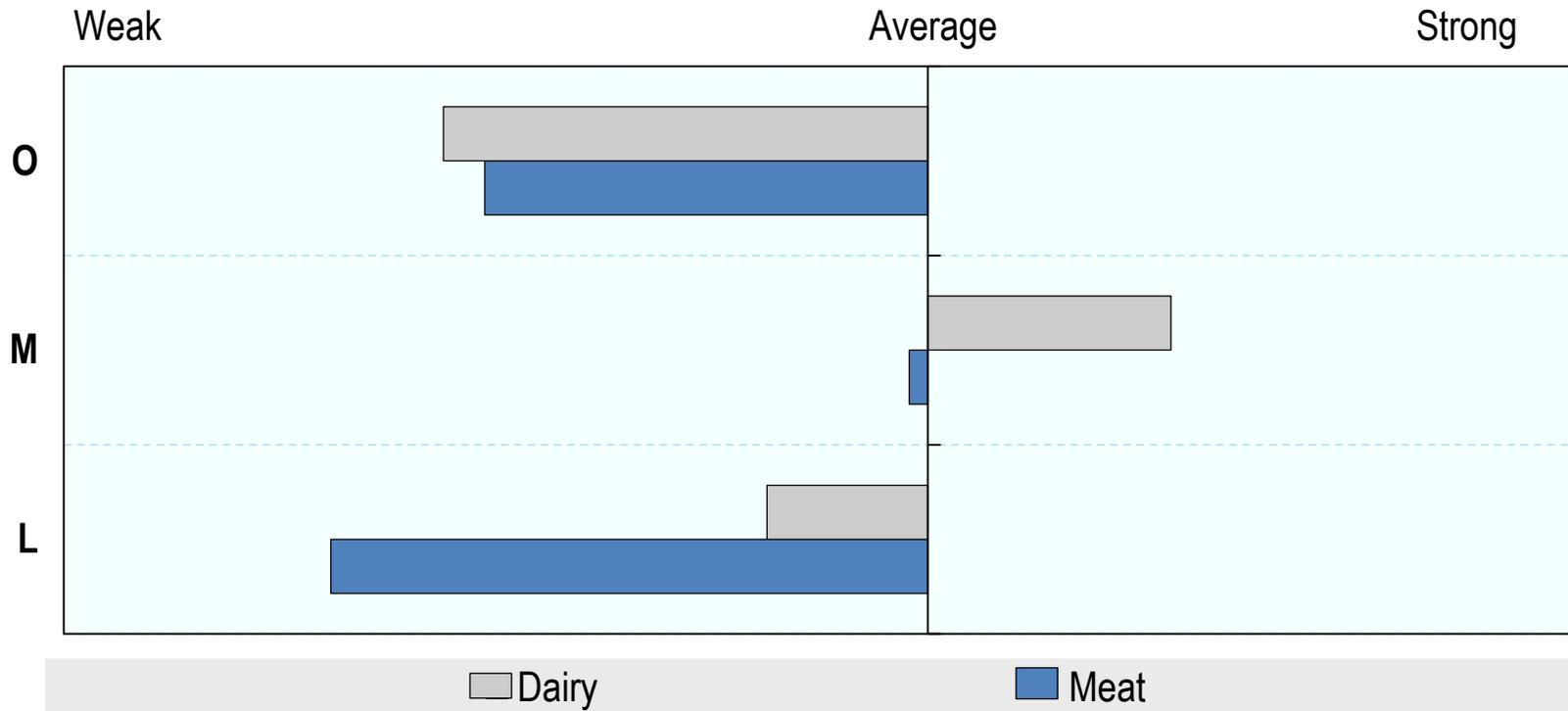


Note: Manufacture of food products and beverages (C10-C11)

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

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- 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

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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

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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



# Contact us

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