

Modern Swiss agricultural policy

Manfred Bötsch, Director, Swiss Federal office for agriculture

After an intensive political debate, an overwhelming majority of the Swiss electorate voted in favour of a new constitutional mandate for agriculture. According to the constitution agriculture must in a sustainable manner contribute substantially to

- the provision of the population with food,
- the conservation of natural resources,
- the upkeep of rural landscape as well as
- the decentralized settlement of the territory.

The Government therefore has the task to define a policy mix which ensures that agriculture can fulfill these multifunctional tasks. Their fulfillment results in the production of public goods, externalities and marketable goods. The reform is implemented step by step, we are now in the third period and are preparing the fourth one. The reform's main feature so far has been a dramatic shift away from the internationally criticized market support instruments towards direct payments not linked to production but to a wide range of ecological requirements (eco-conditionality).

While at the beginning of the reform process almost two thirds of the funds earmarked for agriculture were spent on market support, this percentage has dropped to less than 20 percent this year and will go down even further in the coming years. Also, all guaranteed or minimal prices were abolished as well as all forms of intervention systems linked to minimal prices. Also, the quota systems for sugar or oilseeds were abolished. The one for the dairy sector will be phased out definitively in 2009. As a consequence prices for producers have dropped. The reductions vary, for example 20% for beef cattle, around 30% for milk and up to 40% for cereals. In total the gross returns dropped from around 13 billion to 9.5 billion CHF. (-27%) and this despite the fact that border protection in general remains quite high with some exceptions (e. g. cheese, where soon we will have free trade with the EU).

On the other hand, the share of direct payments in the budget increased since the beginning of the reform from 29 to now 71 percent. There are basically three types of direct payments, which are all contingent on the fulfillment of strict cross compliance conditions such as regular crop rotation, observance of a nutrients balance, the setting aside of 7% as ecological compensation areas and periodical soil analysis:

1. General direct payments are made to remunerate farmers for the public services they provide, such as the conservation of natural resources and the upkeep of rural landscape. They are structured as flat rates available for the whole Swiss agricultural area complemented by a payment for the husbandry of roughage consuming livestock units linked to the surface of grassland. The number of livestock units eligible for support depends on the production zone (fewer units per eligible hectare in mountain zones). Furthermore, arable land gets an additional flat-rate payment.
2. Ecological direct payments aim at compensating farmers for participating in voluntary schemes such as specific ecological compensation areas, organic farming, animal welfare programs and others. These schemes go beyond the ecological cross compliance requirements for all direct payments.
3. In the hill and mountain regions, additional direct payments are made to compensate for the adverse production conditions.

Structural improvement programs are the third category of measures. Available are interest-reduced or -free credits for investments in buildings (not for machinery or livestock) and in the mountains and hills construction or renovation grants for farm buildings used for stabling roughage consuming animals. These programs are only available for farms which fulfill the ecological cross compliance requirements.

Last but not least, agricultural research, extension and education play a key role in the reform process. Knowledge and awareness are key conditions for success.

The results are so far mainly positive:

1. Economic aspects: Despite increasing competition, market shares could be maintained due to a considerable improvement in competitiveness. Average incomes remain considerably lower than those in the other sectors. However, the best 25% of the farms in the plains and hill regions reach an income comparable to that in other sectors.
2. Social aspects: Despite the difficult income situation, farmers are – in general – as satisfied with their standard of living and their job as people in other professions. This is partly related to positive non-economic aspects of the farming profession. The number of farms given up per year has increased compared to the period before the reform but remains with around 2,5 % per year at a socially acceptable level.
3. Ecological aspects: Ecological indicators show considerable improvements. For example, the N-surplus decreased by more than 25% and the P-surplus by far more than 50% compared to the pre-reform period. The share of ecological compensation areas has risen from 20'000 ha to almost 100'000 ha today. More than 10% of the utilized agricultural area is farmed by organic farms (10% of all farms).

To make the political process as transparent as possible we publish every year an agricultural report which provides detailed information about the results in the three dimensions of sustainability as well as about costs and agricultural policy measures (for details please refer to www.blw.admin.ch). In this respect it's important to add that the transaction costs of the new policy (with direct payments as the main instrument) are at 700.- CHF per farm and year quite low compared with other solutions. With the new policy mix the number of staff in the administration could be reduced up to now by more than 25%. The farming community, however, criticizes as burdensome the paperwork in relation with the fulfillment of the ecological requirements

What's coming up?

New challenges such as WTO trade negotiations, budgetary restrictions, shifts in consumption patterns and others lay ahead. We are preparing now the forth round of adjustments. The challenge, in a nutshell, will be to continue reaching all objectives despite the more competitive environment and less public funds available for agricultural policy (compare workshop I). What will remain - I'm sure - is multifunctionality and sustainability as the rationale for supporting agriculture. As long as negative and positive externalities of economic activities are not internalized and public goods are demanded, public intervention will be needed. We are convinced that we have chosen an interesting approach.