

# **Swiss agriculture, the WTO and the EU: Is there still any life in trade liberalization?**

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Disclaimer: The author speaks in her own capacity. The views expressed here do not necessarily reflect the views of SECO.

# **Outline of the presentation**

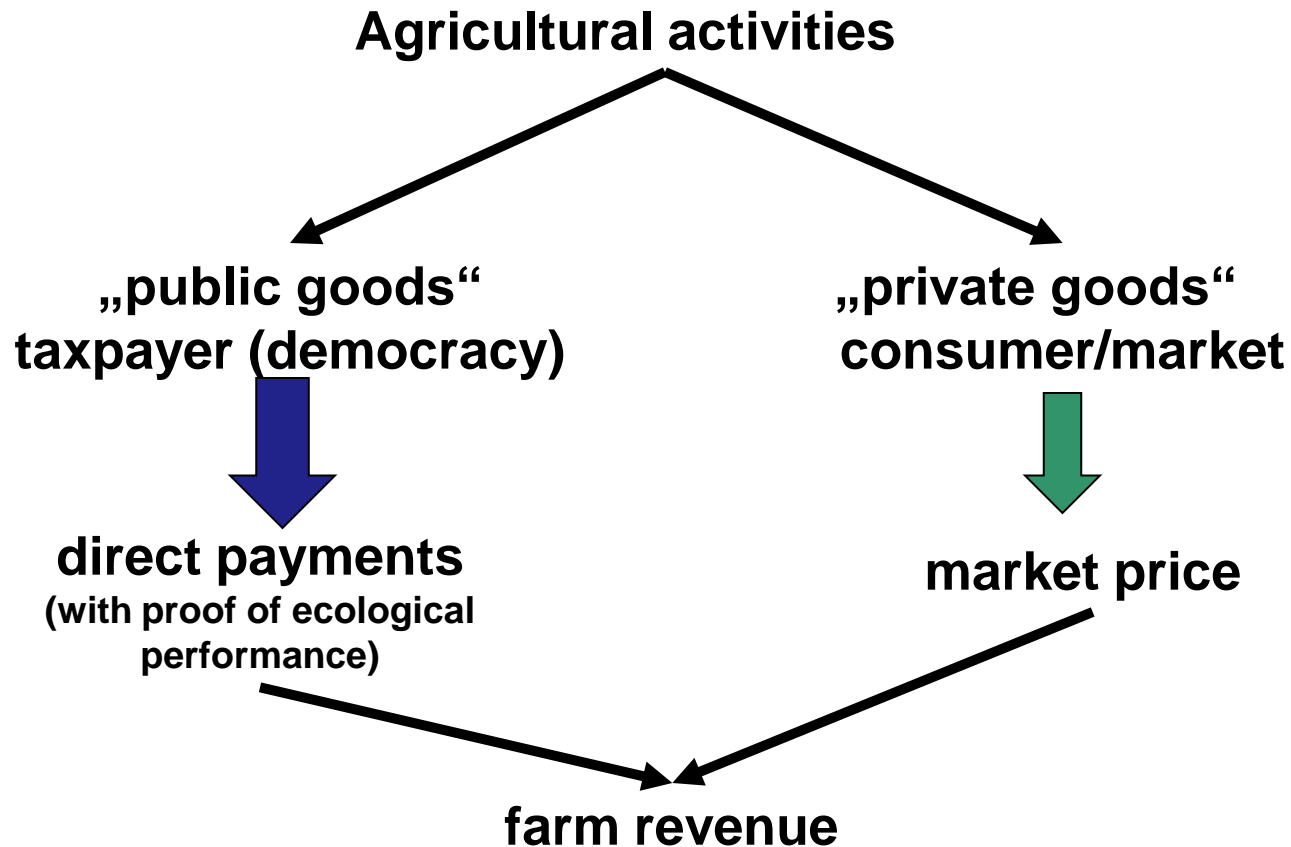
- 1. New agricultural policy since 1992**
- 2. New agricultural policy: taking stock**
- 3. Trade liberalization: unfinished business (I-III)**
- 4. Outlook**
- 5. Discussion**

# **1. New agricultural policy**

# **1. New agricultural policy since 1992**

- 1992: seventh report on agriculture: to gear Swiss agricultural policy towards European markets**
- 1994: Uruguay Round Agreement on Agriculture, green box (allowing for direct payments)**
- 1996: Swiss public confirmed support for agriculture (plebiscite); Article 104 on agriculture in constitution**
- 1999: new agricultural law in force, based on Article in constitution**

# Decoupling: Transparency in agricultural policy

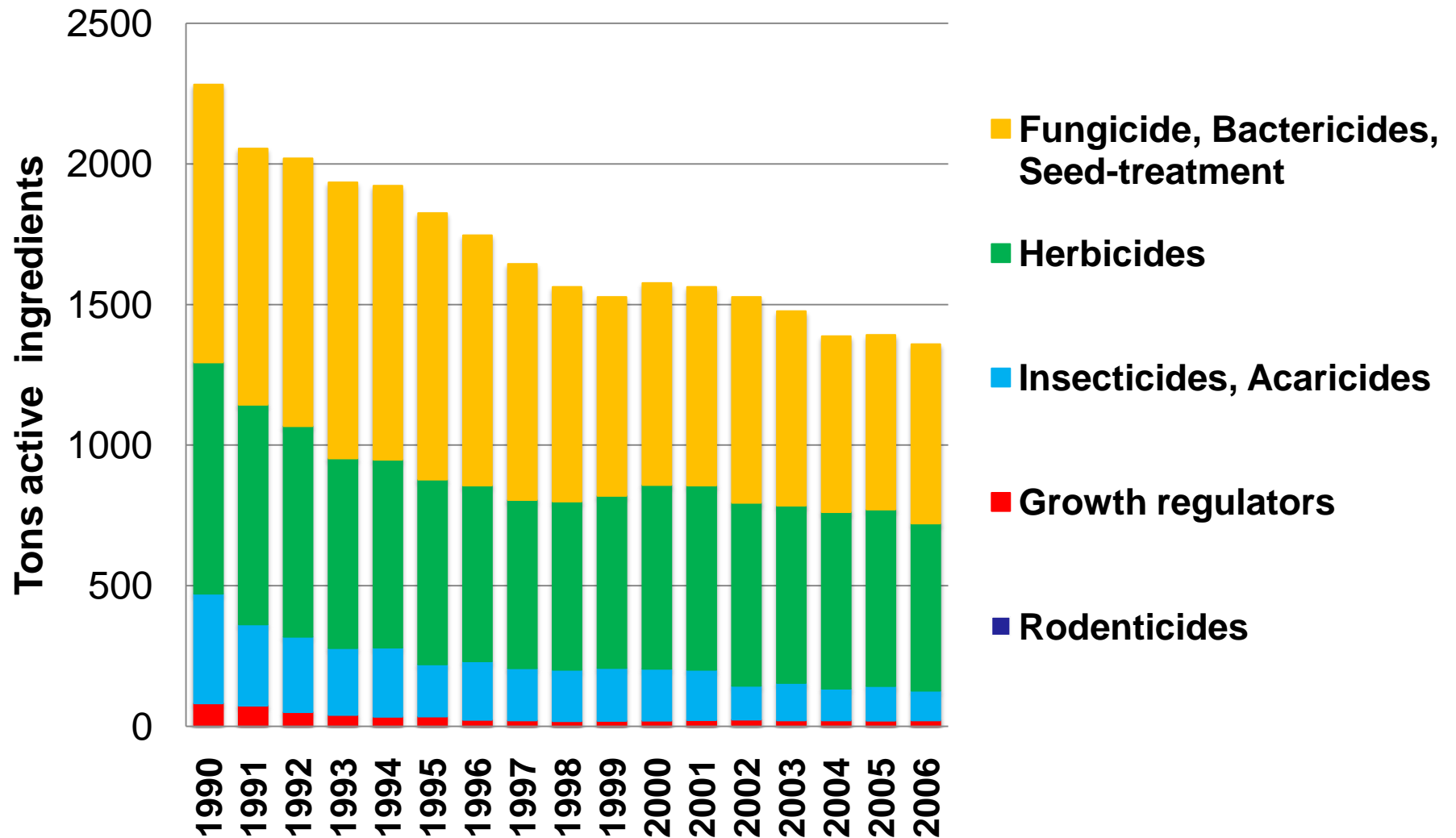


## **2. New agricultural policy: taking stock**

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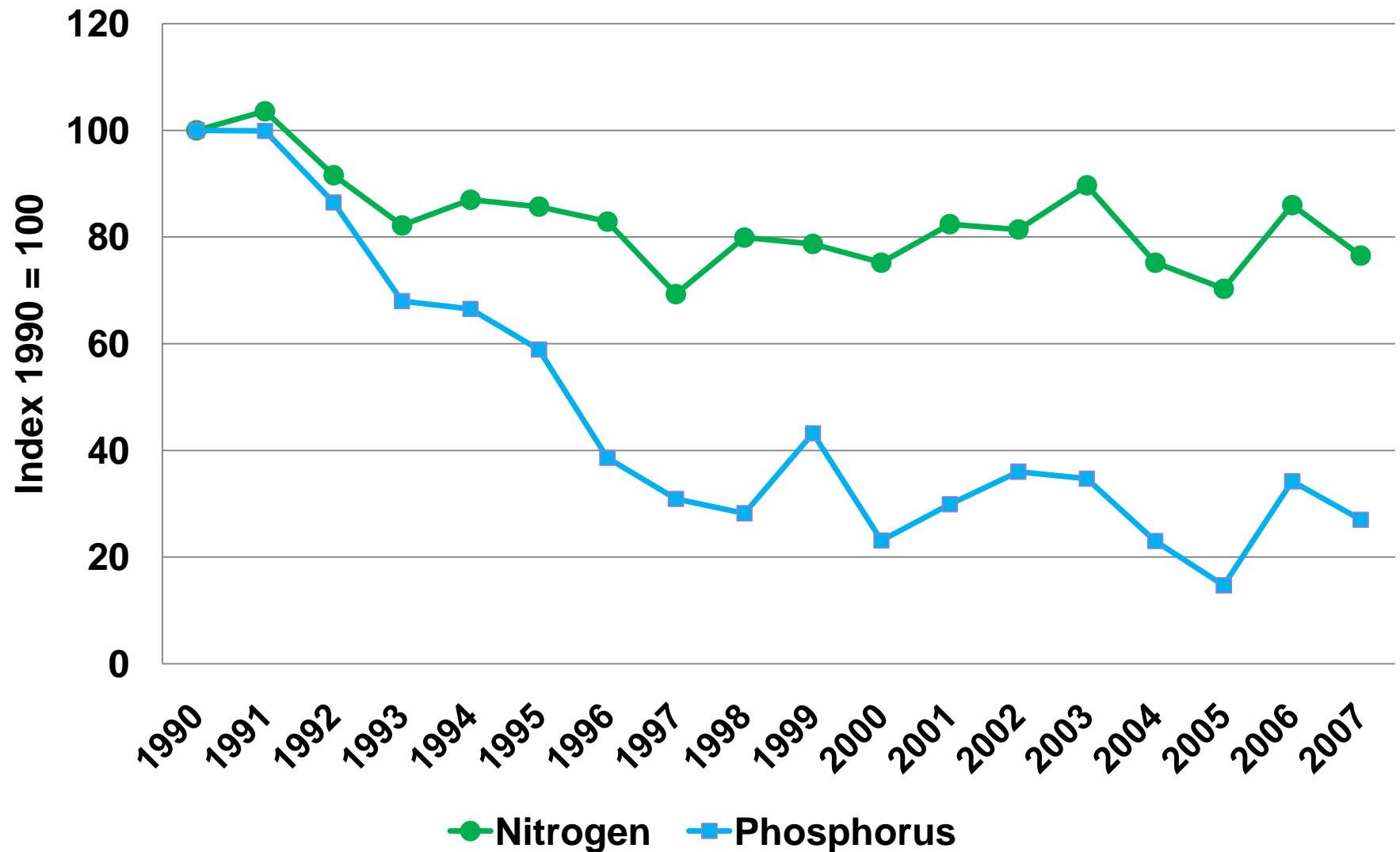
- **After more than a decade:**
    - **Ecology & animal husbandry: great adaptation performance by agriculture**
    - **Reforms: socially acceptable**
    - **Decoupling: far advanced, direct payments have reached “critical” level**
    - **Price competitiveness: improved but not enough**
    - **Efficient allocation of labor and capital & cost reduction: room for improvement**
-

# Impact on environment: less plant protection agents



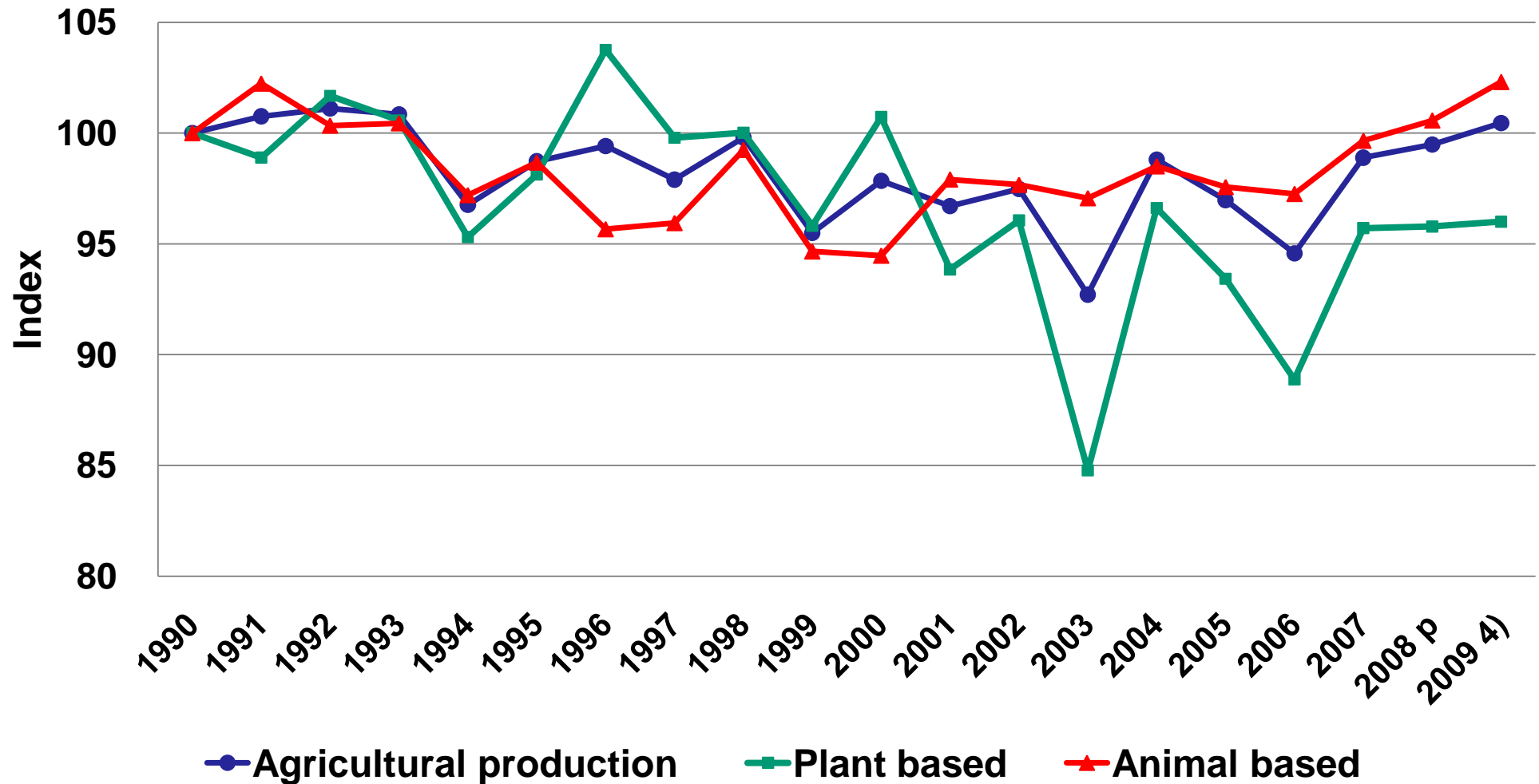


# Impact on environment: less fertilizer

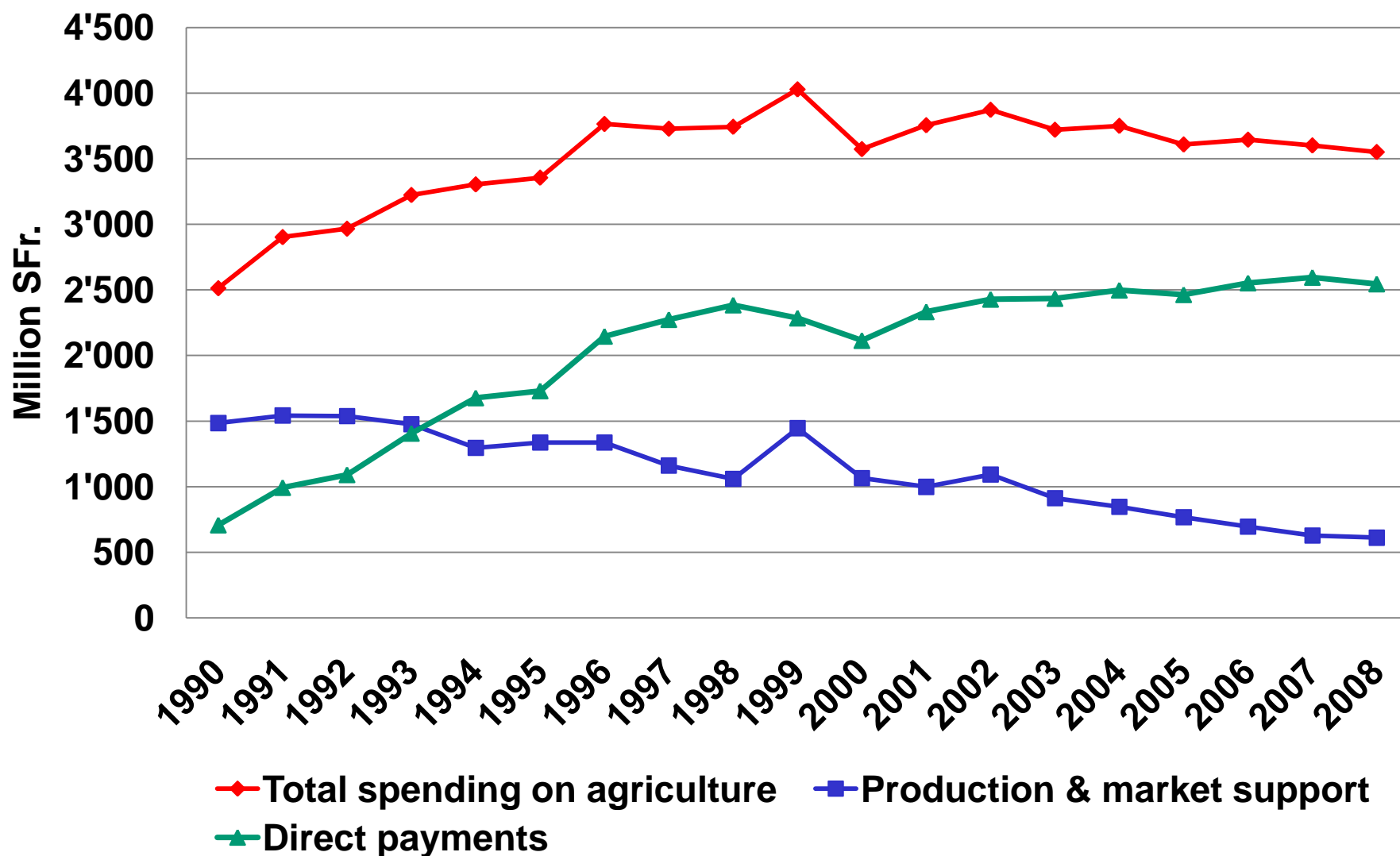


# Production: stable to increasing

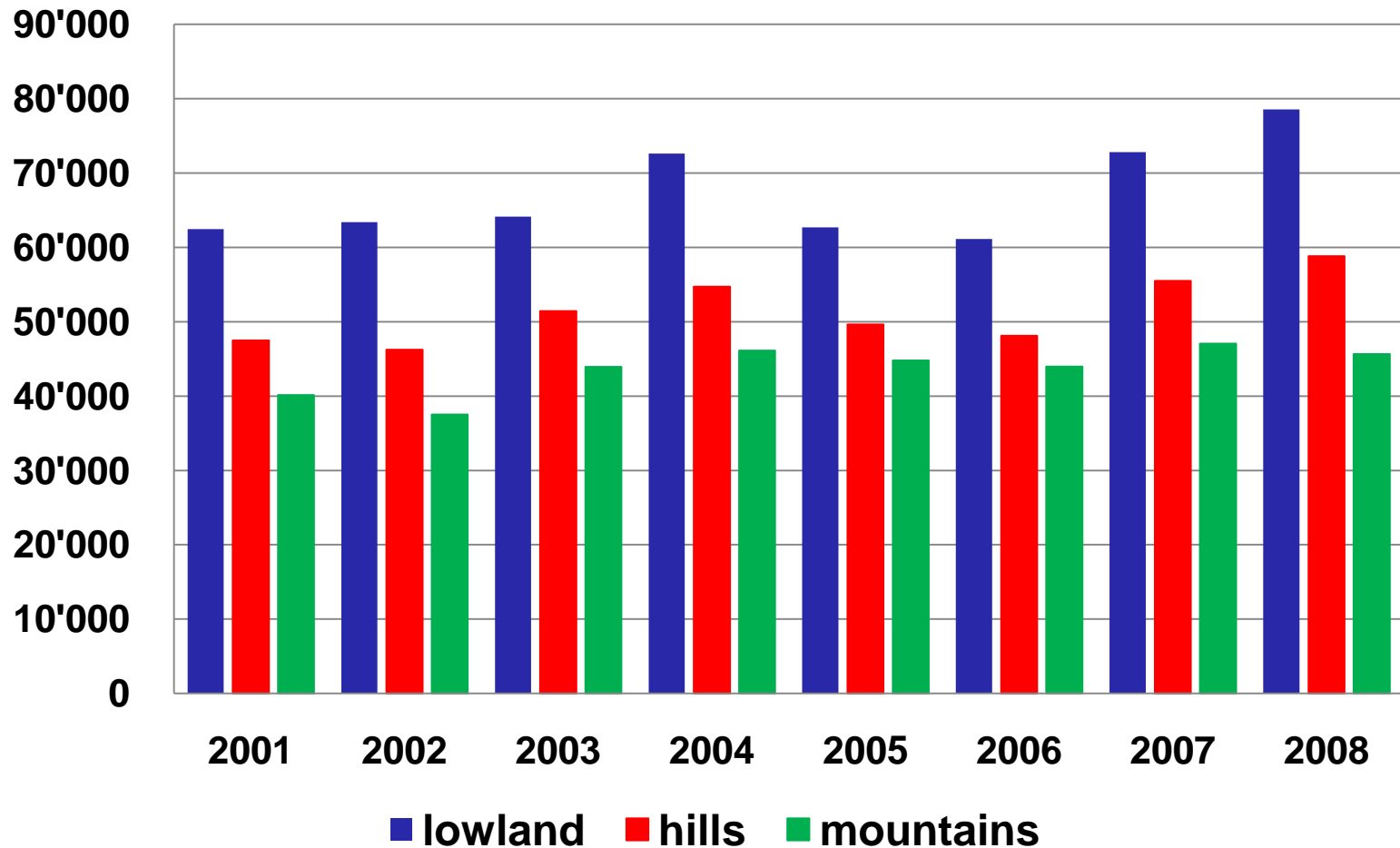
Agricultural production in Switzerland, 1990 =100



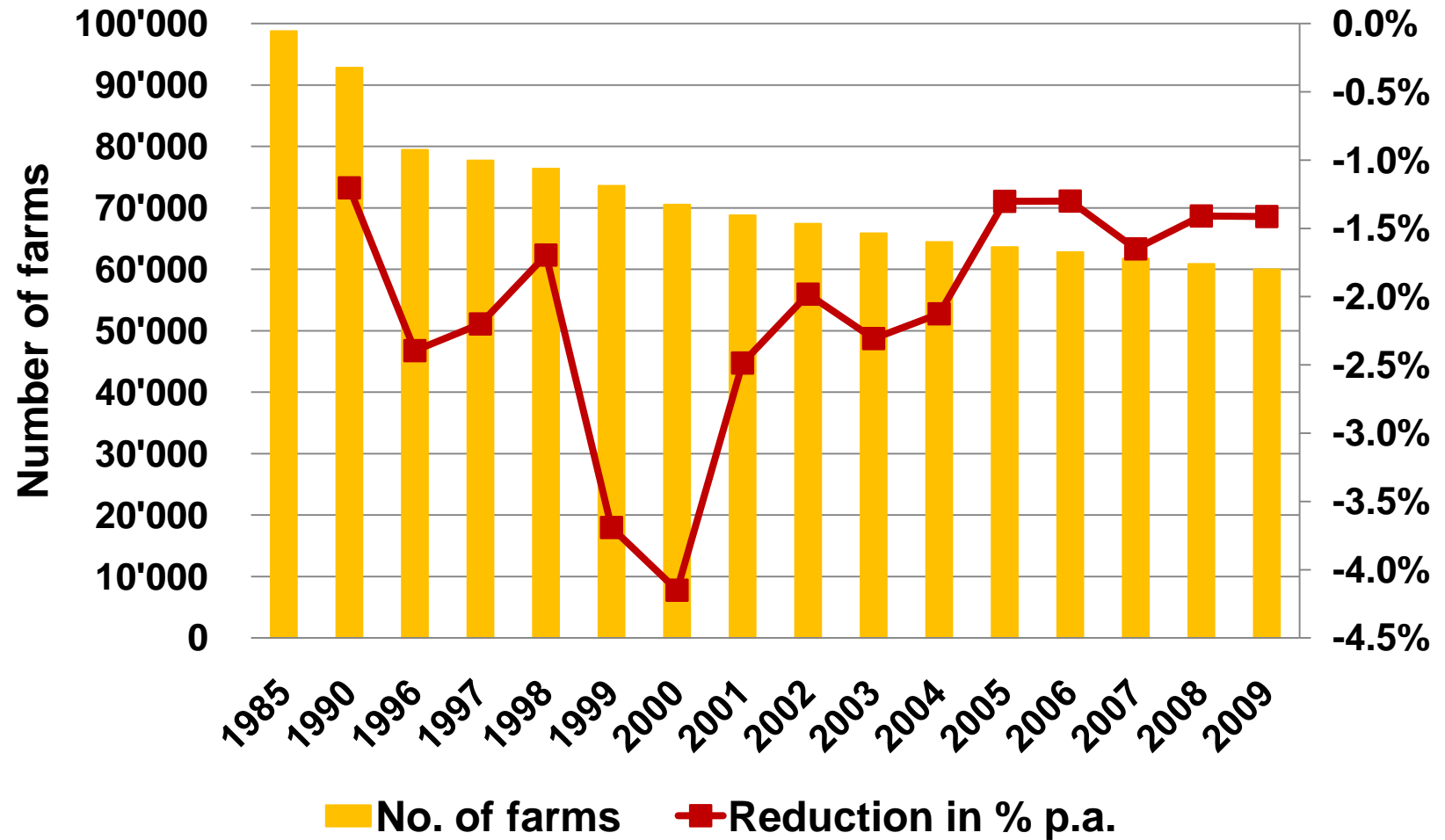
# From market price support to direct payments



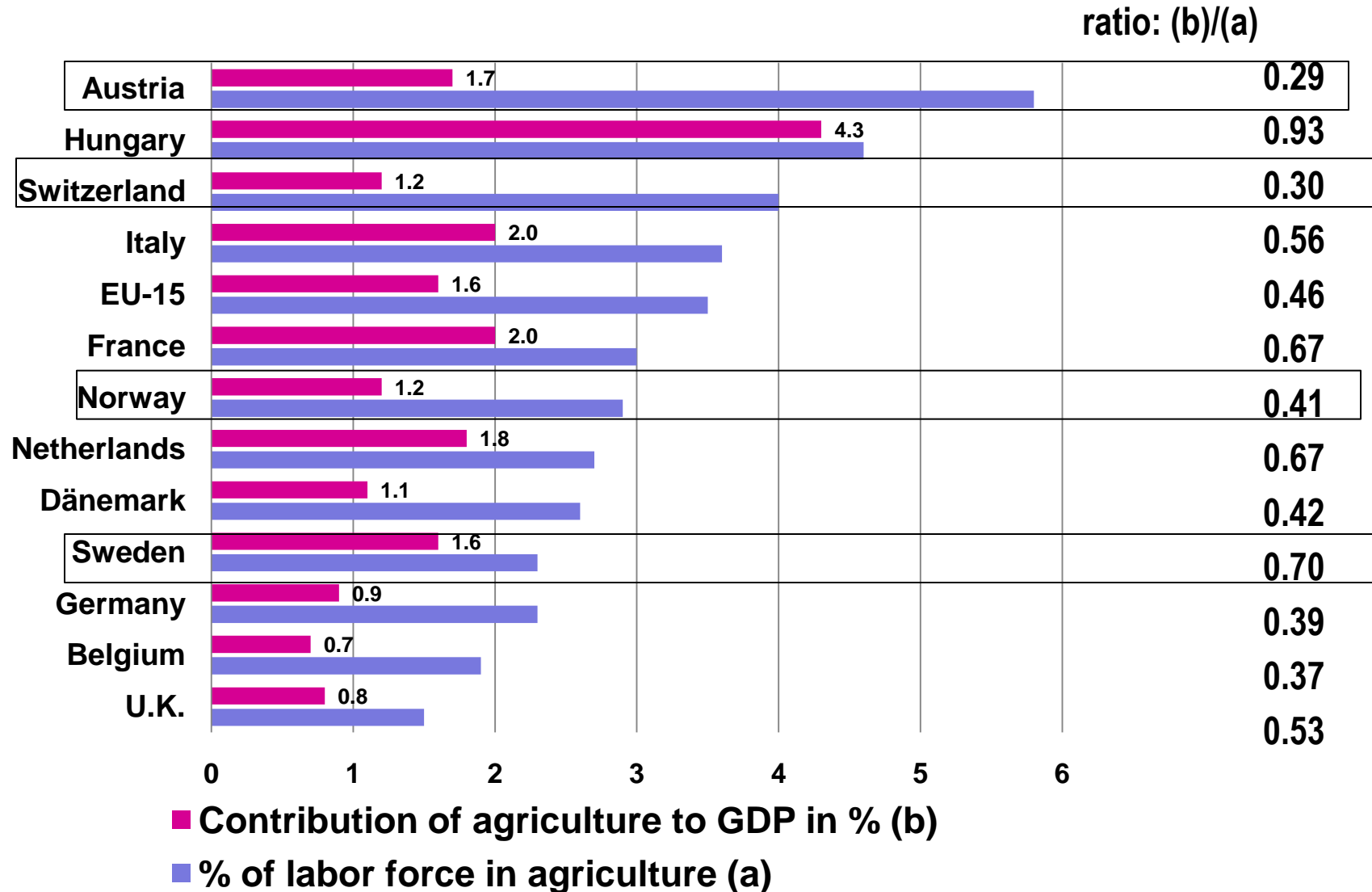
# Agricultural income: improved



# Structural change: leveled off

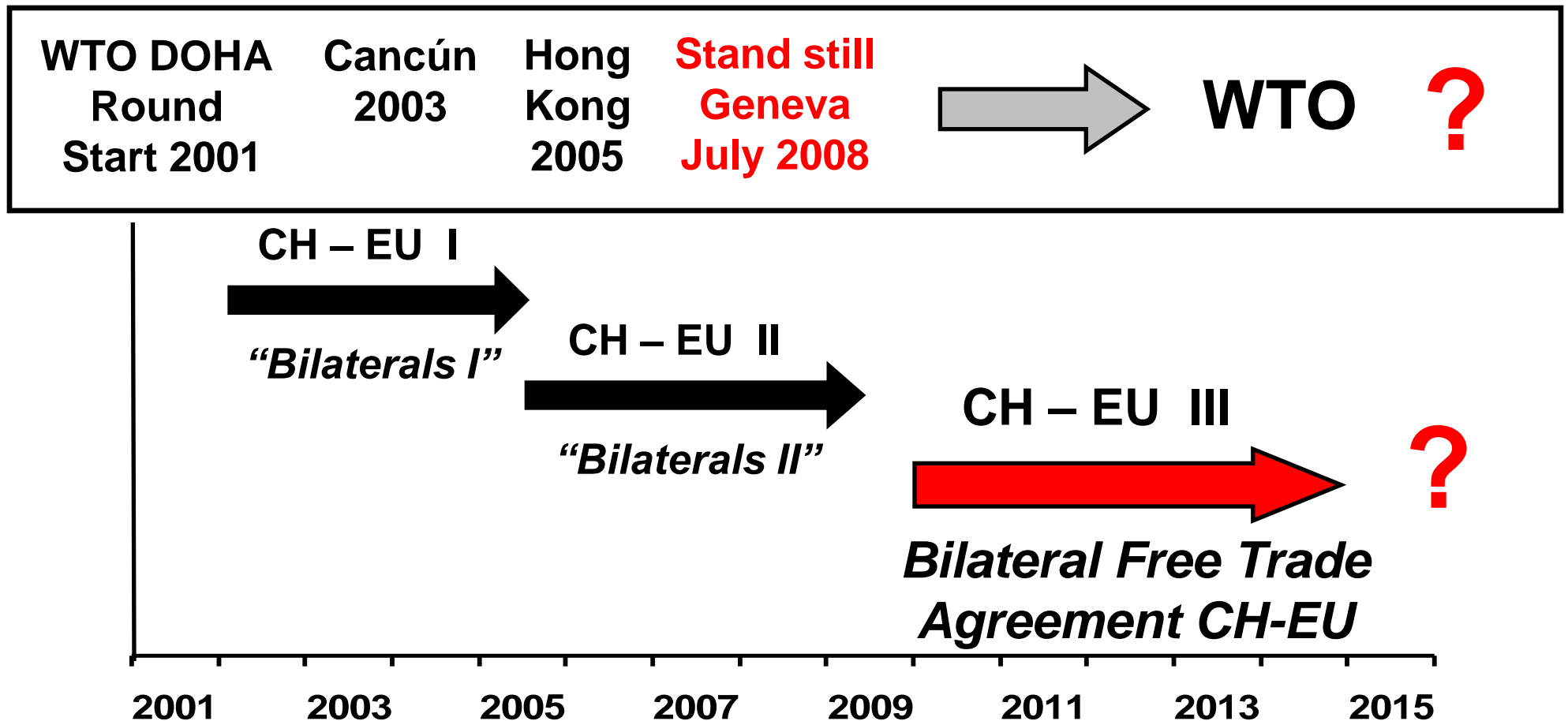


# Contribution of agriculture to GDP and labor (2008)



### **3. Agricultural trade liberalization (WTO): unfinished business I**

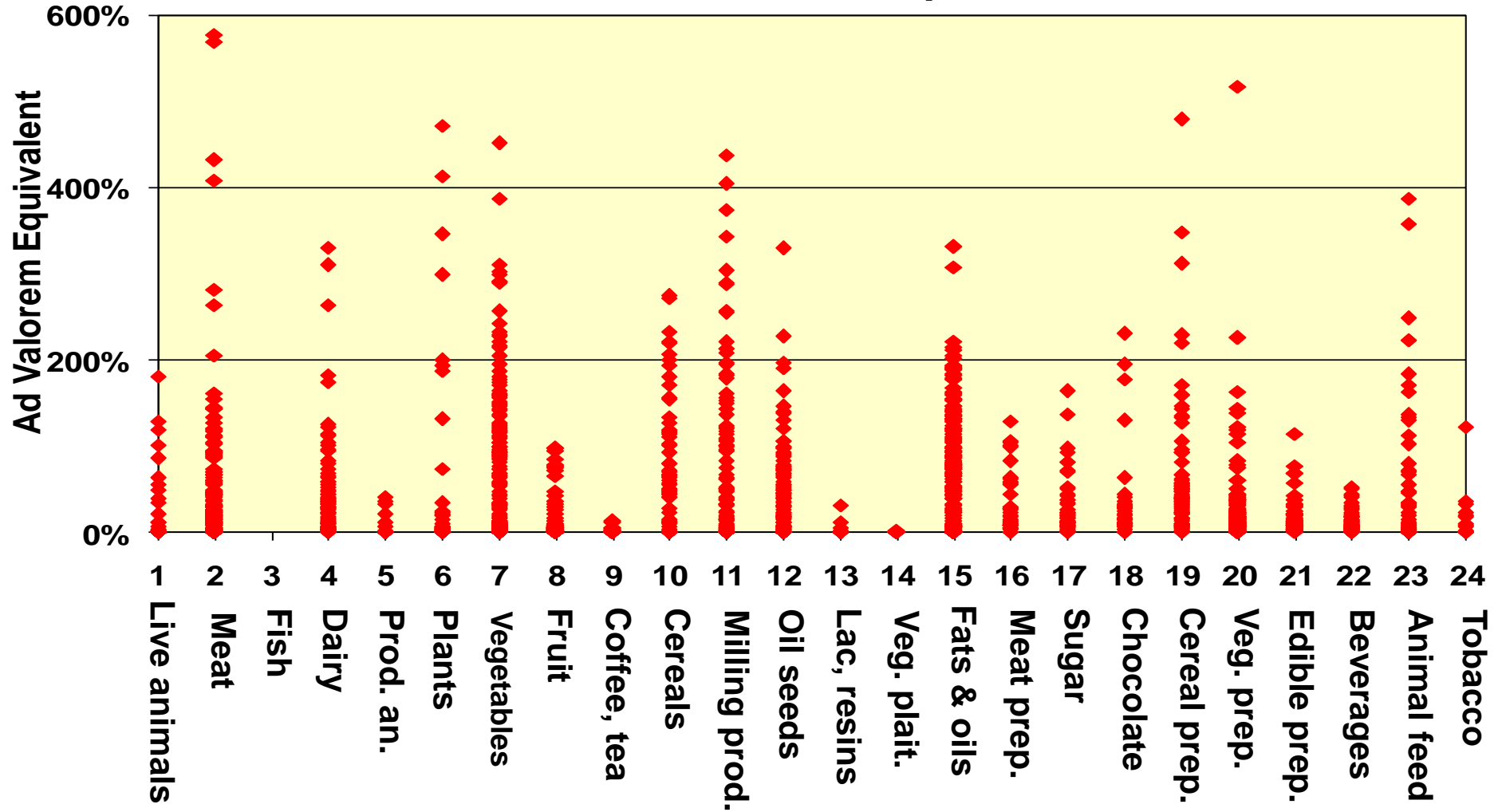
# Swiss agricultural trade policy in the context of the WTO



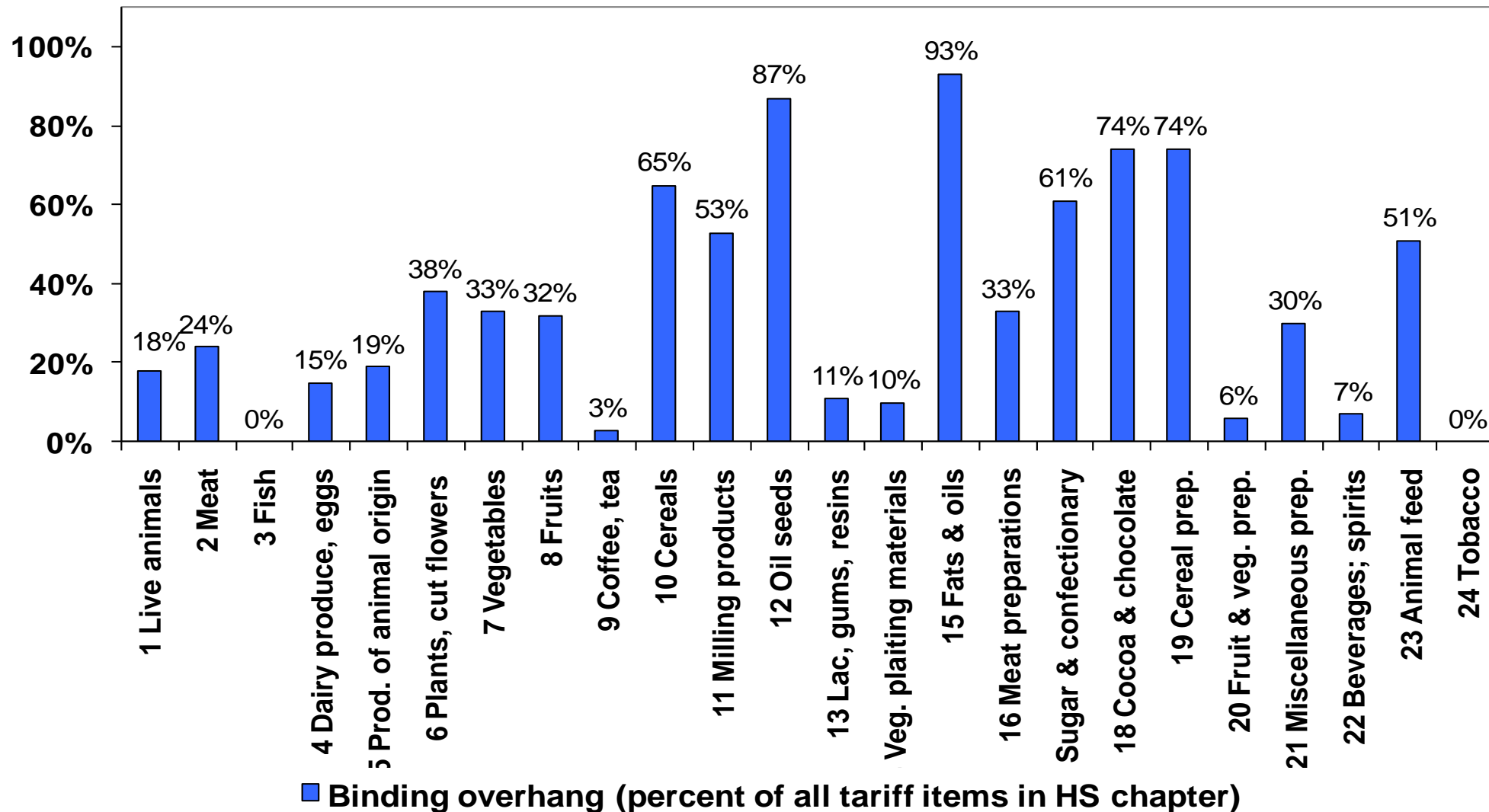


# Dispersed tariff pattern

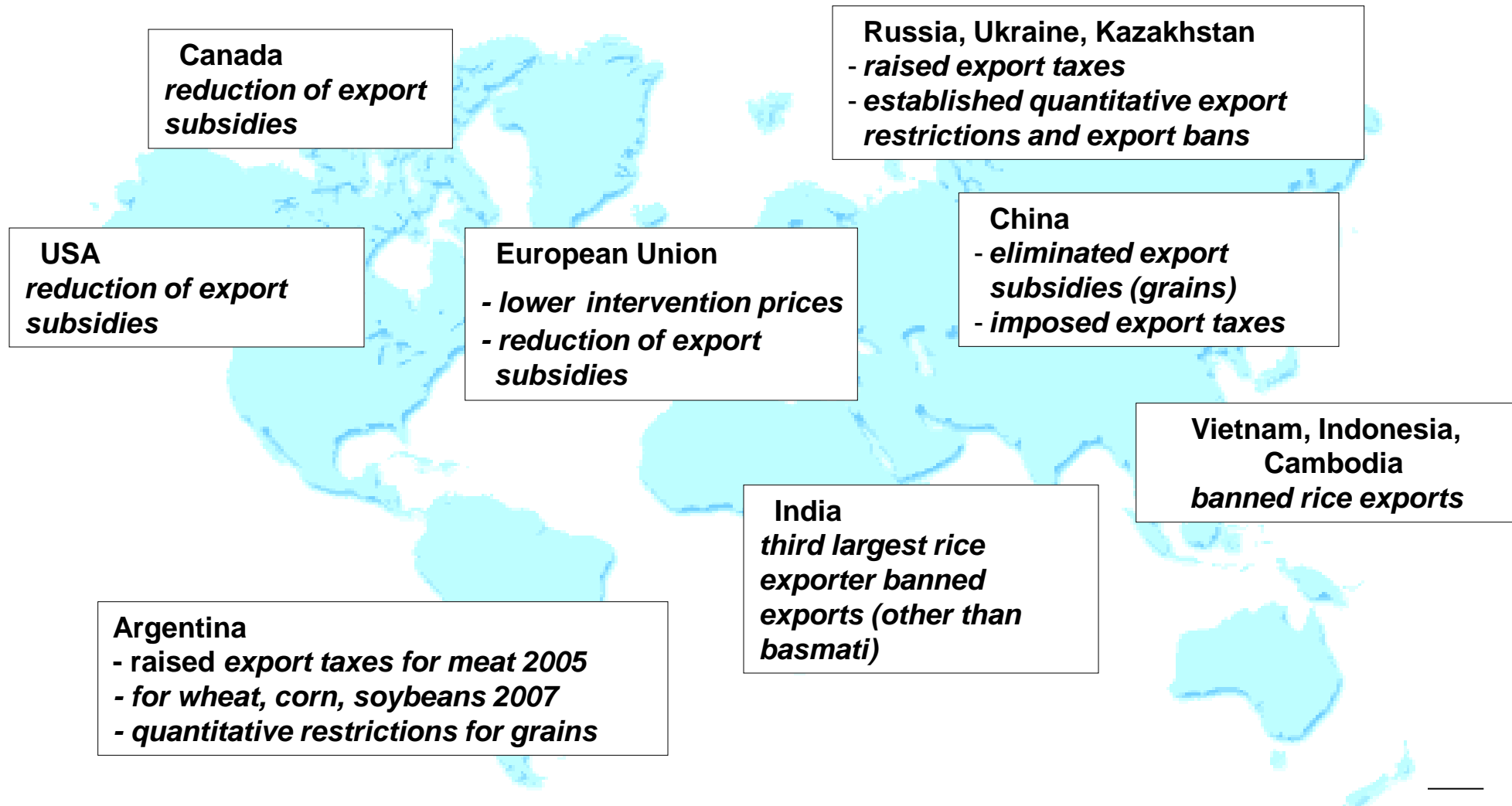
Bound tariffs, HS chapters 1 - 24



# Binding overhang (bound above applied tariff rates)

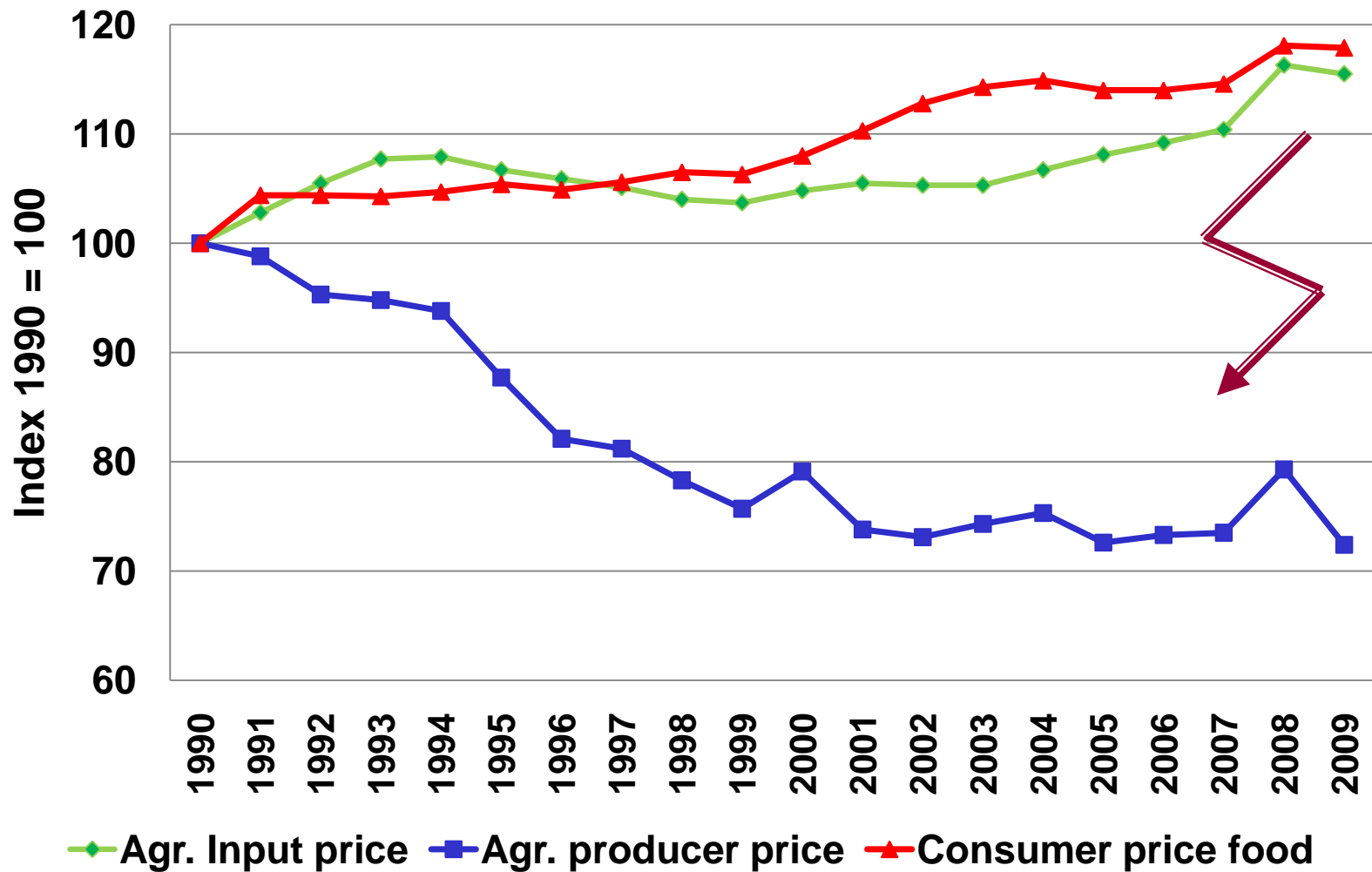


# From export subsidies to export taxes and export bans 2007/08



### **3. Unfinished business II: tariff rate quotas**

# Divergent producer and consumer prices

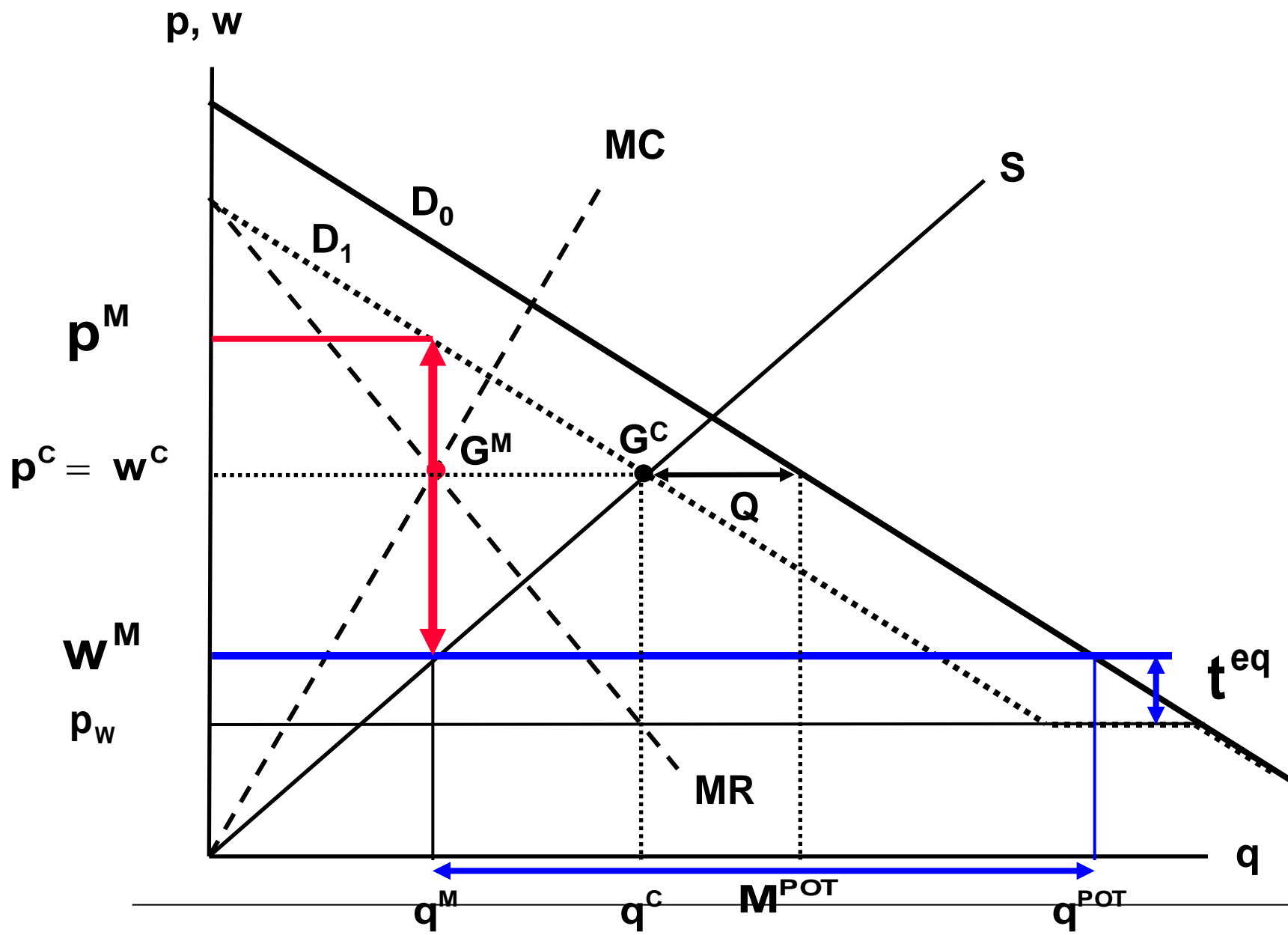


# Detrimental effects of quotas

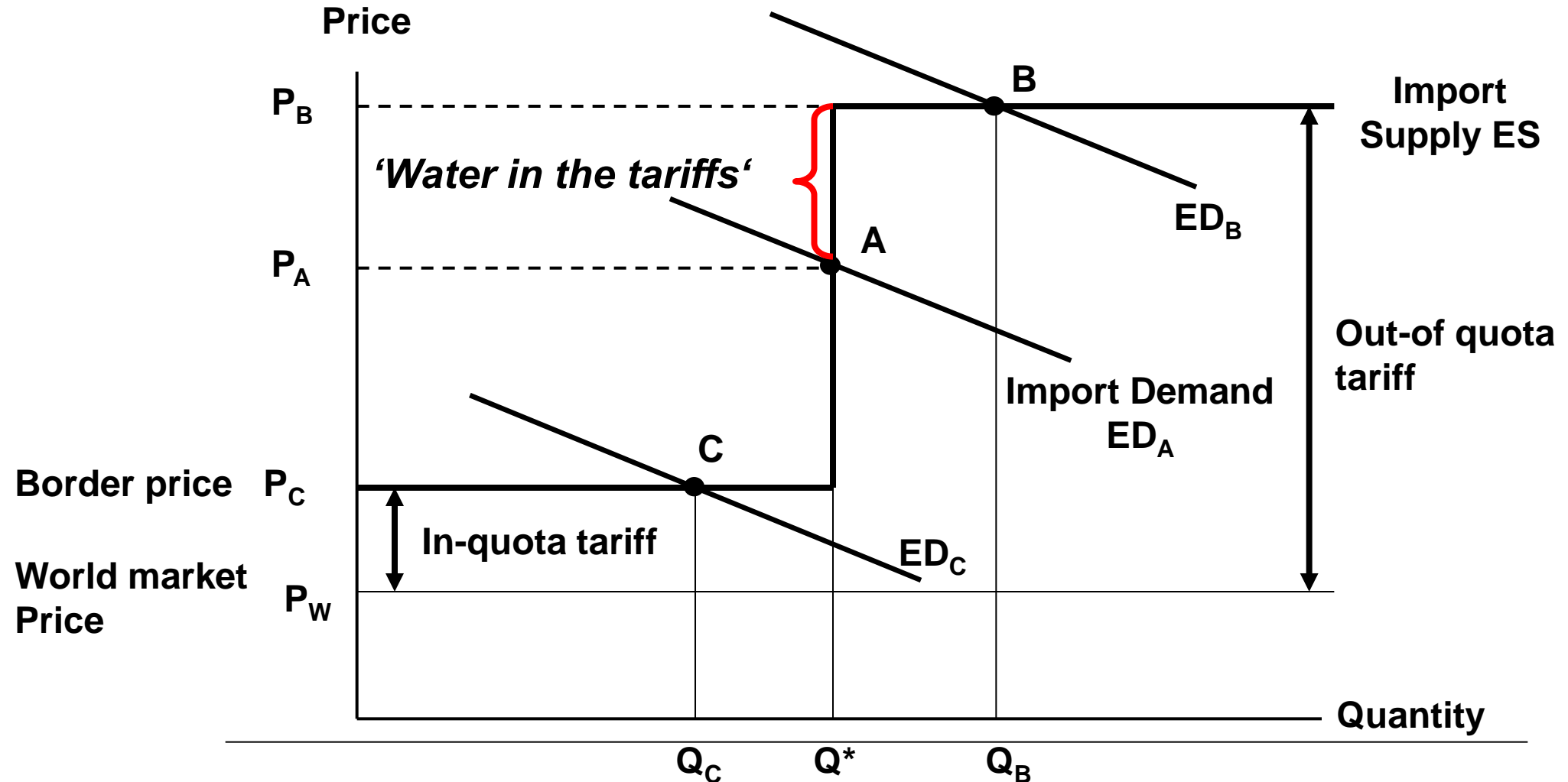
- **Quotas allow domestic firms to exert market power**
- **Under imperfect competition: impact of quotas and tariffs on market access differ**
- **Bhagwati (1965): Theorem of non-equivalence of tariffs and quotas**

*Quantitative restrictions, quotas and non tariff barriers, affect welfare far more than tariffs.*
- **Krueger, A. (1973): Quotas and rent seeking behavior – waste of resources**

*Quotas generate rents. Strong incentives for quota holders to lobby for quantitative restrictions. Rent seeking causes welfare losses.*



# Tariff-rate quotas: Different cases of quota fill





# What to do about TRQs ?

- **TRQs with prohibitive out-of quota tariffs = Non-tariff barriers**  
→ **Conversion of all TRQs into single tariffs**
- **Auctions are a “useful step” (Bergsten)**
- **Auction prices + in-quota tariffs lower than equivalent tariffs (empirical evidence)**  
→ **‘Implicit’ tariff reduction**
- **Conversion of TRQs into single tariffs:**
  - ❖ **to reduce imperfect competition and market power**
  - ❖ **To improve transparency and market access**

# TRQs in the WTO: from fragmentation to coherence

## Current WTO-Modalities July 2008

Ambitious goals for tariff  
reduction

But TRQs for “sensitive  
products”

→ Loopholes to water down  
market access improvements



**FRAGMENTATION**

## Alternative strategy: Elimination of TRQs

Auctioning TRQs and conversion  
into single tariffs

→ Transparency and improved  
market access

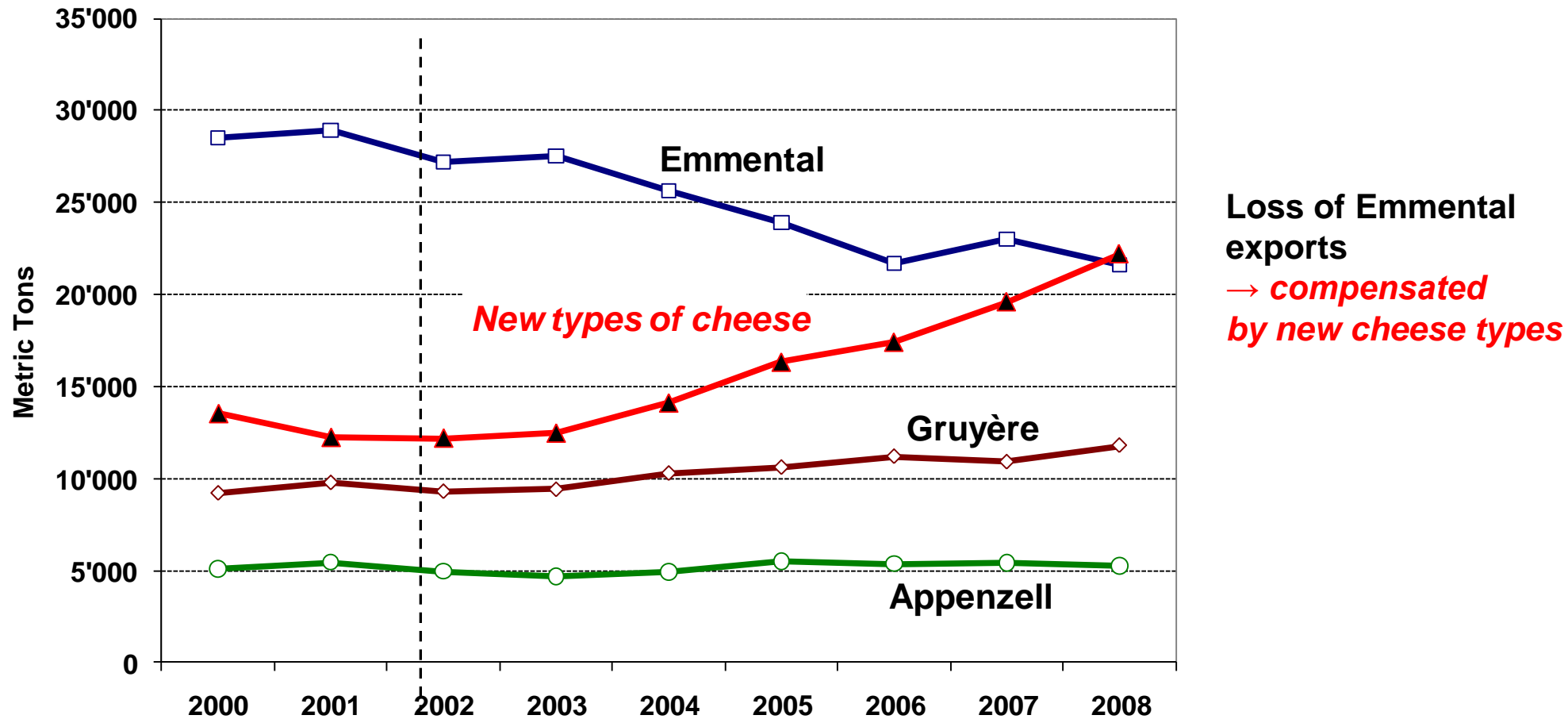
→ Tariff reduction formula  
considering ‘implicit’ tariff reduction



**COHERENCE**

### **3. Unfinished business III: agriculture in free trade agreements**

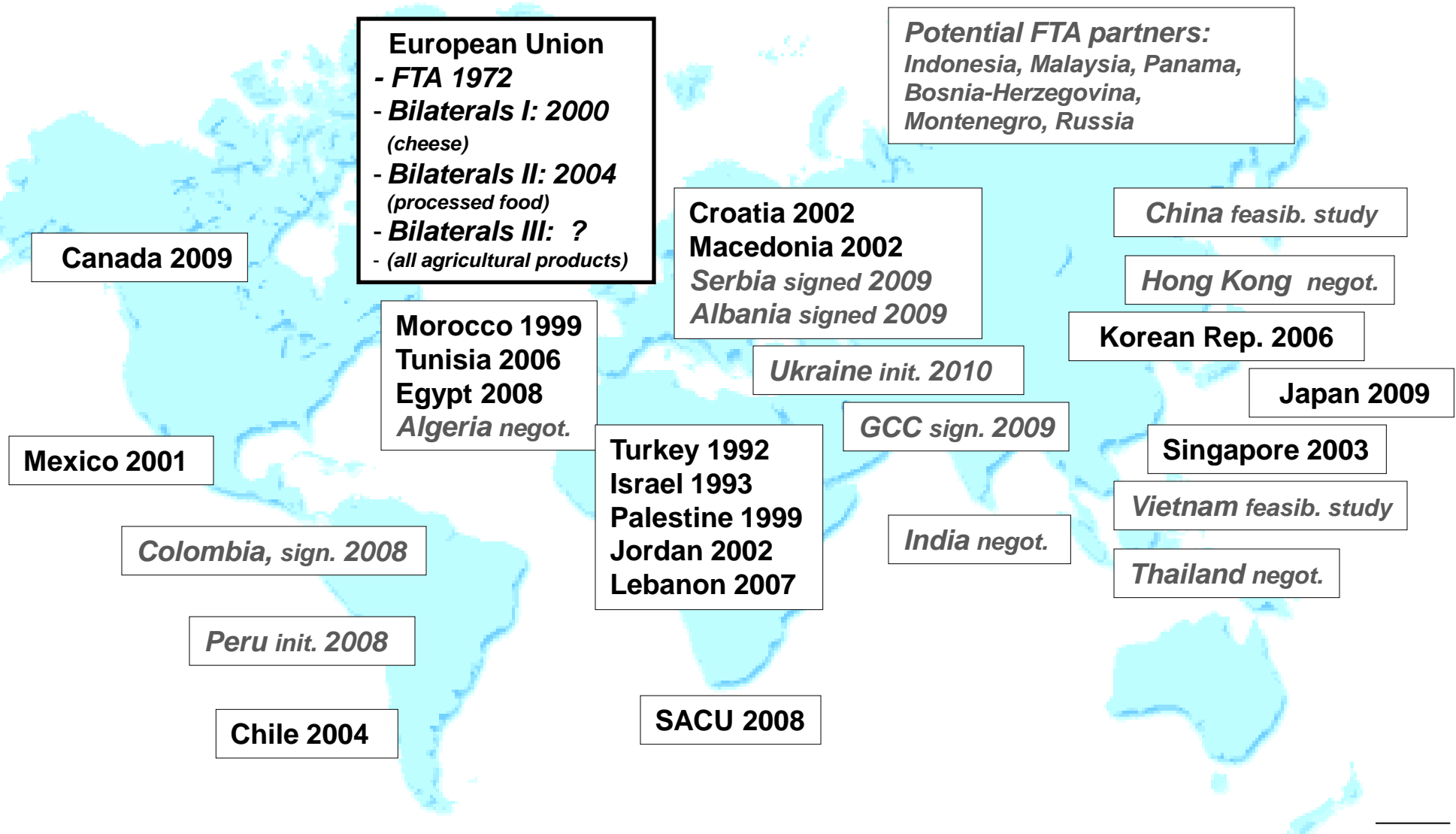
# Opportunities: Access for new types of Swiss cheeses to the EU market in 2002



# **Liberalization of cheese market with EU**

- **Opportunities of market liberalization**
    - Full market access for all types of cheese to the EU: 500 Million people
    - Losses of market shares of classical types of cheese (e.g. Emmental) fully compensated by new types of cheese
  - **Threats of trade liberalization**
    - Domestic milk price coupled with EU price, imbalance with still protected dairy products (butter, powder) and inputs
    - Dilemma between milk price and market shares in domestic and EU markets
  - **Welfare effects of market opening:**
    - Reduction of the consumer's burden
    - More competition in the domestic market: declining marketing margins in favor of consumers and farmers
-

# Switzerland's network of free trade agreements



**Agricultural products included in FTAs**

## **4. Outlook**

# **Liberalization of all agricultural trade with the EU**

- 1. Positive welfare effects: losses of producer surplus will be by far compensated by the consumer surplus gains**
- 2. Welfare gains of trade liberalization will support political acceptance to compensate farmers for their income losses**
- 3. Strong opposition of farmers and their organizations against all approaches of trade liberalization (WTO and free trade agreement with the EU)**
- 4. Furthers competitiveness of agriculture**
- 5. Processing industries I: to counter outward processing (2012), reach scale economies**
- 6. Processing industries II: necessary to compensate removal of export subsidies (2013)**



# 5. Scenario for discussion

## A) What if WTO and ag-FTA with EU stuck for a long time?

- unilateral trade policy measures (TRQs to single tariffs) to improve competitiveness & competition?
- FTA's with third countries (evt. impact of EU's more comprehensive approach to ag-liberalization) to improve competitiveness & competition?
- changes needed to agricultural policy beyond the ones envisaged in the development of the direct payment system („WDZ“) to improve competitiveness & competition?