



# Article on economics: Main aspects of the Agricultural Policy for 2014-2017

Simon Lanz, Berne 2012

**The Federal Council issued its message on the Agricultural Policy for 2014-2017 (AP 14-17) on 1 February 2012. The main challenges of this policy are to improve the competitiveness of Swiss agriculture in order to access additional markets, to increase the services provided by farmers for the community and the efficient use of resources in agricultural production and to minimise the negative effects of farming on the environment.**

## 1 Retrospective and the political mandate

With the revision of agricultural policy since the beginning of the 1990s support for agriculture has been gradually reduced and separated from production. Between 1990 and 2010 total financial aid (import controls and budgetary subsidies) was reduced from just over 8 billion francs to 5.6 billion. Furthermore, the proportion of linked financial aid (import controls and contributions towards market price support including export subsidies) fell by practically 50% over the same period<sup>1</sup>. As compensation, direct payments independent of production volume were considerably increased. For each franc of the federal budget that is spent on agriculture today, over 80 cents goes towards direct payments. The gradual separation of subsidies from production since the beginning of the 1990s has led to marked improvements in all three aspects of sustainability (see Figure 1):

- productivity has risen by 1.6% per year and the price differences compared with other countries have been reduced. At the same time farmers have been able to make the necessary investments, so that the rate of renewal of capital has remained steady;
- farm incomes have kept pace with those in other sectors;
- gross as well as net calorie production has increased (by 10 % and 5 % resp.);
- the negative effects of agricultural production on the environment have been reduced (e.g. loss of nitrogen down by 14%, loss of phosphorus down by 70%). As a result, resources are now being much more efficiently used;
- the total area of extensively farmed land aimed at encouraging biodiversity has increased considerably and the proportion of high-quality farmland is constantly rising;
- in peripheral rural areas in particular farming is continuing to make an important contribution towards maintaining rural settlements, i.e. a decentralised settlement pattern;
- the proportion of livestock kept under particularly animal-friendly conditions has also risen considerably.

Changing the subsidy system alone is no guarantee that agriculture will provide services for the community in an efficient manner and to the extent desired by the community. Over recent years, for example, progress in the ecological sector has stagnated. In comparison with the targets set out by

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<sup>1</sup> OECD 2011, [www.oecd.org/agriculture/pse](http://www.oecd.org/agriculture/pse)

the Federal Council on the basis of article 104 of the federal constitution, many aims have not yet been achieved<sup>2</sup>.

As part of the 2011 Agricultural Policy the Federal Council proposed a further shift of funding from market subsidies to direct payments<sup>3</sup>. The debate in parliament revealed that there was some doubt among both farmers and economists about the effectiveness and efficiency of the present direct payments system, whereupon the Federal Council was tasked with examining the direct payments system in detail with a view to the next series of reforms<sup>4</sup>. After the Federal Council submitted its report in May 2009, the parliament decided that there was room for improvement and that the direct payments system should be modified. It asked the Federal Council to produce a concrete bill for a revised direct payments system<sup>5</sup>. As well as direct payments, the Federal Council's latest message concerning AP 14-17 deals with other topics on which the parliament has submitted procedural requests (e.g. strategy on quality and guaranteeing food supplies).

## 2 Future challenges

Agriculture and the whole food industry are part of a many-sided and complex world. Depending on how the basic conditions in this world develop in the future, certain aspects and problems will either become more important or lose their impact. In order to draw up a credible strategy for the future, it is therefore essential to consider how things will develop in the future. How will the global economy develop? Will the scarcity of raw materials and natural resources be a limiting factor? Will there be totally new challenges and crises?

The Federal Council is of the opinion that we shall have to face the following challenges in the future:

### **Guaranteeing food supplies**

By 2025 the total population of the world is expected to exceed 8 billion. At the same time economic growth will continue and the purchasing power of the population, especially in emerging countries, will continue to increase overall. This means that demand will rise sharply, in particular for animal food products such as milk and meat. As a consequence, the provision of adequate supplies of good quality food will be one of the main global challenges in the future<sup>6</sup>.

### **Competitiveness**

In the medium term, it can be expected that obstacles to trade, in particular import restrictions, will be further reduced. In comparison with other countries, import duties, and as a consequence the price of agricultural produce, are still high in Switzerland. In order to deal successfully with the deregulation of markets for agricultural produce the interim period must be used to improve productivity and competitiveness throughout the food chain.

### **Efficient use of resources**

With the worldwide rise in population and global economic growth, the need for resources will continue to increase all around the world. The fact that non-renewable raw materials (e.g.

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<sup>2</sup> Federal Council's report dated 6 May 2009, Revision of the Direct Payments System, p. 137

<sup>3</sup> Bötsch M. and Hofer E. (2006): Agrarpolitik 2011 – konsequente Weiterführung der Reform. (*Agricultural Policy for 2011 – Consistency in the Continuation of the Reforms*) Die Volkswirtschaft 09/2006

<sup>4</sup> 06.3635 Motion CEAT-S: Revision of the direct payments system, 10 November 2006.

<sup>5</sup> 09.3973 Motion CEAT-S: Revision of the direct payments system. A concrete concept, 16 October 2009.

<sup>6</sup> Parmentier B. (2007): Nourrir l'humanité, les grands problèmes de l'agriculture mondiale au XXI<sup>e</sup> siècle, (*Feeding humanity, the principal problems facing world agriculture in the 21st century*) Editions La Découverte, Paris.

phosphorus or land) will gradually become scarce represents a major challenge for the future. It is therefore essential that resources be used more efficiently in agricultural production and valuable farmland be more effectively protected.

### **Rural areas**

Rural areas are caught between the further deregulation of markets for agricultural produce and changing social structure on the one hand, and the increasing scarcity of natural resources on the other. Against this background the resources of each region must be used with care to their full potential so that the vitality of rural areas is preserved.

### **Sustainable consumption**

Owing to the small proportion of agricultural land per inhabitant in Switzerland, the country is dependent on imported foodstuffs. It is therefore strategically important that not only food grown at home but also imported foodstuffs are produced in a socially and environmentally sustainable manner, thus ensuring long-term production both within Switzerland and in other countries. Consequently, consumers must be made aware of this logic.

#### **Box 1: Basic agro-economic conditions**

In contrast to industrial production, agricultural production is based very much on ecosystem performance such as soil formation, the nutrient cycle and climate regulation. Over the centuries, natural ecosystems have increasingly become agricultural ecosystems. Some aspects of ecosystem performance are reinforced by farming while others are compromised. In this connection the terms positive or negative externalities of agricultural production are used. The extent to which an externality can be considered positive or negative depends on the definition of rights of ownership. A drop in the quality of soil, water or air, for example, through agricultural emissions is now considered to be a negative externality. Positive externalities of agricultural production include ensuring food supplies, care of farmland, the promotion of decentralised settlement and animal welfare, apart from environment stewardship including care of the soil and biodiversity (see box 2). Since these so-called services for the community concern public sector assets, their provision to the extent desired by the community cannot be ensured through the market. Relying on market conditions alone (world market price levels, no budgetary support) domestic production would be considerably lower. It would focus on the most profitable aims and have a corresponding negative impact on the landscape, biodiversity and decentralised settlement.

The aim of the agro-political tools and in particular direct payments is to reduce the difference between private offer and public demand for community services. In order to achieve maximum effectiveness and efficiency, it is essential that concrete and verifiable aims are set out and that there is a clear connection between the aims and the tools used to achieve them. Consequently, AP 14-17 sets out concrete aims with tools and use of funding that are tailored to the purpose. It is essential that the conditions for proof of ecological performance be adhered to if negative externalities are to be avoided. In addition, technology which will reduce the use of resources over a given period can be promoted through payments for the efficient use of resources.

### **3 Aims of AP 14-17**

In order to ensure that the agricultural policy and direct payments system are as effective and efficient as possible, concrete aims that bear close scrutiny are set out in the Federal Council's message on AP 14-17. Apart from the three aspects of sustainability, namely economic, ecological and social, these aims cover the services to the community as defined under article 104 of the federal

constitution. As far as concerns the ecological aspect, the aims are based on the long-term environmental aims in agriculture<sup>7</sup>.

Table 1: Aims of the Agricultural Policy for 2014-2017

Field	Aspect	Situation in 2007/09	Aims for 2017
<b>Economy</b>	Productivity	+2.1% p.a.	+2.1 % p.a.
	Renewal of capital	30 years	30 years
<b>Social</b>	Incomes in the sector	-0.7 % p.a.	Reduction in the drop in incomes to below 0.5 % p.a.
<b>Ensuring food supplies</b>	Gross production	24,200 TJ	24,500 TJ
	Net production	21,500 TJ	22,100 TJ
	Farmed land in permanently settled areas	-1,900 ha p.a.	Reduction in loss of farmland to below 1,000 ha p.a.
<b>Natural heritage, environment</b>	N-efficiency	29 %	33 %
	P-efficiency	59 %	68 %
	NH <sub>3</sub> emissions	48,600 t N	41,000 t N
	Quantity of ESA*	60,000 ha in lowland areas	65,000 ha in lowland areas
	Quality of ESA	36 % interconnected 27 % high-quality	50% interconnected 40% high quality
<b>Farmland</b>	Farmed land in mountain areas	-1,400 ha p.a.	Reduction in advance of woodland by 20%
<b>Animal welfare</b>	Participation in ROEL programmes	72%	80%

\*ESA = ecological set-aside areas

Owing to the multifunctionality of the aims set out in the agricultural policy and the inter-dependence of the various aims, improvements are only possible in stages. Basically it would be possible to achieve greater progress in certain areas (e.g. reduction of nitrates in ground water) if it were not important to try to achieve other aims in other areas (e.g. maintaining agricultural use of land). Generally it is possible to make improvements in various target areas at the same time, thanks to technical progress and by increasing the consideration of the potential of different locations.

#### 4 The most important areas of adaptation and funding

AP 14-17 should on the one hand create basic conditions that favour the optimum use of market potential by agriculture and the food industry, and on the other hand improve the effectiveness and efficiency of the direct payments system. As far as exploiting market potential is concerned, the promotion of quality and sales is of central importance and this element should be specifically expanded through AP 14-17. At the same time, the procedures for granting investment subsidies should be modified in such a way as to ensure that investments are still acceptable under the modified basic conditions and that production costs can be reduced so that the long-term competitiveness of the agricultural sector can be improved. Both measures will help to raise added value in the market place,

<sup>7</sup> FOEN and FOAG (2008): Umweltziele Landwirtschaft. Hergeleitet aus bestehenden rechtlichen Grundlagen. (*Environmental aims in agriculture. Extrapolated from the existing legal basis*). Umwelt-Wissen Nr. 0820.

which is an important prerequisite for ensuring that farmers can provide services for the community in a satisfactory manner, even after import restrictions have been lifted.

The key element in AP 14-17 is the further development of the direct payments system. Measures with unspecified aims should be replaced by specific tools. The current subsidies centred around livestock encourage more intensive livestock farming and as a consequence result in an undesirable distortion of the market as well as ecological problems. They should therefore be converted into subsidies for ensuring food supplies, which would be dependent on the acreage of land used, priority being given to grazing animals on grassland (minimum herd size). Since the general acreage subsidy at present prevents structural development and does not encourage any specific services for the community, it should be abolished. The funds thus freed up could then be used on the one hand for expanding direct payment tools in areas where no specific aims have been set, and on the other for subsidies to cover the transition between the changes. This should ensure that the transition from the present direct payments system to the new one is acceptable from all points of view. The transition subsidies would have a marked effect on incomes since they would be independent of all other factors.

#### **Box 2: Ensuring food supplies: a bone of contention**

Under normal conditions, it is possible to guarantee the provision of food supplies for the population through the market (domestic production and imports). Food is thus basically a private sector asset. In times of crisis, however, it may be that food supplies can no longer be guaranteed, which endangers public security. Consequently, ensuring food supplies is also a public sector asset. The federal administration therefore takes measures to ensure that food supplies can be maintained in times of crisis. These measures are, on the one hand, short-term strategies for national economic supply (e.g. compulsory stocks) and, on the other, longer-term measures included in agricultural policy. The aim of community services is to maintain production capacity (e.g. infrastructure, know-how) through agricultural production. This is important for ensuring that, in the case of shortages, production can be adapted quickly. The payments for ensuring food supplies proposed by the Federal Council as part of AP 14-17 should therefore ensure that the production capacity of the agricultural sector is maintained at its present level.

The payments for ensuring food supplies have been criticised by various interest groups for different reasons. The farmers are demanding a closer link with payments for livestock and considerably more money for ensuring food supplies. Economic and environmental groups are basically questioning the principle of payments for ensuring food supplies or are demanding at least a marked reduction in funding. With its proposal, the Federal Council has adopted a middle-of-the-road position. A decisive role will be played by the proposed shift of livestock payments towards payments for ensuring food supplies, and the corresponding separation will be necessary to eliminate the undesirable incentive for farmers to adopt more intensive farming methods that is entailed in the present system. A closer link to factors affecting production, combined with a rise in the funding used for ensuring food supplies, would run contrary to this aim. Reducing payments for ensuring food supplies would make no sense in view of the progressive deregulation of the market and would endanger the adoption of new tools into the new system.

A total of Fr. 13.67 billion has been earmarked for funding the agro-political measures in the three agricultural budget areas for the 4-year period 2014-2017. At Fr. 3.42 billion per year this corresponds to the level for previous years. The majority of these funds (82%) will be accounted for by direct payments. The remaining amount will be split between the two areas of production and sales (13%), as well as improving basic conditions and social measures (5%).

Accounting for just about 40%, the most important category of subsidies within the direct payments is subsidies for ensuring food supplies. This figure will remain unchanged between 2014 and 2017.

Owing to rises in payments, it is to be expected that subsidies for biodiversity, landscape quality, production systems and the efficient use of resources will require increased funding. As the use of funds for these tools rises between 2014 and 2017, funding for the transition period will fall.

Apart from a slight easing of import restrictions on bread cereals, AP 14-17 foresees the continuation of the present level of support for agriculture. The abolition of unspecific direct payments (livestock subsidies, general acreage payments) will give farmers a greater incentive to make use of potential ways of reducing costs and to join performance-based programmes. This should lead to a better basis for successfully dealing with further stages of deregulation and in the future the aims set out in the policy should be better achieved using the same financial means.

Table 2: Payments budget for 2014-2017

	2014	2017	Total 2014-2017
<b>Basic improvements and social measures</b>	<b>159</b>	<b>160</b>	<b>638</b>
Secondary social measures	3	3	12
Subsidies for structural improvements	89	89	356
Investment loans	17	17	68
Arable and cattle farming	38	38	153
<b>Production and sales</b>	<b>442</b>	<b>447</b>	<b>1776</b>
Promotion of quality and sales	60	70	262
Dairy farming	296	296	1184
Cattle farming	13	13	52
Arable farming	73	69	279
<b>Direct payments</b>	<b>2814</b>	<b>2814</b>	<b>11256</b>
Subsidies for ensuring food supplies	1094	1094	4376
Farmland subsidies	511	511	2044
Subsidies for biodiversity	295	338	1264
Subsidies for quality of landscape	20	90	210
Subsidies for production systems	361	403	1526
Subsidies for efficient use of resources	52	73	256
Transition subsidies	482	306	1579
<b>Total</b>	<b>3415</b>	<b>3421</b>	<b>13670</b>

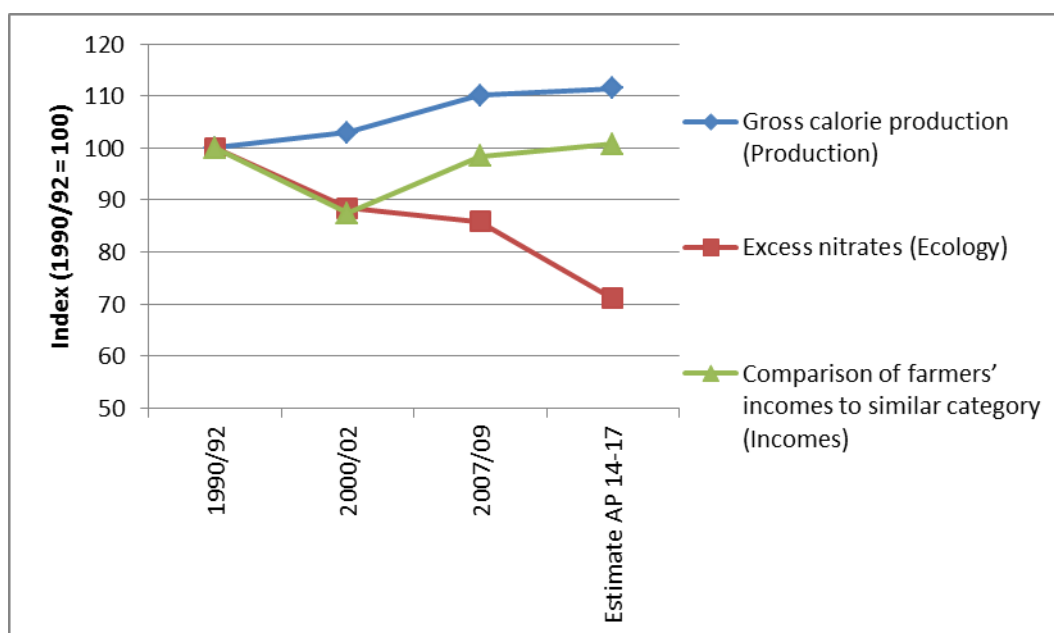
## 5 Consequences

With AP 14-17 progress can be made in all three areas of sustainability. This has been shown in models drawn up by Agroscope Reckenholz Tänikon<sup>8</sup>. Total livestock numbers will fall by around 10% by 2017 owing mainly to the shift of livestock payments to subsidies for ensuring food supplies. Together with the introduction of payments for efficient use of resources, this will result in a drop in excessive nitrates and phosphates as well as greenhouse gases, thus reducing the negative effect of ecosystems. The greater emphasis in the payments system on promoting high-quality biodiversity areas will lead to improvements with regard to biodiversity. This progress in the ecological sector will not be at the expense of production, however. On the contrary: according to the models, around 3% more calories will be produced, thanks to, on the one hand, increased yield due to progress in

<sup>8</sup> Zimmermann A. et al. (2012): Auswirkungen der Agrarpolitik 2014-2017, Aktualisierung der wichtigsten Ergebnisse des ART-Berichts Nr. 744, (*Consequences of the agricultural policy for 2014-2017, Update of the principle results set out in ART Report no. 744*) Tänikon.

production methods and, on the other, greater promotion of arable farming. At the same time it will be possible to limit imports of concentrated feed. As far as concerns incomes, AP 14-17 will pay off. Again according to the models, incomes in the agricultural sector will be around Fr. 110 million or 4.2% higher than they would be if today's tools continued to be used. Since structures will continue to develop and productivity to rise, incomes for individual farms should rise by some 7% thanks to AP 14-17. This means that farmers' purchasing power should remain unchanged if inflation continues at the present rate.

Figure 1: Trends in Ecology, Production and Incomes



## 6 Conclusions

A consultation concerning AP 14-17 was carried out in spring 2011. Reactions showed that basically the bill enjoyed broad support, although in certain areas, the interests of the state were in part extremely divergent. The Federal Council has taken into account the desires of the state as far as possible, without compromising the advantages of adopting a new type of direct payments system, however. These are in principle the following:

- greater focus on markets, increased promotion of innovation and increased added value;
- the creation of favourable conditions for dealing with further deregulation;
- elimination of ineffective incentives, more efficient use of natural resources and more targeted promotion of services to the community;
- increased achievement of agro-political aims without an increase in funding.

AP 14-17 is another important stage in the revision of Switzerland's agricultural policy. It will enable the agricultural sector to successfully face future challenges and meet the needs of the population in the best possible way.