

## Weissbuch Landwirtschaft Schweiz

### Evaluation and proposed reform of Swiss agricultural policy

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### Executive summary

Numerous recent studies show that since the early 1990s Swiss agricultural policy reforms have been less successful than regularly claimed by public authorities and farmer organizations. The present monograph examines the successes and failures and proposes practical solutions. It comprises five parts.

**Part I** describes the current situation. Criticism of the Swiss “agricultural system” and political and public discontent with it are increasing at a difficult time. Regardless of any free-trade agreements with the WTO or the EU, our country will not be able to completely resist the opening of agricultural markets. If market prices decrease as expected, the agricultural sector will suffer from loss of income. Furthermore, the financial crisis restricts public resources and the size of agricultural budgets is likely to come under increasing scrutiny.

In this critical situation, considered action is particularly important. Unless current agricultural policy failures are addressed, the foreseeable challenges can not be overcome without serious repercussions for the agricultural sector. While the national government is currently take steps towards new policy reforms (parliamentary motion “further changes to the direct payment system”), political compromise is already threatening to make those proposals (Bundesrat 2009) completely ineffective. With the present book, Vision Landwirtschaft, an independent think-tank of renowned experts covering a broad range of relevant knowledge seeks to make a substantial contribution to a reform of agricultural policy that lives up to future challenges, that fulfills constitutional requirements and that promotes a sustainable and economically strong agricultural sector.

**Part II** of the book provides a detailed description and evaluation of the strengths and weaknesses of current agricultural policy. The basic facts and figures relating to agricultural production, incomes, public support, the direct payment system, the environment, biodiversity, landscape and structural change are presented in an accessible way. Particular emphasis is given to the different agricultural circumstances in mountainous and lowland regions. Time series, comparisons with targets and comparisons with other countries provide the historical, national and international context, allowing readers to make their own judgements.

With its constitutional article on agriculture (article 104), Swiss agricultural policy has a modern basis that continues to enjoy wide support among the Swiss population. With this article, Switzerland pioneered the focus on multifunctionality and sustainability and moved away from price supports.

To date, however, the “new agricultural policy” has only partly fulfilled its task of implementing the provisions of the constitutional article. In most target areas, the targets – where they exist – are not met in a satisfactory way or are missed altogether. The underlying reason is the numerous conflicting incentives provided by a system that is highly complicated, full of contradictions and increasingly difficult to steer. Some of the failures of the system are revealed by the following facts and figures:

- Only a small fraction of public agricultural payments, about 500 million CHF annually, are clearly targeted towards the constitutional goals. The positive incentives provided by these targeted payments are overruled or inverted by the “disincentives” of much larger, untargeted, production-support payments. Throughout almost all target areas, a conceptual basis for demand-oriented provision of and compensation for public goods and services is missing.
- If market production is viewed in isolation – subtracting private costs and public support for the production of public services from the respective aggregate accounts – the agricultural sector does not in effect generate any net income. The primary reasons for this are inefficiently high inputs and overheads in the lowland regions and unfavourable conditions for production in the mountain regions. Since production is too intensive in the former, and adequate compensation of multifunctional services lacking in the latter, the multifunctional services suffer in both cases (although for contrasting reasons).
- The most pressing environmental problems caused by agriculture have not even nearly been solved since the policy reforms of the 1990s. The problems include annual nitrogen loss of 100'000 tons, eutrophication of lowland lakes, continuing loss of biodiversity, an insufficient amount of valuable ecological compensation areas, continuing loss of landscape quality and soil degradation, among others. The large extent of public support sharply contrasts with high external costs and an inadequate provision of multifunctional services.
- A key factor underlying many environmental problems is the nutrient imbalance due to high and continuing increase in fodder imports. These imports correspond to a surface almost as large as the area of tilled land in Switzerland. The current level of meat production sustained by imported fodder is neither economically nor ecologically sensible. The environmental damage is substantially higher where livestock production is not in balance with local fodder production, because nutrient cycles between plants and livestock are disrupted.

However, misguided incentives are not solely responsible for these failures and other parts of the Swiss agricultural system require reform. The agricultural education system is still heavily focused on enhancing production and related technology, while many other aspects of the constitutional objectives, such as those related to biodiversity and the landscape, receive little to no attention. Furthermore, the poor targeting of agricultural policy is also due to a lack of independent competitive agricultural research. The majority of agricultural research funding flows from the Federal Office of Agriculture to the federal research institutions.

In **Part III**, the foundations for a new, targeted agricultural policy are developed based on comprehensive analysis of the current situation and suggested solutions. A proposal for a new direct payment system is presented based on accepted principles and mechanisms. Successful current policy instruments are retained, other instruments are amended and optimized, yet others developed anew. The transparent and simple structure of the system comprises three basic multi-target programmes and six single-target programmes. The proposed levels of payment were defined with the help of a mathematical computer model. They assume that the total agricultural budget will remain unchanged, which presupposes that the public is willing to continue to support agriculture at current levels provided that resources are allocated effectively and efficiently.

In **Part IV**, the consequences of the proposed direct payment system, disaggregated by region and farm type, are explored using a mathematical computer model. The results show that the reformed system not only hits existing targets of agricultural policy but also the additional targets proposed by Vision Landwirtschaft. Apart from very substantial improvements in the provision of multifunctional services, agricultural sector incomes would also rise especially in the longer term. At the same time the currently large income disparities between lowland and mountain regions would reduce. With regard to alpine pastures – which had been somewhat neglected under the existing direct payment system – substantially more services would receive compensation, hence more income would be generated and the particularly important natural heritage of this region better conserved and promoted.

Further positive impacts are expected on food production. Gross (farm-gate) agricultural production would clearly decrease under the proposed direct payment system, as less fodder, fertilizer and energy would be im-

ported. However, domestic food production – and hence the actual primary production – would rise owing to an increased use of land in the mountain regions and a more efficient use of energy and other resources. Furthermore, this would lead to an improvement of the increasingly important agricultural CO<sub>2</sub> balance.

Finally, the goal-oriented incentive payments would not prevent structural change as much as the current ones, since they would compensate for services rather than being tied to assets such as land and livestock. While the number of farms would decrease faster in the lowland regions, the number of farms in the mountain regions, where labour for sustainable land use is increasingly scarce, would tend to rise. The latter would contribute to the longstanding constitutional objective of preventing the depopulation of remote rural regions.

The revision of the current direct payment system – the central instrument of agricultural policy – is therefore the central goal and precondition for demand-oriented market production, provision of multifunctional services and, not least, economic success of our agricultural sector.

The conclusions and recommendations in **Part V** emphasize, however, that the revision of the economic incentive system alone is not sufficient for a successful reform. There is also a pressing need for the agricultural education system, outreach, monitoring and research to be fundamentally re-directed towards the multiple objectives of modern agriculture. Finally, consumers also play an important role in determining what and how Swiss farmers produce. In this respect, agricultural policy can and should support the constitutional objectives – for instance by informing the public about relevant interactions between consumption patterns and multifunctional agricultural services, or by correcting distorted incentives.

For the reform to be successful, farmer organizations, government agencies, politicians, environmental and consumer organizations as well as all Swiss citizens must be rallied in support of a new agricultural policy in line with constitutional objectives.

Comparison of key economic and multifunctional service indicators under the current direct payment system and the model proposed by Vision Landwirtschaft.

Legend:

- Existing agricultural policy targets are missed
- Existing agricultural policy targets are met but the targets proposed by Vision Landwirtschaft (see chapter 3-15) are missed.
- Targets proposed by Vision Landwirtschaft are likely to be missed.
- centre and right-hand columns: no targets exist.

trend of development:

→: stable situation, «↓» / «↑»: decrease / increase without assessment, «↓» / «↓↓» or «↑» / «↑↑»: tendency / clear tendency of improvement and deterioration respectively compared to the actual situation.

Target area and indicator	Current situation relative to target and current trend	Effects of the direct payment system proposed by Vision Landwirtschaft <sup>o</sup>
Agricultural policy budget (CHF/yr.)	→ (3,6 Mrd.)	→ (3,6 Mrd.)
Land in agricultural use	↓	↑
Share of domestic food consumption (farmgate)	→*	↓*
Share of domestic food consumption (subtracting fodder imports)	↓	↑
N-retention (from loss into water)	→	↑↑
N-retention (from loss into air)	→	↑↑
P-efficiency (output/input)	→	↑↑
Energy efficiency (energy content food/energy input production)	→	↑↑
Climate neutrality (emissions in CO <sub>2</sub> equivalents)	→	↑
Soil fertility (indicators of erosion, biological activity and other variables)	↓	→
Extent of near-natural, species-rich habitats (registered and non-registered patches fulfilling the quality criteria of the eco-quality ordinance)	↓	↑↑
Biodiversity (population size and range of typical species of the cultivated landscape that are on the red list)	↓	↑↑
Landscape quality (e.g. structural diversity)	↓	↑
Surface under organic agricultural management (indicative of multiple target areas)	→	↑↑
Animal welfare (proportion of livestock in animal welfare programmes)	↑	↑↑
Labor input in agriculture	↓	↓/↑***
Net added value of the agricultural sector (CHF/yr.)	↓	→
Income per farm (CHF/yr.)	→	↑
Income differences between favourable and unfavourable locations (%)	→	↑**
Multiplier effect of the direct payments (CHF income per CHF direct payments)	↓	↑

<sup>o</sup> Full model Vision Landwirtschaft (=model 3 in chapter 18.1) \* Vision Landwirtschaft set targets only for share of domestic food consumption subtracting fodder imports, \*\* income differences decrease, \*\*\* lowland region / mountain region