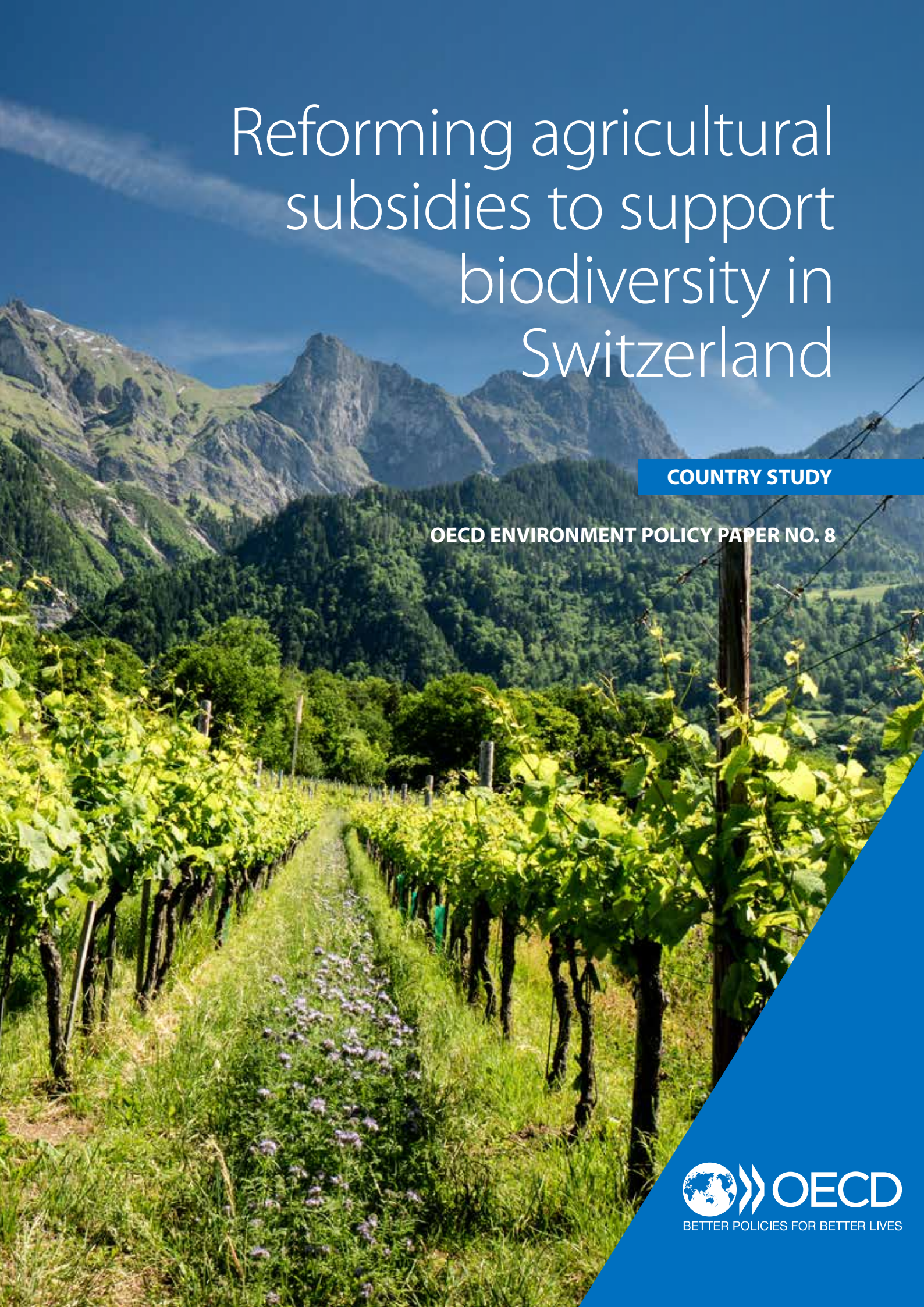
# Reforming agricultural subsidies to support biodiversity in Switzerland



COUNTRY STUDY

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This Policy Paper summarises key messages from the case study on agricultural subsidy reform in Switzerland. The detailed case study is available in the 2017 OECD report *The Political Economy of Biodiversity Policy Reform*. A separate "Policy Highlights" brochure, which distils key messages and lessons learned from the full report is also available.

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# Contents



# 1 Overview

As in most OECD countries, intensive agriculture is putting considerable pressure on Switzerland's biodiversity, with nearly half its wildlife habitats categorised as threatened. Over the past two decades Switzerland has undertaken a series of reforms to the system of agricultural subsidies and introduced direct payments for public and ecological services. Questions about the effectiveness and efficiency of the direct payments system, combined with pressure from the Uruguay Round of world trade negotiations to remove market distortions, prompted the Swiss Government to launch a participatory and wide-reaching reform of its agricultural payments policy. While this reform represents an important step forward, the direct payments system will need to continue to evolve in order to further pursue biodiversity objectives.

## The challenge

The main aim of the reform was to better align the direct payment system to meet policy goals, including for biodiversity. A key element of the reform entailed removing direct payments to livestock farmers and increasing payments to farmers able to meet biodiversity goals such as extensive upland grazing, and linking ecologically important areas. The removal of payments for intensive livestock farming was a hotly debated and contentious step, given its likely impact on the incomes of affected farmers. The reform process needed to be carefully crafted in order for it to be politically acceptable.

## The policy response

The reform, embodied in the new Agricultural Policy (AP 2014-17), set out clear goals and targets and included transition payments to reduce the negative impact on farmers' incomes. The policy underwent broad consultation involving a wide range of stakeholders such as the Farmers' Union, economics institutions and environmental non-government organisations (NGOs). An impact assessment examined the expected environmental and biodiversity implications of the AP 2014-17, as well as impacts on production and income. The results showed that the AP 2014-17 scenario was better than the business-as-usual scenario across nearly all indicators. Environmental groups were instrumental in ensuring that those who stood to benefit from the reforms were informed.

## The impact

As a result of the reform, the agricultural sector as a whole receives a slight increase in budgetary payments over the 2014-17 period. Although it is too early to measure the impact of the AP 2014-17 on biodiversity, progress towards ecological goals is positive, and participation in voluntary programmes funded by the biodiversity direct payments has exceeded expectations. Incomes and productivity in the sector are expected to be higher as a result of the reform.

## Key messages

The Swiss case provides a number of lessons on overcoming typical obstacles to effective biodiversity related reforms such as competitiveness concerns, distributional implications, vested interests, and political feasibility. These lessons include the importance of building an alliance of market-oriented and ecological interests, seizing a window of opportunity in a conducive political environment, devising politically and socially acceptable compromises in the reform package, using transition payments to minimise negative impacts on farmers, consulting broadly and ensuring public participation, and using robust evidence to build support for reform and resist pressure from vested interests.

# 2 Reforming agricultural subsidies to support biodiversity in Switzerland

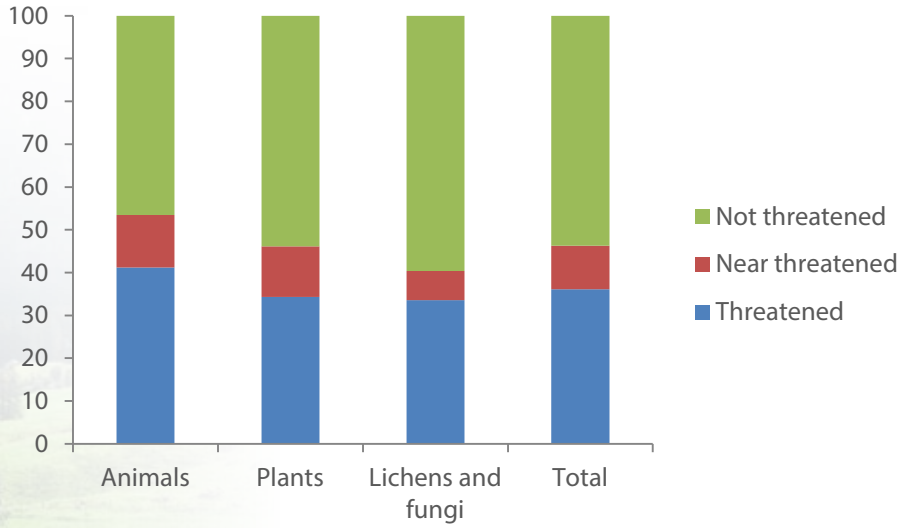
Switzerland's biodiversity is under threat. Around 36% of the country's wild species are endangered and over 60% of habitats are either of threatened or near threatened status (Figure 1; FOEN, 2014). Agriculture is the largest user of land in Switzerland, accounting for more than one-third of the overall area. It plays a crucial role in creating and maintaining a diversity of habitats and the biodiversity they support. However, changes in how land and water are used and managed, including increasingly intensive farming, are contributing to habitat loss and pollution[1] (FOEN, 2014).

Since the early 1990s, Switzerland has undertaken a series of major agricultural policy reforms which have gradually reduced overall levels of support to farmers, and shifted from market price support to direct payments that are independent of production volume, aiming instead to compensate farmers for the provision of public and ecological services. However, levels of support to agricultural remain high compared to other OECD countries.

This paper analyses the latest reform to Switzerland's agricultural policy framework – the Agricultural Policy 2014-2017 – which reoriented direct payments to better target policy objectives, including for biodiversity, while bringing the system more closely in line with World Trade Organization (WTO) criteria. The paper outlines the process involved in designing and implementing this reform as well as its environmental and socio-economic impacts. It also reflects on the challenges encountered and concludes by discussing the wider lessons for other governments seeking to tackle similar challenges.

1. More specifically, due to intensive and no longer sustainable management practices, agricultural ecosystems in particular have suffered severe losses of small but ecologically important structures such as hedges and dry-stone walls. This decline is also exacerbated by high levels of fertiliser and pesticide use, species-poor seeding practices and the use of mechanised management methods (FOEN, 2014).

Figure 1. The status of Switzerland's biodiversity




Source: Data from FOEN (2014), *Switzerland's Fifth National Report under the Convention on Biological Diversity*, https://www.cbd.int/doc/world/ch/ch-nr-05-en.pdf.

Note: Up until 2012, 10 350 species (a quarter of the 45 890 known species) had been evaluated. Of those evaluated, there were 3 109 animal species, 3 572 plant species and 3 669 lichen and fungi (FOEN, 2014).

# 3 The policy challenge: improving the efficiency and effectiveness of the direct payment system

Prior to the 1990s, Swiss agricultural policy guaranteed farmers fixed prices and markets. However, it was becoming clear that this production-based approach was reaching its limits. The cost to the public budget was rising and the adverse ecological impacts were becoming more obvious, resulting in negative publicity for the agricultural sector (FOAG, 2004; FOAG, n.d.). At the same time, the Uruguay Round of negotiations under the General Agreement on Tariffs and Trade (GATT) was increasing pressure to reduce protectionist measures (FOAG, 2004).

Major agricultural policy reform began in 1993. The reforms reduced market intervention, and introduced a system of direct payments centred on two main categories: (1) general direct payments;[2] and (2) ecological direct payments (OECD, 2015a). Ecological direct payments were designed to provide incentives for the more sustainable use of resources and to reduce pollution, as well as to provide additional compensation to farmers for delivering non-marketed goods and services, such as biodiversity, landscape and animal welfare. Under the ecological direct payments, farmers could also receive payments for extensive crop production (no use of fungicides, insecticides or plant growth regulators, although fertilisers and herbicides were not restricted) or organic production, which in addition to requirements for extensive production, does not allow use of synthetic pesticides or fertilisers. Participation in these programmes was voluntary.

A popular vote in June 1996 saw Article 104 on agriculture enshrine the basic principle of multi-functionality of agriculture in the Federal Constitution. Supported by 75% of voters, it defined four main tasks for Swiss agriculture: ensure food supplies; use production methods that ensure future generations will have fertile soil and clean drinking water; take care of the landscape; and maintain rural areas (FOAG, 2004). Article 104 provides the foundation for Swiss agricultural policy and served as the basis for further agricultural policy reforms.

A new agricultural act, which came into force in January 1999, was based on Article 104 and continued the reduction of market price support (begun in 1993) which had formed the cornerstone of Swiss agricultural policy since World War II. The act also made direct payments conditional on "proof of ecological performance" (PEP, see Box 1), which had previously been voluntary (FOAG, n.d.).

2. From 1993-98, general direct payments consisted of non-commodity specific payments related to various criteria, including payments for general farm characteristics, payments for integrated production, and payments for farming in difficult conditions. These payments categories were adjusted in 1999, with the notable addition of a general payment for ruminants (OECD, 2015a).

### Box 1. Proof of ecological performance in Switzerland

Since 1999, direct payments to farmers have been conditional on good environmental practices required by "proof of ecological performance" (PEP). Although Swiss direct payments are similar to cross-compliance under the EU Common Agricultural Policy (CAP), in Switzerland they are subject to stricter conditions than in many other OECD countries (Jarrett and Moeser, 2013). PEP is based on the approach of "integrated production principles" and includes:

- **Balanced nutrient use**: maximum 10% surplus of nitrogen and phosphorus as shown by farm's nutrient balance (based on crop requirements).
- **Strict crop rotation**: to reduce the vulnerability of crops to disease and consequently, the need for pesticides.
- **Soil protection**: land must be planted the whole year round whenever possible to reduce the risk of erosion.
- **Minimum share (at least 7%)** of farm's utilised agricultural area must be allocated as ecological compensation areas (ECAs)*. ECAs protect and restore ecosystems close to their natural state. The use of artificial fertilisers and pesticides is very restricted.
- **Animal welfare**: farm animals have to be kept according to legal requirements (including compliance with the animal protection ordinance).
- **Selected and targeted application of pesticides**: restrictions on the timing and use of certain pesticides, consideration of early warning systems and pest forecasts, frequent tests of sprayers.

Source**:** FOEN, 2016; OECD, 2015a; Jarrett and Moeser, 2013; FOAG, n.d.; Loser, 2010; Aviron, Nitsch and Jeanneret (2009).

* The terminology for "Ecological Compensation Areas" was changed to "Areas reserved for promoting biodiversity" in the 2014-17 reform.

Nearly all Swiss farms now fulfil PEP requirements, and ecological cross compliance has been shown to promote biodiversity on grassland and arable land, with measurable benefits for flora, butterflies, ground beetles and spiders. However, compliance with PEP requirements is not sufficient to protect uncommon or endangered species (Aviron, Nitsch and Jeanneret, 2009; Loser, 2010). Furthermore, although there has been a considerable increase in the proportion of land reserved as Ecological Compensation Areas, ensuring that their quality and location are sufficient to benefit biodiversity has been a persistent challenge. In 2001, the Ordinance on Eco-Quality was enacted to address this issue by introducing financial incentives for improving the quality of certain ecological areas and linking them up to form a network. Network subsidies are paid only if a regional network plan exists (FOAG, 2004).

Despite these initiatives, by 2009 many of the ecological targets set by the Federal Council[3] on the basis of Article 104 had not been achieved. At the same time, more fundamental questions were being raised, by both farmers and economists, about the effectiveness and efficiency of the direct payments system. Animal husbandry payments were based on the number of cattle, leading to intensification of livestock farming and increasing pressure on the environment. The payments were also not compliant with WTO Green Box rules.[4] This led parliament to mandate the Federal Council to review the direct payments system.

3. The Federal Council is the seven-member executive council which constitutes the Federal Government of Switzerland and serves as the collective executive head of government and state of Switzerland. The current seven-member council is composed of Switzerland's four leading political parties: the Swiss People's Party (SVP), Christian Democratic People's Party (CVP), Free Democratic Party of Switzerland (FDP) and the Social Democratic Party of Switzerland (SP).

4. WTO "Green Box" criteria include those payments that are allowed without limit. While the process of market-oriented reforms had generally been advancing in a positive direction, Swiss agricultural support remained almost three times the OECD average (WTO, 2013).

# 4 Policy response

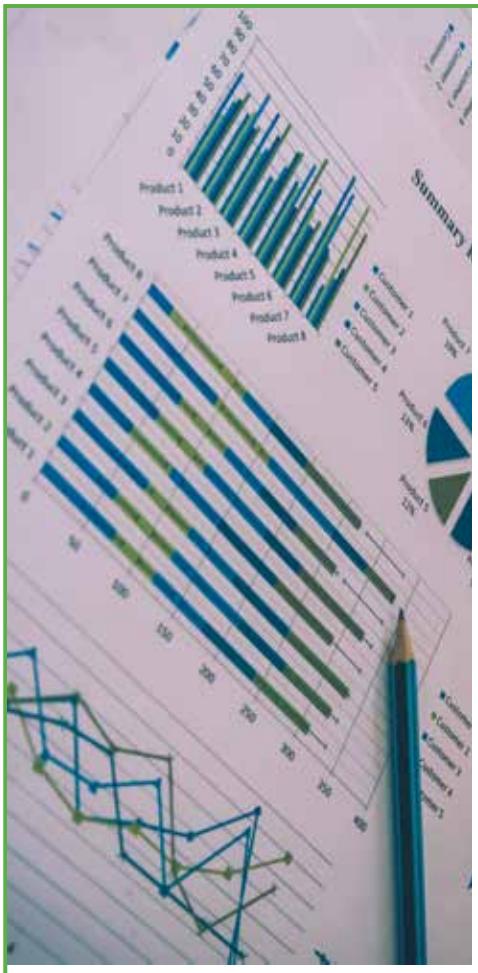
The Federal Council requested the Federal Office of Agriculture (FOAG) to undertake a detailed review of the direct payments system in order to shape the next series of reforms under AP 2014-17. The resulting report "Further Development of the Direct Payment System", referred to as WDZ 2009,[5] was submitted to parliament on 6 May 2009 (FOAG, 2009). It defined criteria for an effective and efficient system of direct payments. A central aspect of the report was the description of each of the public services that agriculture should provide and the creation of specific targets for each of these services. As a result of this report and subsequent debate, Parliament's Committee for Economic Affairs and Taxation mandated the Federal Council to produce a concrete bill for a revised direct payments system before the end of 2011 (FOAG, 2009).

A draft proposal of the new policy was prepared and submitted to a broad consultation process involving a wide range of stakeholders in early 2011. Key players included the Farmers' Union; economics institutions, such as economiesuisse; and a number of environmental NGOs, such as Agrarallianz,[6] WWF, ProNatura and Birdlife International. These various interests expressed divergent views on the relative importance of objectives relating to security of food supply, trade liberalisation, environmental performance, and landscape cultivation. A Working Group on the AP 2014-17 and involving all stakeholders was also established by the Federal Council. Led by FOAG, inter-ministerial consultations also took place during the preparation of the proposed reform.

The draft proposal for the new policy also underwent two rounds of *ex-ante* impact assessment to examine the impacts of the proposed policy changes. Modelling analysis examined the environmental and biodiversity implications of AP 2014-17, as well as impacts on production and income (Box 2).

5. Short for Weiterentwicklung des Direktzahlungssystems (Further Development of the Direct Payment System)

6. Agrarallianz is an alliance of 16 organisations working in the areas of consumer protection, environment and animal welfare, and economics.



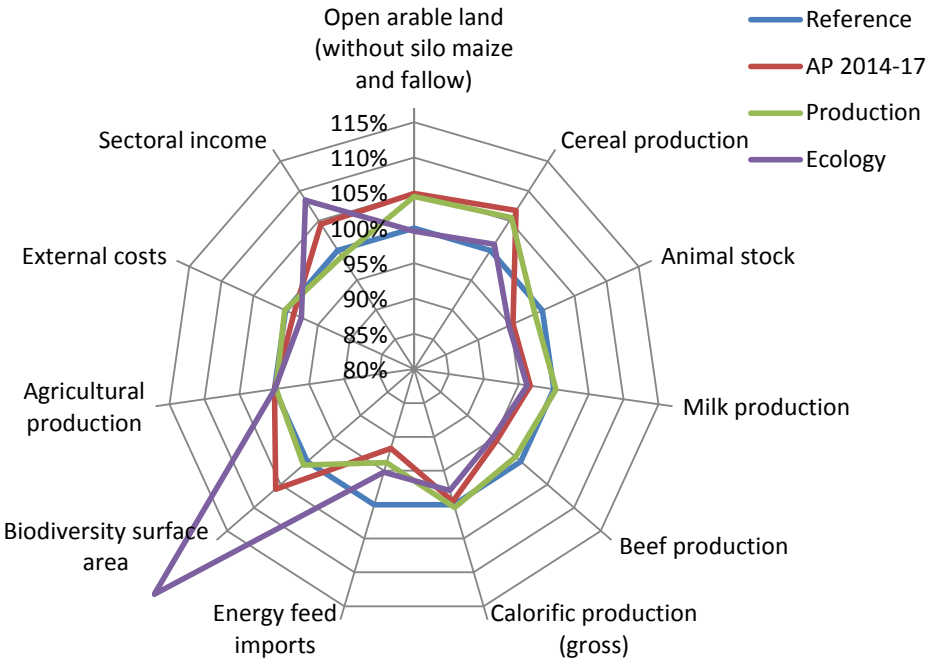
## Box 2. Modelling the impact of the draft AP 2014-17

To assess the expected impacts of the AP 2014-17, the government requested Agroscope Reckenholz-Tänikon (ART) to undertake modelling analysis. Four scenarios were modelled:

- **Reference scenario** (business as usual).
- **AP 2014-17** scenario: Implementation of the Federal Council AP 2014-17 proposal.
- **Production scenario**: Adaptation of the AP 2014-17 scenario to better meet farmers' demands, such as increased contributions to secure food supply by one-third, and a simultaneous increase in ecologically-oriented instruments/ biodiversity contributions, production system contributions and resource efficiency contributions.
- **Ecology scenario**: Adaptation of the AP 2014-17 scenario to better meet demands from conservation groups and the retail trade: i.e., reduction in contributions to secure food supply by one-third with equivalent increase in contributions to ecologically orientated instruments, production system contributions and resource efficiency contributions.

The results showed that the AP 2014-17 scenario was better than the business-as-usual (reference) scenario across nearly all indicators (Figure 2). Under the AP 2014-17, farm incomes would increase by about 13% above current levels (about 6 percentage points higher than under the reference scenario). Ecological compensation areas would also increase by 13% compared to the current situation and livestock numbers would fall by close to 10%, lowering excess nitrates and phosphates and greenhouse gases as well as improving the impact on biodiversity. While total livestock numbers would fall, total calories produced would rise by around 3% because of higher dairy yields and a shift toward arable farming and thus lower feed imports (Lanz, 2012).

**Figure 2**. Impacts of four scenarios related to the draft AP 2014-17




Source: Zimmermann, et al., 2011; Zimmermann, 2012; Lanz, 2012.

Following the consultations and modelling analysis, the proposed AP 2014-17 was revised by the Federal Council in February 2012. The revisions aimed to balance various interests. At the heart of the reform was the elimination of the general per hectare payment which had served primarily as a measure of income support. These payments were to be reallocated so as to better target environmental and trade liberalisation objectives. The animal-based payments for ruminants were also to be abandoned, causing a lot of criticism in a country whose agriculture is traditionally characterised by cattle and goats (Mann and Lanz, 2013). However, a system of transition payments was included to make the reform socially and politically acceptable. The environmental cross-compliance conditions were to be maintained in the new system of payments.

The bill enjoyed broad support in parliament, despite very divergent views on certain issues. The most contentious issue was the proposed removal of the per head of cattle payments, which constituted an important fraction of overall payments, amounting to CHF[7] 836 million in 2013, or 30% of total direct payments (Agrarbericht, 2014). While the liberal, ecological and left-wing parties (FDP, Green Liberals and SP; see footnote 3) supported the removal of these payments, they were opposed by the conservative-centre and national-conservative parties (SVP and CVP) along with the Farmers' Union. These groups were advocating for maintaining high levels of support to agriculture, and also argued that implementing a more complex system of payments would increase the administrative burden on farmers, Cantons and the federal government (Ritter, 2012).

An alliance between the FDP, SP and Green Liberals was able to bring together trade liberalisation and market-oriented concerns with ecological concerns to win support for the reform.[8] Parliament approved the new legislation in March 2013, largely adopting the Federal Council's proposal. The final total budgetary support agreed for the four-year period was CHF 160 million more than the CHF 13.83 billion set

**Table 1**. Payments schedule for Agricultural Policy 2014-17 (CHF millions)

| Measure | 2014 | 2017 | Total 2014-17 |
|---|---|---|---|
| **Basic improvements and social measures** | **199** | **200** | **798** |
| Secondary social measures | 3 | 3 | 12 |
| Subsidies for structural improvements | 99 | 99 | 396 |
| Investment loans | 47 | 47 | 188 |
| Arable and cattle farming | 38 | 38 | 153 |
| **Production and sales** | **442** | **447** | **1 776** |
| Promotion of quality and sales | 60 | 70 | 262 |
| Dairy farming | 296 | 296 | 1 184 |
| Cattle farming | 13 | 13 | 52 |
| Arable farming | 73 | 69 | 279 |
| **Direct payments** | **2 814** | **2 814** | **11 256** |
| Subsidies for ensuring food supplies | 1 094 | 1 094 | 4 376 |
| Farmland subsidies | 511 | 511 | 2 044 |
| Subsidies for biodiversity | 295 | 338 | 1 264 |
| Subsidies for quality of landscape | 20 | 90 | 210 |
| Subsidies for production systems | 361 | 403 | 1 526 |
| Subsidies for efficient use of resources | 52 | 73 | 256 |
| Transition subsidies | 482 | 306 | 1 579 |
| **Total** | **3 455** | **3 461** | **13 830** |

Source: Jarrett, P. and C. Moeser (2013), "The agri-food situation and policies in Switzerland", http://dx.doi.org/10.1787/5k40d6ccd1jg-en (updated from Lanz, 2012).

out in the proposal (despite the fact that the number of farmers is decreasing) (NZZ, 2013). This additional CHF 160 million was allocated to "basic improvements and social measures" (Table 1). The budgeted amount of direct payments remained stable at around CHF 2.8 billion per year (the same level as 2012 and 2013) (OECD, 2015a). In April 2013, consultation took place on the comprehensive (300+ page) draft ordinance to specify the implementation details, with farmers' organisations, including the Swiss Farmers' Union, closely engaged (NZZ, 2013).

The aims of the AP 2014-17 are summarised in Table 2. The new system of payments is complex, with each category including several programmes. These programmes are a combination of new programmes and pre-existing programmes. For example, the animal-related payments under the previous system have been largely shifted to the category of food security payments (FOAG, 2012). The biodiversity payments reflect this mix of new and pre-existing programmes (OECD, 2015a):

- *Payments for Ecological Compensation Areas with environmental quality level I* (pre-existing): regroups payments provided under Ecological Compensation in the former system.
- *Payments for Ecological Compensation Areas with environmental quality level II* (pre-existing): corresponds to the payments provided under the Ecological Quality Directive in the former system.
- *Payments for Ecological Compensation Areas with environmental quality level III* (new): these payments are intended to finance projects listed as objectives of national importance, but have not yet been introduced.
- *Payments for creating networks of highly valuable biodiversity areas* (new).

7. CHF = Swiss francs.

8. The composition of the parliament in 2013 was particularly conducive to approving the reform. The parliamentary elections in 2011 had seen the Green Liberal Party successfully ride the wave of anti-nuclear sentiment in the aftermath of the environmental disaster at Japan's Fukushima plant in March of that year (The Guardian, 2011).

**Table 2**. Targets of the Swiss Agricultural Policy 2014-17

| Field | Aspect | Situation in 2007/09 | Aims for 2017 |
|---|---|---|---|
| **Economy** | **Productivity** | **+2.1% p.a.** | **+2.1% p.a.** |
| | Renewal of capital | 30 years | 30 years |
| **Social** | Incomes in the sector | -0.7% p.a. | Reduction in the drop in incomes to below 0.5% p.a. |
| **Ensuring food supplies** | 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. |
| **Natural heritage, environment** | N-efficiency | 29% | 33% |
| | P-efficiency | 59% | 68% |
| | $NH_3$ 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 |
| **Farmland** | Farmed land in mountain areas | -1 400 ha p.a. | Reduction in advance of woodland by 20% |
| **Animal welfare** | Participation in ROEL programmes | 72% | 80% |

Note: "ESA" = ecological set-aside areas, i.e. Ecological Compensation Areas (ECAs); TJ= terajoule; ROEL: regular outdoor exercise for livestock.

Source**:** Lanz, S. (2012), "Article on economics: main aspects of the Agricultural Policy for 2014-2017".

# 5 Environmental and socio-economic impacts

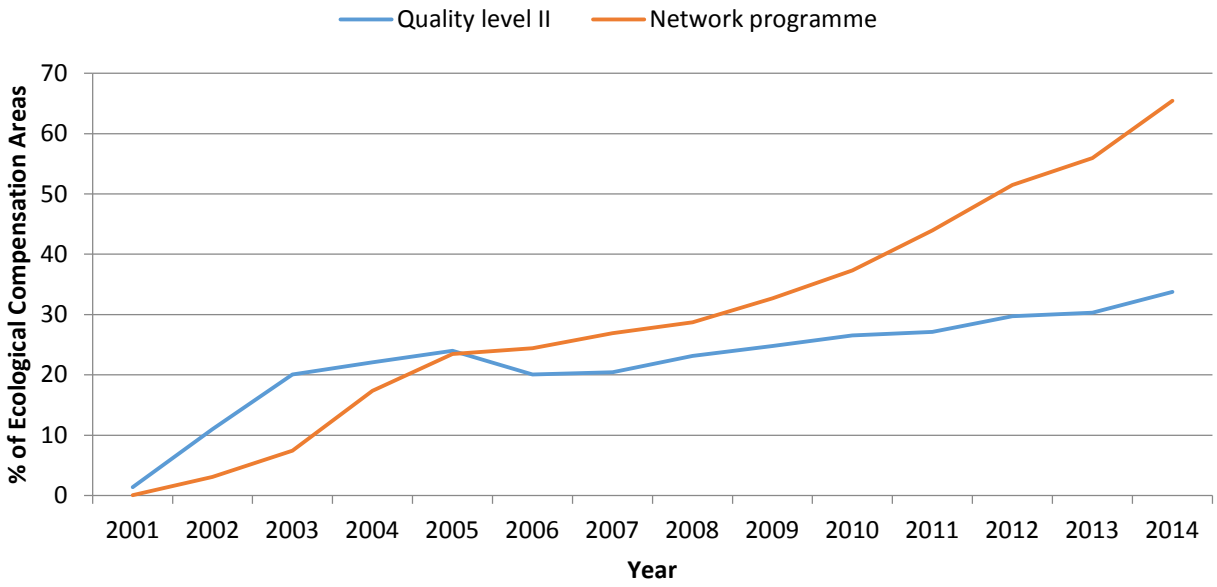
## Environmental impacts

While it is too early to measure the impact of the AP 2014-17 on biodiversity, progress towards ecological goals is positive, and participation in voluntary programmes funded by the biodiversity direct payments has exceeded expectations. Two of the three main environmental targets set for 2017 had already been reached before the new system of direct payments took effect. The target to reach 65 000 ha of Ecological Compensation Areas (see Box 1) in the plains region had already been achieved by 2013.

Similarly, the target to have over 50% of Ecological Compensation Areas participating in a regional networking project had already been reached in 2012 and climbed to over 65% in 2014 (Figure 3). The share of Ecological Compensation Areas meeting "Quality II" criteria has steadily increased and was nearly 34% in 2014, still short of the 2017 goal of 40%, but the target is well within reach. However, long-term agri-environmental goals[9] have not yet been achieved.

9. As set out in Walter et al. (2013).

**Figure 3**. Increasing shares of Ecological Compensation Areas reaching Quality level II and included in networking programmes, 2001-14




Source: Based on data from FOAG (2001-14).

These achievements continue a trend of the previous two decades, in which the total area designated as ecological compensation areas was steadily increasing.

Under the new AP 2014-17, direct payments to promote biodiversity are better aligned with policy goals promoting species and habitat diversity in agriculture (Box 3). In addition to continuing the specific category of biodiversity payments (which relates to improving the quality and networking of Ecological Compensation Areas), biodiversity relevant aspects are also included in the new category of "landscape" payments. Payments for organic farming are paid out of the "production system" category. Environmental cross-compliance conditions are maintained in the new system of payments. Overall, the AP 2014-17 is seen as an important component of the Swiss biodiversity strategy and other environmental programmes (FOAG, 2015).

### Box 3. The contribution of the new direct payments system under the AP 2014-17 to biodiversity

The "Environmental Targets for Agriculture" were published by the Federal Office for the Environment (FOEN) and the Federal Office for Agriculture (FOAG) in 2008 and updated in 2016. They provide the basis for the definition of measures for the conservation and promotion of biodiversity in agricultural areas. Specific goals are set out related to thematic areas, including biodiversity and landscape; climate and air; water; and soil. The fulfilment of these environmental targets is one of the goals of the Swiss Biodiversity Strategy (FOEN, 2012), which sees them as essential for the conservation of biodiversity.

The new direct payments set out in AP 2014-17 promote biodiversity in a number of ways across the six new categories (in addition to transitional payments):

- **Cultural landscape**: Direct payments for the maintenance of cultural landscapes provide an incentive to prevent the overgrowing or forestation of areas with high biodiversity quality in the Alps and preserve their use for livestock in the summer).
- **Food supply**: As part of the direct payments for sustaining food supply, there is an additional contribution for open agricultural cropland and permanent crops.
- **Biodiversity**: Contributions for maintaining and promoting species and habitat diversity include payments for ecological compensation, biological quality and habitat linking. The quality of biodiversity is promoted through the differentiation of payments based on quality levels..
- **Landscape quality**: Payments for landscape quality promote the conservation and evolution of diversity and quality of cultural landscapes.
- **Production system**: Types of production which are in harmony with nature and are environmentally and animal friendly are promoted within the production systems contribution. This includes organic farming, extensive crop production (grains and rapeseed), animal-friendly housing and with opportunities for regular exercise as well as meat and milk production on grassland.
- **Resource efficiency**: Payments are made to promote resource efficient techniques, such as pollution control procedures for slurry application, careful soil cultivation and precise procedures in pesticide application.

Source**:** FOAG (2015); FOEN and FOAG (2016).

To better understand the impact on biodiversity of the reform, a comprehensive monitoring programme (ALL-EMA)[10] is underway to assess the status and trends of species and habitats in agricultural areas. It will include a specific study of the current state and evolution of species in habitats in Ecological Compensation Areas. The first measurement cycle will end in 2019, with the publication of results expected in 2020 (Agroscope, 2016).

## Socio-economic impacts

To facilitate its approval by parliament, the final total budgetary support for the AP 2014-17 was CHF 160 million more than the CHF 13.83 billion set out in the message of the Federal Council, which was allocated to "basic improvements and social measures". The level of direct payments either increases or decreases for various groups of farmers. For example, alpine farmers in particular benefitted from more payments for steep slopes, for extensive production and biodiversity payments under the new system, while farmers with intensive cattle operations in the lowland region of the country no longer receive payments per head of cattle. Transition payments were included in the reform package to minimise negative impacts on these farmers. At this stage, it is difficult to say how exactly these changes have actually affected farmers' incomes, as many variables affect production and farmers' incomes, or to what extent they may encourage structural change in the sector.

10. *Arten und Lebensräume Landwirtschaft – Espèces et milieux agricoles.*

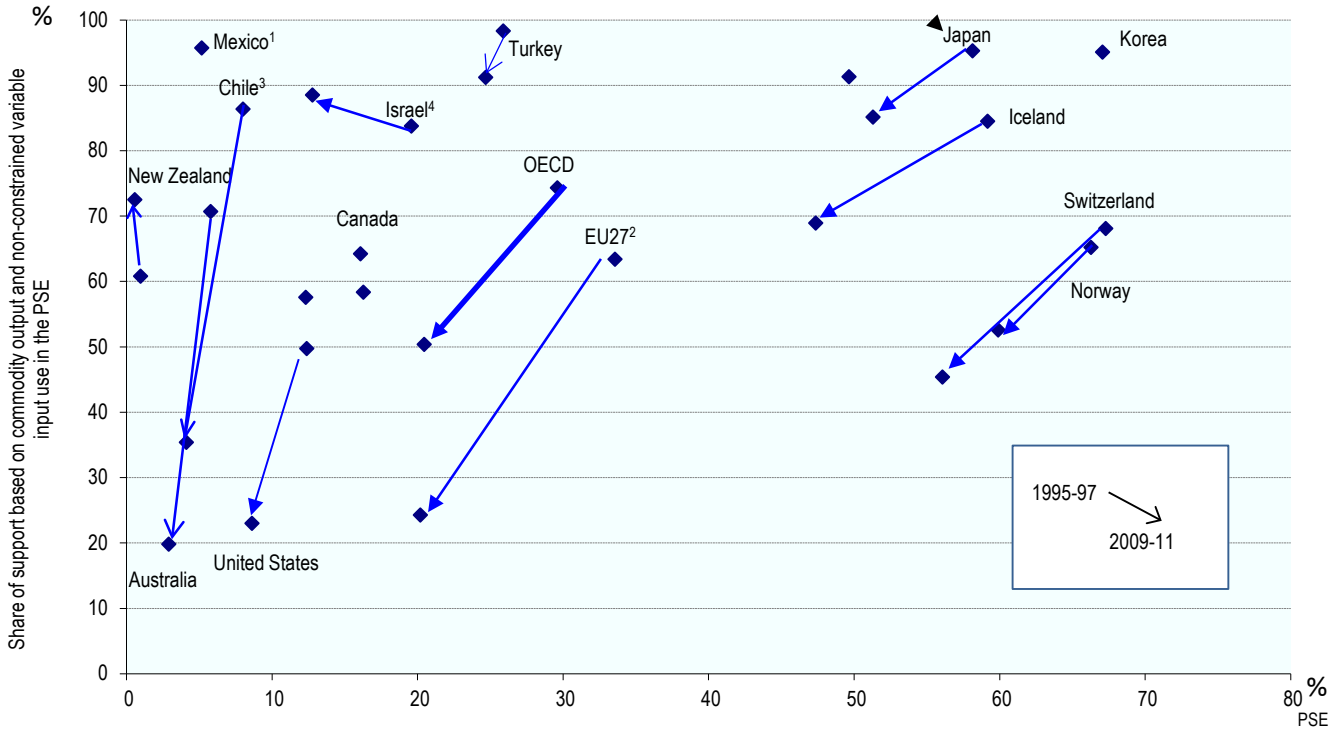
# 6 Comparison with other countries

Although agricultural support in Switzerland has been reduced since reforms began in 1993, levels remain high compared to other OECD countries (Jarrett and Moeser, 2013) (Figure 4). As of 2015, direct payments still represented nearly two-thirds of the agricultural contribution (0.7%) to Swiss gross domestic product (CHF 648 billion), leaving just one-third from market-based valued-added (OECD, 2015b). Producer support accounted for more than half of gross farm receipts in 2012 (57%; compared to 18% on average in OECD and less than 4% for Australia, Chile and New Zealand).

For the period 2014-17, a total of CHF 13.83 billion was earmarked for agricultural policy measures, which corresponds to a slightly higher level of annual funding over previous years (Jarrett and Moeser, 2013).

On the other hand, in Switzerland agricultural support has been progressively delinked from production and subjected to stricter conditions than in many other OECD countries (Jarrett and Moeser, 2013).

**Figure 4.** Level of composition of agricultural producer support, OECD countries, 1995-2011
Direction of change, 1995-97 to 2009-11




Notes: Producer Support Estimate (PSE): the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the arising farm gate level, from policy measures that support agriculture, regardless of their nature, objectives or impacts on farm production or income.
The level of support is presented by the percentage PSE. The composition of support is presented by the share in gross farm receipts of the most production and trade distorting support, including Market Price Support, Payments based on output and Payments based on non-constrained variable input use.
1. For Mexico, the change is measured between 1996-98 and 2009-11.
2. EU15 for 1995-2003; EU25 for 2004-06 and EU27 from 2007.
3. For Chile, change is measured between 1997-99 and 2009-11.

Source**:** OECD (2013), *OECD Compendium of Agri-environmental Indicators*, http://dx.doi.org/10.1787/9789264186217-en.

# 7 Lessons learned

Understanding the political economy of reform – i.e. how decisions are made, in whose interests and how reform is promoted or obstructed and why – can be crucial to reform success. This is certainly the case for biodiversity related reform, where obstacles include competitiveness concerns, distributional implications (impacts on income), vested interests, and political feasibility (OECD, 2017). Across the European Union, for example, multiple Common Agricultural Policy (CAP) reform efforts have been impeded by successful lobbying by farm interests (Swinnen, 2010). The Swiss case provides a number of lessons on overcoming such obstacles, which can increase the prospect of success of similar reforms in other countries.

## Building an alliance of market-oriented and ecological interests helped to spur reform

Arguably, the main impetus for the change in agricultural policy was support for market-oriented reforms to encourage free trade and make the direct payments system more closely aligned with WTO "Green Box" criteria. Concerns for biodiversity and ecosystems were important as well, although secondary, but helped to garner support for the reforms. Active lobbying by environmental NGOs as well as the leadership of the then Director of FOAG are also credited as reform drivers. Building a coalition among advocates of trade liberalisation and advocates for the environment was particularly crucial for advancing the reform.

## Seizing a window of opportunity in a conducive political environment

The composition of the Swiss Parliament in 2013 – with strong representation by the Green Liberal Party – provided a window of opportunity to adopt the reforms that had been in preparation over the preceding years. It is questionable whether the AP 2014-17 would have been approved under the current parliament, which is more conservative and has greater representation by the SVP party, which had opposed the reform.

## Devising politically and socially acceptable compromises in the reform package

The AP 2014-17 included important compromises which facilitated its approval by parliament. This consisted of increasing the overall level of budgetary support for agriculture, while re-distributing it across the new categories of payments. Interests across the agricultural sector are not homogenous, which was a facilitating factor for the reforms. Although the powerful Farmers' Union was against the reform, smaller lobby groups representing more specialised interests, such as organic farming or alpine farming, recognised that they were to be net beneficiaries of the changes and supported the reform. Environmental NGOs played a key role in disseminating information about the expected benefits of reforms to these specialised agricultural groups, which encouraged their engagement.

## Using transition payments to minimise negative impacts on farmers

The most contentious and hotly debated change in the reform package was the removal of payments per head of cattle. These payments constituted an important fraction of total payments for certain farmers and it was this element of the reform which could have had the largest impacts on incomes. To help offset these expected income losses, the reform package included transitional payments for the affected farmers.

## Consulting broadly and ensuring public participation

Switzerland has a unique political system, with elements of direct democracy in which political decision-making processes involve many stakeholders and extensive consultations. As a result, agreeing policy reforms and implementing them involves a lengthy, but well-structured process (OECD, 2015a). The broad stakeholder consultation leading up to this reform allowed for the inclusion of smaller groups, which could better express the heterogeneous interests of the agricultural sector. At the same time, strong public consensus over the multi-functional purpose of agriculture embodied in Article 104, adopted by popular vote, demonstrated public support for these issues.

## Using robust evidence to build support for reform and resist pressure from vested interests

A robust scientific and economic evidence base can be a valuable tool for governments seeking to advance policy reforms. It can help to clearly identify the benefits and beneficiaries of reform, make the case for change and provide the means to resist pressure from vested interests. The modelling work commissioned by the government helped persuade stakeholders that the reform would not overly harm any sector, and that its overall effect would be positive compared to business as usual.

Not long after the reform of the AP 2014-17 was voted in by Parliament, the Farmers' Union launched a call for a popular initiative proposing a change to Article 104 of the Federal Constitution, which sets out the multifunctional purpose of agriculture in Switzerland. The popular initiative sought to place greater emphasis on food security based primarily on domestic production. The initiative was not supported by the Federal Council nor Parliament as it was considered to be a step backwards in light of previous agricultural policy reforms. Thus, Parliament set out a counter-proposal, which considers the full agro-food supply chain within the concept of food security. A national referendum on the initiative will take place in September 2017.

While the AP 2014-17 is an important step forward, Swiss agricultural subsidies remain relatively high compared to other OECD countries. The direct payments system still consists of a number of subsidies that have unclear, or possibly contradictory, impacts on environmental objectives. To continue to pursue biodiversity objectives and put Swiss agriculture on a more sustainable footing, the system will need to continue to evolve with better targeted direct payments.

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# Reforming agricultural subsidies to support biodiversity in Switzerland

This Policy Paper analyses the reform of Switzerland's agricultural policy framework, which reoriented subsidies to better target policy objectives, including for biodiversity. The paper outlines the process involved in designing and implementing the reform as well as its environmental and socio-economic impacts. It also highlights the challenges encountered and concludes by discussing the wider lessons for other governments seeking to tackle similar challenges. This country study draws on the 2017 OECD report *The Political Economy of Biodiversity Policy Reform*.

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**For further reading on the political economy of biodiversity-related reform, see the following report on which this Policy Paper is based:**

OECD (2017), *The Political Economy of Biodiversity Policy Reform*, OECD Publishing, Paris, www.oecd.org/environment/the-political-economy-of-effective-biodiversity-policy-reform-9789264269545-en.htm.

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