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Trade Policy Monitoring

EU-Switzerland Agricultural Trade Relations

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Report Highlights: Although Switzerland is not a member of the EU, it enjoys a special trade relationship with the EU. In the last several years, the two parties have completed two sets of bilateral trade agreements, each of which include trade in agricultural products. Such agreements have helped to increase Swiss imports of agricultural products from the EU – at the expense of imports from the rest of the world.

Includes PSD Changes: No
Includes Trade Matrix: No
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[E3]

In keeping with its history of neutrality, Switzerland is a lone sovereign nation nestled among Member States of the European Union (EU). As such geography suggests, the relations between the EU and Switzerland are necessarily more intertwined than are the EU's or Switzerland's relations with non-European countries.

Neutrality aside, Switzerland has actively participated in European affairs throughout the process of establishing the EU and its predecessors. In fact, Switzerland has more agreements with the EU than does any other third country. The first relevant agreement between Switzerland and the European Economic Community was the 1972 Free Trade Agreement (FTA) (OJ L300, of 31.12.72), which regards trade in industrially produced goods.

Switzerland was involved in the negotiations of the European Economic Area (EEA), which agreement Switzerland signed on May 2, 1992. Later that month, the Swiss government applied for membership to the European Community (EC). Plans for a broader involvement in Europe through the EEA and EC, however, were curtailed by the failure of a referendum to affirm ratification of the EEA agreement at the end of the year. This led to the decision not to seek EC membership at that time. Nonetheless, membership in the EU remains a long-term objective of the Swiss government.

Because Switzerland did not, in the end, sign on to the EEA, the parties did not have that stage on which to negotiate further agreements. Therefore, in 1994, the two entities began negotiating bilateral agreements by sector. Agriculture is an important topic therein.

For reference, agriculture accounts for only 1.5 percent of Swiss GDP, and only 4.6 percent of the labor force works in agriculture. The Swiss agricultural sector is highly protected; consequently, Swiss consumers face high prices, even relative to their European neighbors. Switzerland's main agricultural products are grains, fruits, vegetables, meat, and eggs.

Bilateral I

The seven agreements making up Bilateral I came into force on June 1, 2002 (OJ L114, of 30.04.02). These agreements include one on trade in agricultural products. Its goals were to reduce non-tariff barriers (if they could not be eliminated) and to further open the market. One main part of the agreement is the liberalization of the cheese trade, which will be complete on both sides after the five-year transition period. There will be no customs duties or quantity restrictions for cheese. On a lesser scale, each side made concessions regarding fruit and vegetables, horticultural products, and some dried meats. Many technical barriers will be reduced (if not eliminated) in the veterinary sector and those of pesticides, animal feeds, seed, and organics.

Bilateral II

On June 25, 2004, the parties reached further agreements in nine sectors, including that of trade in processed agricultural products. The agreements have not yet been signed or ratified by the Member States, however. After ratification, the agreements will be implemented retroactively, as from May 1, 2004.

Agricultural products were not included in the 1972 FTA. *Processed* agricultural products, however, were considered neither industry nor agriculture. Protocol 2 of the FTA lifted duties on the industrial part of processed agricultural products on July 1, 1977. Also, for the agricultural raw material part of these products, it set down a price compensation mechanism that would use duties and export subsidies to compensate for the price differences that may exist.

The new agreement simplifies the price compensation mechanism – the EU abolishes all duties and export subsidies and Switzerland either reduces or abolishes the same. Also, more products are included than in the original FTA. Before this agreement, the world market price difference was used as the reference. Now, however, the reference is the difference between the EU and Swiss raw material prices. Prices for agricultural raw materials are higher in Switzerland than in the EU.

Specifically, Switzerland will *reduce* its export subsidies and duties for products made with flour, dried milk, butter, and vegetable fat (and other raw materials that fall under the Federal act of December 13, 1974 – the “Schoggigesetz”). These reductions will affect products like chocolate, bread, and ice cream.

Further, Switzerland will *abolish* duties and export subsidies fully for products that do not contain raw materials that fall under the above act and for those that are entirely made of sugar. Products affected include jams, coffee, and beer.

Trade Results

Not surprisingly, given Switzerland’s location, its main trading partner is the EU. Furthermore, seven of the top ten exporters of all commodities to Switzerland are Member States of the EU. Similarly, EU Member States make up eight of the top ten exporters of agricultural products to Switzerland.

Swiss Imports of Agricultural Products (1 to 24 not 3. 1601 and 1602 only plus others post 24)								
Partner Country	Millions European Union Euros							
	1996	1997	1998	1999	2000	2001	2002	2003
World	4498	4592	4789	4965	5329	5528	5708	5725
EU-25	3233	3283	3400	3691	3894	4138	4392	4459
EU15	3153	3197	3311	3599	3800	4037	4270	4337
France	882	910	929	1009	1026	1086	1110	1133
Italy	674	696	725	745	807	884	924	941
Germany	561	543	568	593	650	698	779	796
Netherlands	441	434	442	463	472	499	528	523
Spain	235	252	262	282	296	308	312	331
United States	269	280	276	288	329	299	281	239
Austria	132	120	114	130	150	141	152	166
Brazil	106	118	117	116	145	130	149	155
United Kingdom	74	78	87	104	109	105	120	111
Belgium	0	0	0	81	87	101	110	112

Switzerland’s agricultural imports from individual EU countries have been rising (in most cases, steadily). That is to say, each year, Switzerland has imported more than it did the previous year from the same country. Meanwhile, the gap between imports from the World (excluding the EU-25) and from the EU-25 is getting consistently wider (Chart 1). Imports from the EU are clearly becoming more important to Switzerland as trade between the two parties opens.

Although it is difficult to tell (in the short amount of time that has passed since it came into effect) how much the Bilateral I agreement has affected Swiss-EU agricultural trade, it is clear that Switzerland is trading more with EU member states – at the expense of its trade with the United States, for example (Chart 2). Indeed, the United States is the only country among the top ten from which Swiss imports have seen a serious decrease over the last several years. As the Bilateral II agriculture agreement comes into effect, we can expect to see further preference given to EU goods.

Chart 1

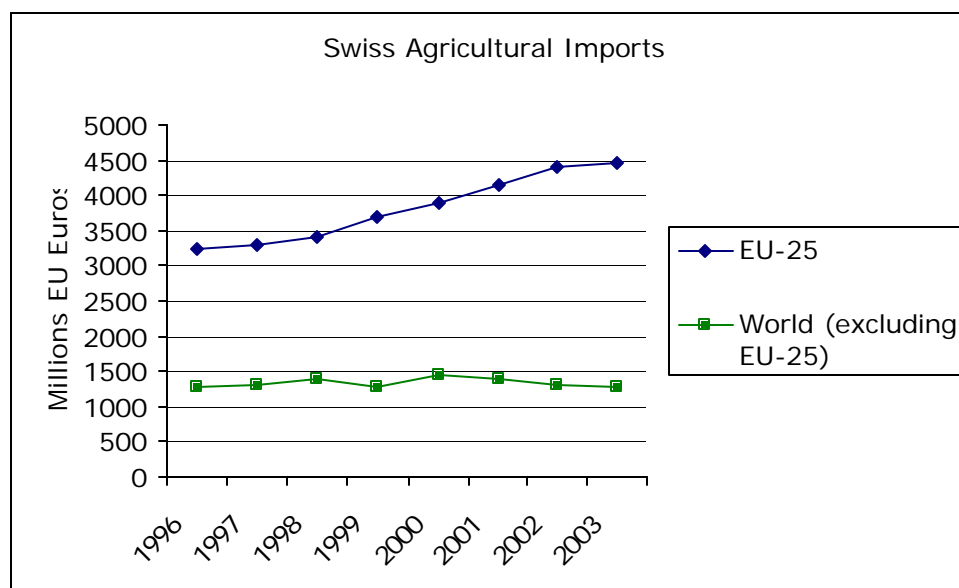
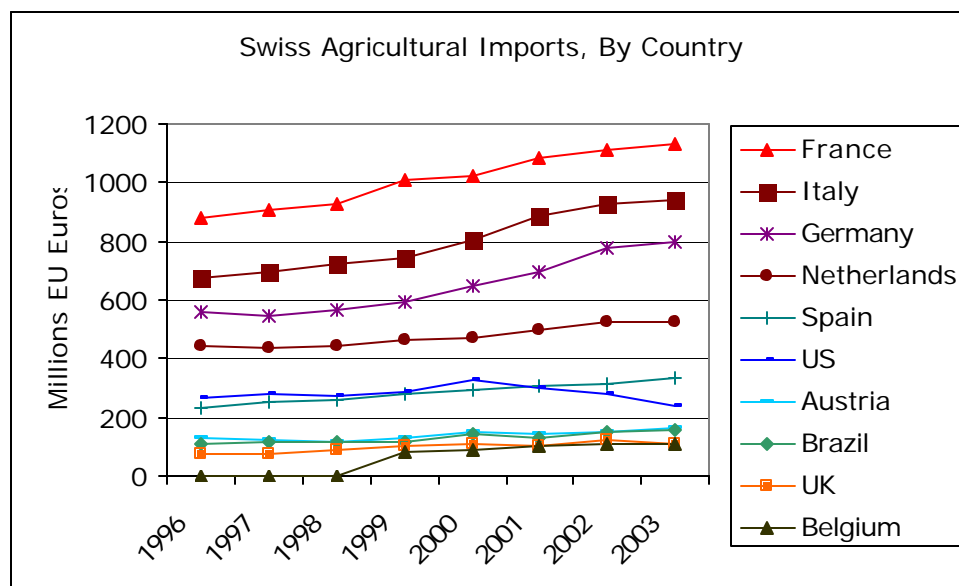


Chart 2



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