The Swiss direct payment system and the concept of cross compliance

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Paper presented at the University of Bergen
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September 7, 2007

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Fundamental reform of agricultural policy in 1992

Direct payments play a key role in Swiss agricultural policy. After the reform in 1992 the concept of support was fundamentally changed. In fact a new system was adopted: price and sales guarantees were abolished. Price support has been gradually reduced, causing a decline of the value of production (Fig. 1) whereas direct payments are specific incentives to remunerate farmers for services of public and common interest. In a popular vote held in 1996, a majority of over three-quarters of the electorate voted in favor of adding Article 104 on agriculture to the federal constitution. Art. 104 sets out the multifunctional tasks of agriculture which include ensuring a secure food supply, conserving natural resources, taking care of the landscape and encouraging decentralized settlement. Therefore, direct payments are contingent upon the fulfillment of the proof of ecological performance (cross compliance) and are not linked to production. Ecological and ethological requirements are now the sensitive restrictions for farming in Switzerland. These rules of cross compliance were conceived in a strict manner in order to fulfill the criteria of the Green Box in the WTO Agreement on Agriculture.

Fig. 1: Reform of Swiss agricultural policy 1992: Market deregulation and the key role of direct payments

Source: Federal Office for Agriculture, Berne and Swiss Farmer’s Union, Brugg
The high acceptance of the new concept of agricultural policy allowed for the shift from price support to direct payments and has been carried out step by step. During the implementation period it was inevitable to increase the agricultural budget (see Fig. 2). Further reductions of the level of price support will give the opportunity to keep the budget within the limits of financial policy. A fundamental change of trade policy in the context of the WTO commitments or of a Swiss-EU FTA in the agri-food sector would increase the need to compensate farmers for income losses due to lower prices.

Fig. 2: Swiss agricultural reform 1992 and public expenditures: from price support to direct payments
Source: Federal Office for Agriculture, Berne

**Direct payment programs implemented since 1992**

Table 1 gives an overview of the wide range of direct payments that have been implemented since the agricultural reform in 1992. A distinction is made between general and ecological direct payments:

*General direct payments* compensate for the basic tasks, as set out in the constitution, of ensuring food supplies, maintaining the landscape and helping to preserve social structures in rural areas. These payments are made up of a sum based on the area of the farm...
plus a sum for grazing animals. In upland and mountainous areas additional payments enable farming under more difficult conditions. Differentiated payments ensure that basic requirements are met all over the country. All general direct payments are paid according to the size of the farm and the number of livestock. Up to 30 hectares (ha) farmers receive 100% of the payments per hectare, from 30 to 60 ha 75%, from 60 to 90 ha 50% and over 90 ha 0%. In the same manner the rate contribution is graded according to the number of livestock: up to 45 GLSU\(^1\) farmers receive 100% of the payment per GLSU, from 45 to 90 GLSU 75%, from 90 to 135 50%, and over 135 GLSU 0%.

<table>
<thead>
<tr>
<th>Swiss direct payments</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>in 1 000 SFr.</td>
</tr>
<tr>
<td>General direct payments</td>
<td>2 007 181</td>
</tr>
<tr>
<td>for all agricultural land (per ha)</td>
<td>1 319 103</td>
</tr>
<tr>
<td>for the husbandry of roughage consuming livestock (per animal)</td>
<td>301 213</td>
</tr>
<tr>
<td>to compensate for animal husbandry under difficult conditions (per animal)</td>
<td>281 258</td>
</tr>
<tr>
<td>to compensate for agriculture under difficult conditions (per ha, incl. vineyards on hillside)</td>
<td>105 607</td>
</tr>
<tr>
<td>Ecological direct payments</td>
<td>518 211</td>
</tr>
<tr>
<td>ecological compensation area (per ha)</td>
<td>126 976</td>
</tr>
<tr>
<td>according to ecological quality regulations (EQR)</td>
<td>30 256</td>
</tr>
<tr>
<td>extensive plant production (per ha)</td>
<td>31 094</td>
</tr>
<tr>
<td>organic farming (per ha)</td>
<td>28 672</td>
</tr>
<tr>
<td>animal-friendly stabling systems (per animal)</td>
<td>203 247</td>
</tr>
<tr>
<td>support transhumance on alpine pastures (per animal)</td>
<td>91 696</td>
</tr>
<tr>
<td>farming programs to protect water resources (per ha)</td>
<td>6 270</td>
</tr>
<tr>
<td>Reductions due to non-compliance</td>
<td>-25 820</td>
</tr>
<tr>
<td>Total</td>
<td>2 499 572</td>
</tr>
</tbody>
</table>

Tab. 1: Swiss direct payments 2006

Source: Federal Office for Agriculture, Berne

Another important gradation is the rate of contribution according to natural handicaps, such as adverse cultivation conditions in hillside and mountain areas. A special scheme of hillside contributions is the preservation of wine-cultivating areas in steep and terraced locations.

Ecological direct payments create an additional incentive to meet particular standards of natural environment and animal welfare. Participation in these programs is optional. The

\(^{1}\) GLSU: Grazing livestock unit
aim of the programs is to create valuable habitats for animals and plants. Farmers receive additional payments for extensive meadow-land, reed-beds, permanent flowery meadows and rotated fallow fields, hedges, copses and wooded riverbanks and standard fruit trees. Organic farming is also supported by the State. Between 1993 and 2002, the number of organic farms rose from 1‘200 to 6‘000. Particularly animal-friendly stabling and regular outdoor exercise for animals are encouraged. The requirements for these programs are far more stringent than the general standards outlined in the animal protection law. In 2004 two thirds of all animals had regular outdoor exercise and one third of all animals were kept in particularly animal-friendly conditions. An animal housing system is regarded as “particularly” animal-friendly when animals are kept free in groups and can live according to their natural behavior. There is a steady rise in the number of farms joining this program. Another typical Swiss program supports farmers for transhumance (Tab. 1) in order to use the Alpine pastures in an environmentally friendly way. Alpine pastures and lakes are characteristic elements of Switzerland. Since 2001 a special program aims at improving the quality of the water in problem areas.

The receipt of all payments is contingent upon compliance with ecological standards. Non-compliance with these standards can result in a cut of public payments. The consequence for farmers can be drastic when the payments contribute substantially to the income. A survey based on data of the 3’000 farms, regularly reporting for farm management statistics, shows the importance of direct payments for farm income. The figures in Tab. 2 show evidence of the essential support of direct payments for farms particularly in mountainous areas.

<table>
<thead>
<tr>
<th>Survey on direct payments 2006</th>
<th>total</th>
<th>plane</th>
<th>hillside</th>
<th>mountain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample: number of farms</td>
<td>3 271</td>
<td>1 491</td>
<td>957</td>
<td>823</td>
</tr>
<tr>
<td>Average farm size (ha)</td>
<td>20.07</td>
<td>21.02</td>
<td>18.88</td>
<td>19.66</td>
</tr>
<tr>
<td>General direct payments (SFr.)</td>
<td>38 486</td>
<td>32 316</td>
<td>37 268</td>
<td>49 995</td>
</tr>
<tr>
<td>Ecological direct payments (SFr.)</td>
<td>7 999</td>
<td>8 883</td>
<td>8 117</td>
<td>6 405</td>
</tr>
<tr>
<td>Total direct payments (SFr.)</td>
<td>46 484</td>
<td>41 199</td>
<td>45 386</td>
<td>56 400</td>
</tr>
<tr>
<td>Gross profit (SFr.)</td>
<td>226 795</td>
<td>272 530</td>
<td>209 051</td>
<td>168 145</td>
</tr>
<tr>
<td>Proportion of direct payments</td>
<td>20.5%</td>
<td>15.1%</td>
<td>21.7%</td>
<td>33.5%</td>
</tr>
</tbody>
</table>

Tab. 2: Survey of the Swiss federal research institute of farm economics: direct payments in proportion to gross profit in different areas of Switzerland

Source: ART (Agroscope Reckenholz/Tänikon)
Proof of Ecological Performance (PEP): the Swiss concept of cross compliance

During the 1990s ecological standards have become even more important: farmers receive general direct payments only if they meet certain requirements. The key elements of PEP are:

- an appropriate proportion of ecological compensation areas and an even nutrient balance;
- a balanced use of fertilizers, regular crop rotation, suitable soil protection and targeted use of plant treatment products, and
- animal friendly conditions for livestock.

The purpose of an appropriate proportion of ecological compensation areas is to maintain and promote biodiversity and agricultural diversity. At least 3.5% of the land used for special production and at least 7% of the land used for other agricultural production must be reserved for ecological compensation areas. Natural borders of at least 0.5 m along paths have to be maintained. Larger natural borders of at least 3 m around ponds and along rivers, hedges, wooded areas around fields and water-banks have to be in place.

The goal of the nutrient balance is to prevent excessive use of nutrients and run off. The nutrient balance has to show that no excessive phosphorus or nitrogen is being produced; the tolerance is at the 10% level. It involves also a compulsory soil analysis at least every ten years. A reliable use of nutrients has to correspond to the requirements for crops and the amount of manure produced on the farm.

A regular crop rotation aims at maintaining the fertility of the soil and crop health. Farms with more than three hectares of arable land have to have each year at least 4 different crops in rotation; and there is a maximum proportion of the main crops (e.g. maximum 66% cereals, 40% corn, 25% potatoes).

The objective of an appropriate soil protection is to prevent soil erosion, depletion of nutrients and the build-up of pesticide residues. A soil protection index was developed that has to be at least 50 points for arable crops and 30 points for vegetable crops.

The selection and targeted use of plant chemicals has the goal to produce high quality crops with a minimum use of pesticides. Farmers have to have their equipment for plant protection checked at least every four years. Treatments have to be executed according to the guidelines to reduce negative impacts.

Further, under the animal-friendly management conditions farmers have to adhere to the legally stipulated minimum standards for animal husbandry.

To fulfill the PEP farmers have to keep records such as:

- land-use plan with information on crops, how land is labored, use of fertilizers and plant protection;
- necessary documentation for calculating the nutrient balance;
- barn-journal of all the treatments of the animals;
- other records that may be of use.

Despite the strict requirements nearly all farmers fulfill the compliance (95%). Ecological and ethological payments compensate additional services that go beyond the PEP. Compared to the EU the Swiss concept of cross-compliance contains standards that are higher
than the EU requirements. Especially with the demands for animal welfare, plant protection, for ecological compensation and the requirements concerning the nutrient balances the Swiss PEP sets higher standards.

Further requirements for direct payments are:
- minimal amount of work in agriculture;
- age limit of 65 for all general direct payments;
- agricultural qualifications;
- limits for income, assets and for payments per labor unit;
- farms owned by the State, the cantons, the boroughs or legal entities receive no direct payments.

**Implementation and control of the direct payments programs**

The typical federal structure is also applied to implement and control the direct payments. Cantons not only administer direct payment programs according to the federal ordinance but also support farmers to fulfill the requirements. This “advisory approach” is the result of a long experience cantons have in the field of farmers’ education and training by extension services. The few sanctions (Tab. 1) actually imposed show evidence of a high acceptance of the PEP and compliance of the requirements to a large extent. Offences mainly occurred regarding PEP-requirements and animal welfare standards. Only a few infringed for example the guidelines of organic farming. The way how the transfer of the data and the payments is organized is shown in Figure 2.

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**Fig. 3: Implementation and control of Swiss direct payments**
**Outlook: Bilateral free trade agreement with the European Union?**

The agricultural policy program AP 2011 is the fourth reform stage to further separate price and income policies. At the heart of the reform is the improvement of the competitiveness of Swiss agriculture. The reform, however, is half hearted since it does not involve a fundamental reform of market access barriers that mainly contribute to imperfect competition and the consumer’s burden. AP 2011 will only be effective if it is paired with a Swiss-EU FTA in the agri-food sector that would bring about the necessary market access liberalization. In the future Swiss farmers and up- and downstream industries need to know the long term general policy framework conditions to take accurate and sustainable investment decisions. But in the political debate strong and resistant groups stand against progressive liberal forces. A compromise would be to compensate farmers during a transition period with additional payments for the revenue losses due to producer prices approaching the EU-level.

**Further information and data sources**

Joerin, R., Schluep Campo, I., Maier, Th., Flury, Chr., 2006. Market liberalization and the role of direct payments in Switzerland. Paper presented at the annual meeting of the Japanese Association of Regional Agriculture and Forestry Economics, St. Andrew’s University, Osaka, October 29, 2006.


**Statistics**

*Swiss Federal office for Agriculture, Agrarbericht (annual report), Berne:*

*Value of production:*

*Farm income:*

*Direct payments:*
Article 104 of the Swiss federal constitution

The Confederation shall ensure that agriculture contributes by way of a sustainable and market-oriented production
  • to the conservation of natural resources and the upkeep of rural scenery;
  • to a decentralized inhabitation of the country;
  • to the secure food supply of the population.

In addition of the measures of the self-help that may be reasonably expected from agriculture and, if necessary, in derogation of the principle of economic freedom, the Confederation shall promote farms cultivating the land.

It shall conceive the measures in such a way that agriculture may fulfill its multiple functions. Its powers and tasks shall particularly be the following:
  • it shall complement the agricultural revenues by direct payments, to secure a fair and adequate remuneration of the services rendered, provided that compliance with ecological requirements is proven;
  • it shall promote, by way of economic incentives, forms of production which are particularly close to nature and friendly to the environment and the animals;
  • it shall legislate on the declaration of origin, quality, production and processing methods of food stuffs;
  • it shall protect the environment against pollution due to excessive use of fertilizers, chemicals and other auxiliary substances;
  • it may encourage agricultural research, rural extension services, and education, and subsidize investments.