



**DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE
UNION
DIRECTORATE B
- POLICY DEPARTMENT -**

NOTE

EU-Switzerland trade in agricultural and food products

Abstract: Switzerland is a major trading partner with the European Union. Trade in agricultural and food products between the EU and Switzerland are currently organised under two bilateral agreements: one in 1999 on agricultural products and the other in 2004 on processed agricultural products. Last November, the EU and Switzerland decided to launch negotiations to fully liberalise trade in agriculture. A free trade agreement should facilitate trade exchanges to the benefit of both parties. However, before reaching such an agreement, there are still problems to overcome in the field of non-tariff issues, this is why negotiations are expected to last a whole year.

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1-Facts and figures on trade in agriculture and food products between the EU and Switzerland

1.1. Switzerland is currently the third largest trading partner of the EU after China and Russia., the 2nd for exports after the US and the 6th for imports after the US, China, Russia, Japan and Norway.

In 2007, **total EU agro-food exports** to Switzerland amounted to **€ 4.7 billion**, whereas **EU imports** from Switzerland amounted to **€ 2.7 billion**. 70% of Swiss agricultural exports go to the EU while 7% of the EU's agro-food exports go to Switzerland.

- The **main EU exports** to Switzerland are:
 - 1-Wines, spirits and vinegar;
 - 2-Horticulture;
 - 3-Fruits;
 - 4-Dairy products, eggs, honey;
 - 5-Vegetables.
- The **main EU imports** from Switzerland are:
 - Dairy products;
 - Coffee, tea, spices;
 - Preparation of cereals, flour, starch, or milk, pastry cook's products.

1.2. The EU is the main trading partner of Switzerland. More than 2/3rds of its exports of agricultural and food products are destined to EU member states, whereas $\frac{3}{4}$ of its imports come from the EU.

In 2007, Swiss **exports** of agricultural and food products to the EU amounted to **CHF 4.6 billion** (about € 2.9 billion); Swiss **imports** of agricultural and food products amounted to **CHF 8.6 billion** (about € 5.5 billion), of which almost a half concerned beverages and wine, fruits and vegetables and horticulture.

Although the trade balance in agricultural products showed a deficit of **CHF 4 billion** (about € 2.6 billion), it recorded nevertheless a trade surplus in the field of dairy products.

In 2007, Swiss exports of agricultural products to the EU increased to CHF 850 million, (+23% compared to the previous year). A significant part of this growth comes from processed agricultural products. Thus, in 2007, cheese exports to the EU amounted to CHF 440 million, which represents an increase of 7% per year on average from 2005 to 2007.

From 2003 to 2007, the total trade in agricultural and food products with the EU has recorded an average growth of 9.4% per year. Swiss imports have grown an annual of 6.4% per year during this period, whereas Swiss exports to the EU have increased of 16.5%.

2-History of trade negotiations between the EU and Switzerland

Switzerland, together with Norway, Iceland and Liechtenstein, are members of EFTA (European Free Trade Association). The first trade Agreement with Switzerland was the **Free Trade Agreement of 1972**, which dismantled such trade barriers as customs and quotas for industrial products, thereby creating a free trade zone between the contracting parties. However, because the free trade partners do not have a harmonised customs policy, or customs union, customs checks at border crossings are still carried out.

During the late 1980s and early 90s, Switzerland participated in the negotiations of the **Agreement on the European Economic Area (EEA)**. On 2 May 1992, Switzerland signed the EEA Agreement, but in a referendum held on the 6th December 1992, the Swiss people rejected the ratification of the EEA agreement. After the rejection of the EEA agreement and in order to minimize the negative consequences of the rejection of the EEA Agreement, Switzerland has tried to obtain similar access to the EEC market through the negotiation of **bilateral sector agreements**.

-Seven bilateral agreements (so-called "*Bilateral I package*") on free movement of persons, public procurement, land and air transport, **agriculture**, research, and mutual recognition of conformity assessment, were concluded **in 1999** and entered into force **on 1 June 2002**.

These agreements are linked by a termination clause, which means that all the agreements came into force together and will also come to an end together if any one of them is terminated. The on-going implementation of these agreements obliges Switzerland to take over relevant Community legislation in the covered sectors.

-A second round of 9 bilateral agreements (so-called "*Bilateral II package*") were signed in **2004** and entered into force on 1st February 2005. These agreements cover the following sectors: taxation of savings, participation in Schengen and Dublin cooperation, judicial and administrative cooperation in the fight against fraud, **trade in processed agricultural products**, participation in the European Environment Agency, statistical cooperation, participation in the Media programme, preparations for participation in the future programmes in the field of education, youth and training, and avoidance of double taxation of retired EU officials.

3-The bilateral Agreement on agricultural products of 1999

The bilateral Agreement on trade in agricultural products is one of the 7 Agreements of the *Bilateral I package* that came into force on 1st June 2002. This agreement does not create a total free trade but only a partial liberalisation for some agricultural sectors. An important degree of customs protection remains for cereals, milk and meat. The agreement facilitates market access reciprocity by the reduction of tariffs as well as non-tariff barriers for specific product segments which are of particular interest for both parties:

-**Tariff concessions** (import quota and tariff reductions) primarily apply to the cheese sector, which was completely liberalised on 1 June 2007, as well as to fruit and vegetables, horticulture, meat and wine;

-**Non-tariff or technical barriers to trade** (such as product regulations and admission requirements) are to be reduced through the mutual recognition of the equivalence of regulations. The products concerned include wine and spirits, biological agricultural products, plant protection, fodder and seeds. In the veterinary and phytosanitary sectors, the equivalence of regulations in the field of hygiene for all foodstuffs of animal origin was recognised at the end of 2006.

-Regarding the **veterinary sector** (annexe 11 of the agreement), equivalence of prescriptions has been recognised since December 2006 for all products from animal origin, just as in the field of animal health. This equivalence was allowed only for milk, dairy products and fight against epizootic diseases. It means that foodstuffs from animal origin, such as cheese, meat specialties, eggs and honey can from now on be exported without health certificate. Regarding veterinary controls at the EU entry, they have been removed.

-At last, the Agreement guarantees a reciprocal protection of the Appellations of Origin (AOP) and the Geographical Indications (IGP) of wines, spirits and aromatised wines and aromatized wine-based drinks. In a declaration of intention enclosed to the Agreement, the EU and Switzerland agreed to apply later these geographical indications to other products. Negotiations on this issue have been started in 2007.

4-The bilateral Agreement on Processed agricultural products of 2004

The bilateral agreement on processed agricultural products is one of the 9 agreements of the **Bilateral II package** that came into force on **1 February 2005**. This agreement on processed revises **Protocol 2 of the Free trade Agreement between Switzerland and the European Community of 1972**. This protocol regulates trade in processed agricultural products, i.e. products of the food industry which means that, since the 1st of February 2005, taxes and export-subsidies have been reduced for a broad scope of food products such as chocolate, pastries, soups, sauces, coffee and pasta.

In this products category, the Agreement stipulates the following:

-In its trade with Switzerland, the EU will no longer impose import duties and export contributions in this product category, although exceptions are possible in connection with the development of raw material prices.

-Switzerland in return has reduced its duties and export contributions correspondingly. There will be free trade for sugar and for products that do not contain any agricultural relevant products other than sugar.

-Moreover the area covered by Protocol 2 on new products will be extended to new products and will thus take into account developments in the food industry.

In 2005, the EU has abolished export refunds and import duties on most processed agricultural products. Switzerland reduced and in many cases eliminated export refunds and import duties. In addition, all alcoholic beverages - apart from grape juice with added spirit - benefit from free trade between the parties since 1 February 2006.

As a result, EU exports of processed agricultural products to Switzerland increased by 10% in volume and 6% in 2006. Swiss food companies can export a wide range of products to the EU market free of duties.

Since February 2005, the differential between the respective EU-Switzerland internal market prices for agricultural products is used as the basis for calculating export refunds and import levies in bilateral trade in processed agricultural products. In addition, this agreement provides that for the purposes of calculating export refunds/import levies the internal market differentials will be reduced by 10% at the end of the first and second year and by 15% from the end of third year onwards.

The agreement provides that the EU-Switzerland Joint Committee reviews internal market differential for agricultural products on an annual basis and adjusts import levies/export refunds, as necessary, to take account of any drift over the intervening year.

5-Towards a free trade agreement in agriculture

Last November 4th, EU Commissioner for Agriculture and Rural Development Mariann Fischer Boel and Swiss Federal Councillor Doris Leuthard, Head of the Federal Department of Economic Affairs, launched negotiations aiming at **full liberalisation of trade in agriculture** between the EU and Switzerland. Given the volume of bilateral trade, both parties are agreed for fully liberalised trade exchanges. The upcoming negotiations are a logical continuation of the liberalization process, which has been ongoing since the 1972 Agreement.

In addition to ending tariffs between the two parties, upcoming talks with Switzerland will also deal with non-tariff issues. However, negotiations on non-tariff issues, such as food and feed safety or veterinary and phytosanitary standards will constitute a separate element in the total context of these talks. The negotiations will fall under the responsibility of the services of Health Commissioner. The EU considers that the adoption of the "*Acquis*" should be an essential part of the agreement which will be put in place.

The first meeting between the Commission negotiators and their Swiss counterparts took place on 24 November focusing mainly, at this stage, on organising the negotiations. In order to facilitate the discussions, it has been decided to create 4 sub-groups:

- Agriculture;
- Non-tariff issues;
- Veterinary and phytosanitary issues;
- Health and food safety.

A second meeting is scheduled on 2 and 3 February 2009. A lot of problems remain to be overcome particularly in the field of non-tariff issues, this is why negotiations are expected to last a whole year.

5.1. EU's expectations from a free trade agreement

The Commission believes that the planned liberalization will facilitate trade exchanges to the benefit of both parties and contribute to the improvement of economic conditions in Europe.

Price levels in Switzerland (about 30% higher than in the EU) will enable the EU to gain market shares. With the exception of cereals where the EU is already an important supplier of Switzerland, EU interests are mainly in dairy products, fruits and vegetables, wines, meats even if in this last sector, the EU is strongly challenged by Brazilian imports.

In addition to tariff issues and the gradual removal of custom duties, a free trade agreement should cover non-tariff issues such as the Swiss adaptation to European regulations, in particular animal health and marketing rules. The EU would like Switzerland to adopt the "*Acquis*" and also to commit itself to adopt future EU regulations. Switzerland has some reservations on this latter point stating that it cannot accept future EU regulations without having participated in the negotiations at the EU level.

5.2. Swiss expectations from a free-trade agreement

The aim of a free-trade agreement between Switzerland and the EU in the agricultural and food sector would be to open up the markets for products from this sector. The Agreement would reduce both tariff barriers, such as customs duties and quotas, and non-tariff barriers, such as various product requirements and entry specifications. In addition, a free-trade agreement would be expected to cover not only agricultural commodities, such as milk and meat but also agricultural products at all stages of the value-added chain, including production resources, such as seed and machines and processed products, such as cheese and yoghurt.

Switzerland wishes to increase its exports of processed agricultural products with high added value, in particular those made from chocolate. Concerning the geographical indications, Switzerland would like to obtain the recognition of an Appellation of Controlled Origin (AOC) for its "*Emmental*" cheese.

Through a free-trade agreement in agricultural products, the reforms that have been carried out up to now in the farming sector are consistent with the aim of making Swiss agriculture more competitive on international markets. Opening up to the EU would lower production costs for Swiss farmers and the processing industries as well as improve access to EU sales markets. Swiss consumers would benefit from lower prices. The economy would experience long-term growth of approximately 0.5% in GDP terms, or CHF 2 billion (about € 1.3 billion).

However such an opening would present the Swiss agricultural sector with considerable challenges. Swiss farmers associations seem reluctant to approve a free trade agreement. They fear competition from EU agricultural products whose costs of production are about 30% lower than the Swiss one. They ask also for the agro-supply sector to be liberalised in order to improve the competitiveness of Swiss agriculture.

The Swiss Government justifies the necessity of such an agreement in order to launch the reform of Swiss agricultural policy and improve its competitiveness. A free-trade agreement would therefore have to be introduced on a step-by-step basis together with accompanying support measures to help farmers and small agro-food enterprises concerned make the necessary adaptations to the new market conditions and to allow them to explore the new market opportunities.

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EU-27 BALANCE OF TRADE WITH SWITZERLAND IN 2007 (x1000 €)

CN	Description	EXPORTS	IMPORTS	BALANCE
01	Live animals	27 301	12 743	+14 558
02	Meat and edible meat	196 119	10 826	+185 293
04	Dairy products; eggs; honey	291 531	277 909	+13 622
05	Other products of animal origin	17 719	5 112	+12 607
06	Live trees and other plants	355 207	2 183	+353 024
07	Vegetables	271 130	2 743	+268 387
08	Fruits and nuts	347 896	5 885	+342 011
09	Coffee; tea; spices	86 200	268 558	-182 358
10	Cereals	118 567	533	+118 034
11	Products of the milling industry	3 419	3 310	+31 109
12	Oil seeds and oleaginous fruits	109 355	6 616	+102 739
13	Lacs; gums; resins and other saps	13 421	9 154	+4.267
15	Fats and oils	111 030	11 018	+100 012
16	Prep of meat	61 699	1 573	+60 126
17	Sugar	87 383	3 457	+83 926
18	Cocoa	1 678	2 567	-889
19	Prep of cereals, flour, starch or milk; pastry cooks' products	422	281	+141
20	Prep of vegetables, fruits, nuts or other parts of plants	171 941	75 477	+96 464
21	Miscellaneous edible preparations	3 578	1 901	+1 677
22	Wines and vinegar	675 487	53 066	+622 421
23	Residues from food industries	174 402	13 999	+160 403
24	Unmanufactured tobacco & refuse	11 290	7 158	+4 132
33*	Essential oils	105 213	238 768	-133 555
35*	Albuminoid subst and starches	50 956	34 808	+16 148
41*	Raw hides and skins	1 290	31 801	-30 511
43*	Raw furskins	7 812	810	+7 002
50*	Silk	1 122	59	+1 063
51*	Wool, fine or coarse animal hair + waste	1 505	1 388	+117
52*	Cotton	4 840	1 022	+3 818
53*	Flax and hamp	343	184	+159
Total Agriculture products [mio €]		3,341	1,085	+ 2,256
Total Processed Agriculture products [mio €]		1,365	1,633	-0,268
TOTAL AGRI PRODUCTS [mio €]		4,706	2,718	+ 1,988

* Products already liberalised

Source: European Commission-DG AGRI