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Swiss Policies for more Food Security

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Abstract

Resource-poor yet blissful Switzerland is also one of the most food-secure countries in the world: there are abundant food supplies, relatively low retail prices in terms of purchasing power parity, with few poverty traps. Domestic production covers 70% of net domestic consumption. A vast and efficient food reserve scheme insures against import disruptions.

Nonetheless, the food security contribution by the four sectoral policies involved is mutually constrained: our agriculture is protected by the world's highest tariffs. Huge subsidies, surface payments, and some production quotas substitute market signals with rent maximisation. Moreover, these inefficiencies also prevent trade and investment policies which would keep markets open, development policies which would provide African farmers with the tools to become more competitive, and supply policies which would work against speculators. The paralysing effect of Swiss agricultural policies is exacerbated by new "food security subsidies" in the name of "food sovereignty" while two pending people's initiatives might yet increase the splendid isolation which in effect reduce Swiss farmer competitiveness and global food security.

Is there a solution? Absent a successful conclusion of the Doha Round (WTO) or a Transatlantic Trade and Investment Partnership Agreement (TTIP) further market openings and a consequent "recoupling" of taxpayer support to public goods production remain highly un-likely. To the very minimum Switzerland should resume the agricultural reform process, join other countries trying to prevent predatory behaviour of its investors in developing countries, and regionalise its food reserve.

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Introduction

Swiss shops are full of food. We have nominally very high food prices but they are quite low in terms of purchasing power: less than 9% of an average family budget is spent on food, including French and Swiss wine and champagne, Italian and Swiss truffles, Bündnerfleisch from Argentina or the Grisons, and (off-seasonal) South African fruits. There are few poverty traps and a relatively tight social safety net, but there are the “working poor”. Local production covers 72% of net domestic consumption (2008/10).² Trade agreements ensure market access for industrial goods and services exports, and these exports essentially finance Swiss food security. A vast and efficient food reserve scheme insures against import disruptions. Also, Switzerland has steadily increased development cooperation including for agriculture.

Is there a problem? Are we food-secure when we import 3,000 tons of animal feed per day? Or should we more strongly pursue trade liberalisation so as to increase our purchasing capacity and decrease food prices? Should we give more money to dig for water in the Sahel area, or to subsidise irrigation in Switzerland? When we import Egyptian potatoes do poor Egyptians have less to eat?

The main research questions to be addressed here are the following:

1. Are most households in Switzerland food-secure?
2. Is Switzerland food-secure?
3. Is Switzerland contributing to or reducing global food security?

The paper starts by recalling the basic tenets of food security definitions, misconceptions and possible contradictions, and production and price facts and trends (2). On the basis of the relevant international trade and investment rules (3) it then analyses the Swiss food security objectives and policies and their impact (4). The

¹ Revised version of my Speaking Notes for the Academia Engelberg’s 13th Dialogue on Science (15–17 October 2014 on Food Security: http://www.academia-engelberg.ch/conference_2014.php5).

German Title: ‘Schweizer Handels- und Investitionspolitiken für mehr Ernährungssicherheit?’ A book chapter entitled ‘Ernährungssicherheit in der Schweiz’ with a similar content is in print.

² The main agricultural export is cheese: 1 Swiss cow out of 4 works for exports. Nonetheless, the shocking news in June 2014 was that for the first time in history net cheese imports by weight were bigger than exports. Interestingly, the negative balance of 450t was equivalent to about one year’s cheese exports to Russia (413t in 2013). See *NZZ am Sonntag* 24 August 2014, p.22

conclusions propose a number of avenues for more Swiss and more global food security (5).

1. State of Food Security

The end of the last global food crisis dates back 5 years. An unfortunate coincidence of bad weather and poor harvests, low stocks, high oil prices and trade restrictions had sent prices skyrocketing and the number of hungry people worldwide rose above 1 billion. Malthusian projections quickly added a number of structural developments to these basically cyclical factors. Most food security pundits saw the beginning of a catastrophe where demographic and climate change, new food consumption habits, increasing food waste, biofuels and speculation by vulture funds would lead to ever higher food and feed prices by the time the world population reaches 9 billion people, which it will as we all know sometime before 2050.

In 2011 the Food and Agriculture Organization of the United Nations (FAO) had to revise its figures but claimed that there were still way over 800 million hungry people and forecast continuously increasing food prices. The FAO also says that in a good year the world's farmers can produce enough food for 12 billion humans. Surprisingly, the Agricultural Outlook 2014–23 co-published with the Organisation for Economic Co-operation and Development (OECD) saw real prices slowly receding over the medium term, even for meat and dairy products.³ That was before Russia blocked food imports from certain countries, sending world markets and suppliers into another spin. However, the year 2014 has seen bumper harvests and severely falling commodity prices in the United States, India, China and many other countries.⁴

These new data and perhaps global trends cannot be assessed here. But two sets of questions may be asked.

First, definition: what is “food security”? In my opinion the internationally agreed definition is quite useless: “when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food” (FAO 1996 and 2002). Rather, the crucial question is how this goal can be reached, and what role one should assign to (i) domestic production and technology development, (ii) national and foreign investment, (iii) international trade, and (iv) to stockpiles. For the same reason (and unlike for poverty) it is extremely difficult to measure “food insecurity”. Moreover, let us not forget that food security has very different implications, and sometimes conflicting interests, at the global, national and household levels.

Second, speculation: why have the efforts by the G20 to combat food speculators failed? Economists eager to address excessive price volatility, but uneasy about defining “speculation”, are still debating whether public stocks and producer price guarantees really contribute to price stabilisation or, to the contrary, stifle other forms

³ OECD/Food and Agriculture Organization of the United Nations (2014), OECD-FAO Agricultural Outlook

2014, OECD Publishing, pp.49–53.

⁴ NZZ 20 October 2014, p.21.

of risk mitigation such as privately held stocks, commodity exchanges and producer insurance.⁵

While there is no simple solution that will lead to more food security overall, it is also clear that some policy tools conflict. International cooperation and competition rules are sadly lacking but even more necessary in a globalising food value chain where high production and trade distortions are still being caused by agricultural, socio-economic and environmental policies.

2. International framework for food (in-)security

At present, what international rules do we have, what does this mean for national policies, and do these rules make agricultural trade fairer – or do they just limit policy space and prevent food sovereignty?

The main rules framework for agricultural trade is the Agreement on Agriculture of the World Trade Organization (WTO). It was negotiated in the Uruguay Round of 1986–1994, when artificially low prices were mainly caused by export subsidies of Europe and the USA. For decades such subsidies had displaced production and discouraged investment in poor countries. I think it is mainly for that reason that Africa, both North and South of the Sahara, has become the world’s largest food importer.

But let us first recall the main trade and investment rules, and what they can mean for food security. These rules are of four kinds as summarised in Table 1.

Table 1: Food Security Impact of International Trade and Investment Rules

<i>Rules</i>	<i>Food Security Impact</i>
1. <u>Tariffs</u> : The only border measures allowed are (negotiated and slightly reduced) maximum duties, with some limited safeguards.	Import quantities (and periods) are no longer freely manageable. Trade is more foreseeable. For products with low tariffs, local producers face some competition from abroad.
2. <u>Farm Subsidies</u> : there is no limit to direct payments e.g. for environmental or social policies. But (high) limits apply to direct product and price support.	Product subsidies can still displace farmers in other countries (i) on their own markets and (ii) at home.
3. <u>Export subsidies</u> : 1986–90 levels were reduced by roughly one third.	“Surplus” disposal is more difficult. But other forms are still possible

⁵ Extensive OECD research on risk management, for instance by way of insurance schemes with public support, shows not only the possibilities for improvement but also the complexity of good policy formulation. See Christopher Gilbert, *International Agreements for Commodity Price Stabilisation: An Assessment*. OECD Food, Agriculture and Fisheries Working Papers, No. 53, OECD Publishing (2011). But see also Olivier De Schutter (United Nations Special Rapporteur on the Right to Food), *Food commodities speculation and food price crises: regulation to reduce the risks of price volatility*. Briefing Note 2 September 2010.

No new ones can be introduced anywhere.	(credits, food aid, state trading). There are more or less no limits for export restrictions.
4. <u>Investment protection</u> : 3000 bilateral investment protection treaties and many free trade agreements promote and protect foreign investors, often better than local investors. The same goes for international investment credits and risk guarantees.	Cases of “land grab” and human rights violations can arise where the home state protects its investor even against a successor government in a host state trying to cancel such investment contracts.

In my opinion these rules are a mixed bag but overall are beneficial for global food security. They leave considerable policy space at the national level. They do not and today cannot address the small farmer issue. However, the still allowed subsidy ceilings in particular do reduce market access and food security in other countries. Moreover, some disciplines such as those on export restrictions are too weak and at present cannot prevent unfair competition. With the failure of the Doha Round negotiation in 2008 the divide between the haves and have-nots remains considerable. Tariffs and product subsidies may have slightly come down, but developed countries especially can, at any moment, re-increase both. Agricultural protectionism is on the rise again – often in the name of food security! In short, the contribution of trade and investment to greater food security remains fraught with uncertainty.

The fact that (for some countries) food dumping, export subsidies and restrictions are still allowed inevitably shapes policy making and negotiations. Pursuing food security by way of international trade looks good in economic theory but remains a risky proposition for responsible governments, even in essentially open economies. Understandably, the public stockpile option remains attractive despite its high cost and (for some of them) trade-distortive nature. Nonetheless, stockpiling may also maintain (i) inefficiencies which in turn prevent trade and investment, (ii) development policies that would provide small farmers with the tools to become more competitive and at least feed their own families, and (iii) supply policies by way of regional “virtual” stockpiles which would work against speculators.

Governments worldwide are taking food security more seriously today than they did before the last big crisis of 2007-08. Unfortunately they often do this at the expense of farmers in other countries. What we are seeing again today is a “Race between Finance Ministers” which the WTO would be able to mitigate only with a successful conclusion of the Doha Round, and with a number of accompanying measures to compensate the “losers”. Not to mention the loose or non-existent disciplines for export restrictions and against “land grabbing”. Unfortunately, for the time being, prospects for a breakthrough are particularly bleak. On 16 October 2014, WTO Director General Azevedo said on the failure to agree on the Bali follow-up that “[t]his could be the most serious situation that this organization has ever faced.”

In my opinion, the WTO Ministerial Conference in Bali (December 2013) has increased the divide between the UN- and WTO-enshrined food security concepts by temporarily allowing trade distortions to go unchallenged in WTO dispute

settlement. In July 2014, India effectively ended WTO efforts to revive the Doha Round and to ensure a more level playing field for non-subsidised farmers. Interestingly India argued that it had to ensure its food security, and this gained the sympathies of many NGOs. The reality is different. As in Switzerland and in other countries including the EU (common agricultural policy (CAP)), food security is quickly becoming a marketing strategy under the guise of social policy and increased income support. In fact, thanks to a variety of subsidy instruments, India is fast becoming a big exporter, displacing rice from Pakistan, beef from Brazil, wheat from Argentina and sugar from Thailand. In short, it is following the old habits of Europe and the US!

Politicians frequently equate farmer security with food security, never mind whether farmers in other countries lose income or poor consumers pay more for their food. That is good news for some farmers, less so for consumers and taxpayers, and often the consequence is neither more food security nor less price volatility. In fact, demands for more policy space and farm support may well result in efficiency losses coming at the expense of poor consumers (which is not the WTO's business). Moreover – and this should very much be the WTO's business – they also punish efficient farmers in other countries without the benefit of subsidies or guaranteed prices. Only apparently better would be a notion of small farm security. Indeed, today many small farmers are simply less productive than big ones. Permanently high tariffs are not a solution here, and poor countries have simply no way of subsidising all their small farms. For the sake of global food security, the WTO must therefore continue to act as a bulwark against agricultural policies affording protection at the expense of more efficient farmers.

3. What is Switzerland supposed to do?

Positing here that at the national level food can only be produced or imported (with public stocks as a food security option by way of deferred consumption), there are basically three policies shaping Swiss food security. Each is based on a mandate in the Federal Constitution: agricultural policies, stockpile policies, and trade and investment policies.⁶ Table 2 presents them in a nutshell.

Table 2: Swiss Federal Constitution: Food Security-related objectives and instruments

<i>Objectives and Instruments</i>	<i>Food Security Connotation</i>
1. <u>Art.104: Agricultural policies</u> have three different (“multifunctional”) objectives: contributions to food security, sustainable <u>and</u> market-	Food security is often misunderstood as farm income security. <ul style="list-style-type: none"> • Nature, multiple policy objectives

⁶ In addition, Swiss *development policies* provide institutional support, extension services and subsidised inputs but small farmers are rarely able to manage production risks and become more resilient to price shocks and climate change. Local food security remains low, and in the Asian and African countries which have benefitted from technical cooperation for fifty years most farmers cannot even feed their own families. For Switzerland's international *investment policies* there is no constitutional article other than Article 101 referred to here.

<p>oriented production/landscape management, and decentralised settlement.</p> <p>Switzerland often professes sustainability but its own food security is predominantly ensured by taxpayers and imports.</p>	<p>and the lack of competition reduce productivity and thus Swiss food security, and they increase consumer prices.</p> <ul style="list-style-type: none"> • Food security is not attainable even with closed borders - and would be definitely cheaper with more imports.
<p>2. <u>Art.102 (Economic Supply policies)</u>: Government-mandated but privately owned stockpiles ensure food supplies for 6 months in times of disruptions.</p> <p>The system is quite efficient (2010: 15 SFR per resident and year). But why does it include sugar (and with levies only for imported sugar) when Switzerland is basically a net sugar (re-)exporter?</p>	<ul style="list-style-type: none"> • If we consider food security as a public good it should be paid for by taxpayers rather than by consumers. • Additional protection is afforded to domestic producers at the expense of food security in developing countries: <ul style="list-style-type: none"> ○ Levies are higher for sugar (16 SFR) than for rice (4.75 SFR) ○ The levies for vegetable oils, wheat and feedstuffs apply even to least developed country suppliers.
<p>3. <u>Art.101 (Foreign Economic Policy)</u>: Trade agreements with developing countries provide very limited concessions for agricultural products.</p> <p>Switzerland faces increasing difficulties to negotiate new agreements, in part because of its agricultural protection. This also prevents better trade opportunities through regional integration.</p>	<ul style="list-style-type: none"> • Lack of market access guarantees reduces Swiss food security. • Cash crops from more efficient farmers cannot compete here. • Zero duty preferences for the poorest countries can be withdrawn at any time.

Taken together the food security contribution by these four sectoral policies appears mutually constrained: Swiss agriculture is protected by some of the world's highest tariffs and subsidies. The Doha Round would not have solved the problems of small farmers, but its failure means that in Switzerland huge payments by surface, product

subsidies and some production quotas still substitute market signals with rent maximisation. Food exports are still subsidised (“Schoggigesetz”), as well as (WTO-illegally) exports of live animals and surplus butter. Producers look at “Berne” rather than at their markets. Investment remains over-regulated and over-protected and therefore often misguided.

4. Need for changes for more food security

Unfortunately, immediate food security improvement prospects look bleak, both for the world and for Switzerland. If the “9 Billion Challenge” is to be met by 2050, changes are necessary at both levels.

1) *World*

Unless the numerous anti-small farm policy biases are removed, subsistence farmers and nomads will not even feed themselves, let alone the world. Besides, small farmers are not obviously more climate change-resilient or more water-efficient than big ones. Is there a solution? The goal remains the same with or without a change of the rules, namely to allow big and small competitive farmers to feed the world efficiently, including poor consumers (except the destitute and the refugees who in the short term can only be helped by food aid).⁷

International standards and rules for production, trade and investments require continuous development and progressive further reforms. From a food security perspective, the overall objective for such reforms must be to ensure equal opportunities between nations with different resource and financial endowments, and sustainable production including by effective small and family farm policies.

2) *Switzerland*

The erstwhile agricultural reform of the nineteen-nineties and early zeroes has come to a standstill. More recently it has even been partly reversed. While “food security” is a constitutional principle, in 2013 the notion of “food sovereignty” was added to the Swiss Agricultural Law, without anyone having a clear idea what changes it involves besides new subsidies. The paralysing effect of Swiss agricultural policies is exacerbated by the huge new direct payments for food security. Moreover, two new people’s initiatives might yet increase the splendid isolation which in effect reduces Swiss farmers’ competitiveness and global food security. Without a successful conclusion of the Doha Round or an ambitious Transatlantic Trade and Investment Partnership Agreement (TTIP) further market openings leading to more efficiency in Switzerland remain highly unlikely. Even more difficult (yet strongly advisable from a food security perspective) seems to be a consequent “re-coupling” of taxpayer support to public goods production.

In my opinion and if this country is really bent on increasing its food security without impairing that of other countries and of poor farmers, there is no way around a

⁷ 46 million US citizens or 15% of the population receive food aid, while according to the FAO some 43 million people are thought to be at risk of food poverty in Europe (FAO Review, undated, using data from IBRD, State of poverty in Europe 1990, 1995, 2000, 2007).

resumption of the agricultural reform process. Here are four recommendations for further analysis.

1. Swiss farmers must gradually become competitive and produce food at world or European market prices. The efficient production of public goods such as environmental and social policies must be taxpayer-financed. This will also help the food industry and reduce its need for border protection and export subsidies (“Schoggigesetz”).
2. Switzerland should regionalise its food reserve strategy, along the principles and methods which have been used since the 1970s by the International Energy Agency, and which today are starting to work in East Asia and in West Africa.
3. Switzerland should develop its trade relations with developing countries which finance their food security with cash crop exports.
4. Switzerland should join other countries in trying to prevent predatory behaviour of their investors in developing countries.