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TARIFFS AND TRADE

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WORKING PARTY ON PARAGRAPH 4 OF THE PROTOCOL FOR THE ACCESSION OF SWITZERLAND

Replies by Switzerland to Written Questions

The replies furnished by the representative of Switzerland to the written questions submitted by members of the Working Party (document Spec(91)24 refers) are as set out hereunder.

Questions by Australia

Question 1:

Australia has reservations as to whether Switzerland is fully complying with the requirements of paragraph 4 of the Protocol of Accession. As we have pointed out in previous reviews, our understanding is that programmes implemented under laws other than those listed in paragraph 4, or affecting articles other than Article XI, cannot be justified under the Protocol of Accession. We also note that the partial reservation applied only in respect of particular existing legislation and would not extend to changes made to that legislation. Therefore any measure taken under new or amended legislation is not justifiable under paragraph 4. However, there are Swiss agricultural programmes implemented under legislation that was not in existence at the time the Protocol came into force. The legislation includes:

- Federal Decree on External Economic Measures, 28 June 1972;
- Federal Law on External Economic Measures, 25 June 1982.

Could Switzerland explain the basis on which these Laws are considered to be justified under paragraph 4? We would also appreciate an indication as to which pieces of legislation, listed in paragraph 4, have been amended, and what impact these amendments might have.

Reply:

This question does not concern the period covered by our work. Moreover, we already replied to this question during the previous triennial review; the 1972 and 1982 laws concern the division of competence between the Swiss Federal Parliament and Government concerning external trade matters. They are the latest versions of legislation originating in 1920, which has to be renewed every ten years. Their effect is internal and administrative and they contain no measures outside the scope of the

Protocol. All the quantitative restrictions on imports maintained by Switzerland are based on the other legal provisions specified in the Protocol and not on these laws, on the basis of which no restrictive measure is in force. The above-mentioned legal texts were annexed to the last triennial report (L/6658). Changes made in the legislation since 1966 concerned provisions other than Article XI, which was the Article cited in paragraph 4 of the Protocol of Accession. Article XI as repeated in these successive laws had not been amended; it had simply been reconfirmed each time the Federal Decree was renewed. The only change affecting Article XI since 1966 had been the conversion of the Federal Decree into a Federal Law in 1982. Thus the substance of Article 11 of 1956 and 1962 mentioned in paragraph 4 of the Protocol remains unchanged. The change in the status of the texts simply signifies that the duration of a law is unlimited while a Federal Decree is in force for a specified time. With the exception of this purely formal change, the special provisions of the legislation related to the Protocol of Accession have not changed since 1966.

Question 2:

We note that in Switzerland's 1991 notification pursuant to Article XVI:1 (L/6630/Add.11), several agricultural support programmes having a bearing on trade in agriculture are described as operating under legislation not listed in the three annual reports. Some of these laws:

- Dairy Economy Order of 16 December 1988;
- Federal Act of 15 June 1962 on the sale of cattle;
- Federal Act of 21 December 1960 concerning goods at protected prices and price equalization fund for eggs and egg products;
- Federal Order of 22 June 1979 instituting measures in favour of viticulture;
- Federal Law of 13 December 1974 on the import and export of processed agricultural products.

Could Switzerland indicate whether any of these laws affect Switzerland's compliance with Article XI, or other articles of the GATT? What is the relationship between these laws and the laws listed in the 1989 annual report?

Reply:

1. Of the legal texts mentioned in question 2, only the Ordinance on Viticulture and the Disposal of Vine Products (Wine Statute) of 23 December 1971, governs imports of wine. It is based on Articles 23, 25, 31, 42, 44 and 117 of the Federal Law on the Improvement of Agriculture and the Maintenance of the Peasant Population (Agriculture Act) and on Articles 6 and 20 of the Federal Order of 22 June 1979 instituting measures in favour of viticulture (Viticulture Order). The import regime is the same as that in force in 1966.

2. The other legal texts cited are all based on the Federal Constitution. They have no bearing on Article XI of the General Agreement:

- The "Dairy Economy Order" of 16 December 1988 (AEL 1988) (RS 916.350.1) is based on Article 31 bis, third paragraph, sub-paragraph (b) and Articles 32 and 64 bis, of the Federal Constitution.
- The "Act on the sale of cattle" of 15 June 1962 (RS 916.301) is based on Articles 31 bis, 32 and 64 bis of the Constitution.
- The "Federal Act concerning goods at protected prices and the price equalization fund for eggs and egg products" of 21 December 1960 (RS 942.30) is based on Article 31 bis, third paragraph, sub-paragraphs (a) and (b), and Articles 32 and 64 bis of the Federal Constitution.
- The "Federal Order instituting measures in favour of viticulture of 22 June 1979 is based on Article 31 bis, third paragraph, sub-paragraphs (a) and (b) and Articles 32 and 64 bis of the Federal Constitution.
- The "Federal Law on the import and export of processed agricultural products" of 13 December 1974 is based on Articles 28, 31 bis, second paragraph, sub-paragraph (b) of the Federal Constitution.

Question 3:

At the last triennial review, Australia had requested the provision of a broader range of information relating to Swiss legislation (e.g. including interpretative notes or legal commentaries) so that participants could judge for themselves whether the terms of the Protocol were being respected (L/6658, paragraphs 18, 20). We would again request that such materials be made available to the Working Party.

Reply:

This question goes beyond the Working Party's terms of reference. Documentation on the review of Swiss trade policy contains further details on this matter.

Question 4:

Australia is concerned that some of the measures affecting agricultural trade, justified under paragraph 4 of the Protocol of Accession, do not only affect Switzerland's compliance with Article XI, but other articles as well. This applies especially to breaches of Article III, as a result of the operation of the "prise en charge" system which constitutes a mixing regulation. This issue was raised at the last triennial review and we do not regard Switzerland's response as having been adequate.

We therefore request from Switzerland details of how the "prise en charge" system is reconciled with the requirements of Article III and an explanation of how measures affecting Switzerland's obligations under Article III of the GATT can be justified under paragraph 4 of the Protocol of Accession.

Reply:

As we have already explained, inter alia in the course of the previous review by the Working Party, the "prise en charge" system is covered by paragraph 4 of our Protocol of Accession. It offers greater flexibility than a system of quantitative restrictions in the strict sense. The application of this system shows that Switzerland uses it proportionally to the means it is entitled to implement under its Protocol of Accession.

Article XI, which is referred to in paragraph 4 of the Protocol of Accession, specifies in paragraph 1: "No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party."

The provisions of Article 23 of Chapter II of the Agricultural Act prescribe inter alia:

1. "If imports jeopardize the sale of agricultural products at reasonable prices according to the principles of this Law, the Federal Council may, taking into account other economic sectors:

- (a) Limit the volume of imports of similar products;
- (b) ...
- (c) Oblige importers to acquire similar products of domestic origin and merchantable quality, in an acceptable proportion in comparison with imports, and for this purpose take the necessary measures and prescribe the conditions".

We have always considered that the "prise en charge" system is covered by the reservation contained in paragraph 4 of the Protocol of Accession. Furthermore, it is generally agreed that this system is more liberal than a straightforward quota system; it is not therefore related to Article III. Where "prise en charge" does apply, it may be replaced inter alia by paying a substitute tax or other charge which, in our view, are covered by the Protocol in view of their optional nature and substitution of the measure itself.

Question 5:

The arrangements affecting meat imports described in the 1984-85 annual reports (L/6101), while not strictly a "prise en charge" system, do have similar elements in the requirement that importers contribute, in proportion to their imports, to a reserve fund to facilitate market stabilization operations. We would appreciate responses to the questions in 4 above as they apply to arrangements affecting beef.

Reply:

Detailed explanations regarding imports of meat are given in paragraphs 50-58 of document L/6658, which also refers to explanations given previously. To summarize, imports are subject to quotas and when market prices can no longer be maintained within the limits of the target price, importers may be obliged to acquire surplus slaughter animals in a reasonable proportion in comparison with their imports of similar animals. Payments made by importers to the reserve fund to facilitate the market stabilization operations and disposal of surpluses do not come under application of paragraph 4 of the Protocol of Accession and are therefore outside the terms of reference; these import charges were notified within the framework of the International Arrangement Regarding Bovine Meat.

Question 6:

Australia is concerned that Swiss beef and veal imports have been declining significantly in the period under review. We also note that Australian exports have fallen by nearly 50 per cent.

Do variations in Swiss subsidies in total and on a per unit basis account for this decline in imports? Could Switzerland comment on whether the greater variability of imports from non-European countries compared with European countries can be attributed to the practice of fixing quotas every fortnight? If so, how does this affect Switzerland's compliance with the requirement in paragraph 4 of the Protocol of Accession to "apply all restrictions ... in accordance with the principle of non-discrimination"? We would appreciate further statistics on the beef and veal sector, including production levels, self-sufficiency ratios, and the indicative target for self-sufficiency ratios. We would also appreciate an explanation of why the target price for beef was increased in 1989 when the cattle herd was increasing and imports falling.

Reply:

Apart from a significant increase in the import of slaughter animals in 1988, the trend in total imports of cattle and meat shown in document L/6802 for the period under review is noticeably stable, contrary to what is stated by Australia. If one looks at the situation by product, for bovine meat it is necessary to take into account the changes that occurred as a result of the introduction of the Harmonized System (cf. our explanation on the bottom of page 10 of document L/6802; this means that out of the total amount of 6,213 tons of beef and veal imported in 1987,

557 tons were imported from Australia, in 1988 imports amounted to 12,155 tons, of which 428 came from Australia, and in 1989, out of a total of 9,778 tons, 267 tons were imported from Australia). It should be emphasized that importers are subject to market forces and they acquire supplies in the light of criteria such as price, quality, etc.

With regard to the comment concerning respect for provisions on non-discrimination in regard to imports from non-European and European countries, as far as bovine meat is concerned (headings 0201.10-12, to which must be added for 1987 heading 0201.20), imports from the EC amounted to 1,236 tons in 1987 out of a total of 6,213 tons, while Brazil exported 1,502 tons and Argentina 1,713 tons; in 1988, Switzerland imported 1,814 tons from the Community out of a total of 12,155 tons, while 4,123 tons came from Brazil and 3,802 tons from Argentina; in 1987, 1,837 tons were imported from the Community out of a total of 9,778 tons with 2,031 tons from Brazil and 3,895 tons from Argentina. We would therefore enquire of the person asking this question where he sees discrimination? We can take another example to illustrate this aspect: imports of sheepmeat. In 1987, total imports of sheepmeat amounted to 5,470 tons, of which 2,606 tons were imported from the Community, 878 tons from Australia and 1,687 tons from New Zealand; in 1988, out of a total of 5,890 tons, 2,515 tons came from the EC, 1,243 tons from Australia and 1,835 tons from New Zealand; in 1989, total imports amounted to 6,686 tons, with 2,119 tons from the Community, 1,381 tons from Australia and 2,190 tons from New Zealand. In other words, in 1987 the EEC had 47.6 per cent of the market, Australia 16.1 per cent and New Zealand 30.8 per cent; in 1988, the EEC had 42.7 per cent, Australia 21.1 per cent and New Zealand 31.2 per cent. For 1989, the Community had 31.7 per cent, Australia 20.7 per cent and New Zealand 32.8 per cent. During the period under review, exports from Australia to Switzerland increased by 54.3 per cent.

Australia also asked about the increase in the target price for beef in 1989 when the cattle herd was increasing and imports falling.

The Swiss Government increased the guaranteed price for milk in 1988 and therefore increased target prices for beef in order to meet pressure by producers. By taking this course, the Federal Council chose the least restrictive measure taking into account the purely indicative nature of such prices.

Question 7:

We have concerns relating to discriminatory quotas on wine. Our understanding is that wine import restrictions are placed pursuant to the Wine Statute of 1971, which legalized the practice followed before Switzerland's accession to the GATT (L/6101, page 30) of concluding contracts with traditional suppliers. We do not consider that this can be justified under paragraph 4 of the Protocol of Accession, since the legislation that permits the continuation of discriminatory quotas was not listed in that paragraph, and the partial waiver related only to specific legislation and not existing practices that may subsequently have been legislated for.

We would appreciate an explanation from Switzerland as to how the wine quotas are justifiable under paragraph 4, bearing in mind the requirement therein for import restrictions to be applied in a non-discriminatory manner, and Switzerland's general obligations under Article XIII.

We would also request Switzerland to indicate whether there is a likelihood that the trend towards globalization of quotas could be further encouraged in relation to red wine in casks, and a similar system introduced for white wine.

Reply:

With regard to wine import régime, we would draw attention to the reply given to Question 2. As far as traditional quotas are concerned, their existence was known in 1966 at the time of Switzerland's accession to GATT. There was partial liberalization in 1986 as a result of the globalization of autonomous quotas in respect of 231,800 hl., as stated in document L/6658. Changes to the import régime for red wine in casks are currently being studied.

Question 8:

In our statement to the Working Party on 8 May 1991, Australia made a number of observations which are repeated below for ease of reference.

- ° Paragraph 4 of the Swiss Protocol of Accession requires that Switzerland should, in implementing the laws listed in that paragraph, "observe to the fullest possible extent the appropriate provisions of the General Agreement". It is our view that, judging from the stated objectives of Swiss agricultural policy, most if not all of these objectives could be met in ways that are more GATT consistent and less trade-distorting than at present. Indeed, the reliance on trade-distorting measures could jeopardize the achievement of these objectives.
- ° For instance, one stated aim of agricultural policy is the "assurance of an equitable income" (L/6802, page 3). However, it is generally recognized that attempting to support farm income through guaranteed minimum prices and other production-based incentives has unwelcome income distribution effects within agriculture, reducing the likelihood that small farms or farmers in marginal areas could benefit significantly from Government support.
- ° Similarly, the aim to protect the soil or the environment generally, is ill-served by a system of import controls and domestic production incentives that rewards the intensive use of land. The same applies to the aim to "ensure supplies of wholesome foodstuffs of high quality and at accessible prices", where as is acknowledged in the 1989 annual report, "imports play a part by increasing the range of products available and helping to maintain reasonable prices".

- ° Several Swiss agricultural programmes have been justified on the grounds of food security. It is a justification we have not found convincing. Nevertheless, since the last triennial review there have been dramatic changes in Europe which have led to a reduction in security concerns. Our hope is that this should allow Switzerland to reduce the importance it has placed in the past on food security, and so provide greater scope for expanded food imports. We also note that Switzerland has surpluses of several commodities and is a net exporter of cheese, preserved milk products, and potatoes. This seems to indicate that in some commodities, Government support and protection is producing surpluses that may not be justifiable under food security. We are also concerned that several items subject to trade restrictions cannot realistically be considered as justifiable for reasons of food security. The commodities that fall into this category include wine and fresh flowers.

In light of these considerations, we invite Switzerland to indicate what steps are being considered to liberalize trade in the agricultural sector.

Reply:

This question goes beyond the Working Party's terms of reference. Documentation on the review of Swiss trade policy contains further details on this matter.

Question 9:

An issue related to 8 above, and one that has not been resolved from the last review, concerns self-sufficiency targets. The questions we have, which have not been addressed in the three annual reports covered by this review, include:

- how are indicative self-sufficiency targets determined?
- are these targets published for individual commodities?
- are they adjusted regularly, and do these changes take into account changes in the security environment?
- how are the interests of contracting parties taken into account and how does Switzerland ensure that minimum harm is done to other contracting parties?
- does Switzerland have in place mechanisms to cap production once self-sufficiency targets for particular commodities have been achieved?

In relation to this last question, we would appreciate a description of how production controls might be applied to bovine meat, eggs and pigmeat, if production of these items has reached, or might reach, the indicative self-sufficiency level.

Reply:

This question goes beyond the Working Party's terms of reference. Documentation on the review of Swiss trade policy contains further details on this matter.

Question 10:

Australia would also appreciate a description of the measures that Switzerland has in place to limit surpluses more generally, including for commodities not subject to self-sufficiency targets.

We are particularly concerned with what appears to be an unfortunate deterioration in the supply/demand balance in relation to bread grains and feed grains. Imports of these items have fallen significantly. According to the OECD (Agricultural Policies Markets and Trade: Monitoring and Outlook, 1990, page 133) average production of wheat for the three years till 1989 is 40 per cent larger than the average in 1979-91, while unit market price support increased between the two periods by more than 30 per cent. In total, support to wheat producers, as measured by the total PSE, in 1989 reached its highest level since 1979, and internal prices are now at three times the border price. This sort of unchecked growth in production and support levels causes us concern as it indicates that Swiss policies do not appear to be aimed at minimizing the harm caused to other contracting parties.

Reply:

This question goes beyond the Working Party's terms of reference. Documentation on the review of Swiss trade policy contains further details on this matter.

Questions by New Zealand

Question 1(i) and (ii):

"Prise en charge" system: New Zealand understands that this system is used extensively to control imports of a range of agricultural products, and is considered by Switzerland to be covered by paragraph 4 of its Protocol of Accession.

- (i) How does Switzerland consider the "prise en charge" system to be consistent with Article III of GATT, in particular Article III.5? Does Switzerland consider the system to fall within the purview of Article XI? If so, on what basis?
- (ii) Does Switzerland consider that the exemption granted it under paragraph 4 of its Protocol extends to any provision of the GATT other than Article XI? If so, please elaborate on the provisions concerned, and the basis for such an interpretation.

Reply:

See the reply to Question 4 by Australia.

Question 1(iii)

What is the range of products to which the "price en charge" system is or may be applied? What are the current ratios between domestic production and import levels for these products? Please provide a copy of the obligations attaching to the right to import.

Reply:

Article 31 of the General Ordinance on Agriculture of 21 December 1953, which is based on the Federal Law of 3 October 1951 (Agriculture Act) provides the following:

Obligation of "prise en charge". Principle:

1. When the conditions specified in the first paragraph of Article 23 of the Law are fulfilled, importers of seeds of oats, barley, maize or field beans, as well as stone fruit, berries, fresh vegetables, onion sets, bees' honey, dead poultry, horses, acid casein and whole milk powder may be obliged to acquire over a specified period similar domestic products of merchantable quality in a proportion compatible with their imports.
2. After having heard a consultative commission, the Federal Council establishes for each group of goods the maximum quantities of domestic products to be acquired in proportion to imports for specified periods during the current year or, where this is not possible, in proportion to imports in the preceding year. In the case of fresh fruit and vegetables, as well as onion sets, the decision is taken by the Federal Department of the Public Economy after having heard commissions of experts or interested circles.
3. Importers of seeds of oats, barley, maize and field beans, as well as apricots, berries and racehorses, may be dispensed from this obligation of "prise en charge" by paying a substitute tax.

Question 1(iv):

New Zealand notes that a form of "prise en charge" may operate for certain products under certain conditions. This appears to be the case for bovine meat (if prices stray beyond the target price limits set); for fruit and vegetables covered by the "three phase system" (i.e. either quotas or an obligation to take over domestic production applies during Phase II); and for wine (a system of "compulsory take over" exists, which, it appears, has not been enforced). Please indicate whether requirements to take over these products have been enforced since 1966. If so, when and on what basis were imports controlled (i.e. proportion of imports to domestic production, and how was this established)?

Reply:

In the case of bovine meat, the general principle when domestic prices exceed target prices (range) is that import is open. When domestic producers cannot find buyers for their animals on the market, they may sell them to the Coopérative Suisse pour l'approvisionnement en détail de boucherie et en viande (Swiss Co-operative for supplies of slaughter animals and meat) at prices fixed by the latter ("prise en charge" price). When a market is subject to strong pressure, importers may be obliged to acquire domestic slaughter animals in a reasonable proportion to their imports of similar products.

With regard to the three phase system for imports of fruit and vegetables, we would emphasize that its application is subject to the supply and demand situation. If domestic supply is zero or quite insufficient, imports are unrestricted (1st phase), if before or after the main harvest supply is sufficient in part, a quota is set (2nd phase) and imports are prohibited during the period of the main harvest (3rd phase). There is no "prise en charge" in the three phase system.

As far as wine is concerned, Article 28 of the Wine Statute, which is based on the 1951 Agriculture Act, provides for an obligatory "prise en charge" for domestic wine: "If the market situation so warrants, the Federal Council or, on its instructions, the Department may order the "prise en charge" when the available volume of local wine (commercial stocks on 30 June and the year's harvest), taking into account an appropriate reserve, exceeds consumption requirements. In such cases, importers shall be required to acquire wine grapes, grape must or local wine of merchantable quality, in proportion to their imports of grape must falling within headings 2009.6011, 2204.3000 of the customs tariff and natural wine falling within headings 2204.2111/2119, 2911/2914. Notwithstanding, the share of each importer shall not exceed a total of 25 per cent of the average of such imports over the preceding two years for which the necessary data are available and for white wine 15 per cent of this average."

"Prise en charge" is decided upon and the quantities of wine grapes, grape must or wine to be acquired are fixed before the end of each year. Importers who trade exclusively in quality wines may be dispensed from the "prise en charge" of white wine upon payment of a discharge not exceeding Sw F 30.-/hl. of grape must or wine which they should ordinarily have acquired.

When the disposal of harvests from specific vine-growing regions is jeopardized within the meaning of Article 23 of the Agriculture Act, a "prise en charge" may be decreed even if the available volume referred to in the first paragraph is not reached.

When a "prise en charge" is decreed, import permits are issued on the condition that the importer acquires wine grapes, grape must and local wine under the conditions laid down in Article 30 or pays the discharge mentioned in the second paragraph.

If the conditions concerning the "prise en charge" are not fulfilled, the Department may block individual quotas for a specified period. It should be noted that the last time that a "prise en charge" was decreed for wine grapes, grape must or wine was in 1964, i.e. prior to Switzerland's accession to GATT.

Question 1(v):

New Zealand further understands that the "prise en charge" system has been expanded since Switzerland's accession to GATT (e.g. for sheepmeat). What products have been affected by such changes, and what was the legislative basis for expanding or amending the "prise en charge" system? To what products was the "prise en charge" system applied in 1958 and 1966?

Reply:

Products are subject to the "prise en charge" system pursuant to Article 23 of the Agriculture Act of 3 October 1951 and the General Ordinance on Agriculture of 21 December 1953. In the case of imports of sheepmeat, the latter were initially subject to quotas and the transition to a "prise en charge" system was carried out on 1 January 1967; this system makes the import régime more flexible to the benefit of the suppliers concerned.

Ratio between Domestic Production and Imports (Sheepmeat)
(in tons)

	<u>1987</u>	<u>1988</u>	<u>1989</u>
Imports	5,470	5,890	6,686
Production	4,093	4,398	4,110
Rate of self-sufficiency	42.80%	42.75%	38.07%

It should also be recalled that imports of sheepmeat exceeded 1,000 tons for the first time in 1964 with a total of 1,264 tons, which increased in 1966 to 2,417 tons and in 1989 to 6,686 tons.

In 1964, domestic production amounted to 2,278 tons, and increased to 2,435 tons in 1966 to reach 4,110 tons in 1989. Imports increased by 429 per cent from 1964 to 1989 while domestic production increased by 80 per cent during the same period.

The proportion of imports to domestic production in 1964 was 35 per cent to 65 per cent; in 1989, the share of imports was 62 per cent against 38 per cent for domestic production.

Question 1(vi):

The ratio of domestic products in relation to imports authorized for a number of items covered by the "prise en charge" system has altered in the years since Switzerland's accession (e.g. for eggs, WMP and sheepmeat). For products affected by the system, how has the ratio of domestic production/imports evolved since 1966? On what basis is the proportion set

(e.g. self-sufficiency levels, price trends), and what is the legislative basis for proportions to be altered? Who is responsible for decisions to change ratios? In cases where the proportion of domestic production to be taken over has increased, how does Switzerland reconcile this with the terms of its accession protocol; in particular the requirement to cause "minimum harm" to the interests of contracting parties, and to provide a "steadily expanding market for exports of agricultural products"?

Reply:

With regard to eggs, the import of eggs in shell is subject to the obligation to acquire domestic eggs in a proportion of 40 per cent in relation to average imports in the past two years. The rate of self-sufficiency for eggs and egg products is approximately 50 per cent and has not increased significantly since the 1960s.

In accordance with this rate, imports of eggs increased in 1987 and 1988 and then fell in 1989 when demand was affected by health problems (salmonella).

1987	33,233 tons
1988	32,432 tons
1989	29,920 tons

As far as whole milk powder is concerned, authorization to import is subject to the obligation to acquire a proportion of domestic products in relation to the quantities imported. This proportion amounts to four parts of domestic products for one part of imported products.

We consider that the "prise en charge" system has advantages, as can be seen in the trend in imports of sheepmeat (c.f. Question 1(v)).

Question 1(vii):

Switzerland has argued that the "prise en charge" system provides better opportunities for imports. How can this be reconciled with the fact that, in the case of sheepmeat, where consumption has increased significantly, imports have at best remained stable?

Reply:

See the reply to Question 1(v).

Question 2(i)(a):

New Zealand notes that Switzerland's overall level of food self-sufficiency has been increasing steadily since the 1950s (48.7 per cent in 1956 to 66 per cent in 1989).

- (a) Could Switzerland please supply details of self-sufficiency levels for the products covered by paragraph 4 of the Protocol, since 1966. While information on imports has been provided in annual reports,

information on domestic production trends in like products has been sporadic and incomplete. Could the information on self-sufficiency levels be supplemented by details of domestic production for the products concerned, for the decade since 1980.

Reply:

This question goes beyond the Working Party's terms of reference. Documentation on the review of Swiss trade policy contains further details on this matter.

Question 2(i)(b):

Switzerland has introduced production controls for a number of products in recent years (e.g. for dairy products, meat, beetroot, rape, tobacco, wine, [eggs, poultry and fruit]). What explanation can Switzerland give for the need to introduce such controls? This suggests to New Zealand that more than minimum harm is being caused to the interests of contracting parties, since the same policy objectives could be achieved at reduced levels of support and protection: current high levels are clearly stimulating over-production.

- How effective have production controls been on the products for which they have been introduced? We note that, for dairy products, production has tended to increase, despite the introduction of controls in 1977, and their progressive tightening since.
- How has Switzerland justified further increases to support prices for products subject to production control (e.g. milk, base price raised to Sw F 1.07 per kg. in 1989), since such increases insulate farmers from market signals and have a dampening effect on consumption (and hence imports).

Reply

Switzerland applies production control measures in various forms on the following products:

- milk;
- bovine meat and pigmeat;
- sugar;
- rape;
- soya beans;
- tobacco;
- wine;
- eggs;
- poultry.

These measures were introduced because of the constant rise in productivity in recent years and the need to act at the production level in order to avoid being faced with situations of over-production.

Switzerland considers that limitation of production is more effective than price reduction for restoring market equilibrium, and that it contributes to ensuring minimum harm to the interests of other countries.

Clearly, the effectiveness of production controls largely depends on the degree of severity of the measure concerned. In the case of milk for example, one may see from the figures below that the quota restriction on milk has had a stabilizing effect on production notwithstanding the increase in productivity.

<u>Year</u>	<u>Milk production</u> ('000 tons)	<u>Milk marketed</u> ('000 tons)
1984	3,875	3,169
1985	3,867	3,076
1986	3,867	3,088
1987	3,783	2,986
1988	3,797	3,040
1989	3,911	3,116

Question 2(ii):

New Zealand notes with concern that, despite the understanding on which the terms of Switzerland's Accession Protocol were based, imports of products covered by paragraph 4 have tended to decrease overall since 1966, while any increases in import levels have been moderate at best. Decreases have been particularly apparent for grains, bovine meat, dairy products and apples. What steps is Switzerland prepared to take to reverse this trend and allow for increased market access opportunities?

Reply

Looking at the trend in agricultural imports as a whole, one can see stabilization in general and in some case a reduction that can be explained by temporary weather conditions or by changes in utilization or consumption:

	<u>1987</u>	<u>1989</u>	<u>In %</u>
Bread wheat	209,333	181,664	-13.2
Flour	28	23	-17.9
Feed grains and feeding stuffs	688,467	469,919	-31.7
Cereal seeds	4,935	2,806	-43.1
Breeding and dairy cattle (head)	3,425	5,143	+50.2
Cattle for slaughter (head)	5,587	5,428	-2.8
Meat and animal fats	21,331	21,769	+2.1
Meat preparations and preserves	6,988	7,333	+4.9
Fresh butter	11,525	3,088	-73.2
Whole milk powder	2,620	3,132	+19.5
Acid casein	177	81	-45.8
Eggs	33,233	29,920	-10.0
Fresh vegetables	160,405	151,019	-5.9

	<u>1987</u>	<u>1989</u>	<u>In %</u>
Food potatoes	5,020	4,986	-0.7
Potato products	437	349	-20.1
Seed potatoes	1,024	5,958	+481.8
Small onions for planting	16	34	+211.5
Apples and pears	11,981	10,247	-14.5
Stone fruit	17,933	14,480	-19.3
Fresh berries	16,800	22,671	+34.9
Apples and pears for cider and perry	42	125	+197.6
Pectin	374	405	+8.3
Fresh flowers	3,862	4,179	+8.2
Wine in cases (hl.)	1,474,000	1,513,000	+2.6
White wine in bottles	41,000	50,000	+22.0
Grape juice	50,000	82,000	+64.0
Ethyl alcohol	217,551	259,206	+19.1

Question 3(3):

Cattle and meat: - L/6101 notes herd ceilings should be reached by 1992. Since the ceiling is established in terms of a maximum number of animals per farm, what is meant by this comment? What proportion of farms is likely to reach or exceed the herd ceilings? Is the 1992 "target" date still accurate? What effect has the denial of cow shed building permits since 1980 had on beef production?

Reply

The Ordinance fixing ceilings for the production of meat and eggs, which entered into force on 15 September 1981, determines the maximum herd authorized for a farm.

Under one provision of that Ordinance, however, farmers whose animal numbers exceed the authorized herd ceiling are allowed a legal transitional period expiring on 31 December 1991 to bring down those numbers either to the authorized herd ceiling or to the levels set in a special authorization.

In all, 464 farms were affected by the Ordinance when it entered into force. At the end of September 1990, in Switzerland as a whole there were still 177 farms in excess of the authorized herd ceiling and which must therefore bring their animal numbers it down to the authorized level by 31 December 1991.

The measures establishing ceilings for the production of meat and eggs and the introduction of a permit system for farm buildings has had an effect at the level of production in the pig meat and poultry sectors. At the level of bovine meat, their effect is certainly less appreciable but these measures have nevertheless had an inhibiting effect on production.

Question 3(ii):

Dairy products: Switzerland has reported that its policy is to encourage cheese production rather than butter, and that imports of butter "are to be encouraged". Nevertheless, cheese production has decreased; butter production has continued to increase, and imports have fallen dramatically. To what does Switzerland attribute this failure to meet stated policy objectives?

The report of the Working Party conducting the first triennial review of Switzerland's Protocol of Accession noted the existence of agreements with Denmark and the EEC concerning minimum shares of the Swiss market for butter imports (45 per cent for the former, 20 per cent for the latter). Are these agreements, or others like them, still in existence? If so, have the percentage shares involved changed? How can such agreements be reconciled with the provisions of Article XIII?

Reply:

We feel it appropriate to recall that in 1977 Switzerland introduced milk production quotas that have stabilized production. As already mentioned, there has been a temporary increase in domestic butter production, since markets for cheese exports are limited and domestic consumption, already at a high level, is increasing only relatively slowly; one may also note that cheese imports (not subject to quota) are rising steadily. As regards butter, I would draw your attention to document L/6802, page 14, which allows a more detailed analysis of the flow of butter imports into Switzerland.

As may be seen from the table below, Switzerland's cheese production has not declined in recent years, but has remained stable or even progressed slightly.

<u>Year</u>	<u>Total cheese production</u> (100 tons)
1984	1,295
1985	1,264
1986	1,309
1987	1,279
1988	1,301
1989	1,330

The valorization of milk in Switzerland is characterized by a predominance of cheese manufacture and by butter production that is relatively low in comparison with other countries.

In order to valorize the volume of milk marketed at the least possible cost for the dairy balance sheet, a milk/cheese/butter plan has been in operation for some years. Sales of fresh dairy products (liquid milk, cream, yoghurt) are actively encouraged, since these products can be sold at prices covering production costs without charge to the dairy balance sheet.

Cheese manufacture comes before butter production. Indeed, it is more advantageous to export our cheese specialities and cover the shortfall in our butter supply by imports.

While butter production has indeed increased in recent years, this is due to the fact that consumption of low-fat products is rising in Switzerland so that a larger quantity of butter remains available.

The decline in butter imports is attributable to (1) the increase in Swiss production of this product and (2) the decline in consumption.

Question 3 (iii):

Fruit: L/6101 refers to measures "designed to stabilize production and attenuate year-to-year fluctuations". What are these measures, and how successful have they been?

Reply

Fruit cultivation has been the subject of structural transformations in recent years: progressive elimination of traditional or unfavourably situated orchards; establishment of modern orchards (intensive cultivation in the most suitable regions). During the period 1970 to 1980, the share of field-scale orchards diminished by 26 per cent and this trend has continued in the last decade. Since the federal fruit-tree census is currently under way, it is not possible to give precise figures concerning this decline.

Question 3(iv):

Fresh flowers: Reports provided by Switzerland give details of imports for the period under quotas (1 May-25 October). What have total imports of fresh flowers been for the years covered by this review? What quantities are covered by basic as opposed to supplementary quotas? What are the requirements for marketing of domestic flowers that determine eligibility for supplementary quotas? Given that import levels are now well above those specified in remaining bilateral quotas, what is the justification for their continuation? Are quotas allocated in a fully global manner?

Reply:

The quantities of fresh flowers imported from 1 May to 25 October are reported in document L/6802. The quantities of fresh flowers imported free of quota between 26 October and 30 April have been as follows: for 1987, 7,374 tons; for 1988, 8,034 tons; and for 1989, 7,935 tons.

During the quota period, the amounts that may be imported are determined in such a way that, having regard to the supply of domestic flowers, supplies for the domestic market are assured. As the supply varies considerably, import quotas are fixed from month to month. A distinction is made domestically between basic quotas and supplementary

quotas: basic quotas are allocated to the various importers on the basis of their share in total imports during a reference period (previous year) whereas supplementary quotas are allocated to them on the basis of their participation in the marketing of domestic flowers. In this way it is easier to cope with any excess supply of the domestic product and therefore to be more generous in according basic quotas. In determining the amount that may be imported, the authorities generally follow the views expressed by a committee of experts consisting of representatives of the import, wholesale and retail trade as well as of producers. This committee meets regularly about the middle of each month, when it decides upon quotas for the following months as well as possible supplementary quotas for the current month. Months during which large amounts are imported (May, June) are generally divided into two parts and quotas fixed for each part so as to ensure that the amount allocated is not used up during the first days of the month. Quotas valid throughout the quota period (1 May to 25 October) may be fixed for small florists who import small quantities.

Country quotas, which are allocated in the light of bilateral agreements establishing minimum quantities, are not of major importance. In parallel with rising sales of cut flowers in Switzerland, imports have expanded considerably. Consequently imports have risen well above the levels specified in bilateral agreements so that actual imports now considerably exceed the amounts laid down in trade agreements. For this reason, cut flower import quotas have, since 1980, in fact been allocated in a global manner. This simplified administrative procedure appears to have proved its worth, but of course the authorities see to it that the bilateral commitments taken on by Switzerland are not affected thereby. Should this happen during the quota period, the authorities would allocate import quotas by country. At present there are contractual quotas in two cases. For the Community, the seasonal quota is 700 tons, having been raised to that level from 650 tons on 1 March 1986, to take account of Spain's entry into the Community; prior to that date, a quota of 50 tons was allocated to Spain. During the past three years, imports during the summer period have fluctuated around 4,000 tons, reaching 4,179 tons in 1989. For Colombia, the seasonal quota is 45 tons of carnations. Imports of these flowers from Colombia during the summer period have fluctuated between 167 and 247 tons over the past three years.

Imports from developing countries during the quota period have followed the general trend; it should be noted that a portion of the exports of developing countries is handled through the Netherlands. Purchased at Netherlands flower exchanges by Swiss importers, these products - although initially originating in developing countries - appear in statistics as Netherlands exports.

Question 3(v):

Wine: What measures is Switzerland taking to reduce and eliminate the quantitative restrictions on white wine in bottles, applied as an emergency safeguard measure under Article XIX since 1975?

What plans does Switzerland have to globalize further bilateral quotas which continue to exist for both red wine and white wine in casks? What proportion of supplementary quotas has been made available to new suppliers in recent years? What bilateral agreements has Switzerland entered into or extended since its accession? In reviewing import details for wine provided in Switzerland's annual reports, it is apparent that virtually no new suppliers have entered the market (with the exception of such traditional wine-producing countries as Korea and Canada). Given that Switzerland's wine trade has historically been dominated by bilateral contracts with established importing networks what are the opportunities in fact for new suppliers to develop wine exports?

Reply

As regards imports of white wine in bottles, the emergency measure taken under Article XIX in 1975 has been notified as a quantitative restriction since 1976, as indicated in our submission in document L/6101, page 29. Imports of white wine in bottles increased from 7,410 tons in 1987 to 9,168 tons in 1989. As regards the question concerning quotas, see the reply made to Australia.