

The price of market protection

Switzerland's reputation as the land of protected market sectors, subsidies and cartels goes back a long way. During a tour of Europe in 1912, Lenin noted: "Peasant dairy cartels are best of all organised in Switzerland – and the price of milk is the highest of all ... the power of these cartels being greatest of all. The general consumers' association finds its hands completely bound in [the] face of the price policy of the producers' cartel."

By Lynne Constable | This perception of the country is hard to erase, especially among expats, many of whom believe they live in one of the most expensive countries on earth. But is it a fair assessment? According to an AC Nielsen Euro-Barometer study conducted in 2005, yes it is. The survey showed Switzerland is one of the most expensive countries in Europe, after Norway, Denmark and Finland, with particularly high prices for food, including meat, cooking oil, fish and vegetables.

The Swiss economy is well integrated with the rest of the world; it has an open trade regime for industrial products, and tariffs on manufactured goods are generally low. But a number of sectors suffer from informal barriers that can be attributed to a history of weak anti-cartel legislation, technical regulations, investment restrictions and intellectual property legislation.

As the International Monetary Fund (IMF) noted in 2004, protected market sectors and poorly performing domestic markets hinder economic growth, and also keep prices and operating costs high in the economy as a whole.

Farm and food subsidies

The cost of food – particularly meat – and lack of choice in the supermarket are perhaps the first impressions a newcomer

gains of Switzerland. However, it is hard to overestimate the importance of agriculture in Swiss life: even though it plays a relatively small part in the economy, its role is enshrined in the country's constitution. It exists not only to produce food, but also to preserve the countryside and ensure very rural regions remain inhabited.

Swiss farmers are among the most highly protected and subsidised groups of producers in the world – some receive support equivalent to almost 70 per cent of the value of production. High import

tariffs – ranging from 28.6 per cent to 36 per cent – plus the extensive subsidies, encourage domestic production. Currently, the country produces about 65 per cent of its food requirements.

Without any import tariffs, the price of food would settle to that of the cheapest provider, which would in most cases be outside Switzerland and thus more costly in food miles. Tariffs raise the price of food, and Swiss domestic production has only to be cheaper than these artificially raised prices.



Swiss meat prices can sometimes cause sticker shock ... even during sales

The high cost of domestic production is reinforced by the lack of competition in the protected and low-risk food retail market. The two main supermarket chains are underpinned by widespread brand recognition, an essentially own-label product range, an extensive store network and a similar pricing policy. The lack of choice on the shelves is particularly noticeable to expats, most of whom are used to 20 different brands of BBQ sauce or anything else they wish to purchase.

These two supermarket giants dominate the Swiss retail industry with 30 per cent market share. For the food and drinks sector alone, this jumps to nearly 70 per cent. However, the recent entry of German discounters Aldi and Lidl into Switzerland could eat into Migros and Coop's market share over the next few years.

Trade/import barriers

Import regulations are a contributing factor to high prices. Branded products are almost always more expensive in Switzerland because of the law that forbids parallel imports. A parallel import is a non-counterfeit product imported from another country without the permission of the intellectual property right owner. Parallel importers normally buy products in one country at a lower price than which they are sold in a second country.

Companies set different price points for their products in different markets, and a product can be brought into Switzerland only by the importer appointed by the foreign producer or its own division. Thus, there is no room for price negotiation – as no alternative source exists from which to buy.

Some companies don't abuse this situation and keep prices broadly at the same level, although they still have an advantage due to the lower VAT in Switzerland. However, some manufacturers view Swiss consumers as fair game and raise their prices accordingly. Bans on parallel imports are in force most notably for pharmaceutical products, electronic equipment, kitchen appliances, machinery and vehicles.

Relief on the horizon

However, reform of some trade barriers is in sight. The Swiss government has approved a plan to abolish trade barriers for products licensed in European Union countries – the so-called *Cassis de Dijon* rule where goods produced in an EU



“ The Swiss are used to high-quality products and they don't mind paying for the privilege. ”

– Lynne Constable

Farming in Switzerland is more than food production; it's also about preserving the countryside and maintaining population levels in rural areas

country can be sold in any other EU state. Products approved in the EU will be put into circulation in Switzerland without any restrictions or additional conditions, resulting in possible savings of more than SFr 2 billion a year, according to the State Secretariat for Economic Affairs (Seco).

Currently, only 48 per cent of goods imported from the EU face no technical hurdles – if the government's plan is implemented, that share will increase to more than 80 per cent. The products affected include cosmetics, textiles, clothing, some foodstuffs and furniture. However, a group of Swiss farmers is reported to be mounting a referendum fight against the ruling, thus delaying its implementation, on the grounds that it could threaten their livelihood. They have until October to get the required number of signatures for a referendum.

Swiss farmers will face even more difficulties, though, with the implementation in 2011 of a new agricultural policy,

and bilateral agricultural and food trade agreements with the EU. The key element of the agricultural policy, called AP2011, is a major reorganisation of farm funding: most export subsidies will be abolished and domestic market subsidies will be redirected and reduced by up to 50 per cent.

In addition, the EU's plan to end all dairy quotas and tariff restrictions by 2014 will transform the milk market. Switzerland has until then to get its pricing aligned to that of the EU, when the trade barriers will fall for base dairy products such as milk, butter and cream. Until then, farmers will be protected from imports from neighbouring countries.

The Swiss government claims that opening up the EU dairy market will result in lower production costs for Swiss farmers and the processing industry, lower food prices for consumers and a long-term rise in GDP of 0.5 per cent or SFr 2 billion a year.



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Cosmetics, and a number of other products, could get cheaper if the government succeeds in abolishing some EU trade barriers

Buyer behaviour and the competition

A number of different factors account for Switzerland's high prices. According to a study by the University of St. Gallen in 2004, the reason food costs are relatively high is because the lack of competition results in retail profit margins up to 400 per cent higher than in the EU. The low efficiency of domestic agricultural production and high service costs also contribute, and low volume markets and high wage levels increase the costs of production. Where competition is stifled through cartel or law, prices – and profits – are high; but in highly competitive sectors, such as electronics, prices are more reasonable.

Swiss consumers also behave in a different way to those in other markets; they are driven by quality and are not so price sensitive as consumers in other parts of Europe. This lack of price consciousness and strong support for local markets makes it difficult for foreign firms to penetrate the Swiss market. French supermarket chain Carrefour found its expansion plans hampered by market restrictions and a failure to adapt to Swiss consumer demands. It ended its presence in the country in 2007.

The high degree of cartelisation in some industries, such as insurance and telecoms, has been reduced to some extent by the revised Cartel Act, which took effect in 2004. It gave the Competition Commission greater powers to fine companies found guilty of rigging prices and blocking competition.

However, cantonal politics can also affect prices. For example, electricity pro-

duction may be competitive, but local public monopolies dominate transmission and distribution. Several cantons have attempted to prevent other providers from serving their areas, but those efforts were ruled illegal under the Cartel Law. As a result, local companies have tried to bypass the federal court ruling through cantonal legislative changes or “agreements” with large customers.

The cost of quality

Switzerland is undeniably expensive in some industry sectors. But, it shouldn't be forgotten the country also has one of the highest standards of living in the world and the high prices of which expats complain are based on high salaries.

According to a comparative study of 71 cities conducted by UBS in 2006, Zurich, Basel and Geneva are among those cities with the highest gross pay, for all types of professions. The survey showed it takes less time for workers in Switzerland to earn enough to buy a loaf of bread and a hamburger than it does in many other countries.

The Swiss are used to high-quality products and they don't mind paying for the privilege. Swiss farmers must uphold strict environmental standards and given the small scale of most farms, costs are relatively high, making it difficult to compete with cheaper imports from abroad. There is also the view that if you live here and benefit from a higher salary compared with the United States or the EU, you should support the local economy by consuming locally.

However, given the small size of the

country, access to foreign markets is also essential for the economy. In addition, bringing prices into line with neighbouring countries will not only strengthen Switzerland as a business location, but also cut costs.



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The EU plans to end dairy quotas by 2014