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U.S. Bovine Semen Exports Grow with Removal of Trade Barrier

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Report Highlights:

With the removal in January 2014 of a 5 CHF duty per straw, U.S. bovine genetic exports to Switzerland have been on the rise. Though the total value of exports is still relatively low, U.S. bovine genetics are capturing a larger share of the market with significant potential for further growth. Nevertheless, barriers to greater export growth continue as Swiss suppliers seek to limit competition from quality imports.

General Information:

Trade Barrier Removed

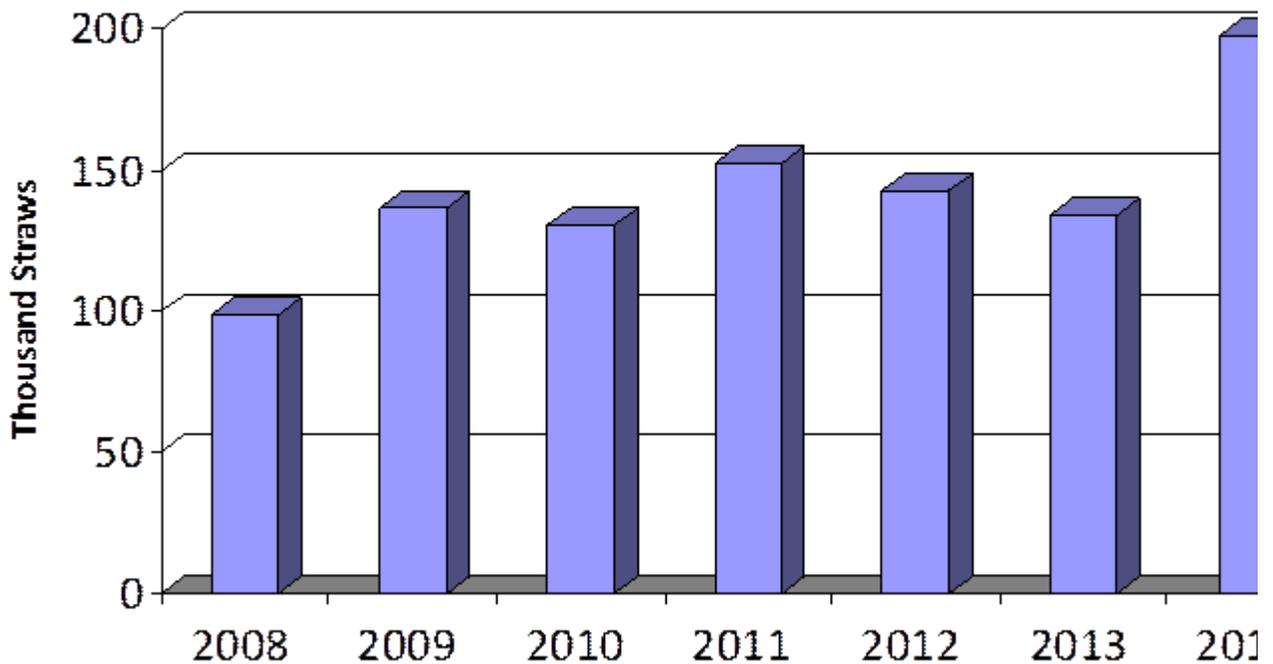
Switzerland maintains a tariff rate quota (TRQ) on the importation of bovine semen. The in-quota tariff rate is 0.10 CHF and out-of-quota rate is 5 CHF per unit (about \$5 dollars). Switzerland's administration of this tariff rate quota discriminated against imports by limiting access to the lower in-quota duty rate to establishments (production centers) that produced in Switzerland and could prove that their sales were at least 50 percent from domestic origin. Consequently, U.S. subsidiary companies, which imported and distributed bovine semen from the United States, were required to pay the higher 5 CHF per unit duty compared to their Swiss competitors. The 5 CHF duty was significantly restrictive given that straws of semen typically range from 10 to 15 CHF.

Post worked with a Swiss subsidiary and distributor of U.S. livestock genetics and with the U.S. Ambassador in Bern to urge the Swiss government to revise this tariff quota administration. Post also addressed this with Swiss officials in Geneva since the measure was believed to be WTO inconsistent on grounds of national treatment. The result of these efforts was that the Swiss government removed the 5 CHF per unit duty in January 2014.

Exports Hit a Record in 2014

Unencumbered by the duty, U.S. bovine semen exports (primarily dairy breeds) climbed to a record value in 2014. In fact, 2014 exports at \$2.5 million were 60 percent greater than the previous record. The volume of exports also experienced strong growth increasing nearly 50 percent from 2013 to reach 197,745 straws. Though not a record, volume exports were the highest since 2005

U.S. Bovine Semen Exports to Switzerland



In 2014, the U.S. surpassed France to become the top supplier to Switzerland. Furthermore, at 33 percent, the U.S. value share in 2014 was the largest in several years and up from 25 percent in 2013. France, Italy, and Germany are the primary U.S. competitors in the Swiss market.

While Switzerland remains a relatively small market for U.S. bovine genetics, it jumped to be the 12th largest market ^[1] in 2014, up from the 17th largest the previous year. Full-year data is not available for 2015 but Post expects the value of Swiss imports from all sources to be down more than 30 percent and volume to fall more than 20 percent. Therefore, U.S. exports will finish down as well but U.S. market share on a value basis is forecast to increase.

The general fall in demand in 2015 was due in part to lower milk prices across Europe with the end of EU milk quotas which combined with dry conditions across Switzerland this past summer to

pressure producers' margins. Furthermore, the market for dairy breed bull and steer calves fell as some producers impregnating their dairy cows with beef breeds in hopes of getting a better price for beef/dairy cross bull calves. Greater use of sexed semen also reduced demand. Swiss imports are expected to rebound somewhat in 2016 but regardless the United States should remain the top supplier.

The strong growth in exports is likely even greater than indicated in official export figures due to underreporting of U.S. bovine genetics arriving in Switzerland. Traders indicate that U.S. shipments are increasingly imported by other European countries and then shipped to Switzerland. Bovine genetic companies often keep all their European stock in one country and then slowly ship small batches out to satellite distribution centers throughout the continent. Therefore, U.S. exports to the UK, for example, may end up several months later in Switzerland. Export figures appear to confirm this trend. For example, exports to Switzerland from France, Germany, and the UK all increased in 2014 at the same time that U.S. exports to these European markets grew substantially. Though it is not possible to precisely quantify, distributors of U.S. bovine genetics in Switzerland report that 50 percent or more of their U.S. imports come through EU countries.

Swiss Dairy Industry Pushes Quality Semen Demand

Switzerland is estimated to have roughly 600,000 pedigree cattle including both dairy and beef breeds. Genetic imports are primarily of dairy breeds led by traditional Holstein as well as Red and White Holstein. While Brown Swiss is a major dairy breed, little semen is imported by producers.

Dairies tend to be quite small in Switzerland and are highly dependent on government support and protection from dairy product imports. Due to the small size of dairies combined with high milk and product prices, producers tend to seek top quality genetics to maximize profits. Therefore, total demand for dairy genetic imports is on the rise with more than 500,000 semen straws imported in 2014 at a record \$7.8 million.

Despite Remaining Obstacles, The U.S. Export Outlook is Bright

While the removal of the 5 CHF duty has been a major boost to U.S. exports, some hurdles in Switzerland remain. Domestic breed federations receive significant levels of government funding (estimated at 23 million CHF) to promote use of their bulls. Additionally, Swiss breed associations charge 8.0 CHF for registration of bulls from the United States while domestic bulls are only charged 3 CHF.

A recent document obtained by Post from the Swiss Holstein Breed Association indicates that the Association began, on December 7, 2015, charging a new fee

of 3,800 CHF (1 CHF = \$1 USD) for the registration and breeding index calculation of non-domestic

Holstein bulls. The previous fee was roughly 150 CHF and domestic bulls continue to pay this lower fee. Importers report that a domestic semen supplier that uses an imported bull does not have to pay the higher fee that is charged to a foreign supplier that sources non-Swiss bulls. Given the level of subsidization and oversight of Swiss breed associations by the Swiss government, such charges directed only at imported genetics are of concern. Furthermore, Swissgenetics, which is supported by the Swiss government and is the largest domestic semen supplier, pays only the lower 150 CHF fee. With the advent of genomic breeding, the number of bulls that need registration has increased dramatically in recent years and thus the differential fees provide a very large benefit to Swiss companies.

Despite these hurdles, growing demand for high quality dairy genetics should continue to push Swiss dairy producers to U.S. supplies. Though it will be difficult to track the actual level of exports, double digit growth in U.S. shipments is possible in the coming years due to the quality of U.S. Holstein genetics and growing demand for this breed from dairies.

^[1]The European Union is counted as a single market