Report

1 The foreign economic strategy in the context of the financial, economic and debt crisis

In its foreign economic strategy set out in 2004, the Federal Council already emphasised the increasing significance of services and investments, the geographical shift from transatlantic to transpacific and south-south trade, the rising number of free trade agreements (FTAs) owing to the stalled WTO negotiations, and political resistance in Switzerland to wide-ranging reforms aimed at liberalizing the Swiss domestic market.

Developments since 2004 have been greatly influenced by the still unresolved financial, economic and debt crisis that started in 2008. Although the crisis has not fundamentally changed the world, a number of trends have become more marked. Recessions, in particular in the industrialized countries, together with the big rise in debt in the USA and some EU member states, have been accompanied by a stronger than expected shift in trade flows to the emerging market countries. Although recourse to trade protectionism has been kept within bounds compared with the 1930s, protectionist tendencies increased globally in the wake of the crisis. However, global trade recovered faster from its collapse at the start of the crisis than originally expected. Rising demand for imports by developing countries helped significantly. At the same time, the multilateral negotiations of the Doha Round ground to a halt. This in turn boosted the conclusion of FTAs. Since 2010, the Swiss franc has appreciated massively as a result of rising public-sector debt, especially in the euro zone, and the accompanying nervousness on the international financial markets. The Swiss National Bank, the Federal Council and the Swiss parliament have introduced specific measures in response to these challenges. Diversifying and expanding foreign trade should also help overcome the difficulties caused by the strong franc. Isolating the Swiss economy is not in Switzerland's interests. In this report, the Federal Council states how it wishes to formulate its foreign economic strategy, which continues to reflect the basic strategy laid down in 2004.

1.1 Swiss foreign trade: current situation

1.1.1 The current environment for Swiss companies

The Swiss economy has made a rapid recovery from recession following the onset of the financial and economic crisis of 2008 and 2009. Low inflation, low interest rates and healthy state finances, together with the rationalization programmes carried out by companies in recent years, and in particular the increase in world trade, created the conditions not only for strong domestic demand but also for a recovery in the export sector.

However, the start of the debt crisis in euro zone countries in 2010 changed the background situation for the Swiss economy once again. Fears that the Greek debt crisis would spread to other, at worst also major EU countries led to a global flight to safe havens, such as gold, real estate, the Swiss franc and – to a lesser extent – the currencies of Japan, Australia, New Zealand and certain emerging countries. As a result, the Swiss franc became strongly overvalued compared with the actual economic situation. Furthermore, since the second half of 2011 the Swiss economy has had to face a marked downturn in global economic demand. This has put particular pressure on three key sectors of the Swiss economy: industry, tourism and the financial sector.

Under the terms of its mandate, the Swiss National Bank took steps to curb the strength of the franc in the late summer of 2011, when it increased liquidity on the Swiss franc money market and set a minimum exchange rate of 1.20 Swiss francs to the euro. In autumn 2011 the Swiss parliament approved a package of measures worth 870 million Swiss francs to fight the consequences of the strength of the franc.

It is to be assumed nevertheless that the Swiss economy will have to live with a strong franc in the long term. Switzerland can cope with this trend only if it continues to maintain its strengths, including fiscal stability, an excellent educational system, world-class research and technology, low taxes and favourable framework conditions for companies. As an open economy it must also ensure that its companies have access to world markets.

The aim must still be to promote Switzerland as a location for industry and research and strive for full employment at all educational levels in order to strengthen small and medium-sized enterprises and safeguard social cohesion.

The implementation of the country’s foreign economic strategy plays its part in consolidating the competitive position of the Swiss economy and of Switzerland as a business location. The strategy seeks to support companies, retain international market share and if possible gain new market share. At the same time it aims to create favourable framework conditions to ensure that consumers can choose from a broader range of offers at lower prices. The bilateral relations that Switzerland maintains with the EU are an essential component of foreign economic policy and of the strategy for implementing it.

An open economy is, however, also exposed to external shocks, as the financial, economic and debt crisis and the strong appreciation of the Swiss franc have shown. Foreign economic policy must therefore also help diversify sales markets geographically in order to increase the Swiss economy's resistance to external shocks.

1.1.2 Sector policies have an impact on Swiss foreign trade

Foreign economic policy cannot be viewed and implemented in isolation. Numerous other policies are closely interlinked with it. Examples include monetary policy, as well as the policies on public finances, the regulation of the financial market, competition, energy, education, promoting Switzerland as a business location, agriculture, national and international environmental and social issues, migration and transport. Despite the great significance of all these policy areas for foreign trade, the main feature topic of this report is restricted to foreign economic policy in the narrower sense.

1.1.3 The foreign economic strategy and its implementation

The Federal Council sets out its foreign economic strategy, as defined in 2004 and expanded in 2008 and 2009 by the addition of sections on «Natural resources in foreign economic policy» and «Sustainability in foreign economic policy», in three strands:

- Access to foreign markets and the international regulatory framework;
- Internal market policy in Switzerland;
- Contribution to the economic development in partner countries.

Since 2004 Switzerland has sought to improve *access to foreign markets*, especially within the framework of the WTO Doha Round as well as by concluding FTAs. However, so far it has not proved possible to bring the Doha negotiations to a conclusion. On the other hand, against the backdrop of the financial and economic crisis of 2008 and 2009, Switzerland successfully supported the creation of a WTO monitoring mechanism for new trade restrictive measures. Since 2004 Switzerland has concluded additional FTAs (with Japan, Korea, Canada, the South African Customs Union [SACU], the Gulf Cooperation Council, Egypt, Colombia, Peru, Albania, Serbia, Ukraine, Hong Kong and Montenegro). Negotiations have been started with Algeria, Bosnia and Herzegovina, China, India, Indonesia, Thailand and the Russia–Belarus–Kazakhstan Customs Union (see section 4). Export promotion instruments (Osec, the Swiss Export Risk Insurance Agency SERV) are giving companies extra support in entering these new markets (see section 9.1).

The foreign economic strategy set out in 2004 stated that in terms of *internal market policy* Switzerland was not yet benefiting fully from the international division of labour since several sectors (e.g. agriculture and healthcare) were noticeably isolated from international competition and achieved below-average productivity in comparison with other countries. Efforts were therefore made to introduce internal reforms and open up Switzerland to foreign competition in order to reduce the cost level, a process that was pursued alongside the growth policy agendas in 2004–2007 and 2008–2011. Where foreign trade is concerned, the internal reforms comprised in particular the revision of the Federal Act on Technical Barriers to Trade (THG; SR *946.51*) – including the introduction of the *Cassis de Dijon* principle – as well as the ratification of the agreement with the EU on the free movement of persons (SR *0.142.112.681*) and the extension of this agreement to new EU member states. Since the 1990s reforms have also been introduced in agriculture (including largely decoupling direct payments from production – a step which improved market access to the EU in particular).

In terms of *contributing to the economic development in partner countries*, the Federal Council's main priority is to integrate the developing countries more closely into the global economy and promote sustainable economic growth in those countries. Promoting trade and the private sector, strengthening economic and financial policy, expanding urban infrastructure and utilities, as well as taking steps to prevent climate change, protect the environment and achieve food security should all contribute to reducing poverty and inequality over the long term and to an efficient use of resources in the partner countries. Economic development cooperation focuses on more advanced developing countries that are committed to a serious and effective reform process. One example of how economic development cooperation has been expanded and implemented since 2004 is the Aid for Trade Initiative launched in 2005 at the WTO Ministerial Conference in Hong Kong, which saw Switzerland increase its support for the promotion of sustainable trade. New priorities have also been set in terms of debt management and modernization of the tax systems in partner countries.

1.1.4 Challenges facing Switzerland

Internal challenges

At national level, the biggest challenge is to *increase acceptance of reforms and openess* and to implement the corresponding measures. Certain measures included in the growth policy for 2008–2011 could not be implemented in the way the Federal Council had envisaged. For instance, according to the full revision of the legislation on postal services passed by parliament, the existing state-owned supplier will retain a remaining part of its monopoly. The reform of value added tax will not see the introduction of a single rate, with the associated administrative savings. Efforts are being made to reverse at least partially measures that have already been passed (the *Cassis de Dijon* principle, the abolition of agricultural export subsidies, the free movement of persons), at least in some cases. From the point of view of the Federal Council, however, all these reforms are important for reviving the Swiss economy.

Moving *agricultural production towards products that can be marketed internationally* is vital if a productive agricultural sector is to be sustained over the medium to long term (see section 1.2.2 Agriculture).

The Federal Council also regards it as important to *reduce costs in Switzerland*, since this would not only have a direct impact on consumers and companies, but also indirectly on the nation's general competitiveness by means of its effect on prices and salaries. In the healthcare sector, not only premium growth suggests a need for cost-cutting, but also the trend towards opening up healthcare markets in the EU. The division of powers between the Confederation, the cantons and the municipalities can make it difficult to tackle high costs effectively (e.g. planning and building legislation). Switzerland's federal structure also presents considerable challenges in terms of successfully *positioning Switzerland as an internationally competitive business location*. It is true that Switzerland is one of the most attractive locations for companies. However, the international competition between business locations is becoming fiercer all the time. This places an increasing burden on the government and the cantons (as well as towns and municipalities), since they advertise Switzerland as a business location abroad and play a key role in helping foreign companies establish themselves.

Other challenges include *implementing climate policy objectives* at reasonable cost, linked with increased ressource efficiency, as well as *expanding* the infrastructure and *linking* Switzerland to international transport systems. Finally, demographic change means that in Switzerland today, more people are leaving the labour market than there are young people qualified to replace them. In the years to come, Switzerland must expect weaker growth in the number of citizens of working age (see section 1.2.2 Labour mobility).

External challenges

The increase in cross-border value chains and supply chains means that more and more companies are becoming involved in the *international division of labour* relating to global production and services. In contrast to the increasing integration of the markets for goods and services and the capital markets, however, individual countries are still regulating their economies with reference to their national territories.

External shocks that cannot be avoided by individual countries present an ever-increasing challenge. The massive appreciation of the Swiss franc since 2010 demonstrates the vulnerability of the Swiss economy. The financial and economic crisis of 2008 and 2009 also had a global impact by increasing the trend towards protectionism in terms of trade and fiscal policy.

Growing shortages of natural resources caused by the *increase in the global population and changing consumer behaviour* mean that in future the question of resources will be even more important than it is today. The problem of resources is being accentuated by climate change, overuse of non-renewable resources and ecosystems, the finite nature of fossil fuels and growing awareness of the insufficiently recognized true cost of nuclear energy. As a country poor in natural resources, Switzerland faces particular challenges in this respect.

In the *industrialized countries with growing financial problems*, rising government debt goes hand-in-hand with an ageing population and the ensuing need for major reform of social welfare funding. New sources of revenue are being sought to bridge the funding gaps, further fuelling demands for a higher tax base – not only internally but also from other countries. As a country with a balanced State budget, a big current account surplus and a comparatively low level of government debt, Switzerland is also coming under increasing pressure in this respect.

The economic problems in the industrialized countries, particularly since the latest financial and economic crisis, contrast with the *confident attitude of the larger emerging countries in particular*. The latter are increasingly positioning themselves as foreign investors, while certain of the developing countries are establishing themselves as alternative investment locations. Some of these countries will be able to close the gap on the industrialized countries, while the south-south divide is set to widen. In future it will be even more difficult to negotiate liberal trade regulations in the multilateral global trading system. There will be increased calls from the emerging countries for a more open provision of services by natural persons and more liberal agricultural markets.

In the *multipolar world order*, the USA and the EU are losing influence, while the emerging markets have not yet shown themselves sufficiently ready to lead the way in achieving multilateral solutions. This background situation is the reason why the WTO Doha Round and the international climate change talks are currently not making progress. Global governance is not firmly established. The absence of international leadership is accompanied by a lack of willingness to finance global public goods (e.g. the environment, climate protection, stable financial markets, health). At the same time, the individual countries are losing on their ability to influence.

Switzerland is a country that is highly dependent on foreign trade, and as such it is *reliant on barrier-free, predictable framework conditions with its major trading partners as far as possible*. The primary focus is on the EU. However, our relations with the USA and the emerging markets are also important. The EU is making improved access to its markets dependent on institutional and tax questions. The high level of border protection that is currently a feature of Swiss agricultural policy are making it more difficult to strenghten relations with the USA, Brazil and other big exporters of agricultural goods.

1.2 The focus of the foreign economic strategy

1.2.1 Strengthening Switzerland’s economic position in the world

The Federal Council is strengthening Switzerland’s economic position in the world in four ways: by *strengthening the international regulatory framework for foreign trade, integrating Switzerland in the most important international forums, boosting the bilateral approach to the EU,* Switzerland's main trading partner, and *expanding the network of bilateral agreements with countries outside the EU.*

Strengthening the international regulatory framework for foreign trade

A strong international regulatory framework for foreign trade depends on a strong WTO and a multilateral trading system able to exploit synergies with other international organizations in order to achieve a sustainable global economy. In the main feature topic of the 2009 Foreign Economic Policy Report (BB1 *2010* 479), the Federal Council stressed, among other matters, the need to strengthen the coherence between the activities of international organizations with a focus on, or interface with, economic and trade policy, such as the WTO, multilateral environmental agreements (MEAs), the ILO, IMF, World Bank and OECD.

As the legal and institutional foundation of the multilateral trading system, the WTO is the sole international organization that governs cross-border trade relations at global level. Since two-thirds of all countries have no bilateral trade agreements with each other, even though their companies are directly or indirectly linked within supply chains, the WTO regulatory framework and the WTO as a forum for multilateral market access negotiations remain indispensable. This applies in particular to Switzerland and numerous other medium-sized trading partners. For many developing countries that are not sufficiently attractive as partners for FTAs, the current Doha Round represents the only negotiating opportunity for improving market access. These countries would be clear losers if the Doha Round collapsed. Despite the current difficulties being experienced by the Doha Round, it is nevertheless important to preserve the progress that has already been achieved in the negotiations. This applies in particular to the negotiations on rules for trade facilitation. From Switzerland’s perspective it is desirable that WTO rules should apply to the largest possible number of countries and that WTO membership should therefore be extended to other countries (see section 2.1).

As regards the environment, there are over 200 MEAs in existence. These cover global themes (e.g. climate, biodiversity) that directly affect many policy areas, and particularly also the economy. With regard to social policy, the ILO enjoys a high degree of legitimacy thanks to the tripartite composition of its membership (governments, employers’ organizations and workers’ organizations). Compared with the WTO, however, the ILO and the MEAs have only restricted mechanisms for implementing their rules. At global level, Switzerland is committed to international solutions to cross-border environmental problems and to coherence between trade and the environment (without defining a hierarchy between the environmental system and the trading system). In the ILO, Switzerland is particularly committed to concluding agreements with the widest possible scope[1] and to strengthening the regulatory system (see section 2.5). It also endeavours to embed its commitment to sustainable development in its FTAs.

Other standards and principles that directly or indirectly affect the economy are negotiated within the framework of the UN system in a number of different areas (development, environment, and to a limited extent the macroeconomy etc.). Voluntary guidelines have grown in significance. The «Voluntary Guidelines on the Right to Food» produced by the Food and Agriculture Organization (FAO) is one such example. Furthermore, guidelines for companies on employment law and human rights, sustainability and fighting corruption are being drafted with the support of Switzerland.

The IMF and the World Bank group make an important contribution to ensuring global economic and financial stability. The IMF scrutinizes financial and monetary policy and the implementation of international standards in the member countries. It publishes studies, offers advice and can give emergency financial support to crisis-hit countries. The World Bank is the biggest multilateral development aid agency in the world. It pays special attention to the economic, social and ecological challenges facing developing countries, from the perspective of long-term development. The World Bank works closely with the African, Asian and Inter-American Development Banks, the European Bank for Reconstruction and Development and other multilateral institutions to solve structural problems in developing countries and to take steps to combat poverty and crises (environmental, energy and food crises; see section 6).

Membership of the OECD is also important to Switzerland. One reason for the significance of this organization is that it provides a forum in which not just industrialized countries, but also developing countries and, in particular, emerging markets can participate in a dialogue on economic and development policy. Switzerland supports the OECD’s analytical and normative activities in a number of areas in particular. These include the impact of crises on the labour market, preventing protectionism in investment and the financial sector, defining and complying with the rules to establish a level playing field when exchanging information on tax matters, and strengthening competition and innovation in order to achieve sustainable growth (see section 2.2). In so doing, Switzerland is careful to ensure that the OECD’s recommendations also take into account the development efforts of the developing and emerging countries.

The Federal Council wants:

– the largest possible number of countries to become members of the WTO, provided that they are willing to commit to the accession-related obligations;
– the WTO to be strengthened, so that it is again an effective forum for further market liberalization, so that the rules on combating protectionist practices are tightened and adapted to current needs (e.g. in relation to investment,

[1] Both in terms of the number of employees they cover and their ratification by the required number of member states.

competition and the relationship between trade and environment law), and so that closer cooperation between the WTO and the ILO is achieved;

– WTO members to fulfil their obligations by implementing national measures in a transparent way; this also requires Switzerland to continue to enact and implement domestic legislation in conformity with WTO obligations.

Integrating Switzerland into formal and informal international forums

Switzerland's relative status in international organizations is declining as the significance of the emerging markets and numerous developing countries increases. The Federal Council is therefore intensifying its efforts to integrate or associate Switzerland with the decision-making structures of the most important bodies. Switzerland cannot rest content merely with membership of international organizations. It is important for Switzerland to make its voice heard in their governing bodies, too. For example, in future it must continue to be appropriately represented on the executive boards of the IMF and the World Bank as well as the regional development banks, while in the WTO it should continue to take its place not just in formal negotiations, but also in smaller informal groups where it can participate in making decisions.

At the same time it is important to fight for seats in important forums in which Switzerland is not yet represented. In many cases it is not possible for Switzerland to participate in such forums as a full member, for geographical or political reasons (e.g. G20 or APEC). However, this does not preclude a closer relationship with them.

The G20 is one of the most important forums for international economic cooperation. It has taken a leading role in the discussions on how to achieve global economic and financial stability. Switzerland endeavours to bring its economic and financial interests to bear by means of close bilateral relations with the G20 members as regards the regulation of the financial sector, fiscal policy, fighting corruption, international development cooperation, and issues related to world trade and employment (see section 2.6). Switzerland ensures that the international organizations, mandated by the G20, guarantee transparency as regards the granting of mandates, the providing of analyses and the measuring of budgetary impacts. Furthermore, it strives to work actively within these organizations so as to have an indirect influence on the G20.

The Federal Council intends to integrate Switzerland into formal and informal interregional forums for dialogue, such as the Asia-Europe Meeting (ASEM), whose membership is growing (as well as the EU and ASEAN countries it also includes Australia, New Zealand and Russia).

The Federal Council wants:

– Switzerland to be recognized internationally as a supportive, solutions-oriented and consistent partner, whose participation in the governance structures of the international community brings clear added value.

Maintaining and boosting the bilateral approach to the EU

Consolidating and expanding trade relations with the EU, which is by far our biggest trading partner (6 % of Swiss exports go to the EU and 8 % of imports come from it), is of great importance to Switzerland and its economy. The EU single market may lose some of its economic momentum in the short term because of the ongoing euro crisis, but many parts of this economic area are still numbered among the most competitive in the world.

It is the Federal Council's belief that the bilateral approach continues to be the best way of protecting Swiss interests in relation to the EU. Both Switzerland and the EU benefit from the bilateral agreements. The Federal Council regards it as important that the ongoing and planned negotiations between Switzerland and the EU on agriculture, food safety, product safety and public health (FHAL&GesA), market access for chemical products (REACH) and energy within the framework of the coordinated, global approach enacted by the Federal Council on 26 January 2011 should be completed within a reasonable time. In addition, the advanced talks regarding closer cooperation between the competition authorities should be brought to a conclusion as quickly as possible. The negotiations on linking the emissions trading systems (ETS) of Switzerland and the EU also serve the objective of removing barriers to market access and providing a level playing field for Swiss companies. The same is true of the negotiations regarding Switzerland's participation in the European satellite navigation system (GNSS/Galileo) and non-discriminatory access to the GNSS procurement market for goods and services.

For the agreements with the EU to continue to function properly, it would be useful to clarify certain institutional aspects. These aspects, which include the interpretation of the agreements, monitoring their implementation, adjusting them to further developments in EU legislation, and settling disputes, are currently the subject of clarifications and intensive discussions. The aim is to find solutions that take proper account of the efficient functioning of the constitutional institutions and processes and the sovereignty of the contracting parties (see section 3).

The Federal Council wants:

- to continue the policy of a bilateral approach to the EU;
- to settle the outstanding questions on the basis of a coordinated, global approach, which includes clarification of the institutional aspects;
- to conclude sector-specific market access agreements (e.g. FHAL&GesA, energy, REACH) and cooperation agreements (e.g. cooperation between competition authorities, Galileo, ETS).

Expanding the network of bilateral agreements with countries outside the EU

The Federal Council recognizes the positive impact that concluding all kinds of international economic agreements has on bilateral trade flows and direct investment. The foreign trade strategy therefore provides for Switzerland to conclude such agreements with countries with which it has not yet signed double taxation, investment protection or free trade agreements.

In particular, the Federal Council is expanding the existing network of FTAs. It seeks to ensure the creation of stable, barrier-free and non-discriminatory access to foreign markets for Swiss economic players compared with their main rivals. Agreements with China, India, Russia, Brazil, Indonesia and South Africa are being given priority. Although Switzerland already has a FTA in place with South Africa under the terms of the agreement with the South African Customs Union (SACU)[2], such agreements are still being negotiated with China, India, Russia (in conjunction

2 South Africa, Botswana, Lesotho, Namibia and Swaziland.

with its customs union partners Belarus and Kazakhstan) and Indonesia. The Federal Council wishes to bring these negotiations to a successful conclusion as quickly as possible. FTAs are also expected to be negotiated with countries such as Thailand, Vietnam, Malaysia, Algeria and the Philippines as well as with the Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). In addition, the possibility of concluding FTAs with Brazil and the other Mercosur countries (Argentina, Uruguay and Paraguay) as well as Australia is to be examined. In this respect, however, the creation of appropriate conditions in terms of agricultural policy will play an important role. Efforts are being made to strengthen economic relations with the USA within the framework of the existing Trade and Investment Cooperation Forum. Finally, the existing FTAs (including the associated bilateral agricultural agreements) are to be kept updated and expanded as required (see section 4).

In addition to the FTAs, Switzerland seeks to complete its network of investment protection and double taxation agreements and to revise existing agreements wherever necessary and possible (see section 1.2.2 Movement of capital and capital investment).

It is also important to nurture the Federal Council's dense network of contacts abroad, so that Switzerland can safeguard its interests internationally in an optimal way at governmental level.

The Federal Council wants:

- to bring the ongoing FTA negotiations with China, India, Indonesia, Algeria and the members of the Russia–Belarus–Kazakhstan Custom Union to a successful conclusion as soon as possible;
- to expand the FTA network in Asia (Thailand, Vietnam, Malaysia, Philippines) and Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama);
- to create the conditions in terms of agricultural policy to enable FTAs to be concluded equally with trading partners that have strong agricultural sectors;
- to update and expand existing FTAs as required;
- to foster bilateral relations with Switzerland's most important economic partners, both formally and informally.

1.2.2 Strengthening market access and competitiveness in the goods, services and factor markets

Economic players rely on open markets and strong competitive ability if they are to cope with the global market. Competitiveness has both price-related and non-price-related (e.g. functionality, quality and presentation) components. Non-price-related elements can make up for insufficient price competitiveness. In the export sector, revenues in euros or US dollars fell by about 20 % in 2011, while costs are usually generated in Swiss francs. This means that price competitiveness has deteriorated significantly. The strength of the Swiss franc makes both cost cutting and increased innovation necessary. It is not only exporters that have been hit by the strong franc, but suppliers too. The measures passed by parliament in autumn 2011 to combat the negative impact of the strong franc act on both fronts: purchasing advantages arising from the strong currency must increasingly be passed on to end-customers in order to reduce the cost of inputs and the cost of maintaining the existing standard of living. At the same time, Switzerland's export performance as a centre of industry and tourism must be strengthened by means of additional support for education, research and innovation.

Furthermore, the Federal Council attaches great importance to reducing administrative obstacles. In collaboration with the cantons, the Swiss government is promoting a reduction in bureaucracy by simplifying licensing, application and registration processes through its e-government strategy, which aims to make administrative procedures cheaper and more user-friendly thanks to the use of computer technology.

Moreover, the Federal Council supports the Swiss export sector through its official export promotion schemes (Osec, the Swiss Export Risk Insurance Agency SERV). One demand currently being made by exporters asks for a relaxation of SERV's 50 % rule, under which shipments can usually only be insured if the proportion of Swiss added value accounts for at least 50 % of their value. Amending this rule will require changes to the law, which can be considered during the 2011–2015 legislative term.

In order to strengthen competition, the Federal Council welcomes plans under the revision of antitrust law to ban horizontal price, volume and area agreements, as well as vertical price maintenance and area restrictions, unless the companies concerned can prove that these considerations are outweighed by the efficiency benefits. Finally, the Federal Council continues to stand by its growth policy. In this connection it will pursue the following objectives in the coming years: increasing financial stability while safeguarding the attractiveness of the financial centre, curbing premium growth and exploiting export potential for healthcare, ensuring a reliable, affordable and value-for-money infrastructure, using resources more efficiently and implementing climate policy objectives at reasonable cost, and developing mechanisms for the long-term funding of social welfare. In addition to these goals, efforts are being made to strengthen access to international markets and improve competitiveness in the goods (agricultural and industrial), services and factor markets. The protection of intellectual property and public-sector procurement are particularly relevant to foreign trade.

Agricultural goods

Swiss agriculture produces goods mainly for the domestic market and as a supplier to the food and catering industry. One major exception is cheese production, a third of which is exported. Switzerland also has offensive agricultural interests abroad in processed agricultural products and meat preparations. In addition, it has an interest in clear rules on non-tariff issues in order to combat the improper application of sanitary and phytosanitary measures in the export markets.

Since the beginning of the 1990s, Swiss agriculture has been following a path to ecological reform. Economically, agriculture is highly dependent on transfer payments and a high level of border protection. However, at the multilateral and bilateral level, Switzerland faces growing demands from powerful agricultural exporters for greater market liberalization. Border protection, which is among the most stringent in the world, cannot be kept at today's levels in the long term. This, together with attempts to combat Switzerland's status as an «island» of high prices, means that greater efforts must be made to achieve reforms. These reforms will also be necessary if Switzerland is to retain a viable, productive agricultural sector in the medium and long term. Negotiations with the EU on FHAL&GesA (see section 1.21) seek to achieve full mutual market access for agricultural products and foodstuffs. The aim is to reduce not only tariff but also non-tariff trade barriers, thus ensuring new promising markets for the productive Swiss agriculture sector. Transition periods should give Swiss agriculture sufficient time to become more competitive. In order to facilitate the associated adjustments and lessen the immediate impact of the required structural changes, the Federal Council proposes to provide for temporary supporting measures.

The conclusion of the FHAL&GesA negotiations is also of great importance to the food industry, since the difference in commodity prices between Switzerland and other countries would not be sufficiently reduced without this agreement. At the same time it cannot be assumed that the price compensation mechanism can simply continue to operate as before in relation to the export of processed agricultural products. This is partly because the conclusion of the WTO Doha Round will include a ban on export subsidies, and these subsidies would become actionable also in case of a failure of the Doha Round. The prospect of a market access agreement with the EU in the area of agriculture and food, which would also cover processed agricultural products, could safeguard the long-term competitiveness of the Swiss processing industry. In any case, maintaining the attractiveness of Switzerland as a business location and the competitiveness of the food industry calls for agricultural policies that permit Swiss agricultural commodities to be procured on competitive conditions. The «Swissness» model also aims to achieve this objective (see section entitled «Intellectual property»).

Concluding FTAs is becoming increasingly difficult because of the present limited potential for concessions on agriculture. In order to be able to bring free trade negotiations to a successful conclusion in the future, it will be necessary to reach a balance of interests with the negotiating partners, both within individual sectors and overall, when dealing with market access commitments. Nevertheless, this should not involve Switzerland simply buying foreign concessions in return for agricultural commitments. However, Switzerland needs greater room for manoeuvre in the agricultural sector if it wants to conclude FTAs with agricultural exporters. This necessitates the corresponding reforms of Swiss agricultural policy, which must in turn be taken into account when drafting future agricultural policies. In the medium term, Swiss agriculture must be put in a position to supply the domestic market with high quality products at competitive prices and to improve its competitiveness on foreign markets without the current high level of border protection.

The Federal Council wants:

- no reversals of the reform measures already decided (e.g. negotiating FTA with the EU in the areas of agriculture and food, *Cassis de Dijon* principle embodied in the law on technical barriers to trade [THG]);
- to take greater account of the need to increase international competitiveness and adjust to the challenges presented by foreign trade policy (e.g. in relation to FTAs and agricultural commodities for the processing industry) when drafting Swiss agricultural policy.

Industrial goods

Switzerland has hardly any border protection restricting the flow of industrial goods. To a high degree, therefore, these are exposed to international competition.

One of industry's main concerns is non-discriminatory access to the EU market as far as possible. For this reason, Switzerland's technical requirements for industrial goods largely comply with those laid down by the EU. The agreement on the mutual recognition of conformity assessments (SR *0.946.526.81*) facilitates market access in the EU for Swiss industrial products that require certificates of testing before they can be marketed. In order to further open up market access with the EU, the Federal Council is negotiating an energy agreement and is seeking to achieve an agreement on REACH (see section 1.2.1).

Other costs associated with cross-border goods traffic also need to be reduced. For this purpose, the Federal Council is attempting to increase customs cooperation within the framework of the «Implementation of the e-government strategy» in the form of a direct link-up between the import and export customs clearance systems of Switzerland and the EU member states. Switzerland is furthermore examining whether small shipments should undergo simplified customs clearance and the value added tax threshold be raised.

The level of border protection for industrial products is still high in the growth markets of China, India and Brazil, which is why the Federal Council is seeking to conclude FTAs with these countries (see section 1.2.1). Switzerland can act offensively in regard of reducing customs duties on industrial goods. However, in the case of many negotiating partners, balancing out the interests of the parties concerned increasingly requires further liberalisations in the agricultural trade (see section 1.2.1 entitled Agriculture).

Another factor that affects trade and is becoming increasingly significant is the need to protect the Swiss economy from the improper application of non-tariff barriers. These include import licences, over-complex customs and certification procedures, and a failure to base technical regulations on international standards. The growth in export restrictions imposed by commodity-exporting countries is also a problem for Swiss industry. Such restrictions affect not only prices, but also sourcing opportunities.

The Federal Council wants:

– to cut the cost of cross-border goods traffic, including by closer customs cooperation with the EU;
– the OECD and the WTO to work on binding rules to discipline export restrictions on commodities.

Services

Around 70 % of Swiss GDP is nowadays generated by the service sector. The retail sector, financial services (especially banks and insurance companies), business services and public administration each account for just over 10 % of the total. Personal and household services (ranging from hairdressers to cultural events), health and social services, and transport and communication each account for over 6 % of GDP. Education and training and the hospitality industry also make significant contributions.

From the domestic point of view, infrastructure plays a central role. In Switzerland, the cross-border liberalization of infrastructure started with telecommunications, followed by road and air transport. There is still untapped potential to liberalize several infrastructure sectors (e.g. liberalizing the electricity market through to the end customer, and the remaining postal monopoly).

In relation to the EU, several aspects of service delivery are being regulated in sector-specific agreements (private indemnity insurance, audiovisual services, air and road transport, public procurement, service provision under the agreement on the free movement of persons). Apart from these, the multilateral GATS commitments apply between the EU member states and Switzerland, as they do between all other WTO members. Negotiations regarding a comprehensive service agreement between the EU and Switzerland commenced in July 2002 and were suspended by mutual consent in the following year. Although a service agreement would increase legal certainty, open up new export markets in the EU and strengthen competition, in February 2010 the Federal Council decided, having given the proposal further consideration, to postpone resuming the negotiations because of the complexity of the issues connected with the service sector.

Particularly worthy of note is the development in the EU to regulate the financial markets more tightly and lay down detailed criteria regarding market access for certain suppliers of financial services from outside the EU. From a Swiss perspective, it has to be examined whether Switzerland should strive for improving market access on the basis of these new regulations.

By negotiating new FTAs and strengthening existing ones, the Federal Council seeks to improve market access and strengthen Switzerland's competitiveness as regards commerce in services, in parallel with the WTO (see section 1.2.1). The Federal Council gives priority to the following service sectors: financial services, logistics and transport services, tourism services, business services and distribution services. The Federal Council is also asking the granting of temporary residence permits for mechanical engineering specialists (installation/repair personnel) and the cross-border transfer of managers and specialists within multinational companies. In addition, the Federal Council is striving for transparent and non-discriminatory domestic service regulations (e.g. qualifications required, licences to practise, quality standards).

When negotiating FTAs, emerging countries in particular request preferential concessions in relation to services provided by their nationals in Switzerland. Switzerland already grants this opportunity to skilled and highly skilled workers, especially for management and specialist transfers. Other requests involve claims to rights such as temporary permits to enable less qualified staff to provide services, or for occupational categories outside the service sector. In order to be able to conclude FTAs with new partners in the future, the sector-specific preferential demands of the contracting partners must be examined, for instance requests for temporary permits to be issued to service providers in strictly defined categories.

The Federal Council wants:

– to explore the potential for market liberalization measures in service sectors that are less liberalized than in the EU;
– to check on a regular basis whether the necessary conditions have been met for a resumption of negotiations with the EU regarding a comprehensive

service agreement or an agreement relating to sub-sectors of service provision;

- to improve market access for Swiss firms in the service sector, with particular emphasis on financial services, logistics and transport services, tourism services, business services and distribution services;
- to consider requests made by negotiating partners in relation to FTA negotiations relating to the provision of services by natural persons.

Intellectual property

From the perspective of foreign trade, the main focus is on patent law, the protection of test data for pharmaceutical and agrochemical products, the protection of declarations of origin and the enforcement of intellectual property rights. The Federal Council is particularly keen to safeguard the competitiveness of products and services bearing the «Switzerland» trade mark, both in Switzerland and abroad.

As part of the revision of the trade mark act and the creation of a new law on the protected use of Swiss quality marks («coat of arms», or «Swissness» bill), more precise rules have been proposed in the area of trade mark protection, while the conditions under which a product or service may be labelled as «Swiss» will be defined. Moreover, under certain conditions geographical trade marks may be entered in the trade mark register and non-agricultural geographical indications (e.g. «Geneva» for watches or «St. Gallen» for embroidery) may be entered in a new, separate register. Both these measures are intended to allow companies to obtain official trade marks, which will make it easier to acquire and enforce protection in the future, particularly in non-EU countries.

In the EU countries, a well-organized system of legal protection for geographical indications already exists. For its protection, Switzerland has signed an agreement with the EU on the mutual recognition of protected designations of origin and geographical indications (see section 3.2). Switzerland is also concluding bilateral agreements with countries outside the EU regarding the protection of geographical indications and designations of origin, including with Russia, for example (see section 5.8).

Furthermore, the Federal Council wishes to safeguard and strengthen the protection of intellectual property by means of special provisions in FTAs. The emerging markets are the priority target group. Since some of these negotiating partners have reservations about negotiating the protection of intellectual property within the framework of FTAs, it is important to look carefully at the relevant concerns and interests of the partner country during the negotiations and to take its development status into consideration.

As well as negotiating protection agreements, in the course of its development cooperation activities Switzerland supports its partner countries in setting up patent offices and other authorities relevant to intellectual property and in expanding legal protection for geographical indications and the protection of traditional knowledge. It is the Federal Council's opinion that insufficient protection for intellectual property in developing countries can hinder their innovative capacity and the transfer of modern technologies.

The Federal Council wants:

- to implement the «Swissness» project;
- to incorporate appropriate and effective standards for the protection of intellectual property rights in FTAs and in separate agreements;
- to support partner countries in setting up and strengthening authorities and legal systems for the protection of intellectual property.

Public procurement

Liberalizing public procurement strengthens competition when awarding public-sector orders and optimizes the cost/benefit ratio when purchasing goods, services and construction services. The Federal Council aims to improve market access to public procurement abroad for Swiss suppliers.

At the WTO, Switzerland is working to extend, simplify and streamline the WTO Agreement on Government Procurement (GPA; SR *0.632.231.422*), with particular reference to fighting corruption, improving market access and removing exemptions that restrict access for foreign suppliers. Switzerland also seeks to extend GPA membership to China and India in particular, as well as to Australia, Brazil, Mexico, New Zealand and Turkey (see section 5.7).

Alongside the WTO negotiations, efforts are also being made to improve market access to public procurement within the framework of FTAs.

It was not possible to achieve the harmonization of Swiss procurement law originally proposed in the Federal Council's growth package for 2008–2011, insofar as it is covered by the GPA and the bilateral procurement agreement between Switzerland and the EU (see section 3.2). However, the Federal Council still intends to achieve this objective for reasons of transparency and procedural considerations. Negotiations over the revised GPA are expected to be concluded shortly, and implementing them is intended to bring about closer harmonization between the laws on public procurement passed by the Confederation and the cantons. The cantons are already collaborating on the expansion of the joint electronic procurement platform «*simap.ch*».

Public procurement is of great significance in connection with economic development cooperation. Within the World Bank group, Switzerland has made a commitment to applying transparent public procurement rules and implementing them effectively and efficiently in developing countries. The infrastructure projects supported by Switzerland in partner countries require public procurement capacities to be expanded. They are, therefore, an integral part of infrastructure development.

The Federal Council wants:

- to press ahead with harmonizing Swiss procurement law;
- as many countries as possible to sign up to the WTO's GPA;
- to agree provisions concerning public procurement on the basis of the revised GPA when negotiating FTAs.

Movement of capital and capital investment

Switzerland is particularly dependent on internationally open financial markets. Swiss companies make significant direct investments in other countries (at end

2010: USD 909 bn)[3]. This makes Switzerland the world's sixth biggest capital exporter. At the same time, Switzerland is an important location for capital investment from abroad (2010: USD 539 bn). However, even in Switzerland there are market access restrictions for foreign investors in certain sectors (e.g. telecoms, postal services, electricity). In terms of investment restrictions, Switzerland's ranking is towards the middle of the OECD countries[4].

The majority of foreign direct investment in Switzerland comes from the EU member states (84 % of the capital as at the end of 2009), while a significant proportion of Switzerland's direct investments go to the EU (4 % of the capital as at the end of 2009)[5]. Since Switzerland has no agreement with the EU on investment or the movement of capital, the OECD rules and (in the case of the service sector) the WTO's GATS form the legal basis for cross-border investments in relation to the EU.

The OECD attributes great importance to liberalizing the cross-border movement of capital and the non-discriminatory treatment of foreign investments, which is why it has designed plurilateral tools that form the regulatory framework for the OECD countries as regards international investment. The OECD monitors new government measures by its members that have a negative impact on freedom of investment. It thus helps Switzerland by playing a central role in fighting investment protectionism.

The existing plurilateral or multilateral instruments (OECD Codes, GATS) are not comprehensive, either geographically or at sector level. By concluding investment protection agreements (IPAs), Switzerland therefore attempts to close geographical and sector gaps as well as updating existing agreements. The Federal Council is also examining the possibility of including sustainability clauses in future IPAs, in order to ensure consistency with other international objectives (environment, development, labour standards etc.).

When the Lisbon Treaty came into force (1 December 2009), responsibility for IPAs was partially transferred from the EU member states to the EU. This transfer of powers could result in the need for Switzerland to check and if necessary renegotiate the existing IPAs that were concluded with ten EU member states[6] before their accession to the EU. Here, Switzerland's focus would be on safeguarding the existing level of investment protection. In the future, a question will be whether it is appropriate to conclude an IPA with the EU rather than with individual member states (see section 5.4).

Switzerland and all EU countries are also signatories to the Energy Charter Treaty, which provides comprehensive protection for investments in the energy sector.

As well as plurilateral and multilateral initiatives, Switzerland supports country-specific measures as part of its economic development cooperation activities. Programmes to support the private sector aim to improve the general investment climate in the partner countries.

3 UNCTAD, *World Investment Report 2011*.
4 OECD, *FDI Restrictiveness Index 2010*.
5 Swiss National Bank, *Direct Investment 2009*.
6 Bulgaria, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Czech Republic and Hungary.

The Federal Council wants:

– to complete and update the network of IPAs;
– to improve market access for Swiss investments abroad within the framework of FTAs;
– firmly to oppose investment protectionism through the OECD;
– partner countries to offer good framework conditions for the movement of capital and investments and continue to support them in these endeavours.

Labour mobility

Swiss companies are dependent on a sufficient number of well educated employees. The Federal Department of Economic Affairs has therefore commissioned a strategy to eliminate skills shortages. In this connection the willingness of workers to participate in lifelong learning and accept labour mobility is of key significance.

Fact is, that the Swiss labour market is also greatly dependent on foreign workers: 27 % of employees in Switzerland come from abroad. The policy on labour mobility in respect of foreign workers is based principally on the free movement of persons with the EU and EFTA countries, as well as issuing work permits to a restricted number of highly skilled people from countries outside the EU and EFTA. In recent years the number of workers from the EU and EFTA in particular has increased sharply, especially key personnel and managers taking up academic and technical posts. The free movement of persons does not simply mean that workers can migrate to Switzerland, but also that Swiss employees can move freely within Europe and that the 400 000 Swiss citizens living in the EU enjoy legal protection. Labour mobility, and especially the free movement of persons between Switzerland and the EU, has helped to reduce Switzerland's skills shortage in recent years. The free movement of persons thus makes a significant contribution to Switzerland's international competitiveness. If this agreement (and with it the six other agreements under Bilateral I; see section 3.2) were to be cancelled, the resulting isolation from our most important economic partner and the reduction in labour mobility would seriously jeopardize Switzerland's prosperity and jobs. It is therefore very much in Switzerland's economic interests to ensure the stable continuance of this agreement and to extend it successively and in a controlled manner to new EU member states (Croatia is expected to join in 2013).

Switzerland conducts regular discussions with the EU and its member states (especially neighbouring countries) on how the agreement should be applied. The talks focus on the implementation of the accompanying measures and how to coordinate the social security systems as well as the recognition of formal qualifications. The accompanying measures are intended to prevent the free movement of persons from having a negative impact on salaries and working conditions in Switzerland in order to protect current salary levels and working conditions in our country and combat abuses. These measures protect Swiss employees as well as workers arriving in Switzerland from abroad.

The dual system for granting work permits (priority for persons from the EU and EFTA) has proved helpful for the recruitment of qualified workers. Demand for qualified workers from non-EU and non-EFTA countries can be covered by means of controlled recruitment from third countries. The condition for such recruitment is the existence of an interests serving the wider economy.

Rising international competition in the recruitment of highly skilled workers means that Switzerland's status as an attractive place to work must be maintained. Policy and practice relating to the granting of work permits to highly skilled specialists and managers from third countries must therefore be reviewed regularly with reference to economic factors and migration policy.

The Federal Council wants:

– to strengthen Switzerland as a location for industry and research;

– to maintain the free movement of persons agreement with the EU without renegotiating it and to extend it successively to new EU member states in a controlled manner;

– to ensure the effectiveness of the accompanying measures.

1.3 Conclusion

By implementing its foreign economic strategy, the Federal Council is opening up foreign markets for exporters and investors and promoting competition on the domestic goods, services and factor markets. The productivity and international competitiveness of Swiss companies are thus increased and costs can be reduced. This type of open policy is the only way a country like Switzerland with a small domestic market can become and remain a location for companies that create high added value and jobs. The foreign economic policy also promotes stable, enforceable rules for international economic activity and the integration of developing and transitional countries into the global economy.

It has become more difficult to conclude multilateral and bilateral trade agreements. In contrast to the increasing global integration of production and service provision, and increasing interdependencies, in many countries there is a trend towards less openess. The opportunities for Switzerland to exert an influence on international economic policy decisions are diminishing.

The competitiveness of the Swiss economy must therefore be maintained and improved, particularly by means of domestic reforms and autonomous liberalization measures: in other words, through measures to assist cost-cutting and increased productivity within Switzerland (growth policies, competition policies, agricultural policies, educational policies etc.). Such measures are also a prerequisite for continuing to improve access to foreign markets.