
The Foreign Economic Policy Report 2022

adopted by the Swiss Federal Council on 11 January 2023¹

Executive summary

The 2022 Foreign Economic Policy Report provides an overview of the key issues of Swiss foreign economic policy in the year under review and places them in the context of the 2021 Foreign Economic Policy Strategy. The Federal Council will report on the implementation of its policy objectives in its annual report.

In the year under review, the Swiss economy recovered as expected (section 1). However, global uncertainty continued to rise. There was also a worldwide surge in inflation. In addition to the ongoing lockdowns in China, the impact of Russia's military aggression against Ukraine has stalled the recovery in international trade since late February 2022. Moreover, countries are increasingly linking their economic and trade policies to security policy considerations. The trends towards greater protectionism and economic and political bloc-building continued to intensify.

The feature topic (section 2) this year looks at the impact of the war in Ukraine on the global economy, particularly on global production and supply chains. The war in Ukraine has affected trade flows, in particular for food and energy. The Swiss economy again demonstrated its resilience, with diversification of sources of supply a decisive factor. The Federal Council took targeted action to ensure the supply of essential goods, such as food and energy. For example, it temporarily reduced import duties on feed grain and reinforced electricity and gas supply.

With the abolition of industrial tariffs as decided by Parliament and the digitalisation of customs processes, optimal conditions are being created for the Swiss economy (section 3). Awards for major infrastructure projects abroad for Swiss economic actors were facilitated through close cooperation between the relevant federal bodies and the private sector. The success of this 'Team Switzerland' approach was already observed in the reporting period, as witnessed by greater involvement of Swiss companies in infrastructure projects abroad.

Retaining the bilateral path with Switzerland's most important trading partner – the EU – remains one of the Federal Council's top priorities (section 4). To this end, the government set out its approach for negotiations on 23 February 2022. Switzerland and the EU conducted exploratory talks to gauge elements for future negotiations. A common understanding on the Federal Council's package-based approach was reached. In conjunction with the Swiss contribution to selected EU Member States, the Federal Council approved a number of implementation agreements in the reporting period. The ongoing regulation of new areas in the EU internal market and industrial policy proposals also have an impact on Switzerland. The Federal Council closely monitored the developments and, among others, initiated a process to identify

¹ The Foreign Economic Policy Report 2022 is available in its entirety in German, French and Italian at: www.seco.admin.ch > Services & publications > Publications > Foreign trade > Foreign Economic Policy (as of 11.1.2023). This unofficial English translation includes the executive summary, the outlook and the feature topic.

possible courses of action in relation to the planned Carbon Border Adjustment Mechanism.

Geographic diversification plays an important role in the reliability of value chains and thus in the resilience of the Swiss economy. The Federal Council therefore deepened collaboration with economic partners in all regions, but particularly with Switzerland's priority economic partners (section 5). The ongoing negotiations for free trade agreements were continued. An investment protection agreement with Indonesia and an agreement with Germany on cooperation between competition authorities were also signed in the year under review. Negotiations with the United States on an agreement regarding the mutual recognition of good manufacturing practices for medicinal products were concluded.

Meanwhile, negotiations in multilateral organisations produced encouraging results (section 6). The 12th WTO Ministerial Conference played an important part in strengthening the multilateral trade system. A new multilateral agreement was reached for the first time since 2013 in the form of the Agreement on Fisheries Subsidies. Switzerland also worked to protect its interests in WTO dispute settlement proceedings. In its final report published in December 2022 on a procedure brought by Switzerland against duties imposed by the US on steel and aluminium imports, the dispute settlement panel ruled in Switzerland's favour. As well, for the first time since 1998, the International Labour Organization extended its fundamental principles and rights at work with the addition of the right to a safe and healthy working environment. Finally, following 15 rounds of negotiations in the space of two years, negotiations on the modernisation of the Energy Charter Treaty to protect investment in the energy sector were concluded. The treaty is yet to be adopted as not all parties had the necessary authority.

The Federal Council bolstered its commitment to sustainable trade (section 7). In addition to the aforementioned conclusion of a multilateral agreement on fisheries subsidies, the progress made in negotiations on a plurilateral agreement on climate change, trade and sustainability is particularly noteworthy. With regard to free trade agreements, the Federal Council adopted a report on ex-ante sustainability analyses. One of these analyses was initiated for the first time when negotiations were resumed with Thailand. Promoting social sustainability, Switzerland contributed financially to the International Labour Organization's new Productivity Ecosystems for Decent Work programme. The frameworks and standards for responsible business conduct were also very important to the Federal Council. It therefore supported the OECD processes on updating the Guidelines for Multinational Enterprises and Principles on Corporate Governance and produced guidance to heighten the awareness of Swiss businesses abroad about respecting human rights.

For the first time, this report contains a section on the digital economy, one of the areas of action set out in Switzerland's new Foreign Economic Policy Strategy (section 8). Switzerland actively participated in the multilateral WTO negotiations on e-commerce and presented a revised model chapter on e-commerce for bilateral free trade negotiations. Switzerland also conducted exploratory talks with the United States on a follow-up arrangement to the Privacy Shield in order to guarantee the smoothest possible flow of data between Switzerland and the US.

In the reporting period, Switzerland also supported emerging markets and developing countries that have been particularly affected by the COVID-19 crisis and the war in Ukraine (section 9). For example, Switzerland supported digitalisation projects to promote the integration of partner countries and their businesses in the global economy. As chair of its constituency at the Asian Infrastructure Investment Bank and the Green Climate Fund Switzerland could better influence the strategic orientation of both organisations.

Sanctions, export controls and arms control policy posed major challenges to Switzerland in the reporting period (section 10). In response to Russia's military aggression against Ukraine, Switzerland adopted almost all of the comprehensive sanctions package imposed by the EU on Russia.

Outlook

The geopolitical and global macroeconomic environment is likely to remain challenging in the year ahead. If the war in Ukraine continues, the energy supply situation will likely remain tense in the winter of 2023/24. The Federal Council will therefore monitor the situation and take further action if necessary to guarantee supply in the event of an impending shortage.

Against this backdrop, diversification of value chains is key to the resilience of the Swiss economy. The Federal Council will utilise the instruments of economic and trade diplomacy to promote open, frictionless and regulated trade. WTO reform, which the Federal Council will continue to support, plays a key role in this context at multilateral level. This reform includes the restoration of the dispute settlement process, negotiations on the outstanding topics on fisheries subsidies, the lessons learned from the COVID-19 pandemic, and the extension of the moratorium regarding customs duties on electronic transmissions. Likewise, the Federal Council will continue to support the resilience and diversification of the economies of developing and emerging countries within the framework of economic development cooperation.

In bilateral and plurilateral economic relations, concluding and modernising free trade agreements and investment protection agreements will remain key. The Federal Council will work to rapidly conclude the negotiations on free trade agreements with Kosovo, Malaysia, Mercosur and Thailand. To further develop relations with the United Kingdom, the Federal Council will continue talks on potential modernisation of the trade agreement and pursue negotiations on a financial services agreement.

Developing and strengthening bilateral relations with the EU is still a top priority for the Federal Council. But before Switzerland and the EU can start negotiations, an adequate common basis needs to be established. The exploratory talks are therefore to be continued.

A focus will also continue to be placed on two thematic areas set out in the Foreign Economic Policy Strategy – 'Contributing to environmental and social sustainability' and 'Integrating the digital economy'. The Federal Council will therefore support the continuation of plurilateral negotiations on the agreement on climate change, trade and sustainability within the framework of the WTO. An ex-ante sustainability analysis will be conducted for the first time in connection with the negotiations on a free

trade agreement with Thailand. To strengthen responsible business conduct, the Federal Council will work towards the adoption of the updated Guidelines for Multinational Enterprises within the OECD.

In the context of integration into the digital economy, the Federal Council will continue to work on developing international rules on e-commerce, both within the plurilateral WTO processes and in the context of free trade agreements and digital agreements.

The Federal Council considers it important to ensure a participatory foreign economic policy in pursuing these activities. There will be greater involvement of the stakeholders via various channels.

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1 Feature topic: Impact of the war in Ukraine on the global economy, particularly production and supply chains

The war in Ukraine has brought widespread upheaval in foreign trade. Just like during the COVID-19 crisis, businesses have had to increase the resilience of global production and supply chains. This section starts by taking a closer look at the direct economic implications of the war in Ukraine, before discussing the role of value chains and courses of action for governments to increase resilience. Finally, it summarises Switzerland's current measures in this regard.

1.1 Impact of the war in Ukraine on world trade and trade policy

1.1.1 Impact on trade flows and investment

As major exporters of energy, foodstuffs, animal feed and industrial raw materials, Russia and Ukraine are important to the global economy. For example, in 2019 the two countries together exported more than 25% of the world's wheat. Russia was the biggest exporter of natural gas, palladium, nickel and iron and steel products, and the second-biggest exporter of refined petroleum products in 2019. Meanwhile, Ukraine is the world's biggest exporter of sunflower oil, ahead of Russia.

The war in Ukraine has had a significant impact on international trade. On the one hand, production in Ukraine has been cut back and certain production sites have been destroyed, which has limited the global supply of certain basic foodstuffs. On the other, the war has led to logistical problems, due for example to ports no longer being accessible and airspace closures. Additionally, Western sanctions and Russia's own export restrictions have curbed the country's foreign trade in certain goods.

This has further exacerbated the supply chain problems that have existed since the pandemic. Before the war, many inputs for the construction, mechanical engineering, electrical and metal industries, among others, were imported from Russia and – to a lesser extent – Ukraine. The supply chain problems have hindered industry particularly in Europe, and this has had a knock-on effect on other businesses that are not directly affected. Over the course of the reporting year, important goods, such as cable harnesses, could in some cases be substituted, which slightly eased the pressure on supply chains.

Globally, the war has contributed to a surge in inflation, with energy prices in the first half of 2022 reaching levels not seen since before the financial crisis. The prices of food and of metals and minerals have also increased significantly in the course of the war. However, the price pressure on metals and minerals and on petroleum subsided as the year progressed, not least due to weakened demand from China and fears of a general economic slowdown. Global market prices of foodstuffs, particularly wheat, also fell slightly after the Black Sea Grain Initiative entered into force. The Initiative was signed by Russia and Ukraine and was brokered by Turkey and the United Nations on 22 July 2022. It is designed to allow Ukrainian grain, other foodstuffs and fertiliser to be exported by sea despite the war.

In 2021, some 25% of the EU's petroleum imports, 40% of its natural gas imports and 45% of its coal imports came from Russia.² The ban on seaborne imports of Russian crude oil came into effect in December 2022 as part of the EU's sanctions. The EU imports around 60% of its crude oil by sea from Russia. This is then transported via pipelines to a number of countries, including Germany, Poland, Hungary, Slovakia and the Czech Republic. As Germany and Poland already announced their intention to eschew oil via the pipeline, the embargo will probably *de facto* cover around 90% of crude oil imports from Russia. The embargo on petroleum products is set to come into effect in February 2023, following an import ban on Russian coal that was implemented on 10 August 2022. In addition, the EU, G7 member states and Australia introduced a price cap of 60 US dollars per barrel on Russian crude oil on 3 December 2022. The price cap will *de facto* come into force on 19 January 2023.

In principle, all of these energy sources can be readily substituted as they can be transported in different ways. However, longer transportation routes and bottlenecks in transport capacity could mean that energy prices will remain high. Substituting Russian gas is much more difficult, however, as specific infrastructure (pipelines, liquefied natural gas terminals) is required to transport natural gas. The reduced gas supply from Russia has been largely offset in Europe by increased imports from Norway, Azerbaijan and Algeria, and in the form of liquefied natural gas from countries such as Qatar and the United States, and through lower consumption. Nonetheless, additional measures were adopted to counter a gas shortage in the winter of 2022/23. At the beginning of July 2022, the EU Commission adapted Regulation 2017/1938³ on measures to safeguard the security of gas supply requiring that underground gas storage facilities be filled to at least 80% before the start of winter 2022/23 and to 90% prior to the following winters. The EU also set itself the goal of a 15% reduction in demand between August 2022 and April 2023 compared with the average gas consumption of the last five years. It also agreed a voluntary reduction target of 10% of electricity consumption by March 2023 and a mandatory reduction target of 5% at peak times. The situation eased slightly towards the end of the year as the natural gas storage facilities in Europe were filled more quickly than usual thanks to the mild autumn weather and efforts to reduce consumption. While a gas shortage cannot be ruled out in the event of a cold winter or a loss of imports, the high stock levels reduce the likelihood of this occurring. If the war in Ukraine continues, the energy supply situation is expected to remain tense in the winter of 2023/24. As, in contrast to 2022, hardly any Russian gas is expected to be stored, the winter of 2023/24 could be even more challenging.

It is too early to assess the extent to which the war in Ukraine will result in a permanent diversion of global trade flows. However, in the summer of 2022, exports of certain goods from Russia had already been diverted to other parts of the world. For example, more than a quarter of sea shipments of crude oil were destined for countries outside

² Eurostat (2022), International trade in goods – a statistical picture, EU imports of energy products – recent developments, accessible at: <https://ec.europa.eu/eurostat/> > Publications > Statistics Explained > all online publications > other statistical publications by theme (as of: 22.12.2022).

³ Regulation (EU) 2017/1938 of the European Parliament and of the Council of 25 October 2017 concerning measures to safeguard the security of gas supply and repealing Regulation (EU) No 994/2010.

the EU and G7 in June, and less than half for EU countries. At the beginning of the year, these figures were around 7% and 70% respectively.⁴ At the same time, the foreign trade figures for India, Turkey and China suggest increased goods imports from Russia. Nevertheless, it will probably not be possible for Russia to fully offset the missing trade with the EU. Other export goods such as natural gas cannot easily be compensated due to a lack of infrastructure.

Accordingly, trade between Russia and the EU countries has declined sharply since the beginning of the war. Even before this, Switzerland only imported Russian goods to a limited extent (0.46% of total goods imports in 2021). The imported energy of Russian origin, such as natural gas and crude oil, is usually procured from neighbouring countries, which is why trade between Russia and the EU is indirectly of significance to Switzerland. Four months after the start of the war, EU goods exports to Russia were down around 40% over the previous year. However, EU goods imports were over 40% above the prior-year level, which can largely be attributed to the surge in energy prices. Implementation of the embargo on crude oil is expected to bring about a significant decline in goods imports from Russia to the EU, and Russia will only partially be able to divert these crude oil supplies to other parts of the world.

Swiss goods exports to Russia have fallen less than those of EU countries since the start of the war. This is mainly due to the substantial trade in medicines and immunological products, which is not sanctioned and, on the whole, has only been minimally affected.

1.1.2 Impact on trade and investment policy

The sanctions imposed in connection with the war in Ukraine have fuelled the debate about the developments in global trade policy, in particular regarding a potential decoupling of certain economies from specific countries or regions. This debate, motivated by security considerations, was already gathering momentum with the escalation of measures and countermeasures by key trading nations (in particular the United States and China).

One of the justifications for these tendencies is the intention to reduce geopolitical risks as it is doubted that trade flows could be maintained in the event of a crisis. In this way, sudden restrictions in the import and export of strategically important goods and services or investments can be prevented. Many countries are therefore increasingly seeking to regionalise or reorganise their supply chains in favour of countries with which they have good relations. The resulting bloc-building entails high economic costs and impedes access to goods and services in other crises, such as pandemics and natural disasters. In the long-term, these tendencies may reduce the productivity and resilience of the global economy. This is particularly the case for

⁴ The International Energy Agency (IEA) also noted shifts in the destination of Russian oil exports in August 2022: IEA (2022): Oil Market Report – August 2022, accessible at: <https://www.iea.org/reports> (as of: 17.8.2022).

open economies with small domestic markets, such as Switzerland, which do not have close political ties to an economic bloc.⁵

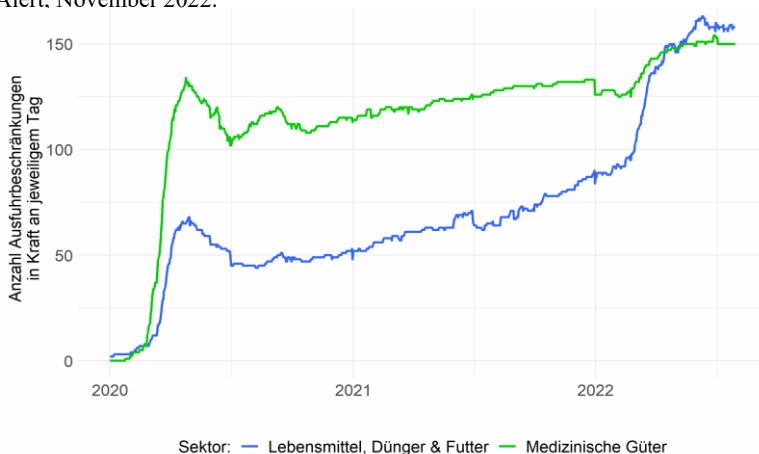
International trade policy

Many countries introduced extensive trade sanctions in response to Russia's military aggression against Ukraine. The US, EU and other countries also unilaterally decided to withdraw most-favoured nation status from Russia and Belarus under the WTO agreements. In addition, some countries – such as the EU members and the United Kingdom – introduced measures to facilitate trade with Ukraine.

Overall, the number of trade restrictions on certain essential goods, such as foodstuffs, fertiliser and feed, rose sharply (see figure 1). The same trend was observed at the beginning of the COVID-19 pandemic. These measures particularly affected poorer countries, which are less resilient when it comes to food security. They also increased the risk of a chain reaction of retaliatory measures. This also affects Switzerland's security of supply and the Swiss economy more broadly.

Governments are also expanding industrial policy provisions to reduce dependency on other countries for so-called strategic goods. The dangers of these tendencies for Switzerland's security of supply were examined in the report of 31 August 2022 on the Häberli-Koller motion.⁶

Figure 1: Number of export restrictions introduced globally since 2020 concerning food, fertiliser and feed (blue) and medical supplies (green). Source: Global Trade Alert, November 2022.



⁵ OECD (2021): *Fostering Economic Resilience in a World of Open and Integrated Markets: Risks, Vulnerabilities and Areas for Policy Actions*. Report prepared for the 2021 UK presidency of the G7, OECD Publishing.

⁶ Federal Council report of 31 Aug. 2022 on 'Essential goods – reducing economic dependencies', in response to motion 20.3268 Häberli-Koller dated 4 May 2020, available in German, French and Italian at: www.admin.ch > Documentation > Press releases (consulted on: 21.9.2022).

International investment policy

Trends similar to those in trade policy have been seen in international investments, with Western sanctions squeezing investment activity in Russia and amplifying the effects of the import substitution policy pursued by Russia for a number of years. The impact of sanction-based restrictions on local production capacities, the avoidance of reputational risks and the fears of potential further countermeasures from Russia, in particular a nationalisation law for companies from 'enemy states', is likely to accelerate this decline. At the same time, certain trends in international investment policy that have become evident since the outbreak of the war may continue or gain traction;⁷ even before the war, investment controls had already been introduced or tightened amid growing system competition between the West and China.

Within the framework of the OECD, Switzerland has been supporting Ukraine since the early 1990s with its efforts to reform and improve the investment environment. Ukraine underwent an energy investment policy review in 2021,⁸ which built on similar reviews conducted in 2011. The reports deal with topics such as infrastructure, taxation and business conduct. Ukraine demonstrated its commitment to implementing many necessary structural reforms. At the Ukraine Recovery Conference in early July 2022, Ukraine presented the current situation and its needs and investment opportunities for international organisations to high-ranking representatives of a number of states and the private sector in four selected areas: infrastructure, energy, IT and digitalisation, and manufacturing. The aim of the conference was to help initiate a rapid and efficient recovery in Ukraine.

1.1.3 Impact of the sanctions policy of Switzerland and its trading partners

In response to Russia's military aggression against Ukraine, Switzerland adopted the EU's comprehensive sanction package in the year under review. This included financial sanctions and export and import restrictions on certain goods and services.

Businesses operating in the sanctioned sectors have been heavily affected. On the whole, however, the impact of the adopted sanctions on Russia should be manageable for the Swiss economy. This also applies to Switzerland as a commodity trading centre. That being said, Russia's retaliatory measures, such as reducing natural gas supplies to Europe, have also affected gas and electricity prices in Switzerland.

The greatest potential impact of the sanctions on the Swiss economy is likely to come from the crude oil embargo. The Federal Council decided to adopt these sanctions on 10 June. As petroleum products can be procured on an integrated and fluid global market, alternative supply options were developed or exploited to a greater extent in

⁷ OECD & UNCTAD (2022): Twenty-Seventh Report on G20 Investment Measures, 4–5, accessible at: www.oecd.org > Topics > Investment > Monitoring investment and trade measures (as of: 17.8.2022).

⁸ OECD (2021): OECD Energy Investment Review of Ukraine, accessible at: www.oecd.org > Topics > Investment (as of: 17.8.2022).

order to compensate for the supplies no longer coming from Russia. But because Switzerland imports petroleum products directly from neighbouring countries, it is reliant on their ability to tap alternative sources. In addition, high logistical costs are expected, which tend to further push up energy prices.

The Federal Council looked at the effects of high energy prices and reviewed possible measures. However, owing to the sound economic situation and relatively low inflation compared with other countries, it decided that action was not needed. In its winter session, Parliament decided to raise ordinary old-age and survivors' insurance and invalidity insurance benefits fully in line with price increases in 2023.

Are the sanctions against Russia working?

Sanctions have proven to be an important and, in many cases, necessary instrument of economic and foreign economic policy. While international organisations expected a massive contraction of economic activity in Russia when the war in Ukraine started, there are now indications of a deep recession in the country, but not of a huge drop in Russian economic output.

In the short-term, the financial sanctions which sought to weaken Russia's ability to finance the war hit the Russian financial system particularly hard. Moreover, certain trade sanctions are intended to starve the Russian economy of goods that are important to the war effort. The sharp devaluation of the ruble proved short-lived and, despite the withdrawal of over a thousand foreign companies, the official Russian economic figures that are currently available showed resilience.

European countries did not introduce an immediate import ban on crude oil and natural gas and did not exclude all Russian banks from the international SWIFT network as they were still reliant on supplies for the winter of 2022/23. At the same time, the increased uncertainty led to sharp price rises, which increased the liquidity of the Russian state: in addition to the increased tax revenues and profits of the largely state-owned energy companies, Russia levied high customs duties on energy exports. Russian capital controls also slowed the outflow of capital. In particular, though, many countries in the world did not adopt the sanctions, which allowed Russia to partly divert trade flows, primarily to Asian markets. The Russian economy therefore increasingly shifted its focus away from Europe towards Asia. Nonetheless, the value of Russian gas exports to the EU has sharply declined since April.

In the medium- to long-term, export controls will block access to technologies and spare parts, which in turn will choke Russian industry, particularly in connection with military applications.

In general, however, the increasing isolation of the country including in terms of data transparency makes assessing the state of the Russian economy precarious. Information on the structure of currency reserves, trade balances, customs statistics and budget expenditures is significantly restricted or unavailable. It is increasingly difficult to get a meaningful picture of the Russian economy.

1.2 Value chains put to the test

The vulnerability of supply chains to external shocks – and therefore reliance on foreign trade – already came to the fore with the escalation of measures and counter-measures, particularly between the US and China. The outbreak of the COVID-19 pandemic and the associated transport difficulties and export restrictions on medical supplies and foodstuffs (see figure 1) meant that interruptions to supply became a primary concern for many businesses. Together with the impact of the war in Ukraine, these shocks increased the awareness that as well as efficiency resilience can prove to be a competitive advantage.

1.2.1 Importance of value chains to resilience

From an economic policy perspective, value chains that are heavily integrated in international networks lead to greater efficiency as individual production steps are geographically dispersed in order to utilise the advantages of each respective location and thus to produce as cost effectively as possible while ensuring the required level of quality.⁹ At the same time, globally networked production fosters international competition and the competitiveness and resilience of the businesses in question. Countries that are highly integrated in global value chains grow faster, generate higher incomes and benefit from lower prices and a wider selection of products for households.¹⁰ Global value chains also lead to lower income volatility in most countries.¹¹

At the same time, international interconnectedness leads to increased exposure to external shocks.¹² This exposure is particularly high in the case of complex supply chains – particularly the widespread practice of just-in-time delivery – and when there are cascading effects.¹³ In addition, as recent geopolitical crises have shown, heavy economic dependencies on the part of individual countries for the supply of essential

⁹ Irwin, Douglas A. (2017): Ricardo and comparative advantage at 200. In: *Cloth for Wine? The Relevance of Ricardo's Comparative Advantage in the 21st century*. Evenett, Simon J. (Ed.). CEPR Press, 7–15.

¹⁰ Baldwin, John & Yan, Beiling (2014): *Global Value Chains and the Productivity of Canadian Manufacturing Firms*. In: *Economic Analysis Research Paper Series*, 11F0027M, 90. Statistics Canada; Criscuolo, Chiara & Timmis, Jonathan (2018): *GVCS and Centrality: Mapping Key Hubs, Spokes and the Periphery*. OECD Productivity Working Papers, 12; Urata, Shujuro & Baek, Youngmin (2019): *Does Participation in Global Value Chains Increase Productivity? An Analysis of Trade and Value-Added Data*. In: *ERIA Discussion Paper Series* 301.

¹¹ Caselli, Francesco / Koren, Miklos / Lisicky, Milan / Tenreiro, Silvana (2020): *Diversification through Trade*. In: *Quarterly Journal of Economics* 135(1), 449–502.

¹² OECD (2021): *Issues Note: Efficiency and Risks in Global Value Chains in the Context of Covid-19*, OECD Economics Department Working Papers, 1637, OECD Publishing.

¹³ Pisch, Frank (2020): *Managing Global Production: Theory and Evidence from Just-in-Time Supply Chains*. In: *CEP Discussion Papers*, 1689; Acemoglu, Daron / Akcigit, Ufuk / Kerr, William (2015): *Networks and the Macroeconomy: An Empirical Exploration*. In: *NBER Macroeconomics Annual*, 30(1), 273–335.

or strategic goods may be misused for geopolitical purposes.¹⁴ As before, these risks raise security questions.

Businesses deal with these risks by regularly evaluating their supply chains and adapting their strategies to the anticipated geopolitical conditions.¹⁵ For example, during the pandemic, they responded to supply bottlenecks by significantly increasing stocks.¹⁶ Diversifying supply networks is also key.¹⁷ Use of global supply chains that is as extensive as possible but broadly diversified increases an economy's resilience. As the COVID-19 crisis showed, for example, integration in international networks can cushion the blow of supply disruption in the event of global shocks that do not take place in all regions at the same time.¹⁸

Switzerland's integration in global value chains not only generates potential dependencies in terms of the import of inputs for Switzerland, but also for manufacturers abroad that process Swiss inputs. If Switzerland's trading partners were to interrupt supplies by imposing export restrictions, this would therefore not only affect Switzerland, but also other countries, potentially even the trading partners initially imposing the restrictions. This strategic interdependency created by global supply chains therefore reduces the risk of disruptions to supply by trading partners and thus increases security of supply in general.

If governments push for the reshoring of supply chains or nearshoring to a small number of selected countries, this would weaken an economy's resilience, including in the context of shocks that are not attributable to political decisions, such as natural disasters and pandemics.¹⁹ Calls for extensive reshoring of supply chains are also often unrealistic as, in order to effectively reduce reliance on other countries, the whole production chain would need to be reshored, including the production of inputs. For Switzerland as a medium-sized economy, it would be impossible to relocate the whole production process (e.g. for many raw materials), whilst for other cases it would be very expensive.²⁰

¹⁴ Evenett, Simon J. (2020): Chinese whispers: COVID-19, global supply chains in essential goods, and public policy. In: *Journal of International Business Policy* 3(2), 408–429.

¹⁵ Bill-Körper, Alexis & Eichler, Martin (2017): Resilienz der Schweizer Volkswirtschaft: Befunde und ursächliche Faktoren anhand modellgestützter Simulationen und ökonomischer Analysen. BAK Economics AG, Structural reporting, 56/3.

¹⁶ KOF Swiss Economic Institute (2022): Companies looking to stockpile preliminary products. *KOF Bulletin*, 159, accessible at: [www.kof.ethz.ch/News & Events > KOF Bulletin](http://www.kof.ethz.ch/News%20and%20Events/KOF%20Bulletin) (as of: 25.8.2022).

¹⁷ OECD (2021): Issues Note: Efficiency and Risks in Global Value Chains in the Context of Covid-19, OECD Economics Department Working Papers, 1637, OECD Publishing.

¹⁸ Bonadio, Barthélémy / Huo, Zhen / Levchenko, Andrei A. / Pandalai-Nayar, Nitya (2021): The Global Supply Chains in the Pandemic. In: *Journal of International Economics* 133, 103534.

¹⁹ Miroudot, Sébastien (2020): Resilience versus robustness in global value chains: Some policy implications. In: Baldwin, Richard E. / Evenett, Simon J. (Ed.): *COVID-19 and Trade Policy: Why Turning Inward Won't Work*. CEPR Press, 122–130.

²⁰ Federal Council report of 14 Dec. 2018 on Switzerland's supply of rare Earth elements, in response to postulate 12.3475 Schneider-Schneider of 12 June 2012, available in German and French at: [www.seco.admin.ch > Foreign trade & Economic cooperation > Economic Relations > Commodities](http://www.seco.admin.ch/Foreign%20trade%20&%20Economic%20cooperation/Commodities) (as of: 12.8.2022).

1.2.2 The role of government in increasing resilience

Businesses can increase their resilience in several ways. These include staff, internal processes, a forward-looking corporate management and financial reserves. Governments can play their part in increasing resilience by ensuring a balanced taxation system and good regulatory framework. A range of fiscal mechanisms and financial policy instruments are available for this purpose (automatic stabilisers).²¹ Furthermore, the public sector can contribute to resilience by taking account of security of supply in its procurement activity (motion Würth 20.3409²² is currently being implemented to this end).

Businesses are responsible for organising their value chains, analysing supply-chain risks and putting in place measures to ensure resilience. The Federal Council has stepped up its work to guarantee businesses optimal access to procurement and distribution to allow them to diversify.

In addition to this macroeconomic perspective focusing on foreign trade, the federal government assumes a subsidiary role in ensuring supply of essential goods and services, in accordance with Article 102 of the Federal Constitution²³ and the National Economic Supply Act of 17 June 2016 (NESA).²⁴ This covers energy, foodstuffs, therapeutic products and other essential consumer goods and services. In the event of an impending or existing severe shortage that the private sector cannot remedy on its own, the Federal Council takes action to ensure supply. Such shortages may occur in the event of wars, pandemics or natural disasters, and may be exacerbated by a lack of coordination between private-sector market players.

In national economic supply interventions, care must be taken to ensure that market mechanisms – in other words the effect of supply and demand – and the associated price signals remain unchanged wherever possible. This is because such signals provide incentives companies to increase their supply or for demand to switch to alternative goods.²⁵ Aside from this, national economic supply is not a state insurance or guarantee for the private sector. Businesses themselves are responsible for procuring inputs and assessing risks. Premature intervention would undermine the motivation of businesses to make their own provisions and would therefore reduce security of supply rather than strengthening it. This is why it is always important to carefully consider to what extent security of supply can be ensured without state intervention in the event of shortages.

²¹ Federal Council report of 16 Dec. 2022 'Increasing the resilience of Swiss businesses', in response to postulate 20.3544 Noser of 9 June 2020; Federal Council press release of 16 Dec. 2022, Resilience of Swiss businesses: no state action needed; both available in German and French at: www.admin.ch > Documentation > Press releases (as of: 16.12.2022).

²² Motion 20.3409 Würth 'Public procurement – taking account of security and reliability of supply chains' of 22 Sept. 2020, available in German, French and Italian at: www.parlament.ch > Parliamentary business > Search Curia Vista (as of: 23.8.2022).

²³ SR 101

²⁴ SR 531

²⁵ Federal Council report of 31 Aug. 2022 on 'Essential goods – reducing economic dependencies', in response to motion 20.3268 Häberli-Koller of 4 May 2020, available in German and French at: www.admin.ch > Documentation > Press releases (as of: 21.9.2022).

1.3 Measures by the Federal Council to increase resilience

The Federal Council's measures to increase resilience can be broken down into two categories: foreign economic policy measures, which increase resilience internationally, and national economic supply, which plays a key role in the domestic context.

1.3.1 Foreign economic policy measures

For Switzerland as a medium-sized, open economy, access to international markets is key to the resilience of its foreign trade. This is why its Foreign Economic Policy Strategy²⁶ defines strengthening resilience through diversification as a strategic area of action.

The necessary market access for imports and exports is guaranteed through various instruments: within the World Trade Organization, Switzerland strongly advocates multilateral and plurilateral approaches, which are intended to ensure predictability and transparency in trade policy even in times of crisis, and to strengthen trade flows. At the bilateral level, Switzerland focuses on ongoing expansion and modernisation of its network of free trade agreements and renewing the bilateral approach with the EU. It also maintains an economic diplomacy network in order to rapidly identify common solutions in times of crisis. The economic missions, joint economic committees and economic dialogues within the framework of existing trade agreements are also effective instruments to facilitate market access for Swiss businesses and to support them in their efforts to build resilience. In addition, Switzerland implements unilateral measures such as the abolition of industrial tariffs.

Through its economic development cooperation, Switzerland promotes economic growth and sustainable prosperity in partner countries. In so doing, it helps to tackle poverty and inequality, as well as other global challenges. In this sense economic development cooperation also plays a part in diversifying Switzerland's economic relations. More robust partner countries also increase the resilience of the global economy and that of Switzerland as an open economy. Across the board, Switzerland contributes to sustainable development through its foreign economic policy as set out in the Foreign Economic Policy Strategy, which in turn boosts the resilience of partner countries.

Measures in response to the war in Ukraine

In addition to these long-term efforts, the Federal Council put in place many additional foreign economic policy measures in response to the war in Ukraine. Particularly worthy of note are the measures relating to gas and electricity supply.

In agricultural policy, border protection was reduced and tariff quotas raised in order to counter price rises and shortages of foodstuffs, feed and fertiliser. For example, the

²⁶ Strategy of the Federal Department of Economic Affairs, Education and Research (EAER) of 24 Nov. 2021 on Foreign Economic Policy, accessible at: www.seco.admin.ch > Foreign trade & Economic cooperation > Foreign Economic Policy (as of: 16.8.2022).

border protection on various types of livestock grain was temporarily reduced on 8 March.²⁷ Shortly afterwards, the tariff quota for bread grains was increased by 60,000 tonnes.²⁸

At the 12th Ministerial Conference of the World Trade Organization in June, Switzerland backed a number of decisions and declarations that are intended to increase the resilience of global supply chains (6.1), in particular, concerning the manufacture and distribution of important goods related to the COVID-19 pandemic and food security. It was also decided to exempt humanitarian food purchases for the World Food Programme (WFP) from export restrictions.

Ukraine already enjoys privileged access to the Swiss market for the majority of its goods and vice versa through its free trade agreement with EFTA. In the reporting year, the EFTA countries also decided to launch a process to modernise the free trade agreement with Ukraine.

Economic cooperation

Switzerland is a long-standing partner of Ukraine in international cooperation. Economic development cooperation is integrated in the 2020–23 cooperation programme with Ukraine and focuses on enhancing the competitiveness of small and medium-sized enterprises (SMEs) and promoting sustainable cities. Among other things, the support aims to make the Ukrainian economy more broad-based and decentralised to increase resilience. Furthermore, at the Ukraine Recovery Conference in Lugano, the State Secretariat for Economic Affairs (SECO) signed two agreements with the World Bank and the European Bank for Reconstruction and Development for a total of CHF 20 million as part of its economic cooperation. Both initiatives seek to help the Ukrainian government sustain core government functions and essential services, to reconcile the economic reform programme with the recovery programme and to ensure that SMEs remain competitive. The aforementioned expenditure does not come at the expense of other international cooperation programmes.

Moreover, Switzerland's international cooperation analyses the consequences of the war for developing countries on an ongoing basis and takes appropriate action. This applies in particular to food security, agriculture and food aid, as well as economic resilience and stability.

1.3.2 Reinforcing supply

The National Economic Supply organisation plays a key role in the context of increasing resilience. It is based on close cooperation between the public and private sector. The state assumes a coordinating role and intervenes in market activity in the event of severe shortages. As it directly involves members of the private sector, the National

²⁷ Press release by the Federal Office for Agriculture (FOAG) of 8 March 2022, Federal government reduces import duties on animal feed, available in German, French and Italian at: www.blw.admin.ch > Services > Press releases (as of: 3.8.2022).

²⁸ Federal Council press release of 10 June 2022, Federal Council increases tariff quota for bread grains, available in German, French and Italian at: www.admin.ch > Documentation > Press releases (as of: 3.8.2022).

Economic Supply organisation benefits from the practical experience required to assess the supply situation rapidly and on an evolving basis.

The National Economic Supply organisation is currently being restructured in light of the experience gained in recent years. To this end, the Federal Council decided on 30 March to make changes to the management and organisational structures and to clarify duties of disclosure in the event of supply crises. The legal framework is being revised accordingly.

Measures to strengthen energy supply

In the context of the war in Ukraine, energy supply has so far been the focus of the actions taken by the National Economic Supply organisation. Owing to diminished gas supplies from Russia, not only was a critical gas supply situation expected in the winter of 2022/23, but also power shortages across Europe.

The Federal Council therefore decided to put in place precautionary measures on 4 March and 18 May to guarantee gas supply. It required the gas industry to secure storage capacities in neighbouring countries and to develop options for additional gas supplies. It also instructed the Swiss Gas Association to draw up a plan for monitoring the gas supply situation and to form a crisis intervention organisation similar to the one that exists for electricity. On 24 August, the Federal Council also decided that Switzerland would set itself a voluntary gas savings target of 15% for the winter of 2022/23. To achieve this goal, the Federal Council undertook an information campaign targeted at natural gas consumers at the end of August 2022. This campaign calls for a more economical use of natural gas and makes recommendations to this end. In addition, the Federal Council recommended that dual-fuel customers switch from gas to heating oil on a voluntary basis. On 16 September 2022, various requirements for these consumers under the CO₂ Ordinance of 30 November 2012²⁹ and the Ordinance of 16 December 1985³⁰ on Air Pollution Control were temporarily relaxed. On 16 November, the Federal Council commissioned the Federal Department of Economic Affairs, Education and Research (EAER) to prepare ordinances on bans and restrictions on the use of gas and on the quota system for gas procurement in the event of a severe shortage. These had already been through the stakeholder consultation process. In addition, the conditions for a platform for the trading of gas quotas are to be clarified by the end of January 2023. On 14 December 2022, the Swiss Federal Office of Energy (SFOE) launched an energy dashboard that serves, among others, to inform the public about energy savings and the supply situation.³¹

To secure power supply for the winter of 2022/23, the Federal Council decided on 16 February to establish a hydropower reserve, whereby operators of reservoirs are paid to store energy which can be called up when needed. To this end, the Federal Council

²⁹ SR 641.711

³⁰ SR 814.318.142.1

³¹ The energy dashboard is accessible at: www.energiesdashboard.admin.ch (as of: 10.01.2023).

adopted the Ordinance on the Establishment of a Hydropower Reserve on 7 September.³² On 17 August, the Federal Council decided to conduct contract negotiations on the use of reserve power plants in the late winter of 2022/23.³³ On 23 September, it adopted the corresponding Ordinance on the Provision of a Temporary Reserve Power Plant in Birr³⁴ and signed a contract for another reserve power plant in Cornaux on 22 December.³⁵ To prevent shortages in the transmission grid, the Federal Council also decided to temporarily increase the voltage on two major power lines from 1 October.³⁶ It opened a consultation procedure on four management measures for dealing with power shortages on 23 November. This concerns regulation of usage restrictions and bans, immediate quotas for large consumers, a quota system for large consumers and grid shutdowns.³⁷ In addition, on 30 September, the Swiss parliament passed urgent legislation on subsidiary financial aid for electricity companies, which entered into force on 1 October.³⁸ Under this financial backstop scheme, system-critical Swiss electricity companies can obtain loans from the federal government to bridge liquidity shortages in the event of exceptional market developments.

To expand domestic renewable energy capacity and to strengthen security of electricity supply through medium- to long-term measures, the Federal Council submitted the dispatch on the Federal Act on a Secure Electricity Supply from Renewable Sources to Parliament on 18 June 2021.³⁹ The act is currently being debated in the Swiss parliament. The Federal Council also proposed streamlining construction authorisations by having only one appeal procedure. In this way, the approval times for large wind and hydropower plants can be significantly reduced.

In addition, the compulsory stocks of automotive gasoline, diesel and heating oil, and aviation fuel were released with effect from 3 October.⁴⁰ This was primarily due to limited capacities on the Rhine and logistical problems with foreign rail shipments.

³² SR 734.722; Federal Council press release of 7 September 2022, Federal Council enacts Ordinance on Hydropower Reserve, available in German, French and Italian at: www.admin.ch > Documentation > Press releases (as of: 22.11.2022).

³³ Federal Council press release of 17 Aug. 2022, Federal Council further strengthens security of supply for winter 2022/23, available in German, French and Italian at: www.admin.ch > Documentation > Press releases (as of: 17.8.2022).

³⁴ SR 531.64; Federal Council press release of 23 Sep. 2022, Energy: Federal Council enables launch of work on reserve power plant in Birr (AG), available in German, French and Italian at: www.admin.ch > Documentation > Press releases (as of: 22.10.2022).

³⁵ Federal Council press release of 22 Dec. 2022, Energy: Federal Council signs contract for a second reserve power plant, available in German, French and Italian at: www.admin.ch > Documentation > Press releases (as of: 3.1.2023).

³⁶ SR 531.63; Federal Council press release of 30 Sep. 2022, Energy: Federal Council increases capacities in Swiss power transmission grid, available in German, French and Italian at: www.admin.ch > Documentation > Press releases (as of: 8.12.2022).

³⁷ Federal Council press release of 23 Nov. 2022, Energy: Measures to tackle potential power shortage put out for consultation, available in German, French and Italian at: www.admin.ch > Documentation > Press releases (as of 8.12.2022).

³⁸ SR 734.91

³⁹ BBl 2021 1666; Federal Council press release of 18 June 2021, Federal Council approves dispatch on the Federal Act on a Secure Electricity Supply from Renewable Energy Sources, available in German, French and Italian at: www.admin.ch > Documentation > Press releases (as of: 12.8.2022).

⁴⁰ SR 531.211.38

Measures in the area of food security

As well as the border measures for the supply of foodstuffs, the federal government adopted additional measures. The EAER decided to release compulsory stocks of fertiliser in December 2021.⁴¹ From 1 April 2022, the Federal Council made rapeseed – for which Switzerland is fully reliant on imports – subject to compulsory stockpiling.⁴² Furthermore, on 29 June, the Federal Council introduced temporary simplifications of declaration requirements on food packaging.⁴³

The Federal Council deploys crisis teams as soon as serious challenges arise in the supply of foodstuffs. Such a team was created under the agriculture and food sector unit in the reporting year. The unit deals with securing food supply already in non-strained situations so that measures to cope with shortages are easier for the responsible bodies in the event of a special or extraordinary situation.

The Federal Council also worked on long-term strategies to increase food security. In connection with the Agricultural Policy 22+ (AP22+), which was approved on 12 February 2020, the Federal Council submitted a report on the future direction of agricultural policy in response to postulates 20.3931 and 21.3015.⁴⁴ The Council of States Economic Affairs and Taxation Committee EATC-S took note of the report on 27 June and decided to resume discussions on AP22+.

Further measures to increase resilience

There are related fields of action that can strengthen security of supply. For example, promoting a circular economy as part of the 2030 Sustainable Development Strategy⁴⁵ can contribute to security of supply and help make the economy more resilient by extending the useful life of electronic devices, making them easier to repair and thus improving the availability of secondary materials. The Federal Council has instructed the Federal Administration to develop proposals for specific measures.⁴⁶ The action

⁴¹ Federal Council press release of 20 Dec. 2021. Release of stocks intended to offset shortages in fertiliser supply, available in German, French and Italian at: www.admin.ch > Documentation > Press releases (as of: 12.8.2022).

⁴² Ordinance of 26 Jan. 2022 on compulsory stockpiling of seed (SR **531.215**); Federal Council press release of 26 Jan. 2022, Seed re-added to Switzerland's compulsory stocks, available in German, French and Italian at: www.admin.ch > Documentation > Press releases (as of: 16.8.2022).

⁴³ Ordinance on Foodstuffs and Utility Articles of 16 Dec. 2016 (SR **817.02**; AS **2022** 396); Federal Council press release of 29 June 2022, Federal Council supports flexible declaration of alternatives to sunflower oil, available in German, French and Italian at: www.admin.ch > Documentation > Press releases (as of: 25.7.2022).

⁴⁴ Federal Council report of 22 June 2022 on the future direction of agricultural policy, in response to postulates 20.3931 of the EATC-S of 20 Aug. 2020 and 21.3015 of the EATC-N of 2 Feb. 2021, available in German, French and Italian at: www.blw.admin.ch > Policy > Agricultural policy (as of: 17.10.2022).

⁴⁵ Federal Council's 2030 Sustainable Development Strategy, accessible at: www.are.admin.ch > Sustainable Development > Strategy and Reporting (as of: 15.12.2022).

⁴⁶ Further information is available at: www.bafu.admin.ch > Topics > Economy and consumption > Information for specialists > Federal government measures for resource conservation (as of: 25.10.2022).

plan⁴⁷ to reduce food waste, which was approved on 6 April, may also contribute to increased security of food supply.

1.4 Conclusion

The war in Ukraine has provoked major changes in global trade flows. This is mainly due to the important role held by Russia and Ukraine in the production of food and energy. While poorer countries have been hit particularly hard in terms of foodstuffs, Russia's export restrictions and the sanctions imposed by numerous countries have led to a strained energy supply situation in Europe, including in Switzerland. Generally speaking, Europe has been able to significantly reduce its reliance on Russian energy in a very short space of time. The effects of the war in Ukraine have compounded existing tendencies towards increased protectionism and political bloc building.

Although the effects of sanctions can only be provisionally assessed at present, it is clear that restrictive measures are an important part of the response to the war in Ukraine, but that foreign policy objectives cannot be achieved through such measures alone. In the medium- to long-term, however, the sanctions are expected to have a stronger impact on the Russian economy.

Switzerland's reliance on energy supply from its European trading partners has underscored the importance of good relations with the EU.

In the face of these new challenges, the Swiss economy demonstrated resilience, with the diversification of procurement sources playing a key role. As the shortages largely affected essential goods, such as energy and foodstuffs, the Federal Council took targeted action to safeguard Switzerland's supply of these commodities. Its National Economic Supply organisation also put in place numerous measures to increase security of electricity and gas supply.

The geopolitical situation is expected to remain uncertain, especially if the war in Ukraine continues. The economic and structural risks are likely to remain high and will depend on how the winter progresses, although the energy supply situation in Europe had eased by the end of the year thanks to full natural gas storage facilities, owing to a mild autumn and efforts to reduce demand. The energy supply situation is expected to remain tense in the winter of 2023/24. In this respect, the medium- and long-term diversification away from Russian energy by neighbouring countries will be crucial to the security of Switzerland's energy supply. The Federal Council is aware of the situation and is tackling these challenges by means of the measures outlined above.

⁴⁷ Federal Council action plan of 6 April 2022 to tackle food waste, in response to postulate 18.3829 Chevalley of 25 Sept. 2018, accessible at: www.bafu.admin.ch > Topics > Waste > Guide to waste > Biodegradable waste > Types of waste > Food waste (as of: 15.12.2022).