

# 1 Sustainability in foreign economic policy

*The concept of sustainable development requires policy to pay equal attention to the three dimensions of «economic performance», «environmental responsibility» and «social solidarity». As a component of economic policy, foreign economic policy primarily pursues the objective of improving economic performance. It seeks to do this by creating conditions favourable to cross-border economic activity, thus preserving and enhancing Switzerland's attractions as a place to do business. If it is to ensure that foreign economic policy meets the requirements of sustainable development, the Federal Council must also consider the effects of its actions on the other two dimensions of sustainability.*

*This main feature topic of the 2009 report on Switzerland's foreign economic policy highlights conceptual connections between sustainable development and foreign economic policy, describing how Switzerland pays the requisite attention to environmental and social sustainability targets. The results of this analysis are used to identify possible courses of action and priorities for the future.*

## 1.1 Introduction

As a component of overall economic policy, foreign economic policy contributes to the growth of the Swiss economy – and thus to increasing prosperity. It supports the establishment of international regulations giving Swiss companies access to foreign markets and protecting their investments. In parallel, Switzerland makes its economy more competitive by creating optimum internal conditions at home – and engages in economic development cooperation that improves internal conditions in our partner countries, thus assisting their integration into the global economy. This foreign economic policy strategy, which the Federal Council set out in the introductory chapter to the 2004 Foreign Economic Policy Report (BBl 2005 1089) and is still in force, creates the preconditions for taking maximum advantage of the international division of labour.

Switzerland's economic and foreign economic policy is not conducted in a vacuum. Economic activity requires resources, both natural and human – and it thus impacts on the environment and society. The concept of sustainability requires economic performance to be strengthened and prosperity to be increased, while keeping environmental pollution and the consumption of resources down at (or bringing them down to) a level that is

acceptable in the long term – at the same time maintaining or improving social cohesion. One particular implication of this is that account must be taken of the long-term and global effects of actions taken today.

### **Sustainable development: a national objective**

Article 2 («Object») of the Swiss Federal Constitution defines sustainable development as a national objective. Explaining this, Article 73 («Sustainability») calls on the Confederation and the cantons to «endeavour to achieve a balanced and sustainable relationship between nature and its capacity to renew itself and the demands placed on it by the population». Article 54 («Foreign Relations») of the Federal Constitution defines this mission in specific terms for Switzerland's foreign affairs: the Confederation must, it says, ensure that the welfare of Switzerland is preserved, and «... assist in the alleviation of need and poverty in the world ... as well as the conservation of natural resources».

Sustainable development is a complex concept, and factoring it into many different policy fields – foreign economic policy among them – is a long-term project. It requires the constant maintenance of a balance between varied interests, as well as clarification of the relevant interfaces. The main feature topic of this year's Foreign Economic Policy Report from the Federal Council is intended to help to achieve these ends.

### **Focus on international rules in the commercial, environmental and social fields**

In its foreign economic policy strategy of 2004 the Federal Council expressed an all-embracing understanding of foreign economic policy, seeing it as covering: all economic-policy mechanisms affecting the international exchange of goods (see sections 5.1 and 5.2), services (section 5.3), investments (section 5.4), labour and intellectual property (section 5.8), including economic development cooperation (section 7) and the provision of export-risk guarantees (section 10.1.2). The more intensive the economic exchange, the more obviously the concept of foreign economic policy also includes such horizontal policies as competition law (section 5.6), tax law, company law, Corporate Governance, the fight against corruption, and Corporate Social Responsibility (CSR).

The concept of sustainability cannot be expressed in simple terms. It cannot be reduced to single, static dimensions, because it describes a relationship or an equilibrium between dimensions. It holds that endeavours must focus on a long-term equilibrium between economic development, nature (the demands made on it and its capacity to renew itself) and social stability. Which aspects of this equilibrium appear to be under threat – and therefore in need of special attention – at any particular time cannot be determined in

the abstract, but only in specific terms. This is also true of the question as to the sustainability of Switzerland's foreign economic policy.

There would not be sufficient space in this entire report for comprehensive coverage of every facet of foreign economic policy and its implementation from the viewpoint of sustainability, so this chapter focuses particularly on international trade rules and their relationship to international rules in the environmental and social fields. It is intended particularly to identify any contradictions and lacunae at the interfaces between these rules, and to draw conclusions for Switzerland's actions in the field of foreign economic policy. The basic precondition for social stability is that everybody should participate in the development of the country – and in its turn this is conditional on a variety of factors, among them peace, security, stability, and respect for human rights and fundamental liberties. In this connection other themes such as education, research, innovation and culture are also very important. Recognizing these manifold preconditions, this chapter on the social field will first address labour standards. Their relationship to the production process, and thus indirectly to competitiveness, make them directly relevant to trade, and they in their turn are influenced by trade rules. Non-labour-related questions of human rights are dealt with on the basis of specific examples<sup>1</sup>. This main chapter then turns to sustainability in a global perspective, including economic relations with developing and newly industrializing countries. It does not embark on a specific analysis of domestic-market policy or of economic relations with the EU.

## **1.2 Current developments in the international environment**

Switzerland's open national economy makes it highly susceptible to trends in the international environment. Against the backdrop of the foreign-policy challenges defined by the Federal Council in the 2009 Foreign Policy Report (BBl 2009 6291), we might summarize current developments relevant to Switzerland's foreign economic policy as follows.

### **Global power shifts, economic and political**

Geographical shifts in the network of economic interconnectivity have continued and further intensified. Transpacific trade has continued to gain in importance in comparison with transatlantic trade. There has also been a further increase in the proportion of what is known as south-south trade, i.e. trade between one developing or newly industrializing country and another.

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<sup>1</sup> See the remarks on economic relations with Colombia and the Ilisu hydroelectric plant in section 1.4.3.

The growth in the power and importance of the principal developing countries is epitomized by the fact that the Group of Eight<sup>2</sup> (G8) has largely been supplanted by the Group of Twenty<sup>3</sup> (G20), which has been laying claim to the leading role in terms of international economic policy following the economic and financial crisis.

The developing and emerging countries do not assign the same relative weights to the three dimensions of sustainability as members of the Organization for Economic Cooperation and Development (OECD), a fact that complicates multilateral negotiations on questions at the interfaces of the three dimensions. This is borne out by the difficult negotiations on a follow-up agreement to the Kyoto Protocol (see section 5.5).

It is not only the emerging countries that have gained power and influence: so have private players, especially private companies and numerous civil-society organizations. This is due in particular to the increasing pace of globalization stemming from advances in information and communications technology.

### **Global crises and systemic risk**

The proliferation of global crises in recent years shows that more and more problems simply cannot be resolved by individual countries acting alone: coordinated action at global level is becoming increasingly important. Examples include global warming, access to natural resources (water, energy, agricultural land, biodiversity, raw materials) and safeguarding the closely-intertwined international financial system. The rise in commodity prices in 2008 that led to food insecurity in some countries, together with the growing demand for resources from the fast-growing emerging countries, focused political attention on reliable supplies of raw materials and food, intensifying the trend towards the sustainable and more efficient use of resources.<sup>4</sup>

### **WTO – the cornerstone of the world trade order**

The World Trade Organization (WTO), with its thirty or so Agreements, remains the cornerstone of the world trade order and the prime global forum for negotiations on the preparation of new trading rules (see section 2.1). But the painfully slow pace of the negotiations being conducted as part of the current multilateral trade round (the Doha Round) shows how hard it is

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<sup>2</sup> Germany, France, United Kingdom, Italy, Japan, Canada, Russia, US.

<sup>3</sup> Argentina, Australia, Brazil, China, Germany, EU, France, United Kingdom, India, Indonesia, Italy, Japan, Canada, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, US.

<sup>4</sup> For a detailed analysis of the resources question and the foreign economic policy challenges to which it gives rise, see the Foreign Economic Policy Report 2008 (BB1 2009 727) and the Report of the Federal Council in response to the Stadler postulate of 29 May 2008 (08.3270).

to bring complex negotiations involving 153 member states to a conclusion. The slow pace of negotiation leads to the proliferation of bilateral and regional agreements throughout the world, as was already stated in the 2004 Foreign Economic Policy Report.

## **Conclusion**

The international environment is currently bedevilled by greater uncertainty than it was in 2004. Some trends are contradictory: the need for coherent international action, multilaterally coordinated, has risen – while relative shifts in the international power structure have made it harder to achieve.

### **1.3 Sustainability in foreign economic policy – conceptual links**

#### **1.3.1 The concept of sustainability**

Switzerland bases its understanding of sustainability on the definition provided by the World Commission on Environment and Development (the Brundtland Commission) in its 1987 report entitled «Our Common Future», namely that «Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs».

Sustainable development in Switzerland is a constitutional requirement, and the Federal Council has pursued a «Sustainable Development Strategy» as the basis for complying with it since 1997. Alongside the federal policy guidelines, the current strategy also includes an action plan with concrete aims for the duration of the current legislative period (2008–2011). This contains a total of 30 measures in eleven different action areas. It identifies a number of priorities for action, among them combating global warming and coping with natural hazards, increasing productivity, reducing dependency on the consumption of resources and energy, and combating poverty and promoting peace more effectively.

#### **1.3.2 The effects of increasing global economic integration**

Increasing global economic integration is making markets and production in different countries more and more mutually dependent. Global economic integration is favoured by a number of factors, among them technological advances in communications and transport, the increasing mobility of capital and labour, and the accelerating liberalization of international trade. The momentum of economic integration is reflected, for example, in the increase in the global volume of goods traded. Between 1950 and 2007 this

rose by a factor of nearly thirty-two, and the proportion of global gross domestic product (GDP) accounted for by international trade increased in the same period from 5.5 % to 21 %. The emerging countries' share of the global trade in goods has risen to around 34 %: twice what it was at the beginning of the 1960s.

### **Effects on prosperity**

The OECD estimates that in its member countries, a 10 % increase in trade leads in the long term to a 4 % increase in income per capita. But economic integration has led to significant increases in prosperity in the developing and emerging countries as well as OECD countries. World Bank studies show that between 1981 and 2005 the proportion of people throughout the world living in extreme poverty<sup>5</sup> declined from 53 to 26 %<sup>6</sup>, though the rise in commodity prices and the global financial and economic crisis may well have cancelled out some of the progress made in recent years in combating poverty. But this makes no difference to the fundamentally positive correlation between economic integration and the reduction of poverty. It is evident that the countries that have opened up their markets and actively embraced economic integration post far higher growth rates than those not involved in international trade, or whose involvement is minimal. The spectacular growth rates achieved by China and India in recent years eloquently attest to these links.

### **The social effects of structural change**

As well as these overwhelmingly positive effects, global economic integration also has a negative side from the viewpoint of social policy. One of the most frequently expressed criticisms of economic integration is that it increases social inequality within individual countries, and leads to job losses in the developed countries. And indeed, increasing economic integration is leading to structural changes – shifting jobs from sectors facing competition from imports to those that are benefiting from the new export opportunities. Measures must be taken to cushion the impact of these structural shifts, among them basic and advanced training, social-security systems, and active labour-market policies promoting cross-sector mobility. The more successful these structural changes, the sooner the entire population of a country will benefit from economic integration.

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<sup>5</sup> Disposable income less than USD 1.25 per day at 2005 prices.

<sup>6</sup> These figures are relativized, however, if compared with the absolute number of starving people in the world. The United Nations Food and Agriculture Organization (FAO) estimates that about one billion people were suffering from famine in 2009. In 1990 the figure was only 842 million.

## Effects on the environment

Economic integration has at least four effects on the environment: an *expansion effect*, a *structural effect*, a *technology effect* and a *rebound effect*.

- The *expansion effect* describes the impact of increased economic activity on the consumption of resources. As we have seen, trade tends to lead to economic growth – and hence to increased production and consumption. Economic activity presupposes the use of resources and energy, which as a rule increases environmental pollution. And closer global economic integration boosts cross-border shipments, which often also adds to environmental pollution.
- The *structural effect* denotes the way in which global economic integration affects the relative weightings of the different sectors of a national economy. Depending on a nation's comparative advantage, opening up its markets will cause some sectors to expand while other shrink. If the nation concerned has a comparative advantage in non-emissions-intensive sectors, the structural effect on it will be environmentally positive – and vice versa. Differences in per-capita emissions indicate that national economies differ widely in their emission intensity. Emission intensity is a function of a country's specific economic structure, its energy efficiency, and the composition of its energy balance (fossil fuels versus other energy sources).
- The *technology effect* denotes the shift towards more environmentally friendly production technologies. Global economic integration facilitates technology transfer, increasing the availability of environmentally friendly goods and services while reducing their prices. The increases in income generated by trade and growth may reinforce this effect by helping to trigger a change in values, thus increasing consumer demand for environmentally friendly goods and services.
- The *rebound effect* is what happens when more efficient technologies trigger increased use that more than cancels out the savings they generate.

These four effects act in different directions. Whereas the expansion effect basically increases environmental pollution, the technology effect and the change in values that stems from greater prosperity reduce it – though this may be offset by the rebound effect. The structural effect depends on a nation's comparative advantage. Its global impact depends on whether manufacturing a product in one country generates fewer emissions than in another. The actual effects of economic integration on the environment

differ from one region to another, and their overall impact is difficult to estimate.

In Switzerland, despite rapid growth in GDP in recent years, the situation in relation to a number of indicators – water and air pollution, area of forested land – has improved. This shows that it is possible to break the link between growth and various forms of environmental pollution. However, these improvements are partly due to growth in the Swiss service economy, and to the fact that several resource-intensive, environmentally polluting production processes have been transferred abroad. This is also true of greenhouse gases. Emissions are not increasing in Switzerland, but this is partly because more goods requiring CO<sub>2</sub>-intensive production processes are now imported rather than being manufactured here. The national greenhouse-gas inventory thus accounts for only about half of the CO<sub>2</sub> emissions caused by consumption in Switzerland («grey emissions»). In the fields of space heating and industry the link between economic growth and emissions is now clearly looser, whereas transport-generated emissions are still on the rise. Nor has land use yet succeeded in decoupling emissions from economic growth. Whereas growing mobility can be counteracted by means of national spatial-planning mechanisms and targeted transport price rises, greenhouse-gas emissions and climate stability must be tackled at international level.

### **1.3.3 Interfaces between international rules**

International rules are fragmented, reflecting the fact that members of the community of states have differing objectives. Within the three dimensions of sustainability there exist international rules that are legally independent of each other. The WTO provides the institutional framework for multilateral trading rules. What makes these relatively easy to enforce on an international comparison is the possibility of recourse to an effective mechanism for the resolution of disputes. The situation is different for the other dimensions of sustainability. In the environmental field there are some 200 multilateral environmental agreements (MEAs), only some of which are united under the umbrella of the United Nations Environmental Program (UNEP) and have their own secretariats. The MEAs are inadequately coordinated, and many of them are poorly funded. In comparison with the WTO, enforcement mechanisms are very limited. In the social field, admittedly, there is just one body focusing on the subject of labour: the International Labour Organization, which enjoys a high degree of legitimacy because of the tripartite composition of its membership (governments, employers, workers). But the ILO also has only limited enforcement mechanisms at its disposal.

Most agreements in the environmental and social fields have no direct relationship with trading rules. But even if some provisions of international environmental and social agreements are relevant to trade, that does not mean they have to conflict with WTO trading rules. One of the principal objectives of the WTO agreements is to eliminate protectionist mechanisms that discriminate against foreign goods and services and favour those of domestic origin. There is thus no conflict with non-discriminatory measures designed to pursue social or environmental objectives. Also they contain exceptional provisions permitting all member states to take proportionate measures – for the protection of public morality, for example, or of the life and health of persons, animals and plants – provided that these do not constitute arbitrary or unjustified discrimination. In addition, many WTO agreements contain exceptional and transitional provisions that permit developing countries to implement these agreements in a manner adapted to their specific needs and capabilities. If WTO members agree that the implementation of an overriding sector policy (in the development or environmental field, for example) justifies a departure from the basic principles of the organization, they can also grant a waiver. WTO members thus enjoy a certain degree of latitude in the implementation of its provisions.

Efforts to extend trading rules in pursuit of social or ecological objectives have provoked mistrust and resistance, especially on the part of developing and emerging countries. These often suspect attempts by the industrialized countries, acting for protectionist reasons, to erect new barriers to trade in areas in which the developing countries enjoy a comparative cost advantage. Instead they call for measures to protect the environment and improve social security, such as easier technology and knowledge transfer, preferential market access and financial aid.

Even if current rules in the environmental, social and trading areas offer little scope for conflict, there are still lacunae and conflicts of goals between the three areas. These need to be tackled, as the problems – particularly conflicts of goals – are more likely to increase than decrease in future.

### **Production methods as a purchase criterion**

One factor underlying this is changing consumer behaviour, particularly in the industrialized countries. Consumers – more critical and better informed – are increasingly calling for products that are manufactured under socially and environmentally acceptable conditions along the entire value chain. Basically international rules do not distinguish products by their manufacturing method (known as process and production methods, PPM). Instead, characteristics of the end product are the only permissible basis for differential treatment in terms of trading policy. But social and environmental considerations often focus precisely on production methods, such as working conditions and environmental pollution in the course of

product manufacture. So because consumers insist that their demand for sustainably-produced goods must be satisfied, labelling and voluntary standards are becoming more and more important. This sensitization of consumers to production conditions along the entire value chain is also increasing the pressure on companies to bring their value chains into line. Technological advances in information and communications technology make it possible to address social and environmental shortcomings in a publicly effective way, thus exerting pressure on the nations and companies responsible to put them right. This function is now increasingly exercised by a plethora of non-governmental organizations (NGOs). In addition, the internationalization of procurement chains is increasing the influence of private companies on working and production conditions at their supplier operations, both at home and abroad – and hence also their responsibility for them. Responsible corporate management or *Corporate Social Responsibility* (CSR) is thus becoming more and more important.

#### **Four action levels to defuse conflicts of goals**

On the basis of this analysis, four levels can be identified at which action can be taken to close lacunae and defuse conflicts of goals between the different sets of rules.

- Asymmetry between the three sets of rules in terms of institutional structure and enforcement mechanisms must be eliminated or at least reduced, and the way to do this is to continue – in line with the Federal Council's Sustainable Development Strategy 2008 – to press for international environmental and social rules to be reinforced.
- Without raising doubts as to the fundamental autonomy of the various sets of rules, it is important to maintain and improve coherence between them – especially at their interfaces. From a Swiss perspective, improving this coherence is a priority objective – and this requires a good level of cooperation between the organizations involved and their secretariats. Cooperation must also be close, on the other hand, between the member states of the various organizations, which must adopt consistent positions in the various boards and committees.
- Efforts to make the rules more coherent at multilateral level must also be reflected in Switzerland's involvement at the bilateral and plurilateral levels – all the more so because that involvement has become so much more intense in recent years.
- Analysis has shown that measures taken by the private sector (such as labelling, voluntary standards, CSR) are constantly growing in importance. If Switzerland is to adopt a consistent position, the state must promote measures like these in parallel with international agreements.

Section 1.4 examines the specific involvement of Swiss foreign economic policy on these four action levels.

## **1.4 Switzerland's involvement**

Switzerland can work to strengthen coherence between the social, environmental and trading rules both in concert with one or more other countries on the basis of multilateral, plurilateral or bilateral agreements, and as part of its activity in international organizations. It can also promote action by the private sector, both in Switzerland and in the countries with which it engages in economic development cooperation.

### **1.4.1 Strengthening international environmental and social rules**

Strengthening environmental and social rules is not among the concerns of foreign economic policy, but there are good reasons related to economic policy for wanting to do exactly that. Strong environmental and social rules that effectively represent the interests of environmental and social policy could help to reduce attempts to achieve these objectives by means of trade rules which have more effective mechanisms for resolving disputes, even though they relate to other matters. This could take a number of contentious items off the agenda for the refinement of the trading rules, which would make the negotiations more likely to reach a successful conclusion.

In its Sustainable Development Strategy the Federal Council defined the following priorities for the institutional strengthening of the international environmental rules: to strengthen the UNEP as the central mainstay of the international environmental regime through the implementation and continued development of the measures agreed by the international community in 2002 to reinforce international environmental governance, to pursue the idea of devising *Global Environmental Goals* (GEG), and to support the strategic vision of a UN environmental organization.

Members of the ILO, which is responsible for the social rules, made an important contribution to its institutional reinforcement when they approved the *ILO Declaration on Social Justice for a Fair Globalization* in 2008, which expresses the organization's understanding of its mandate in the age of globalization and brings social and economic objectives together. The declaration defines the concept of "decent work", the basis of the ILO's work since 1999, focusing activities closely on its four strategic objectives: employment, social protection, social dialogue, and rights at work. In recent years, guided by the conviction that only a strong, functional ILO can be equal to its important role as guardian of the social dimension of

globalization, Switzerland has increased its commitment to strengthening the organization. This manifests itself in Switzerland's active role in political processes internal to the ILO. The *Declaration on Social Justice for a Fair Globalization*, for example, was prepared under Swiss chairmanship. Switzerland has also increased its support for the ILO's technical cooperation activity promoting labour standards, formalizing this by signing a *Memorandum of Understanding* (MoU) with the ILO in June 2009.

## **1.4.2 Promoting coherence between different sets of rules**

Trading, environmental and social rules are negotiated and refined within the bodies described in section 1.3.3 (WTO, ILO, UNEP, MEAs). Environmental conventions important to Switzerland are also adopted by the United Nations Economic Commission for Europe (UNECE). But the negotiation process itself is not the only opportunity for trying to make the rules more coherent. This can also be done beforehand, by analysing current or potential problems at their interfaces, or afterwards, by bearing the criterion of coherence in mind when the rules are implemented. Switzerland can therefore work for the coherence of the international rules within a whole series of other international organizations besides the WTO, ILO, UNEP and the MEAs. Foreign economic policy particularly includes responsibility for the OECD (see, for example, sections 2.2, 6.4.1 and 10.1.3), the World Bank, the regional development banks <sup>7</sup> (see section 7.2), the United Nations Conference on Trade and Development (UNCTAD, see section 2.3) and the United Nations Industrial Development Organization (UNIDO, see section 2.4).

### **Analysis of questions at the interfaces of the rules**

The analysis of questions at the interfaces between the trading rules on the one hand and the environmental or social rules on the other is an important precondition for an improved understanding of these questions, and for increasing coherence between the rules.

The OECD plays an important role in this area, conducting intensive research to supply analytical principles for the international discussion of these interface questions. It assesses the respective urgency of individual challenges, highlights the options for political action, and estimates the cost of doing nothing. One example of this activity is the *Green Growth Strategy*, a project launched by OECD ministers in June 2009 with the

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<sup>7</sup> The African, Asian and Inter-American Development Banks, the European Bank for Reconstruction and Development, and the Council of Europe Development Bank.

objective of identifying measures at national and international level to promote "green" economic growth, i.e. growth decoupled to the maximum possible extent from the consumption of resources and environmental pollution. Here it is important to value scarce resources accurately, to consume them sparingly, and to recycle them to whatever extent makes both environmental and economic sense. The effects of individual measures on society and the environment are already being explored in Switzerland as part of the national policy on growth, which takes account of the need to preserve natural resources – and is well prepared to derive economic advantage in the long term from *green growth*.

Another important mechanism for the analysis of interface questions is direct cooperation between the secretariats of the various organizations. Such cooperation has recently produced the *Trade and Climate Change* study, jointly published by the WTO and the UNEP, and two studies prepared by the WTO and ILO secretariats: *Trade and Employment*, and *Globalization and Informal Jobs in Developing Countries*.

### **Coherence between trading and environmental rules**

#### *Trading provisions in multilateral environmental agreements*

The question of coherence between trading and environmental rules only really arises if the environmental agreements contain provisions that are relevant to trade, and this is the case in only very few of the current 200 or so multilateral environmental agreements. As a rule these provisions simply prohibit or restrict trade in certain goods or substances, or make it conditional on meeting certain criteria or fulfilling certain requirements such as obtaining permits and complying with reporting obligations. The Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal (SR 0.814.05), for example, prohibits trading in hazardous waste with non-members of the Convention. The objectives of the Convention on Biological Diversity (Biodiversity Convention, SR 0.451.43) are to conserve biological diversity, to use biological diversity in a sustainable fashion, and to share the benefits of biological diversity fairly and equitably.<sup>8</sup>

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<sup>8</sup> Further examples of multilateral environmental agreements that contain provisions relevant to trade are: The *Montreal Protocol on Substances that Deplete the Ozone Layer* (SR 0.814.021), which is designed to abolish the manufacture and consumption of certain chemicals containing chlorine or bromine; the *Stockholm Convention on Persistent Organic Pollutants* (SR 0.814.03), which prohibits or governs the use of certain of such substances; and the *Convention on the International Trade in Endangered Species* (CITES, SR 0.453), which prohibits trading in endangered species or requires authorization to be obtained.

### *The Climate Convention and border adjustment measures*

The *United Nations Framework Convention on Climate Change* (UNFCCC, SR 0.814.01) and general multilateral efforts to reduce greenhouse gases will require more stringent measures to reduce emissions. These measures may affect competitiveness if some countries are not involved in the multilateral efforts. In order to offset competitive disadvantages, some countries are discussing the possibility of introducing measures at their borders to compensate for the additional costs incurred because of climate-policy measures, as compared with countries with less strict climate regimes.

Whether such measures would be compatible with international trade law has yet to be established. At the WTO the «destination principle», whereby duties on goods must be levied in the country for which they are destined, is undisputed. Accordingly, compensation for product-based charges such as indirect taxes on imports can be paid at the border. It is questionable whether additional costs caused by a climate regime (such as the obligation to purchase emission rights) that are charged because the manufacture of a product involves the emission of greenhouse gases are sufficiently closely associated with the product to qualify as an indirect charge, and thus to permit compensation to be paid. If not, consideration would then have to be given to whether compensation at the border could be justified on the basis of the GATT exception clause on the protection of the life and health of persons, animals or plants and the conservation of non-renewable natural resources.

In any event, border adjustment measures must be implemented on the basis of legal equality. Products may not be discriminated against at the border on the basis of their country of origin. Compensation must be product-specific, and payable on the basis of the relevant emission of greenhouse gases and of any charges already paid. This presents a daunting challenge in practice, not least because there are no reliable, generally recognized indicators of the greenhouse gases emitted in the course of product manufacture – and nor do greenhouse-gas emissions have a constant price.

### *The WTO Doha Round*

Two permanent WTO committees – *Trade and Environment* and *Trade and Development* – are charged with ensuring that the WTO rules are as compatible as possible with the wishes of member states in terms of environmental and development policy. At the urging of Switzerland, the EU and Norway, and in the face of resistance from the developing countries, certain questions at the interface of the trading and environmental rules were included on the agenda of the current Doha Round (see section 2.1.2). These negotiations on a mutually acceptable strengthening of trade and environmental agreements are being conducted in three areas:

clarifying the relationship between specific trade obligations in multilateral environmental agreements and the WTO rules, improving the exchange of information between the WTO and the secretariats of multilateral environmental agreements, and removing trade barriers relating to goods and services that are beneficial to the environment.

In these negotiations Switzerland has submitted specific proposals for resolving possible conflicts between trading and environmental rules, and circulated general principles for their interpretation. Together with like-minded WTO members, it has also proposed that trading in environmentally-friendly goods such as solar furnaces, biodegradable building materials (e.g. jute and sisal), solar cells and wind-energy plants, should be promoted by being radically liberalized. Switzerland also supports the liberalization of trade in other goods and services with proven environmental benefits.

Negotiations on the continued development of the WTO Agreement on Subsidies and Countervailing Duties and the almost total prohibition that will be imposed on subsidies in the fisheries sector are also relevant to the environment. The few subsidies still to be permitted will be made conditional on the sustainable management of fish stocks. Even though Switzerland is not directly affected by this agreement, it still supports stringent rules to conserve fish stocks.

### **Coherence between trading and social rules**

Trading rules interface with social standards to a lesser extent than with the environmental field. Some member states, Switzerland among them, tried to place the relationship between labour standards and trade on the agenda of the WTO Doha Round, but this was successfully resisted by others – the developing countries prominent among them. The current Doha Round is thus not considering social and labour-related matters. Under the exemption provisions of Article XX, GATT member states are only allowed to discriminate against goods produced by prison labour.

In the Singapore Ministerial Declaration (1996), however, all WTO members committed themselves to compliance with internationally recognized labour standards and acknowledged the competence of the ILO to establish those standards and oversee their implementation. In 1998, partly in response to the role assigned to it by the global community at the 1995 World Summit in Copenhagen and the 1996 WTO Ministerial Conference in Singapore, the ILO unanimously adopted the *Declaration on Fundamental Principles and Rights at Work*. In the face of the realities of globalization, this established minimum standards, valid throughout the world, in the form of core labour standards. This declaration was based on eight agreements in the fields of the freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms

of forced and compulsory labour, the effective abolition of child labour and the elimination of discrimination in respect of employment and occupation<sup>9</sup>. The 1998 declaration forms the basis for the inclusion of workers' rights in Switzerland's economic development cooperation.

The *ILO Declaration on Social Justice for a Fair Globalization* (see section 1.4.1) makes it clear that trade and financial policies affect employment, and that an integrated approach can only be adopted if the relevant international organizations work more closely together. Despite various attempts, cooperation between the WTO and the ILO has so far improved only on an *ad hoc* basis. Developing and emerging countries are maintaining their successful resistance to granting the ILO observer status at the WTO. In recent years, in line with the Singapore compromise, Switzerland has proposed that the WTO and the ILO should be strengthened within their respective areas of responsibility, and at the same time that they should be encouraged to work together more closely. Attempting to smooth the way for this subject to be taken up by the WTO, Switzerland discusses its efforts to promote the core labour standards at both national and international level in the reports that it prepares for the WTO's *Trade Policy Review*.

### **Coherence between questions of trade and development**

The agricultural negotiations conducted as part of the Doha Round may have no direct connection with the coherence between trading, environmental and social rules, but their relevance to economic development makes them important in terms of sustainability. Numerous developing and emerging countries are very interested in a successful conclusion to the agricultural negotiations, because this would lead to the reduction of the industrialized countries' subsidies for exports and tariff barriers against imports, which have negative effects on both the domestic production and the exports of the developing and emerging countries. On the other hand these countries call for exceptions to be made. They do not want trade in specific agricultural produce to be liberalized if it is important for their food security, their rural development and to give their rural populations a livelihood. While resisting the complete abolition of agriculture border protection, Switzerland supports the efforts of the

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<sup>9</sup> ILO Conventions no. 29 on Forced or Compulsory Labour (SR **0.822.713.9**), no. 87 on the Freedom of Association and Protection of the Right to Organize (SR **0.822.719.7**), no. 98 on the Application of the Principles of the Right to Organize and Collective Bargaining (SR **0.822.719.9**), no. 100 on the Equal Remuneration of Men and Women for Work of Equal Value (SR **0.822.720.0**), no. 105 on the Abolition of Forced Labour (SR **0.822.720.5**), no. 111 on Discrimination in Employment and Occupation (SR **0.822.721.1**), no. 138 on the Minimum Age for Admission to Employment (SR **0.822.723.8**) and no. 182 on the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour (SR **0.822.728.2**).

developing countries to include in the rules exceptional provisions to ensure the survival of their subsistence farmers.

In parallel to the Doha Round and the work of the WTO's Trade and Development committee, there is also the Aid for Trade initiative, launched at the WTO Ministerial Conference in 2005 in Hong Kong and supported by Switzerland. Its objective – to provide developing countries with trade-relevant technical assistance to help them to integrate more effectively into global trade – is to be achieved by making substantial financial resources available and ensuring that they are used more efficiently.

### **Implementing the rules**

The criterion of coherence is also relevant when the rules are implemented. At present the interpretation of agreements in the WTO's dispute-resolution system acknowledges only the characteristics of a product as a legitimate criterion for differential treatment under trading policy, but Switzerland is calling within the WTO for the environmental and social sustainability of the methods by which the product is manufactured (as part of the so-called Process and Production Methods, PPMs – see section 1.3.3) to be similarly acknowledged, provided these comply with internationally recognized standards. The establishment of widely internationally recognized labels or certificates could smooth the way for the recognition of differing PPMs. This is why Switzerland also supports the development and implementation of voluntary standards acknowledged by all the relevant stakeholder groups.

#### *The role of the development banks*

The World Bank and the regional development banks play a central role in the implementation of international rules in the national policies of the developing countries (see section 7.2). Switzerland attaches great importance to the work of the multilateral financial institutions in the field of economic development cooperation, helping the developing countries to combat poverty and to generate sustainable growth. Their objective is to establish links between the requirements of international conventions and their specific implementation in differing national contexts. They take account of the environmental and social dimensions of sustainability when developing programmes and projects, particularly by improving the management of environmental and social resources and strengthening local authorities and rules.

As long ago as 1992, in its World Development Report, the World Bank established important principles by highlighting the intrinsic link between economic development and the environment and calling for them to be dealt with jointly rather than separately. Building on this, the concept of sustainability was transferred step by step to policy orientation, programmes and institutional structures – not only within the World Bank, but also, adapted if necessary, at other development banks and various other players.

This has enabled the development banks to act as pioneers on various occasions. Furthermore their regional or global reach has given them a wealth of specific experience that is extremely valuable in the continued development of the rules and the identification of *good practice*. Precisely because the development banks' programmes and projects are generally on a large scale, the banks have also developed detailed *safeguard* policies to ensure that their projects are compatible with environmental and social standards. Independent *inspection panels*, to which directly affected persons and organizations can appeal if they believe projects are inconsistent with environmental and social standards, supplement the precautions taken by the development banks to promote sustainability. In addition, the *Global Environment Facility* (GEF) was created on the initiative of the World Bank, the United Nations Environmental Programme (UNEP) and the United Nations Development Programme (UNDP). As the mechanism for funding several multilateral environmental agreements, this is a central mainstay of international environmental governance and the central funding body for developing and emerging countries.

In the environmental field, for example, these institutions support the objectives of the Climate Convention. In recent years they have substantially expanded their portfolios in the fields of renewable energies and energy efficiency. The World Bank has declined to support several projects that it found questionable in terms of environmental and social policy, such as the Three Gorges project in China. It has also terminated agreements on the grounds that conditions it set were disregarded in the course of project implementation (such as the Chad oil pipeline). Switzerland makes every effort to ensure that the multilateral development banks focus on sustainability. As a shareholder of these banks, it works for *mainstreaming* and the consistent application of sustainability criteria in development funding. It has particularly committed itself to ensuring that the World Bank focuses on its comparative advantages and coordinates activities with other multilateral development and specialist organizations. Thus the World Bank – or the International Finance Corporation (IFC), which is responsible within the World Bank for promoting the private sector – has entered into a cooperation agreement with the ILO to promote labour standards in developing and emerging countries. Switzerland has encouraged the World Bank to increase its commitment in the area of renewable energies and clean technologies, while at the same time reducing market distortions to a minimum.

In order to strengthen trading in CO<sub>2</sub> certificates, Switzerland supports the World Bank's *Carbon Finance Assist Facility*. This has the objective of strengthening capacities in the developing countries so that they can participate in the flexible mechanisms of the Kyoto Protocol. Switzerland also contributes financially to the *Forest Carbon Partnership Facility*

(FCPF), which supports the reduction of emissions resulting from deforestation and forest degradation.

#### *The role of the UN organizations*

Switzerland is also an important strategic partner to other organizations in the design and implementation of the trade-related aspects of international conventions. Together with the UNIDO, Switzerland has established a comprehensive programme for the promotion of environmentally friendly methods of production in developing countries and the transfer of environmentally friendly technologies (see section 2.4). This meets a need expressed by the developing countries since the 1992 UN Conference on Environment and Development in Rio. Switzerland has entered into a strategic partnership with UNCTAD to promote the sustainable use of biodiversity and the fair division of benefits from the use of genetic resources, in accordance with the Biodiversity Convention (see section 2.3). UNCTAD and UNIDO have working groups in this field, one considering environmental, social and trading questions, the other the environment, social questions and economic development. Both these organizations thus offer ideal discussion forums for dialogue with the developing and emerging countries, which feel that they are adequately represented by the UN bodies.

### **1.4.3 Ensuring coherence at the plurilateral and bilateral levels**

Switzerland's involvement at the plurilateral and bilateral levels should be seen as supplementary to its actions at the multilateral level. In terms of sustainability it must accordingly serve the same ends. It must particularly contribute to the coherence of international trading, social and environmental rules. In addition it can help to close off any lacunae between one set of rules and another.

Switzerland employs many different mechanisms in its relations with partner countries. Besides free trade agreements (FTAs), discussion particularly centres on bilateral cooperation in the environmental field, export risk insurance and economic development cooperation.

Switzerland favours a combination of fundamentally independent mechanisms, not making any individual form of cooperation conditional on any other. Not all mechanisms are employed in all cases. One reason for this is that since the available resources are not unlimited, countries are selected for the various forms of partnership and cooperation in accordance with different criteria. Groups of potential partners, accordingly, do not always coincide exactly: they reflect the priorities that must necessarily be assigned in the various areas of cooperation. However, care must be taken

to ensure that all the mechanisms employed support the overriding objective of sustainable development, containing nothing that would tend to conflict with it.

In numerous cases, though, several different mechanisms are employed – and to meet the requirement for coherence, their use must be closely coordinated. This enables any conflicts of interest or synergies to be identified at an early stage, and steps taken to resolve or exploit them. One interesting example of combining various mechanisms is the diversified relationship between Switzerland and Colombia (see box).

### **Bilateral economic relations with Colombia**

*The FTA between Colombia and the European Free Trade Association (EFTA) was signed in November 2008. This comprehensive agreement improves market access and legal certainty for exports of goods and services on a preferential basis. It also covers the admission and utilization of investments, and the protection of intellectual property rights. Public procurement, competition and technical cooperation also figure in the agreement. Like other EFTA FTAs, the agreement with Colombia also contains a series of provisions relating to sustainability principles, particularly exceptional provisions for the protection of the health and life of persons, animals and plants, emphasizing and confirming respect for fundamental rights and the principles of democracy, human rights, economic and social development, workers' rights, obligations under international law – particularly the Charter of the United Nations, the Universal Declaration of Human Rights and the ILO Conventions – as well as the conservation of the environment and sustainable development. For the first time in an EFTA FTA, the section on intellectual property contains provisions relating to genetic resources and traditional knowledge. The FTA recognizes the importance and the value of biological diversity and of traditional knowledge about it. The contracting parties are required to set conditions for access to their genetic resources in compliance with the principles and provisions of valid national and international law. They are also required to ensure that patent applications contain a declaration of the origin or source of a genetic resource to which the inventor or patent applicant had access. The FTA enables the EFTA states to strengthen their economic and trade relations with Colombia, and to prevent any discrimination under preferential agreements that Colombia has concluded or may negotiate in future with any of our main competitors, among them the US, Canada and the EU. In return, discrimination against Colombia in the markets of the EFTA states is also prohibited. It is estimated that the FTA will increase trade between Switzerland and Colombia by 6.5 % a year.*

*Colombia is also a major beneficiary of Switzerland's economic development cooperation. Switzerland's activities focus on three main areas: i) promoting balanced, decentralized economic development, ii) improving Colombia's international competitiveness and promoting sustainable trade, and iii) technology transfer in the field of the environment and climate protection. Colombian companies are made aware of the link between improved environmental and employee protection and commercial success. SMEs are advised on energy and environmental efficiency, which makes them more competitive.*

*Furthermore, in cooperation with the ILO, Switzerland conveys to Colombian SMEs that better working conditions and improved worker protection have positive effects on productivity. To this end, SMEs are helped to optimize their operating procedures and structures.*

Switzerland is thus systematically involved at the interfaces between the trade, environmental and social rules. Switzerland's commitment to Colombia is not motivated solely by its economic interests. The FTA between EFTA and Colombia is just one item among many, fitting seamlessly into the overall picture of the diversified relationship between Switzerland and Colombia. The example of cooperation with Colombia clearly shows how Switzerland tries to adopt a coherent approach to objectives in different fields: trade, environmental, social, and developmental.

### **Free trade agreements**

Switzerland's objective in concluding FTAs – mostly through EFTA, the European Free Trade Association, comprising Iceland, Liechtenstein and Norway as well as Switzerland – is to improve market access, particularly by avoiding discrimination against Swiss companies in foreign markets (see section 4). Potential partners for FTAs are selected in accordance with the following criteria: i) their economic importance, ii) actual or potential discrimination versus Switzerland's main competitors in the relevant market, iii) their readiness to enter into negotiations and the prospects of successful completion, and iv) the furthering of Switzerland's foreign-policy objectives.

FTAs help to open up markets, in Switzerland as well as in the partner country – and that contributes to economic growth and increased prosperity. With regard to sustainability, Switzerland proposes as a standard component of the negotiation process the reaffirmation of the principles set out in the relevant UN instruments and in the ILO Core Conventions, certain trade-related environmental provisions and other principles in connection with

sustainable development. In pursuit of coherence with other international obligations, Switzerland's FTAs contain a clause to the effect that the provisions of the FTA do not conflict with the objectives of other international agreements, whether these be in the fields of trade, environmental, social or human rights. Another example: like the WTO rules, the provisions of the FTAs explicitly permit measures for the protection of the life and health of persons, animals or plants and the conservation of non-renewable natural resources.

Switzerland's FTAs with developing and emerging countries provide for the asymmetric reduction of customs duties, taking account of differing levels of economic development. Whereas Switzerland opens up its markets as soon as the agreement comes into force, the partner states reduce customs duties in sensitive areas in stages, giving them time to make the necessary structural changes and to cushion their impact. In addition, most of these FTAs contain provisions for technical cooperation and economic development, enabling the partner states or their commercial players to take maximum advantage of the economic benefits of the agreements.

Switzerland is following developments with regard to the relations between social and environmental standards and the FTAs, particularly in the light of developments at multilateral level and the relevant approaches of the European Union, the United States and other trading powers. EFTA has established working groups on trade and the environment and on trade and labour standards. The objective of both these working groups is to make environmental and labour standards more visible in FTAs, and to supplement existing provisions with new proposals emphasizing these factors in FTAs. Furthermore work on FTAs will in future take account of Switzerland's entire network of relationships with the partner concerned. Particular attention will be paid to whether an FTA is compatible with Switzerland's foreign-policy objectives, and to its possible synergies.

### **Cooperation in the environmental field**

Switzerland has so far concluded agreements in the field of environmental cooperation (in the narrower sense) with three states: Russia (international agreement, 1987), Uruguay (MoU, 2005) and China. Two agreements with China were concluded in 2009: an MoU under the umbrella of the Switzerland/China Joint Economic Commission, which focuses on the exchange of technology relating to renewable energies, energy efficiency and connected environmental matters; and an agreement on cooperation in the environmental field, focusing on sustainable water management and hazard prevention.

In April 2009, following the agreement with China, DETEC was authorized by the Federal Council to conclude further environmental agreements with India, Indonesia, Mexico, Brazil and South Africa. The objectives of these

agreements are to institutionalize a political dialogue, to include environmental matters in trade and economic relations, and to conduct a dialogue about environmental legislation, resource management and (environmental) technology transfer. The agreements must serve the interests of Switzerland's involvement in international environmental policy, and those of Swiss industry in the field of environmental technologies.

Specific agreements on closer cooperation in the energy fields were signed with Azerbaijan, the United Arab Emirates, and Turkey.

### **Export risk insurance**

The Swiss Export Risk Insurance (SERV – see section 10.1.2) in its current form has its origins in the Federal Council's legislative plan for 1999–2003, which included the continued development of a sustainable foreign economic policy (see section 10.1.2). The concept of sustainability now finds principal expression in the fact that the SERV must operate on a self-sustaining basis, which means the premiums it charges must be commensurate with the risk. Sustainability factors are among those clarified at the stage of an insurance quotation in principle. In addition, the SERV generally takes account of the principles of Swiss foreign policy. In practice this particularly means that the SERV implements the market disciplines and sustainability-related recommendations<sup>10</sup> agreed within the OECD, and supports the Federal Department of Economic Affairs (FDEA) in negotiations about their continued development. The goal of making importing countries sensitive to environmental and sustainability factors, and thus having a positive effect on project developments, can only be achieved through international cooperation and by adopting standards.

In this connection the so-called common approaches are certainly the most meaningful, as the environmental effects of exports supported by public credits or insurance have to be investigated. This is intended to ensure that they comply not only with legislation valid in the importing country, but also with relevant external standards – principally those of the World Bank. These embody environmental standards in the narrower sense of the term, such as those relating to the environmental review or pest control, and also social and human-rights standards such as those on the protection of cultural resources or the conduct of involuntary resettlement. Compliance with these guidelines is reviewed on an ongoing basis by the OECD Export Credit Group and safeguarded by transparency measures.

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<sup>10</sup> These are the *Revised Council Recommendation on Common Approaches on the Environment and Officially Supported Export Credits*, adopted by the Council of the OECD in June 2007, the *OECD Recommendation on Bribery and Officially Supported Export Credits* of 14 December 2006, and the *Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low Income Countries*, which was agreed by the OECD Export Credit Group in April 2008.

### **The Ilisu hydroelectric power plant**

*On 28 March 2007, following detailed preparations, the Federal Council instructed the SERV to insure deliveries from Swiss companies to the hydroelectric power plant at Ilisu, Turkey, to the value of 225 million Swiss francs. The German and Austrian export credit agencies also extended insurance cover. These decisions were conditional on assurances from Turkey that it would comply with numerous requirements based on the World Bank standards recommended by the OECD in the fields of human rights (resettlement) and the protection of the environment and cultural assets. Compliance with these standards was a central requirement for export risk insurance cover, and from the outset it was an important condition for the implementation of the project. An independent committee of international experts was appointed to verify compliance. The three export credit agencies ensured that the contract contained a clause entitling them to withdraw from the project in the event of non-compliance or inadequate compliance with the agreed requirements.*

*In the course of implementation it became clear that in spite of occasional progress, repeated visits to the project site and detailed discussions with the project-management team employed by the builder, there were repeated shortcomings in compliance with the specified requirements. In December 2008, in order to highlight the extreme importance of these requirements against the backdrop of repeated delays in compliance with them, the export credit agencies instructed the exporters to suspend construction and supply contracts. That marked the beginning of the final 180-day time limit specified in the contract for compliance with the contractual requirements.*

*There were improvements, some of them considerable – but when that time limit expired, the contractual requirements in the fields of resettlement and the protection of the environment and cultural assets had not been adequately met. On 7 July 2009, in consultation with their respective supervisory authorities, the export credit agencies therefore notified Turkey and the exporters that the basis for the continuation of the project with export risk insurance from the three countries no longer existed.*

### **Economic development cooperation**

In the course of its economic development cooperation, Switzerland's foreign economic policy helps partner countries to integrate into the global economy (see section 7). Economic development cooperation helps to

integrate economic, social and environmental policies in developing countries by supporting economic growth, promoting the transfer of environmentally friendly technologies and ecologically efficient processing methods, and promoting workers' rights.

The promotion of the transfer of environmentally friendly technologies and ecologically efficient processing methods is a central element in Switzerland's economic development cooperation. A comprehensive conceptual procedure for the transfer of environmental technologies in the field of industrial production is now undergoing further processing by the Development Aid Committee (DAC) of the OECD. Its core components are the *Cleaner Production Centres* and the *Green Credit Lines*, together with work on intellectual property. The reason for promoting ecologically efficient production methods is that companies in developing countries often have considerable potential for using materials, energy and resources more efficiently. This reduces their costs and makes them more competitive. More environmentally friendly production, furthermore, is an increasingly important success factor for companies active in international markets. Technology transfer in the field of public infrastructure projects creates the possibility of ensuring that economic development is ecologically sustainable, and of counteracting the market failure that sometimes occurs in this field. In parallel, policy dialogue – in which environmental reforms and legislation are raised and supported – is an important factor.

The starting point for promoting workers' rights is the recognition that more effective worker protection often leads to the optimization of work processes and the improved organization of labour. The consistent application of this concept protects workers, giving the SMEs a better position vis-à-vis their international competition. As the ILO's core labour standards often form part of private and/or voluntary standards and codes of conduct, respect for them is more and more a *sine qua non* for access to international markets.

Positive experience of voluntary private standards and labelling has led Switzerland in recent years to increase its involvement in this area, and to give it a strategic orientation (see section 1.4.4).

#### **1.4.4 Support for voluntary private-sector standards**

Globalization often means that production processes are fragmented, taking place in different countries – so that products are subject to different economic, environmental and social standards at various points along the value chain. This presents companies with major challenges in meeting their social responsibilities. Switzerland advocates the establishment and furtherance of mechanisms with broad international support, CSR standards

that are as consistent as possible throughout the world, and the promotion of corporate behaviour characterized by a sense of responsibility to society, the environment, the economy and the state<sup>11</sup>.

Poverty can only be reduced in the long term if developing countries are drawn into the global economic system and retained within it. They must therefore be given the help they need to prepare for a successful entry into international markets. CSR has an important part to play here. As part of its economic development cooperation, Switzerland gives companies in developing countries information and advice to help them with the effective implementation of CSR measures.

Labelling and voluntary standards<sup>12</sup> help to raise awareness of environmental and social factors, in both production and consumption – and in recent years they have developed and become much more widespread. As support for initiatives to establish voluntary standards can help to close existing lacunae between the international trading, social and environmental rules, the Federal Council has adopted a strategy for their promotion<sup>13</sup> under which Switzerland supports the establishment of selected voluntary standards as a neutral partner. Switzerland's principal focus in this area is on activity in the field of economic development cooperation (see section 1.4.3).

Switzerland supports efforts by various international labelling organizations to standardize certification criteria and promote mutual recognition. As well as reducing certification costs, this gives producers improved access to the individual labelling systems. Ultimately this also affects the price of the product, and thus to a certain extent the consumer's decision to buy: there is an increased demand for lower-cost products manufactured by sustainable methods. This also increases the effect of the labelling systems in the producer countries.

#### **Switzerland's commitment to «Fair Trade»**

*«Fair Trade» products are enjoying increasing popularity. The Fair Trade label may not be suitable as a standard for the whole of world trade, and the products' share of the global market is still very small – yet demand is rising by up to 50 % per year, depending on the country.*

<sup>11</sup> e.g. international conventions on combating corruption, OECD guidelines for multinational companies, ILO and UN recommendations.

<sup>12</sup> Well-known voluntary standards include the FSC (Forest Stewardship Council) for timber and forestry products, the MSC (Marine Stewardship Council) for marine fish stocks, 4C (Common Code for the Coffee Community) etc.

<sup>13</sup> IDA Rio Report: "Implementation of the Federal Council Strategy on Sustainable Development, Measure No. 6, Recognition and Promotion of Eco-social Labels".

*In Switzerland Fair Trade pioneers and the major distributors, with their bold commitment and a clever market strategy, are involved to equal extents. Surveys have found that 98 % of households have heard of Fair Trade products.*

*But Fair Trade also needs staying power. After standards for individual products have been developed, it can take several years to bring them to market readiness and train the producers – as much as a decade in some cases. The supply of Fair Trade products is driven by the demand for them, and it is funded by the premium paid by consumers – so the state only gets involved if Fair Trade needs a push-start. As part of its economic development cooperation, Switzerland provided start-up funding for the Max Havelaar Foundation and the STEP carpet label to place business with labelled Fair Trade products on a solid footing in Switzerland. A viable range of products could not have been developed without it. Max Havelaar has been institutionally self-sufficient since 2002, and it is no longer receiving financial support from the Swiss government. The STEP label has been an autonomous business unit of the Max Havelaar Foundation since 2007.*

*Fair Trade has also gone global. A Swiss initiative led donors to join forces at the beginning of 2009 in order to continue promoting Fair Trade internationally on a coordinated basis, thus providing the impetus for expanding the product range. Fair Trade must be in a position to satisfy the growing demand, thus contributing to economic development in the producer countries.*

## **1.5 Conclusion and outlook**

The concept of sustainability describes a relationship, an equilibrium, between the three dimensions of economic performance, environmental responsibility and social solidarity. No general, universally valid solution exists for the conflicts of interest that can arise in preserving that equilibrium. A decision must be taken in each individual case as to which objectives are to be given the highest priority.

Switzerland consistently factors sustainability into its foreign economic policy, seeking to improve it – and to employ the foreign economic policy mechanisms available to it on a coherent basis. Switzerland is now in a position to benefit from the advantages of economic integration while cushioning the impact of its potential drawbacks. Take, for example, the progress made with decoupling economic growth from various forms of environmental pollution, as described in section 1.3.2. In this respect, Switzerland is among the beneficiaries of the international division of

labour: our concentration on services and the production of low-emission goods has been partly responsible for that decoupling effect, together with the general advances made in reducing energy intensity. At the same time grey emissions account for almost half the CO<sub>2</sub> generated by consumption in Switzerland. This «emissions export» increases Switzerland's obligation to support international efforts to promote sustainability objectives, whether at multilateral or bilateral level. As for the social dimension of sustainability, it can be similarly argued that Switzerland is comparatively well able to cushion the impact of the structural change triggered by economic integration, though this makes it all the more incumbent on us to contribute to the success of that structural change at international level. This special responsibility will continue in future to make heavy demands on Swiss foreign economic policy. Switzerland is therefore interested in increasing efforts to promote sustainable development at a global level, partly in order to avoid competitive distortion. To this end, more attention is being paid to the environmental and social aspects of foreign economic policy projects. The following priorities can be identified at the action levels listed in section 1.3.3.

### **Strengthening international environmental and social rules**

The point of strengthening international environmental rules is to reduce global environmental pollution. The short-term priority is to strengthen UNEP and improve cooperation between the MEA secretariats. Another central objective is to induce developing and emerging countries to accept the obligations of the Multilateral Environmental Agreements. Switzerland remains committed to the use of market mechanisms such as emissions trading to enforce the principle that the polluter pays.

The Swiss priority for strengthening the ILO is to ensure that the *Declaration on Social Justice for a Fair Globalization* is consistently followed up. Switzerland wants to help to make the ILO more efficient, and to keep it focused on its four strategic objectives of employment, social protection, social dialogue and rights at work. Furthermore technical cooperation with the ILO will become closer on the basis of the MoU signed in June 2009. In order to give national expression to this commitment to strengthening the ILO, Switzerland will develop a strategic approach to the promotion and ratification of ILO conventions, and to the strengthening of its commitment to the promotion of labour standards abroad. Switzerland hopes to meet this challenge in collaboration with employer and worker representatives.

### **Promoting cooperation and coherence between international organizations**

Cooperation between the organizations is improving in the environmental field, as is evident from the Doha Round discussions on the relationship

between the MEAs and the WTO rules. But the social field has some catching up to do. The secretariats of the ILO and the WTO have cooperated only on an *ad hoc* basis in the past, and the ILO has yet to achieve observer status at the WTO. Switzerland will augment its commitment to improving cooperation between the two organizations.

As we have seen in section 1.4, coherence between trade, environmental and social rules is not just a matter for the institutions that are directly responsible for them: many other organizations are involved as well. Some, like the OECD, provide analysis of interface questions, others – like the World Bank, regional development banks, UNCTAD and UNIDO – have important parts to play in the implementation and enforcement of the rules. They must all be involved in efforts to increase coherence. Switzerland will do all it can to improve dialogue and coordination between the relevant organizations.

The World Bank and the regional development banks are particularly important because of their expertise, their political positioning, the financial resources at their disposal and their local presence. Switzerland is a member of the executive council of the World Bank and shareholder of the regional development banks, giving us great influence over their various policies. We will exert that influence more vigorously, ensuring that the banks take still greater account of sustainability in their activities. Perhaps in collaboration with other donors, Switzerland will also look into the possibility of establishing specific programmes funded by extra-budgetary resources.

### **Ensuring coherence at the plurilateral and bilateral levels**

Plurilateral and bilateral action should be seen as supplementary to multilateral action, and accordingly it must adhere to the same principles and meet the same requirements. If Switzerland works on a multilateral level for improved coherence between the trade, environmental and social rules, it must also do so on the plurilateral and bilateral levels.

But a coherent policy also requires the targeted use of specific mechanisms for the appropriate furtherance of Switzerland's various objectives with regard to partner countries. The example of Colombia shows that bilateral mechanisms can be sensibly combined. But the sharp rise in the number of bilateral foreign economic policy mechanisms in recent years makes heavy demands on coordination. To take account of these demands in future, consideration must be given, when drawing up individual mechanisms, to whether they will give rise to conflicts of objective or synergies with others. The country strategies that have been employed in foreign economic policy since 2006 will be particularly useful here, and so will the country and regional strategies of the FDFA. In addition, the Federal Council will set out these connections and cross-references more clearly in negotiation

mandates, especially those relating to free trade agreements, and in its messages to the parliament. These efforts are in line with the Federal Council's intention, set out in the Foreign Policy Report 2009, to increase the coherence of Switzerland's foreign policy.

### **Supporting voluntary private-sector measures**

Switzerland already promotes CSR. Besides working within the relevant organizations for a favourable international environment, it also helps companies with the implementation of CSR mechanisms. The objective is to increase the readiness of companies, even in difficult external circumstances, to contribute to sustainable development and to comply with standards going beyond their legal obligations. To take account of the increased importance of CSR, the activities and priorities of the FDEA in the CSR field will be placed on a broader conceptual foundation. Discussions are under way with the private sector about how CSR can be further strengthened. As CSR is business-driven, the prime focus must be on encouraging the private sector to take the initiative.

As part of its activities to promote voluntary standards and labels, which it will continue to advocate in future, Switzerland supports efforts to achieve harmonization. We are in a position to play a leading international role here. Not only does Switzerland make efforts to bring together the players involved – particularly international labelling organizations and other donors – in order to standardize criteria, in 2009 we filed a proposal with the WTO to ask the TBT<sup>14</sup> and SPS<sup>15</sup> committees to consider the problem with a view to achieving a coherent approach. The objective of this multilevel commitment is to reduce the various standards to a smaller common denominator, thus giving the market the clarity it needs – and also to simplify and harmonize the services in this field that Switzerland delivers to producers in developing countries as part of its economic development cooperation.

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<sup>14</sup> Technical Barriers to Trade

<sup>15</sup> Sanitary and Phytosanitary Measures