

Executive Summary of the Foreign Economic Policy Report 2014

Objectives of the Federal Council for the year 2014

The objectives of the Federal Council for the year under review focus on strengthening the Swiss economy by further improving the framework conditions and by pursuing a policy of sustainable growth (cf. objectives of the Federal Council 2014¹, Objective 2). To this end the Federal Council submitted proposals for legislation to the Parliament (“Messages”) to revise the Federal National Economic Supply Act and to partially revise the Export Risk Guarantee Act. Also, a “Message” on Measures for Economic Promotion 2016–2019 was prepared.

In the year under review Swiss foreign economic policy continued to focus on measures geared towards improving access to key foreign growth markets. In this sense the bilateral free trade agreement with China and free trade agreements between the EFTA-States and the Gulf Cooperation Council as well as with Costa Rica and Panama entered into force. Negotiations on a free trade agreement between the EFTA-States and Guatemala were concluded and similar negotiations with Indonesia and with Vietnam continued, and were launched with Malaysia. In the WTO a multilateral Trade Facilitation Agreement was adopted, paving the way for the future implementation of other decisions passed by the WTO Ministerial Conference at the end of 2013 in Bali. In May the Federal Council began negotiations with the EU on an institutional agreement with the objective to strengthen and further develop bilateral relations with the EU. This also enabled the continuation of negotiations with the EU in other areas (in particular electricity, European Emissions Trading System, food safety and public health).

While the present report provides detailed information on the above mentioned and other important activities of Swiss foreign economic policy in 2014, the Federal Council will give a detailed account of the progress in relation to the general annual policy objectives in his 2014 Annual Report to be published later. A provisional assessment of the foreign economic policy achievements suggests that in 2014 the relevant objectives were achieved.

The economic environment

Six years since the beginning of the global financial crisis in 2008, global economic development is still not particularly robust and continues to be exposed to various risks. The recovery in the year under review generally remained hesitant and was weaker than expected, while the situation in the major economic regions of the world was mixed. The heightened geopolitical tensions – particularly between Russia and the Ukraine but also in the Near East – contributed towards greater economic uncertainty in many countries.

In the year under review, the pace of economic development in the EU – Switzerland’s main trading partner – was slower than hoped for. Following a pleasing

¹ www.bk.admin.ch > Documentation > Publications > Political Planning > Annual objectives > Archive – Annual Objectives of the Federal Council, Volume I resp. II

trend at the beginning of the year, economic expansion in many EU-Member States later showed signs of a slowdown. Even the relatively solid German economy showed weakness as a result of subdued export prospects. Various countries in the euro area continued to struggle in the aftermath of the debt crisis, in particular under the stringent measures introduced for fiscal restructuring. In the face of growing deflation risks in the euro area, the European Central Bank further loosened monetary policy.

Economic development in other parts of the world showed a varying picture. The economic recovery in the United States progressed well and unemployment fell. In Japan, however, despite a vigorously expansionist monetary policy, the upturn was less robust than hoped for. The large emerging markets of Argentina, Brazil and Russia showed distinctively weak economic trends while economic growth in China was relatively strong and rising in India.

In the year under review the Swiss economy reported solid growth again (expected to reach close to 2%), although surveys of businesses and consumer sentiment revealed a certain deterioration suggesting growing uncertainty. Exports showed a slightly increasing upward trend, although this does not appear to be founded on a particularly solid base given sluggish growth in various European markets. The Swiss National Bank maintained the lower limit of the exchange rate at 1.20 against the euro. At just over 3% there was minimal change in the unemployment rate during the year. Continued growth in the years ahead appears to be at increased risk. This assessment is based on the persistent economic problems in the euro zone and on increased uncertainty about the future of the relations between Switzerland and the EU, which could have a detrimental effect on the propensity of companies to invest and consequently on the prospects for medium-term growth.

2014 Foreign Economic Policy Report

Feature topic (section 1)

The feature topic looks into Switzerland's position in global value added chains. A value added chain encompasses all the steps, domestic or foreign, of a production process through which a product or service passes in the course of its making, from the design to the sale to the end users. From the perspective of an efficiency-oriented economy the objective is that its location specialises on steps in the production process for which it has comparative advantages, while further steps, upstream or downstream, in the process are carried out in other countries. The splitting up of production processes along transnational value added chains has been accelerating since the 1990s, as a consequence of the opening up of newly emerging markets in Asia and South America – in particular those of China, India and Brazil – and as a result of technological developments. Global value added chains have a significant impact on economic competitiveness as well as on trade and investment flows of the industrial countries. Switzerland, which is heavily integrated in world trade, responds to this development with foreign economic and internal market policy measures aiming to maintain and improve competitiveness and to create and secure jobs.

Multilateral economic cooperation (section 2)

In the year under review implementation of the «Bali Package» adopted at the WTO Ministerial Conference in December 2013 was delayed (section 2.1). This affected the Trade Facilitation Agreement (section 10.2.1) amongst other things. Following intensive consultations particularly between the USA and India, enabling a mutually acceptable solution to be found in the area of food safety, the Protocol to the Trade Facilitation Agreement was formally adopted by the General Council on 27 November and submitted to the WTO Member States for ratification. The approval process for the Agreement was initiated in Switzerland before the end of the year. The resolution of the impasse in the WTO General Council paves the way for the implementation of all the Bali decisions including trade facilitation as well as specific agricultural and development issues. For the remaining Doha issues which contain controversial subjects such as market access in the areas of agriculture, industrial goods and services, the delay had as a consequence that a work programme could no longer be developed before the end of the year. This is expected to be done in 2015. On the plurilateral level, negotiations are taking place on a services agreement, on IT products, as well as on environmental goods and services.

The Organisation for Economic Co-operation and Development (OECD) is continuing to pursue a strategy of outreach in order to increase the relevance of its own activities (section 2.2). The OECD promotes exchange of best practices between authorities. This is done on the one side through a policy of rapprochement with the five major emerging economies – Brazil, China, India, Indonesia and South Africa – which were granted a privileged status as key partners and on the other side through its regional programme for South-East Asian countries. The accession process with Russia was temporarily suspended in view of the situation in the Ukraine. In the area of taxation the OECD Council approved a new global standard for automatic exchange of information in tax matters. The G20 commissioned the Global Forum on Transparency and Exchange of Information for Tax Purposes to monitor the implementation of the new standard. Switzerland played an active role in the development of this standard and campaigned for the safeguarding of confidentiality of information exchanged, reciprocity, reliable identification of the beneficial owner and of the principle of speciality to be guaranteed.

The new Secretary General of the United Nations Conference on Trade and Development (UNCTAD) was invited to visit Berne within the context of his appointment to the post (section 2.3). UNCTAD, which celebrated its 50th anniversary in the year under review, is very important to Switzerland which is host state and a major donor to and partner of the organisation. The new Director General of United Nations Industrial Development Organisation (UNIDO) also visited Switzerland in the year under review (section 2.4). Switzerland is a long-standing partner of this organisation and focusses its commitment on the promotion of forms of sustainable and climate-friendly industry and production. One of the key challenges for UNIDO is to halt the decline in membership over recent years and to develop new sources of finance.

Switzerland also continued its commitment in the International Labour Organisation (ILO) as well as the implementation of joint cooperation projects (section 2.5). The focus was on the ratification of the Maternity Protection Convention (No. 183) and the Convention Concerning Decent Work for Domestic Workers (No. 189). Switzer-

land also supported the efforts aimed at overcoming the logjam in the ILO standards control system.

The Australian Presidency of the G20 was characterised by a reduction in the priorities on growth strategies for the private sector (section 2.6). At the same time, taxes remain a central issue of the G20. At the Summit Meeting in Brisbane at the end of November the Heads of Government and State gave their support to the new standard on the automatic exchange of information for tax purposes and welcomed the progress made in the implementation of the action plan against the erosion of the tax base and profit shifting. Both projects were prepared by the OECD. Switzerland was involved in the G20 and at the invitation of the Australian Presidency participated in seminars and technical workshops, in particular on the subject of investment promotion.

European economic integration (section 3)

The adoption of a new Article 121a on immigration of the Federal Constitution led to increased uncertainty regarding the continued existence and further development of sectoral bilateral agreements between Switzerland and the EU which are crucial for the Swiss economy and jobs. Combined with the sluggish economic development in the EU, this led to an increase in the risks to the continuation of the economic upturn in Switzerland. In order to increase legal certainty for Swiss companies, to enable the conclusion of new and to further develop existing market access agreements, and to avoid erosion of current market access, negotiations on an institutional agreement were initiated in May, which also enabled negotiations to be continued particularly on electricity, European Emissions Trading System, food safety and public health. However, the signing of new agreements will be conditional upon a solution being found for the agreement on the Free Movement of Persons. In October, the Federal Council approved a related negotiating mandate. In the area of taxation the Federal Council approved a negotiating mandate for the introduction of automatic exchange of information with the EU and signed a common understanding on corporate taxation with the EU Member States.

Free trade agreements with countries outside the EU and the EFTA (section 4)

In the framework of the Federal Council's long-term economic policy and against the background of the continuing uncertainty regarding the outlook for the EU and the global economy, expansion of the network of free trade agreements, in particular to fast-growing emerging markets, remains a priority for Switzerland. The bilateral free trade agreement with China and the free trade agreements between the EFTA-States and the States of the Gulf Cooperation Council, and Costa Rica and Panama, entered into force in the year under review. Negotiations on a free trade agreement with Guatemala were concluded, similar negotiations with Indonesia and with Vietnam continued and were launched with Malaysia. The updating and deepening of existing free trade agreements also gained importance, e.g. such negotiations were opened with Turkey. A Joint Declaration on Cooperation was signed between EFTA and the Philippines as a basis for closer relations. Against the background of the elections held in India the negotiations with this partner were unable to be concluded. The negotiations with the Russia–Belarus–Kazakhstan Customs Union were postponed until further notice due to the events in the Ukraine.

Sectoral policies (section 5)

Notable developments in sectoral policies in the year under review relate, inter alia, to the following areas: as part of the gradual implementation of the Regional Convention on pan-Euro-Mediterranean Preference Rules of Origin, the foundation is being laid for facilitating diagonal cumulation of origin with the Western Balkan countries (section 5.1), the removal of technical barriers to trade was continued in the framework of the Agreement with the EU on Mutual Recognition of Conformity Assessments, in particular with regard to construction and biocidal products (section 5.2), the negotiations on a plurilateral Agreement on the Liberalisation of Trade in Services (TISA) were continued (section 5.3) and the new UNCITRAL Treaty on Transparency in Investor–State Arbitration Proceedings, as well as a bilateral Investment Protection Agreement between Switzerland and Georgia, were concluded (sections 5.4 und 10.2.2). For the monitoring and implementation of provisions on consistency with the objective of sustainability, incorporated in Swiss free trade and investment protection agreements, Switzerland makes use of bilateral and multilateral instruments, and provides support, amongst other things in the context of its policy of economic development cooperation, to the partner countries in their pursuit of sustainable development (section 5.5.1). The reporting on the status of the implementation of the recommendations contained in the 2013 Basic Report on Commodities demonstrates the commitment of the Federal Council on both the national and international levels, particularly in connection with the promotion of transparency, inter alia, of payments by companies to governmental bodies (section 5.5.2). The 20th session of the Conference of the Parties to the Framework Convention on Climate Change focussed on the preparation for a new global climate agreement for the period after 2020 (section 5.5.3). In the area of competition policy the bilateral agreement with the EU on cooperation of competition authorities entered into force (section 5.6). As a result of the revised plurilateral WTO Agreement on Government Procurement, the revision of the relevant legislation was continued on the federal and cantonal levels (section 5.7). In the World Intellectual Property Organisation (WIPO), Switzerland was involved in the revision of the Madrid System for the international registration of trademarks and improved the protection for appellation of origin. On the bilateral level Switzerland held discussions with China on key issues relating to the implementation and enforcement of intellectual property rights (section 5.8).

Economic development cooperation (section 6)

The interim report on the implementation of the State Secretariat for Economic Affairs (SECO) economic and trade policy measures within the context of the Message by the Federal Council on International Cooperation 2013–2016 showed positive results and that the chosen course should continue to be followed. Switzerland established its negotiating mandate for the formulation of the global objectives for sustainable development («post-2015» Agenda) and participated in the international debate. On the multilateral level the emphasis was on the implementation of the institutional reforms of the World Bank Group and the Asian Development Bank approved in 2013. The process aimed at the mobilisation of financial resources for the newly established Green Climate Fund was also initiated. The economic development cooperation activity in the year under review focussed in particular on the mobilisation of the developing countries' own financial resources and their respon-

sible management. Further areas of focus were on the cooperation between governmental players and the private sector and strengthening the management capability of public utilities in developing countries.

Bilateral economic relations (section 7)

Switzerland's bilateral foreign economic relations were characterised by the uncertainties that emerged after the adoption of the new provisions on immigration in the Federal Constitution on 9 February, as well as by the crisis in the Ukraine. At the same time, a shift in the balance of power in world trade in favour of emerging and developing countries, as well as the emergence of new economic integration areas such as the Pacific Alliance and the Association of Southeast Asian Nations Economic Community (ASEAN) can be observed. Switzerland closely monitors these developments, the aim being to avoid any discrimination in the future. In addition to the economic relations with the EU and other traditional trading partners, access to other markets, including those in sub-Saharan Africa, is becoming increasingly important to the Swiss economy.

Export control and embargo measures (section 8)

In the year under review, the Parliament approved the Cooperation Agreement for Switzerland's participation in the European Satellite Navigation programmes, as well as the UN Arms Trade Treaty. The review conducted of the War Materials Ordinance is intended to reduce the disadvantage of the Swiss security and defence industry compared to other European countries and in this way to contribute towards maintaining the industrial capacity embodied in the War Materials Ordinance to the benefit of national defence. Swiss embargo measures focussed on the developments in the Ukraine and on Switzerland's measures to avoid the circumvention of related international sanctions. The sanctions against Iran were suspended on a selective basis as a result of international negotiations on Iran's nuclear programme.

Economic location promotion (section 9)

The export promotion services offered by Switzerland Global Enterprise and those of the Swiss Export Risk Insurance were also actively used in the year under review. They allow for geographic market diversification respectively protection against political and economic risks for the export of goods and services, particularly for SMEs. In the OECD Switzerland continued to advocate for the development of common rules with regard to export risk insurance in order to avoid any distortions of competition.

In view of the increased global competition for business locations and the uncertainty amongst potential investors, Switzerland Global Enterprise carried out targeted measures for providing information on and promoting Switzerland as an economic location. In this context the emphasis is on the positioning of Switzerland as a prime location for innovative and high value-added companies.

The economic framework conditions for Swiss tourism were difficult in the year under review and it is facing both structural and international challenges such as unfavourable operating and destination structures and the problems of granting visas, partly associated with the shift on markets of origin.

Outlook for the coming year

In the framework of the foreign economic policy of the Federal Council expanding market access secured by plurilateral, bilateral and multilateral agreements will be continued in 2015.

Following the adoption of the new provisions on immigration in the Federal Constitution, the Federal Council will continue work on the implementation of these provisions and, at the same time, expand the bilateral agreements with the EU, by far the most important economic partner of Switzerland, which are crucial to the Swiss economy and jobs. Therefore negotiations with the EU on an institutional agreement will be continued and discussions on the future design of the agreement on the Free Movement of Persons will be started. The update of the Agreement with the EU on Mutual Recognition of Conformity Assessments will continue in 2015, in particular relating to electrical goods, measuring instruments and lifts in order to ensure the proper functioning of the agreement. Another challenge faced by Switzerland is to safeguard economic interests with Russia and the Ukraine without compromising relations with the EU.

With regard to free trade agreements, it is planned to resume and conclude negotiations between EFTA and India in 2015. EFTA will continue negotiations with Indonesia, Malaysia and Vietnam and, if possible, achieve substantial progress. Negotiations are to be launched with the Philippines. The developments in Thailand, as well as in Russia and the Ukraine will be further monitored with the aim of resuming negotiations with Thailand and with the Russia–Belarus–Kazakhstan Customs Union as soon as circumstances allow. The EFTA pursues its contacts with regard to the resumption of negotiations with Algeria. With regard to existing free trade agreements, priority will be accorded to the full implementation of the EFTA free trade agreement with the Gulf Cooperation Council. The aim is to conclude negotiations on the further development of the EFTA free trade agreement with Turkey and launch those with Canada and Mexico. The update of further free trade agreements, such as those with Chile, Singapore and South Korea, will be continued. The emphasis of the work relating to the rules of origin will be on the gradual implementation of the Regional Convention on Pan-Europe–Mediterranean Preferential Rules of Origin (PEM-Convention) and the conclusion of negotiations on the revision of the PEM rules of origin. Account must also be taken of the increasing internationalisation of value added chains and corresponding concepts examined with the partners of free trade agreements.

With regard to bilateral investment protection agreements (IPAs), the intention is to continue the ongoing negotiations with Indonesia, Russia and Angola. There are also plans to open negotiations on new IPAs with Malaysia and, where possible, with South Africa. Following the work on the new transparency rules for investor–state–arbitration, the question will be examined as to whether there is a need for adaptation of the investment protection agreement in other areas (such as code of conduct for arbitrators). The Federal Council will give special consideration to the monitoring and implementation of the provisions in the free trade agreements and the IPAs on the consistency with the sustainability objectives. Further attention will be paid to the major regional free trade projects in the Asia–Pacific and transatlantic regions.

In the WTO, priority will be given to the implementation of the Bali decisions as well as to ensuring the negotiating capacity of the WTO through the development of a work programme for the conclusion of the other Doha-related issues. The plurilateral negotiations on the liberalisation of services, IT products, and environmental goods and services will also be continued. Within Switzerland the implementation into national law of the revised WTO agreement on government procurement, with a view to its ratification by Switzerland before the end of 2015 will be continued.

The OECD will maintain its strategy of outreach in order to increase the relevance of its activities. To this end it intends in particular to continue its Southeast Asia Regional Programme. In the area of taxation the OECD will monitor the implementation of the new global standard for the automatic exchange of information for tax purposes with the support of the Global Forum on Transparency and Exchange of Information for Tax Purposes. In 2015, under the Turkish presidency, the G20 will also be advocating for a rapid implementation of the new standard, as well as for further progress in the implementation of the OECD action plan against the erosion of the tax base and profit-shifting.

In 2015 further intensive negotiations will be needed in the ILO to resolve the log-jam in the organisation's standards system. Preserving the international social dialogue is a major priority for Switzerland, bearing in mind also the organisation's 100th anniversary in 2019.

In view of the adoption in December 2015 of an ambitious climate agreement for the period post-2020, encompassing all states, Switzerland will announce its climate reduction targets in spring 2015.

The focus of the international development cooperation in 2015 will remain on the formulation of an agenda for sustainable development «post-2015», including the question of the financing for the new development agenda. High priority will also be given to protecting Switzerland's interests and representation within the multilateral and regional development banks. At the Asian Development Bank, the transfer of the resources of the Development Fund to the Bank's equity capital is one of the items on the agenda for 2015. The Green Climate Fund, in which Switzerland is also a contributor to the start-up capitalisation, will start its operational activities in 2015. At the national level the key issue will remain the formulation of the "Message" on International Cooperation 2017–2020 and the implementation of the recommendations arising from the «peer review» by the OECD Development Assistance Committee. Finally, cooperation with the private sector will be strengthened, for example through the newly created platform «Swiss Sustainable Finance».

The first Conference of States Parties to the Arms Trade Treaty will take place in Mexico in 2015, with a corresponding preparatory conference being held in Switzerland. Switzerland applies to host the headquarters of the Treaty Secretariat. With regard to embargoes, the focus in 2015 is likely to remain on the situation in the Ukraine and Syria, as well as on the development of the negotiations on the Iranian nuclear program. Questions relating to the implementation of export controls in the context of the cooperation agreement on satellite navigation programmes will need to be clarified with the EU.

On the subject of economic location promotion, the emphasis will be on the continuing consolidation of the digital marketing content of the cantons and regions, as well

as on the strengthening of information measures. In the OECD Tourism Committee Switzerland will participate in the implementation of the 2015–2016 programme of work, in particular on the topics relating to innovative approaches to financing in support of small and medium-sized enterprises in the tourism industry, as well as to the review of the policies for the promotion of tourism. The aim is to use the related knowledge for the further development of the instruments for promoting tourism policy, Switzerland Tourism and Swiss Society for Hotel Credit.

