

Executive Summary of the Foreign Economic Policy Report 2015

Objectives of the Federal Council for 2015

In the year under review, the Federal Council focused on strengthening Switzerland as a business location and on positioning of Switzerland in the European and in the global context. The Swiss Government gave close attention to the effects of the Swiss franc's high value and to the shaping of the future relations between Switzerland and the EU.

Regarding the relations with the EU, besides efforts to continue the approach of bilateral agreements, work focused on implementing the new constitutional provisions regarding immigration. The year under review also saw the signing of the Amending protocol to the agreement between the Swiss Confederation and the European Community on taxation of savings income dating from 2004. On the basis of this agreement, Switzerland and the EU Member States intend to exchange account data in accordance with the global OECD standard (automatic exchange of information) from 2018.

In the context of the WTO, Switzerland advocated further liberalisation of world trade. In parallel, Switzerland continued to expand its network of free trade agreements (FTA). In the field of development cooperation, the Federal Council contributed, among other things, within UNCTAD to setting up the 2030 Agenda for Sustainable Development, which was approved at the UN summit.

While the Federal Council will give a detailed account of progress against the annual policy objectives in his 2015 Annual Report, a provisional assessment of the results for 2015 suggests that the objectives in the area of foreign economic policy were achieved.

The Economic Environment

The world economy experienced moderate growth dynamics in the year under review, though trends in the industrialised and in the emerging economies moved in opposite directions. China is undergoing a fundamental transition from an export-driven, manufacturing-based economic structure to a more service-oriented economy geared increasingly towards domestic demand. Two other key emerging markets, Brazil and Russia, slid into recession. This was due to structural weaknesses and political tension as well as to low prices of oil and other commodities.

By contrast, the industrialised countries contributed to the improving stability of the world economy. The United States saw a consolidation of the upswing of the past few years. The EU – Switzerland's main trading partner – also saw continuation of a gradual economic recovery. Stimuli emanated from low energy prices, the European Central Bank's expansive monetary policy and the relatively weak euro. However, divergences between individual European countries persisted. While Spain's economy grew relatively rapidly, those of France and Italy gained momentum only hesitantly. Although the acute threat of insolvency looming over Greece was dispelled last summer, the country's unresolved structural problems continue to pose a latent risk.

Apart from international economic developments, the past year was marked in Switzerland by the exchange rate situation. Following the Swiss National Bank's abandonment of the minimum euro exchange rate in mid-January 2015, the prospects of the Swiss economy deteriorated sharply. In the first three quarters of the year, economic growth virtually came to a standstill after a solid growth rate of almost 2 per cent in the previous year. Exchange rate-sensitive and export-oriented sectors were generally worse hit by the strong Swiss franc, while those geared towards the domestic economy helped to achieve a certain degree of stability. The unemployment rate increased by a modest margin during the course of the year.

Developments in the international economy pose a considerable risk to Switzerland. If the growth downturn in a number of key emerging markets continues to worsen and the industrialised countries – especially those in the eurozone – slide back into recession, the Swiss economy can be expected to suffer major setbacks. The fact that Switzerland's relations with the EU continues to be uncertain also threatens to hamper future investment and economic growth in the medium term.

2015 Foreign Economic Policy Report

Feature Topic (section 1)

In the feature topic, the Federal Council discusses the core influences on Switzerland's attraction and international competitiveness as a business location. Economic policy is facing considerable challenges. These include the steadily changing structure of the economy and the internationalisation of production processes as well as of research and education, but also the difficulty of reconciling domestic concerns with international agreements, which grant Swiss companies access to foreign markets. The Federal Council intends to provide the best possible environment for economic operators in Switzerland to create value added and jobs and to engage in innovative activities. Such environment includes not only efficient infrastructure and favourable conditions for international business activities, but also, in particular, a flexible labour market and access to required skilled professionals, lean administrative procedures with least possible administrative costs, and a stable political and macroeconomic climate – traditionally attribute distinguishing Switzerland from other business locations.

Multilateral Economic Cooperation (section 2)

The tenth Ministerial Conference of the World Trade Organization (WTO) held in Nairobi in December 2015 approved an extension of the Information Technology Agreement ("ITA II"). The Members of the WTO also agreed to discontinue export subsidies on agricultural products after a transitional period of five years (section 2.1).

At the Organisation for Economic Cooperation and Development (OECD), developments in the fiscal area were of particular importance for Switzerland (section 2.2). The Global Forum on Transparency and Exchange of Information for Tax Purposes

considered Switzerland's legal basis for the automatic exchange of information in tax matters to be sufficient and initiated the assessment of the application of the OECD standard in practice. With regard to company taxation, Switzerland participated in the efforts of the OECD and the G20 to prevent base erosion and profit shifting (BEPS). In a Report to the Parliament of 5 June 2015, the Federal Council indicated how the Swiss Government intends to implement the new standards of the OECD in the framework of the third series of corporate tax reforms (USR III). Switzerland supports the OECD's opening towards the key partners Brazil, China, India, Indonesia and South Africa. The aim is to continue promoting the sharing of good practices with the authorities of these countries. Switzerland contributed to the efforts of the G20 by presenting views to G20 members on a number of issues that have high priority for Switzerland, such as BEPS, the restructuring of government debt, infrastructure financing and the combating of fraud.

Another major topic in the year under review was the 2030 Agenda for Sustainable Development, which was approved at the UN summit (section 2.3). In cooperation with the United Nations Industrial Development Organization (UNIDO), Switzerland promoted sustainable and climate-friendly industrial practices and production processes (section 2.4).

At the International Labour Organization (ILO), Switzerland helped in particular to remove obstacles to the implementation of the ILO's standards review mechanism (section 2.5). In attending the General Conference, Switzerland contributed to efforts of the ILO to facilitate the transition from the informal to the formal economy and to promoting SMEs which create decent and productive employment.

European Economic Integration (section 3)

In 2015, the European policy of the Federal Council focussed on work towards implementing the new constitutional provisions on immigration. In this context, the Swiss government examined the possible effects of a comprehensive Switzerland-EU FTA as an alternative to the bilateral agreements between Switzerland and the EU. The resulting report makes it clear that conditions for market access would be much less favourable under an FTA compared with what has been achieved with the existing bilateral agreements, with no significant improvement of Switzerland's regulatory autonomy in exchange. Furthermore, the Federal Council mandated two external studies to examine the economic effects of a discontinuation of certain bilateral agreements ("Bilateral Agreements I"). The studies conclude that the abandonment of these agreements would result in significantly lower economic growth in Switzerland. Further setbacks would be due to the loss of legal certainty. The studies show that the discontinuation of the Bilateral Agreements I would substantially impair Switzerland's attraction as a business location (cf. section 1) and that a comprehensive FTA with the EU would not meet the interests of the Swiss economy. These findings strengthen the resolve of the Federal Council to continue pursuing the approach of bilateral agreements as the basis for the relations of Switzerland with the EU. Little progress was made, however, in the area of sector-specific negotiations during the year under review.

Free Trade Agreements with Countries outside the EU and EFTA (section 4)

Against the background of the long-term orientation of Swiss economic policy (section 1) and given the uncertain outlook for the EU economy (section 3), the Federal Council continued to give high priority to concluding new FTAs. In the year under review, the FTA with Bosnia and Herzegovina entered into force, and Guatemala's Protocol of Accession to the EFTA-Central America FTA was signed (section 10.2.2). In addition, the existing EFTA-Albania and EFTA-Serbia FTAs were supplemented with new provisions on trade and sustainable development (section 10.2.1). Under the FTAs with China, the GCC, the Palestinian Authority/PLO, Serbia and the Southern African Custom Union (SACU), Joint Committee meetings were held. Negotiations by EFTA on FTAs with Malaysia and with Vietnam as well as the negotiations with Turkey on the further development of the 1992 FTA were continued. The Federal Council sought to improve conditions for concluding the negotiations with India and Indonesia. EFTA commenced negotiations with Georgia and with the Philippines. The EFTA States and Ecuador signed a cooperation agreement with the aim of initiating negotiations on an FTA in 2016. An exploratory dialogue was initiated between the EFTA states and Mercosur. The EFTA States and the USA continued their trade dialogue.

Sectoral Policies (section 5)

In the area of customs and rules of origin policy, the Federal Council continued to promote customs procedures that are as business-friendly as possible as well as simplified rules of origin within the pan-European/Mediterranean zone. With a view to the prohibition of export subsidies in the WTO (section 2.1), work started on the replacement of the existing export contributions for processed agricultural products by WTO-compliant measures (section 5.1). Switzerland continued efforts to dismantle technical barriers to trade in relation to the EU and to China, and advocated the removal of trade-distortive product regulations in the WTO (section 5.2). Regarding services, Switzerland continued negotiations on a plurilateral agreement aimed at further liberalisation of trade in services (section 5.3). To facilitate the participation of least developed countries in international trade in services, Switzerland – like other WTO members – notified improvements for market access and national treatment for the benefit of these countries. The Federal Council issued a position paper on corporate social responsibility setting out the objectives and expectations of the Swiss Government with regard to responsible business conduct. With a view to future negotiations, contractual practices in bilateral investment protection treaties are being examined by the competent federal offices (section 5.4). With regard to commodities trading, progress was made in respect of transparency, responsibility of companies and of Governments, and in development policy (section 5.5.2). Against the backdrop of the Climate Agreement that was approved at the Climate Conference in Paris, Switzerland was the first country to publish its carbon emission goals (section 5.5.3). In light of the revised plurilateral WTO Agreement on Government Procurement, efforts on harmonising procurement law at the federal and cantonal level was continued (section 5.7). Furthermore, the Federal Council advocated appropriate protection of geographical indications and intellectual property at the international level (section 5.8).

Economic Development Cooperation (section 6)

Implementation of Switzerland's International Cooperation Programme 2013–2016 was continued. As in foreign economic policy in general (section 5.5.1), the Federal Council accorded high priority to policy coherence for sustainable

development, both in Switzerland and at the international level. The 2030 Agenda for Sustainable Development (section 6.1.1) will play a key role in this regard. Within the World Bank, Switzerland advocated new rules for procurement and for environmental and social standards that the Bank would have to comply with when granting credits. Switzerland made considerable contributions to the establishment of the Asian Infrastructure Investment Bank and to the implementation of the Green Climate Fund. In developing countries Switzerland contributed to capacity building on topics such as sustainable export-oriented value chains, biodiversity, tax administration and public finance systems as well as private sector development. Switzerland also contributed in other areas of development policy during the year under review, such as waste management.

Bilateral Economic Relations (section 7)

Since the beginning of the 21st century, the BRICS countries (Brazil, Russia, India, China and South Africa) have been regarded as engines of the regional and the global economy. However, over the past few years, economic growth has not met these high expectations to the same degree in all of these countries. Since their importance is set to increase in the longer term, the Federal Council continues its strategy of diversifying economic relations by intensifying involvement of the BRICS countries and other emerging markets.

Export Control and Embargo Measures (section 8)

The year under review saw the entry into force of the Arms Trade Treaty for Switzerland. Geneva was chosen as the seat of the permanent secretariat. With the successful conclusion of the nuclear negotiations with Iran, the basis has been laid for the future lifting of most of the sanctions against this country. The Federal Council issued new sanction ordinances targeting South Sudan and Burundi. To curb the use of certain goods as a means of oppression, the Federal Council issued regulations on brokering goods for mobile telephone and internet surveillance.

Export and Location Promotion (section 9)

Owing to the exchange rate situation, the geographical diversification of foreign markets has become increasingly important, especially for export-oriented SMEs. Support measures by the national export promotion organisation were adjusted accordingly. In the context of promoting Switzerland as a business location, availability of basic information on Switzerland's locational advantages has been expanded in a targeted manner. In addition, the Federal Council revised the Ordinance on Swiss Export Risk Insurance (SERV) to take account of changing needs of exporters.

Outlook for the coming year

In the framework of Swiss foreign economic policy, the Federal Council intends to consolidate and further develop the level of market access achieved through the conclusion of international agreements. To maintain Switzerland's eminent attraction as a business location, the Swiss Government will continue to promote a business environment able to attract and keep competitive value-adding processes in Switzerland. Among other efforts, envisaged measures aimed at reducing administrative burdens will be pursued, as well as domestic policy reforms in areas such as agriculture, social security and healthcare.

In 2016, the Federal Council will continue the talks with the EU about the Agreement on the Free Movement of Persons and the negotiations of an institutional agreement. In the event that no agreement would be reached with the EU in time, the Federal Council intends to submit in spring 2016 a proposal to Parliament on the implementation of the new constitutional provisions regarding immigration by way of a unilateral safeguard clause.

Efforts in the WTO will focus on the decisions taken by the Ministerial Conference in Nairobi. The Federal Council will, consulting the economic sectors concerned, replace existing export contributions for processed agricultural products by WTO conforming measures. Implementation of the revised WTO Agreement on Government Procurement in national law will be continued in view of Switzerland's ratification of the agreement. The Federal Council intends to submit a relevant proposal to Parliament in summer 2016.

In the OECD, the Federal Council will pay close attention in particular to developments in the area of taxation. At the IMF, Switzerland will chair the Anti Money Laundering/Combating the Financing of Terrorism Topical Trust Fund in 2016. Regarding the G20, which will be chaired by China in 2016, Switzerland will take part in the financial segment.

In the context of EFTA, the Federal Council aims at a further expansion of the network of FTAs in 2016 and, in particular, to sign agreements with Georgia, Malaysia, the Philippines and, if possible, Vietnam. Negotiations on the further development of the FTA with Turkey should be concluded and, if possible, negotiations on updating the FTAs with Canada and Mexico are to commence. Switzerland will continue to participate in the trade dialogue of EFTA with the USA. As soon as the possible impact of a comprehensive FTA between the EU and the USA (TTIP) on the competitiveness of Switzerland's economy can be assessed, the Federal Council will decide on further steps to be taken.

In 2016, Switzerland intends to initiate negotiations on the updating of the Investment Protection Agreement with Malaysia. Moreover, following the signing of the Competition Agreement between Switzerland and the EU in 2013, the Federal Council will hold exploratory talks on similar agreements with neighbouring countries. Switzerland will advocate an agreement to protect genetic resources and traditional knowledge within the World Intellectual Property Organization (WIPO) and examine the adoption by Switzerland of the Geneva Act of the Lisbon Agreement on Appellations of Origin and Geographical Indications.

With the aim of promoting sustainable development, the Federal Council will continue to accord high priority to coherence between economic policy, social affairs, the environment and human rights. The objectives of the 2030 Agenda for Sustainable Development need to be specified and their implementation to be prepared. The Federal Council will gear the report to the Parliament on Switzerland's International Cooperation Programme 2017-2020 towards these new terms of reference, *inter alia*. In doing so, the Federal Council will attach particular attention to promoting sustainable and climate-

compatible industrial practices and production processes. In the commodity sector, Switzerland will continue to promote competitiveness, sustainability and risk containment, given the high concentration of internationally active commodity trading companies on its territory. Specific plans for implementing the Paris Climate Agreement are to be developed in 2016. In this connection, the Federal Council will prepare a revised Act on CO₂-emissions.

Relations with Switzerland's traditional key trading partners, particularly the EU and the USA, will continue to be essential for the Swiss economy. Yet, the Federal Council attaches importance to other trading partners such as key emerging countries, in particular the BRICS, too. For example, trade relations with Iran are likely to become more important due to the implementation of the Nuclear Agreement which will removal most of the international sanctions.

Given the current economic environment, the need for export promotion services and for services of the export risk insurance scheme will remain high in 2016. The revised law on export risk insurance will allow to even better support exporters in their efforts to compete internationally. Measures promoting Switzerland as a business location will focus more closely on high value added sectors and on innovative industries.