

## Global Letter **The Swiss ‘model’ is a myth**



- *The UK has a massive trade negotiation task in prospect: and there is no model to follow*

### Introduction<sup>1</sup>

Throughout the Brexit debate there has been much talk of models for UK association with the EU – of the Norwegian model (now largely dismissed as too akin to the UK’s present arrangement); of the Albanian model (not basically relevant); and latterly the so-called Swiss model.

The focus on Switzerland might seem understandable: except for the three members of the European Economic Area (EEA) – Norway, Lichtenstein, and Iceland – few, if any, other so-called ‘third countries’ have developed ties with the EU that are as numerous, varied, and deep.

However, to talk of ‘models’ is misleading: no country’s arrangements can simply be taken ‘off the shelf’, to be copied and implemented by another as desired. Countries’ needs and economic structures differ: each third country has had to negotiate its own terms of access, item by item.<sup>2</sup>

What Switzerland has done over many years is put together a ‘patchwork’ of around 120 bilateral liberalisation, harmonisation, and cooperation agreements. And at least some elements in this ‘arrangement’ would be unacceptable to many Brexiteers, while others would be unacceptable to many Remainers.

### Unacceptable to Remainers

Elements of Switzerland’s arrangements with the EU that would trouble Remainers include:

- Switzerland has only partial access to the EU’s huge Single Market.<sup>3</sup>
  - While trade in industrial goods is now basically liberalised – under the 1973 Free Trade Agreement<sup>4</sup> – Switzerland’s 1992 rejection of the EEA has meant that trade in capital and services is not, but for some exceptions, including non-life insurance.<sup>5</sup> As regards market access for financial services, Switzerland is treated as a third country: it has to undergo the EU procedures on equivalence determination, even though it has gone further than any third country (bar the EEA members) in shadowing EU law.<sup>6</sup>
  - Negotiations take ages: it took Switzerland six years to negotiate just its first package of sectoral agreements after the rejection of the EEA.<sup>7</sup> And negotiations have become progressively more difficult:<sup>8</sup> the EU has been insisting for years that no new agreements can be negotiated without the conclusion of a framework agreement defining the institutional regime for integration agreements.<sup>9</sup>

### Unacceptable to Leavers

Other elements of Switzerland’s arrangements with the EU would trouble the UK’s Leavers. Switzerland’s ‘patchwork’ of agreements obliges it to:

- Make significant contributions to the EU budget.
- Accept the free movement of persons:<sup>10</sup>
  - However, in 2014 Swiss voters adopted a popular initiative which conflicts with the EU’s free-movement-of-persons principle, placing its market-access agreements in jeopardy.
- Comply with the majority of rules governing the Single Market – while having little influence on their formulation.
- Engage in continual management of the Swiss-EU agreements as the EU regulations evolve: the most important agreements have been amended, several times per year, generally by committees of Swiss and EU officials.<sup>11</sup>

### Conclusion

While none of the existing (mainly European) third-country arrangements can be considered as a ‘model’ for the UK, the Swiss approach is even less so, being the (still-incomplete) result of a pragmatic, incremental, country-specific process followed since 1992. In the words of former Swiss Ambassador Alexis Lautenberg, doyen of Swiss internal financial arrangements:

*“Personally I have for years reminded that there is no such thing as a Swiss model. As we have recently seen, this penny has manifestly not dropped.”<sup>12</sup> ■*



#Brexit: The UK faces a massive trade negotiation task, and focusing on Switzerland is misleading: there is no such thing as a 'Swiss model'.

<sup>1</sup> There is a range of documentation detailing various forms of trade arrangements with the EU. This *Global Letter* draws on two in particular: Kierzenkowski, R., et al. (2016). *The Economic Consequences of Brexit: A Taxing Decision*. OECD Economic Policy Papers, No. 16, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5im0lsvdkf6k-en>; and Her Majesty's Government (2016). *Alternatives to membership: possible models for the United Kingdom outside the European Union*. 4 March.

<https://www.gov.uk/government/publications/alternatives-to-membership-possible-models-for-the-united-kingdom-outside-the-european-union>

<sup>2</sup> The US, for example, has so far concluded 135-odd Mutual Recognition Agreements (MRAs) with the EU.

<sup>3</sup> Access to the EU's Single Market matters to the UK. Exports to EU countries account for about 45% of total UK exports, and thereby about 12% of UK GDP. It has been estimated that some 3 million jobs are linked to exports destined for the EU. Source: HMG (2016) op. cit.

<sup>4</sup> As defined under GATT/WTO.

<sup>5</sup> "... Exports of financial services amount to slightly more than 2.5% of GDP for the UK, against about 0.5% of GDP in EU peers (Figure 9, Panel A). The EU is the destination of some 40% of UK financial exports, down from around 50% in 2000." See Kierzenkowski, R., et al. (2016), op. cit.

<sup>6</sup> Importantly, Switzerland has no 'passporting' rights for banks, which means therefore that it can gain access to the EU market only through subsidiaries in the EU, including most importantly London. An area of particular concern to the UK is whether it will or would be able to retain its \$120bn-odd euro trade and clearing businesses were it outside the EU – see McShane, D., (2016). *Don't rush Brexit fences too early*. OMFIF, 18 August.

<sup>7</sup> The only trade-related agreements under the first package concerned technical barriers to trade (TBT) and public procurement.

<sup>8</sup> For a thorough presentation of how negotiating relationships between Switzerland and the EU have for a long time become progressively more difficult, see for example Buchan, D., (2012). *Outsiders on the Inside: Swiss and Norwegian lessons for the UK*. Centre for European Reform. pp.8-9. [https://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2012/buchan\\_swiss\\_norway\\_11oct12-6427.pdf](https://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2012/buchan_swiss_norway_11oct12-6427.pdf)

<sup>9</sup> Jenni (op. cit) notes that "... today, Switzerland and the EU cannot even agree on the terms of negotiation."

<sup>10</sup> A European Parliament Fact Sheet notes that: "Freedom of movement and residence for persons in the EU is the cornerstone of Union citizenship, which was established by the Treaty of Maastricht in 1992. Its practical implementation in EU law, however, has not been straightforward. It first involved the gradual phasing-out of internal borders under the Schengen agreements, initially in just a handful of Member States. Today, the provisions governing the free movement of persons are laid down in Directive 2004/38/EC on the right of EU citizens and their family members to move and reside freely within the territory of the Member States, although substantial implementation obstacles persist."

[http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuld=FTU\\_2.1.3.html](http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuld=FTU_2.1.3.html)

<sup>11</sup> Jenni (op. cit). The author goes on to conclude: "This finding calls into question the emphasis on self-determination which makes the "Swiss model" attractive for British Eurosceptics. If agreements with the EU are to provide some of the benefits of EU membership to non-member states, then they have to be amended far more often than one would expect from static international treaties. These amendments are administrative processes rather than deliberate political decisions. This means that leaving the EU would not stop the influence of EU law-making on UK-EU relations, but it would curtail UK's decision-making rights."

<sup>12</sup> In communication with the author.