

04 / 2018

Brexit: a «moving target» for the Swiss business sector too

11.04.2018

Executive summary

Brexit continues to dominate the media and the political agenda in both London and Brussels. With just one year to go before the UK leaves the EU (on 29 March 2019), negotiations have reached a critical point. Time is running out, the political stakes are high and a mutually acceptable solution for future relations still appears to be a long way off. The EU Council adopted important decisions on 23 March 2018. However, unless these are also ratified there will still be no binding solution. The risk that companies in the UK and elsewhere in Europe could suffer economic harm is therefore growing – even though the majority of them in both the EU and the UK were against Brexit.

This is also affecting the Swiss business sector, which has always maintained close trade relations with both the EU and the UK and is highly invested in both markets. The future relations between the EU and the UK, as well as the bilateral relations between Switzerland and the UK, need to be clearly defined as soon as possible. Many companies are already confronted with legal uncertainties due to Brexit, and this means they are having to take strategic decisions in an increasingly uncertain environment.

It is not only short-term profits, the integrity of the European single market, the struggle for votes or the desire for autonomy that are at stake here – Europe's competitiveness in general is also at risk. Thanks to the increased integration of its markets in the past few years, Europe's competitive capacity at the international level has decisively fostered prosperity, stability and security throughout the continent – and Switzerland, too, has benefited from and significantly contributed to this.

economiesuisse has established a central point of contact for questions specifically relating to Brexit: brexit@economiesuisse.ch.

Position economie suisse

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[www.economiesuisse.ch/en/
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Immediate action: negotiation and synchronisation of an interim solution

➤ Bilateral relations between Switzerland and the UK have to meet two conditions: (1) They must not give rise to a deterioration of reciprocal market access, and (2) they must not be less favourable than the arrangements agreed between the EU and the UK. In the future, Swiss companies must also be able to benefit from the same conditions as their competitors in Europe.

➤ Even though the regulations governing the transitional period will primarily apply between the UK and the EU, any binding ratified agreement for a transitional period must also encompass relations with non-member states. This would give Switzerland more time for regulating its bilateral relations with the UK. The agreements between Switzerland and the UK that are necessary for this should therefore be concluded as quickly as possible.

➤ With regard to triangularity issues (three-way relations), “synchronising” the transitional period agreed between the EU and the UK with a bilateral solution between Switzerland and the UK is essential for the economy. In other words, Switzerland also needs an interim solution as of 29 March 2019. This is the only way a smooth transition and the seamless preservation of the status quo in relations between Switzerland and the UK can be secured immediately after Brexit.

After the expiry of the transitional period on 31 December 2020: creation of stability and utilisation of opportunities

➤ The business sector needs clarity regarding the future economic relations and the status of companies in the UK after the expiry of the transitional period. Long-term stability creates legal and planning certainty for trade and investments.

➤ Challenges associated with Triangularity (between the EU, the UK and Switzerland) have to be addressed as quickly as possible. However, binding rules for areas in which solutions can be found more speedily and at the bilateral level should not be unnecessarily delayed.

- Opportunities for intensifying bilateral relations between Switzerland and the UK should be utilised wherever this is feasible and beneficial. This applies in particular to issues relating to reciprocal recognition in the financial services sector, as well as rules of origin and increased cooperation within the framework of international platforms and organisations. Evolutionary clauses should be used for securing the further development of negotiated agreements.

- Regardless of the level of bilateral relations with the UK, the EU will remain Switzerland's most important trade partner in the future. It is therefore in the interests of the business sector to maintain and continually develop profitable relations with both partners.

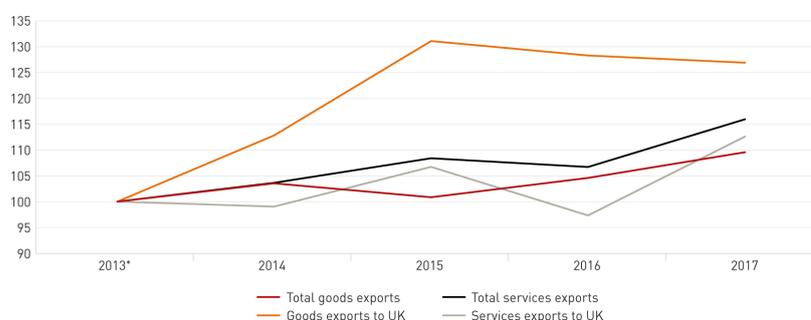
Mixed picture for trade after Brexit

> The UK is among the top five export markets for Switzerland. However, the picture is somewhat mixed.

In 2017, the UK was among Switzerland's top five export markets for goods, services and direct investments. Economic ties between the UK and Switzerland are thus still close. Nonetheless, based on the current figures, the picture with respect to trade is mixed. While goods exports fell in terms of value, services increased substantially.

Exports of goods and services, Switzerland to UK

► in percent



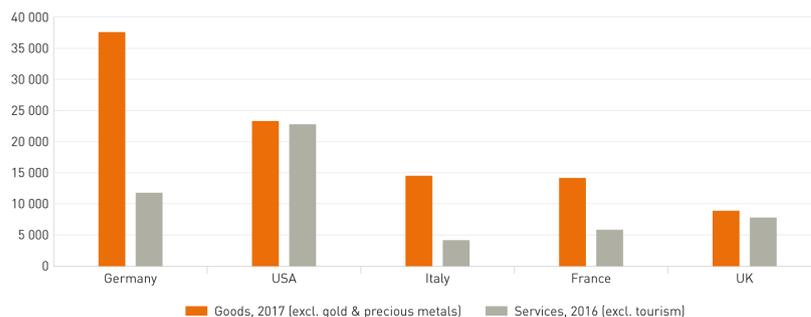
Sources: Federal Customs Administration (2017), Swiss National Bank (2016)
Goods, 2013 to 2017 (index value excluding gold and precious metals) / *Services 2012 to 2016, indexed excluding tourism
www.economiesuisse.ch

> In 2017, the most important categories of exports from Switzerland to the UK included chemicals and pharmaceuticals, machinery and watches, as well as financial, ICT and consulting services

In the goods sector, imports fell by 5 percent and exports by 1 percent. This trend can to some extent be attributed to the weakening pound in the context of Brexit. Since the milestone decision to leave the EU was taken on 23 June 2016, the pound has dropped sharply versus the Swiss franc (periodically by as much as 18 percent). In 2017, the most important categories of exports from Switzerland to the UK included chemicals and pharmaceuticals, machinery and watches, as well as financial, ICT and consulting services.

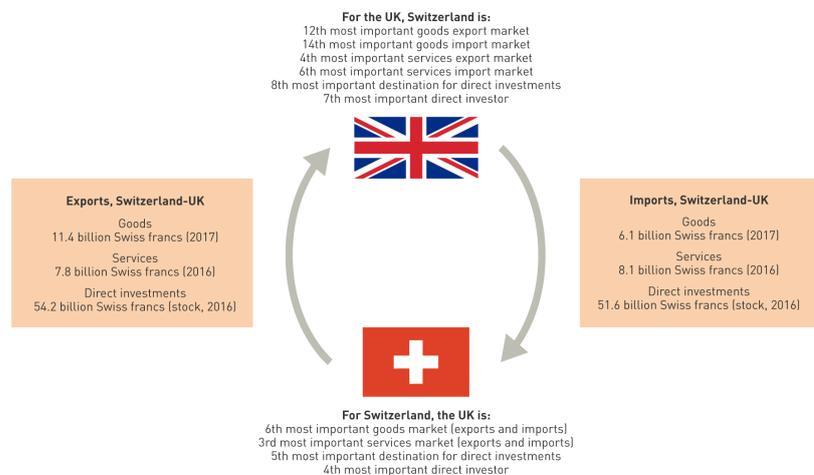
Switzerland's top 5 export markets

► in million Swiss francs



Sources: Federal Customs Administration (2017), Swiss National Bank (2016)
www.economiesuisse.ch

Switzerland-UK: important trade and direct investments partnership



> According to the latest figures, the volume of trade between Switzerland and the UK totalled more than 33 billion Swiss francs. This does not include trade in gold and precious metals worth around 18.4 billion Swiss francs.

Imports of services from the UK fell considerably more sharply (-7 percent), while Swiss exports of services to the UK rose by around 15 percent versus the previous year. Here, the most notable trends concerned consulting services (exports +59 percent) and research and development (imports -47 percent). According to the latest figures, the volume of trade between Switzerland and the UK totalled more than 33 billion Swiss francs. This does not include trade in gold and precious metals worth around 18.4 billion Swiss francs. The latter are of particular significance with respect to imports and were more than twice as high as the other goods imports.

The volume of direct investments and the associated number of employees are also important aspects. According to the figures published by the Swiss National Bank, Swiss companies employed a total of 96,138 people in the UK in 2016, while the number of people employed by British companies in Switzerland in the same year was 26,690. The value of Swiss direct investments in the UK reached 54.2 billion Swiss francs in 2016 (+10 percent versus 2015). The trend with respect to the value of direct investments in Switzerland from the UK was also positive (51.6 billion Swiss francs). Corresponding figures for 2017 from which initial conclusions could be drawn regarding the impacts of Brexit on direct investments are not yet available.

Positive trend with respect to air travel

As a rule, in the civil aviation sector an economic slowdown goes hand in hand with downward trends in both the freight and passenger segments. To date this cannot be ascertained with regard to the UK. On the contrary: in 2017, around 3.4 million passengers and 2.6 million tonnes of air cargo (direct flights) were transported to the UK. In the passenger segment this represents an increase of 6 percent versus 2016. Germany was the only destination to which a higher number of passengers was transported. The figures for air cargo remained constant. The fact that passengers travelling from and to the UK accounted for more than 7 percent of the total passenger volume at Zurich Airport clearly indicates how close the economic ties are between the two countries.

> According to a survey carried out among members of economiesuisse, the UK is among the ten most important markets for almost all of Switzerland's main exporting industries.

UK (still) a top-ten market for all exporting industries

The situation with regard to the overall economy is also reflected in Switzerland's main export sectors. According to a survey carried out among members of economiesuisse and statistics released by the Swiss National Bank, the UK is among the ten most important markets for almost all of Switzerland's main exporting industries. The figures cited in Table 1 give an incomplete picture, however, because, for many sectors, conventional export trade does not encompass all business relations. This is particularly true for the services sector. For example, in the UK, like elsewhere, insurance policies from Swiss providers are concluded and held locally and are consequently not included in Switzerland's trade balance. In 2017, Zurich Insurance alone reported premium volumes and insurance coverage in the UK totalling around 11.5 billion Swiss francs. In the banking sector, too, the reported figures do not encompass all the exported financial services.

Beyond cross-border exports, the UK is also of the utmost importance for Switzerland's financial services sector. On the one hand, Swiss companies provide services to a significant portion of clients in the EU market through subsidiaries in London. And on the other hand, London is of major significance because of the close ties Londoners have with the Swiss Exchange, for example in the area of currency trading in euros. Of course, London is also a major centre for providing services to important overseas clients.

Importance of the UK for the main Swiss export goods and sectors

| Sector | Export ranking | Export volume |
|-------------------------------------|----------------|-----------------------------|
| Chemicals, pharmaceuticals, biotech | 3 | 11,309 million Swiss francs |
| Machinery | 5 | 2,330 million Swiss francs |
| Banking | 2 | 1,511 million Swiss francs |
| Watches | 4 | 1,300 million Swiss francs |
| Consulting | 1 | 1,253 million Swiss francs |
| Insurance | 2 | 1,039 million Swiss francs |
| Chocolate | 2 | 100 million Swiss francs |
| Textiles and clothing | 8 / 7 | 69 million Swiss francs |
| Civil aviation | 2 | 3.4 million passengers |
| Hospitality | 3 | 1.6 million overnight stays |

Sources: economiesuisse survey (2017), Federal Statistical Office (2017), Swiss National Bank (2016)
www.economiesuisse.ch

> **The UK is, in fact, even more important than this for the Swiss economy, given that many figures only reflect a portion of the overall export performance. For example, Table 1 does not include segments such as services, research and development, certain types of financial services, etc.**

> **Due to Brexit, forecasts concerning future developments in the areas of trade and investment are subject to greater uncertainty factors.**

For the Swiss economy, the importance of the UK is even greater than the bare figures suggest. Furthermore, close ties also exist between these two highly innovative and diversified economies in the area of research and development thanks to their renowned academic institutions. The UK is also an important market for the Swiss automotive supply industry. And tourists as well as highly qualified personnel from the UK are much appreciated in Switzerland.

Although the latest figures still present a positive picture of the bilateral relations between Switzerland and the UK, various uncertainty factors make it difficult to predict future developments. This applies especially to the areas of trade and investment: here, things could go either way, depending on the outcome of the Brexit negotiations.

Brexit – status of the withdrawal process

> Thus far, two major rounds of negotiations have taken place concerning issues such as the rights of British citizens in EU territory and vice versa, the UK's financial obligations towards the EU and the regulation of the border between the Republic of Ireland and Northern Ireland.

> In the first quarter of 2018, the aim was to continue the withdrawal negotiations, reach agreement on a transitional period to follow the actual Brexit date (29 March 2019) and specify the main parameters of the future relationship.

> During the transitional period from 30 March 2019 until 31 December 2020, the UK is to remain in the single market and the customs union without a right of co-determination.

> Furthermore, its relations with third countries such as Switzerland are to remain unchanged during this period.

After Prime Minister Theresa May formally notified the EU in March 2017 about the UK's withdrawal from the Union, the initial negotiations focused on three main areas:

- the rights of British citizens in the EU and vice versa
- the UK's financial obligations towards the EU
- regulation of the national border between the Republic of Ireland and Northern Ireland.

Although the parties had been unable to reach agreement on all points, on 15 December 2017 the EU announced that sufficient progress had been made in the negotiations to permit the initiation of the second phase. In the first quarter of 2018, the aims were firstly to continue the exit negotiations, secondly to reach agreement on a transitional period to follow the actual Brexit date (29 March 2019), and thirdly to specify the initial main parameters of the future relationship. The timetable is already extremely tight on paper and if any delays or blocks in the talks should occur in the next few weeks (for example, regarding the problem of the Irish border) this would additionally hamper the ability to reach an agreement by the specified deadline.

Transitional period – “nothing is agreed until everything is agreed”

Adopted at the meeting of the EU Council on 23 March 2018, the UK and the EU reached agreement on some of the central points of the transitional period, which will commence on 30 March 2019 and end on 31 December 2020. During this period, the UK is to remain in the single market and the customs union and will also have to continue paying the same membership contributions. Also, during the transitional period, the European Court of Justice will be responsible for settling disputes, instead of the British Supreme Court. Furthermore, the UK will in general no longer be able to participate in the decision-making process.

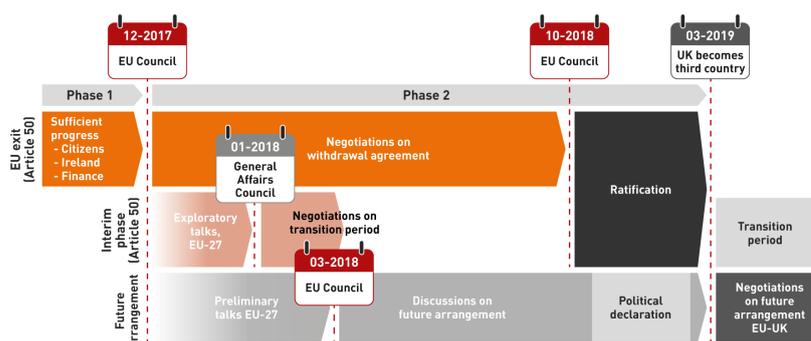
All the UK's rights and obligations towards third countries will also remain in place during this period. The UK will be able to negotiate, sign and ratify trade agreements with other countries during the transitional period, but these can only enter into effect after the transitional period is over. This also applies to agreements with Switzerland. This means that the UK will be able to initiate formal negotiations on its future relations with Switzerland as of 30 March 2019.

> Although the UK will be able to negotiate new trade agreements with third countries (including Switzerland) during the transitional period, these are not allowed to enter into effect before 31 December 2020.

> All of this is based on the proviso that such an interim solution becomes part of the definitive exit agreement between the UK and the EU. This means that “nothing is agreed until everything is agreed”.

All of this is based on the strong provision that the foreseen transitional period becomes part of the definitive exit agreement between the UK and the EU. This means that “nothing is agreed until everything is agreed”. For instance, the issues relating to the settlement of disputes and the border between the Republic of Ireland and Northern Ireland still have to be resolved and could therefore prove to be major obstacles. At the end of the process, the exit agreement will have to be formally ratified by the EU Council as well as the parliaments of the UK and the European Union. The agreement will have to be concluded by October 2018 in order to allow sufficient time for its ratification by 29 March 2019. In addition, notification by each third country vis-à-vis the EU will be necessary to confirm that their existing agreements can also be maintained during the transition period. Until these are in place, the business sector will not be able to count on binding framework conditions post-Brexit.

Ratification of the exit agreement between the EU and the UK will bring initial clarity



Source: EU Commission
www.economiesuisse.ch

> An unregulated exit by the UK from the EU is still a possible worst-case scenario.

> The initial parameters of the future relationship between the EU and the UK are to be defined by the end of 2018 and negotiated in detail during the transitional period.

> According to the EU, only a comprehensive free trade agreement would come into question, but Prime Minister Theresa May favours sector-specific arrangements and customs agreements.

In view of the complex tasks involved, unresolved issues and enormous time pressure, it is still uncertain whether it will be possible to reach an agreement by the specified deadline. Thus, an unregulated exit by the UK from the EU is still a possible worst-case scenario.

Lack of clarity regarding the future relationship between the EU and the UK

The picture with respect to the future relationship between the EU and the UK is even less clear. Initial parameters are to be defined by the end of 2018 in the form of a political declaration and negotiated in detail during the transitional period. A variety of ideas for this have been put forward ((Link dossierpolitik 2016)).

The EU published an initial draft of its corresponding guidelines on 7 March 2018, according to which, given the red lines set down by the UK government (no jurisdiction of the European Court of Justice, autonomous trade policy, no free movement of persons, limited financial contribution, regulatory autonomy), only a comprehensive free trade policy would come into question, such as the one recently concluded with Canada (CETA). Access to the financial services market is to largely take place via equivalence mechanisms. However, a free trade agreement would mean reinstating customs procedures – a move that both parties want to avoid at all costs due to the problem of the internal border in Ireland. The EU has emphasised (with reference to Switzerland) that sector-specific agreements are not acceptable (cherry picking). However, the EU Parliament has signalled a certain degree of flexibility in areas such as civil aviation, fishery, research and innovation, energy and information and communication technology.

In her speech on 2 March 2018, Theresa May confirmed the UK's exit from the EU single market and the customs union, but at the same time called for a comprehensive mutual recognition of standards (e.g. in the civil aviation and pharmaceuticals sectors). This, coupled with sector-specific arrangements and customs agreements, should permit as ambitious an agreement as possible to be reached that would minimise trade barriers and negative economic impacts.

> **Regardless of how any given solution is designed, a deterioration of the economic relations between the UK and the EU is anticipated.**

Lack of clarity regarding the future relationship between the EU and the UK

The potential solutions with respect to market access, regulatory convergence and formal requirements on cross-border trade are likely to give rise to a deterioration of economic relations between the UK and the EU, regardless of how the solutions are designed. However, it is difficult to make precise predictions concerning the impacts in the area of non-tariff-based trade barriers.

Table 2 provides a rough overview of the impacts to be anticipated with respect to customs tariffs, border controls and regulatory obstacles based on different models. In the event of a hard Brexit (regression to WTO rules), the negative consequences would in any case be the greatest (higher tariffs, comprehensive border controls, new obstacles to services and additional costs due to potentially divergent regulatory developments).

Future arrangement between the EU and the UK: potential landing zones

| | EU membership | EEA [*] | Customs union | FTA ^{**} | WTO ^{***} | UK preferred model |
|----------------------------------|---------------------------------|------------------|---------------|-------------------|--------------------|-------------------------------|
| Tariffs on agricultural products | Single market and customs union | lower | lowest | medium | highest | none / low |
| Tariffs on industrial products | | none | none | none | highest | none / low |
| Customs | | yes | yes | yes | most complex | none / very complex |
| Regulatory divergence and costs | | smallest | medium | medium | highest | greatest possible flexibility |
| Service barriers | | smallest | highest | high | highest | partly / medium |

^{*} EEA = European Economic Area ^{**} FTA = free trade agreement ^{***} WTO = World Trade Organization

Sources: Copenhagen Economics (2017), DE:EU (2017), economiesuisse
www.economiesuisse.ch

EU united, British government under internal pressure

> The EU is demonstrating unity with respect to its main stances. The European Commission, as well as the Parliament and the member states, are supporting the EU's main demands on the UK.

> By contrast, the UK's Prime Minister is under a great deal of internal pressure.

In the negotiations to date, the stances have differed on both sides, as well as the approach to the negotiations. The EU is currently demonstrating unity with respect to the main points. The European Commission, as well as the Parliament and the member states, are supporting the EU's main demands on the UK (including no cherry-picked access to the single market, support for the interests of Ireland, clear financial demands on the UK, no right of co-determination during the transitional period). However, the possibility that in the course of the negotiations on the future relationship with the UK diverging interests on the part of some member states could play a role cannot be ruled out. This could give rise to a more pragmatic attitude, but also to new problems within the EU's internal decision-making process.

By contrast, the UK's Prime Minister is under a great deal of internal pressure, especially with respect to the position to be adopted for negotiating the future relationship with the EU. At present she has a very slim majority in the House of Commons, thanks to the support of the Democratic Unionist Party of Northern Ireland. At the same time, there are forces within her own Conservative Party and the Cabinet who are calling for a speedy and uncompromising exit from the EU. Recently the Labour Party has backed the demand by the UK business sector for a customs union with the EU. At least for the time being, though, it appears that options deviating from the position adopted by the government are unable to attract a sufficient majority in the UK Parliament.

Ongoing uncertainty for Swiss companies

> **The progress of the Brexit negotiations between the EU and the UK also has impacts on Switzerland. Swiss companies will remain closely tied to both partners in future, either directly or via their integration into international value chains.**

The progress of the Brexit negotiations between the EU and the UK also has impacts on Switzerland. Swiss companies will remain closely tied to both partners in future, either directly or via their integration into international value chains. However, in many regulatory fields, Switzerland is oriented on the legislation of the EU, which is by far its most important and closest trade partner. This is demonstrated, for instance, by the fact that roughly half of Switzerland's imports and exports are semi-finished products. For example, it may be that primary materials from China are processed in Poland and turned into a machine part in combination with other components from Germany. This item is then integrated into a system in the UK and subsequently exported to the USA as a finished product.

Examples of cross-border value chains with Swiss involvement



Source: economiesuisse
www.economiesuisse.ch

> **Greater regulatory divergence and new trade barriers between the EU and the UK would be a challenge, especially for small and medium-sized Swiss companies, and would create additional costs and red tape.**

Greater regulatory divergence and new trade barriers between the EU and the UK would thus represent a challenge, especially for small and medium-sized Swiss companies, and would create additional costs and red tape. The potential consequences include multiple certifications for products to be admitted to the market, complex customs formalities, delayed deliveries and in some cases even the loss of orders. From an economic point of view, the more a contractual solution between the EU and the UK differs from the present-day status, the more problematic it becomes. The following scenarios are possibilities:

Potential Brexit scenarios and their consequences for the Swiss economy

| Scenario as of 29 March 2019 | Potential impacts on the Swiss economy (selection) |
|--|---|
| <p>Worst case (hard Brexit) UK leaves EU upon expiry of transitional period without a new agreement and is also unable to conclude a bilateral agreement with Switzerland.</p> <p>► Very high legal uncertainty</p> | <ul style="list-style-type: none"> - Loss of preferential market access (Switzerland-UK): fall-back to WTO and (in some cases outdated) bilateral economic agreements - Legal uncertainty for Swiss subsidiaries in the UK - New (tariff-based and non-tariff-based) trade barriers between Switzerland and UK - Diversion of international value and supply chains |
| <p>Best case (soft Brexit) UK negotiates a comprehensive trade agreement with the EU prior to exit, with acceptable transitional periods. Maintenance of status quo with Switzerland can also be quickly secured.</p> <p>► Medium to low legal uncertainty</p> | <ul style="list-style-type: none"> - Preferential market access (Switzerland-UK-EU) largely secured - Risk of regulatory divergence in Europe (EU-UK-Switzerland) slightly lower, but open in the medium and long term - Swiss subsidiaries can continue to operate in the UK as before - Access to qualified personnel from and to UK secured - Possible restrictions for some financial service providers (loss of "passporting") |
| <p>Transitional period UK is unable to negotiate a new agreement with the EU, but reaches agreement on initial parameters and acceptable transitional periods. Status quo with Switzerland can be secured (including transition period).</p> <p>► Medium legal uncertainty</p> | <ul style="list-style-type: none"> - With a bilateral agreement between Switzerland and the UK, immediate difficulties can be addressed to some extent, but the final status of economic relations between Switzerland, the EU and the UK remains open, despite transitional period - Preferential market access (Switzerland-EU-UK) provisionally secured - Unclear whether continuity between EU-UK-Switzerland for international value and supply chains is secured over the long term - Possibility of medium and long-term regulatory divergence |

Source: economieuisse
www.economieuisse.ch

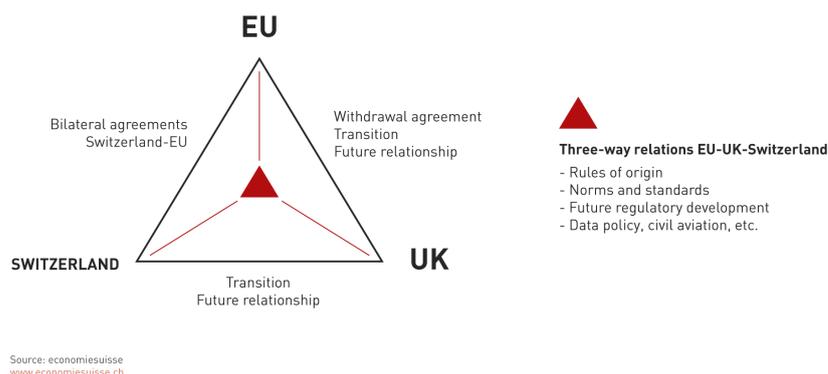
> **Since it is currently not possible to negotiate the future relationship with the UK, Switzerland also has to rely on an interim solution.**

Switzerland also has to rely on an interim solution with the UK because it is currently not possible to negotiate the future relationship. This is important because many Swiss companies are currently being confronted with legal uncertainties in the bilateral relations with the UK. For example, the conclusion of agreements and partnerships with a duration beyond Brexit entails legal uncertainties. On the other hand, investments and decisions regarding business locations cannot be put off indefinitely.

Hence, in the context of Brexit the future competitiveness of Switzerland as a business location and its companies will be determined by three central questions:

1. Will Switzerland be able to conclude suitable bilateral agreements with the UK without delay (e.g. in the areas of land transport, civil aviation, trade in goods and services, movement of persons)?
2. Will the EU and the UK be able to structure their future trade relations so that new obstacles can be avoided wherever possible?
3. Will Switzerland, the UK and the EU be able to minimise the divergence with respect to regulatory and technical issues relating to cross-border value chains (e.g. mutual recognition of standards, rules of origin and data protection)?

EU-UK-Switzerland: Future of a three-way relationship



> **Not all the levers lie within Switzerland's direct sphere of influence. It is not only a bilateral solution with the UK that is of central importance, but also the outcome of the negotiations between the EU and the UK.**

Clearly, not all the levers for securing at least the status quo in bilateral relations with the UK lie within Switzerland's direct sphere of influence. It is not only a bilateral solution with the UK that is of central importance, but also the outcome of the negotiations between the EU and the UK. The agreement reached between the EU and the UK on a transitional period until the end of 2020 is an important positive signal, but its ratification can only be effected shortly before March 2019. Until then, uncertainties will continue to exist with regard to the transitional period.

> **Switzerland will take what action it can within its own sphere of influence. For example, in the wake of the Brexit decision, the Federal Council acted swiftly and formulated specific objectives in the framework of a "mind the gap" strategy. A steering group has also been set up and is holding periodical talks with the British administration with the aim of maintaining the status quo.**

Action by the federal administration and the business sector

In the wake of the Brexit decision, the Federal Council acted swiftly and formulated specific objectives in the framework of a "mind the gap" strategy. The goal here is to replace the legal foundation of Switzerland's bilateral relations with the UK in good time. The legal foundation at present is rooted in the existing agreements with the EU. A steering group headed by the Directorate for European Affairs and comprising representatives of the affected federal departments is responsible for coordinating these activities within the federal administration. The main focus of its activities and periodical talks with the British administration is on maintaining the status quo in Switzerland's contractual relations with the UK. The aim is to keep the ongoing dialogue sufficiently flexible so that solutions can be found in good time that are based on a legal harmonisation with the EU. Additional issues are to be addressed as necessary, for example in the area of finance.

> **In its turn, economiessuisse has established workgroups and developed an outline plan together with industry associations that defines the economic priorities.**

economiesuisse is following the activities of the federal administration and maintaining close contacts with partner associations in the UK, as well as with the relevant administrative units on both sides of the Channel. It is also actively involved through the Confederation of European Business ("businessseurope" for short). Immediately after the result of the Brexit referendum of 23 June 2016, economiesuisse set up a workgroup and, together with various industry associations, drew up a comprehensive outline plan defining the priorities from the point of view of the business sector ((Link, dossierpolitik)). Another workgroup is focusing on the specific interests of the financial services sector in the context of Brexit ((Link Positionspapier mit TCUK)).

Potential risks for businesses

> **Businesses face the potential threat of new trade barriers as a consequence of Brexit, in the areas of trade in goods and services and investment activities, for example.**

In the context of Brexit it will be necessary to find new contractual solutions for various aspects of cross-border trade and access to the UK market. This applies to trade in goods and services as well as to investment activities. Depending on the final form of these solutions, Swiss businesses may find themselves confronted with new barriers to trade in Europe. The impacts may extend to the unbureaucratic and timely availability of personnel, calculation of production and delivery costs, processes associated with product certification, legal requirements concerning the physical presence of Swiss companies in the UK, and cross-border data flow.

11 areas in which trade barriers could arise

| | | | |
|---|--|---|--|
| Intellectual property Lower level of protection of innovations and geographical indications weaken UK as business location | Tariffs and customs procedures New UK import tariffs, declaration requirements and formalities cost time and money | Rules of origin Diverging UK rules a challenge to pan-European value chains | Standards More stringent or diverging UK product standards and labelling requirements increase production costs in and exports to UK |
| Data policy Diverging UK data protection regulations give rise to new obstacles for client relationships and digital networks in Europe | Qualified labour More stringent UK migration policy hampers access to qualified personnel | Financial markets Fragmentation of Europe's financial markets increases complexity and costs | Taxes New UK tax regimes (e.g. VAT) could give rise to reorganisation and restructuring |
| | Currency Weak pound = increased costs of Swiss exports | Existing agreements and licences Without "grandfathering", risks for local clients, supply chains and business activities | Transitional arrangements Legal uncertainties regarding transfer from existing to future arrangements |

Source: economiesuisse
www.economiesuisse.ch

> **Apart from the overlying issues, Brexit also means that Swiss companies are currently facing a multitude of concrete problems in their everyday business that makes their long-term planning more difficult.**

Brexit and small and medium-sized companies: preparing to adapt to a moving target

In view of the considerable uncertainties associated with Brexit, it is currently unclear which scenario, and thus which problems, will in fact arise for Swiss companies, and when. In addition, the impacts for each company will be different, depending on the sector, the company's size and its connections with the UK. From today's perspective, the only assumption that can be made is that the UK will abide by its fundamental decision to exit the EU.

Given these overlying issues in connection with Brexit, Swiss companies are currently facing a multitude of concrete problems in their everyday business that makes their long-term planning more difficult.

Numerous questions from companies, but few answers at the political level



Source: [economiesuisse](http://economiesuisse.ch)
www.economiesuisse.ch

> Despite this lack of clarity, companies must keep their eye on this moving target and take the best possible business decisions they can in good time and prepare themselves for the worst-case scenario. It could be helpful to consider the following steps and questions: How will my company be affected? What options do I have for minimising the acknowledged risks associated with Brexit? Is there any potential for optimisation?

Despite this lack of clarity, companies must keep their eye on this moving target and take the best possible business decisions they can in good time and prepare themselves for the worst-case scenario. It could be helpful to consider the following steps and questions:

1. Where do we stand?

Involvement: To what extent does my company have economic ties with the UK? This question may apply to the entire range of operational functions (subsidiaries, supply chains, partnerships, regulation, logistics and data flows, tax formalities, personnel, etc.).

Organisation: Are the company's internal units networked and is its management personnel involved as needed to prepare a comprehensive analysis and provide the appropriate information?

Network: Is it possible to draw on existing analyses by partner companies or industry associations? This could save time and costs.

2. Strategy

Scenarios: Which options for action does the company have for minimising the risks associated with Brexit and making use of new opportunities that may arise? In view of the prevailing uncertainty, it is advisable to plan on the basis of scenarios and introduce the necessary precautionary measures (e.g. alternative suppliers, deployment of personnel, licences, new markets) in good time in line with the probabilities of occurrence.

Reverse planning: Which measures have to be taken, and when, to be ready for Brexit by 29 March 2019? Which operational decisions need to be taken in this context? Not all options call for the same lead time; in other words, it is not possible to secure everything today and with an acceptable level of resource expenditure.

3. Monitoring

Keeping an eye on developments: Does the company have the information it needs to periodically review its strategic planning? In view of the tense nature of the Brexit negotiations, changes could take place at any time. Companies can monitor developments through economiesuisse, industry associations or external service providers.

Making use of opportunities: Does Brexit offer the option of addressing not only external opportunities, but also internal optimisation processes that until now have been considered to be of secondary importance? Adaptation of systems, supply contracts, cost models, etc., could have the potential to increase efficiency.

Political priorities from the point of view of the Swiss business sector

> **Brexit is a challenge not only for companies, but also for Swiss policy makers. At the political level, it is also not yet clear how the relations between the UK and Switzerland will look post-Brexit.**

> **In the short term, an interim solution has to be negotiated and synchronised.**

Brexit is a moving target not only for companies, but also for Swiss policy makers. The details regarding the situation after 29 March 2019 (i.e. the transitional period) are still unclear, as is the post-Brexit status of the relations between the UK and the EU on the one hand, and Switzerland and the UK on the other. However, from the point of view of the Swiss business sector, the political priorities that are to be pursued in this uncertain environment are very clear.

Immediate action: negotiation and synchronisation of an interim solution

- Bilateral relations between Switzerland and the UK have to meet two conditions: (1) They must not give rise to a deterioration of reciprocal market access, and (2) they must not be less favourable than the arrangements agreed between the EU and the UK. In the future, Swiss companies must also be able to benefit from the **same conditions as their competitors** in Europe.
- Even though the regulations governing the transitional period will primarily apply between the UK and the EU, any binding ratified agreement for a transitional period must also encompass **relations with non-member states**. This would give Switzerland more time for regulating its bilateral relationship with the UK. The agreements between Switzerland and the UK that are necessary for this should therefore be concluded as quickly as possible.
- With regard to triangularity issues (three-way relations), **“synchronising” the transitional period agreed between the EU and the UK** with a bilateral solution between Switzerland and the UK is essential for the economy. In other words, Switzerland also needs a transitional arrangement as of 29 March 2019. This is the only way a smooth transition and the seamless preservation of the status quo in relations between Switzerland and the UK can be secured immediately after Brexit.
- The Federal Council and the administration have to initiate the necessary **preparatory tasks at an early stage**. These include consultations on a mandate to initiate Brexit negotiations as soon as formal talks are permissible. Any such agreement will subsequently also have to be ratified. In the event that provisional application of agreements should prove necessary for time reasons, the business sector would explicitly support this.

**After the expiry of the transitional period on 31 December 2020:
creation of stability and utilisation of opportunities**

- The business sector needs clarity regarding future economic relations and the status of companies in the UK once the transitional period is over. **Long-term stability creates legal and planning certainty** for trade and investments.
- Challenges associated with Triangularity (between the EU, the UK and Switzerland) have to be addressed as quickly as possible. However, binding rules for areas in which solutions can be found more speedily and at the bilateral level should not be unnecessarily delayed.
- Opportunities for **intensifying bilateral relations** between Switzerland and the UK should be utilised wherever this is feasible and beneficial. This applies in particular to issues relating to reciprocal recognition in the financial services sector, as well as rules of origin and increased cooperation within the framework of international platforms and organisations. Evolutionary clauses should be used for securing the further development of negotiated agreements.
- Regardless of the level of bilateral relations with the UK, the EU will remain Switzerland's most important trade partner in the future. It is therefore in the interests of the business sector to maintain and continually develop **profitable relations with both partners**.

> **economiesuisse will be pleased to answer questions relating to Brexit, which should be sent to the following address brexit@economiesuisse.ch.**

Brexit contact point for companies: brexit@economiesuisse.ch

Together with various industry associations, economiesuisse maintains close contact with the federal administration and the relevant authorities in Brussels and London. economiesuisse has also set up a central contact point for Swiss companies (brexit@economiesuisse.ch).