

FACT SHEET: BILATERAL AGREEMENTS

→ **BILATERAL AGREEMENTS
BETWEEN SWITZERLAND
AND THE EU:**

**Very beneficial, but always at
stake**

New attack on bilateral agreements

After Swiss voters narrowly rejected the proposal to join the European Economic Area (EEA) in 1992, the first series of bilateral agreements (Bilaterals I) laid the foundation for the strong economic relationship between Switzerland and the EU that exists today. The Bilaterals I had been negotiated for several years and were finally signed in 1999. In 2000, 67.2% of Swiss voters approved the ratification of Bilaterals I, which subsequently entered into force in 2002. According to recent surveys, 80% of the Swiss population are in favour of the bilateral agreements. Furthermore, Swiss voters have confirmed their approval of the bilateral path in the course of several referendums.

Nonetheless, the right-wing Swiss People's Party (SPP) launched a new popular initiative which is expected to come to a vote on 17 May 2020. With this move the SPP is calling for the termination of the Agreement on the free movement of persons (AFMP) between Switzerland and the EU. The fact that this agreement includes a guillotine clause means that six other agreements within Bilaterals I would automatically be terminated as well if the initiative were to be accepted. Within a year, the highly successful bilateral path would be destroyed, and Swiss companies would no longer be able to participate on an equal footing with their EU competitors in the Single Market. The absence of bilateral treaties with the EU would have severe negative consequences for the Swiss economy and adversely affect all involved players. But why are the bilateral agreements so important and therefore indispensable for Switzerland?

1. Bilateral agreements are highly valuable

The Bilaterals I package comprises seven different agreements concerning the free movement of persons, technical barriers to trade, public procurement, agriculture, overland transport, civil aviation and research. Together with the second set of bilateral agreements (Bilaterals II)¹, they form the basis for what is commonly known as the bilateral path.

Bilaterals I



Source: Own illustration

¹ The Bilaterals II package comprises 9 agreements (accession of Switzerland to Schengen/Dublin; automatic exchange of information; combat against fraud; processed agricultural products; participation in MEDIA (Creative Europe); environment; statistics; coordination of European social systems; participation in programmes on education, vocational training and youth).

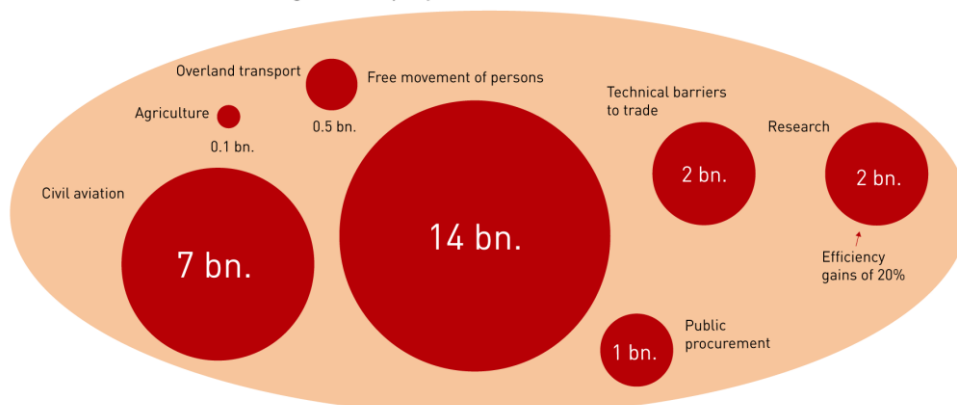
Several independent studies show that the bilateral agreements lead to a higher per capita income. According to BAK Economics, without Bilaterals I Switzerland's gross domestic product (GDP) would increasingly diminish and by 2035 would be 7.1% lower than it would be with Bilaterals I in place. As a result, the accumulated loss of GDP would amount to 630 billion Swiss francs. In other words, in 2035 alone the average per capita income would be 3,400 Swiss francs lower without Bilaterals I. Similarly, another study conducted by Ecoplan indicates an accumulated GDP loss of 460 billion Swiss francs for the same timeframe. This means that only in 2035 the average loss in income would be equivalent to 1,900 Swiss francs per capita. The discrepancy between the findings of BAK Economics and Ecoplan can be explained by their respective methodologies: in its calculations, Ecoplan does not include the economic impacts of the agreements on research and the systematic effects of Bilaterals I. However, as both studies were based on somewhat conservative estimates, the macroeconomic impacts of the termination of Bilaterals I could be even higher.

Based on another study conducted by the Bertelsmann Foundation in 2019, the average annual per capita income in Switzerland is 2,914 euros higher due solely to the fact that Switzerland is able to participate in the EU Single Market thanks to the bilateral agreements. In the region of Zurich, for example, the annual income gain is as high as 3,592 euros per capita. Another study by *economiesuisse* revealed that per capita income in 2016 was 4,400 Swiss francs higher compared to a scenario without bilateral agreements. It is therefore not surprising that, in 2019, 75% of all interviewed Swiss companies assessed the bilateral agreements as positive, while only 4% evaluated them as negative. Furthermore, 74% of all small and medium-sized companies are in favour of the bilateral agreements.

It is estimated that the value of AFMP alone is around 14 billion Swiss francs per annum. However, the other agreements are also highly valuable for Switzerland, especially the civil aviation agreement (which has a total value of 7 billion Swiss francs per annum).

Value of individual bilateral agreements

► Estimated value of individual agreements per year



Sources: BAK Economics, Ecoplan, University of Basel, own illustration
www.economiesuisse.ch

2. AFMP is particularly important

Within Bilaterals I, AFMP is the best-known and most valuable treaty. It guarantees that Swiss citizens can reside and work within other contracting states, while EU and EFTA citizens enjoy the same rights in Switzerland. The applicable prerequisites are a valid employment contract or proof of self-employment, the conclusion of a health insurance contract, and in the case of non-employment, evidence of possession of adequate financial resources. Thanks to AFMP, the Swiss labour market has much better access to highly skilled specialists from the EU. As a result, Swiss companies regard it as the most relevant of the seven agreements. According to one survey, 76.5% of all interviewed companies regard the agreement as positive, while only 6.8% evaluate it as negative.

With its popular initiative, the SPP aims to prohibit the free movement of persons from all foreign countries and intends to introduce a quota system instead. This would result in highly negative impacts on the Swiss labour market and intensify the already existing shortage of highly qualified personnel. According to calculations by economists at UBS, an additional 300,000 specialised personnel will be required in the next ten years. This means that companies in Switzerland will need to be provided with the opportunity to recruit personnel from Europe.

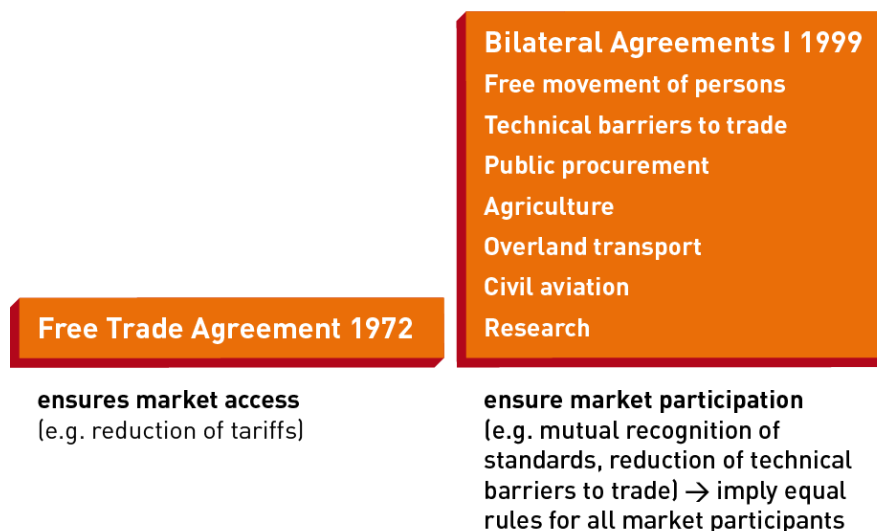
According to researchers, the recruitment of a highly qualified specialist can result in the creation of up to five additional jobs. 74% of all personnel recently recruited from the EU work in professions with high or very high qualification requirements. Since 2002, more than 700,000 new jobs have been created in Switzerland. More than half of these were filled by Swiss citizens and most of the remainder by EU and EFTA citizens. It is therefore clear that migration from the EU contributes to job creation, which generates benefits for the whole of society.

The reintroduction of an old-fashioned quota system would lead to high bureaucratic burdens for the public administration, as well as for foreign employees and employers located in Switzerland. It would complicate the recruitment of EU specialists, raise the associated costs and result in unnecessary delays. Furthermore, past experience has shown that the quota system does not limit migration, since this primarily depends on the prevailing economic conditions.

3. No equivalent alternatives available

Although its opponents claim otherwise, there is no equivalent alternative to the current successful bilateral approach. It has frequently been argued that a comprehensive free trade agreement could adequately replace Bilaterals I. This argument fails to recognise that a free trade agreement can never provide the same access to the EU Single Market for Swiss companies as the bilateral agreements do. Through their participation in the EU Single Market, Swiss companies greatly benefit from this level playing field and the possibility of far-reaching cooperation without the hindrance of non-tariff barriers. Even a comprehensive free trade agreement would not allow Swiss standards to be recognised as equal to their EU counterparts, and certain service areas such as air transport would be excluded. This means that relying on a comprehensive free trade agreement would be a major setback compared to the bilateral path and result in heavy costs for Switzerland. In addition, it is very unlikely that the EU would agree to a substantial revision of the free trade agreement in force today.

Relationship between Switzerland and the European Union



Source: Own illustration

Even though WTO rules are vital with regard to international trade, they merely provide a minimum standard and thus cannot be seen as a substitute for bilateral agreements – especially in times of heavy uncertainty about the future development of the WTO.

4. Can new markets compensate for the loss of market access to the EU?

The success of Swiss foreign trade depends on the possibility to sell Swiss products on as many markets as possible. Swiss foreign trade represents 95.3% of the country's GDP. Swiss companies generate two out of every five Swiss francs through trade with other countries. This is why emerging markets in Asia and the US market are so important for Swiss trade. There is no doubt that Switzerland needs to negotiate the best possible market access conditions for Swiss companies through new free trade agreements. However, it is completely wrong to believe that those markets could compensate for the trade Switzerland has with the EU.

Today, EU clients buy 51.6% of all goods and services exported from Switzerland. Exports to other regions are growing at higher rates than in the EU, but at a much lower level. Economists from BAK Economics have calculated what this means: for the next ten years, the biggest contribution to the increase of foreign trade will come from the EU, followed by Asia, while the American region is only third. It is therefore essential to maintain Switzerland's privileged access to the EU Single Market.

5. Conclusions

Overall, Switzerland has greatly benefited from its close relations with the EU in the past few years. The existing bilateral agreements are the basis of this fruitful relationship and allow Swiss companies to participate in the EU Single Market with its more than 500 million potential consumers. Although the current bilateral path is a key to success, it has always been at stake. The SPP has repeatedly endeavoured to

undermine and destroy it without presenting equivalent alternatives. However, as an open and internationally linked economy, Switzerland is highly dependent on stable contractual relationships. The EU remains by far the most important trade partner for Switzerland. In view of this, the termination of the bilateral agreements would endanger prosperity and jobs in Switzerland. No free trade agreement could grant such a privileged access to the EU Single Market as the bilateral agreements do, and the WTO rules only constitute a minimum standard. Apart from this, it is an illusion to believe that trade with Asian markets or the United States could replace the vital EU Single Market, especially in times of trade wars and increasing protectionism.

6. Further information

- Website of the Federal Department of Foreign Affairs (FDFA) dealing with the institutional agreement

<https://www.eda.admin.ch/dea/en/home/verhandlungen-offene-themen/verhandlungen/institutionelles-abkommen.html>

- Presentation by the FDFA concerning the major bilateral agreements between Switzerland and the EU:

https://www.eda.admin.ch/dam/dea/en/documents/foalien/Folien-Abkommen_en.pdf

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