

SWISS EUROPEAN POLICY: A BILATERAL APPROACH

Georges Martin

Ambassador of the Switzerland
to the Republic of Indonesia

Abstract

EU is Switzerland's most important partner, interm of politic, cultural dan economic. By far, economic integration has been achieved through sector by sector bilateral negotiations. This happens since Swiss particular system, such as direct democracy system, refrains Switzerland for full economic nad politic integration. Regarding the EU enlargement, Switzerland believes this will promote positive impact in Europe. Furthermore, bilateral agreement II is aimed to extand corporation with EU in various sector, such as economi and politics. It is a long term goal of Switzerland for full accession as full EU member.

The European Union together with its single market, its unique currency and a common policy for all its member states is a key institution. EU's works over the past decades has highly contributed to the establishment of peace and stability in Europe.

Not with standing the recognition of EU's remarkable achievements and its continuous efforts towards greater international cooperation, Switzerland has so far refrain from a full and comprehensive integration within the EU, being particularly bound to its own particularities, such as its direct democracy system and the extended decentralisation of its institutions. For this reason, the priority of Switzerland's European policy in the short and medium terms is to pursue sector-by-sector bilateral negotiations with the EU. The European Union is indeed the most important partner of Switzerland politically, culturally and economically, while Switzerland is the EU's second largest trading partner after the United States. Switzerland intends to maintain this position and will keep on strengthening its sustainable and fruitful relationship with the EU.

1. Historical overview on the EU-Swiss relations

After the Second World War, there was in Europe a clear realization that genuine reconciliation with strong ties embodied in treaties was necessary to overcome the ancient hostilities. Against this background, the idea of European integration began to unfold. The countries of Western Europe concerned themselves with the question of their economic development and cooperation and therefore also with the strengthening of their security. The debates were dominated by two concepts of European integration: some aspired to an economic and political community and established what has now become the European Union (EU) through a succession of phases April 1951, establishment of the European Coal and Steel Community (ECSC) with the membership of France, Belgium, the Netherlands, Italy and the Federal Republic of Germany; March 1957, creation of the European Economic Community (EEC) and the European Atomic Energy Community (EAEC). The others were content with the facilitation of trade and created the European Free Trade Association (EFTA).

In fact, the EFTA was initiated in 1960 by Switzerland, together with the United Kingdom, Denmark, Norway, Sweden, Austria and Portugal. The next step was a Free Trade Agreement Switzerland signed with the European Community (EC) in 1972. It abolished tariff-based trade restrictions on industrial goods between the two partners.

In 1985, the EEC adopted the Single European Act and created the single market with the four freedoms – freedom of movement of persons, goods, services and capital. Switzerland, as well as the other countries of the European Free Trade Association (EFTA), entered into negotiations with the EEC for the creation of a European Economic Area (EEA) based on the same four freedoms at the end of the 1980s. In 1992 these efforts to integrate Switzerland into the Single European Market could not materialize with the people's rejection of the agreement to join the EEA.

The “no” to the multilateral EEA forced the Federal Council on the bilateral track. After lengthy sector-by-sector bilateral negotiations with the EU, seven such agreements were signed with the EU in 1999. These were approved by a large majority of the electorate in the referendum of May 2000 and cover the areas of free movement of persons, overland transport, air transport, agriculture, research, technical barriers to trade and public procurement, which came into force on 1 June 2002. These agreements have proven to be advantageous for the Swiss economy.

2. Switzerland and the EU extension

On 1 May 2004, the European Union was enlarged by ten new member countries. Following the accession of Estonia, Latvia, Lithuania, Poland, Slovakia, Slovenia, the Czech Republic, Hungary, Malta and Cyprus, the EU now has 25 members. This extension is an important contribution to the promotion of peace, stability and welfare in Europe. It is also to Switzerland's advantage. For this reason, Switzerland made substantial contributions to the transition to democracy and social market economy in the former communist states of Central and Eastern Europe. In this context, Switzerland will indeed continue to pay its solidarity contribution.

As a consequence of the extension, the Free Trade Agreement and the bilateral agreements concluded between Switzerland and the EU in 1999 have to be extended to the new member countries. Six of the seven agreements have been extended automatically with the exception of the Agreement on the Free Movement of Persons of 1999, where amendments had to be negotiated with the EU. An additional protocol laid down separate transitional regulations in relation to the new Eastern European member states: This transitional system

provides for a gradual and controlled opening of the Swiss labour market to workers from these new member states. Labour market restrictions (priority for Swiss nationals, quotas, controls on salary and working conditions) may continue to be applied until 30 April 2011. This arrangement is similar to the transition arrangement between the EU 15 and the EU 10. In its 2004 winter session, the Swiss Parliament approved the additional protocol together with the revision of the accompanying measures on wages and social dumping. Both bills were combined in a single federal decree, which was subject to an optional referendum.

The optional referendum was successfully requested after 92'901 valid signatures had been gathered. The vote will be held on 25 September 2005.

The most important agreements particularly in view of opening up markets in Eastern Europe are:

- Technical barriers to trade will be abolished.
- In the field of public procurement, Swiss suppliers will have the same opportunities as their European competitors.
- The free movement of persons will facilitate the posting of Swiss staff to the countries of Central Europe, as well as the recruitment of qualified and less-qualified workers from Central and Eastern Europe.

All these possible benefits could be endangered if the extension is rejected. Switzerland would have to expect the EU to rescind the agreement on the free movement of persons. On the strength of the so-called guillotine-clause, this would result in the automatic termination of all the other sectorial agreements of 1999.

3. **Bilateral Agreements II**

Further negotiations in nine new areas the so-called Bilaterals II have been concluded on a political level on 19 May 2004. After the agreements had been signed on 26 October, they were accepted by Parliament in December 2004.

Seven out of the nine agreements (statistics, pensions, environment, media, Schengen/Dublin, fight against fraud, taxation of savings) were submitted for the optional referendum. Only in the case of Switzerland's association agreement on Schengen/Dublin a referendum had been successfully requested. The Swiss electorate approved on 5 June 2005 with 54,6% Yes the Schengen/Dublin association agreement.

No referendum was requested in respect of the other Bilateral II agreements. They will come into force independently of each other in accordance with the normal procedures. The Agreement on Processed Agricultural Products, which was not subject to an optional referendum, entered into full force on 30 March 2005. On 31 May the pensions agreement and on 1 July the taxation of savings entered into force.

Several agreements of the Bilaterals II relate as the Bilaterals I to economic interests such as those of the food industry, the financial sector, and tourism. However, the Bilaterals II also extend cooperation between Switzerland and the EU to other central policy areas such as the environment, statistics, culture and, in particular, to internal security and asylum policy under Schengen/Dublin.

The Swiss Federal Council considers this agreement to be well balanced. The key requirements of the EU and Switzerland are fulfilled: On the one hand, Switzerland provides reciprocal cooperation with regard to cross-border taxation of savings by deducting a withholding tax on income from savings earned by EU citizens (taxation of savings). Swiss cooperation is also extended to cover all serious offences relating to indirect taxation (smuggling,

customs fraud, VAT fraud) (fight against fraud). On the other hand, agreements could be concluded in all dossiers including Schengen/Dublin and Swiss banking secrecy remains protected.

Let us look at the different issues a little bit more closely. The most important economic interests of Switzerland within the Bilaterals II are the following:

- The agreement on processed agricultural products, which reduces barriers to trade in the food industry (chocolate, biscuits, instant coffee, soup and pasta).
- The interests of the Swiss finance sector are also important in the Bilaterals II. In the areas of taxation of savings, fight against fraud and Schengen/Dublin, a contractual agreement on cooperation in the area of taxation has been reached which is compatible with Swiss banking secrecy. Schengen means that banking secrecy in relation to direct taxation is now safeguarded long-term by an international agreement.
- Tourism will benefit from the extension of the Schengen visa to Switzerland following accession to Schengen/Dublin. Tourists and business people from China, India and Indonesia, for example, will no longer require one visa to visit Paris or Rome and a second one if they wish to make a trip to Switzerland as well. This simplification will make Swiss tourism more competitive with other European countries.
- As part of the agreement on the taxation of savings, Switzerland has negotiated tax advantages for Swiss holding companies. In future, cross-border licence, interest and dividend payments between associated companies (holdings) will not be taxed in the source country. This will strengthen Switzerland's position as a centre for business.

Secondly, cooperation is extended to other important political areas:

- Security policy: Cross-border crime can only be fought effectively by means of international police and judicial cooperation. Schengen provides

the tools for this purpose.

- **Asylum policy:** The Dublin cooperation offers measures against “asylum tourism” and thus relieves pressure on the national asylum system.
- **Environment:** The European Environmental Agency is an important means for international cooperation on protection of the environment. By being a member of the Environmental Agency, Switzerland can contribute towards this cooperation.
- **Statistics:** Broad-based statistical information is essential to support key political and economic decisions. The statistical agreement harmonises and optimises the exchange of comparable statistical data between Switzerland and the EU.
- **Culture:** Participation in the EU film promotion programmes (MEDIA) strengthens the role of film as an important part of Swiss cultural heritage.
- **Education:** Cooperation within EU training programmes provides access to a wide range of training for Swiss nationals, and increases the quality of training. This provides improved opportunities in the employment market.

4. **Conclusion: The Swiss European Policy in the longer term**

In the short and medium terms, the priority of Switzerland's European policy is to follow the bilateral path. It consists in the pragmatic settlement of outstanding specific interests and problems in our relationship with the EU through bilateral, sector-specific negotiations and agreements. At the moment the following new issues are at the horizon: transit of electricity, participation at the European center for disease prevention and control, recognition of indications of origin. The next objectives on this track are to fully implement the Bilaterals I, and to ratify and then implement the Bilaterals II.

EU membership remains the long term goal of the Federal Council's European policy: The Federal Council will submit a comprehensive report on

the implications of Swiss accession by the end of this legislature in 2007. This overview of advantages and disadvantages of EU-membership will form the basis for a detailed debate on the issue. As the Federal Council set out in its Foreign Policy Report of 2000, broad domestic support for the aim of EU entry will be a precondition before negotiations on accession can be opened.

