economiesuisse

TTIP and its significance for Switzerland

dossierpolitik

21 September 2015 N0. 10

Foreign trade The USA and the EU are currently conducting negotiations regarding the creation of a comprehensive Transatlantic Trade and Investment Partnership (TTIP). With the TTIP, tariffs and technical barriers to trade are to be reduced or removed and transatlantic trade in goods and services between the EU and the USA is to be facilitated.

For the Swiss business sector, the EU and the USA are by far the most important export markets. In view of this, if the TTIP negotiations were to be brought to a successful conclusion, this would also have far-reaching consequences for Swiss companies. The risks and opportunities associated with the TTIP largely depend on the scope of the agreement and the measures implemented by Switzerland in the event that the negotiations should be brought to a conclusion.

Stance of economiesuisse

▶ The conclusion of the TTIP would result in the creation of the world's largest free trade area accounting for more than two-thirds of Switzerland's trade relations. It is therefore essential to ensure that the agreement does not result in the discrimination of Switzerland's business sector with regard to market access.

▶ Switzerland has to adopt a proactive foreign trade policy in order to ensure that Swiss companies receive equal treatment to companies in the EU and the USA.

▶ Urgently required reforms on the Swiss domestic market – especially in the agricultural sector – now need to be carried out without delay.

TTIP – the world's largest free trade area

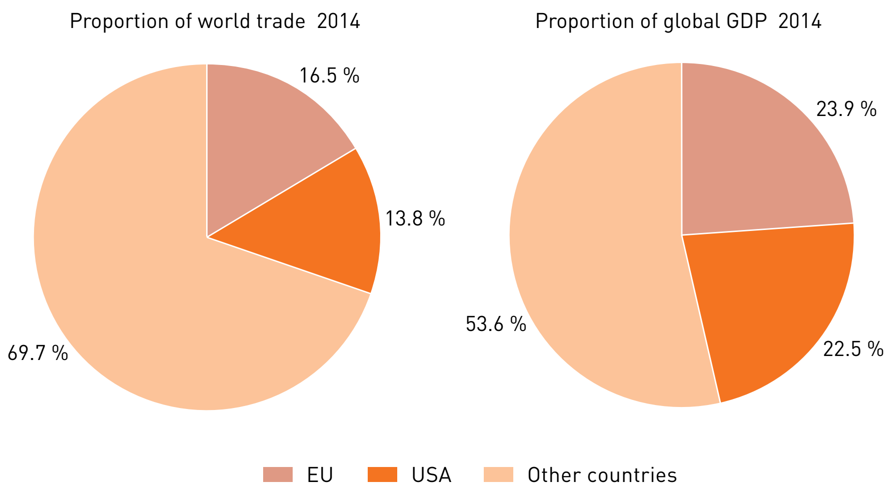
▶ The volume of daily trade between the EU and the USA is around two billion euros.

The USA and the EU are working towards the creation of a Transatlantic Trade and Investment Partnership (TTIP). This could result in the world's largest free trade area, which would embody almost half the global economic output and a third of the world's trade volume. In the view of Washington and Brussels, the TTIP will give rise to growth impulses and the creation of new jobs. According to estimates by the European Commission, these impulses would correspond to as much as 215 billion US dollars and have a positive impact on the global economy thanks to increased demand.[1]

Figure 1

▶ The free trade area that would be created through the TTIP would encompass almost half the world's value-added.

Share of the global trade volume attributable to the EU and USA



Sources: EU Commission, Directorate General for Trade / International Monetary Fund.

Negotiations were initiated by heads of government in July 2013, and encompass the following three main areas:

- Improvement of reciprocal market access: elimination of tariffs, liberalisation of trade in services, investments, opening up of public procurement.
- Closer cooperation on regulatory issues: reciprocal regulatory coherence, legal certainty, development of globally applicable regulations and standards, mutual recognition / coordination of sector-specific regulations and standards, uniformity of approval requirements.
- Definition of new trade-related rules: protection of intellectual property, access to energy and raw materials, fair competition rules, customs and trade facilitation.

[1] http://trade.ec.europa.eu/doclib/docs/2013/september/tradoc_151787.pdf

▶ The positive impacts of the TTIP on growth increase in line with the extent of liberalisation.

USA and EU to intensify their economic partnership

The ambitious TTIP project enjoys the strong backing of heads of state, as well as the majority of political and economic players, in both the USA and the EU. Both sides are aiming to conclude an agreement as comprehensive as possible that will also set new global standards and define regulations for future free trade agreements. From the choice of wording, «Trade and Investment Partnership», it is clear that the scope of the deal is intended to extend well beyond that of a reciprocal customs agreement. Although it is difficult to make specific forecasts regarding the potential of the TTIP, studies carried out to date anticipate a significant increase in trade, together with positive growth, employment and welfare effects for both the EU and the USA. The magnitude of these effects increases in line with the extent of liberalisation in the individual sectors.

Table 1

▶ The TTIP encompasses 24 chapters, focusing on areas ranging from technical barriers to trade through to government-to-government dispute settlement .

Comprehensive trade agreement

The TTIP agreement is to comprise 24 chapters, the content of which may be summarised as follows, based on the three main areas of focus.[2]

Improved market access	Regulatory issues	New trade-related regulations
Trade in goods, customs duties Rules of origin Services Public procurement Investments	Removal of technical barriers to trade Cooperation on regulatory issues Sector-specific regulatory issues (chemicals, cosmetics, engineering, medical products, pesticides, information and communication technology, pharmaceuticals, textiles, vehicles) Food safety, animal and plant health (veterinary and phytosanitary measures)	Small and medium-sized companies Intellectual property and geodata Competition Sustainable development Protection of investments, investor-state dispute settlement Government-government dispute settlement Customs and trade facilitation Energy and raw materials

▶ In the past few months, significant progress has been made in the negotiations.

Ten rounds of negotiations with progress and differences

Ten rounds of negotiations have been held since July 2013. These have largely progressed smoothly and have resulted in a variety of dossiers in the past few months, notably in the area of cooperation on regulation in the automotive, pharmaceuticals and medical devices industries, as well as trade in goods and customs duties. Talks regarding facilitated access to the public procurement markets (especially in various US states), as well as access to the financial services markets, have proved to be more difficult, however.

2 EU negotiation texts by chapter: http://trade.ec.europa.eu/doclib/press/index.cfm?id=1252&serie=866&langId=de#regulatory-cooperation

Policy: controversies and progress

Both the USA and the EU are in favour of an agreement with the broadest possible scope. Right from the start it was declared that no topic was to be a priori excluded from the negotiations. In view of the wide-ranging nature of these ambitions, there are considerable obstacles, as well as opposition, in the various dossiers, from politicians and non-governmental organisations. The possibility cannot be ruled out that some topics will not be included in the definitive agreement (for example, financial services).

Controversial topics include agricultural issues (e.g. food safety, genetically modified foods), some aspects of public procurement, data protection issues, product piracy, investment protection, investor-state dispute settlement, and cultural exceptions for media and audiovisual products.

On the European side, in its recommendations to the Commission the EU Parliament has called for greater transparency in the negotiations. It also wants to see increased transparency in the proceedings relating to investor-state dispute settlement, as well as the incorporation of publicly elected judges instead of lawyers specialising in commercial law. The EU Commission recently responded by putting forward proposals that move in the same direction.

▶ Should negotiations be brought to a successful conclusion, the implementation of the TTIP would require around another 18 months.

With its adoption of «fast track» legislation (Trade Promotion Authority), the US Congress granted President Barack Obama a stronger negotiation mandate, which paved the way for the further course of the negotiations. The Trade Promotion Authority authorises the president in office to submit free trade agreements to the US Congress for an integral vote. According to official communiqués, the aim is to conclude the TTIP agreement in the first half of 2016, after which the US presidential election campaign will be launched. Should it prove possible to realise the ambitious goal of concluding the agreement within this timeframe, a further 18 months would then be required before the TTIP could enter into effect.

Outcome of the negotiations still difficult to predict

▶ Swiss companies are keeping a very close eye on the progress of negotiations.

In view of the challenges outlined above, it is very difficult to make a detailed prediction of the outcome of the negotiations. economiesuisse is following every step of the TTIP negotiations. On the initiative of EFTA, a trade policy dialogue between its Member States and the USA was initiated in 2013. The objective here is to obtain information about the ongoing negotiations and draw the attention of the USA to the interests of EFTA. Other positive talks were held in 2015 on the occasion of a visit to Washington by a delegation of EFTA members of parliament. Representatives of the Swiss business sector will continue to hold talks with the USA and the EU at both the government and the corporate level.

The significance of the TTIP for Switzerland: results of a sector survey

▶ If Switzerland were to be fully excluded from the TTIP, tangibly negative effects would have to be anticipated.

Two-thirds of Switzerland's exports go to the EU and the USA. The TTIP agreement is therefore of great significance for Switzerland, partly in view of the sheer magnitude of the involved markets and the strong export orientation of Switzerland's economy, but also because of the highly developed international networking of production and value chains of numerous companies in Switzerland. A recent ifo study predicted that, if a comprehensive TTIP agreement were to be concluded from which Switzerland would be fully excluded, this would result in a negative welfare effect of minus 3.8 percent for the country.[3] Studies carried out by the World Trade Institute predict varying welfare effects for Switzerland, ranging from minus 0.88 to plus 3.7 percent of GDP. The consequences largely depend on whether the EU and the USA in fact succeed in concluding a comprehensive agreement, and if so, whether Switzerland would be included.[4]

▶ While Switzerland has good access to the European market thanks to the bilateral agreements, it does not have similar agreements with the USA.

At present, Swiss companies enjoy privileged access to the EU internal market thanks to the bilateral agreements, the 1972 Free Trade Agreement between Switzerland and the European Community, and the Agreement on Customs Facilitation and Security. By contrast, Switzerland has neither a free trade agreement, nor a comprehensive agreement on customs facilitation and security with the USA that would facilitate access to the US market for Swiss companies. The Federal Council broke off negotiations with the USA on a potential free trade agreement in 2006, mainly due to differences concerning agricultural policy.

The EU and the USA are Switzerland's most important trade partners

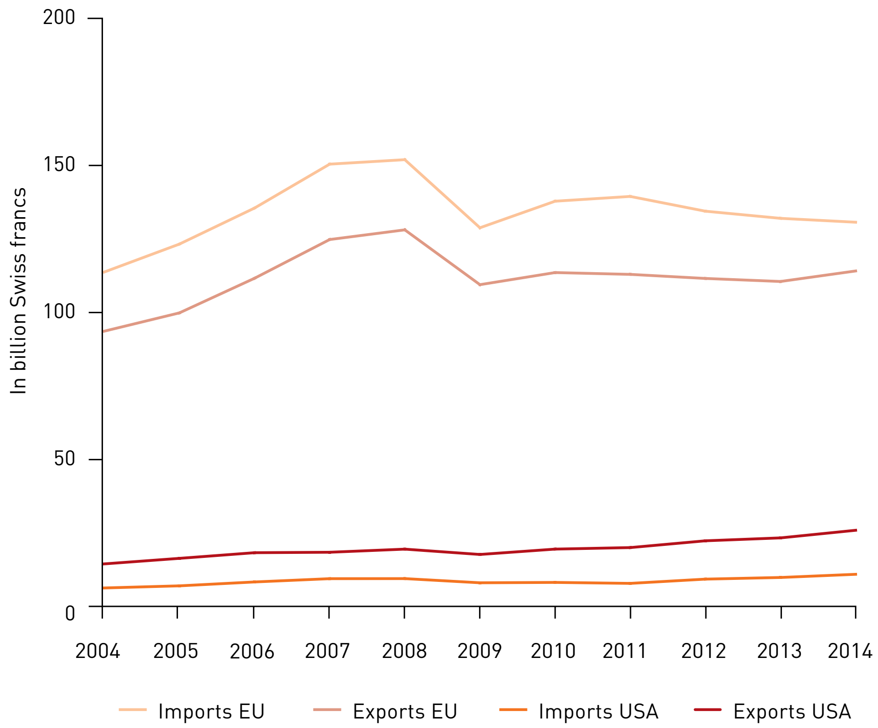
A large proportion of Switzerland's foreign trade is with the EU and the USA. In 2014, Swiss companies exported more than two-thirds of their products to these two economic areas (EU, 54.7 percent / USA, 12.4 percent). In terms of value, exports of goods to the EU amounted to 114 billion Swiss francs, and the figure for exports to the USA was 26 billion. With regard to imports, the proportion was even higher, at 79.3 percent (EU 73.2 percent, USA 6.1 percent).

3 Centre for Economic Policy Research, Reducing Transatlantic Barriers to Trade and Investment, Final Project Report, März 2013; ifo-Institut, Dimensionen und Auswirkungen eines Freihandelsabkommens zwischen der EU und den USA, Studie im Auftrag des Bundesministeriums für Wirtschaft und Technologie, Januar 2013; ifo-Institut, Going Deep: The Trade and Welfare Effects of TTIP, December 2014.

4 World Trade Institute (2014): Potential Impacts of EU-US Free Trade Agreement on the Swiss Economy and External Economic Relations. Bern.

Figure 2
▶ The combined share of Switzerland's imports from the EU and USA is more than 79 percent, while the corresponding figure for exports is more than 67 percent.

Development of Switzerland's goods imports and exports
Foreign trade with the EU and the USA



Source: www.swiss-impex.admin.ch.

Table 2
▶ In Switzerland's trade with EU Member States and the USA, sector figures vary depending on the market.

Overview of the most important goods imports and exports
Figures represent proportion of total trade volume

Exports to the USA	2013 (% of total)	**2014 (% of total)**
1. Pharmaceutical products, vitamins, diagnostic products	40.0	**40.1**
2. Precision instruments, watches, jewellery	22.7	**21.9**
3. Machinery, appliances, electronics	11.5	**11.1**
Imports from the USA	2013 (% of total)	**2014 (% of total)**
1. Precious metals, gems and precious stones	54.0	**41.5**
2. Pharmaceutical products, vitamins, diagnostic products	14.8	**19.5**
3. Precision instruments, watches, jewellery	9.3	**12.3**
4. Machinery, appliances, electronics	5.9	**6.6**

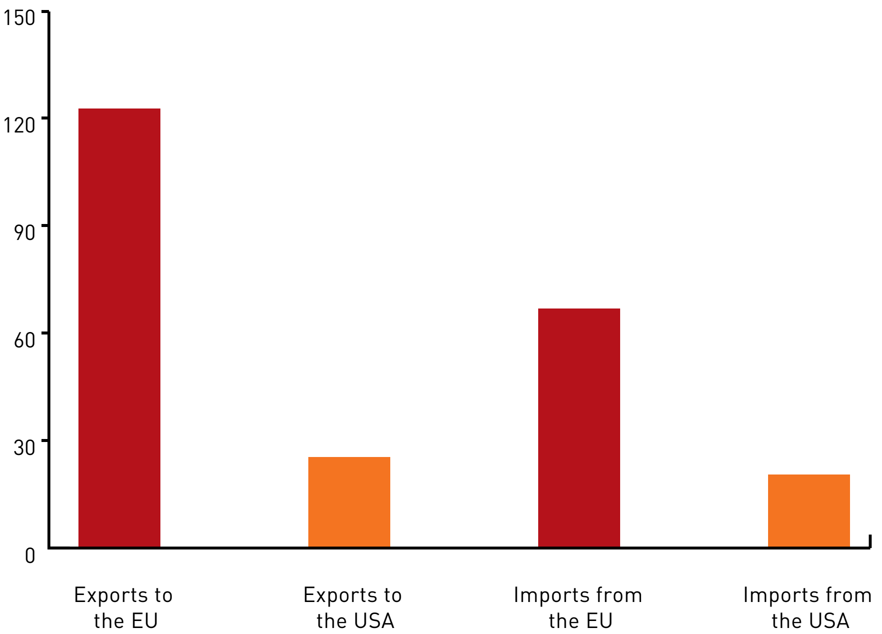
Source: SECO country report.

Exports to the EU	2013 (% of total)	**2014 (% of total)**
1. Chemical products, pharmaceutical products	40.0	**41.4**
2. Precision instruments, watches, jewellery	16.3	**16.3**
3. Machinery, appliances, electronics	16.5	**16.1**
Imports from the EU	2013 (% of total)	**2014 (% of total)**
1. Chemical products, pharmaceutical products	24.9	**25.7**
2. Machinery, appliances, electronics	15.7	**15.6**
3. Vehicles	9.9	**10.1**
4. Metals	9.1	**9.4**

Quelle: www.swiss-impex.admin.ch.

Figure 3
▶ The EU and the USA are also Switzerland's most important trade partners in the area of services.

Switzerland's imports and exports of services
2013, in billion Swiss francs

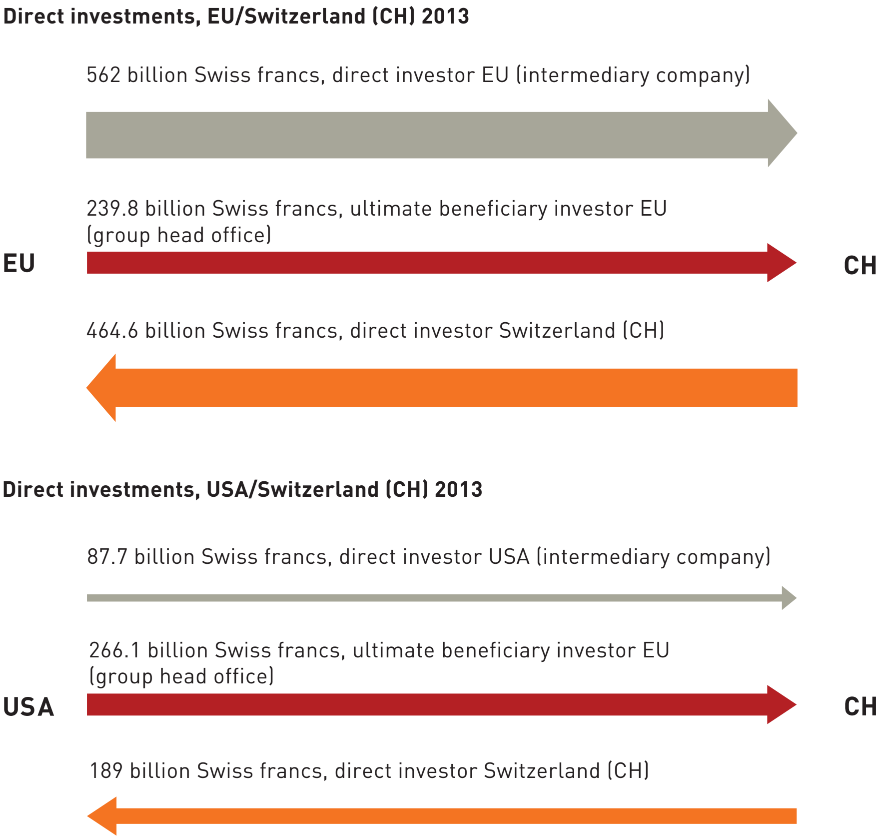


Sources: EU Commission, Directorate General for Trade / US Department of Commerce, Bureau of Economic Analysis, 2014 .

The levels of direct investments that Switzerland holds in the EU (43.3 percent of inventories) and the USA (17.6 percent), and which, vice versa, the USA (13 percent) and the EU (82 percent) hold in Switzerland, also indicate the high level of economic ties. It is interesting to note that the picture changes fundamentally if the foreign direct investments in Switzerland are viewed in terms of origin of financial beneficiary (ultimately the entitled investor, group head office). In 2013, the USA held 266 billion Swiss francs via intermediary companies domiciled in the EU, or 39 percent of the inventory of foreign direct investments. By contrast, the inventory from the EU was 240 billion Swiss francs, or only 35 percent. The USA therefore invests more in Switzerland than the EU.

Figure 4
▶ More funds are invested in Switzerland from the USA than from EU Member States.

Reciprocal direct investments, Switzerland-EU and Switzerland-USA
Capital stock



Source: Swiss National Bank (SNB).

Against this backdrop it is clear that the successful conclusion of a comprehensive trade and investment agreement between the USA and the EU would have far-reaching consequences for Swiss companies. The TTIP offers opportunities as well as risks for the Swiss business sector. These both depend on how extensive the agreement is and whether third countries like Switzerland are also able to benefit from the improved market access. But the measures that Switzerland implements upon the conclusion of the TTIP are also a decisive factor.

Extent of impacts of the TTIP on individual Swiss sectors

economiesuisse questioned its members about the anticipated impacts of the TTIP. For the most important export industries, the results of our brief survey can be summarised as follows:

Pharmaceuticals, chemicals, biotechnology

With respect to goods from the chemicals, pharmaceuticals and biotechnology sectors, the USA is no. 2 (15 percent) behind the EU in terms of exports, and no. 3 in terms of imports (around 11 percent). The USA is also the most important market for finished pharmaceutical products. Thanks to the Agreement on Customs Facilitation and Security, Swiss companies benefit from preferential treatment versus third countries in cross-border trade in goods with the EU.[5] No such agreement exists with the USA, however. In the area of technical barriers to trade, companies will be affected in particular in terms of product approval (pharmaceuticals, agrochemicals) and differing legislation governing chemicals (TSCA/REACH).

5 By contrast, the 1972 Free Trade Agreement between Switzerland and the European Community does not contain any provisions relating to customs facilitation and procedures.

▶ If there were to be an approximation of regulatory systems between the EU and the USA relating to chemical and pharmaceutical products, this would result in disadvantages for Switzerland unless it were to adapt its own regulations.

Impacts of the TTIP on the pharmaceuticals, chemicals and biotechnology industries

Thanks to the pharmaceuticals agreement, around 72 percent of total pharmaceuticals exports to the USA are exempt from duty. For Swiss pharmaceuticals, chemicals or biotechnology companies, in view of the already low import duty in the USA (applicable MFN clause[6], 3.2 percent) and the anticipated costs of implementation of the TTIP agreement (4 to 10 percent of the product value), any customs duty reductions would result in minor discrimination. If, however, the negotiations on trade facilitation and customs procedures should result in a more liberal solution than that specified in the Agreement on Customs Facilitation and Security, this would mean that companies from Switzerland would be at a disadvantage in the area of cross-border goods trade with the USA versus their EU competitors.

If, within the framework of the TTIP, there were to be an approximation of the regulatory systems of the EU and the USA, this could result in further disadvantages for Swiss companies, regardless of the outcome of the negotiations between the EU and the USA. This could be avoided if Switzerland were to adapt its regulations to those of the TTIP and endeavour to achieve formal equivalence with the regulatory systems of the EU and the USA. Finally, the companies in these sectors also envisage a certain degree of discrimination potential in the areas of product regulation systems, trade facilitation and customs procedures. There are still considerable differences between the negotiating partners, however, with respect to product regulation systems.

Watch making

For the watch making industry, trade relations with the USA intensified in the past few years. Together with Hong Kong, the USA is the most important market (share of turnover, currently 10 to 15 percent). Switzerland's watch making industry is also a supplier to US and EU companies. At 4 to 6 percent, US import duties on watches are substantial, and the same can be said with regard to the complexity of import procedures. In the USA there are at least three more customs tariffs and sub-tariffs compared with the EU, plus a variety of additional formalities and regulations. On top of this there is the difference in the clearing of goods for the USA and the EU, as well as transfer prices. Technical barriers to trade are considerable: regulations often vary at the federal and state levels, for example with respect to approved product materials. Finally, conformity assessment procedures give rise to additional costs.

▶ Inadequate rules of origin in the TTIP would weaken the position of Switzerland's watch making industry with its high degree of product finishing within the country.

Impacts of the TTIP on the watch making industry

In particular with regard to preferential rules of origin, the watch making industry fears there is discrimination potential if in the TTIP the EU and the USA should agree on relatively weak rules of origin with specified value criteria of 60 or 70 percent (the value of primary materials from third countries may not exceed 60 to 70 percent of the value of the finished product). If these criteria were to be adopted by Switzerland upon its participation, the industry fears this would result in a reduction in value-added on the domestic front. In the existing free trade agreements entered entered into force by Switzerland and/or EFTA, the value criteria in the rules of origin for watches specify a maximum of 40 percent for third-country materials, and thus strengthen the position of the domestic watch making industry with its high degree of local product finishing. Generally speaking, less stringent rules of origin can encourage producers in third countries to transfer at least certain minimum activities to the free trade area in order to benefit from the advantages of the free trade agreement (e.g. production of Asian watches in the EU that receive the declaration of European origin with a European value of «only» 40 percent and can then be exported from the EU into the USA

[6] MFN = WTO most favoured nation clause, most favoured customs tariff.

exempt from duty). With regard to US import tariffs for Swiss watches, the industry assesses the potential for discrimination versus EU products as relevant if the TTIP should be concluded. In 2014, the EU watch making industry exported products to the value of 340 million US dollars. With an average customs tariff of 5 percent, EU companies paid 17 million US dollars in customs duty – a cost item that could be eliminated in the future for companies within the EU.

Machinery, electrical engineering and metals industries

For these industries, trade relations with the USA – their second most important market – have intensified considerably in the past few years. In particular, exports have risen sharply since 2010 from 6.4 to 7.5 billion Swiss francs (+17 percent). According to an internal survey, for the majority of the companies the share of export trade with the USA has risen to between 5 and 20 percent.[7] Many of them are also suppliers to European or American companies. The majority of the companies involved in the survey have to pay US customs duty ranging from 2 to 6 percent. Some companies experience considerable difficulties with regard to the import formalities. In the non-tariff segment, the differing declaration and safety regulations give rise to high costs. Furthermore, deviating standards and product regulations force many companies to finish their products in a different manner for the USA in comparison with Europe. For around 40 percent of the companies, this results in additional costs of at least 5 percent.

Impacts of the TTIP on the machinery, electrical engineering and metals industries

▶ If Switzerland is unable to participate in the TTIP, the Swiss machinery, electrical engineering and metals industries fear they could be severely disadvantaged versus their competitors from the EU.

For this sector, if the TTIP agreement should be successfully concluded, there would be considerable discrimination potential for Swiss companies in the area of tariff as well as technical barriers to trade. Firstly, through the TTIP EU companies would gain better access to the US market because tariffs would be greatly reduced or even eliminated altogether. If Swiss companies had to adjust their prices to a similar level, some of them would lose their entire margin. Secondly, Swiss companies whose products are intended for the US market would be at a disadvantage both in the EU and in the USA: only products that are manufactured in the EU or the USA can benefit from tariff preferences. And thirdly, American companies would focus their sales efforts on the EU to an increasing extent, because their products would be more attractive on this market if costs were to be cut as the result of reduced tariffs and the elimination of technical barriers to trade. For Swiss companies, this would mean fewer procurement options and consequently less intensive competition.

On the other hand, if within the context of the TTIP a USA-Switzerland economic area were to be created without tariffs and with mutually recognised standards and regulations, Swiss companies in this sector would be able to make substantial savings in costs. Furthermore, customs formalities would be facilitated for companies involved in trade between the EU and the USA. This in turn would stimulate exports and result in the creation of jobs.

Foods

In terms of value, the Swiss food industry would export a large share into the prospective TTIP zone. This would apply especially to foods for babies and young children (79 percent), confectionary products (69 percent), instant coffee (64 percent), chocolate (47 percent) and long-life baked products (27 percent). The importance of the US market has also increased for the food industry, which accounts for a share of around 20 percent of the total volume of exported confectionary products. Demand is also increasing in the USA for Swiss chocolate and long-life baked products. Customs tariffs for chocolate products range from 3.5 to 7 percent.

[7] http://www.swissmem.ch/fileadmin/user_upload/D_Detailsauswertungen_Freihandels-abkommen_EU-USA__TTIP_.pdf

The food industry could come under pressure within the TTIP area, but at the same time it could also benefit from the possible opening-up of the Swiss agricultural market.

Impacts of the TTIP on the food industry

If a TTIP agreement were to be concluded without the inclusion of Switzerland, Swiss companies would probably come under a great deal of pressure. This would apply not only to manufactured goods, but also to trade in raw materials. But at the same time, in the view of the export-oriented manufacturing segment of the food industry the creation of the TTIP could open up an opportunity to address the urgently required reforms in Switzerland's agricultural sector (liberalisation of the agricultural market).

Textiles and clothing

For the textiles and clothing industry, the USA is the second most important market after the EU. This also applies to imports of primary and intermediate products. Many companies are also active as suppliers to American and European firms on both sides of the Atlantic. In 2014, exports of both textiles and clothing to the USA increased versus the previous year (the USA currently accounts for 5.2 percent of the total exports of textiles and 5.9 percent of the total exports of clothing). The industry also anticipates increasing sales in the USA in the future. In comparison with other sectors, the textiles and clothing industry is subject to relatively high import tariffs on exports to the USA (15 percent), and import formalities are also very complex and cost-intensive (requirement of provision of highly detailed information relating to material, weight, mass, etc.). Tax exemptions have in fact been introduced for some goods, but it is frequently the case that they cannot be applied because of the different interpretation of the applicable criteria by the USA. Due to deviating regulations (e.g. relating to quality assurance, labelling, certification, product conformity), products destined for the USA have to be manufactured in a different manner. These technical barriers to trade often result in additional costs of between 10 and 15 percent.

If Switzerland were to be excluded from the TTIP, the textiles and clothing industry could be severely disadvantaged vis-à-vis its competitors in the EU.

Impacts of the TTIP on the textiles and clothing industry

For the textiles and clothing industry, the issue of rules of origin is of particular concern: if these rules should be more liberal within the TTIP than those specified in Switzerland's free trade agreement with the EU,[8] Swiss goods would be substituted by goods from the USA. At the same time, for Swiss companies the USA is the third-largest supplier of cotton. Through the TTIP, EU companies could obtain cotton more cheaply, which would give rise to a reduction in the prices of their products. But Swiss companies (whether as suppliers or manufacturers of finished products) could also be pushed out of the US market by their European competitors. In addition to the already existing advantages in terms of wage costs, EU companies would also benefit from a price advantage of 15 percent due to the import tariff imposed on Swiss products. In the view of the textiles and clothing industry, in order to avoid discrimination of Swiss companies it is essential that Switzerland approaches the USA and the EU without delay during the ongoing TTIP negotiations. Here, the facilitation of customs procedures is a particularly important aspect (faster delivery times, lower administrative and financial costs thanks to uniform product regulations).

Banking

Doing business in the USA is important for a number of Swiss financial institutions, especially the big banks. According to independent estimates, the USA has the strongest asset growth among the developed markets, and will continue to hold the greatest share of global private wealth (around 40 trillion US dollars) in 2015.

[8] In the agreement between Switzerland and the EU the rules of origin are process-based, not value-based: as a rule, two manufacturing processes have to be carried out in Switzerland (spinning / weaving; weaving / packaging). The rules of origin do not apply to the value-added that is generated through finishing.

The complexity of the regulatory requirements that have to be met (technical barriers), the number of involved authorities and agencies and the level of competitive pressure are (and will remain) high in the USA. For Swiss banks, due to the regulatory requirements the majority of business in the USA (and in particular, asset management) now has to be almost entirely conducted locally through their subsidiaries domiciled there.

Impacts of the TTIP on the financial services sector

▶ Financial services are unlikely to be incorporated into the TTIP, but if they are, Switzerland's banking sector could be faced with discrimination at various levels.

At this time it appears unlikely that financial services will be included in the TTIP agreement, but if they are, then the TTIP would function as a protectionist mechanism against financial institutions from third countries. This would be the case if the latter entities were unable to benefit from the liberalisation of technical barriers to trade that is to be realised through the TTIP. This would result in a trade diversion to the detriment of banks in Switzerland. This type of discrimination would concern regulation, supervision and enforcement in the area of financial market supervision that would extend beyond the generally recognised WTO/GATT non-discrimination rules.[9]

Insurance

In the past few years, business relations with the USA have intensified for some insurance companies, while for others they have weakened. Based on turnover in Switzerland, the share of US business is more than 25 percent in some cases, and for some companies the USA is in fact the most important market. Non-tariff regulatory requirements in particular are a major factor. Furthermore, the greatly fragmented insurance supervision in the USA has a burdening impact on insurance business. And on the US market there is also a lack of equivalence in solvency and regulatory issues in comparison with the EU and other markets. In the USA, foreign insurance companies are often treated differently to domestic providers, and this results in substantial additional costs.

Impacts of the TTIP on the insurance sector

▶ The insurance sector is mainly concerned about indirect negative impacts: the relative quality of Switzerland as a business location could deteriorate considerably.

In the same way as for the banking sector, for Swiss insurers the discrimination potential resulting from the TTIP is likely to be limited if financial services are not included in the agreement. However, insurance companies could be affected to a considerable extent by potential discrimination of other Swiss industries, which represent a major client base for the sector. Insurers are also concerned about potential disadvantages in the areas of direct investment and the dual taxation of multinationals. If Switzerland should be unable to participate in the TTIP, its locational quality could deteriorate. In view of the current difficulties and uncertainties in relations between Switzerland and the EU, this problem could become an increasingly significant factor.

9 Above all, the «most favoured nation» principle (Article 1, GATT) and the «national treatment obligation» (Article 3, GATT).

Bottom line: disadvantages for Switzerland as a business location
To sum up, it appears that the majority of Switzerland's export sectors (goods as well as services) would have to anticipate direct or indirect disadvantages if the TTIP negotiations were to be brought to a successful conclusion. Here, in particular the reciprocal recognition of product standards and certifications by the two contractual partners could have far-reaching consequences. But in addition, a comprehensive reduction of tariffs on industrial and agricultural products, together with facilitated customs procedures between the EU and the USA, would disadvantage Swiss companies. Here, even US import tariffs considered to be low can be a significant factor: for competitors from the EU, the resulting savings would enable them to use the higher net margins for making future investments. The same applies with regard to cost savings resulting from facilitated customs procedures and formalities. And finally there is the issue of rules of origin, which result in an entitlement to tariff preferences. If more liberal rules of origin should be agreed in the TTIP than those specified in the free trade agreement between Switzerland and the European Community, Swiss companies would be at a disadvantage versus their US competitors in the trade of goods with the EU.

In addition, if Switzerland were to be excluded from the TTIP its participation in public tenders could also be impeded. According to its own statistics, the EU awards public procurement contracts to Member States worth around 425 billion euros per annum. In the USA the figure is around 1,680 billion US dollars (10 percent of GDP), of which 65 percent is awarded at the state level.[10] With the TTIP, free access to the procurement market in the USA (which is one of the main negotiating objectives of the EU) could be denied to Swiss companies.

It is clear that the reduction or elimination of tariffs and technical barriers to trade between the EU and the USA would weaken the competitive capacity of Switzerland's export sector. Large companies would be able to respond more readily to such disadvantages by reducing their production depth in Switzerland, but for small and medium-sized companies, which often act as suppliers to international groups in the EU or the USA, it would be much more difficult to transfer their production to the EU (or the USA). In this longer-term context the issue of succession planning also has to be taken into consideration: in 2014, succession had not yet been arranged in one in ten companies in Switzerland. Increasing discrimination on the two most important export markets is likely to also have an impact on the future prospects of numerous small and medium-sized companies.

▶ If it is not possible to avoid the potential for discrimination, Switzerland could suffer a loss of competitive capacity as a location for industry and research.

Switzerland does not have any alternatives *per se*. Should it not be possible to actively avoid the potential for discrimination, the competitive capacity of Switzerland as a centre for industry and research could be greatly reduced. In view of the already existing challenges (strong currency, shortage of qualified personnel, implementation of the mass immigration initiative / EU policy), this would be a major setback. In this context, major investments in Switzerland by foreign or Swiss multinationals could also be placed in question in the future. If the Swiss franc were to remain overvalued in the future and Switzerland were to be excluded from the TTIP, this would additionally weaken the country's competitive capacity as an investment location.

10 OECD. Government at a glance, 2015.

Options for Switzerland

Open questions

A variety of studies have already been carried out in order to assess the impacts of the TTIP on third countries, but the fact that the negotiations are still ongoing means that any attempts to make detailed forecasts are inevitably hampered by uncertainties. Whether the TTIP will give rise to risks or opportunities depends on a variety of factors: how close are the already existing ties between third countries and the US and EU markets? What will be the scope of the TTIP in its definitive form (market access, regulation, new standards)? To what extent will third countries be able to participate in the concluded TTIP agreement via an accession clause? These and many other questions cannot be answered conclusively at this time because the negotiations are still in progress.

Essentially, three courses of action are open to Switzerland:

Passive approach to the outcome of the negotiations

▶ If Switzerland adopts a wait-and-see approach, it would not only run the risk of exposing itself to discrimination in the future, but would also lose all the opportunities that the TTIP could offer.

If Switzerland were to keep a close eye on the negotiations between the EU and the USA, but fail to actively combat the risk of discrimination for Swiss companies, this would be the worst option from the point of view of the Swiss business sector. It would mean that Swiss companies would probably be substantially disadvantaged by the TTIP in terms of market access, and that at the same time a genuine opportunity would have been missed that could have arisen if an active approach had been adopted:

Switzerland already harmonises its regulatory requirements with those of the EU to a very great extent today. In view of this, there would be less need for Swiss companies to adapt themselves and their products than would be the case for companies in other countries that are not similarly integrated into the internal EU market. This «regulatory advantage» in the context of market access in the USA would therefore in effect be relinquished without a fight.

Participation in the TTIP as a third country (via EFTA or bilaterally)

▶ The TTIP agreement will probably contain a third country clause which Switzerland would be able to exercise, either on its own or within the framework of EFTA.

The TTIP agreement is likely to contain a section dealing with the treatment of third countries, and Switzerland would be able to make use of this option. However, it is not yet clear how a third country clause might be formulated in the TTIP agreement. Switzerland could initiate efforts in this direction on its own or within the scope of its membership of EFTA (which comprises Switzerland, Norway, Iceland and Liechtenstein), which is also holding talks with the two contractual partners.[11]

Conclusion of a free trade agreement with the USA (via EFTA or bilaterally)

▶ There are already signs today that Switzerland's existing agricultural policy could represent an obstacle to negotiations.

Following the conclusion of the TTIP agreement, the EFTA Member States could set out to negotiate their own free trade agreement with the USA. In terms of content, such an agreement would be strongly oriented on the corresponding wording of the TTIP. However, at the present time it is not at all clear whether the USA would be interested in a free trade agreement with EFTA. It is still too early to decide in favour of one of the three options: this will only be possible once the definitive outcome of the negotiations is known. However, domestic policy reforms, in particular in the agricultural sector, should not be put off much longer. The fact that Switzerland needs to reform its agricultural policy was already apparent on the occasion of the conclusion of the 1995 WTO Agreement on Agriculture. The goal that needs to be pursued now is to increase the revenue of Swiss farms by focusing on the development and increased export of high quality agricultural products.[12]

11 http://www.efta.int/About-EFTA/news/EFTA-Ministerial-meeting-Schaan-Liechtenstein-22-June-2015-60206

12 The gross value-added of agriculture is currently 0.7 percent of GDP (figure for 2014), with supported prices. Without the latter, the figure would be lower.

The stance of the Swiss business sector

For Switzerland as an exporting country, the TTIP is of central importance. In view of this, economiesuisse is calling for the federal government to pursue an active policy in order to ensure that Swiss companies are not placed at a disadvantage versus their European and American competitors. From the point of view of the Swiss business sector, the following four fields of action need to be pursued:

1. Switzerland should closely **monitor developments relating to the TTIP.** In the next few months, the content of the agreement will become clearer as progress is made in the negotiations. By actively following these developments it will be possible for politicians and companies to evaluate the various options, make the necessary preparations and define appropriate measures to be taken.

2. Foreign trade policy should pursue the objective of **securing non-discriminatory market access** in the Transatlantic free trade area. As a business location, Switzerland needs the same opportunities as competitors from the USA and the EU.

3. The **proactive foreign trade policy** towards the TTIP should be intensified. Here, concrete criteria for the treatment of third countries should be defined together with the EU and the USA.

4. On the domestic front, the foreseeable conditions for access to the TTIP free trade area should be identified and the necessary reforms should be addressed. These primarily concern **agricultural policy,** an area in which it would be possible to open up new export markets with high quality Swiss agricultural products by granting greater entrepreneurial room for manoeuvre.

Conclusions

For Switzerland, the Transatlantic Trade and Investment Partnership represents both a risk and an opportunity: the fact that the creation of a Transatlantic free trade area represents the most important market-opening project since the creation of the WTO 21 years ago, can be viewed in a positive light. Liberalisation gives rise to growth impulses that have a positive effect on the global economy. The risk for Switzerland as an export nation lies in the considerable discrimination potential. As a third country, Switzerland has to fear that it will have less favourable conditions for accessing the market in the world's largest free trade area.

▶ The TTIP can also be an opportunity for Switzerland if Swiss companies are able to obtain non-discriminatory access to the future free trade area.

The TTIP represents an opportunity for Switzerland as a business location if it is able to obtain the same conditions for market access as those enjoyed by competitors from the USA and the EU. This calls for a proactive foreign trade policy. But Swiss economic diplomacy can only be successful abroad if the urgently required reforms on the domestic front are addressed without delay. Here, agricultural policy is especially in need of reform so that the necessary framework conditions can be created for securing a sustainable agricultural sector in Switzerland. This will not be easy, of course, but in a dynamic environment nothing can be achieved by putting our heads in the sand.

Further information:
jan atteslander@economiesuisse.ch
mario.ramo@economiesuisse.ch
sandra.ruckstuhl@economiesuisse.ch

Published by:
economiesuisse, Verband der Schweizer Unternehmen
Hegibachstrasse 47, Postfach, CH-8032 Zürich
www.economiesuisse.ch