economiesuisse DOSSIER POLITIK

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Brexit and Switzerland

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Executive summary

With the decision of British voters for the departure of Great Britain from the EU, Europe faces a number of major political and economic challenges. Aside from unbundling the complex web of compe-tencies that ties the EU to its outgoing member, the relationship between the UK and other important trading partners needs to be redefined as well. Switzerland is one of them. Both countries are among each other's most important trading partners and investors. As a result, the British exit from the EU concerns Switzerland directly. An industry-wide survey conducted by economiesuisse supports this conclusion. It assessed the importance of the British market for different businesses and analyzed the challenges faced by Swiss companies in the wake of Brexit. They differ by sector but will have to be addressed quickly and jointly. The core issue is the substantive preservation of the bilateral treaties between Switzerland and the EU (notably bilateral agreements I & II and free trade agreement Switzerland-EU). They lose their validity for Great Britain after Brexit.

The key issue in any future arrangement is the continuation of full market access. At the same time, economic relations should be deepened, e.g. in financial services. Also, both governments should increase their joint efforts to remove administrative obstacles between the two countries.

Positions of economiesuisse

- **Switzerland is undoubtedly part of the "inner circle" of the most important trading partners:** Switzerland must continually raise awareness among its British partners about the importance and benefits of Swiss-British economic relations and position itself in the circle of countries with which the UK will want to re-negotiate economic relations right away.
- **Saferguarding Status Quo+ in Mutual Market Access and Legal Certainty:** In order to guarantee legal certainty a bilateral treaty solution must be ready by the time Great Britain leaves the EU — possibly in the form of a grandfathering. The most important thing, in any event, is the substantive preservation of the bilateral agreements I and II and the free trade agreement Switzerland-EU. The need is for a comprehensive free trade agreement of the latest generation which includes a liberalization of the service trade and closer regulatory cooperation (status quo+).

- **Seize Opportunities to Expand Market Access:** Opportunities to discuss the expansion of market access with Great Britain must be seized. Looking beyond the existing treaties, Swiss business sees potential, among other things, in regulatory harmonization and equivalency or the liberalization of origin rules.
- **Switzerland Is Open for Discussions About EFTA Membership:** Swiss business is basically open to possible talks but believes the time for a thorough debate and a final decision is premature.

Brexit Is for Real

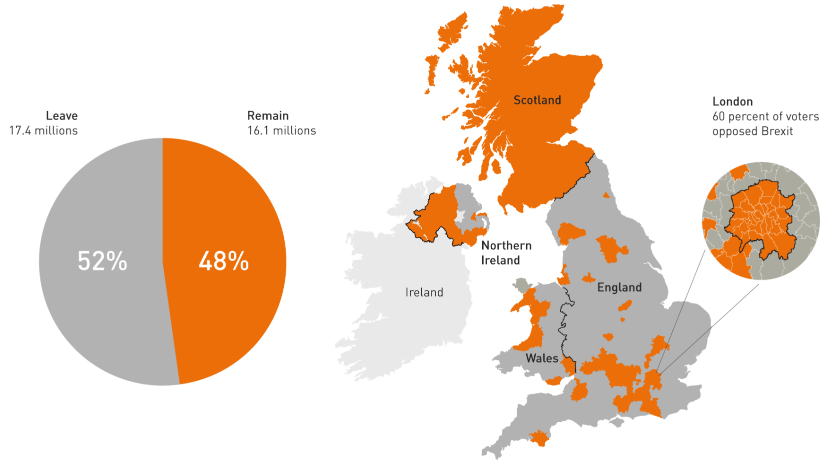
→ **On June 23, a majority of British voters (52 percent) decided that the UK should leave the EU. If and to what extent Brexit will also trigger reforms within the EU is hard to predict.**

Historic Break for EU and Europe

On June 23, 2016, a majority of the British electorate decided after an intense and very emotional campaign that their country should leave the European Union.

Great Britain Votes for Brexit

▸Should the United Kingdom remain a member of the European Union or leave the European Union?



Source : BBC
www.economiesuisse.ch

For the EU also, Brexit marks an extraordinary break: with the exception of Greenland in 1982, no country has ever left the union. In fact, the formal procedure for an exit from the EU was only approved in 2009. It is too early to tell what kind of political reforms this radical turn of events will trigger within the EU-27 in the medium or long term. Changes seem most likely with regard to EU-institutions, further steps toward integration and migration policy.

Prime Minister Theresa May, in office since July 2016, has repeatedly stated her clear intention to implement Great Britain's exit from the EU. What concrete steps this will involve and how hard the break with the EU will eventually be (hard vs. soft Brexit) is difficult to assess at this time. Apparently the exit negotiations are to be completed before the elections for the European Parliament in June 2019.

In the course of the British cabinet reshuffle after the referendum a separate Brexit department was set up to handle Britain's exit negotiations with the EU. It is headed by David Davies, a Brexit proponent. Along with the Foreign Office under Boris Johnson and the Department for International Trade under Liam Fox, three departments of the British Government will now be in charge of negotiating a new contractual framework for the UK's relations to the EU and the rest of the world.

Meanwhile, the EU Commission named former French foreign minister Michel Barnier to be its Brexit chief-negotiator. For the European Parliament, Guy Verhofstadt, former prime minister of Belgium and head of the ALDE faction, will observe the negotiations.

Chart 1

The Second Largest Economy Is Leaving the EU

With Great Britain a political and economic heavyweight is leaving the EU

	EU	Great Britain
Entry into EU	1951 (founding of the European Coal and Steel Community)	1973
GDP	EUR 14.6 trillions	EUR 2.6 trillions (17.8% EU)
Population	510.1 millions 1.2 millions UK citizens live in the EU	64.9 millions (12.7% EU) 3.3 millions EU-citizens live in the UK
Trade	12.9% is Great Britain's share of all goods exported from the EU 15.2% is Great Britain's share of all goods imported to the EU 23% is Great Britain's share of all services exported from the EU 14.6% is Great Britain's share of all services imported to the EU	43.7% of goods exported go to the EU 53.2% of goods imported originate in the EU 35.5% of services exported go to the EU 45.1% of services imported originate in the EU
Investments	14.7% of all FDI holdings of the EU abroad originate in the UK (2012) 9.1% of all foreign FDI holdings in the EU are invested in the UK (2012)	47.9% of all FDI holdings in the UK originate in the EU (2014) 39.8% of all FDI holdings in the UK are invested in the EU (2014)
Contribution to EU budget	EUR 162.3 billions	EUR 11.5 billions. (7.1% of total), largest net contributor after Germany
Weight in the Council of the European Union	–	9.2% share of the vote
Weight in the European Parliament	751 representatives total	73 representatives (9.7%)
European Social and Economic Committee	350 members	24 representatives (6.9%)
EU Committee of the Regions (CoR)	350 members	24 representatives (6.9%)

Source : Eurostat, ONS, UN 2015
www.economiesuisse.ch

Great Britain and Europe at a Crossroads

→ **For Great Britain the most pressing task now is to redefine its future relations to the EU. Today, these comprise a complex mix of competences and transfer payments. In trade policy, too, the EU's relations to its members are a tangle of shared responsibilities.**

A Difficult Reordering of Great Britain's Multifarious Relations

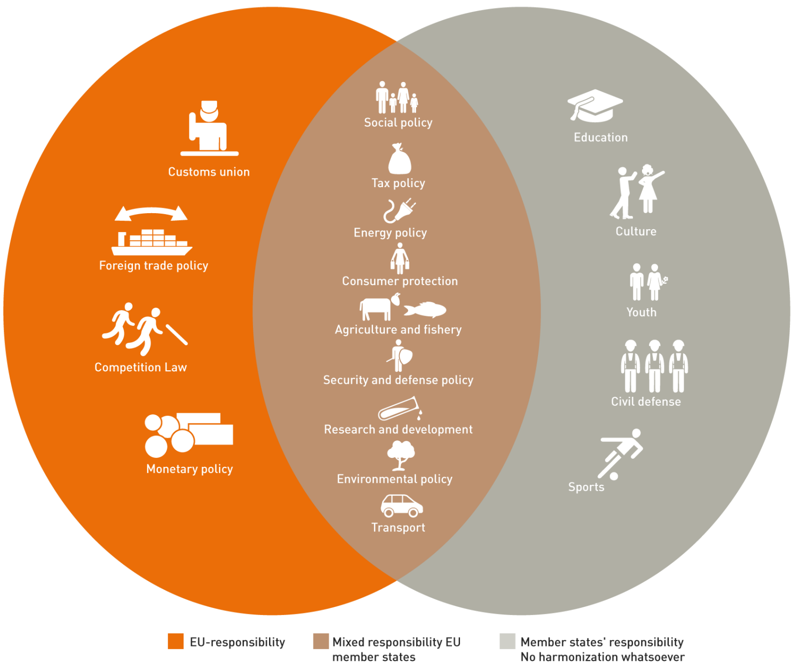
After the referendum of June 23, 2016, Great Britain faces the challenge of reordering a large part of its contractual relations with the rest of the world — most importantly, no doubt, the transformation of its ties to the EU. Closely tied by a complex assortment of partially shared competencies and large transfer payments the two parties now must extricate themselves from their mutual embrace. The European Union legal acts (acquis) currently include approximately 85,000 pages on trade, competition, and monetary policies (under EU-authority) and on shared responsibilities in agriculture and fisheries, transport, social policy, and the environment. In each of these areas, moreover, British regions and EU-member states have their own specific interests and priorities.

The EU acquis guarantees — e.g. in aviation — that member states have full access to each other without discrimination, but leaves the details (e.g. flight plans, slots) in the hands of the individual members states.

Chart 2

Divided Responsibilities

▸ The division of responsibilities between the EU and its members varies from one policy area to the next



Source: own diagram 2016
www.economiesuisse.ch

Most notable from the perspective of foreign trade is the EU states' common trade policy as laid down in the Treaty on the Functioning of the European Union (Art. 207). Here the authority (e.g. for the conclusion of trade agreements) generally lies with the EU institutions. But — except as regards the goods trade — the authority of the EU is never absolute. The authority over services and intellectual property is divided, i.e. responsibilities are shared between the EU and the member states. Therefore, Great Britain will not be fully in charge of its trade policy until it has actually left the EU.

At that point, also a number of agricultural subsidies will no longer be forthcoming. Furthermore, a new stretch of external EU border will separate the Republic of Ireland from Northern Ireland and will have to be guarded accordingly. Great Britain will also have to re-introduce its own customs regime unless it joins the European Customs Union as a non-member state after Brexit. The UK also has substantial financial obligations to the EU—up to 60 billion pounds by to various estimates that it will have to fulfill even after it leaves the EU. They include multi-year pledges to the EU budget, pension fund contributions of the administration, and infrastructure projects.

Given the great number of fundamental economic policy issues that need to be considered during the withdrawal negotiations between the EU and Great Britain the available time frame seems very short. In the short term, therefore, temporary solutions (grandfathering) may be negotiated in some areas.

→ As it leaves the EU, the United Kingdom risks losing easy market access to many important trading partners. EU free trade agreements no longer apply for Britain after its exit from the EU.

Brexit also Affects Relations to Third Countries

Great Britain's exit will also have far-reaching consequences on its membership in international organizations and trade relations to important third countries. The EU currently has free trade or economic partnership agreements with over 50 countries, including Switzerland. More are being negotiated (e.g. Japan). They include many of Great Britain's most important import and export partners.

By leaving the EU, Great Britain risks losing all the special conditions that the EU negotiated with non-member countries and from which British companies also benefit. The UK government must brace itself for a large number of negotiations if it wishes to maintain the favorable terms of access to the markets of important trading partners for its companies. In this context it has been announced that talks with several countries about a free trade accord are to be initiated shortly.

→ Great Britain will also have to renegotiate its obligations to the other 163 WTO members (e.g. customs tariffs, quotas, subsidy framework for agriculture).

Questions Concerning WTO Membership

Another task awaits the United Kingdom — and possibly the EU as well — with regards to the WTO. While both the European Union and each of its (still 28) member states are independent members of the WTO, it is in fact the EU that negotiates obligations within the WTO on behalf of its members (e.g. customs tariffs, quotas, subsidy framework for agriculture) After leaving the EU, Great Britain will have to negotiate its own conditions of membership with the other 163 WTO members. In a first step, it may simply attempt to continue the obligations it had as a member of the EU. Any negotiated agreement will ultimately have to be approved by the WTO (with a two thirds majority of members) and the British Parliament. This process could be very contentious and might generate new demands and political pressure from other WTO members. Just as likely, however, the procedure might be drastically shortened if the UK seamlessly re-assumes its previous obligations. With no change in obligations there would be no need for negotiations.

For the EU, too, there is a certain risk that it will be pressured about its obligations as a result of Brexit. Article 62 of the Vienna Convention on the Law of Treaties contains language that refers to "a fundamental change of circumstances which has occurred with regard to those existing at the time of the conclusion of a treaty" (e.g. the loss of almost 18% of EU economic power) which might force the EU to adjust its obligations to other WTO members and possibly agree to further concessions. Just how bumpy the negotiations with the WTO will be for the EU and Great Britain is anybody's guess.

→ The institutional effects of Brexit on Great Britain's membership in other international bodies (IMF, World Bank, OECD) are likely to be minor. However, a certain shift of emphasis is definitely a possibility.

Effects on Other International Organizations

In principal, other international organizations could also be affected in their membership structure by Brexit. However, since Great Britain is already a nation state member of the IMF, the World Bank and the OECD its exit from the EU has no impact on their respective decision making processes. For now it looks as though the institutional effects will be rather small.

It is conceivable that Great Britain will adjust some of its positions in multilateral bodies when it is no longer a member of the EU. At the IMF, the OECD, or the G20, Great Britain will soon be free to take a position independent of the EU. Just how far Great Britain will go in this respect will also depend on the shape of its new relationship to the EU. In other words, blowback from Brexit may end up affecting international cooperation at important international organizations.

→ The activation of Article 50 of the EU's Lisbon Treaty triggers a two-year deadline for withdrawal negotiations. Failure to arrive at a negotiated settlement means Great Britain is ousted from the EU automatically and without any kind of framework for future relations. Negotiations about the future relations between the two partners can only start after the actual withdrawal.

Unpredictable Withdrawal Negotiations

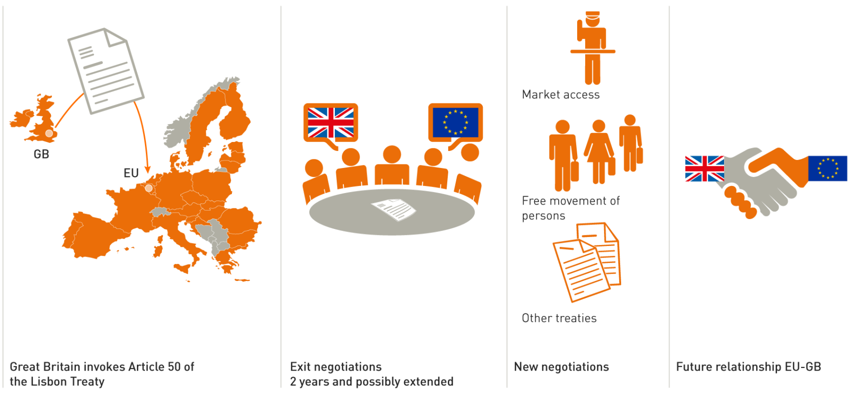
After the referendum of June 23, Article 50 of the Treaty of Lisbon will be activated for the first time ever—signaling the start of actual withdrawal negotiations. According to Article 50 „any member state may decide to withdraw from the Union in accordance with its own constitutional requirements". To activate the withdrawal process the departing member notifies the European Council of its intention. Still unresolved is the question whether the British government needs a parliamentary decision in addition to the (formally consultative) referendum vote. The High Court confirmed this, but the government has appealed the decision. A Supreme Court decision in the matter is expected in January 2017. Once Article 50 has been activated there is basically no turning back. A deadline extension requires the unanimous agreement of all remaining EU members. The EU determines the guidelines for its negotiating position without the participation of Great Britain. This may involve decisions about the effective date of withdrawal or periods of transition, but also the future status of the UK (e.g. market access, free movement of persons, security, justice). The withdrawal agreement must be ratified by the British Parliament as well as at least 20 of the 27 remaining EU members and the European Parliament. In view of this, EU representatives already caution that the actual negotiating period may turn out to be shorter (until October 2018). Treaties covering the future relationship to Great Britain will require the approval of all remaining EU member states.

If no withdrawal agreement is achieved within the two-year deadline, Great Britain automatically leaves the EU without an agreement. In this case, foreign trade would have to return to existing WTO law and treaties concluded before the UK's entry into the EU, which for the most part do not meet the today's requirements. For the economy such a scenario spells great legal uncertainty. More so, because according to the Treaty of Lisbon negotiations on the future relations between the two partners may not begin before Britain's withdrawal

Chart 3

Open-ended exit negotiations

▸ Great Britain cannot conclude new agreements until it has left the EU



Source: own diagram 2016
www.economiesuisse.ch

→ **Different scenarios for the post-Brexit relations between Great Britain and the EU appear possible, ranging from a return to WTO rules to a continued presence in the European single market with free movement of people.**

Which Solution Will Great Britain and the EU Choose?

Even after a withdrawal the EU will remain Britain's most important partner for the foreseeable future. So far neither Great Britain nor the EU have officially commented on concrete negotiation targets. Within the EU, views differ concerning the extent to which the UK should be accommodated. But everyone agrees how the four basic freedoms that come with access to the EU single market should be handled: the free movement of persons, goods, services, and capital are a unified package.

Even before the referendum of June 23, 2016, the British government presented and analyzed five possible scenarios although, realistically speaking, these are more like fairly generic "landing zones". None of the models discussed matches the full single market access that comes with EU membership. But negotiations are dynamic by nature. Who knows what new solutions or new combinations might suddenly emerge. However, the various options do offer some important clues regarding possible advantages and disadvantages of different landing zones (e.g. political sovereignty vs. market access). In any event, the short negotiation period and the looming legal insecurity in the event of a failure to reach any kind of agreement are huge challenges for both parties.

Five possible scenarios

→ **Considering the economic and political importance of Great Britain, EU reforms in the wake of Brexit are quite possible — and they might affect the future role of EFTA.**

Brexit as Game Changer?

The scenarios listed above do not take into account possible institutional changes in the EU. Yet considering the economic and political importance of Great Britain, EU reforms in the wake of Brexit are quite possible.

Inside and outside the EU different approaches are being discussed. Proposals range from the acceleration of existing projects to a fundamental overhaul of rights and obligations within the EU (e.g. continental partnership with different levels of integration and co-decision rights). If the EU actually commits to fundamental reforms the role of EFTA might be changed significantly — possibly with Great Britain as a member.

Brexit and Switzerland

→ Great Britain's withdrawal affects Switzerland directly and indirectly.

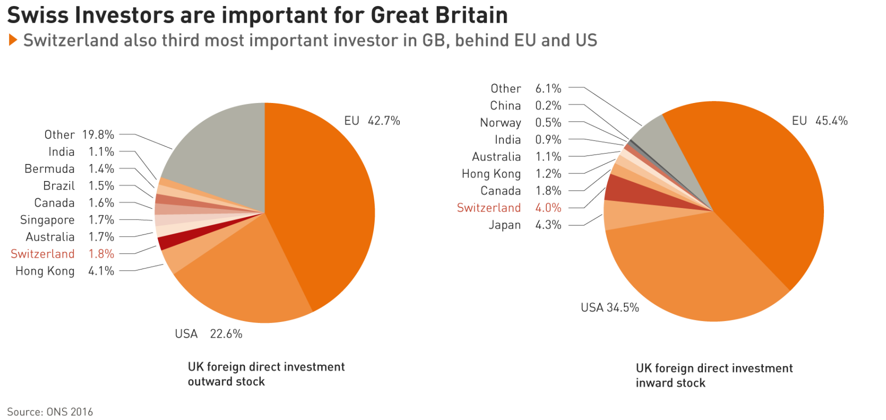
Brexit will have far-reaching consequences not only for Great Britain and the EU. With its close economic integration Switzerland is also deeply affected by the UK's withdrawal from the EU. Liberal economic systems and open markets enjoy high priorities for both Switzerland and the UK. Brexit effects will be different for each business and industry. Switzerland will also be watching closely how the politics of Brexit affect its own ongoing negotiations with the EU (e.g. Initiative against mass immigration or institutional framework agreement).

→ Great Britain is a very important partner for the Swiss economy for the trade in goods and services as well as for direct investments. Only with the US does Switzerland have an even more positive trade balance. Swiss companies employ more than 90,000 people in Great Britain.

Important Trading Partner for Swiss Companies

As the number of daily non-stop commercial flights (80) between the two countries indicate, Great Britain is a vital partner for Switzerland in terms of trade and investment. Since 2011, the bilateral trade in goods has more than doubled. Today, the only country with which Switzerland has an even better trade balance are the US (+CHF 5 billion UK; + CHF 16 billion US, precious metals not included).

Chart 5

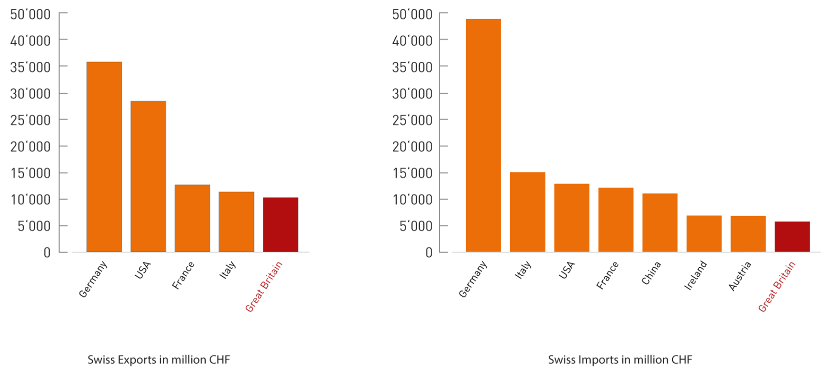


In 2016, the total value of goods imported to or from Great Britain was 11 billion CHF. Trade favorites are chemical and pharmaceutical products, machines and vehicles, as well as watches and watch components. Measured by these numbers Great Britain is the fifth most important trading partner for Swiss companies. Not included in these numbers is the trade in precious metals with a total value of 32 billion over the same period.

Chart 6

Great Britain is one of Switzerland's top trading partners

Imports and Exports without precious metals and precious stones



Source: swiss customs authority 2016

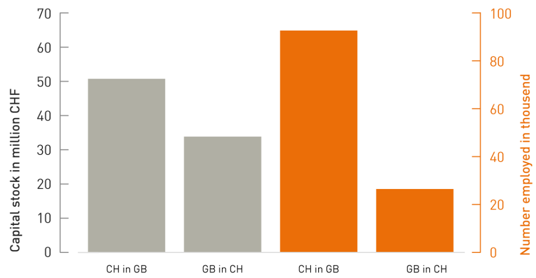
The service trade with Great Britain is also significant and broadly diversified according to the numbers provided by the Swiss National Bank. From 2012-15, exports increased by 20 percent to CHF 8.1 billion. Service imports declined by 3 percent over the same period (2015: CHF 6.3 billion). Direct investments[1], too, highlight the close economic relationship: for Swiss companies the UK is the fifth most important destination for direct investments — behind the US, Luxembourg, the Netherlands and Ireland. The capital stock of these companies in Britain in 2015 (CHF 51 billion) was substantially higher than the amount in Germany (CHF 38 billion). At the same time, the large number of British companies based in Switzerland are very important for the 'business location Switzerland'. With almost CHF 31 billion in direct investments they are more important than their Italian counterparts and rank sixth in the list of top investor countries. On the other hand, Swiss companies currently employ 92,758 people in Great Britain which is almost four times as many as work for British companies in Switzerland (26'690).

[1] Ultimately eligible investor

Chart 7

Brisk investment activity

Swiss companies invest in Great Britain and are an important employer



Source: SNB, ONS 2015

→ **For Great Britain, too, Switzerland is an important trading partner. British companies export more goods to Switzerland than to most other countries in the world. Switzerland is also the fourth largest investor in the UK behind the EU, the US and Japan.**

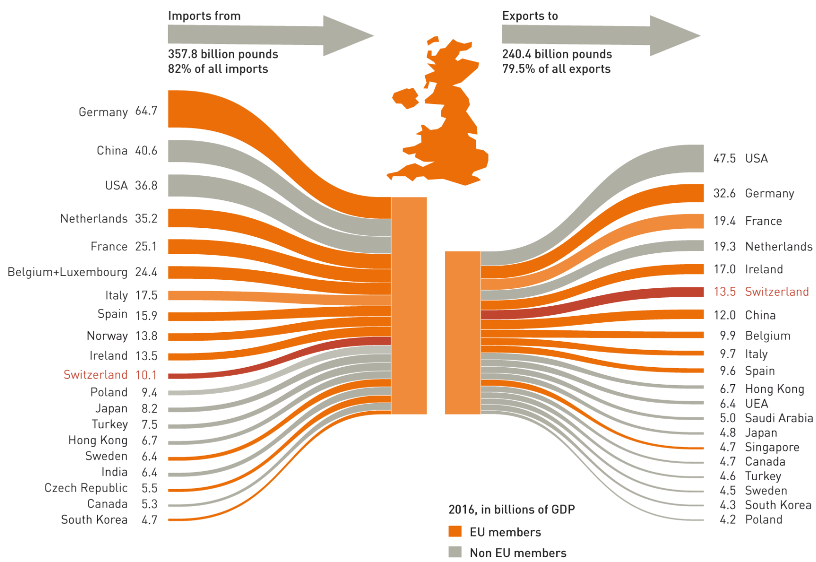
Swiss Market Is Also Important for Great Britain

The economic ties between the two countries are by no means negligible from a British perspective either. In 2016, Switzerland was the sixth most important export market for British goods. In the import column Switzerland ranks eleventh among the most important importers to the UK. Behind China, Switzerland is the strongest growth market for UK exports.

Chart 8

Swiss Market Matters for Great Britain

Great Britain's most important goods trading partners



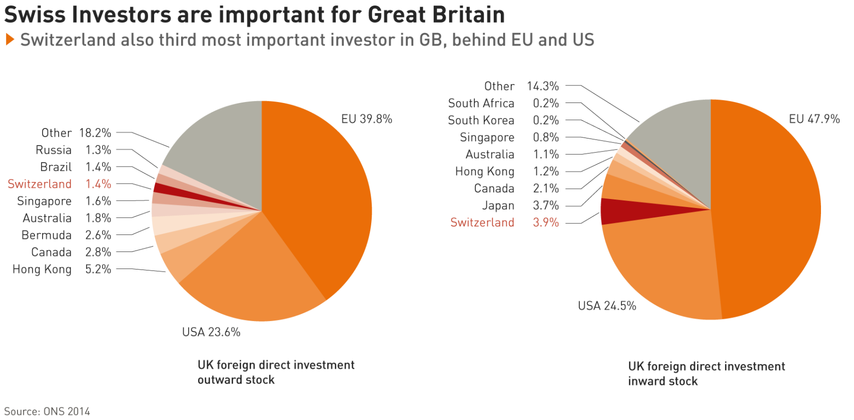
Source: own diagram, ONS
www.economiesuisse.ch

The service sector is also very significant for both countries. Here Switzerland has an important position as a target market for British companies. In 2014, Switzerland was Britain's third most important export destination for services — some CHF 11 billion total (without tourism, transport and banking). In the import column Switzerland ranks sixth with CHF 2.7 billion[1]).

Along with the trade in goods and services the importance of Switzerland for direct investments has grown. Switzerland today ranks fourth among the most important investors in Britain — directly behind the EU, the US and Japan. Switzerland on the other hand is now also the 4th most target for direct investors from the UK, ahead of countries like Australia or Singapore. Over the last ten years, the volume of direct investments from Great Britain has increased by 180 percent.

[1] Exchange rate end of 2014

Chart 9



As these numbers show, economic relations between Switzerland and Great Britain are very significant for both sides. All the more reason to reduce the legal uncertainty caused by Brexit as quickly as possible. In this context a swift clarification of the future contractual regulations between Great Britain and Switzerland is of vital importance.

→ **With Britain's exit from the EU, Switzerland faces the risk that all of its bilateral agreements with the EU will no longer apply to Great Britain. Without a suitable follow-up solution Swiss companies would be considerably worse off in many areas than they are today (e.g. market access, technical trade barriers, public procurement, movement of persons).**

The Need for a New Agreement with Great Britain

With the UK's entry into the EU in 1973 the contractual relationship between Switzerland and Britain changed fundamentally: In all areas of the law where Great Britain ceded authority to the EU, the latter assumed the task of negotiating new treaties and agreements on behalf of its member states — including those involving Switzerland. Currently, more than 100 bilateral treaties grant Swiss companies the same privileged access to all EU member states. With Great Britain's withdrawal from the EU, the entire library of treaties between Switzerland and the EU will no longer be applicable to the UK according to article 50 of the Treaty of Lisbon.

Without some sort of follow-up treaty both countries will have to resort to existing multilateral agreements (e.g. WTO) and a small number of bilateral treaties. Some of these date back to the 19th century and for the most part do not meet the requirements of today. Besides, they do not address key economic issues for the most part. Swiss companies would find themselves at a great disadvantage in such vital matters as market access, technical trade impediments, public procurement, and issues regarding the movement of goods and persons. This creates great legal uncertainty.

→ The Federal Council and the federal administration have set up an inter-departmental working group to keep a close watch on the withdrawal negotiations and consult regularly with Swiss business leaders and British officials.

Federal Council and Administration Are Active Already

Since Switzerland is very much interested in preserving its close relations to Britain it needs to be perceived as an active and constructive partner with definite positions. The Federal Council has closely followed the discussions and events in Great Britain over the last few months and has established contacts with the British government through various channels in order to discuss the way forward. An inter-departmental working group is also following the exit negotiations and drawing up proposals for future relations. The group regularly consults with business leaders.

→ Brexit also affects Switzerland's negotiations with the EU about the further development of the bilateral treaties. The EU is currently taking a hard line with Switzerland and Great Britain. This dogmatic attitude will change as soon as the EU defines its core positions in the Brexit negotiations.

Brexit Affects Relationship Switzerland-EU

Brexit also affects Switzerland's negotiations with the EU about the further development of the bilateral treaties. The EU is currently taking a hard line with Switzerland and Great Britain. This dogmatic attitude has a lot to do with with the present lack of clear EU positions in key areas. This will change as soon as the EU defines its core points in the Brexit negotiations and addresses the need for internal reforms.

Here the EU faces a particular challenge because concessions to Switzerland might compromise its position in the withdrawal negotiations with Great Britain in 2017. Before the referendum the EU offered Great Britain specific enticements. After the vote of June 23 these obviously no longer apply, but they did define a framework for negotiations. Since migration policy will remain a contentious issue in the EU it seems safe to assume that adjustments are forthcoming. At the same time the EU itself is keen on finding a viable solution in its clash with Switzerland over migration policy before the start of its intensive withdrawal negotiations with Great Britain.

→ Whether or not Great Britain will seek to join the EFTA in the medium term is still an open question. If the EU were to commit to serious reforms this might also affect the role of EFTA in Europe's future.

Will Great Britain Join EFTA?

Whether or not Great Britain will seek to join the EFTA in the medium term is still an open question. If the EU were to commit to serious reforms this might also affect the role of EFTA in Europe's future. In the discussions about Brexit the possibility of Britain joining EFTA has come up. In fact, Great Britain was one of the founding members of European Free Trade Association in 1960, which it eventually left to join the EU. EFTA currently has four members (Switzerland, Norway, Iceland, Liechtenstein) and a wide-ranging network of 27 free trade agreements with 38 states. Member states remain free to pursue their own trade policies and bilateral free trade agreements.

Chart 10

Great importance, growing uncertainties

Assessments and perspectives by industry

Industry/Business	Trade	FDI	Market Dynamic
Chemical / Pharma	high	high	stagnating to declining
Machines, Electro, Metal (MEM)	high	medium	declining
Watches	high	n.d.	stagnating to declining
Banks	medium	medium	stagnating to declining
Insurances	medium	high	declining
Aviation	high	n.d.	declining to strongly declining
Textiles / Clothing	high	low	stagnating to declining
Trade	high	medium	declining to strongly declining
Hotel industry	high	n.d.	stagnating
Medtech	high	high	increasing to strongly increasing
Foodstuffs	high	high	stagnating
Consulting	low	low	stagnating

Source: member survey, own presentation 2015

Currently, relations between Great Britain and EFTA members Iceland, Liechtenstein, and Norway are subject to EEA rules, while those between Great Britain and Switzerland are determined by the provisions of the bilateral treaties with the EU. At this time, nothing indicates that the British government is seeking membership in EFTA.

Chart 11

Great importance, growing uncertainties

Assessments and perspectives by industry

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Chemical / Pharma	high	high	stagnating to declining
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Insurances	medium	high	declining
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Textiles / Clothing	high	low	stagnating to declining
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Hotel industry	high	n.d.	stagnating
Medtech	high	high	increasing to strongly increasing
Foodstuffs	high	high	stagnating
Consulting	low	low	stagnating

Source: member survey, own presentation 2015

Business survey economiesuisse: Export Sectors Especially Affected

→ **Based on a recent member survey economiesuisse analyzed the possible effects of Brexit on the Swiss economy. Results vary from sector to sector with regard to the economic consequences (trade and investments) and to the contractual and legal challenges.**

As we have seen the British and Swiss economies are closely interconnected. Brexit therefore does have direct and noticeable effects on Switzerland and particularly on her export industries. Industry statements focus on the medium to long term perspective. According to a member survey conducted by economiesuisse in autumn 2016 concerns vary from sector to sector — both with regard to the economic consequences (trade and investments) and the contractual and legal challenges.

Chemical and Pharmaceutical Industries

Current importance of the British market

Great Britain is very important in terms of trade and investments. Overall, the UK is the industry's third most important market. In 2015, chemical and pharmaceutical products worth CHF 5.6 billion were exported to Great Britain (3rd place) and products worth CHF 2.1 billion were imported into Switzerland (6th place). Domestic chemical and pharmaceutical companies employ a considerable number of highly qualified British citizens.

The Brexit Challenge

While insecurity and the possibility of an economic slowdown in the wake of Brexit are expected to lead to stagnant or slightly declining results in trade and investments, the industry appears confident that strong negative impulses will not materialize. Thanks to the free trade agreement and bilateral treaties between Switzerland and the EU no obstacles to speak of currently impede access to the UK market. With a view to future relations between Switzerland and Great Britain no effort should be spared to maintain the high level of economic interaction with new treaties of at least equal value (e.g. a comprehensive free trade agreement CH-UK or a British EFTA membership). This includes the free movement of labor and regulatory procedures.

Brexit relevant Treaties of Switzerland with the EU

- Free trade agreement Switzerland-EU
- Bilateral agreements I & II

Machine, Electronics, and Metal Industries

Current importance of the British market

In terms of trade and investments Great Britain is an important market for the MEM industries, especially for products from aviation, space, and car industries and for the security and defense sector. In 2015, MEM exports ran to about CHF 2.5 billion, making Great Britain the 6th most important export market.

The Brexit Challenge

From the perspective of the MEM industries, the advantages negotiated in the free trade agreement and the bilateral treaties with the EU now appear in jeopardy as far as Great Britain is concerned. Therefore, the existing body of rules must be adequately replaced and a state of no-agreement avoided at all costs. Failure to do so, the industry fears, might result in additional non-tariff trade obstacles, higher customs duties and increasing exchange rate risks. More specifically, standards diverging from the EU market could result in considerable extra costs and administrative expenses for Swiss MEM companies. Ditto if different certification agencies and test centers have to be found in order to secure access to the British market after Brexit.

Swiss MEM companies already rate the British market considerably lower than before Brexit. Sales in the UK have further suffered due to the weak pound. Many companies lowered their forecast for incoming orders in the 12 months ahead: approximately a quarter of all companies surveyed by the industry now expect declining orders from Great Britain as a result of Brexit.

Relevant Treaties

- Free trade agreement Switzerland-EU
- Bilateral agreements I & II

Watch Industry

Current Importance of the British Market

The British market is very important for the Swiss watch industry. In 2015 the industry exported goods for CHF 1.6 billion to Great Britain, an increase of more than 19 percent over the previous year. In the last five years, Swiss watch exports more than doubled. Today, the UK is the world's number eight export market for the Swiss watch industry and number four in Europe.

The Brexit Challenge

The free trade agreement between Switzerland and the EU currently guarantees the watch industry unrestricted access to the British market. Britain's withdrawal from the EU adds a new layer of insecurity for an industry already facing difficult market conditions. In the medium and long term this might have a negative effect on the confidence of British customers—even as demand from tourists attracted by the weak pound might actually increase sales in the short term. In the event of a recession in Great Britain sales of Swiss watches in the UK will drop significantly. Preserving full access to the British market is thus extremely important for the industry. The same goes for all the rules concerning import, distribution and sales (e.g. technical norms, consumer protection and environmental protection).

Relevant Treaties

- Free trade agreement Switzerland-EU
- Bilateral agreements I

Banks

Current Importance of the British Market

London is Europe's most important financial center and for Swiss banks an extremely important location. In terms of funds under management, Great Britain also has a market share of around 37 percent worldwide and is by far the largest market for institutional funds management in Europe. UBS and Credit Suisse, two large Swiss banks, employ thousands of workers in the English metropolis, mostly in investment banking but also in asset management, personal banking and corporate functions. Much as for the insurance industry, so-called EU passporting is very important. It allows them to service EU/EEA clients from London. The London-based business units of the large Swiss banks also support many transactions of important global customers, especially in trade and wealth management.

The Brexit Challenge

Before talks between Great Britain and the EU about the future of mutual market access have even started, it is hard to give a firm assessment about possible effects. Concerned businesses are delaying decisions about possible relocations of business units and jobs. The fundamentals and the necessary information for such moves are currently lacking: the negotiating process, the timing, and especially the content of the future withdrawal agreement between the EU and Great Britain are as yet unknown. These questions will probably not be answered for quite a while.

Generally speaking, the industry expects a slowdown or decline in market activity along with increasing economic and legal risks: London is both a hub for the corporate banking of large European banks and the gateway for capital from non-EU countries into the common market. If the UK loses access to the common market as it leaves the EU these two functions will be largely at risk.

If Great Britain loses the EU passporting option without the benefit of some form of market access by way of an equivalency regime this could have several effects. On the one hand certain kinds of cross border transactions would presumably have to be moved elsewhere within the EU (e.g. Luxembourg or Frankfurt}. This would affect Switzerland's two large banks as well. On the other hand, it might provide Switzerland with an opening to push change in the EU: team up with Great Britain to promote more clearly defined equivalency procedures for European countries. These are currently very time-consuming and complex.

For the bilateral relationship between Switzerland and Great Britain the entire regulatory framework previously held together by the bilateral agreements with the EU would have to be reproduced in a new agreement according to the industry. Here, the potential for improved regulations for cross-border financial services in the investment products sector (e.g. funds or discretionary mandates) is considerable. A quick declaration of intent, jointly issued by Switzerland and Great Britain concerning the mutual recognition of regulation would be desirable as well.

Brexit relevant treaties of Switzerland with the EU

- EU-Passporting (EU treaty without Swiss participation and influence)
- Bilateral agreements I (esp. free movement of persons)
- Agreement for automatic exchange of information in tax matters Switzerland-EU

Insurances

Current Importance of the British Market

With the exception of wholesale insurance in the non-life sector there is no appreciable cross-border exchange between Swiss insurers and Great Britain. Much more significant is the fact that major Swiss insurers transact a considerable part of their business with the EU/EEA, but also with clients in the rest of the world, through branches in the UK (financial center London). Most of these are business clients with cross-border activities and a multinational presence who require geographically comprehensive insurance solutions. For a Swiss insurer with several thousand employees in the UK in 2015 this meant a business volume of close to CHF 4 billion. In this context EU/EWR-Passporting is crucial. It allows financial service companies based in a EU/EEA member state to distribute their products in the entire EU/EEA. A separate permit in other countries of the association is not necessary (Equivalency recognition of regulatory guidelines).

The Brexit Challenge

Swiss financial services companies have no direct access to the common market. The bilateral treaties between Switzerland and the EU explicitly preclude this. Only current EU/EEA passporting rules allow Swiss insurers—through their London offices—to offer their services in the entire EU/EEA. How Brexit will affect the very international Swiss insurance sector thus depends to some extent on whether Great Britain in its withdrawal negotiations with the EU succeeds in securing the freedom of services for London even after the UK ceases to be a member of the union.

In the event of a loss of EU/EEA passporting privileges (loss of „free movement of services“) the Swiss insurance industry would have to decamp to other EU/EEA locations for certain cross border activities. Some insurers might suffer considerable premium losses in the process—between a quarter and a third of their total volume). At the same time, continuing to do business in Great Britain would necessitate the licensing and capitalization of a new and independent legal entity. In this light, it would be a very significant plus if the UK managed to negotiate an agreement with the EU about the free movement of services. There is no telling at present if this will happen. If not, this might provide an opening for Zürich to lure some business away from the competition in London.

As for the bilateral contractual relationship between Switzerland and the UK, full market access to Britain and the world’s number two financial center must be secured, says the industry. Specifically, a second-generation free trade agreement should be sought, which would also include the free movement of persons and (financial) services. As a precondition, equivalent regulations in the insurance sector (especially capital requirements) in the two countries would have to be secured.

Brexit relevant treaties of Switzerland with the EU

- EU-Passporting (EU-treaty without Swiss participation and influence)
- Bilateral agreements I (including free movement of persons)
- Treaty Switzerland-EU on direct insurance
- Free trade agreement Switzerland-EU
- Agreement on the automatic exchange of information in tax matters Switzerland-EU

Financial Market Infrastructure SIX (Including Swiss Stock Exchange)

The date of the referendum had been known for a long time: June 23, 2016. Thus, SIX was able to prepare for this day: a dispositive was set up to absorb price fluctuations and high volumes. Brexit passed without incidents as far as the stock exchange was concerned.

Economies of Scale Can Only Be Realized With Market Access

Market access to the United Kingdom is vital to the Swiss financial market infrastructure. SIX generates up to 80 percent

of its income in the area of trading and trading with downstream segments (clearing and settlement) in European countries, particularly in the UK. It is not clear at this time if SIX-relevant business activities will be shifted between the UK and the ("rest") EU nor how and when UK market access to the EU and to Switzerland will be regulated. The negotiations between the EU and Great Britain may have an impact on the negotiations between the EU and Switzerland both in terms of time and substance. In any case, continued full access to both markets is of the vital importance to SIX. Developments in these matters are closely observed.

Legal Security for Stable and Reliable Financial Market Infrastructure

It is part of SIX's mission to ensure the security and functionality of the infrastructure in the interest of the financial center, even under changed circumstances. With a view to customers and investors, the period of legal uncertainty surrounding Brexit must thus be kept to a minimum to prevent disadvantages for financial market participants from the affected markets.

Consulting

Current Importance of the British Market

Bilateral trade with Great Britain is not very important for Swiss consulting businesses. No substantial investments are made there. Thus the volume of cross-border services relative to total revenue is only marginal. Potentially, British advisory firms might become more attractive takeover candidates as a result of the cooling local market and the sliding pound.

The Brexit Challenge

Although consulting businesses hire locally for the most part, for customer projects they rely on experts who are often found in other countries of Europe including Great Britain. Similarly, Swiss specialists (e.g. banks, pharma / chemicals, production) are also hired for projects abroad. As for Brexit, any restriction of the free movement of persons, more than anything else, would be a considerable obstacle for Swiss consulting firms. Therefore, new treaty-based framework conditions between Switzerland and Great Britain must ensure mutual labor market access and full recognition of university and commercial degrees. In addition, both countries should promote an even stronger collaboration between business and universities.

Brexit Relevant Treaties of Switzerland with the EU

- Bilateral agreements I (especially free movement of persons)

Food Industry

Current Importance of the British Market

Bilateral Trade with Great Britain is very important for the Swiss food industry. At just short of 14,000 tons the UK imported more Swiss chocolate in 2015 than any country but Germany. The United Kingdom also plays an important role in the trade of long-life baked goods (e.g., biscuits, biscuits), confectionery, beer and refreshment drinks (e.g. coffee) and is one of the top ten export and import destinations for Swiss food producers. Great Britain is also an important investment location. Thus, a number of Swiss companies have set up production facilities, with administration and distribution centers there.

The Brexit Challenge

Foodstuffs processed and exported by Swiss companies have unrestricted access to the UK market thanks to the free trade agreement with the EU of 1972 and bilaterals I & II. Brexit might put an end to all this and make exports and imports more expensive. For investments, in addition to a new bilateral regulatory framework with Switzerland, the shape of the future relationship between EU and UK will be important, with market access as the determining factor here. For Swiss companies the development of domestic factors in the UK is also relevant (e.g. corporate taxes).

Brexit Relevant Treaties of Switzerland with the EU

- Free trade agreement Switzerland - EU
- Bilateral agreements I & II

Textile Industry

Current importance of the British market

In 2015 the UK was the number eight export destination for Swiss textiles with an export value of CHF 35 million. Technical textiles (filter fabrics, ropes, coated fabrics) account for the largest share. For Swiss clothing, the UK was the sixth largest export market (CHF 45 million).

The Brexit challenge

Under current agreements for the textile and clothing business there are no significant market barriers in trade with Great Britain. This situation could change in the wake of Brexit, causing much political and economic uncertainty. Highly sensitive to currency movements, the textile sector would be additionally affected in the event of a recession and a continued slide of euro and pound because of the relative importance of the British market. The current legal uncertainty is also likely to lead to declining investments and a shift of certain manufacturing processes from Great Britain to Germany or Austria.

The extent of change in the trade with Great Britain depends primarily on whether a separate free trade agreement is negotiated with Great Britain or whether Great Britain will be allowed to join the FTA of 1972 between Switzerland and the EU. If treaties currently in force (esp. bilateral agreements I & II, FTA Switzerland-EU) cannot be replaced with a suitable equivalent there may be a risk of higher customs duties and higher non-tariff trade barriers such as labelling requirements or different product regulations on imports to Great Britain. This would further undermine the competitiveness of Swiss companies. Thus in a first step, the status quo of current treaties (bilateral agreements I & II, FTA Switzerland-EU) should be secured.

Because the textile and clothing sector are so dependent on the EU, eventual negotiations for a separate free trade agreement with Great Britain should aim to include it in the Pan-Euro-Mediterranean Convention (PEM-Convention). If Great Britain is not linked to the so-called „Pan-Euro-Mediterranean cumulation“ the textile and clothing industries will not be able to fully exploit the potential of a free trade agreement with Britain. Another concern for a possible separate free trade agreement is the liberalization and modernization of origin rules and the simplification of proof of origin, provided this does not interfere with the inclusion in the PEM cumulation zone.

And finally, market access to Great Britain should include a removal of technical trade barriers and the harmonization or mutual recognition of rules (e.g. regarding flammability, children's clothing or a waiver of EU-specific product labelling). As for the new Swissness legislation, what matters most for Great Britain and Switzerland is mutual recognition of each other's rules of origin, and for designs and trademarks registered in Switzerland to be protected on UK territory as well.

Brexit Relevant Treaties of Switzerland with the EU

- Free trade agreement Switzerland-EU
- PEM-Convention
- Bilateral agreements I & II (esp. technical trade barriers, free movement of persons, research agreements, public procurement)

Hotel Industry

Current Importance of the British Market

For the Swiss hotel industry Great Britain is the fourth largest market in terms of overnight guests (behind Switzerland, Germany, and the US). In 2015, British guests generated 4.6 percent (1.6 millions) of all overnight stays in Swiss hotels. However, in the last decade traffic declined by more than 40 percent. The main destinations for British business travelers are Zurich and Geneva, while the Valais and the Bernese

Alps are favored by vacationers from the UK.

The Brexit challenge

The industry currently has no way of telling how much Brexit will affect travel to Switzerland in the long run. But in the event of a recession, growing unemployment, and a significant decline of the pound against the Swiss franc (CHF) negative consequences for Swiss tourism and the Swiss hotel industry are to be expected. For the industry it is most important, that travel between Great Britain and Switzerland be allowed to continue freely and without visa requirements as before.

Relevant Treaties

- Bilateral agreements II (esp. Schengen agreement)

Aviation

Current Importance of the British Market

Great Britain is very important for Swiss air transport which plainly reflects, in a general way, the close economic ties between the two countries. In 2015, 2.8 million air passengers travelled by plane from Switzerland to the UK. This makes Britain the most popular destination in Europe in terms of passenger volume (ahead of Germany, even). Swiss International Airlines alone offers 161 weekly flights to Great Britain. Also noteworthy is EasyJet, with regular flights from Basel and Geneva, mostly. Each day, there are more commercial flights from Switzerland to London (world's third busiest air transport hub) than IC train connections between Zurich and Bern.

The Brexit Challenge

The effects of Brexit on air transport depend strongly on the future market access of Swiss business to Great Britain in general. Any deterioration is likely to have negative effects on the volume of air transport between Switzerland and the UK. A drop is very likely in the number of British tourists visiting Switzerland, especially in winter. If the pound continues to lose value against the Swiss franc, Switzerland will become a very expensive destination. The bilateral market access in air transport is currently governed by the air transport agreement Switzerland - EU (Bilateral agreements I). Except for the economically insignificant cabotage (transport services within one country by a foreign transportation company) there are no restrictions. After Great Britain's exit, however, this agreement will no longer apply. The only existing back-up is a bilateral air transport agreement from 1950 which is no longer up to date and must be replaced. A liberal standard agreement would be desirable in this context. Since air transport in both Britain and Switzerland is governed by EU law (EASA standards), the role of the union in this matter must be clarified. Divergences in the bilateral agreement between Great Britain and Switzerland should be avoided if possible.

Brexit Relevant Treaties of Switzerland with the EU

- Bilateral agreements I (especially air transport agreement)

Medtech-Industry

Current Importance of the British Market

With a trade volume of over CHF 500 million, Great Britain ranks eighth and seventh respectively among the industry's leading export and import markets. In addition to trading bilaterally some companies also produce locally in the UK and some of them are leading employers. Zimmer Biomet, for instance, currently employs some 1,000 people in different locations throughout the UK. According to a current Swiss industry study (before the Brexit vote) 17 percent of companies surveyed have already invested in Great Britain or plan on doing so.

The Brexit Challenge

Medtech companies that produce for the global market must fulfill the regulatory requirements of their target markets. In Great Britain, until now EU rules applied. Entering the European market with a new product was considered fairly efficient in the past (when compared to the US or China), despite high patient security. Now the question is, will Britain issue its own different guidelines in the wake of Brexit (e.g. product regulations, data protection, separate testing and certification bodies). The continuation of the free movement of persons as well as developments in British tax policy are also important for companies in Great Britain. Accordingly, the initially positive growth expectations for the British market may be in for a correction.

Brexit Relevant Treaties of Switzerland with the EU

- Free trade agreement with the EU
- Convention establishing the EFTA
- Bilateral agreements I
- Agreement Switzerland - EU about the Mutual Recognition of Conformity Assessments (MRA)
- Various EU regulations and directives, which are relevant for market entry and—by way of the MRA and their integration in Swiss law — have legal force in Switzerland. This includes the current EU guidelines concerning medical products and in vitro diagnostics, which will be replaced in early 2017 by two new EU directives (MDR/IVDR).

→ **Great Britain is very important for most sectors of the Swiss economy – in terms of goods, services and investments. The most disturbing aspect for many Swiss companies in the wake of Brexit is the looming loss of their current excellent access to the British market, which would adversely affect trade. There is the risk of great legal uncertainty. Establishing an equivalent bilateral treaty solution with Great Britain is imperative. This solution should be available by the time of the UK's actual withdrawal from the EU and should not only liberalize the goods trade but also the service trade with the UK.**

Conclusion of the Business Survey

Great Britain is very important for most sectors of the Swiss economy — for goods, services, and investment. No problems or barriers worth mentioning currently exist in bilateral economic relations concerning the goods trade. Swiss financial service providers have no direct access to the UK and the EU in general, but this disadvantage is easily sidestepped today (EU-Passporting) through subsidiaries in London, the center of European finance. These institutes also serve their international clients very efficiently from there. However, due to the strong franc and the weak pound many companies in Great Britain and Switzerland are already experiencing difficulties. A recession in the UK due to a worsening economic environment would only increase the challenges.

A great concern for many Swiss companies in the wake of Brexit is the looming loss of today's excellent market access to Great Britain. New tariff and non-tariff barriers to trade, or product regulations differing from the EU would put an additional damper on trade. Financial services companies also fear that London might lose its privileged access to the EU. In combination, these factors create a great deal of legal uncertainty for Swiss companies, further influenced by the upcoming exit negotiations between Great Britain and the EU with an outcome that is hard to predict. As a result, Swiss companies are very cautious about making long term strategic business decisions relating to Great Britain.

Even now it is clear that the discontinuation of the bilateral agreements I & II, the free trade agreement between Switzerland and the EU, and selected sector-specific treaties will open a gaping hole in economic relations with Great Britain that needs to be fixed as quickly as possible. For all sectors an equivalent bilateral treaty solution with the UK is of great importance — a solution that liberalizes not only the trade in goods but in services as well.

Safeguard Market Access, Ensure Legal Certainty, Seize Opportunities!

→ **As a result of Brexit all bilateral agreements between Switzerland and the EU will cease to apply to Great Britain. But Swiss businesses depend on optimal market access and legal certainty. Both of these are only assured if a draft agreement is ready by the time Great Britain leaves the EU. The substantive preservation of bilateral agreements I and II and the free trade agreement Switzerland-EU is of key importance. The need is for a comprehensive free trade agreement of the latest generation, including a liberalization of the service trade. Opportunities to discuss the expansion of market access with Great Britain must be seized. Among other things, Swiss businesses see a particular potential in regulatory harmonization.**

In the short term, Brexit hardly affects the relationship between Switzerland and the UK. Existing rules continue to apply for citizens and businesses. In the medium and long term, however, the bilateral treaties of Switzerland with the EU will no longer apply to Great Britain. Ensuring legal certainty while maintaining — and improving as needed — the good bilateral framework of today is paramount for Swiss business.

Because of the complex opening situation confronting the British Government as it prepares to leave the EU, the UK will now primarily focus on the withdrawal talks with the EU, its most important trading partner. The activation of article 50 of the Treaty of Lisbon has been announced for the end of March. However, the ratification of the referendum by the British Parliament as required by the High Court may cause further delays. Beyond these negotiations, Great Britain will have only limited capacities to engage with third countries over economic relations and will concentrate on its most important trading partners. As an important trading partner Switzerland is in a good position. Nevertheless, political leaders will need to stay alert and proactive.

Switzerland Is Clearly Part of the "Inner Circle" of Most Important Trading Partners

Switzerland must continually raise awareness among its British partners about the importance and benefits of Swiss-British economic relations and intensify its contacts. As a core trading partner of Great Britain and leading investor, Switzerland clearly belongs to the inner circle of countries with which the UK will want to re-negotiate economic relations right away. A memorandum of understanding to this effect should be pursued quickly. The business sector will support the policy makers as best it can.

Status Quo+ for Mutual Market Access and Safeguarding Legal Certainty

After Brexit the preservation of legal certainty is the top concern for Swiss business. A draft for a bilateral treaty solution between the UK and Switzerland should be ready by the time Great Britain completes its exit from the EU. Its main focus will be on the material preservation of bilaterals I & II as well as the free trade agreement between Switzerland and the EU. As a temporary solution some form of grandfathering might have to be pursued. Regulatory divergences should be avoided. Swiss business wants to secure full mutual market access through a comprehensive free trade agreement of the latest generation, which also includes a liberalization of the service trade and deeper regulatory cooperation between the two countries (status quo+). Additional accords for individual sectors should be negotiated as needed. Full access to highly qualified personnel from the partner country must be assured in the future as well.

Seize the Opportunity to Expand Market Access

Great changes always create opportunities to strike out in a new direction and improve the status quo in everyone's interest. In the wake of Brexit, Swiss business sees an opportunity to engage Great Britain in a discussion about broadening mutual market access. Beyond the existing contracts with the EU, the individual sectors of the Swiss economy already see a potential for harmonization and equivalence of regulations (e.g. financial services) or the liberalization of rules of origin. In close collaboration between policy makers and economic leaders of both countries the close ties to Great Britain should be used to identify and exploit opportunities to deepen the bilateral economic ties.

Switzerland Is Open for Discussions about EFTA Membership

Britain's accession to EFTA would seem to be a medium or long term option at best. Swiss business is basically open to talks but believes the time for an in-depth debate and final verdict is premature. First of all, Great Britain would need to express an interest in joining EFTA, which it has not done so far. A final verdict will depend on a thorough analysis by all parties involved of common goals, institutional questions, possible EU reform efforts, and the future dynamic within the free trade association.