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Article

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Collateral damage: The harm done to Swiss commercial interests by EU policies since the crisis began

Simon J. Evenett¹

University of St. Gallen and CEPR

Since the onset of the global economic crisis, on no occasion have the European Commission or European Union member state governments singled out Swiss commercial interests for discriminatory treatment. Even so, 200 official acts taken across the EU since November 2008 have caused collateral damage to Swiss commercial interests, three-quarters of which are still in force. Swiss exports worth more than 17 billion francs face one or more crisis-era trade distortion. However, inferred trade cost data reveal that Swiss commercial interests have been discriminated against more than other major suppliers to EU markets in only three member states.

JEL codes: F02, F53

Key words: Switzerland, European Union, free trade agreement, trade distortions, global economic crisis

1 Introduction

Motivated in part by the substantial contribution that rising exports can make to the growth of Swiss living standards, the Swiss Federal Council and many representatives of the Swiss business community have supported the negotiation of a web of free trade agreements across the globe. Arguably the most important of these free trade agreements is with the European Union (EU), with which Switzerland enjoys significant commercial and other ties. During good times such free trade agreements enable Swiss exporters, their employees and the communities where they are based to benefit from economic growth in neighboring countries and further afield.

But what of the benefits during bad times, such as those that have followed the onset of the global economic crisis in 2008? Solace can be taken from the fact that free trade agreements bar the raising of tariffs. But is that all? What of other policy instruments available to Swiss trading partners? Does ruling out a resort to tariff increases channel protectionist pressure into policy instruments that are not covered by inter-state accords? In the Swiss–EU context such policy substitution could result in Swiss commercial interests being harmed in different ways by EU crisis-era policy responses.

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The purpose of this paper is to employ direct and indirect evidence to assess the discrimination faced by Swiss suppliers to the European Union's markets since the onset of the global economic crisis.² It is important to stress that the crisis-era policy instruments implemented by the European Commission (acting on behalf of the EU) or by the EU member states need not directly target Swiss commercial interests to harm the latter. Swiss interests may be among the collateral damage that results from policy measures that favor commercial interests within the EU.

There is a further dimension that ought to be taken into account. Swiss firms operating in European markets may have seen their treatment in EU markets change in both an absolute and a relative sense. For example, in absolute terms the trading costs faced by Swiss firms may have fallen in a given EU export market, but those costs may have fallen by less than those faced by non-EU competitors for contracts in the same EU export market. In this example, over time Swiss firms faced less absolute discrimination in EU markets, but were – when compared to non-EU rivals – relatively discriminated against. Put another way, the discretion available to the European Commission and governments of EU member states may have been used to the relative disadvantage of Switzerland. Of course, other logical possibilities are possible. What can be inferred, then, about the crisis-era changes in absolute and relative discrimination faced by Swiss exporters selling into EU markets?

The rest of this paper is organized as follows. Section two briefly summarizes the Swiss trading relationship with the EU and interprets cautiously some preliminary outcome-based indicators of market access. In the third section of this paper, data from the Global Trade Alert on policy changes are combined with trade data from UN COMTRADE to estimate the percentage of Swiss exports to EU member states that face trade distortions or trade reforms implemented since November 2008, which for the purposes here is taken to be the start of crisis era.

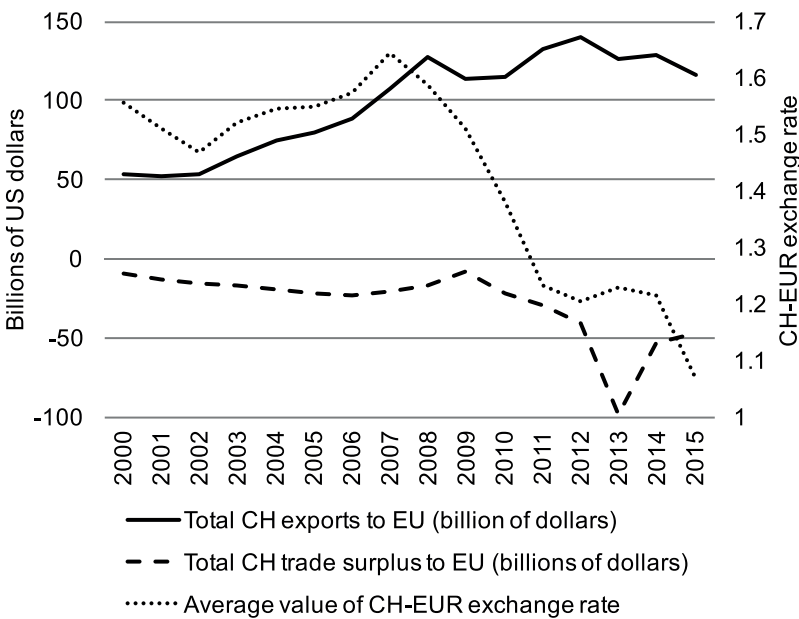
In the fourth section of this paper, the theory-inspired trade costs literature is deployed to construct bilateral trade cost indices between Switzerland, Canada, Japan, and the United States and each EU member state since 2000. Cross-sectional and intertemporal variation in bilateral trade costs to the same export destination is used to infer whether Swiss exporters are facing more or less absolute and relative discrimination in EU markets. Section five of the paper includes a discussion of policy implications, caveats and other concluding remarks.

2 The focus of this paper is on firm-specific and sector-specific policy interventions undertaken by public authorities in the EU, not macroeconomic or economy-wide interventions such as quantitative easing and associated exchange rate changes.

2 A brief overview of Swiss trade with the European Union

Since 2000, Swiss exports to the EU have grown 118% in nominal terms to \$116 billion in 2015, according to the United Nations COMTRADE database. Exports fell during the Great Recession but then continued their relentless upward climb, peaking at \$139 billion in 2012. In more recent years, however, the Swiss franc has appreciated sharply and, as Figure 1 indicates, there has been an 8% fall in Swiss exports from 2012 to 2015. Of course, part of that deceleration could have been caused by slower economic growth in the EU, in particular in the Eurozone countries that undertook austerity measures as part of international bailouts. A sizeable bilateral trade deficit in the EU’s favor has opened since 2009.

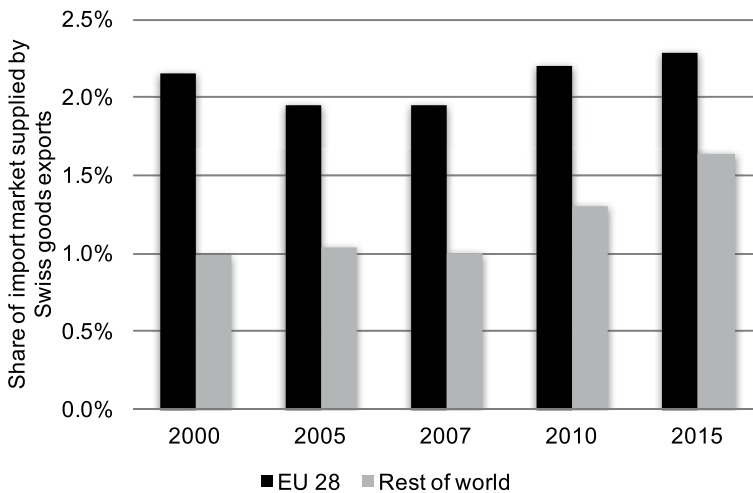
Figure 1: Swiss export growth to the EU slowed down after the crisis



Given the relative growth performance of the EU and the rest of the world (which includes the emerging markets), it is not surprising that the share of Swiss exports to the latter have grown. As Figure 2 shows, the share of EU28 exports sourced from Switzerland fell in the run up to the crisis and then bounced back (ending up 0.33% higher in 2015 than in 2007). Meanwhile, the rest of the world imported a larger share of goods from Switzerland during the crisis era, speaking to greater competitiveness of Swiss exports or a better match between the products that

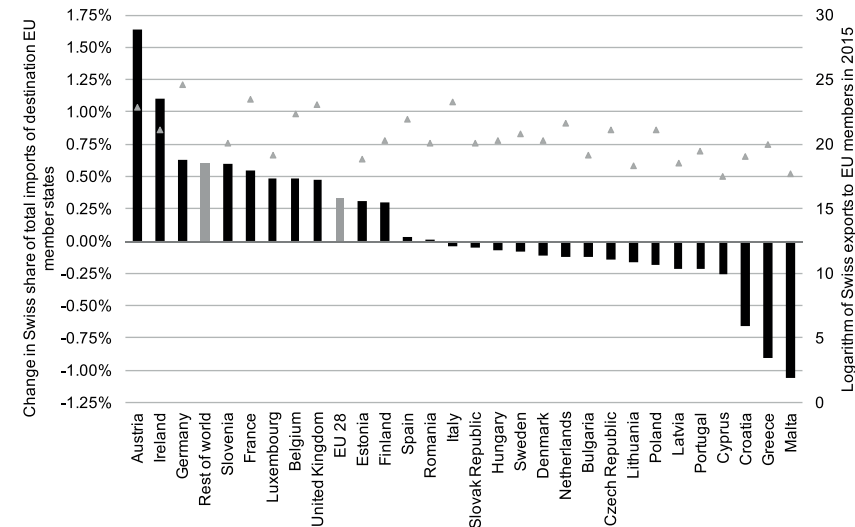
Switzerland supplies and the demands of buyers. Still, it is impressive that Swiss shares of EU28 imports grew so much between 2007 and 2010 as the value of the Swiss franc appreciated. Another possible explanation is that since the onset of the global economic crisis, the rest of the world's treatment of Swiss exports became less discriminatory over time compared to that of the EU.

Figure 2: Swiss share of non-EU imports has grown since the onset of the crisis



While the Common Commercial Policy of the European Union is executed by the European Commission, there are plenty of policies implemented at the EU member state level that can affect Swiss commercial interests. *Ceterius paribus*, if an EU member state has taken measures whose harm falls disproportionately on Swiss commercial interests, then one might expect to see the share of that member state's imports from Switzerland fall. Moreover, if the pressure to engage in such measures is greater since the onset of the global economic crisis, then that share should have fallen since 2007. Figure 3 shows how those shares have changed from 2007 to 2014 for each EU member state. The change in the Swiss share of EU28 imports and those of the rest of the world have been added in as comparators as well.

Figure 3: During the crisis era Swiss shares of total imports grew in member states where its exports were largest



There is considerable variation across EU member states in the change in the import share from Switzerland from 2007 to 2015 – from a rise of 1.64 percentage points in Austria to a fall of 1.06 percentage points in Malta. From the Swiss perspective, it is heartening to see that all of the larger EU export destinations for Swiss products report rising or essentially unchanged shares (with a tiny fall in share recorded for Italy). Yet, over the same time frame, the Swiss import share in the rest of the world’s imports rose 0.6%. As Figure 3 makes clear, in only four EU member states did the Swiss import share rise by anything close to or by more than the comparable share to the rest of the world. Relatively speaking, then, what held back Swiss exports to many EU member states?

However, it is important not to jump to conclusions from such evidence before examining the policies undertaken by EU member state governments and the relative performance of other non-EU countries that Switzerland competes with. The next section examines the policies – both liberalizing and discriminatory – undertaken by the EU since the onset of the global economic crisis collectively (that is, via the European Commission) and by individual member states.

3 Crisis-era policy measures undertaken by the EU and its member states that affect Swiss commercial interests

EU governments, like their counterparts elsewhere, reacted vigorously to the onset of the global economic crisis, combining macroeconomic stimulus often with measures that targeted specific sectors or firms that were in trouble. While many of these measures were presented as “saving jobs”, etc., some in fact tilted the commercial playing field towards domestic firms at the expense of foreign rivals. Some government interventions appeared competitively neutral, however, strings were attached that discriminate against foreign firms. Plus, subsidies to loss-making firms frustrate market pressures for capacity reduction, keeping prices lower than otherwise, and shifting the burden of adjustment to unsubsidized firms. Tariffs and other border measures, then, are not the only means available to EU governments to beggar thy neighbor.

Since commercial policy is the sole competence of EU institutions, member state governments were not allowed to alter traditional border barriers in response to the global financial crisis. Pressure to favor domestic firms shifted to other policies, notably (as will become clear) to subsidies. Indeed, early in the global economic crisis in response to pressure from the governments of the three largest economies in the EU, the European Commission’s state aid regime was substantially watered down, and not just for financial institutions.³ To its credit, the European Commission has collected substantial amounts of data on the subsidies granted to EU business during the crisis and, when the opportunity has arisen, has tried to reconstruct the pre-existing state aid regime. The Commission has also kept an eye on overt violations of the Single Market regime, including biased government procurement processes. The purpose of this section is to document the resort to trade distortions and reforms by the European Commission and by the EU member state governments (often acting on their own) that likely affect the commercial interests of Switzerland.

The independent Global Trade Alert (GTA) initiative collects data on government measures announced and implemented since the first crisis-era G20 Leaders summit in November 2008. For over seven years, evidence has been systematically added to this database and now it is two-and-a-half times the size of the comparable database maintained by the World Trade Organization (WTO). In its latest *World Economic Outlook*, the International Monetary Fund observed that the GTA “has

3 DA SILVA and SAMPSON (2009) argue: “At the EU level, there is no doubt that the Commission’s hand was forced by the present crisis in the publication of the new Financial Crisis Communication. The alternative was Member States taking rapid action to bail out banks and financial institutions in their home markets in open violation of the Commission’s State aid rules—or at least without waiting for approval.”

the most comprehensive coverage of all types of trade-discriminatory and trade-liberalizing measures” (IMF, 2016).

Unlike the WTO, which confines its monitoring of crisis-era policies to a small number of specified trade policy instruments, the GTA will include in its database (almost) any government policy that alters the relative treatment of domestic commercial interests compared to their foreign rivals. The set of domestic commercial interests is broadly defined to include traders, foreign investors, owners of intellectual property (including electronic property) and those nationals employed abroad.

Table 1: Crisis-era trade distortions and liberalizing measures affecting Swiss commercial interests

| Policy instrument | Implemented harmful measures | | Implemented trade reforms | |
|---------------------------------|------------------------------|----------------|---------------------------|----------------|
| | Total | Still in force | Total | Still in force |
| State aid | 141 | 101 | 0 | 0 |
| Trade finance | 13 | 13 | 0 | 0 |
| Export incentive | 10 | 8 | 0 | 0 |
| Import tariff | 6 | 4 | 9 | 5 |
| Investment measure | 6 | 6 | 3 | 3 |
| Import quota | 5 | 2 | 7 | 2 |
| Non tariff barrier | 5 | 4 | 3 | 2 |
| Export taxes or restriction | 3 | 2 | 6 | 5 |
| Public procurement, nes | 3 | 3 | 0 | 0 |
| Localisation requirement | 2 | 2 | 0 | 0 |
| Public procurement preference | 2 | 2 | 0 | 0 |
| Migration measure | 1 | 1 | 5 | 5 |
| Public procurement localisation | 1 | 1 | 0 | 0 |
| Trade-defence | 1 | 1 | 0 | 0 |
| Consumption subsidy | 0 | 0 | 2 | 0 |
| Import subsidy | 0 | 0 | 1 | 0 |
| Total | 200 | 151 | 37 | 23 |

Source: Global Trade Alert, data extracted on 19 August 2016.

The GTA has documented 1,077 foreign government measures that have harmed Swiss commercial interests since November 2008, and 611 measures that have benefited Swiss firms and the like. Of the harmful measures, 798 (or 74%) remain in force, suggesting that there is a long way to go in unwinding crisis-era protectionism. Our interest here, however, is in measures undertaken

by individual EU member states and by the EU collectively that affect Swiss commercial interests. To that end, Table 1 was assembled from the GTA database and differentiates between EU measures harming and benefiting Swiss interests.

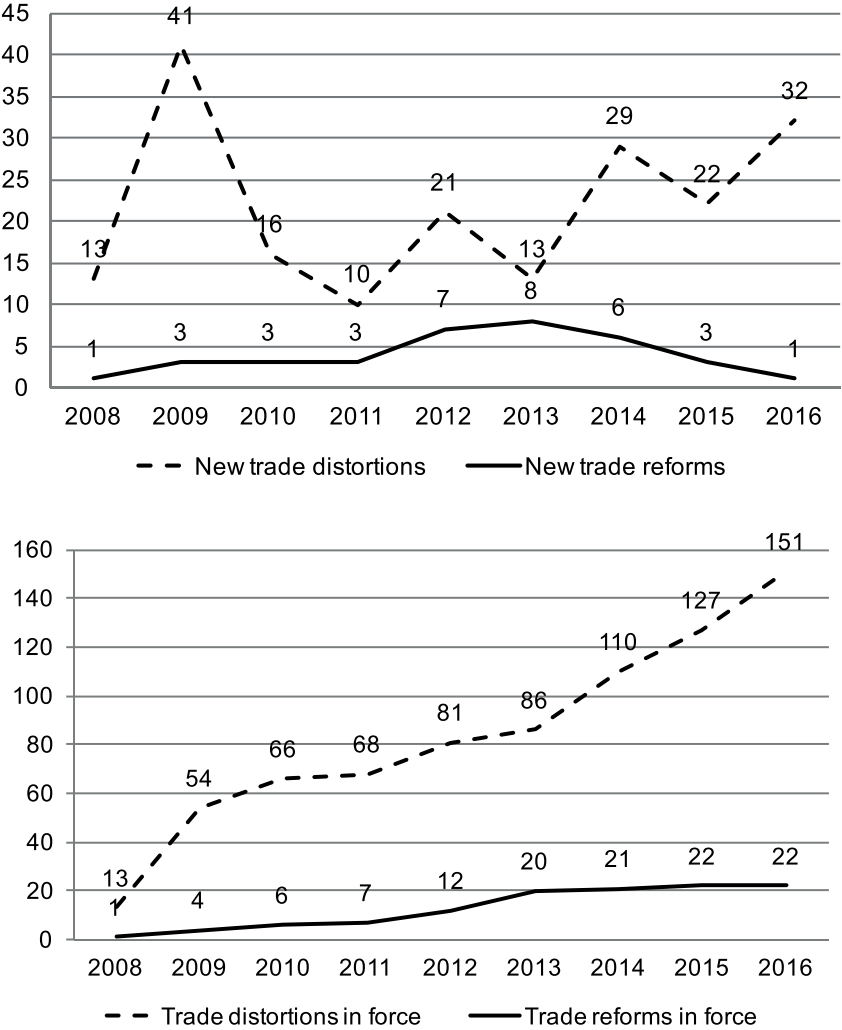
In terms of EU measures harming Swiss interests, there is little resort to border measures such as tariffs, import quotas, or trade defense and safeguards duties (see Table 1). Instead, on numerous occasions EU member states bailed out firms in financial trouble. Using information on the identities of the bailed-out firms and the types of products they produced, we found 141 cases where the EU bailed out a firm (or firms) that produce and sell goods that compete directly with Swiss exporters in EU markets. A large number of the associated subsidy or bailout regimes are still in force, so readers can discard the canard that Swiss commercial interests were briefly affected by EU bailouts at the start of the crisis.⁴ The relaxation of the EU state aid regime may well have had first-order effects on Swiss exporters, perhaps forcing them to lower prices and accept lower profit margins, reducing returns on investment.

The total number of EU measures harming Swiss interests outnumbers the total number of trade reforms benefiting Switzerland, year after year and cumulatively (see Figure 4). The number of harmful measures does spike in 2009 and then falls. However, consistent with worldwide trends, from 2011 there has been an increase in the number of times per year that Swiss commercial interests suffered at the hands of EU governments. In contrast, the number of trade reforms implemented by the EU that benefit Switzerland has been falling since 2013. The total number of beneficial and harmful measures that affect Swiss commercial interests implemented by each EU member state are reported in the Annex Table.

It is noteworthy that not a single EU measure that harms Swiss commercial interests only harms Swiss interests. The same is true for the EU measures that benefit Swiss interests. Consequently, at least as far as the harm to Swiss commercial interests are concerned, EU crisis-era policy choice did not single out Switzerland, rather the harm done to Swiss commercial interests is collateral damage. Not being picked on, or specifically targeted, may be a relief to some Swiss readers, but in no way does it diminish the collateral damage to Swiss firms, employees and their communities.

4 Of the 141 bailouts and subsidies implemented by the EU that harm Swiss commercial interests, only 25 refer to financial services firms. One can set aside another canard, namely, that crisis-era subventions were principally in the financial sector and, according to some, of little concern to international trade analysts on the grounds that such subventions sought to restore financial stability. In fact, the vast majority of crisis-era subsidies and bailouts have been to manufacturers and farmers.

Figure 4: Since the crisis began, Swiss commercial interests have been hit far more often with EU trade distortions than with EU trade reforms



Source: Global Trade Alert, data extracted on 19 August 2016.

Next, the degree of Swiss export exposure to harmful crisis-era EU policy measures was estimated. Where possible, the GTA identifies from primary sources the products affected by a policy measure. Using the four-digit product classification in the United Nations Harmonized System of international trade data (which breaks goods – both agricultural and manufacturing – down into 1,204 distinct categories), for each discriminatory EU measure implemented it was possible to identify whether Switzerland exported a product affected by a particular EU crisis-era initiative.

Gauging how much Swiss exports are potentially affected by an EU measure is not straightforward as the measure in question may well have affected the contemporaneous international trade flow (indeed, the purpose of the measure may have been to do exactly that). In the limit, suppose a EU member state bans imports of a good that Switzerland had previously exported to that jurisdiction. Once the ban has come into effect, there would be no recorded exports of that good from Switzerland to the member state in question. Using contemporary export data to gauge exports at risk would in this case imply no risk exposure, which is surely wrong.

To overcome this problem – technically, the endogeneity of crisis-era trade flows to crisis-era policy measures – international trade data in the three years before the crisis (taken here to be 2005 to 2007) was used to compute the percentage of total Swiss exports to the EU represented by a given product exported to a given EU member state. These percentages, plus the data on the harmful policy instruments in effect in mid-August 2016 and the identity of the implementing EU member state obtained from the GTA database, were used to compute the percentage of Swiss exports that faced different types of trade distortion implemented by an official EU body. Table 2 reports those percentages for the harmful measures implemented since November 2008 by the EU that were still in effect in mid-August 2016. For balance, Table 3 repeats the exercise for EU crisis-era measures that were beneficial to Swiss commercial interests.

| EU member state | State aid | Import quota | Import tariff | Non-tariff barrier (n.e.s.) | Public procurement (n.e.s.) | Public procurement localization | Public procurement preference | Trade defense measure | Total % affected (avoiding double counting) |
|---|-----------|--------------|---------------|-----------------------------|-----------------------------|---------------------------------|-------------------------------|-----------------------|---|
| Netherlands | 0.57 | 0.00 | 0.00 | 1.20 | 0.00 | 0.13 | 0.00 | 0.00 | 1.63 |
| Poland | 2.54 | 0.00 | 0.00 | 0.87 | 0.00 | 0.00 | 0.00 | 0.00 | 3.41 |
| Portugal | 3.03 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 3.03 |
| Romania | 0.12 | 0.00 | 0.00 | 2.28 | 0.00 | 0.00 | 0.00 | 0.00 | 2.39 |
| Slovakia | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Slovenia | 0.00 | 0.00 | 0.00 | 0.15 | 0.00 | 0.00 | 0.00 | 0.00 | 0.15 |
| Spain | 1.85 | 0.00 | 0.00 | 0.74 | 0.67 | 0.06 | 0.00 | 0.00 | 2.82 |
| Sweden | 0.70 | 0.00 | 0.00 | 3.50 | 0.00 | 0.00 | 0.00 | 0.00 | 4.20 |
| UK | 0.65 | 0.00 | 0.00 | 1.19 | 0.00 | 0.00 | 0.33 | 0.00 | 1.84 |
| Total Swiss export % affected by all EU member states | 13.74 | 0.00 | 0.00 | 2.13 | 0.16 | 0.04 | 0.02 | 0.00 | 14.73 |

Note: Export shares affected calculated using policy measure data from the Global Trade Alert and four-digit product level data from the UN COMTRADE database.

Table 3: Percentage of Swiss exports benefits from trade reforms in the EU, by EU member state and type of reform

| EU member state | Import quota | Import tariff | Non-tariff barrier (n.e.s) | Total % affected (avoiding double counting) |
|---|--------------|---------------|----------------------------|---|
| Austria | 4.36 | 0.00 | 1.55 | 5.91 |
| Belgium | 5.03 | 0.32 | 1.08 | 6.43 |
| Bulgaria | 2.48 | 0.00 | 0.57 | 3.06 |
| Croatia | 3.03 | 0.00 | 0.26 | 3.29 |
| Cyprus | 0.00 | 0.00 | 0.00 | 0.00 |
| Czech Republic | 9.21 | 0.00 | 0.31 | 9.53 |
| Denmark | 4.53 | 0.00 | 0.56 | 5.08 |
| Estonia | 0.00 | 0.00 | 0.00 | 0.00 |
| Finland | 4.82 | 0.00 | 1.00 | 5.83 |
| France | 7.69 | 0.02 | 1.63 | 9.35 |
| Germany | 6.89 | 0.23 | 1.27 | 8.38 |
| Greece | 6.04 | 0.00 | 0.09 | 6.13 |
| Hungary | 6.06 | 0.00 | 0.08 | 6.14 |
| Ireland | 28.56 | 0.00 | 0.46 | 29.01 |
| Italy | 5.77 | 0.01 | 1.07 | 6.85 |
| Latvia | 0.78 | 0.00 | 0.00 | 0.78 |
| Lithuania | 3.43 | 0.00 | 0.62 | 4.05 |
| Luxembourg | 0.00 | 0.45 | 2.55 | 3.00 |
| Malta | 1.39 | 0.00 | 0.00 | 1.39 |
| Netherlands | 5.64 | 0.08 | 2.20 | 7.92 |
| Poland | 8.41 | 0.04 | 0.94 | 9.39 |
| Portugal | 4.36 | 0.00 | 0.39 | 4.75 |
| Romania | 2.88 | 0.00 | 0.46 | 3.35 |
| Slovakia | 3.78 | 0.00 | 0.00 | 3.78 |
| Slovenia | 4.14 | 0.00 | 1.46 | 5.60 |
| Spain | 26.57 | 0.01 | 0.37 | 26.96 |
| Sweden | 4.38 | 0.04 | 0.52 | 4.94 |
| UK | 6.66 | 0.00 | 0.56 | 7.22 |
| Total Swiss export % affected by all EU member states | 7.56 | 0.10 | 1.16 | 8.82 |

Note: Export shares affected calculated using policy measure data from the Global Trade Alert and four-digit product level data from the UN COMTRADE database.

There is considerable variation across policy instrument and EU member state in the percentage of Swiss exports affected by crisis-era trade distortions (Table 2). Over 20% of Swiss exports to Italy and Germany face a crisis-era trade distortion imposed by the governments of those countries, or by the European Commission on their behalf. In the case of France, that percentage falls just below 18%, implying that the trade distortions by Switzerland's big (economically speaking) neighbors affect more than one-sixth of Swiss exports to those countries. More generally, Table 2 shows how concentrated is the harm to Swiss exports to the EU, with only tiny percentages of Swiss exports at risk in 24 of the 28 EU member states.⁵

With respect to the policy instruments responsible for distorting Swiss exports to the EU, the contribution of crisis-era bailouts and subsidies to tradable goods sectors stands out. The extent of such subventions is such that one seventh of Swiss exports is estimated to compete with a firm bailed out by the government of a EU member state. A catch-all category of otherwise unspecified non-tariff barriers are estimated to affect 2% of Swiss exports to the EU. Overall, 14.73% of Swiss exports – an amount exceeding 17 billion francs – has been put at risk by discriminatory public policies implemented by the EU since the onset of the global economic crisis.

Swiss exporters have also benefited from policies that have eased trade into the European Union, as shown in Table 3. Relaxation of import quotas in agricultural goods is the principal source of gain for Swiss exporters. In terms of the percentage of Swiss exports affected, however, the total for beneficial policy changes is much lower than that for harmful policy measures (8.82% compared to 14.73%). While comparative export exposure numbers need not map into the amount of financial harm done to Swiss commercial interests, the imbalance presented here does suggest that Switzerland's exporters have on net likely suffered more from EU crisis-era policy intervention. One can certainly reject claims that the existing architecture of EU–Swiss trade accords has protected Switzerland from the collateral damage arising from the EU's response to the crisis.

However, the fact that so much of the damage was collateral – as opposed to specifically targeting Swiss firms – does beg the question as to whether Switzerland's relative position in EU markets may have improved because other exporters to the EU have been harmed even more? Could Switzerland's

⁵ It is important to note that the percentages reported in Table 2 refer to harmful measures taken by the European Union that affect Swiss exports to the EU member states. It should not be forgotten that non-EU governments may have introduced policies that affect the conditions of competition for Swiss firms in EU markets. Therefore, the percentages reported in Table 2 do not reflect the total exposure of Swiss exporters to all trade distortions in EU markets during the crisis era. This observation has been made precisely because the GTA has found a number of export incentives implemented by third countries that also export to the EU.

absolute treatment in the EU have deteriorated while its treatment relative to other non-EU rivals has improved? Or has Switzerland's absolute and relative position deteriorated? These questions are addressed in the next section using an alternative source of data on crisis-era trade frictions.

4 Trade costs facing Swiss exporters

Given that some of the policies that EU governments have taken that harm Swiss exporters may not be easy to spot or document, it is appropriate to complement the analysis in the previous section with evidence based on inferences from observed trade flows on the magnitude of trade costs. There is now an established literature (HEAD and RIES, 2001; NOVY, 2011) that demonstrates the theoretical underpinnings for these inferred trade cost measures, however, it must be stressed that the maintained assumption is that the underlying model of consumption and production specialization (the mismatch between which generates cross-border trade) is correct.

Using the ANDERSON and VAN WINCOOP (2003) approach to modelling bilateral international trade flows, which takes account of so-called multilateral resistance terms, NOVY (2011) derived the following "micro-founded" expression for the symmetric bilateral trade cost, T_{ij} , between two nations, i and j , that depends on observable trade flows and σ , which denotes the elasticity of substitution between goods:

$$T_{ij} = \left(\frac{x_{ii}x_{jj}}{x_{ij}x_{ji}} \right)^{\frac{1}{2(\sigma-1)}} - 1$$

where x_{ii} (x_{jj}) is the value of trade within country i (j) and x_{ij} (x_{ji}) is the value of exports of i (j) to j (i). Rearranging this expression leads to:

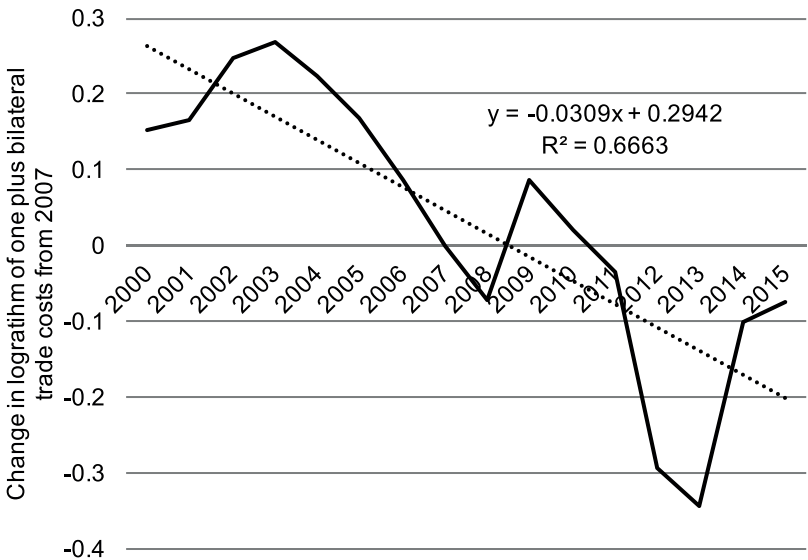
$$\ln(1 + T_{ij}) = \frac{1}{2(\sigma-1)} \ln \left(\frac{x_{ii}x_{jj}}{x_{ij}x_{ji}} \right)$$

On the assumption that the elasticity of substitution does not vary over time, then intertemporal changes in bilateral trade costs $\ln(1 + T_{ij})$ can be inferred from changes over time in observable $\ln \left(\frac{x_{ii}x_{jj}}{x_{ij}x_{ji}} \right)$.

Data from the UN's COMTRADE database on trade in goods can be used to compute the bilateral trade costs for Swiss exports into each EU member state since the year 2000. Particular attention is given to the change in observed trade costs witnessed since 2007, taken for our purposes to be the last year before the

start of the global financial crisis. To provide useful benchmarks, the bilateral trade costs between Canada, Japan, and the United States and each EU member state were computed as well. It will be interesting to see if their trade costs changed as much, less, or more than the corresponding trade cost change for Switzerland. Furthermore, an overall measure of the Swiss–EU28 trade cost was calculated using the above formula to give a sense of how trade costs to the entire European Union are evolving over time.

Figure 5: On this measure of trade costs Swiss access to EU goods markets has improved since 2000 in absolute terms

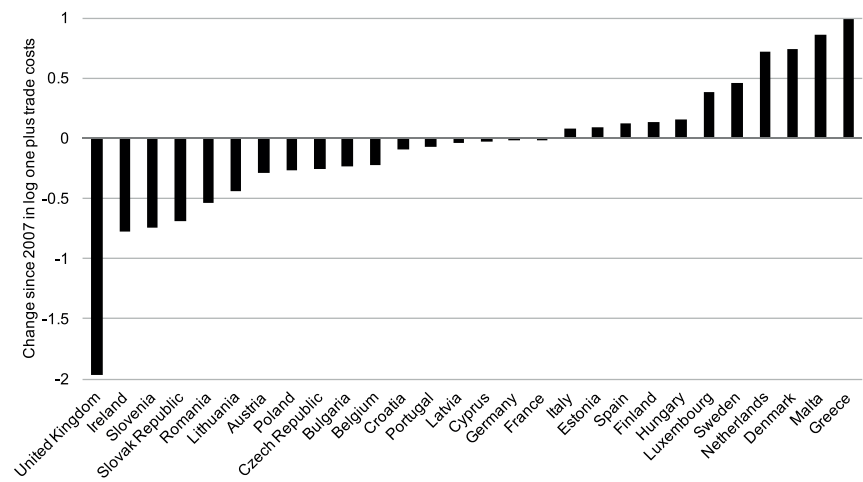


With respect to the latter, Figure 5 shows that since 2000 there has been a downward trend in implied Swiss trade costs in shipping to the EU. If taken literally, the regression line reported in Figure 5 implies that Swiss–EU trade costs fell approximately 0.24% per annum (assuming an elasticity of substitution of five). For sure, there has been fluctuation around the trend, with trade costs falling faster in the boom years and appearing to rise in the immediate aftermath of the global economic crisis. Potentially worrying is the sharp implied rise in trade costs since 2013, which coincides with the most recent uptick in the number of EU discriminatory measures that harm Swiss commercial interests reported in Figure 3.

With respect to bilateral trade costs between Switzerland and individual EU member states, the changes in these trade costs since the onset of the global economic crisis varied considerably (see Figure 6). Here, the bilateral trade costs were computed for the years 2005–2007 and 2013–2015 (the latest three years for which UN COMTRADE data are available). To limit the impact of any one year’s noisy trade data, means were taken for each period. The differences in those means were taken to be our measure of the change in bilateral trade costs since the onset of the crisis.

In trade with 11 EU member states bilateral trade costs actually rose, implying potential impairment to Swiss market access. Leaving aside measurement error concerns, such cross-country variation could be driven by policy changes at the member state level (which increase within-country trade at the expense of between-country trade), by EU-wide policy changes interacting with differences in the composition of trade between Switzerland and member states, or by Swiss policy favoring or disfavoring certain export destinations within the EU. In the absence of evidence concerning the latter, policy changes within the EU are the likely explanation.

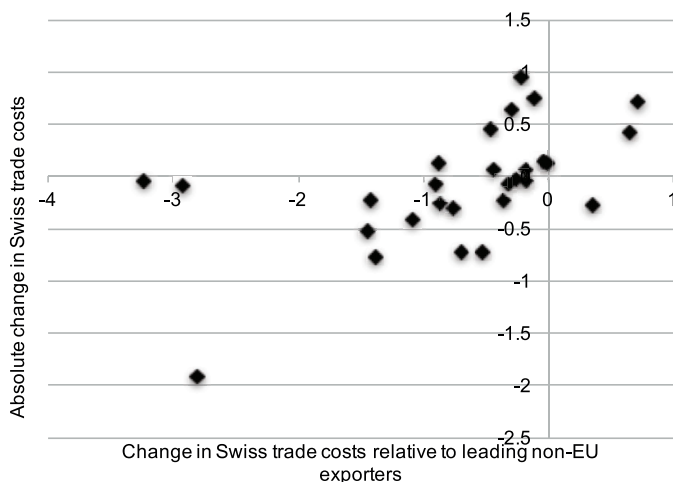
Figure 6: In absolute terms, Swiss market access to 11 EU member states has deteriorated since the onset of the crisis



Swiss export performance to each member states will also depend on how those member states treat imports from countries that potentially compete with Swiss rivals. Taking Canada, Japan, and the United States as benchmarks and computing their bilateral trade costs with each EU member state (again for the years 2005–

2007 and 2013–2015), it was possible to compare how much Swiss trade costs changed with the most favorable trade cost change of these three export rivals. Data on the absolute Swiss trade cost change with an EU member state were plotted in Figure 7 against the relative change in Swiss trade costs compared to the non-EU rival that saw the greatest improvement in its bilateral trade costs with the same EU member state. Points in the upper north-eastern quadrant represent cases where Swiss trade costs rose in absolute and relative terms and, therefore, represent particularly bad news for Swiss exporters. Points in the south-western quadrant represent improvements in absolute and relative Swiss trade costs, and potentially good news for Swiss exporters. Points in the other two quadrants highlight mixed relative and absolute changes in Swiss trade costs.

Figure 7: Where Swiss market access improved in absolute terms it did so in relative terms as well, and vice versa



On the basis of the data plotted in Figure 7, broadly speaking, in terms of their absolute and relative discrimination against Swiss exports the EU member states divide into three groups. The largest group, comprising the UK, France, and 14 other member states, saw bilateral trade costs with Switzerland fall in absolute and relative terms. Switzerland essentially gained from this “liberalizing” group of countries’ crisis responses. The second group, comprising nine member states, saw trade costs with Switzerland rise in absolute terms but their trade costs with rivals to Switzerland outside of the EU rise further. The impact on the Swiss competitive position, then, is mixed. A third group, comprising Luxembourg and the Netherlands, saw trade costs rise with Switzerland in absolute and relative terms, an outcome that ought to worry Swiss exporters and trade officials.

The impression given by Figure 7, as well as Tables 2 and 3, is overwhelmingly one of diversity. Switzerland may negotiate with the European Commission in Brussels, but the experience on the ground – that is, at the member-state level – is one of considerable differences in resort to discrimination and in changes in trade costs. It would be a mistake to infer from the so-called Common Commercial Policy that the conditions faced by Swiss exporters across the European Union are the same. In a narrow technical, possibly legal, sense they might be; the reality that should guide Swiss trade strategy and business is markedly different.

5 Concluding remarks

In this paper, direct and indirect evidence on public policy changes has been used to infer the likely changes in Swiss access to European Union markets since the onset of the global economic crisis. Strictly speaking, the approach taken here has focused on trade in goods rather than on services, the latter arguably being commercially significant as well. Particular attention was given to public policy changes undertaken by individual member state governments and not just by the European Commission.

On average, bilateral trade costs between Switzerland and the EU have fallen steadily, if not spectacularly, since 2000. For sure, there has been variation around a longer-term downward trend, but that trend implies that Swiss trade costs have been falling 0.24% per annum. Of course, some might contend that these falling trade costs reflect factors other than trade policy (such as better information by Swiss firms on foreign market opportunities), and they might be correct. Still, from the perspective of Swiss exporters, the trend is in the right direction and is not inconsistent with claims that the bilateral arrangements between Switzerland and the EU are having some positive effect.

This trend decline masks considerable variation over time in the bilateral trade costs between Switzerland and individual member states. Interestingly, the EU member states fall into three groups. Moreover, when examining evidence on the exposure of Swiss exports to trade distortions implemented since the crisis began, there is marked variation across EU export destinations, largely driven by the importing country government's resort to subsidies and bailouts. Switzerland's larger neighbors are a particular concern in this respect. Such findings must cast doubt on the validity of empirical assessments of the value of the current EU–Swiss bilateral agreements that do not take account of the differences in policy intervention across EU member states.

These findings are an important reminder that no matter what deals are negotiated between Bern and Brussels, to an important degree what matters for Swiss

commercial interests is the translation – if at all – into policies implemented by the EU member states, especially when it comes to state aids and non-tariff measures. The differential evolution over time in bilateral trade costs between Switzerland and EU member states reported here is consistent with the view that the governments of those member states retain considerable discretion even though, in principle, they have signed up to a Common Commercial Policy and the Single Market.⁶

What do these findings imply for Swiss trade policy? First, enhanced Swiss monitoring of public policy changes at the EU member state level is called for. Developments at the EU level are potentially relevant as well – in particular, rules for state aids. Second, should the opportunity arise, Switzerland could benefit from negotiating tighter state aid rules with the European Union, but of course the price to be paid for making such demands would have to be considered as well. While some may be tempted to resort to WTO Dispute Settlement to tackle rule-breaking subsidies granted by the EU member states, the risk is that this will induce retaliation in the form of countersuits.⁷ Ultimately, in straitened economic times there may be less protection afforded to Swiss commercial interests from binding bilateral and multilateral trade rules than meets the eye. That observation ought to factor into any realistic assessment of the benefits of negotiating trade accords in the first place.

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6 Of course, the WTO obligations of the EU member states act as a legal constraint on the exercise of this discretion. Indeed, there is no suggestion here that EU member states have complete discretion or can act without any constraint.

7 In this respect it is worth noting that, according to the information contained in the GTA database, since the global economic crisis began Switzerland has implemented 13 measures that harm the commercial interests of the European Union. Seven of those 13 measures remain in force at this time of writing.

Annex Table: Crisis-era incidence of harm and benefit to Swiss commercial interests, by EU member state and on behalf of the entire EU.

| Implementing jurisdiction | Implemented harmful measures | | Implemented trade reforms | |
|---------------------------|------------------------------|----------------|---------------------------|----------------|
| | Total | Still in force | Total | Still in force |
| Austria | 7 | 5 | 0 | 0 |
| Belgium | 10 | 5 | 0 | 0 |
| Bulgaria | 2 | 0 | 1 | 1 |
| Croatia | 0 | 0 | 2 | 2 |
| Cyprus | 4 | 2 | 0 | 0 |
| Czech Republic | 4 | 2 | 0 | 0 |
| Denmark | 4 | 2 | 0 | 0 |
| Estonia | 2 | 0 | 0 | 0 |
| Finland | 4 | 0 | 1 | 1 |
| France | 27 | 24 | 2 | 1 |
| Germany | 39 | 23 | 2 | 1 |
| Greece | 3 | 0 | 0 | 0 |
| Hungary | 1 | 0 | 0 | 0 |
| Ireland | 3 | 1 | 0 | 0 |
| Italy | 34 | 26 | 0 | 0 |
| Latvia | 4 | 2 | 0 | 0 |
| Lithuania | 3 | 1 | 0 | 0 |
| Luxembourg | 2 | 2 | 1 | 1 |
| Malta | 0 | 0 | 0 | 0 |
| Netherlands | 8 | 3 | 0 | 0 |
| Poland | 24 | 18 | 0 | 0 |
| Portugal | 10 | 7 | 0 | 0 |
| Romania | 4 | 2 | 0 | 0 |
| Slovakia | 2 | 2 | 0 | 0 |
| Slovenia | 0 | 0 | 0 | 0 |
| Spain | 9 | 6 | 0 | 0 |
| Sweden | 7 | 4 | 0 | 0 |
| United Kingdom | 22 | 19 | 1 | 1 |
| EC on behalf of whole EU | 26 | 18 | 25 | 13 |