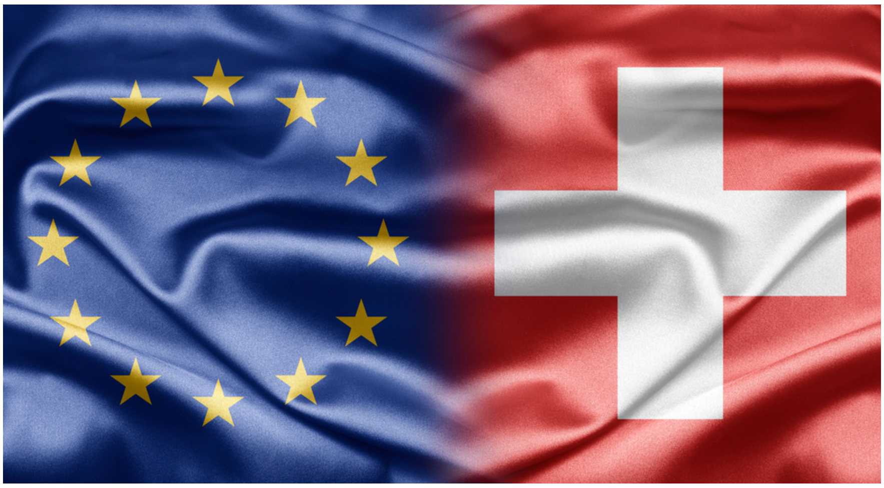
Swiss-EU relations strained

In Switzerland, negotiations for a framework agreement with the EU are completely blocked and the stock market equivalence granted by the EU to Switzerland is again at risk



Switzerland and the EU

Source: ING

Negotiations at a stalemate

The months pass and nothing changes with regard to the negotiations between Switzerland and the EU for a framework agreement that will frame all relations between the two blocs in the future. Summing up the situation quickly: Switzerland is reluctant to approve the draft of the agreement negotiated for years with the EU. The EU is putting pressure on Switzerland so that the agreement can be signed quickly. The main means of pressure used by the EU is halting the stock market equivalence for the Swiss Stock Exchange, which is necessary for European traders to carry out their Swiss securities transactions directly on the Swiss market.

Since December 2017, obtaining the stock market equivalence is linked to progress in the negotiations on the framework agreement. Switzerland first obtained a temporary one-year extension of stock exchange equivalence. In December 2018, it received a further temporary extension of 6 months, until 30 June 2019 in order to set up consultations within the Swiss Confederation concerning the draft agreement. But since then, there has been almost no progress. The Swiss have asked the EU for "clarifications" this month in three areas - wage protection, state aid regulation and the definition of EU citizens' rights in Switzerland. If the EU was ready to give clarifications, it strongly insisted that there would be no renegotiations possible. Both sides are therefore encamped on their positions and an agreement before the end of the month seems completely impossible.

A European diplomat told Reuters on Friday that the European Commission will not propose to extend the equivalence regime.

This is perhaps a way to put pressure on Switzerland. Nonetheless, stock equivalence is more at risk than ever and without a new extension, the equivalence will expire automatically on 30 June.

Life without stock exchange equivalence

Losing equivalence means that European traders would be forced to trade Swiss securities on European platforms rather than on Swiss stock exchanges. For the Zurich Stock Exchange, this would be a real problem because currently the majority of trading of the main Swiss shares is carried out by brokers based in the EU. In practice, a large part of the liquidity of Swiss shares would be migrated to the European stock exchanges and the Swiss stock market would see its volume of transactions drop drastically. The Swiss Finance Minister estimates that the volume of trading would decrease by 70% to 80% without equivalence. This situation could lead Swiss issuers to consider transferring their main listings to European regulated markets, thus distorting the position of the Swiss financial centre and impacting the entire Swiss economy.

To avoid a situation that is too catastrophic, Switzerland has already invented protective measures, which will be put in place if stock market equivalence stops. The law suspends the right of European stock exchanges to trade Swiss equities if equivalence is not granted. The goal is to still allow Swiss securities to be traded by European traders in Switzerland. Indeed, according to European law, when securities of Swiss companies are not traded on European stock exchanges, then European traders can trade Swiss securities in Switzerland without the need for equivalence (as there is no other means to exchange these securities). It is therefore a way to maintain a sufficient volume of transactions on the Swiss stock market and avoid a liquidity problem for Swiss companies. However, this does not solve the problem of European securities that can no longer be traded in Switzerland. But this problem is less important because the volume of European equities traded in Switzerland is quite low, especially compared to the volume of Swiss equities traded in the EU.

Economic consequences

So, all in all, the loss of stock market equivalence would be compensated by the protective measures. However, the risk is that difficult negotiations between Switzerland and the EU and threats from both sides could leave long-term traces on the relationship between the two entities and on Switzerland's economic performance. In the eyes of the Swiss, the EU now appears uncompromising, which affects its image. The Swiss consider that they are "treated without dignity" by the EU. This could strengthen eurosceptics and the nationalist UDC party, who could win seats in parliament in the upcoming elections scheduled for October 2019.

In addition, the deterioration of relations makes the conclusion of an agreement more and more complicated. This could result in uncertainty and difficulties for Swiss companies trading goods and services with the EU. The EU is Switzerland's largest economic partner. 53% of Swiss exports are destined for the EU (18% for Germany), and 71% of Swiss imports come from the EU (28% from Germany). Switzerland is also a small open economy whose GDP growth depends heavily on foreign trade. Together the value of exports and imports represent more than 82% of the annual GDP of Switzerland. A deterioration of relations and a greater difficulty of trade with the EU, its main partner, would therefore be extremely damaging for the Swiss economy. Switzerland has nothing to gain from a battle with the EU.

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