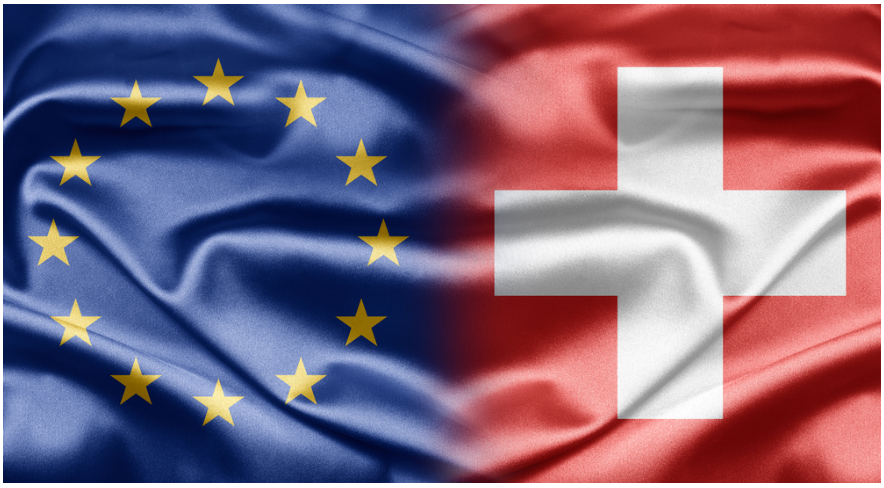
The EU and Switzerland: Another arduous negotiation not going to plan

The EU and Switzerland have been trying to negotiate a new framework agreement for the last four years, but the complex negotiations haven't been going very well and the chances of reaching an agreement this year are now minimal. The market equivalence of the Swiss stock exchange is at stake



Switzerland and the EU

Source: ING

An opportunity to replace 120 agreements

The EU and Switzerland are currently negotiating a framework agreement to formalise their relations and replace 120 different treaties that exist at the moment. The Brexit negotiations have pushed the European Commission to increase pressure on Switzerland to sign an agreement and want the framework to be more restrictive than it is now so that Switzerland-EU relations aren't seen as an example for countries looking to leave (or leaving) the EU.

Currently, Switzerland has access to the European common market by allowing the free movement of persons. It can enter into its own trade agreements, as it did a year ago by negotiating a free trade agreement with China. In practice, it is estimated that more than 33% of current Swiss legislation comes from European law, but there is no agreement currently obliging Switzerland to transpose European rules into its law.

The negotiations have been going on for four years, but haven't been moving very fast

A framework agreement would make the process more automatic by forcing Swiss rules to automatically change to align with European ones in areas such as legal development, supervision, interpretation and dispute settlement. In addition, an arbitration panel would settle disputes between the EU and Switzerland and the European Court of Justice would have a crucial role to play.

The negotiations have been going on for four years, but haven't been moving very fast. To make the Swiss to negotiate more quickly, the EU has put forth certain arguments on the table that can hardly be ignored by Switzerland.

In December 2017, the EU decided to link the progress of the negotiations with the recognition of the Swiss stock markets rules that allow cross-border trading, but that recognition had only been extended for a year until the end of 2018. Therefore, it needs to be renewed again and the EU has already announced that it will only do so if it considers that progress in negotiations has been sufficient.

The EU will only renew the agreement to recgnise Swiss bourse trading rules if it deems sufficient progress has been made on the negotiations

This implies that in December 2018, without sufficient progress in the negotiations, European's access to the Swiss stock exchange and securities listed in Switzerland could be threatened. Without equivalence, Switzerland will probably apply the same measure to the EU and no longer recognise European stock exchanges. No need to say that this threat is extremely strong for a global stock market such as Switzerland. Without this access, the Swiss financial system would be in great difficulty, and the consequences for the Swiss economy would be significant.

Read our Swiss Quarterly update here: The sun is shining but clouds loom

Negotiations at a standstil

However, it seems that negotiations are at an impasse and the chances of an agreement before the end of the year are minimal. 15 October was the negotiation deadline set by the European Commission, but no significant progress has been seen yet.

Disagreements over the free movement of people is a major problem, including the so-called "accompanying measures" issue. These measures force foreign employers who send workers to Switzerland to meet minimum wage and labour conditions. It severely limits social dumping and pushes wages upwards, leading to the current situation of high wages in Switzerland. However, the EU considers these measures penalise foreign companies and are discriminatory and would like them abolished. A framework agreement without modification of these accompanying measures would hardly be acceptable for the EU, but the Swiss unions oppose this relaxation of national regulation protecting wages.

Recently, the Austrian Economy Minister Margarete Schramboeck, whose country holds the rotating presidency of the EU until the end of the year downplayed the chances of an agreement and said she believe we shouldn't expect them to reach an agreement before the end of 2018.

A loss of stock exchange equivalence?

It seems apparent that an agreement won't be reached until January 2019 as the EU is reluctant to appear too flexible with Switzerland out of fear of giving ammunition to British negotiators discussing Brexit.

> *Despite these circumstances, we don't expect a loss of market equivalence for the Swiss stock market or unprecedented financial shock*

We think despite the difficulties mentioned above, the EU is likely to grant a new provisional equivalence of one year in January, to avoid any interruption of financial transactions. The EU is likely to rely on the fact that the negotiations have nevertheless progressed during 2018, despite the lingering blockages.

We think the EU will probably reach an agreement with Switzerland by May 2019, before the European elections which lead to a renewal of the parliament. After May, it will take time for the new parliament to form itself, further complicating the discussions. It is worth remembering that after that Switzerland will be having their elections in October 2019 and negotiations could become even more complicated as the eurosceptic Swiss party UDC intends to make the fight against the framework agreement its electoral battle-horse to gain, even more, seats in parliament.

Even if uncertainty continues to prevail over the outcome of the negotiations, it seems that it doesn't really affect businesses and hasn't had any impact on economic activity for the time being. Firms don't really seem to be worried for now, and we don't expect a discernible impact on GDP.

Nevertheless, if stock exchange equivalence is not granted again in January, then the economic consequences could be significant - a risk that must be considered.

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