



# SWITZERLAND AND EUROPE

# 4

4.1	Trade and Direct Investments.....	49
4.2	Political and Economic Cooperation.....	49
4.3	The Euro.....	51

Image  
European Union delegation for Switzerland  
and the Principality of Liechtenstein, Bern

Culturally and geographically, Switzerland is situated in the heart of Europe. Although it is not a member of the European Union, it shares close economic and political ties with its European neighbors. Various bilateral agreements and a dynamic European policy form the basis for deep-rooted political partnerships and a substantial amount of economic integration, which benefit both the Swiss economy and the financial center, as well as the EU.

#### 4.1 TRADE AND DIRECT INVESTMENTS

Switzerland and Europe share close economic ties. As the destination for 52% of Swiss exports and with a share of 70% of Swiss imports (as per 2018), the EU is by far Switzerland's most important trading partner. In 2018, Switzerland was the third most important EU export destination after the USA and China. The EU is also the most important trading partner for foreign direct investments. At the end of 2018, Swiss direct investments in the EU totaled 810 billion Swiss francs. That represents a share of almost 55% of all direct Swiss investments abroad.

With the exception of agricultural and food products, there are no restrictions on trade between Switzerland and EU member states. Goods with a certificate of origin from one of the member states of the EU and EFTA (Switzerland belongs to the latter, along with Iceland, Liechtenstein, and Norway) can circulate freely without quotas or customs barriers.

#### 4.2 POLITICAL AND ECONOMIC COOPERATION

For numerous Swiss companies, including branches of foreign firms, the European market is very important. Various agreements to liberalize the market create almost equal access to the European single market. These agreements make it easier for companies from Switzerland to tap into a market of almost 500 million consumers. With the extension of these agreements to the new EU member states, Switzerland also has access to the growth markets of eastern Europe.

The bilateral agreements between Switzerland and the EU have been broadly expanded. Various barriers to market access were eliminated by the Free Trade Agreement of 1972 and the Bilateral Agreements I of 1999. Bilateral I includes agreements covering technical barriers to trade, public procurement, the free movement of persons, agriculture, research, and overland and air transport. Bilateral II, the second round of more extensive agreements of 2004, brought additional economic advantages as well as cross-border cooperation in other political areas. The following sections explain the most important agreements and their significance.

[www.europa.admin.ch](http://www.europa.admin.ch)

Swiss Directorate for European Affairs

#### 4.2.1 Free Movement of Persons

With the Swiss-EU Freedom of Movement Agreement (FZA), the basic rules for the free movement of persons were gradually introduced in Switzerland vis-à-vis the EU. If the FZA is expanded to include new EU member states, longstanding transitional provisions are already in place. Citizens of Switzerland and the EU states have the right to choose their place of work and residence within the territory of contractual partners. A prerequisite is that they have a valid employment contract with an employer in Switzerland, are self-employed, or, if they do not work, can provide evidence that they have adequate financial resources and comprehensive medical insurance. The agreement also liberalizes the cross-border rendering of services by individuals for up to 90 days per calendar year. Service providers can therefore render their services in a guest country for a maximum of 90 working days. This free movement of persons is reinforced by mutual recognition of vocational qualifications and coordination of the national social insurance systems. The Swiss economy is able to recruit in the EU/EFTA region thanks to the FZA workforce. This boosts the efficiency of the labor market and promotes the availability of highly qualified employees. The free movement of persons also works in the other direction, of course: Swiss nationals can work and take up residence freely in the EU as well. At the moment around 460'000 Swiss people, around 60% of all Swiss abroad, live in the EU.

The agreement specifies transition periods. During these periods the entry restrictions, such as priority for Swiss nationals and advance examinations of the wage and employment conditions, can be maintained and the number of residence permits can be limited (through quotas). Once transitional provisions expire, the agreement also allows (based on a safeguard clause) for the number of residence permits to be limited again for a period of time, if the immigration levels are above average. The transition regulations guarantee a gradual and controlled opening of the labor markets, and the accompanying measures against wage and social dumping also apply.

- Since June 1, 2007, citizens of both the "old" EU states incl. Cyprus and Malta (the EU-17) and the EFTA states have benefited from the free movement of persons. Since May 1, 2011, EU-8 citizens have also benefited from unrestricted free movement of persons as have citizens of Bulgaria and Romania (EU-2) since June 1, 2016.
- Croatia entered the European Union on July 1, 2013. The expansion of the FZA to include Croatia was negotiated in Protocol 3. This came into effect on January 1, 2017. Since then special transitional provisions apply with regard to labor market restrictions (priority for Swiss nationals and supervision of wages and working conditions) and quotas.
- The United Kingdom has decided to leave the EU. This means that, after Brexit, the FZA is no longer applicable between Switzerland and the United Kingdom. Both countries have therefore signed an agreement on citizens' rights. This agreement safeguards the FZA rights of Swiss nationals in the United Kingdom and of British nationals in Switzerland even after Brexit. Existing residence rights are preserved, for example, through this agreement.

For more information about residence and employment for EU/EFTA citizens, see section 6.4.2

#### 4.2.2 Schengen Agreement

The Schengen cooperation has made travel easier by abolishing identity checks at the borders between Schengen countries (internal borders). At the same time a range of measures has improved international cooperation between courts and the police in the fight against crime. This cooperation includes security measures such as strengthened controls on external Schengen borders, increased cross-border police cooperation (for example through the European search system SIS), and more efficient cooperation between judicial authorities. The Schengen visa is also valid for Switzerland. Tourists from India, China, Russia, or other countries that require a visa no longer need an additional Swiss visa for a short visit to Switzerland during their travel through Europe, which increases Switzerland's attractiveness as a vacation destination.

#### 4.2.3 Elimination of Technical Barriers to Trade

For most industrial products, conformity evaluations – such as tests, certificates, and product approvals – are mutually recognized. Re-certification upon export to the EU is no longer necessary because product inspections by Swiss testing institutes recognized by the EU are sufficient. This also eliminates double inspections according to Swiss and EU requirements. In areas where EU and Swiss regulations differ and two conformity certificates are still required, both can be issued by the Swiss testing institute. This process simplifies administrative procedures, reduces costs, and strengthens the competitive position of the export industry.

#### 4.2.4 Research

There is a long tradition of cooperation between Switzerland and the European Union in the areas of research and innovation. Researchers in Switzerland have participated in EU research framework programs since 1988, with Switzerland in the status of either a non-member country or an associated partner. In the latest generation of programs, "Horizon 2020," Switzerland was considered a partially associated country until the end of 2016. National measures for financing Swiss participation in projects came into effect for areas of Horizon 2020 that Switzerland is not associated with. As of the beginning of 2017, Switzerland has been fully associated with Horizon 2020.

[www.sbfi.admin.ch](http://www.sbfi.admin.ch) > Research & Innovation > EU Framework Programmes for Research > Horizon 2020

Up-to-date information on Switzerland's status in Horizon 2020

This does not jeopardize support for research in Switzerland. The Temporary Backup Schemes of the Swiss National Science Foundation (SNF) provide researchers with a temporary substitute for the funding instruments of the European Research Council (ERC). The Federal Council aims to ensure that Swiss researchers can once again participate in EU framework research programs.

#### 4.2.5 Rail, Road, and Air Transport

The Overland Transport Agreement regulates the mutual opening up of the market for the transport of persons and goods by road and rail, together with fee systems based on the cost-by-cause principle. Network access in the EU is increasing the competitiveness of the railways and opening up new market opportunities for Swiss transport companies. Swiss airlines have access to the liberalized European air transport market, on the basis of reciprocity, putting them on a more or less equal footing with their European counterparts. Duty-free sales at Swiss airports or on flights to and from Switzerland are still available.

#### 4.2.6 Public Procurement in Switzerland

In accordance with the multilateral agreement on public procurement (GPA) of the World Trade Organization (WTO), certain clients must make an international request for a proposal for the procurement of goods and services and construction projects over a certain amount (termed the threshold value) in order to promote transparency and competition within public procurement. On the basis of the GPA, the scope of application of the WTO rules has been extended. This now comprises procurement by districts and communities; procurement by public and private clients in the rail transport, gas, and heat supply sectors; and procurement by private companies that operate on the basis of a special or exclusive right granted by an authority in the sectors of drinking water and power supply, municipal transportation, airports, or river and maritime shipping.

The agreement provides for the option of removing procurement or contracting in certain sectors, in which there is verifiable competition, from the scope of application. Accordingly, the telecommunication sector was removed in 2002.

The rules for contracting are based on three principles:

- Equal treatment of all providers (non-discrimination)
- Transparency of the process
- Right of recourse against decisions within the scope of the tender and awarding process (above certain threshold values)

In accordance with WTO regulations, the public sector and affected companies are obliged to issue and carry out tenders for procurement and orders that exceed a certain threshold level. In principle the most economical or best-value offer must be chosen, as long as the offered goods or services are of comparable quality. However, the selection may also be based on the lead times, quality of service, or environmental friendliness. The client can also define requirements for the observance of regional or sector-wide wage and working conditions. Public tenders by the federal government and cantons are posted on an electronic information system. With regard to the considerable public expenditure in the EU and Switzerland, this further opening of the procurement market creates opportunities for the export industry (e.g. mechanical engineering) and the services sector (e.g. engineering and architecture firms). Furthermore, the increased competition among providers leads to reduced prices and thus considerable savings for the public bodies that issue the contracts.

[www.europa.admin.ch](http://www.europa.admin.ch) > Bilateral agreements > Agreements and implementation > Texts of the agreements > Public procurement markets  
Public procurement in Switzerland

[www.simap.ch](http://www.simap.ch)  
Information-sharing platform for public contract awarding bodies and providers

#### 4.2.7 Trade in Agricultural Products

The agreement on processed agricultural products governs trade in products from the foodstuffs industry (e.g. chocolate, cookies, and pasta). The EU does not impose import or export duties on trade with Switzerland. In response, Switzerland has reduced its import and export duties accordingly. There is free trade of sugar and of products which do not contain any raw materials besides sugar that are relevant to agricultural policy. The simplification of technical regulations is beneficial to consumers and increases opportunities for exporting quality agricultural products. A comprehensive agreement on the agricultural and foodstuffs sector,

intended to fully open the markets for agricultural products and foodstuffs for both sides, is still being negotiated. The agreement would lift both tariff barriers to trade (e.g. duties and quotas) as well as non-tariff barriers (e.g. various product regulations and import requirements). This opening-up of the market will confront the agriculture sector with considerable challenges. To ensure that new market opportunities are seized and the affected sectors can be supported in the new market situation, free trade should be introduced gradually and supported by accompanying measures.

#### 4.2.8 Taxation of Savings Income

Switzerland supports the EU system of taxing cross-border interest payments to individuals under the Savings Tax Agreement. Swiss banks operate a system of tax retention (similar to Swiss withholding tax) which is deducted at a rate of 35% on interest income earned in Switzerland by persons subject to EU taxation. This system of tax retention ensures that the EU interest taxation system cannot be evaded by switching to Switzerland, while at the same time ensuring that Swiss laws and banking secrecy are upheld. Related companies with their principal base in Switzerland, as well as subsidiaries in EU member states, no longer pay withholding tax on payments of dividends, interest, or license fees. This increases Switzerland's appeal as a business location.

In May 2015, Switzerland and the EU signed an agreement on the automatic exchange of information on tax matters. The new global standard will supersede the Savings Tax Agreement as of 2017/2018.

[www.efd.admin.ch](http://www.efd.admin.ch) > Topics > Taxes > International taxation > Taxation of savings agreement with the EU  
Current information on taxation of savings income

### 4.3 THE EURO

Even though the official currency of Switzerland is the Swiss franc, the euro is an accepted form of payment at practically all hotels and in many businesses. Swiss banks offer euro accounts, and cash withdrawals in euros are possible at most ATMs. The globalized Swiss financial center is set up to conduct all bank transactions in euros. Due to its location in the heart of the European Monetary Union and the fact that the EU is its largest trading partner, the euro is extremely important for Switzerland. This is particularly the case in the tourism sector and for companies active in the import/export business.