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The Swiss Government's Cost-Benefit Analysis of EU Membership

***Full EU membership would cost Switzerland almost NINE TIMES as much
as the current system of Bilateral Agreements***

At last, a European government has published a proper cost-benefit analysis of EU membership. It comes as no surprise that the government in question is not the one that sits (and occasionally governs) in London. No, the government concerned is a grown-up one (on matters European, anyway): the Swiss Federal Government in Berne.

Their *Europe 2006 Report*¹, published at the end of June 2006, is an admirably serious and comprehensive analysis of the costs and benefits of EU membership. Apart from the absence of economic analysis on the current state (dismal) and future prospects (dire) of the Single Market, and a tendency to assume that the EU is self-evidently a good thing, the report is remarkably honest. Its language is free of political correctness: it spells out bluntly and unequivocally the hundreds of areas in which Switzerland would lose sovereignty if it were ever to join the EU.

The authors insist that “*Switzerland must define its...relations with the EU in such a way as to always be able to defend [Swiss] interests.....Switzerland's relationship with the EU must not be considered as a simplistic 'to join or not to join' question....It is not so much a question of whether or not Switzerland should be a member of the EU, as of finding the best way and the appropriate [policy] instruments for the government to achieve Switzerland's fundamental goals and foreign policy objectives*”. Quite so.

The report examines a range of alternatives. These are, broadly:-

- to continue the current set of Swiss-EU bilateral sector-specific agreements²;
- to join the European Economic Area (EEA)²;
- to become a full member of the EU.

Costs & Benefits

The report quantifies the ongoing budgetary cost to Switzerland of each of the three alternative “policy instruments”. These are summarised in the table. It can be seen that full EU membership would cost almost NINE TIMES as much as the current system of Swiss-EU Bilateral Agreements, based on the estimated Swiss gross contribution to the EU Budget, or over SIX TIMES as much based on the estimated Swiss net contribution. Joining the EEA would be significantly more costly than the current Bilateral Agreements, but still far less costly than joining the EU.

Annual Cost to Switzerland of alternative relationships with EU: 2007-2013		
	Swiss francs millions	Index
Continue Bilateral Agreements	557	100
Join EEA	737	132
Join EU (net contribution)	3400	610
Join EU (gross contribution)	4940	886

The authors point out that these “budgetary” costs do not reflect the “dynamic” knock-on or induced effects of costs – and benefits – associated with each alternative. Curiously, they do not cite any of the numerous reports by the Commission and others³ quantifying the current underperformance of and the depressing outlook for the Single Market. They do however state that “*the negative economic effects (higher real domestic interest rates on joining the euro, net contribution to the EU Budget) are likely in the short and medium term to outweigh any positive effects resulting from full Single Market integration*”. On the euro, they note that “*the adoption of the euro has frequently been associated with higher prices*”, citing opinion polling by the Commission in November 2005 in which 93 per cent of respondents across the eurozone said that the advent of the euro had put prices up.

Transferring sovereignty on joining the EU: Consequences

The report makes no bones about the extent of the sovereignty that Switzerland would give up (to Brussels) if it were to join the EU, and the effect that that would have on Swiss citizens’ democratic rights, which are part and parcel of the extraordinary autonomy and independence that its cantons have enjoyed for centuries. In return for giving up sovereignty, it says, Switzerland would be able to participate fully in EU decision-making.

“Participating fully” would mean having a maximum 2.7 per cent vote in the EU Council of ministers, and 2.7 per cent of seats in the European Parliament. The authors note, correctly, that the result of EU enlargement and the abolishing of the veto in ever more policy areas is the loss of influence of large and small member-states alike. The report makes no explicit judgement as to whether the loss in Swiss sovereignty and the imposition of substantial costs on the domestic economy would be compensated by Swiss “participation” in EU decision-making.

The Report's Conclusions

The policy of the federal government in Berne is to join the EU (provided the Swiss people consent by referendum, which looks unlikely at the moment). Thus, the application to join, lodged by Switzerland in 1992, "*has not been withdrawn*". Joining the EU, says the report, is "*considered to be a long-term option*".

The report concludes that Switzerland's interests are best served by continuing to develop the existing system of bilateral sector-specific agreements with the EU – so long as that system allows the country the freedom of manoeuvre it enjoys at present. That freedom is restricted by the ever-increasing legal and regulatory constraints of the *acquis communautaire*, which will inevitably increase. It must be said however that those constraints appear to be felt more by Swiss politicians than the population as a whole, who seem not to share their leaders' enthusiasm for the EU.

Switzerland and Europe

Switzerland, with a population of 7.2 million, not a member of the EU, is surrounded on all sides by EU (and eurozone) countries: Germany, Austria, Italy and France. Around 70 per cent of Swiss foreign trade is with the EU. (For the UK the comparable proportion is around 40 per cent.) The Swiss economy exhibits low real growth (averaging 1.7 per cent per year for the period 1998 – 2007, which happens to be the arithmetic average of the growth rates of its four EU neighbours over the same period). Switzerland's GDP per capita was 57 per cent higher than that of the eurozone in 2004; it has low unemployment, low government borrowing and a high savings ratio.

Switzerland has been a member of EFTA (the European Free Trade Association) since 1960. Its fellow-members are Norway, Iceland & Lichtenstein. It has had a Free Trade Agreement in industrial goods with the EC/EU since 1972. The Berne government applied to join the EEA (the European Economic Area, which consists of EU-25 plus Norway, Iceland & Lichtenstein) in 1992, but the Swiss people, by referendum, refused their consent. Seven sector-specific bilateral Swiss-EU free trade agreements ("Bilateral Agreements I") came into force in 2002; a further nine ("Bilateral Agreements II") came into force in 2004³.

Switzerland joined the United Nations Organisation in 2002. It has its own seat – and exercises its own vote – in the World Trade Organisation, which is headquartered in Geneva. In line with its policy of neutrality, which began in 1515 and (except under Napoleon between 1798 and 1812) continues to this day, Switzerland is not a member of NATO. Its currency is the Swiss Franc ("CHF").

Notes & References

1. www.europa.admin.ch > Home page: click on “English” > Europe 2006 report > “Information file on the Europe 2006 Report (unofficial translation)”. The condensed English version runs to 12 pages; the full report in French is 157 pages & in German 164 pages. Policy areas examined include: agriculture; air transport; competition policy; consumer protection; currency/monetary union; environment; free movement of goods, services, capital & people; immigration & asylum; industrial products; infrastructure; internal security; labour market; police & judicial cooperation; public finances; public health; rail & road transport; research & development; services; social security; Swiss direct democracy (referendums); Swiss federalism (cantons & federal government); Swiss neutrality; tax.

2. Described in Global Britain Briefing Note No 36, Nov 2004, *Cherry-Picking*, www.globalbritain.org

3. A recent example is **Politique Economique et Croissance en Europe*, Aghion, Cohen, Pisani-Ferry, ISBN: 2-11-006149-9, March 2006, available in pdf at www.cae.gouv.fr. Available as a paperback from : La Documentation française, 29-31 quai Voltaire, 75344 Paris Cedex 07, Tel: 00 33 1 40 15 72 30 www.ladocumentationfrancaise.fr. Summarised in Global Britain Briefing Note No 43, October 2006, *France Assesses Cost & Benefits of EU Membership*, www.globalbritain.org

Enquiries: Ian Milne, Director, **Global Britain**, 57 Tufton Street, London SW1P 3QL

email: globalbritain-1@globalbritain.org

Web: <http://www.globalbritain.org>

Lord Harris of High Cross (1924-2006)
(Cross Benches)

Lord Pearson of Rannoch
(Independent Conservative)

Lord Stoddart of Swindon
(Independent Labour)
