

CHEESE, CHOCOLATE AND CUCKOO CLOCKS: THE SWISS MODEL FOR THE UNITED KINGDOM

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With David Cameron's in-out referendum due to be held in June 2016 much attention has been devoted to what Britain's relationship with the Eu might resemble in the event of a Brexit. In this essay, Elisabeth O'Higgins describes the Swiss model; that of a non-member which enjoys an elevated relationship with the EU, and evaluates its potential as an option for the UK.

Introduction

The United Kingdom (UK, hereafter) joined the European Economic Community in 1973. The UK's place in Europe has become an increasingly polarising issue since 2013, when the British Prime Minister David Cameron announced that he would hold a referendum on whether or not the UK should stay in the European Union (EU, hereafter) before the end of 2017. At present there are many questions left unanswered concerning the ramifications if one of the EU's founding members chooses to leave, i.e. if a 'Brexit' occurs. The political and economic consequences of the UK leaving the Union are much debated. It is generally accepted that if the EU's third largest state decides to leave, the landscape of the EU will be changed forever. The UK would have to renegotiate a relationship with the EU; the form this relationship would take depends on a number of factors. The model put forward as the best option for the UK by most Eurosceptics is the Swiss Model. This essay will briefly discuss the options should the UK decide to leave the EU, followed by an in-depth analysis of the advantages and disadvantages of the Swiss model for the UK and indeed for the EU and will conclude with an overview of the best option for the UK.

At present, with a population of over 64 million people, the UK is the third largest country in the Union. As a founding member and an economic powerhouse the UK is an integral part of the EU. Over the last few years a proportion of the British electorate and many politicians have become increasingly frustrated with the UK's position within the EU. The British Prime Minister David Cameron has promised the British public that he will hold an 'in-out' referendum. The outcome of this referendum is contentious

and will be closely scrutinised. If the British people decide to leave the EU the UK has a number of options to restructure its relationship with Europe.

The Options for the United Kingdom

The UK Remains in the European Economic Area

The first model the UK could adopt is a model similar to that of Norway. This means that the UK would negotiate a deal so that it could remain a member of the European Economic Area retaining their access to the single market. At first glance, this seems like a good alternative for the UK. If the UK adopted this model they would benefit from access to the single market but they would not have to adhere to European policies, such as the Common Agricultural Policy.

The big anomaly with this model is the fact that countries that have adopted this model, such as Norway, are often forced to apply European laws over which they have no input and still contribute towards the European budget (Hannon, 2012). Norway adopts a large majority of EU laws and aligns itself closely with the European Union on a number of issues, while not having a seat at the table when crucial decisions are made (Haugevik in Sanschneider, 2014). It seems counter productive to leave the European Union, where the UK has the ability to influence laws and policies, and then choose to stay in the European Economic Area where you have to apply European laws without any negotiating powers that were previously available as a member of the EU. Ultimately, the vast majority of the most burdensome EU regulations for businesses, including The Working Time Directive, would still be applied to the UK (Miller, 2013). Thus, adoption of the Norwegian Model appears to hold more disadvantages than advantages for the UK.

The UK Negotiates Individual Agreements

The second model that could be implemented is a model whereby the UK has no official ties with the EU and makes individual bilateral agreements with countries regarding trade. The UK would have to rely heavily on the World Trade Organisation as a means of negotiating trade deals and would have to negotiate deals with other countries on it's own. However, many countries have clearly indicated that they would much prefer to deal with the UK as a member of the EU rather than just dealing singly with the UK. Michael Froman, the US trade representative, has stated that Washington would not be eager to sign an Angloshperic bilateral deal. He has stated that the UK would have a bigger voice in trade talks if they stayed in the EU (Froman in the Financial Times, 2015). Deals on bilateral trade agreements would be incredibly burdensome on the UK's government resources. As well as this, the UK would no longer have the leverage of the combined power of the EU to reach these trade agreements. The UK would have to make it's own deals not just with other European countries but with other economic powers such as the

United States and China. This does not seem to be an ideal arrangement for the UK, as it would have much more influence and power in negotiating deals, both politically and economically, if it stayed in the EU.

The UK Adopts the Swiss Model

The third and most realistic option for the UK is the Swiss model. Switzerland, unlike Norway, is not a member of the European Economic Area (they rejected membership in 1992), it is however, a member of the European Free Trade Area (EFTA, hereafter). This arrangement means that Switzerland and the European Union cooperate by way of bilateral agreements managed through joint committees. The EFTA operates a free trade area which means Switzerland can reach independent free trade agreements with other European countries rather than being a member of a customs union where they cannot make deals with other countries on an individual basis. Switzerland has arranged around 120 sector specific bilateral agreements with the EU (Clements, 2014). The Swiss relationship with the European Union is a unique one with both advantages and disadvantages.

The Advantages of the Swiss Model for the UK

Most Eurosceptics in the UK have put forward the Swiss model as the UK's best alternative should it choose to leave the Union. Undoubtedly, there are benefits to adopting this model. Hannon has stated that Switzerland through membership of the EFTA has all the benefits of full membership of the EU but few of the costs. It has all four freedoms of the single market; free movement of goods, services, people and capital but no regulatory burdens from Brussels (Hannon, 2012). Switzerland frees itself from many regulatory burdens and rules by not being a member of the EU or the EEA.

Switzerland also contributes significantly less to the European budget. It is estimated that if the UK adopted the Swiss model its budgetary contributions would fall by around sixty percent (Miller, 2013). Reduced regulation from the EU would mean that businesses in the UK would not be burdened with rules and regulations from Brussels, which Eurosceptics argue could reduce costs and increase competitiveness. The UK would also be free to negotiate free trade agreements with diverse sets of countries outside the Union and on its own without having to gain consensus at a European level. At face value the Swiss model seems ideal, the UK could still trade freely with the EU but without the burden of regulatory rules from Brussels. However, if you look a little closer a number of flaws emerge.

The Disadvantages of the Swiss Model for the UK

There are disadvantages to the UK adopting the Swiss model. Firstly, it is not guaranteed

that the EU will allow for such an arrangement to occur. Negotiating a deal between the UK and the EU would be long, laborious and complex and it is unlikely an exact replica of the Swiss model would be the outcome of these negotiations.

Secondly, it is also not certain whether the UK could secure membership of EFTA. Becoming a member of the EFTA would be a lengthy process, which could be vetoed by members of the EFTA at anytime. It is not inconceivable that the dynamics of the UK as a country intending to join the EFTA do not adequately correspond with the members of the EFTA (Clements, 2014). This is a risk the UK would have to be willing to take if they choose to go this route.

Nevertheless, if the UK secured a deal similar to Switzerland they would lose their direct influence over EU decision-making. While they would still have access to the market they would still have to accept all EU standards when selling to this market even though they do not have any say in establishing these standards.

The UK could lose out greatly should it choose to leave the EU and adopt a model like Switzerland. While the UK would have to contribute significantly less to the European budget it has been estimated that in a worst case scenario leaving the EU could reduce U.K incomes by about 3.1 per cent (£50 billion per annum). This is due to the fact there would inevitably be some increases in trade costs through non tariff barriers and economic losses from missing out on any further market integration within the EU (Dhingra *et al.*, 2015). The loss to the UK economy of leaving the EU is substantial and far outweighs the reduced contributions to the European budget.

The UK would also be disadvantaged as it would lose out on any future trade deals between the EU and other countries. For example, the UK would have to renegotiate on the Transatlantic Trade and Investment Partnership deal between the United States and the EU. It is likely that they would simply have to accept the same deal as Europe, as the U.S are unlikely to partake in more lengthy negotiations or not take part in the deal which would incur significant losses to the British economy. The UK would miss out on any future trade deals between the European Union and other big economies such as emerging Asian economies like China and would have to make their own bilateral arrangements. Although it is possible for these bilateral arrangements to be reached, as Switzerland has proved, it seems intuitive that Britain could have more influence, leverage and power as part of a group of twenty-eight countries rather than acting on its own.

One of the main arguments put forward in favour of the UK leaving the EU is the UK's concern and belief that they risk losing sovereignty if they remain in the Union. However, Switzerland is losing sovereignty due to globalisation. Like the UK, Switzerland is a nation with an open economy that has to increasingly play by global rules (De Grutyer, 2015). For example, the Swiss have de facto given up their banking secrecy, which is enshrined in their constitution due to pressure from the United States tax authorities (De

Grutyer, 2015). Switzerland, outside of the European Union, still struggles to maintain its sovereignty in an ever increasing globalised world. If it is sovereignty that the British are worried about they may in fact be better off staying within the European Union were they arguably have more bargaining power to retain some sovereignty with the rest of the world.

Officially Switzerland can make their own laws surrounding trade without any input from the European Union. However, in reality Swiss laws are heavily influenced by EU rules, otherwise their companies would not be able to trade with EU companies who are their major partners (McFadden and Tarrant, 2015). Hence, Swiss legislation must be made compatible with EU rules, in practice this means that Switzerland is similar to Norway in that they have no say in rule making but end up having to abide by them anyway. Dr Jonsdottir a policy officer at the EFTA has stated that ‘being in with the outs’ while trading freely in Europe comes at a price. It means paying to administer and police the single market while the ‘in-crowd’ makes the important decisions about how it works (Jonsdottir in Miller, 2013). Britain is currently part of the ‘in-crowd’ with the potential to change and influence regulation and policy. Losing their place at the decision table does not seem like an attractive prospect for the UK who currently maintain influence over these rules: giving up this influence has the potential to raise more problems that it solves.

While it appears that Switzerland gains from the EU by not having to comply with their regulations and policies, in reality however, when Swiss companies trade with the EU on any level it has to adhere to European standards. As Europe is Switzerland’s biggest exporting market this has led to Switzerland adopting most European laws themselves even though they have had no say in them. It is likely that if the UK adopted this model it would end up adopting new EU laws and standards as Switzerland has done.

The Consequences for Europe

One of the European Union’s founding members leaving will undoubtedly have a huge impact on the rest of Europe both politically and economically. If the UK decides to leave it would change the landscape of the EU forever.

Firstly, the process of the UK exiting the EU would be burdensome on both the EU’s and UK’s administrative systems while also taking up a lot of political time and energy. Secondly, a Brexit would have ramifications for Ireland and the Irish economy. Any barriers, even non-tariff barriers, which could arise between the UK and Ireland due to an exit has the potential to put strain on Northern Ireland’s already fragile economy and has the potential to impact on the peace process. Irish government representatives have expressed deep concern should the UK adopt a Swiss style relationship with the EU particularly around the implications this could have on Irish-British bilateral relations (Kilcourse in Sanschneider, 2014). It is difficult to know the full extent that a Brexit would

have on Irish-British relations; it seems in both countries interests that their relationship remains the way it stands with both countries members of the European Union.

Finally, even though the United Kingdom has at times been a reluctant member of the EU it has played a major role in forming regulation and policies over the years. It has impacted on European integration for over forty years and was instrumental in pushing forward the free market. There is no doubt that at times the UK-EU relationship has been strained, however, the EU would face a deficit if the UK left the decision making table. There may be less pressure to increase efficiency or reform traditional areas of spending, net payers like Germany would lose significantly in these areas (Zuleeg in Sanschneider, 2014:60). Also, spending on regional funds and agriculture could decline as the United Kingdom contributes large amounts to these funds.

There do not appear to be any benefits for Europe if Britain should decide to leave the EU, however there would be significant losses. It is in the EU's interest to try and persuade the UK to remain as an integral part of the Union and not as a member of the EFTA as its leaving could really throw the whole European project off course.

Conclusion

Although on the surface there are benefits to the UK adopting a Swiss like relationship with the European Union the disadvantages of leaving far outweigh these benefits. Cherry-picking a relationship like the Swiss has its limits and the idea that bilateralism is a panacea for a prosperous economic future outside the EU is greatly exaggerated (Nünlist in Sanschneider, 2014, p. 66). Both the EU and the UK can gain far more by working together. Herman Van Rompuy perhaps best summarises a Brexit stating that the UK leaving the EU would be like 'a divorce after forty years of marriage ... Leaving is an act of free will, and perfectly legitimate, but it doesn't come for free' (Herman Van Rompuy in Miller, 2013). Although the outcome of the referendum is unknown, it is certain that it will have a significant impact on EU. If the UK decides to stay in the EU it shows that the British people have confidence and hope in the EU. On the other hand, if the UK decides to leave the EU the outcome will be complicated and come with many challenges and changes.

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