

Evaluation of the impact of free trade agreements

**Summary of the report by the Parliamentary Control of the
Administration for the attention of the National Council
Control Committee**

of 26 October 2016

Summary

As the importance of free trade agreements (FTAs) increases, public awareness of these foreign economic policy instruments has also increased. FTAs are international agreements that Switzerland concludes with selected partner states. They aim to make trade between the two parties easier by partially or fully removing trade barriers (especially customs requirements). FTAs also protect intellectual property rights (e.g. patents, brand names and geographical indications) and nowadays may include the trade in services, investment promotion and ease of access to public procurement markets. Once the Federal Council has negotiated an FTA and presented it to Parliament, it can only be approved or rejected as a whole. Furthermore, the economic impact of an FTA often remains unclear once it has entered into effect.

For these reasons, in January 2015 the Federal Assembly's control committees (CCs) commissioned the Parliamentary Control of the Administration (PCA) to evaluate the impact of FTAs. The FDF/EAER National Council CC sub-committee decided on what form the evaluation should take in June of that year. The PCA's evaluation concentrated on the information that the Confederation uses to assess the economic impact of FTAs. It also looked at how the Confederation assesses the ecological and social impacts of an FTA. In its empirical analyses the PCA considered only the FTAs already in effect for Switzerland. Those still undergoing negotiation did not form part of the evaluation.

The evaluation is based on an analysis of documents from studies and analyses conducted within the Federal Administration, case studies on selected FTAs, and an analysis of the contents of Federal Council dispatches and reports on the FTAs. Between January and June 2016 the PCA also questioned 37 members of the Federal Administration and representatives from business, academia and civil society. It commissioned the BAKBASEL research institute to investigate the impact of the FTAs currently in effect for Switzerland on Swiss foreign trade.

Overall, the evaluation concludes that the Confederation only has limited systematic information on the expected and actual impact of FTAs. The standard economic analyses conducted focus on the trade in goods. Once an FTA has come into effect, there is no systematic monitoring of its economic impact. Reporting in the Federal Council dispatches and reports does not focus on expected and actual impact of the specific FTA in question. The impact analysis commissioned by the PCA and conducted by the BAKBASEL research institute suggests that trade data provide very little indication of a direct effect of the FTAs studied on Swiss foreign trade.

Detailed analyses of the trade in goods is conducted within the Federal Administration before free trade negotiations begin. The analyses are based on current import and export figures and serve as a basis for estimating the economic importance of the trade partners for the different export sectors and for Swiss agriculture. The FTA's potential to reduce customs duties for Swiss exports is also estimated. More detailed analyses of potential impact on the national economy have only been conducted in one case to date (the Transatlantic Trade and Investment Partnership, TTIP). In 2009 the Federal Council's foreign economic strategy was

extended to include sustainable development goals, but these are not yet reflected in the information that the Confederation uses to estimate the potential impact of FTAs.

No systematic monitoring of actual impact

The Federal Administration does not have a systematic monitoring system to assess the actual impact of FTAs apart from information on lost customs revenue. In 2009 SECO conducted an internal study examining the economic impact of FTAs, which was updated in 2016. However, SECO did not publish the updated study until after the administrative consultation on the current report, and so the results of the study could not be considered here. Joint committees are created with the FTA partner states to oversee and monitor the implementation of the agreements; the composition of these committees is determined by the topics they deal with, meaning that Federal Administration experts in the given specialist field take part in the committee meetings depending on the topics currently discussed.

However, the PCA finds that the activities of the joint committees are not transparent enough. There is no institutionalised and systematic reporting. Nor are working methods and the way issues are chosen clear.

Information useful for conducting negotiations, but lack of transparency

The negotiation and conclusion of an FTA can be seen as an ongoing process of extending and developing the Swiss network of FTAs, building on previous free trade negotiations. Despite this continuity, the case studies conducted by the PCA on selected FTAs (with China, the Gulf States, Central American countries) show that the Confederation processes and uses different information bases depending on the partner state. The PCA believes that this use of information is appropriate where as much room for manoeuvre as possible is required in the international negotiations, and negotiations are to be concluded successfully if at all possible. However, it is not entirely clear which information regarding the FTA's (potential) impact is taken into account by the federal agencies, how and when this is used, and on what it is based.

Reporting over-formalised and not case-specific enough

The Federal Council communicates its opinions about the expected impact of the FTAs it has negotiated in the dispatches it presents to Parliament for approval. The analysis of the dispatches conducted by the PCA reveals that the information provided by the Federal Council on the bilateral trade in goods is much more detailed than that provided about discrimination that the FTA is intended to reduce or eliminate. Discrimination arises when Swiss exporters have more restricted market access to foreign markets than their foreign competitors. Reducing or eliminating this kind of discrimination is a key objective of the Federal Council when it concludes FTAs. In further Federal Council reports on foreign economic policy that were an object of the PCA study, FTAs were seen to have grown in significance in recent years. However, the Federal Council largely only mentions the strategic focus of Swiss free trade policy and the challenges it entails; there is no systematic reporting on the actual impact of existing FTAs and the activities surrounding their implementation.

FTAs have little direct impact on Swiss foreign trade

The impact analysis commissioned by the PCA and conducted by the BAKBASEL research institute reveals that there are few empirically proven direct effects of the FTAs studied on Swiss foreign trade. The Swiss export sectors that tend to gain most from FTAs are the pharmaceutical, chemical, watch, machine construction and metrology industries. However, it is primarily economic developments (global and in the partner countries) that have an impact on Swiss exports. Nonetheless, an important objective of FTAs is to create legal certainty in trade relations with the partner countries by establishing principles of trade policy in an international treaty. Furthermore, the public may not fully appreciate that the conclusion of an FTA does not, in practice, result in the complete removal of trade barriers (and thus does not lead to free trade in the literal sense), but instead means preferential market access for the partners states involved.

The full report is available in German and French; the Italian version should be ready around September 2017 (www.parliament.ch).