

IMPLICATIONS OF THE DEBT CRISIS FOR SWISS FOREIGN AND SECURITY POLICY

The changes in Switzerland's European neighbourhood brought about by the debt crisis have major repercussions on Swiss foreign and security policy. Bilateral relations with several countries have been strained because of disputes over Swiss bank secrecy. As far as the controversy with the EU over institutional issues is concerned, the scope for a compromise solution has narrowed. Conversely, there are growing security-policy overlaps between Switzerland and its European neighbours.



Federal President Eveline Widmer-Schlumpf meets EU Commission President Manuel Barroso in Brussels, 20 March 2012. Keystone

The debt crisis has hit Europe hard. Many states have been forced to adopt far-reaching austerity measures. Unemployment in the EU area has risen above 10 per cent, with nearly one in four youths under 25 among the job-seekers. In Southern and Eastern Europe in particular, prosperity is in steep decline. In political terms, growing discontent is manifesting itself in mass protests, numerous changes of governments, and a marked loss of confidence in political institutions. At the same time, populist parties are resurging across Europe.

The EU faces the biggest crisis of its history. The single currency, as the lead project of the integration project, has become an economically and politically divisive issue. The EU's crisis management in this respect has proven very difficult and has been only moderately effective so far. While the financial markets have experienced some

temporary respite due to the ECB's injections of liquidity, the nature of the euro crisis has simply changed from an acute problem to a chronic one. Coming to terms with it will take years and will likely cause further strain within the EU.

Compared to the rest of Europe, Switzerland is currently in good economic shape. While many countries continue to pile up debt despite crippling austerity measures, Switzerland has continuously generated surpluses since 2006. Its debt to GDP ratio is now below 40 per cent. Its unemployment rate is just above 3 per cent (March 2012). Many sectors of the Swiss economy are still doing well.

The debt crisis, accordingly, has mainly had indirect effects on the country. Two of these effects have been subject to much debate as yet: First, there is the problem of the

Swiss Franc being overvalued, which has put the Swiss export business and tourism industry under pressure. A minimum exchange rate of CHF 1.20 per euro as defined and enforced by the Swiss National Bank has eased the situation to some extent, but the Franc is still too strong for a country highly dependent on exports.

Second, with countries keen to maximise tax revenues these days, Swiss bank secrecy has become a victim of the debt crisis. Faced with intense international pressure, the Swiss government was prompted to abandon the Swiss legal distinction between tax evasion (only a civil offence in Switzerland) and tax fraud (a criminal matter) for international bank customers and to accept the OECD standard on assistance in tax matters in 2009. Double taxation agreements with numerous countries have since been revised. The US has pushed Switzerland even further by threatening legal action against Swiss banks and insisting on the disclosure of names and accounts of numerous US citizens keeping their money on Swiss banks. In the case of some European countries such as Germany and Britain, the Swiss successfully negotiated a new form of withholding tax agreement that may provide for the continued privacy of clients. However, parliamentary approval of these agreements is pending. Moreover, with most EU countries supporting the goal of an automatic exchange of information on tax issues, the future of Swiss bank secrecy continues to look shaky, to say the least.

In comparison to these two "hot topics", the effects of the debt crisis on Swiss foreign

and security policy have not been broadly discussed so far. The fact is, however, that the debt crisis is changing the European context of Swiss foreign and security policy significantly. With regard to the EU, the crisis is making it even more difficult for Berne and Brussels to resolve their conflict over how to structure their bilateral relations in the future. While the EU is bound to insist that the Swiss will finally have to accept supranational institutions as the price for continued access to the single market, the domestic mood in Switzerland is such that any concessions to the EU will likely meet resistance. By contrast, when it comes to security policy, there is a degree of convergence between the positions of Switzerland and neighbouring states, with the debt crisis reducing the extent to which Switzerland is the odd man out in Europe.

Changing European environment

For Europe, the debt and euro crisis has become a major liability. Its manifold causes will not be analysed at this point (see *Strategic Trends 2012* [↗](#)). Rather, it is the effects of the crisis and the ensuing changes in Switzerland's European neighbourhood that are of major interest here. Three aspects are particularly relevant in this regard:

First of all, the EU today is weakened as far as its role as an anchor of stability among member states is concerned. Power shifts within Europe have produced new imbalances disrupting European unity. Germany's new leadership role within the EU, which Berlin did not seek in this form, gives rise to unease in some quarters and is rekindling old resentments especially in crisis-struck countries on the European periphery. The North-South divide in Europe has widened, not just in economic terms. Within the EU, the setting has shifted to the disadvantage of smaller states, as formulation of policy is increasingly dominated by Berlin and Paris. At the same time, the EU institutions, and most of all the EU Commission, have diminished in significance. To a considerable degree, European policy has become renationalised, with member states calling the shots in Brussels again.

Further cracks in the foundations of Europe are created by a trend towards political fragmentation. There is a growing self-marginalisation of the UK in Brussels. Conversely, new steps of integration are taken within the Euro zone. Both developments are indicators of an increasing heterogeneity within the EU, which renders collective action ever more difficult. Concepts of a

multi-speed Europe or of concentric circles have yet to be fleshed out in practice. Added to this is the EU's growing legitimacy deficit. The most vivid aspect of that deficit is the massive loss of public confidence in the EU. Whereas in 2007, 57 per cent of respondents in a Eurobarometer survey stated that they trusted the EU, the respective figure for 2011 was only 34 per cent. There is no greater threat for the European project than the increase of Euroscepticism that can be witnessed across the continent.

Second, the EU has lost even more of its latitude in foreign policy in the course of the debt crisis. It is certainly not the case that the same negative developments are found in all spheres of foreign policy; for instance, with its sanctions policy, the EU continues to demonstrate unity, even in sensitive dossiers such as Iran or Syria. However, key EU instruments for transforming its regional periphery, such as its enlargement and its neighbourhood policies, have become less efficacious as the crisis persists. At the same time, the EU is finding it ever more difficult to speak with one voice at the global level. The renationalisation of EU foreign policy coincides with a stronger focus by member states on bilateral economic deals, mainly with emerging states. This not only leads to increasing competition between the EU states, but also to competition between the former and EU institutions, which continue to place a strong emphasis on normative aspects of foreign policy.

Third, the debt crisis also has adverse effects on European defence. The currently continuing reduction of defence expenditures in many states reinforces doubts about Europe's military credibility, especially since the reduction of military capabilities is largely conducted in an uncoordinated fashion. This trend, occasionally referred to as "demilitarisation", is of particular concern because Europe will face noticeably more strategic autonomy in the future as the US reorients itself towards East Asia. There are signs, however, that there is growing willingness to engage in enhanced defence cooperation as a result of the current malaise in defence expenditure, and especially as far as the development and provision of military capabilities are concerned. The concept of "Pooling and Sharing" has gained a noticeable boost since the EU defence ministers agreed on 11 priority areas of cooperation in the European Defence Agency (EDA) as part of the Ghent Initiative at the end of November 2011.

This is also to say that the repercussions of the debt crisis are by no means negative only. A lack of funds may give an impetus for useful prioritisation and synergy gains. Particularly in the case of the EU, furthermore, crises have again and again given way to important reforms and further integration steps. There is no denying that the negative repercussions of the current crisis will dominate for the foreseeable future and that the EU is facing some very difficult years. However, an end of the single currency or even of the unification project as a whole is not in the offing. The economic and political rationale of an integrated Europe remains simply too strong for member states to dispense with the current rescue measures and a minimum of solidarity.

Less room for compromise with the EU

Within the field of foreign policy, if we look beyond the deterioration of bilateral relations with countries like the US or Germany over tax issues, it is mainly Switzerland's EU policy that is affected by the debt crisis. In the conflict with the EU over the future shape of the bilateral treaties, Switzerland will likely win some time due to developments in Europe. However, in terms of substance, the Federal Council's room for manoeuvre continues to diminish, due to both external and domestic reasons. Overall, therefore, the dispute over the "institutional questions" and thus over the nature of relations between Switzerland and the EU is bound to become increasingly acute.

The demand by Brussels to create an institutional framework for the bilateral agreements in order to accelerate the adoption of EU legislation as well as to ensure the uniform interpretation, monitoring, and legal enforcement of the agreements has already been on the table for years. These institutional issues may look non-dramatic to EU member states long used to working in supranational settings. But they create significant domestic problems for Switzerland, which since the 1950s has based its European policy on the principle of institutional absenteeism (cf. *CSS Analysis No. 81* [↗](#)).

The so far inconclusive talks have revealed how far apart the positions of Switzerland and the EU are when it comes to the further development of their relations. The dominant Swiss view is that two equal partners are seeking a compromise solution that is respectful of each side's sovereignty. The EU, however, is increasingly minded to treat Switzerland as a partici-

part in the single market whose privileged status can no longer be justified towards the other market participants in the EU and the European Economic Area (EEA). Accordingly, the EU today no longer refers to “bilateral”, but to “sectoral” treaties. This wording implies that the EU expects Switzerland to accept the same obligations as other market participants – though the EU does not insist that this will have to happen within the same institutional setting as for its own member states.

Since the EU Commission has been weakened by the debt crisis and member states are busy managing the debt and Euro crisis, the pressure on Switzerland concerning the reshaping of mutual relations has overall been limited in recent years. Consequently, the Federal Council has played for time for several years and has not come up with a substantive response until very recently. This stance has come at the cost of sustained blockage of the negotiations over new market access agreements in areas such as electricity and energy. The already concluded treaties, however, largely continue to operate normally, atmospheric disturbances aside.

Having said that, Switzerland’s negotiating position is likely to deteriorate further in the foreseeable future. Thus, precisely because of its being weakened, the Commission can hardly afford to present the member states with a negotiated result that continues to make concessions to Switzerland. At the same time, in view of the EU’s growing fragmentation and heterogeneity, member states are even more likely to protect the single market as the basic project of the unification process. Despite all disagreement over the future of Europe, the EU retains a strong shared interest in preserving a functioning and homogenous single market. This is likely to increase the pressure on Switzerland to conform. Should the conflict between Berne and Brussels one day have negative effects on existing agreements as well, the strain on Switzerland might increase rapidly.

The new leadership role of Germany does not by any means make things easier for Swiss diplomacy. The days are over when Germany supported the Federal Council by advocating sympathetically on behalf of Switzerland’s special position in Europe. As for the scenario of a multi-speed Europe, it offers little prospect of resolving Switzerland’s concerns at this time either. On the one hand, the outlines of such a model for

Swiss principles for institutional solutions with the EU (25 April 2012)

- ! The Federal Council is ready to accept that bilateral agreements are based on the relevant *acquis* or subsequent developments of it, provided that

 - ! “Swiss sovereignty is respected”;
 - ! the Swiss get the right of decision-shaping in the respective fields of EU law;
 - ! amendments to agreements are made in mutual agreement only;
 - ! corresponding deadlines take into account the decision-making procedures provided for in Swiss legislation (parliamentary debates, referendums);
 - ! the EU is allowed to take limited compensatory measures only in cases where Switzerland cannot adopt a development in the EU *acquis*, with the proportionality of the EU measure being reviewed by an ad-hoc arbitration procedure.
- ! With supervision and jurisdiction, the Federal Council proposes a model in which the uniform application of the law in Switzerland is ensured by an independent *national* authority rather than by *supranational* institutions as called for by the EU.
- ! Uniform interpretation of the law should be guaranteed through due Swiss consideration of the relevant jurisprudence of the European Court of Justice. Deviations in the judicial interpretation of the Agreement may result in suitable and proportional compensatory measures by the EU. The proportionality of such measures again can be reviewed in an arbitration procedure.

Europe are still blurry. On the other hand, it remains doubtful whether Switzerland would be able to preserve its core interests in Europe by positioning itself on the periphery of such a construct.

In the medium term, therefore, Switzerland will hardly be able to avoid ceding sovereignty in return for access to the single market, which is of existential importance to its economy. However, in the context of the debt crisis, the domestic political conditions for such concessions have further deteriorated in Switzerland, where the EU’s image is worse than ever.

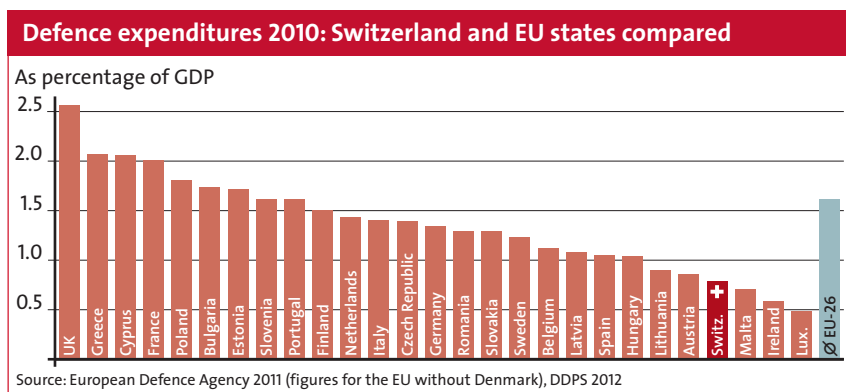
Faced with both a sceptical public and growing EU impatience with Swiss stalling tactics, the Federal Council has finally identified a series of institutional principles on 25 April 2012, which he intends to submit to the EU after consultations with parliamentary committees and cantons. These principles can be interpreted both as a positive gesture to the EU and an indication of how difficult the negotiations ahead are bound to be. Supranational institutions, at any rate, are not part of the Swiss offer at this stage.

With the chess game between Berne and Brussels on institutional issues finally launched, the main task of Swiss decision-makers in the coming months will be to improve the domestic groundwork for a future package solution, along the lines of a “comprehensive and coordinated approach” vis-à-vis the EU, as announced by the government. This will not succeed, however, if major political actors in Switzerland continue to employ political rhetoric that exaggerates Switzerland’s current sovereignty, fans the flames of Euroscepticism, and presents Switzerland as negoti-

ating “on par” with Brussels. The domestic debate over Europe must return to a more sober tone, or Switzerland’s EU policy will manoeuvre itself into a dead end.

The fact is that despite its debt crisis, the EU remains a factor of huge economic and political importance for Switzerland. Devoting increased attention to extra-European partners at the expense of European policy is not a solution that is commensurate with Switzerland’s interests (cf. CSS Analysis No. 106 [□](#)). Accordingly the FDFA has rightly identified a deepening of Switzerland’s relations with Europe as one of the priorities in its strategy for the legislative period 2012–15.

It is also a fact, however, that Switzerland is once more gaining leeway in matters of foreign policy outside Europe in the context of the EU’s crisis of foreign policy. However, here, too, the truth is that the EU’s deficiencies as an actor on the global stage do not dovetail with Switzerland’s interests. Many of Switzerland’s foreign-policy concerns will not be answered without the help of an EU that is capable of acting. Especially when it comes to peace policy, therefore, it will be necessary to scrutinise where Switzerland can autonomously generate added value. At the same time, the Federal Council will be well advised constantly to explore opportunities for cooperation with the EU in those areas where the member states agree on foreign-policy measures. The current participation in EU peace missions in the Western Balkans is certainly in Switzerland’s interest. The policy of recent years of autonomously adopting the EU’s sanctions policy also makes sense. In this context, the government’s decision of April 2012 not to follow the EU’s latest series of measures



against Iran (oil embargo and the freezing of assets of Iran's Central Bank) marks a breach with recent practise and is bound to prompt negative reactions from both Brussels and Washington.

Security policy: Meeting Europe half-way

Much like in its relations with the EU, Switzerland has also marked its own path in matters of security policy within Europe during the last decade. The transformation of its armed forces has been less pronounced and followed a different direction than those of neighbouring European countries. Its participation in international security production has been limited due to domestic reservations concerning a consistent implementation of the strategic guideline "security through cooperation". Unlike in the arena of EU policy, however, the debt crisis is unlikely to cause further alienation between Switzerland and other European states in the field of security policy. Rather, there are indications that the security-policy divide between Switzerland and Europe is diminishing in three ways:

First, in terms of defence spending, Switzerland is moving towards the European mainstream. In terms of percentage of GDP, Switzerland's spending had been low by European comparison in recent years. However, based on the healthy federal budget, the parliament in 2011 agreed to raise the defence budget to CHF5 billion. This would mean that Switzerland's military spending would increase from currently 0.79 per cent of GDP to 0.9 per cent in 2014. As for the Federal Council, it wants to spend less on defence than foreseen by the Parliament but still favours a significant increase. Conversely, due to the debt crisis, military expenditures in many other countries are decreasing both in absolute terms and relatively to GDP, in some cases markedly so. Switzerland will therefore most likely move from its current near-bot-

tom position in European defence spending rankings to the lower midfield.

Second, the Swiss model of military peace support has gained acceptance across Europe in the context of the debt crisis. Since the Security Policy Report 2010, the Swiss armed forces have largely relied on niche contributions to peace support made by small detachments or unarmed individuals with special expertise and capabilities. In doing so, the Swiss have tried to address those international capability gaps where they can offer some added value with their militia system. The areas of Swiss engagement include security sector reform, humanitarian demining, local capacity-building for peace support, or securing ammunition depots. Whereas Berne was long under pressure to justify its approach based on quality instead of quantity, currently more and more austerity-pressed countries suffering from intervention fatigue are considering a stronger focus on niche offerings as part of their peace support strategies.

The fact that the Swiss model is being emulated Europe-wide can also be a disadvantage, however. The demand for Swiss niche products may diminish if more niche players are in the market. Also, security may diminish across Europe altogether if too many countries neglect the core tasks of peace support provided by military contingents. It is therefore particularly important that the Federal Council should adhere to the intention, as stated in the Armed Forces Report 2010, to increase capabilities in the area of military peace support in quantitative terms too. Reaching the target of 500 deployable troops from 2015 onwards means that in this area, too, Switzerland will be further converging with the European average, which will be sinking over the coming years. The annual budget of CHF100 million for military peace support gives the DDPS the necessary planning certainties to implement these political guidelines.

Domestically, peace support with military contingents remains extremely controversial. However, the foreign department's strengthened commitment to overseas military missions under the new minister's aegis also creates prospects for a broader political leadership in this matter. Thus, it is certainly conceivable that intensification of Swiss mediation efforts in the Caucasus, for instance in connection with the OSCE presidency in 2014, will also raise the matter of military participation in a possible peacekeeping operation.

The third area of convergence in security policy between Switzerland and Europe concerns multilateral cooperation in armaments. Switzerland's administrative agreement with the European Defence Agency of March 2012 was concluded at a favourable point in time, as the EDA after years of stagnation has gained new impulses thanks to the Ghent Initiative. It remains to be seen how far the increasing pressure of costs will indeed give rise to more pooling and sharing; but the fact remains that some of the EDA initiatives in this area (e.g., on medical support and on training) may also be of interest to Switzerland. However, in the context of pooling and sharing, Swiss decision-makers will first want to identify the capabilities and technologies that can be usefully developed together with partners – and define which degree of cooperation sovereignty-focused Switzerland aims to achieve in a spectrum ranging from loosely coordinated development of capabilities to specialisation of roles.

Switzerland's current access to security platforms in Europe is limited. It may erode further, depending on how the Partnership for Peace schemes evolves in the context of NATO's reformed partnership policy. For this reason, too, Switzerland would be well advised to make consistent use of emerging channels such as the EDA and to go forward with the planned increase of contributions to international security production even during the current debt crisis.

Editor/author: Daniel Möckli
 analysen@sipo.gess.ethz.ch

Translated from German:
 Christopher Findlay

Other CSS Analyses / Mailinglist:
 www.sta.ethz.ch

German and French versions:
 www.ssn.ethz.ch