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SWISS TRADE MONITOR

Edition 2:
Trade CH-UK after Brexit

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From insight to impact.

Abstract

The *Swiss Trade Monitor* documents time trends in Switzerland's foreign goods trade. The second edition focuses on Switzerland's trade relationship with the United Kingdom. Analyzing Swiss data, we show that both the Brexit referendum of 2016 and the departure from the European Union in early 2020 had a clear negative impact on both Swiss imports from and exports to the United Kingdom.

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Contents

1 The Swiss Trade Monitor

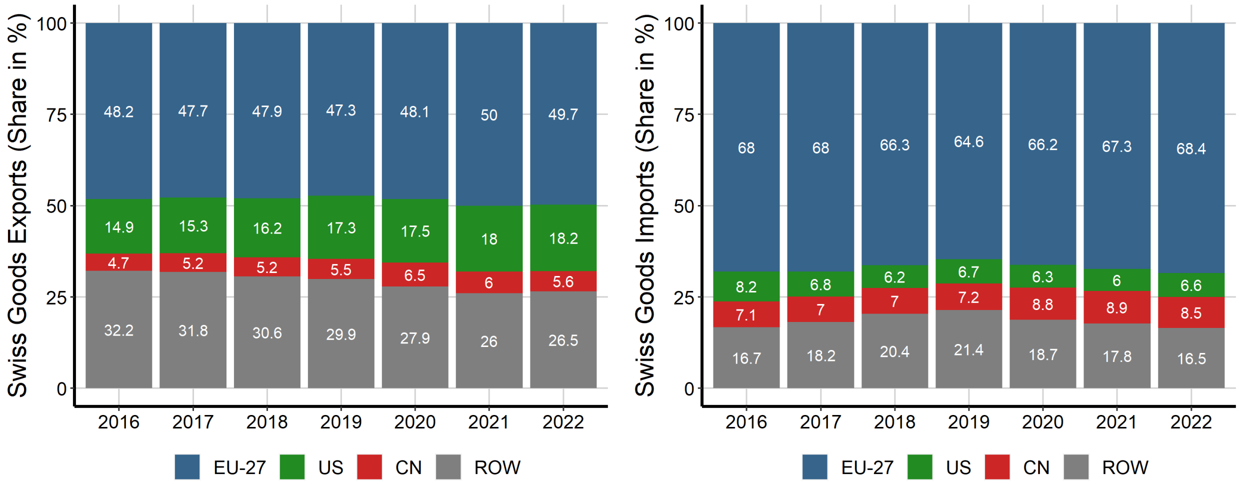
Switzerland is a small open economy. The international exchange of goods is crucial for the nation's economic prosperity. The aim of the *Swiss Trade Monitor* is to document key trends in Swiss foreign goods trade. Its second edition focuses on the trade relationship between Switzerland and the United Kingdom. We are particularly interested in how the Brexit referendum and the UK's departure from the EU Customs Union have affected bilateral trade.

The report first illustrates Switzerland's foreign goods trade in general, pointing out major trading partners, dominant product groups, and key time trends. In a second step, detailed data are presented for the three major partners (the EU-27, USA, and China) as well as the United Kingdom. Finally, we explore the Swiss-UK trade relationship in detail.

All data for Switzerland is obtained from the Swiss Federal Office for Customs and Border Security (FOCBS). Unless stated differently, the trade data exclusively considers goods trade without gold and other precious metals (the FOCBS refers to this as "Total 1"). Data for 2022 covers eleven months, January to November.

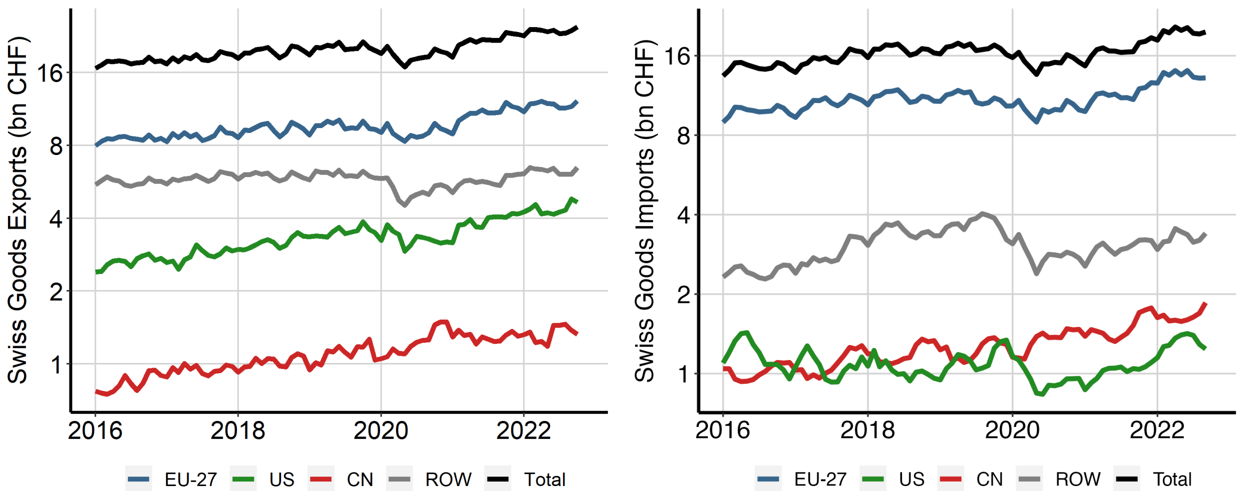
2 Swiss Foreign Trade

Most of Swiss foreign goods trade occurs with three partners: the 27 nations of the European Union (EU-27), the United States, and China. Collectively, these three partners accounted for around 74% of exports and 84% percent of Swiss imports in 2022. Comparing recent years, the three partners' share of both ex- and imports has increased noticeably, especially driven by the EU.



Note: The figure shows shares of Switzerland's total goods exports (left figure) and imports (right figure) for four separate years (2019–2022), separated by major partners (EU, USA, China) and the rest.

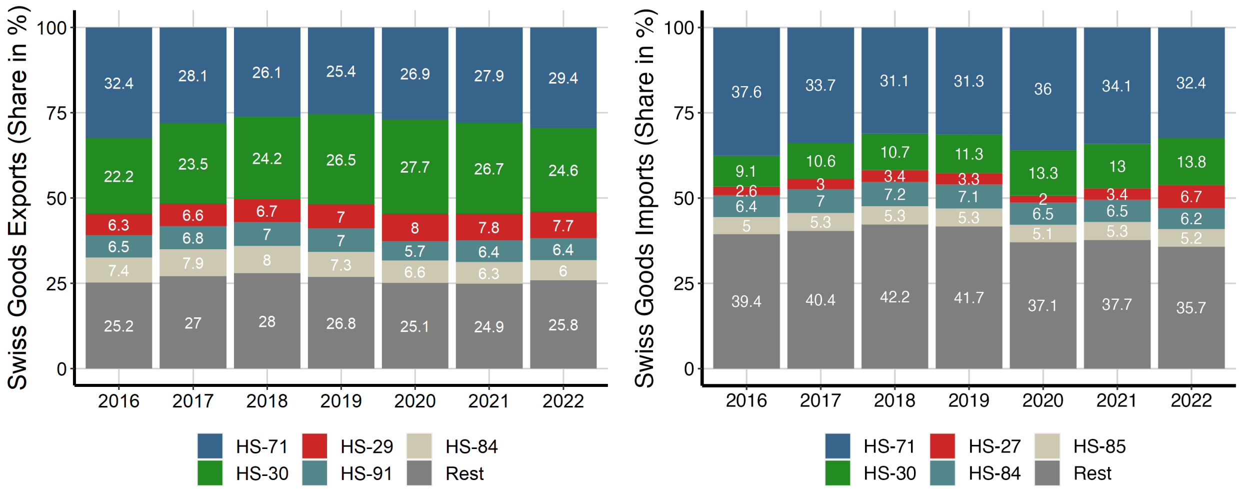
Recently, the US overtook Germany as the most important export destination. The EU-27 overall, however, accounts for about half of all exports and more than 2/3 of Swiss imports.



Note: The figure shows Switzerland's monthly goods exports and imports in total and for its three most important partners (EU, USA, China).

When considering Swiss trade including gold and precious metals (the so-called Total 2), a few product groups play a major role. Swiss *exports* are dominated by gold (HS 71) and pharmaceutical products (HS 30) which together account for more than half of all exports. Chemicals (HS 29), watches (HS 91) and nuclear reactors (HS 84) are the next most important product groups. The remaining 25% of exports consist of other products.

On the *import* side, gold is also by far the most important product, accounting for roughly a third of the total value. Pharmaceutical products (HS 30), nuclear reactors (HS 84), electrical machinery (HS 85), and vehicles (HS 87) collectively account for another third of Swiss imports.

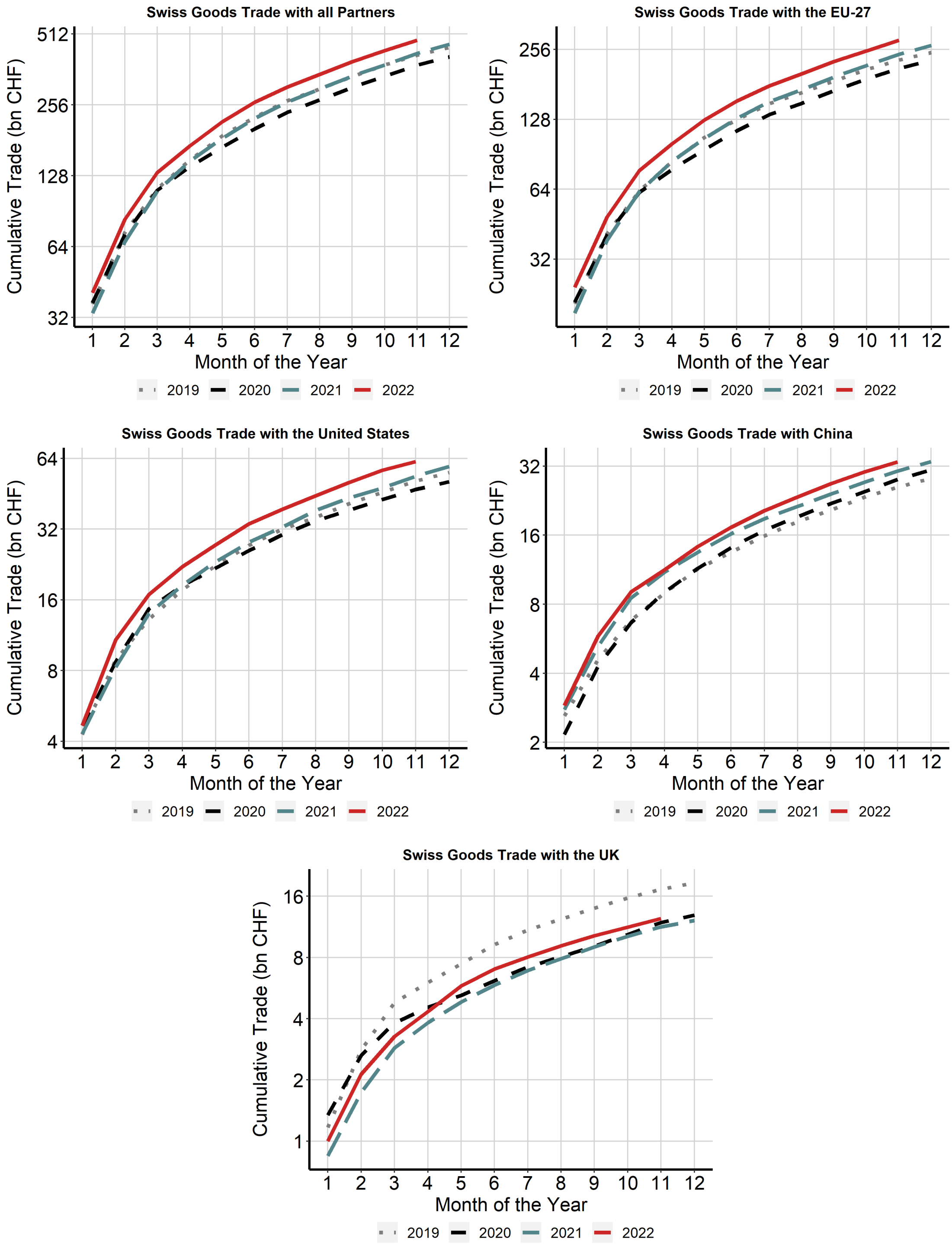


Note: The figure shows for the main product groups the share of Switzerland's goods exports and imports in the years 2019–2022. Here, gold and precious metals are included.

3 Time Trends

3.1 Overview

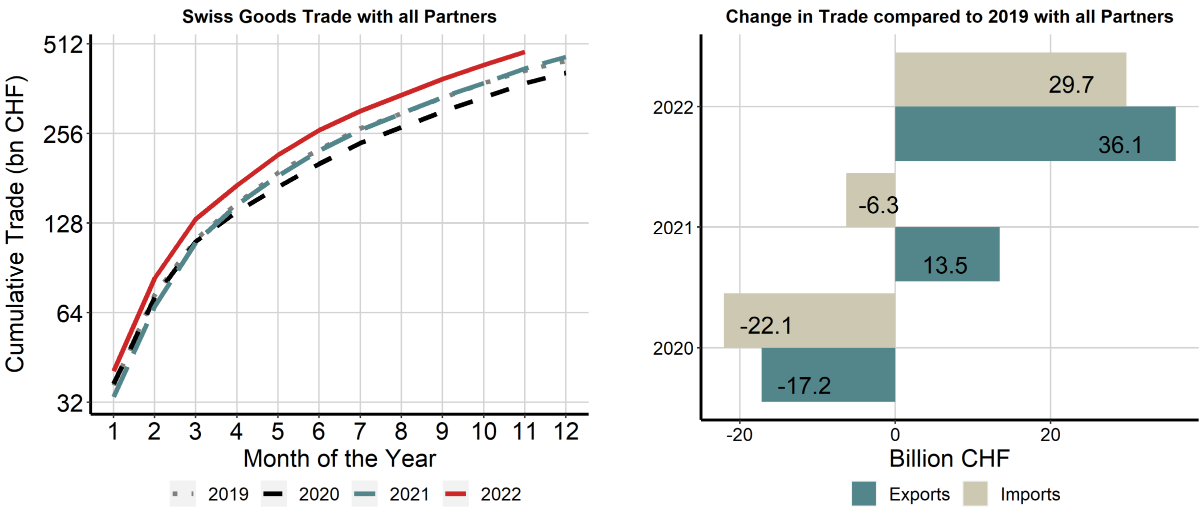
The following charts provide an overview of how Switzerland's foreign goods trade evolved in the years 2019–2022, in total as well as with selected partners.



Note: The figure shows Switzerland's foreign goods trade for four separate years (2019–2022), cumulatively on the basis of monthly data.

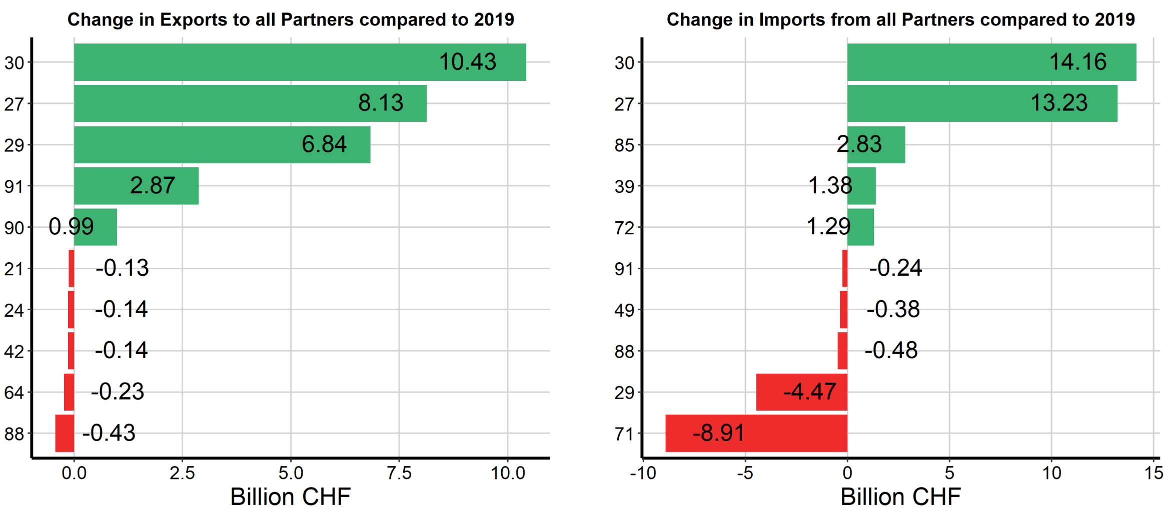
3.2 Detailed Results: Overall Swiss Foreign Trade

The figure below illustrates how COVID-19 caused Switzerland's trade volume of 2020 to fall below the 2019 line. In sharp contrast, 2022 notably exceeds previous years in terms of trade volume. Until November, trade is about 60 billion CHF above the 2019 or 2021 level.



Note: The figure shows Switzerland's foreign goods trade for four separate years (2019–2022), cumulatively from January to December (only to November in 2022). On the right, changes in exports and imports relative to 2019 are illustrated.

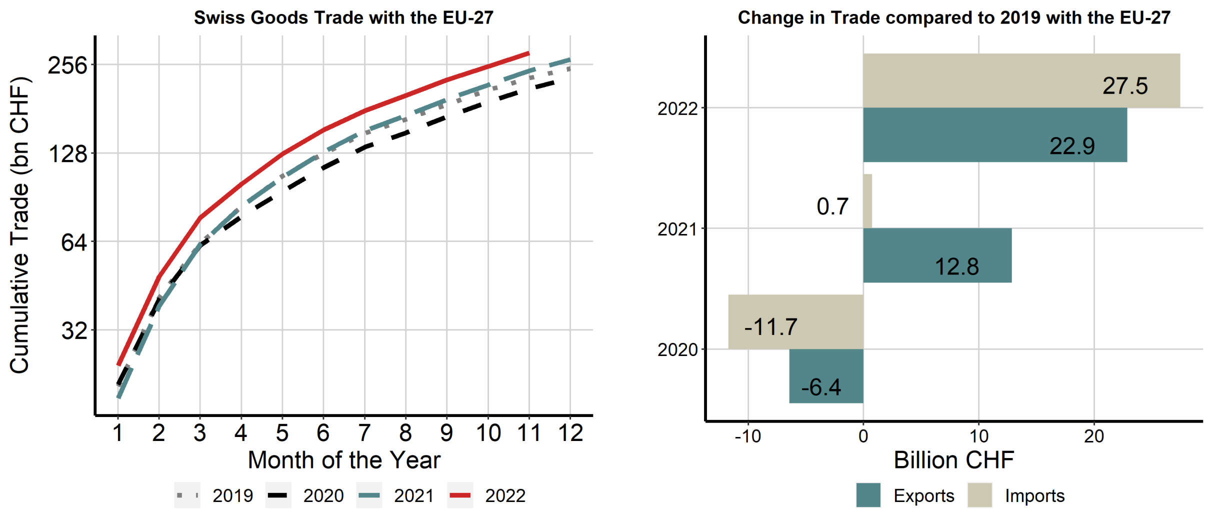
Pharmaceutical products (HS chapter 30) account for the largest changes, followed by chemicals (HS 29) and mineral fuels (HS 27). There is a notable increase in the export of watches (HS 91) and import of electrical machinery (HS 85).



Note: The figure shows changes in Switzerland's foreign goods trade during the first eleven months of 2022 compared to 2019. For both exports and imports, the five HS chapters with the largest increase or decrease are visualized.

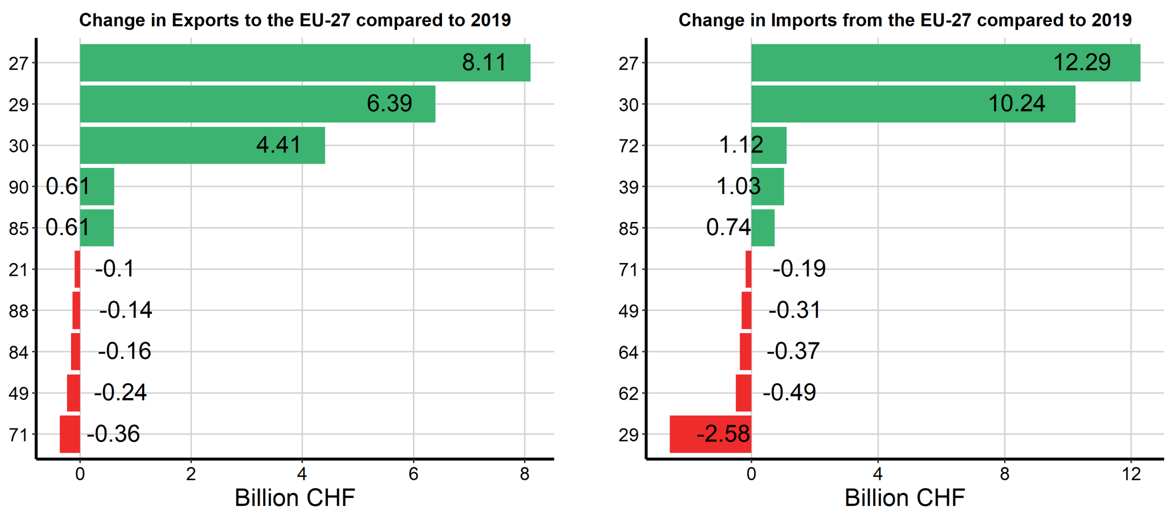
3.3 Detailed Results: European Union

Trade with the EU fell substantially in the wake of the COVID-19 pandemic but 2021 levels already exceeded 2019 ones — and the 2022 trade volume is substantially higher still.



Note: The figure shows Switzerland's goods trade with the EU-27 for four separate years (2019–2022), cumulatively from January to December (only to November in 2022). On the right, changes in exports and imports relative to 2019 are illustrated. For this only the first eleven calendar months are considered.

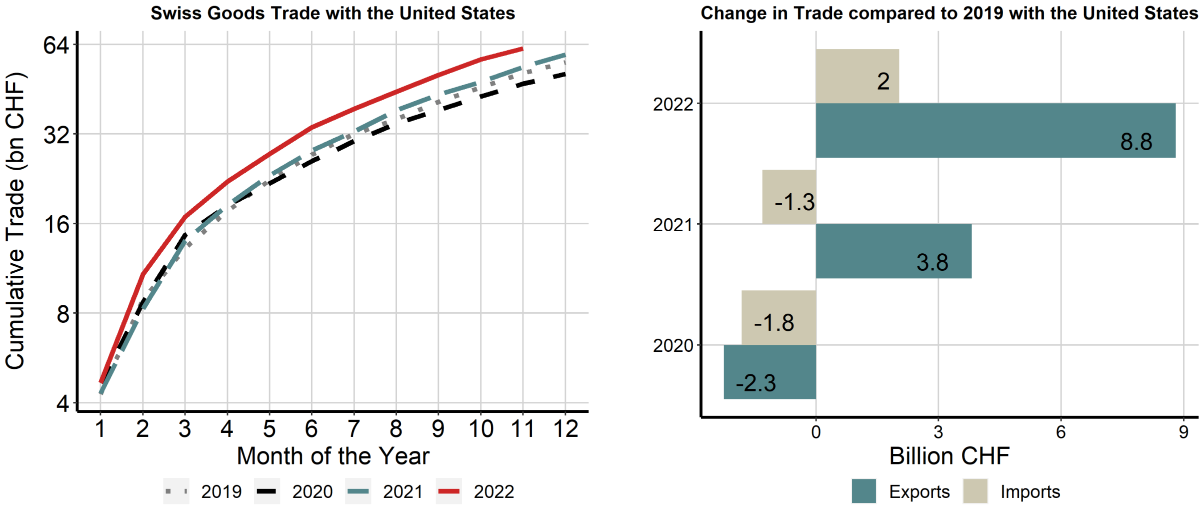
Pharmaceutical products (HS chapter 30) and mineral fuels (HS 27) show the largest increase in ex- and imports. Chemicals (HS 29) exports surge, while imports have decreased.



Note: The figure shows changes in Switzerland's trade with the EU during the first eleven months of 2022 compared to 2019. For both exports and imports, the five HS chapters with the largest increase or decrease are visualized.

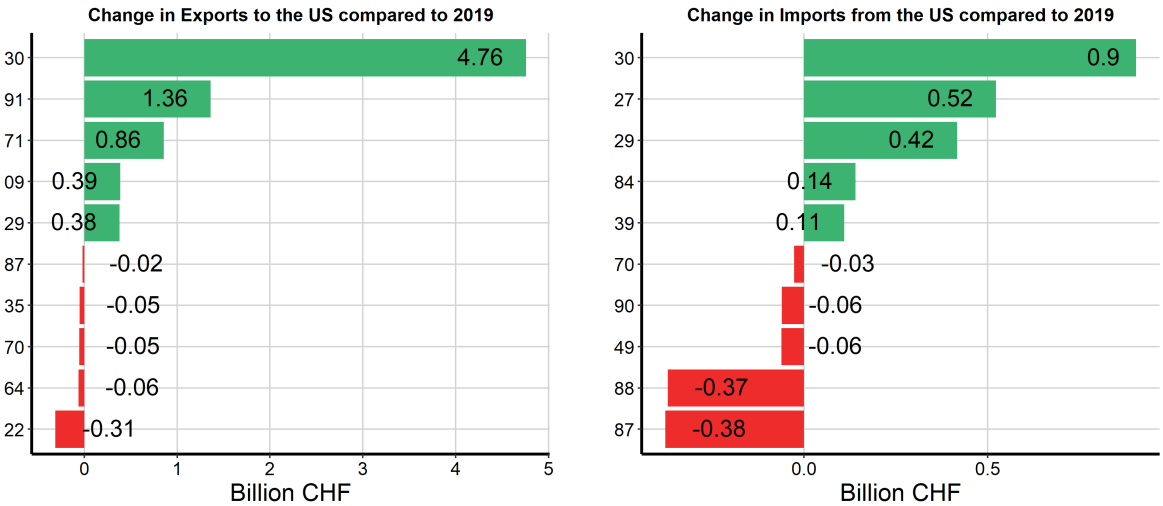
3.4 Detailed Results: United States

Trade with the United States fell in 2020 due to the COVID-19 pandemic but 2021 and especially 2022 volumes are above pre-pandemic levels. Especially Swiss exports have increased strongly.



Note: The figure shows Switzerland's goods trade with the US for four separate years (2019–2022), cumulatively from January to December (only to November in 2022). On the right, changes in exports and imports relative to 2019 are illustrated. For this only the first eleven calendar months are considered.

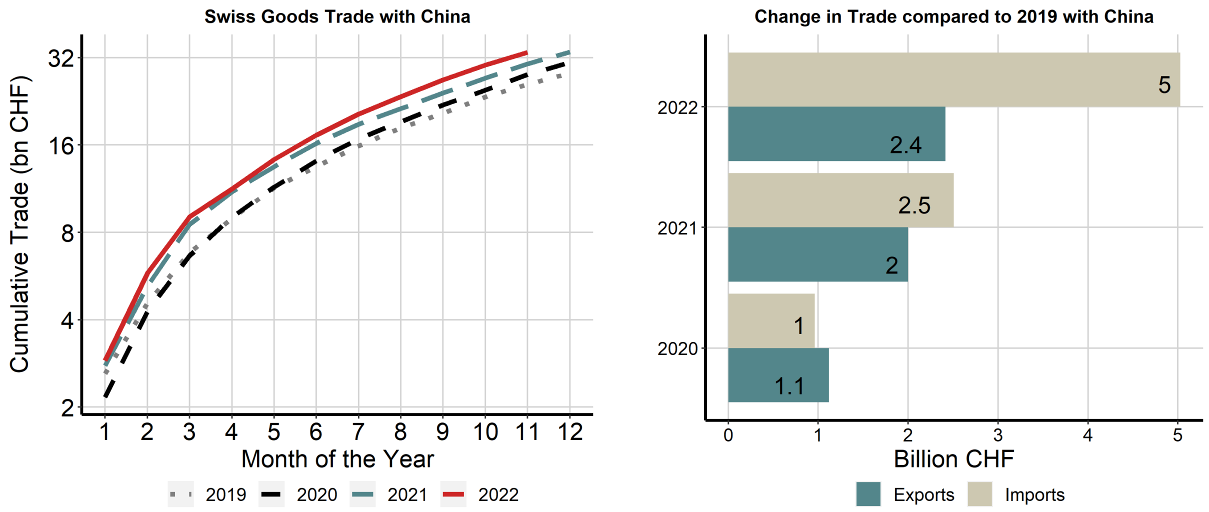
Pharmaceutical products (HS chapter 30) drive the Swiss export boom, followed by watches (HS 91). Increases in imports are smaller, focused on pharmaceuticals and mineral fuels (HS 27).



Note: The figure shows changes in Switzerland's trade with the US during the first eleven months of 2022 compared to 2019. For both exports and imports, the five HS chapters with the largest increase or decrease are visualized.

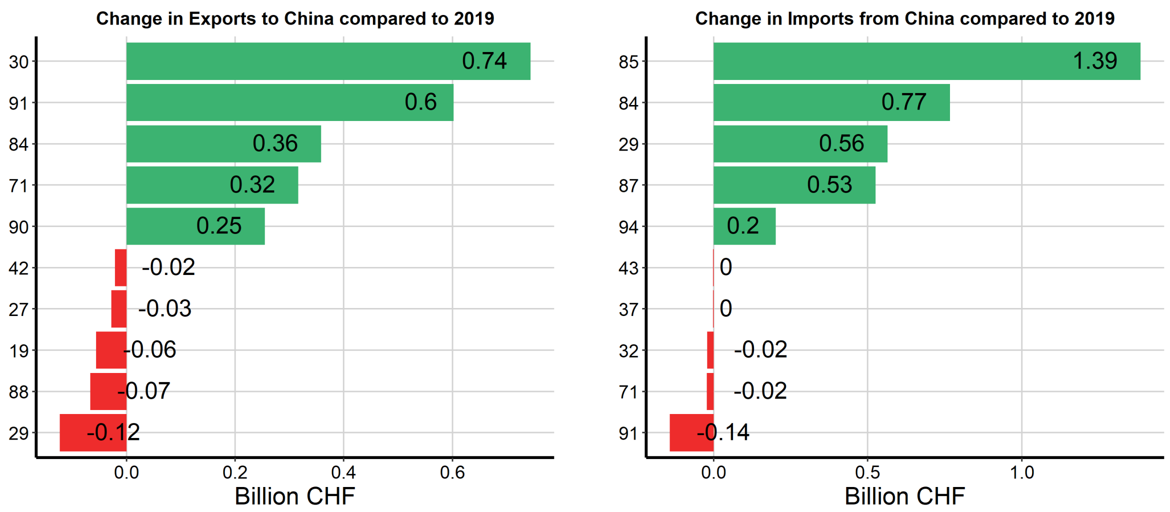
3.5 Detailed Results: China

Trade with China did not suffer in 2020 but has steadily increased in recent years. In 2022, the trade volume is about 30% above 2019 levels. Recently, Swiss imports from China grew much more than exports to China.



Note: The figure shows Switzerland's goods trade with China for four separate years (2019–2022), cumulatively from January to December (only to November in 2022). On the right, changes in exports and imports relative to 2019 are illustrated. For this only the first eleven calendar months are considered.

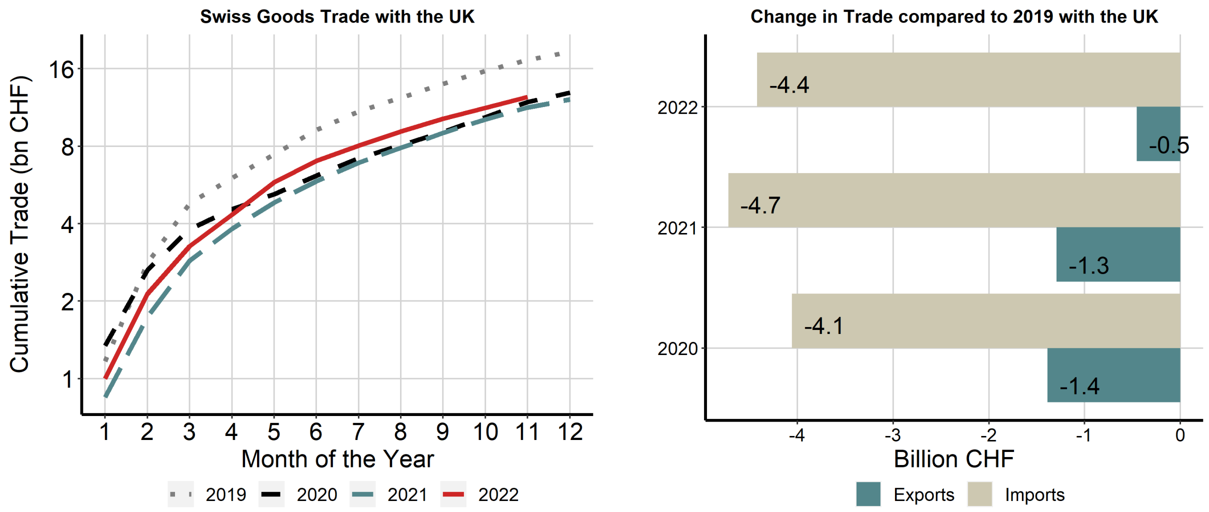
On the export side, pharmaceutical products (HS chapter 30) and watches (HS 91) show the largest increase. For Swiss imports, the data indicate significant increases in electrical machinery (HS 85) as well as nuclear reactors (HS 84), chemicals (HS 29), and vehicles (HS 87).



Note: The figure shows changes in Switzerland's trade with China during the first eleven months of 2022 compared to 2019. For both exports and imports, the five HS chapters with the largest increase or decrease are visualized.

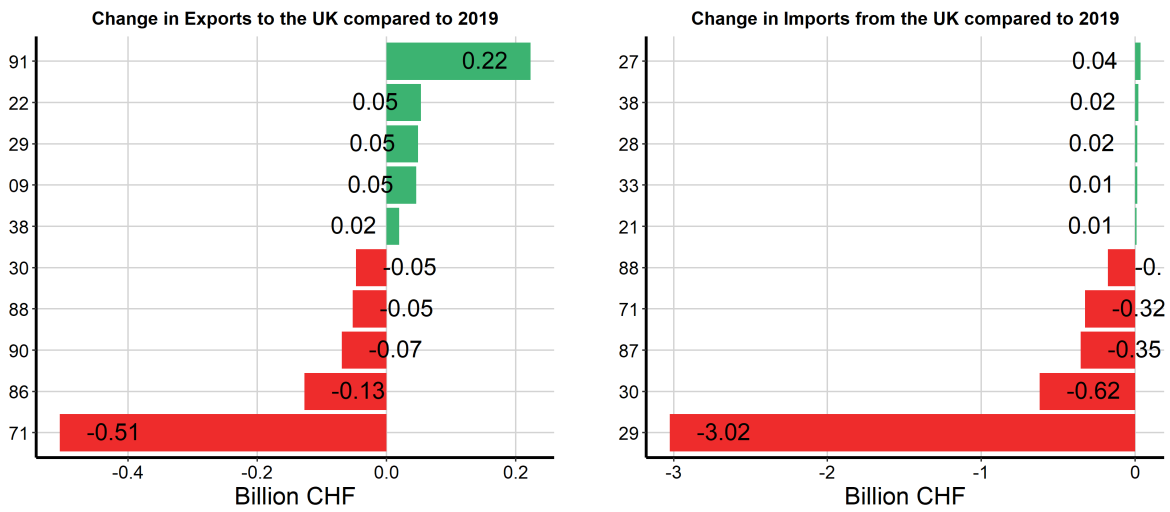
3.6 Detailed Results: United Kingdom

Trade with the United Kingdom suffered in 2020 due to the COVID-19 pandemic and has not increased in 2021 or 2022 to the level observed in 2019. In the current year, the trade volume is about 31% below 2019 levels. Swiss imports from the UK fell more than exports to the UK.



Note: The figure shows Switzerland's goods trade with the United Kingdom for four separate years (2019–2022), cumulatively from January to December (only to November in 2022). On the right, changes in exports and imports relative to 2019 are illustrated. For this only the first eleven calendar months are considered.

On the export side, only watches (HS chapter 91) show a noticeable increase. For Swiss imports, the data indicate a significant decrease in the import of chemicals (HS 29), pharmaceutical products (HS 30), and vehicles (HS 87).



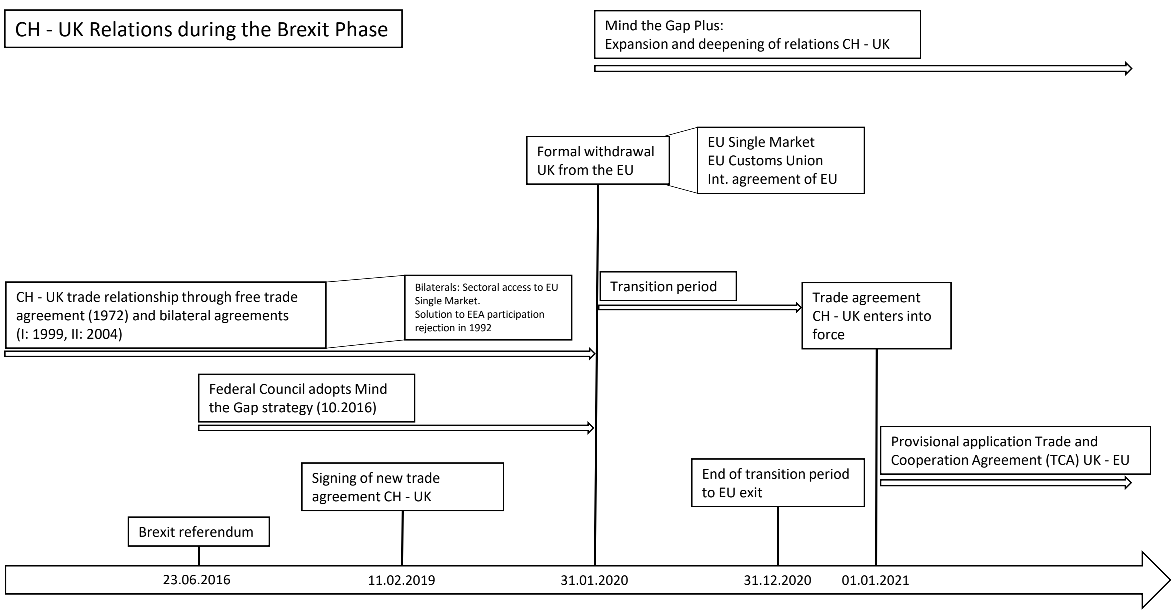
Note: The figure shows changes in Switzerland's trade with the United Kingdom during the first eleven months of 2022 compared to 2019. For both exports and imports, the five HS chapters with the largest increase or decrease are visualized.

4 Focus Topic

This second edition of the *Swiss Trade Monitor* documents Switzerland's foreign goods trade with the United Kingdom pre- and post-Brexit.

4.1 The Legal Basis for Swiss-UK Trade

The United Kingdom (UK) has always been an important trading partner for Switzerland. Before we provide a detailed account of how the legal basis for Swiss-UK goods trade has been altered, the chart below provides a timeline to illustrate major events.



As a result of the UK's withdrawal from the EU, the free trade agreement between the EU and Switzerland as well as other trade-related agreements could not be directly transferred to the exiting UK and thus lost their validity (Flückiger & Wegmüller, 2020)[1]. But before the legal basis *after* the Brexit is described in detail, the legal relationship *before* the exit of the UK should also be presented, so that potential differences before and after the Brexit can be recognized.

The basis for Swiss trade with the EU was the Free Trade Agreement of 1972, with which the elimination of tariffs for industrial and agricultural products was achieved. At a later stage, Bilateral Agreements I (1999) and II (2004) were added. In simple terms, these two agreements brought Switzerland closer to the countries of the EU, thus achieving conditions similar to those

[1] Flückiger, S., Wegmüller, C. (2020, March). Handelsabkommen Schweiz – UK: Ungemütliches Abwarten. *Die Volkswirtschaft.* Retrieved from `https://dievolkswirtschaft.ch/de/2020/03/handelsabkommen-schweiz-uk-ungemuetliches-abwarten/`

in the internal market. As a result, Swiss companies can be considered on an equal footing with competitors from the EU, which is an important prerequisite for the competitiveness of the Swiss economy. The Brexit referendum of 2016 already gave rise to uncertainties as to how this would affect the Switzerland-UK trade relationship. As a result, the Federal Council reacted early and launched the Mind-the-Gap strategy in October 2016 to avoid legal gaps and maintain mutual rights and obligations (Suter & Dudenhöfer, 2021)[2]. This strategy stated that eight bilateral agreements between Switzerland and the EU would have to be transferred to the new Switzerland-UK relationship in order to avoid gaps in the trade area.

However, only five of them could be transferred without any problems and three could not due to a direct reference to EU regulations. Specifically, the following agreements were involved: Mutual Recognition Agreement on Conformity Assessment (MRA), Agreement on Agriculture, and the Customs Facilitation and Customs Security Agreement. In order for these to be adopted, harmonization between the EU and the UK is required. And because this trade relationship between the EU and the UK is also important for Switzerland, we must briefly discuss this legal framework as well. On December 30, 2020, the EU and the UK signed a new Trade and Cooperation Agreement (TCA). This forms the basis for the relationship between the EU and the UK for the period after Brexit. The UK's formal withdrawal (Brexit) from the EU was on January 31, 2020. During the transition period until the TCA became valid from January 1, 2021 onward, the bilateral agreements between Switzerland and the EU continued to apply.

The TCA is a free trade agreement that covers all relevant economic sectors. The EU and the UK have agreed to mutually waive tariffs and quantitative restrictions. However, because there is no harmonization of laws, the UK does not automatically adopt EU law under the TCA. The consequence of this is that the EU and the UK are now two separate markets and thus also form two separate regulatory areas. A specific implication of this is that even if British goods are duty-free, they still have to go through the entire EU customs procedure when imported into the EU, which is an obstacle to trade (EDA, 2021, p. 1)[3].

Coming back to the relationship between Switzerland and the UK, on February 11, 2019, a bilateral trade agreement could be signed between Switzerland and the UK. This is a roll-over agreement, which transfers the existing agreement with the EU into a bilateral agreement between

[2] Suter, C., Dudenhöfer, N. (2021, January). Brexit: "Mind the Gap". Homburger. Retrieved from `https://www.homburger.ch/de/insights/brexit-mind-the-gap`

[3] Eidgenössisches Departement für auswärtige Angelegenheiten (EDA). (2021). Das Handels- und Kooperationsabkommen zwischen der EU und dem UK aus Schweizer Perspektive. Retrieved from `https://www.eda.admin.ch/content/dam/europa/de/documents/fs/20210115_eu-uk_DE.pdf`

the UK and Switzerland, taking into account and adopting the essential content of the agreement. In essence, this agreement and the unilateral measures secure the status quo of CH-UK relations as far as possible.

But this agreement did not close all the gaps. A major trade barrier is the fact that since Brexit it is no longer possible to cumulate with input materials originating in the UK. Put differently, when Swiss firms export to EU-27 countries, inputs from the UK do not qualify for preferential tariff treatment. However, when Swiss firms export to the UK, inputs from EU-27 nations qualify for preferential treatment. Without the possibility of cumulation, import duties must usually be paid and the relevant requirements of the list of working and processing must be met when the product is used (FCA, 2021, p. 1)[4].

In order to be able to close these gaps in the future, the Federal Council is not only pursuing the Mind-the-Gap strategy, but it was also stated in the trade agreement, which has been in force since January 1, 2021, that intensifying talks will be held to replace the agreement, modernize it, and develop it further (Mind-the-Gap Plus strategy) (Staatssekretariat STS-EDA, 2021, p. 4).[5]

In summary, it can be stated that the change in the legal basis has increased obstacles in the Swiss-UK trade relationship. The United Kingdom is no longer part of the EU Customs Union and the Single Market. This negative impact is also noted by the Office for Budget Responsibility (OBR), which summarizes the economic and fiscal outlook and provides it to the Parliament. To cite the OBR (2022, p. 26)[6] directly: "The latest evidence suggests that Brexit has had a significant adverse impact on UK trade, via reducing both overall trade volumes and the number of trading relationships between UK and EU firms."

4.2 The Impact of Brexit on Swiss-UK Trade

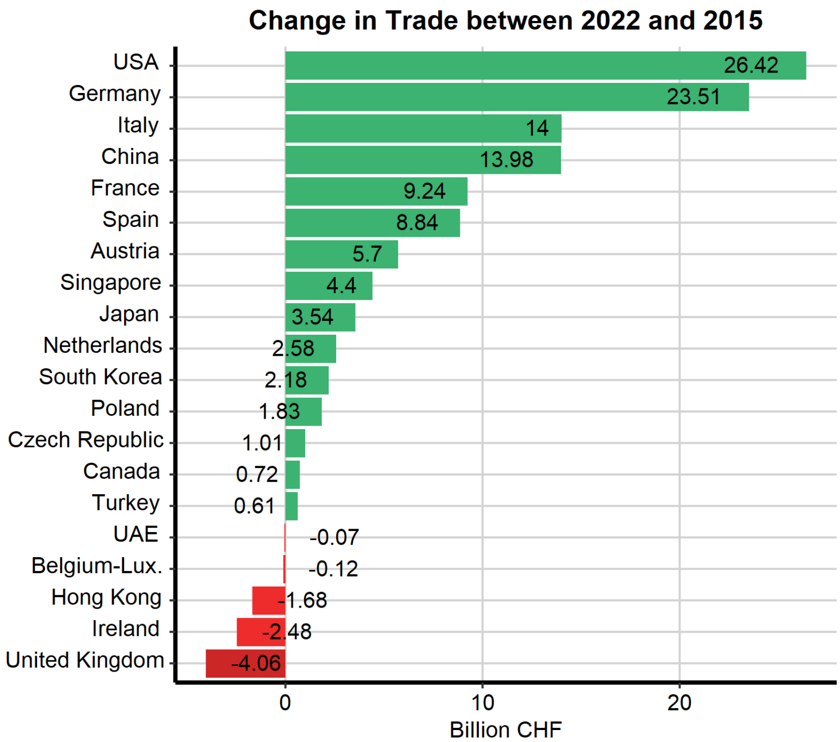
As can already be seen from the charts above, Switzerland's trade with the United Kingdom fared worse than with other major partner countries. If we consider Switzerland's twenty most important trading partners in 2015 (i.e., before the Brexit vote) and compute the difference in trade volume between 2022 and 2015, we observe that the United Kingdom is at the bottom of the list. While trade with the United States, Germany, China, Italy, Spain, or France increased by several billions,

[4]Eidgenössische Zollverwaltung (EZV). (2021, January). Die Kumulation in den Freihandelsabkommen. Retrieved from https://www.bazg.admin.ch/dam/ezv/de/dokumente/archiv/a5/ursprung/die_kumulation_indenfreihandelsabkommen.pdf.download.pdf/die_kumulation_indenfreihandelsabkommen.pdf

[5]Staatssekretariat STS-EDA. (2021, December). Beziehungen Schweiz - Vereinigtes Königreich (UK) nach dem Brexit. Retrieved from https://www.eda.admin.ch/content/dam/europa/de/documents/fs/FS-Brexit_de.pdf

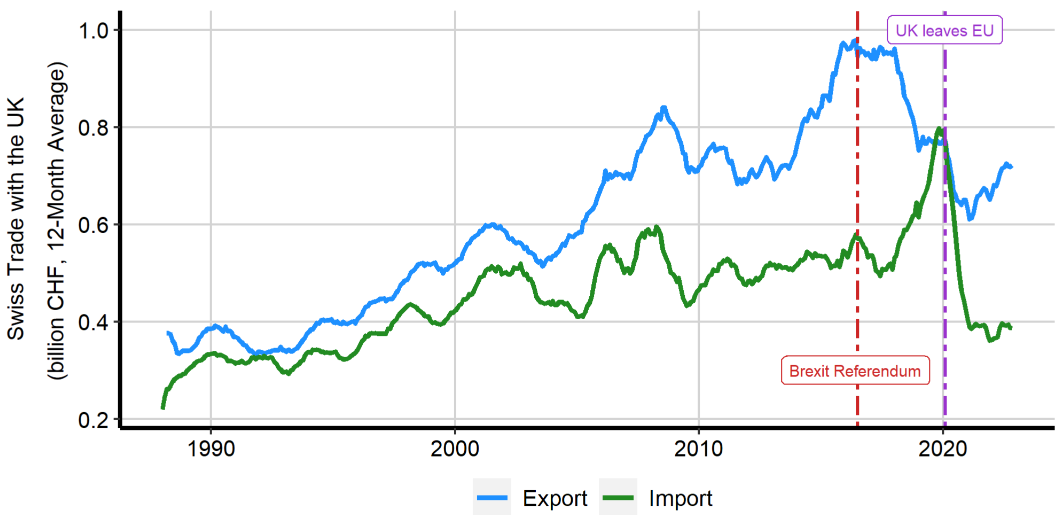
[6]Office for Budget Responsibility. (2022, November). Economic and fiscal outlook. Retrieved from https://obr.uk/docs/dlm_uploads/CCS0822661240-002_CCS001_SECURE_OBR_EFO_November_2022_BOOKMARK.pdf

the data indicate a 24 percent reduction for the UK — from 16.5 to 12.4 billion Swiss Francs.



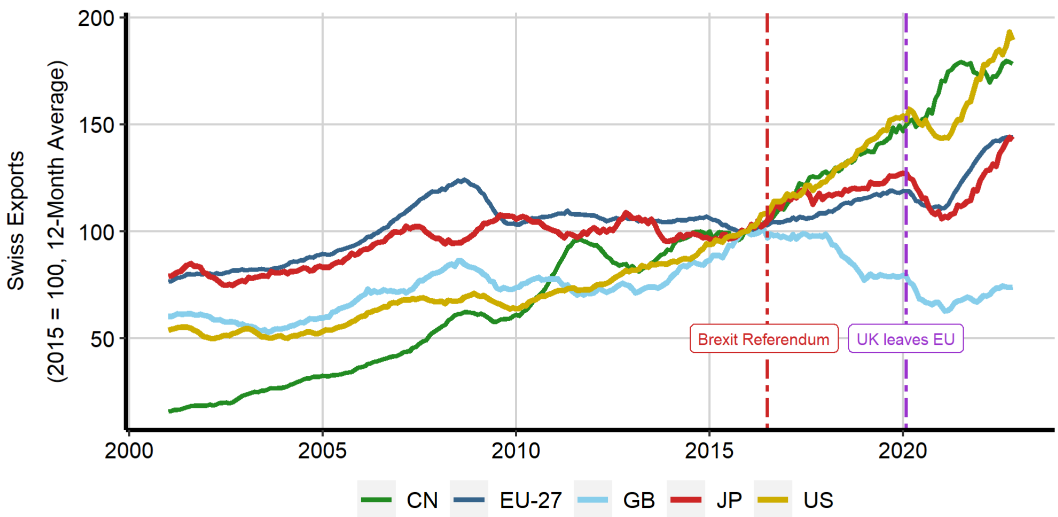
Note: The figure shows the difference between Switzerland's trade (= exports + imports) in the first eleven months of 2022 and 2015 for the twenty most important trading partners in 2015.

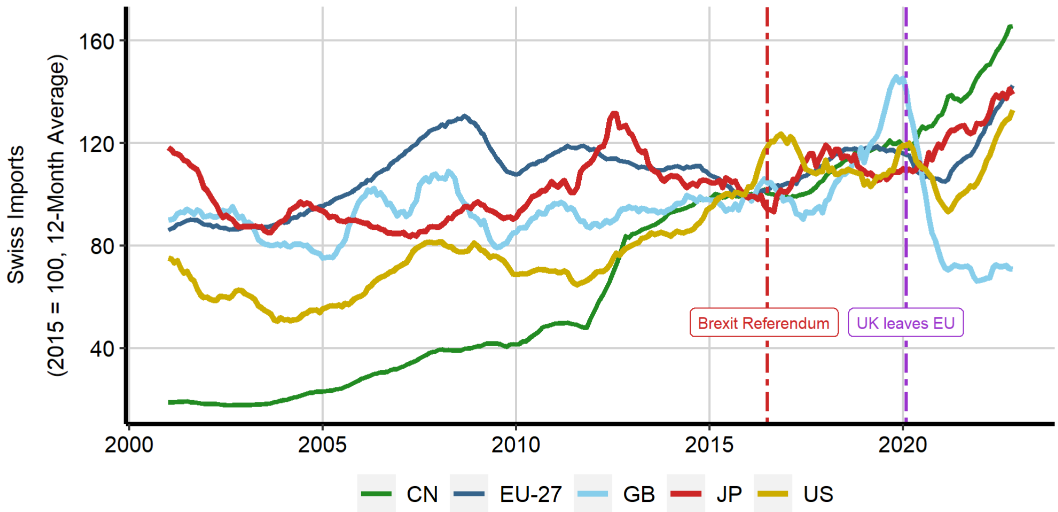
Switzerland's foreign trade with the United Kingdom decreased sharply in the past years. The following figure separates exports and imports. While exports started to fall shortly after the 2016 Brexit referendum, for Swiss imports the decline occurred when the UK left the European Union in early 2020 — which coincided with the beginning of the COVID-19 pandemic.



Note: The figure shows Switzerland's monthly exports to and imports from the United Kingdom since 1988.

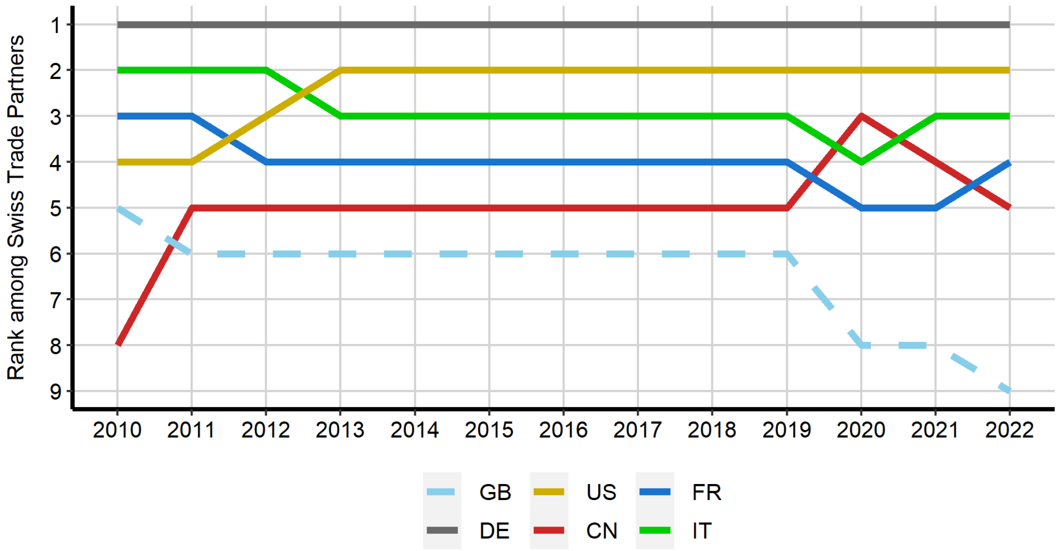
How does the Swiss-UK trade compare to Switzerland's trade with other major trading partners? The following figures show — for imports and exports separately — the falling Swiss trade with the UK contrasts with rising Swiss trade with other nations, such as China, the EU-27, Japan, or the United States. While there is a COVID-19-related decrease in the Swiss-EU, Swiss-Japan, or Swiss-US trade volume, there was also a strong recovery — which we do not observe for the Swiss-UK trade.





Note: The figure shows Switzerland's monthly exports to and imports for major countries since 2001.

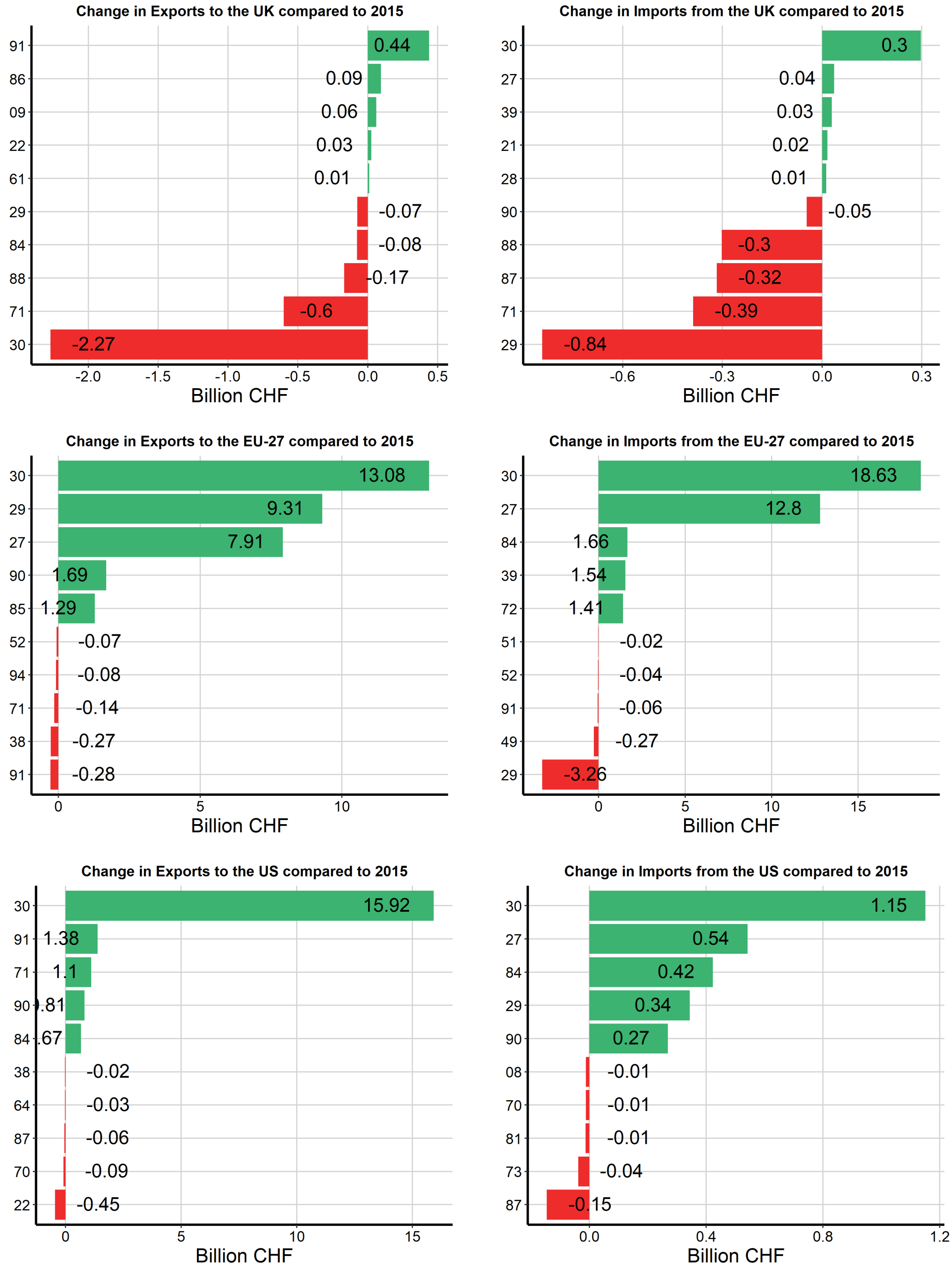
As a result of the poor trade performance, the United Kingdom fell in the ranking of Switzerland's most important trading partners, from 6th in 2019 to 9th in 2022. In the first eleven months of 2022, the largest trade volumes are observed with Germany, the United States, Italy, France, and China.



Note: The figure shows a ranking of Switzerland's main trade partners. For the year 2022 only the first eleven months are considered.

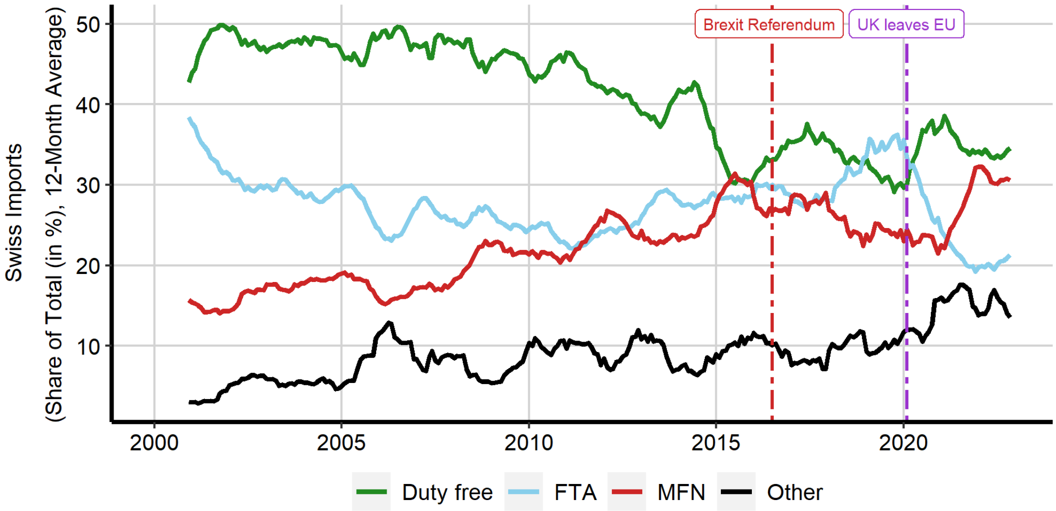
In 2022, the United Kingdom is ranked 9th with a trade volume of 11.2 billion CHF, trailing eight other nations: Germany (91), the United States (57), Italy (36), France (31), China (30), Spain (16.4), Slovenia (15.6), and Austria (also 15.6). Switzerland trades a similar amount with Japan (11.1) or the Netherlands (10.3) as with the UK.

Which products account the most for the decline in the Swiss-UK trade since 2015 (before the Brexit vote)? We documented changes since 2019 but if we expand the time window and compare Swiss trade with the UK, the EU-27, as well as the US, we obtain the following figure. There is a substantial decrease in Swiss exports of pharmaceutical products (HS 30) to the UK as well as imports of chemicals (HS 29) from the UK. In addition, unlike with the EU-27 or the US, there are barely any product groups for which Swiss trade with the UK increased in the past seven years.



Note: The figure illustrates the change in exports and imports between the first eleven months of 2015 and 2022 for the United Kingdom, the EU-27, and the United States. For each partner-year, the top-5 and bottom-5 HS Chapter are shown.

The final question we seek to shed light on is whether the bilateral free trade agreement (FTA) between Switzerland and the United Kingdom — in force since January 2021 — is used to the same extent as the Swiss-EU FTA which it replaced. As the following figure shows, the share of Swiss imports from the UK which benefit from an FTA tariff reduction is only about 20% of the total import value for the most recent data. This is a much lower share than what we observed before the UK left the European Union.



Note: The figure shows shares of Switzerland's imports by customs treatment (free trade agreement, most-favored nation, duty free, other).

Appendix: HS Sections — Descriptions

1	Live Animals
2	Meat
3	Fish
4	Dairy Products
5	Products of Animal Origin
6	Live Trees and Plants
7	Edible Vegetables
8	Edible Fruit and Nuts
9	Coffee, Tea, Spices
10	Cereals
11	Products of the Milling Industry
12	Oil Seeds
13	Lac, Gums, Resins
14	Vegetable Plaiting Materials
15	Animal and Vegetable Fats and Oils
16	Preparations of Meat or Fish
17	Sugars and Confectionery
18	Cocoa
19	Preparations of Cereals, Flour
20	Preparations of Vegetables
21	Misc. Edible Preparations
22	Beverages
23	Residues and Waste of Food Industries
24	Tobacco
25	Salt, Sulfur, Earths, and Stone
26	Ores, Slag, and Ash
27	Mineral Fuels and Oils
28	Inorganic Chemicals
29	Organic Chemicals
30	Pharmaceutical Products
31	Fertilizers
32	Tanning or Dyeing Extracts
33	Essential Oils
34	Soap
35	Albuminoidal Substances
36	Explosives
37	Photographic or Cinematographic Goods
38	Misc. Chemical Products
39	Plastics and Articles Thereof
40	Rubber and Articles Thereof
41	Raw Hides and Skins
42	Articles of Leather
43	Furskins and Artificial Fur
44	Wood and Articles of Wood
45	Cork and Articles of Cork
46	Manufactures of Straw
47	Pulp of Wood
48	Paper and Paperboard
49	Printed Books, Newspapers
50	Silk
51	Wool
52	Cotton
53	Other Textile Fibers
54	Man-made Filan-Made Textile Materials
55	Man Mad Staple Fibers
56	Wadding
57	Carpets
58	Special Woven Fabrics
59	Impregnated, Coated or Laminated Textile Fabrics
60	Knitted or Crocheted Fabrics
61	Articles of Apparel (knitted)
62	Articles of Apparel (not knitted)
63	Other Textiles
64	Footwear
65	Headgear
66	Umbrellas, Walking Sticks
67	Prepared Feathers
68	Articles of Stone, Plaster, Cement
69	Ceramic Products
70	Glass and Glassware
71	Natural or Cultured Pearls, Precious Metals
72	Iron and Steel
73	Articles of Iron or Steel
74	Copper or Articles Thereof
75	Nickel or Articles Thereof
76	Aluminum or Articles Thereof
78	Lead or Articles Thereof
79	Zinc or Articles Thereof
80	Tin or Articles Thereof
81	Other Base Metals
82	Tools, Cutlery
83	Misc. Articles of Base Metal
84	Nuclear Reactors, Boilers
85	Electrical Machinery
86	Railway or Tramway Locomotives
87	Vehicles
88	Aircraft, Spacecraft
89	Ships, Boats
90	Optical, Photographic, Precision Instruments
91	Clocks and Watches
92	Musical Instruments
93	Arms and Ammunition
94	Furniture
95	Toys
96	Misc. Manufactured Articles
97	Works of Art