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IRL./CH 65/4

IRISH / SWISS ECONOMIC CONSULTATIONS  
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Berne, 3/4 October, 1983

1. The agenda, programme, and delegation lists are attached.

Opening Comments

2. Ambassador Sommaruga, head of the Swiss delegation, recalled that it was now one and a half years since the first Irish Swiss bilateral talks were held in Dublin in January, 1982. He noted the importance for Switzerland of bilateral contacts with all members of the Community which is of great economic significance for his country. Talks with the Commission tended to be rather cumbersome. Deputy Secretary Gaynor thanked Sommaruga for his welcome and added that contacts were useful also for consideration of EFTA (this point was returned to frequently by Sommaruga). Both sides expressed satisfaction with the fullness of the agenda.

Agenda Item I - Economic Situation in the Two Countries

3. Deputy Secretary Gaynor drew attention to the importance of trade for Ireland and the extent of inter-dependence in the modern world. Ireland was determined to correct its economy. With regard to foreign borrowing it is not <sup>so much</sup> the extent of one's borrowing which matters but one's capacity to re-pay. Ireland was very capable in this regard and had taken some very strong measures. It is intended to eliminate the budget deficit by 1987. All such measures entail sacrifices, not least a high level of unemployment. We recognise, however, that domestic measures are not enough for recovery and that an improvement in the international economy is required. It is hoped to improve domestic growth

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through pay restraint and by attracting new investment. Assistant Secretary O'Reilly intervened with statistics to illustrate the extent of our success in attracting foreign investment in the 1970's. He pointed out that a new white paper, on industrial policy, prepared following the Telesis report, is awaited.

4. Deputy Secretary Gaynor went on to say that there were good reasons for being pessimistic about growth, even following recovery. He quoted one authority to the effect that 2 % growth p.a. to the end of the century would be very good indeed.

5. Ambassador Sommaruga said he was very struck by the openness of the Irish economy. Switzerland too is enormously dependent on world trade in goods and services. The serious international situation has also been affecting Switzerland.

6. As to the world situation a number of problems had to be solved. First, structural adjustments in INMEC economies had not been pursued as was necessary. This was related to un-employment. Second, there was a high level of public account deficits in many countries. This had an effect on interest rates and also limited governments' margin of manoeuvre in stimulating their economies. Third, un-stable exchange rates were a dis-incentive to investors. Fourth, there was the over-all problem of external debt in some countries, especially in Latin America and Eastern Europe.

7. The key to improvement still lay with the United States. Switzerland was extremely cautious with regard to the signs of recovery there. This growth was accompanied by insecure policies on the monetary front, an enormous deficit, and high interest rates. There will quickly be difficulties in the US, and also here, because productive investment money will flow to the States. A second reason for caution is that this growth has brought very little to economies outside the US. Indeed, the US trade balance has deteriorated and has led the Americans to take counter-productive measures, such as trade restrictions and action on exchange rates.



8. In looking to the international situation the only area of progress has been with regard to inflation. Even in the OECD, however, it has not been brought definitely under control and the current tendency of banks to enlarge the money supply is dangerous.

9. As for Switzerland's performance it must be said that seen from abroad it was an island of stability. Though it had not been doing too badly, it had none the less not escaped un-scathed. While inflation was now down to 1.7 % it had been 7 % a year ago. By Swiss standards un-employment of 0.8 % was very high, especially in some of the regions. Last year g.n.p. dropped 1.5 % and this year a drop of 0.5 % is expected. The problems were mainly from the external sector as there was no demand to sustain economic activity. The fall in exports was continuing. The trade balance deficit of SFr. 5 billions for the first seven months was double the corresponding figure for last year. While Switzerland was holding its place vis-à-vis the OECD, its share of exports was declining in OPEC and non-oil developing countries. These account for 22 % of exports. There was also a decline in exports to Eastern Europe.

10. Structural problems also existed, especially in the watch-making areas and in the machine industry.

11. There were, nevertheless, some signs of recovery, especially in domestic demand, though this might be a consequence of the drop in inflation which has improved real earnings.

12. In domestic economic policy the first priority is stability in monetary policy. The target of 3 % growth in supply this year has practically been achieved. Stability in public accounts is also important while the third priority is to contain the growth in numbers of the foreign population, presently standing at 14.5 % of the total.

13. The aim of stability does not mean, however, that the government has not achieved some policy room. In this connection there is the current programme to strengthen the economy. This aims to increase domestic demand by bringing forward cultural projects, public works; by mixed credits to developing countries, and by greater trade promotion

through the engagement of local market experts by Embassies abroad. The second part of the programme consists of aids to supply. This includes (i) efforts to diversify investment and (ii) a proposal to allow state insurance for innovation risks for small and medium sized enterprises. This will guarantee the product up to the point when it is ready for production. The whole <sup>PROGRAMME</sup> will increase the deficit by the equivalent of slightly less than 1 % of g.n.p. this year and next.

14. Sommaruga concluded by saying that Switzerland's two <sup>IN INTERNATIONAL POLICY</sup> priorities were the fight against protectionism and the desire to contribute to a solution of the indebtedness of developing countries.

15. At dinner, hosted by Ambassador Power, Deputy Secretary Gaynor raised with the Swiss side the potential dangers for Irish whiskey exports to Switzerland if health regulations regarding the nitro-samine content are made more restrictive. He mentioned that the problem of Bailey's seemed to have been solved for the moment, even if not fully to our satisfaction. He referred in passing to concern amongst our Community partners at the new Swiss regulations on motor car exhausts. (Mr. Briggs of CTT Zürich was present).

#### Agenda Item 2 - Bilateral Economic Relations

16. Deputy Secretary Gaynor emphasised the significance of investment from Switzerland and the desire on the Irish side to extend it. Favorable factors were the free repatriation of profits, 10 % corporation tax, an intelligent and skilled work-force. The IDA also had negotiating freedom. Ireland was particularly interested in joint ventures with Swiss firms overseas. The growth in Ireland's trade was a very positive feature of the country's development. The Middle-East and Eastern European markets were developing especially rapidly and <sup>plus</sup> had led to the establishment of a number of joint commissions. In the case of the Middle East, and of Libya particularly, we were being subjected to pressure to enter into barter agreements for oil.



17. Ambassador Sommaruga said Switzerland's experiences with these countries and with joint commissions had not been the best. While joint commissions could help open doors results must, nevertheless, be achieved by private enterprise. Switzerland had never faced a problem with countries attempting to establish a trade linkage with oil. There are no state bodies for oil purchasing in Switzerland. The 'Swissgaz' company is responsible for purchasing gas and it has concluded a number of international agreements. In the case of natural gas from the Soviet Union, however, this is done indirectly through an agreement with 'Ruhrgas'.

18. With regard to bilateral trade Sommaruga indicated that Ireland occupied a very minor position for Switzerland. Of imports of SFr. 58 Bn. last year Ireland accounted for only SFr. 200 M. The trade balance, according to Swiss statistics, has traditionally tended to be in Ireland's favour. Deputy Secretary Gaynor pointed out that our statistics indicated the opposite. This was possibly due to the exclusion from Ireland's statistics of SFADCO companies including the De Beers plant which sells ca. SFr. 50 M. worth of diamonds p.a. to Switzerland.

19. Ambassador Sommaruga went on to say that over-all, trade has been increasing steadily in recent years, including this year, and this is true also if one leaves out items such as diamonds. This increase has been greater than that in either the general terms of Swiss trade or of inflation. The question is how to foster trade? This is largely in the hands of trade promotion and of private enterprise. The Swiss market, however, is a very difficult one for importers as it is extremely open and almost 85 % of industrial imports are duty-free. Price, quality and marketing are extremely important. In agriculture Switzerland is self sufficient only to the extent of 55 % of its needs. For social and neutrality reasons there is considerable support for this sector though, he emphasised, everything done in this regard is consistent with Switzerland's GATT protocol. (Ambassador Sommaruga said DG6 could show a greater awareness of the problems of others in this respect).

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With regard to trade promotion, while Zürich is a very good head-quarters other parts of Switzerland must also be cultivated actively.

20. Swiss trade fairs are very useful, especially the 'Comptoir suisse' at Lausanne and the 'Basler Mustermesse'. One million people, including many foreigners, attend each of these fairs annually. Finland is an example of a small country which has done extremely well on the Swiss market, partly as a result of a policy which includes representation at trade fairs.

21. As for investment Switzerland is, per capita, the world's number one in this field and, in absolute terms, number four. Why then is it so far behind in Ireland? Investment promotion is largely a matter of very transparent and solid information. In this connection many of Ireland's EC partners were very active, such as UK, the Netherlands, FRG, Greece, France and Denmark. The British, for instance, hold very well-organised meetings for potential investors each year in which a Minister gives an address and various seminars with specialists take place. Sommaruga emphasized that Switzerland's free trade agreement with the Community did not have an adverse effect on Swiss investment in member-states.

22. As to the Irish wish for joint services, Sommaruga said only private firms could be involved and for this reason he provided brochures containing lists of Swiss companies in various fields.

Agenda Item 3 - European Free Trade System

23. Ambassador Sommaruga opened by pointing to the importance of the Community for Switzerland not just in economic terms, but also historically, and in cultural and social terms. Given the extensiveness of contacts, and the closeness of the relationship as embodied in the 1972 free trade agreement he felt Switzerland, and EFTA in general, should not be treated as ordinary third countries. EFTA had a very close relationship and this should be reflected in a number of topical issues.



24. A speech given by his Minister, Mr. Furgler, in the course of his recent official visit to the Commission (on 22 September, 1983 - copy attached) set out Swiss views in this regard. Even though Switzerland cannot join the Community because of neutrality, direct democracy, Cantonal competences, agricultural policy, rules regarding its foreign population etc. cooperation should nevertheless be close and pragmatic. It should also not be forgotten that EFTA has always paid in full for the advantages it has gained through its free trade agreements with the Community.

25. In his speech Federal Councillor Furgler touched some very concrete problems and attempted to look into the future. He expressed a desire to deepen non-trade cooperation in the areas of :

- (i) the liberalisation of services : e.g. on the lines of EURONET, transport, the free establishment of non-life-insurance companies, etc.;
- (ii) scientific and technical research : Switzerland has had good experiences with the Community in this field in the past. It suggests a general agreement on scientific research with a joint commission to look regularly at its programme and find projects to be shared. The motivation is that though Europe has lost its lead in many areas it can still be powerful in others, such as chemicals and pharmaceuticals.

26. Switzerland does not see why the strengthening of cooperation within the Community should result in EFTA suffering. This is what has happened in a number of areas, in particular :

- (i) the information system on standards decided at the Stuttgart Council. Why can EFTA not cooperate and pay its share in this ?
- (ii) third country certification : if safeguards are to be provided for member-states then why not agreements to provide for reciprocal negotiation of tests and certificates?
- (iii) frontier formalities : why not simplify procedures also across the border with EFTA states ?
- (iv) the Community's directive for outward processing of textiles : is of great importance for Switzerland and is a considerable trade

barrier as it does not take account of the traditional trade flow in this area. Switzerland cannot accept the Community's arguments on the relation of this to the multi-fibre agreement. The provisions for a 14 % upper limit are not too problematic, but the clause concerning production in the Community is a major problem.

27. Another point mentioned by Minister Furgler is a suggestion for the introduction of an arbitration agreement.

28. Deputy Secretary Gaynor asked, for the sake of argument, if Switzerland wanted these measures why it did not simply join the Community. Sommaruga replied that Switzerland was asking for nothing more than transparency in relations and a recognition of mutual interests.

29. Assistant Secretary O'Reilly said the Article 113 Committee was very conscious that something should be done about EFTA but unfortunately the US and Japan were presently taking almost all its time. Mr. Fielding will be visiting EFTA capitals shortly, including Berne in November. The question of arbitration could lead to great difficulties in practice. Rather than introducing another mechanism it might be better to make adjustments at the joint committee stage. Mr. O'Reilly asked to what extent does Switzerland speak for its EFTA partners in these matters. Sommaruga replied that because the free trade agreements were almost identical there is co-ordination within EFTA which he described as "standing voluntary and selective coordination". Not all member states' interests are identical, however. On the matters on which he had spoken he said the initiative was Switzerland's but others would follow.

30. At lunch, hosted by Ambassador Sommaruga, the Irish view of enlargement and the current negotiations were given by Deputy Secretary Gaynor. Sommaruga went on to propose that as Ireland will have the Presidency of the Community, and Switzerland that of EFTA, both in the second half of next year, this would be an ideal time for a joint EFTA/Community Ministerial meeting.

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Agenda Item 4 - International Economic Relations

-GATT

31. Ambassador Sommaruga said little had been achieved since Williamsburg and there is still a very unclear situation. "Roll-back" is essential for recovery. A major issue is for governments and international bodies to recognise the links that exist between trade and financial issues. The inter-linkage between GATT and the IMF seems to be formal rather than effective at present.

32. Deputy Secretary Gaynor re-emphasised that Ireland saw the present signs of recovery as extremely fragile. A better balance between US fiscal and monetary policies might help as would progress in reducing the US budget deficit. Our government has urged that the great economies of the US, UK, FRG, and Japan are the ones which should implement action towards global recovery. Ambassador Sommaruga agreed with this analysis except for the last point. The 'locomotive' theory of the role of the great powers is out-dated and could create great difficulties for everybody later. In Germany for example, present difficulties are probably a result of the relaxation of money supply some years ago. If the Germans reflatd now inflation could again get out of control.

33. Mr. Lempen (deputy head of the GATT service in Sommaruga's ministry, who had joined the talks for this item) said that <sup>the</sup> last Ministerial meeting must be understood in the light of the fact that GATT, unlike other international bodies, is basically a multi-lateral contract. There is not, therefore, a great need for Ministerial meetings. The rules are agreed and it should be enough to abide by them.

North-South

34. Ambassador Sommaruga <sup>said</sup> 'UNCTAD 6' was a qualified success in that dialogue was maintained. The recognition by developing countries that liberalisation is a necessary precondition for recovery was positive. There was not, however, progress with regard to a common analysis of the present situation. Deputy Secretary Gaynor

agreed that the maintaining of dialogue was positive but saw the event as a disappointing one in terms of the North-South process over-all. The question now is how to keep the process going without the United States. The Community is in support of launching global negotiations but not, however, in convening any international conference on finance and money. // Ambassador Sommaruga : Switzerland is very preoccupied with the OECD consensus for export credit arrangements and feels the Community and EFTA could work together to abolish such measures as they create a real distortion of trade.

#### East-West

35. Ambassador Sommaruga said attempts by the Eastern economies to introduce cooperation agreements, barter, counter-trade, etc. had seriously hampered Switzerland's trade with them. His ministry had considered ways of "state means" to help medium and small-sized enterprises in this situation. They had decided against, however, both on principle and as it would lead to greater difficulties with these countries later. There had been very successful cooperation with the Commission in this regard.

36. As for Poland's re-scheduling problem, Switzerland had had to face an extremely unpleasant situation as a result of NATO pressure to accept political conditions in what was a technical financial area. Switzerland had finally been forced to threaten a break in solidarity with the Paris Club.

#### CONCLUSION

##### Next Meeting

37. Both sides expressed satisfaction at the progress of the talks. Sommaruga said he tried to visit Community capitals just before or at the beginning of their Presidencies. August, 1984 would be an ideal occasion for the next round of Irish-Swiss consultations, or they could be combined with the EFTA/Community Ministerial meeting he had proposed for the second half of next year. The Irish side expressed some reservations, with regard to timing, given the work-load facing the Community at the moment. It was agreed to defer consideration of timing until the situation clarified itself somewhat.

*Saman Hickey, 6 October, 1983*

*cc. Deputy Secretary General, H.Q.*