
# Financing EU New Member States from Swiss development aid

### Briefing paper no. 28

## Switzerland's contribution to EU economic and social cohesion

In May 2004, the EU and Switzerland agreed a second package of bilateral treaties covering the EU-Swiss relations. Under *Bilaterals II*, as the package is called, Switzerland became a member of the Schengen and Dublin treaties, got the market access to the ten new EU member states on the same terms as for the existing 15, and was allowed to maintain its banking secrecy.

In return Switzerland agreed to a contribution of SFr 1 billion towards the EU's economic and social cohesion efforts destined for the new member States. The Swiss government has given responsibility for providing these funds to the Ministries of Foreign Affairs and of the Economy, the two Ministries responsible for the negotiations with the EU. These Ministries are also responsible for Swiss development co-operation, and it is from this budget that Switzerland's pledges to the EU will be financed.

Nominally, the SF 1 billion will be spent over 5 years. In reality, the government expects payments over 8 years, starting in 2007. This would mean that on average SFr 125 millions will be channelled to the 10 EU Member States each year from Switzerland's aid budget. In 2004 the total aid budget was SFr1,92 billion (0,41% GNP).

In July 2005, Switzerland finalized a memorandum of understanding with the EU on its contribution to promoting Union's cohesion. From October 2005 to April 2006, Switzerland will negotiate bilateral agreements with each of the 10 new member states. The total amount each country can expect from Switzerland is already fixed as Switzerland is following the financial key of the EU. This means that Poland will receive roughly half of the total sum (SFr 490m) for jointly agreed programs, followed by Hungary (SFr 131 m), the Czech Republic (SFr 110 m), Lithuania (SFr 71 m), Slovakia (SFr67 m), Latvia (SFr60 m), Estonia (SFr40 m), Slovenia (SFr22 m), Cyprus (SFr6 m), and Malta (SFr3 m).

## Using development aid to support Swiss economic interests

In agreeing these latest treaties with the EU, Switzerland is defending its economic and political interests in Europe[1]. The contribution to the EU's cohesion is the price that Switzerland has agreed to pay. It is calculated that the economic

[1] An important part of the *Bilaterals II* is the agreement defending banking secrecy. Switzerland was granted the right to continue enticing and protecting tax evasion of citizens of EU member states by levying a withholding tax on some of these accounts and sending it to the home countries of the tax evaders. But their anonymity remains intact. Concerning tax evasion, there will be no co-operation of the Swiss fiscal authorities with their counterparts in the EU states. Austria, Luxembourg and other EU members with the same protective attitude to foreigners' tax evasion relied on Switzerland and were finally granted the same right.

returns to Switzerland will be significantly greater than the financial cost.[2] Yet the Federal government wants to make its contribution to the EU at the expense of its aid to poor countries – despite being a signatory to the Millennium Declaration and its objectives.

### Swiss campaigning against the decision

Opposition has been building in Switzerland against this decision since it was made more than one year ago. Over 300 eminent Swiss citizens have called on the Swiss Federal government to fund its contribution to the EU's cohesion from the returns of the Bilaterals II, and not Switzerland's aid budget. Swiss NGOs point out that while the EU and its Member States have clear timetables for reaching the UN's long standing aid target of 0.7% of GNP in order to provide more finance for achieving the Millennium Development Goals, the Swiss Federal government has agreed to cut its development support to fund the EU!

Regrettably the issue has dominated the nation's MDG focus during the crucial 2005 development debates. The debate still goes on as the Federal government's decisions are subject to parliamentary approval, for both the spending allocation of SFr 1 billion, and to provide the legal base necessary for a contribution to the EU's cohesion. It is even possible under the Swiss system that 50,000 signatures will be collected to force a referendum being held on this new law. All these steps are pending. The parliamentary process began in October of this year and will probably be finalized in October 2006, with a potential referendum included.

### Supporting the Swiss campaign

It is inconceivable that the Swiss Federal Government's decision should be acceptable to the European Union. After a year with so much emphasis given by the EU to its contribution to international development it is appropriate for a clear signal to be sent to the Federal government that it is unacceptable for the Swiss contribution to the Union's latest members to be made at the expense of its commitment to eradicating global poverty and achieving the MDGs. We therefore call

1. for the European Commission and government's of EU Member State, particularly of the ten New Member States, to raise this issue with the Swiss Federal Government;
2. for the European Parliament and EU Member State national Parliaments to voice their opposition to the use of development aid in financing EU cohesion objectives.
3. for NGOs and civil society organisations to promote debate on this issue.

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[2] (1) By joining the Dublin agreement, the Swiss authorities reckon to save expenditures for asylum seekers in the amount of SFr 80 to 100 million Swiss francs per year. (2) The agreement on the withholding tax stipulates that the Swiss state has the right to keep 25 % of the tax for itself. The cantonal fiscal authorities think that minimally SFr 100 m will remain in Switzerland. The federal authorities speak of 22 m in the first year, rising to 56 m in the next decade (3) The government is finally claiming the better market access to the new EU member states would augment the GNP by 0,4 to 0,6 %. Calculating for 0,4 % only, that would make SFr 1,7 billion Swiss francs more GNP every year. At the current rate of taxes, the federal state could expect SFr 130 m more revenues each year. All three points taken together show that the Swiss state, with the Bilaterals II, will generate more revenues (and savings) than its contribution to the cohesion will cost.