

Spotlight on Borders

Insights from the German-Swiss border

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Key points:

- ❑ Different *currencies* do not form a significant barrier to the mobility of people or trade, but the Swiss National Bank intervened when the Euro crisis posed a threat to Swiss exports.
- ❑ A stronger economy on one side of the border encourages increases on frontier workers, while lower consumer prices can attract cross-border shoppers.
- ❑ *Local councils* and *transportation networks* cooperate along the border to facilitate cross-border mobility and ensure the functioning of public transport and freight traffic.
- ❑ *EU-Relations*: Switzerland holds strong ties with EU institutions based on *bilateral agreements*. In exchange, the Swiss government had to allow for the free movement of persons and extend the same level of public services to citizens of EU member-states.

The border between Germany and Switzerland separates an EU member-state from a non-member-state with different currencies. As Switzerland is associated member to the Schengen area, passport controls have been abolished at the border. However, custom controls remain in place as Switzerland is not part of the custom union and duties apply whenever exemption limits are exceeded. The case of the German-Swiss border sheds light on how differences in EU membership, currency, taxes or salaries impact on cross-border movements, trade and cooperation.

SWISS-EU-RELATIONS

Switzerland has a special relationship with the EU based on bilateral agreements. After the Swiss population rejected joining the EEA (European Economic Area) in a national referendum in 1992, the Swiss government signed a **package of bilateral treaties with the EU**, e.g. on the free movement of persons, on trade of agricultural products, air transport, or scientific cooperation.

The 1999 **bilateral Agreement on the free movement of persons** between the European Community and its Member States on the one hand, and the Swiss Confederation on the other, provides for the right of entry, residence, access to work as an employed person, establishment on a self-employed basis and the right to stay in the territory of the contracting parties. Its objective is to accord the same living, employment and working conditions to nationals of member states as those accorded to Swiss nationals.

Schengen Area

- All members of the EU are part of the Schengen Agreement, except the UK and Ireland.
- Norway, Iceland and Switzerland are associated members to the Schengen area.

Participation in Schengen includes:

- Abolition of internal border controls
- Harmonisation of visa policies
- Closer cooperation between the police and the judiciary across member countries

In a **referendum in February 2014**, the Swiss Popular Party (SVP) proposed new quotas to curb the perceived threat of ‘mass immigration’. The proposal secured 50.3% of the vote, with quotas expected within 3 years. This would limit free movement of EU citizens to Switzerland and puts other EU-Swiss bilateral agreements in jeopardy. The EU has reacted by suspending Swiss participation in the Erasmus+ exchange programme, European Research Council funding and downgrading its status within Horizon 2020 from associated country to third country.

PEOPLE: FRONTIER WORKERS, WEEKEND SHOPPERS

Higher salaries and a low unemployment rate attract German citizens to take up work in Switzerland. The wholesale and retail trade sector, health care services, engineering offices or the catering and food service industry are main sectors of employment for frontier workers.

- In the first quarter of 2014, over 57,000 Germans were frontier workers in Switzerland.
- Total numbers have increased by 20% in the last five years.
- The bordering cantons (i.e. Basel-City/-Land, Aargau, Zurich, Schaffhausen and Thurgau) receive over 80% of the German frontier workers.

Frontier workers reside in one country but work in another neighbouring country.

Language and differences in **work culture** can act as a barrier. Although Swiss German is not a written language, it is more than just a dialect and Germans have to make an effort to understand it.

Earnings are higher in Switzerland, but there are fewer holidays and higher weekly working hours than in Germany.

It is not only workers who cross borders. Swiss residents often choose to *shop* in Germany, where differences in VAT and exchange rates make it comparatively cheaper. Due to long queues at the points of entry, the Swiss Federal Customs Administration has simplified the regulations for importing goods.

- **Reclaiming VAT:** Goods worth up to 300 Swiss Francs can be imported freely and the 19% German VAT is reclaimed after having imported the goods to Switzerland. Goods above that value have to be declared fully and the Swiss VAT is also charged.
- **Quantity restrictions** exist for the import of alcohol, cigarettes/tobacco, or meat products. From July 2014 onwards, 5 litres of alcohol up to 18% Vol., 1 litre above 18% Vol., 250g of tobacco/200 cigarettes and 1kg of meat products can be imported per person per day at no charge. Custom duties have to be paid for quantities above the limits.

TRADE ACROSS THE BORDER

Germany and Switzerland are important trading partners: Germany is the top destination for Swiss exports (in 2012: 37.7 Bill €) and the first country of origin of imported goods (in 2012: 48.8 Bill €). In comparison, Switzerland is the 8th biggest destination for German exports and 9th of countries of origin for imported goods to Germany.

- Switzerland is an important market for the German automobile and mechanical engineering industry. Switzerland exports pharmaceuticals, electronics, precision instruments & watches.
- The trade of **agricultural products** is regulated by a bilateral agreement between the EU and Switzerland. Both sides provide concessions in the form of lifting or reducing custom duties or limits for trade quotas per year with a transitory period of five years for the trade with cheese.

- ❑ The **Euro crisis** and strength of the Swiss Franken disadvantaged Swiss exporting industries by increasing the prices of their products. In response, the Swiss National Bank introduced 1.20 Swiss Francs as a bottom line for the **exchange rate** with the Euro in September 2011 in order to reduce fears of deflation.

CROSS-BORDER COOPERATION: TRANSPORTATION AND INTERGOVERNMENTAL RELATIONS

Cross-border cooperation is commonplace. Local councils cooperate in transport, culture and education. Numerous public-private partnerships provide a dense local bus networks system along the border. Nationally, governments cooperate regarding cross-border mobility and taxation.

Cross-border cooperation in the city region of Basel

The city of Basel is a cross-border hub. Every day, 58,600 people cross the border from Germany to Switzerland, and another 34,300 enter from France.

Supported by the EU *Interreg IV* programme, the **Trinational Eurodistrict of Basel (TED)** was set up to coordinate the infrastructure in the triangle, spanning districts in 3 different countries.

Coordination includes infrastructure planning, e.g. extension of local trams, or Park & Ride, or the construction of a new tunnel for car and truck traffic.

The **Double Taxation Agreement** between Germany and Switzerland provides for taxation in the country of residence. Frontier workers therefore remain taxpayers in Germany.

To avoid lower tax rates in Switzerland being used as a loophole, German citizens can be taxed in Germany for income and assets on top of Swiss taxation for a period of five years after moving to Switzerland.

As income taxes are collected at the federal and cantonal level in Switzerland, bordering cantons benefit directly from Germans taking up residency across the border.

On the **local level**, cities in close proximity to the border have established closer relationships. For example, the cities of **Konstanz & Kreuzlingen** form a **cross-border agglomeration** of ca. 100,000 inhabitants (80,000 in Konstanz, 19,000 in Kreuzlingen). Around 20% of the residents in Kreuzlingen have a German passport with numbers increasing after the introduction of free movement of persons. The mayors of both cities meet regularly to coordinate local transport planning, as well as culture and education. Some disagreements have emerged over the possibility to introduce school fees for families living in Kreuzlingen who send their children to schools in Germany.

CONCLUSION

- ❑ The border between Switzerland and Germany separates two countries with different currencies and membership status to the EU. Bilateral agreements between the EU and Switzerland soften the effect of non-membership and ensure participation in the common market.
- ❑ The border does not appear to be a barrier to the mobility of goods and persons, but its implications nevertheless differ on both sides. Switzerland offers higher salaries and a low unemployment rate of 3.5%, while Germany provides the supply of labour.
- ❑ Shops and retailers in German border cities offer products marketed at Swiss consumers. More Swiss people from central or southern cantons crossed the border in 2011 when the Euro was particularly weak and prices for imported goods increased in Switzerland.
- ❑ Coordination between governments, local councils and transport networks reduce the impact of the border on commuters and businesses.