



# **Confederation policies on trade promotion structures**

An evaluation of services provided, costs and coordination between the key players

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#### **Key facts**

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Renewing the financing of trade promotion structures for the period from 2004 to 2007 caused intense debate in Parliament. Finally it was decided to impose an expenditure ceiling of CHF 34 million solely for 2004 and 2005, and to wait for the results of the evaluation in order to take a decision on further financing. Replies are expected concerning seven aspects of trade promotion structures. The Federal Council entrusted the mandate to the Swiss Federal Audit Office (SFAO). Parallel to this, the State Secretariat for Economic Affairs (seco) examined different variations relating to the future of the Swiss Office for Trade Promotion (OSEC) and explored different improvement measures.

The general cost of trade promotion structures borne by the Confederation (including the key players) is estimated by the SFAO to be somewhere in the region of CHF 47 million per annum. This sum is shared between the Federal Department of Foreign Affairs (50%), seco (5%), OSEC (35%) and the Swiss Organisation for Facilitating Investments (10%) which is an organisation entrusted with a mandate from seco to assist companies in investing in developing and transition countries. As for the chambers of commerce, they receive less than 1% of the total sum.

#### **Positive results...**

The SFAO is of the opinion that the Export Promotion Act which entered into force in 2001 has a positive effect in that it contributes to improvements in the professionalism of the services provided to companies. The key players in the trade promotion structures show good will and seek to fulfil their mission as well as possible in the interests of the Confederation. A proportion of the funds available was concentrated on 13 priority countries. The services available have been standardised and the controlling which was established provides an overview of the services provided and how much they cost. The surveys carried out in 2001 and 2002 show positive results concerning company satisfaction with OSEC, but somewhat less positive relating to the Swiss agencies abroad.

#### **... but there is still considerable room for improvement**

**Coordination** remains the main weakness of the current system. It is all the more difficult to achieve due to the fact that a large number of key players are involved and the decision-making process involves three parties (seco, the Federal Department of Foreign Affairs and OSEC), whereas in accordance with the law, coordination should be a matter for the trade promotion organisation. OSEC has not sought to systematically gather information likely to be of interest to small and medium-sized enterprises both in terms of support instruments provided by the Confederation, as well as services provided by private organisations in Switzerland and abroad. Since 1997 several unpublished reports have highlighted the coordination problems between the different seco services which are extremely compartmentalised but there was no follow-up on these findings. A certain element of rivalry is characteristic of the relationship between OSEC and SOFI (Swiss Organisation for Facilitating Investments). Yet their job of providing support to companies has numerous points in

common, as well as a proportion of their priority countries (China, Russia and India). The dispersal of funds between the key players radically complicates the lines of command and priority setting, as well as the transparency of the services provided to companies.

The spirit of the law has not been transformed into reality as regards seeking **complementarity** to the services offered by the chambers of commerce, the sectoral organisations and private companies. However, this is a core element of the mechanisms available because it must allow the party seeking advice to be directed towards the organisation which is best able to provide information. A climate of mistrust has prevailed. Key players who regard OSEC as an organisation wanting to impose its opinion on its partners are numerous. Several were left feeling like inferior partners who had to "tout" for customers for an organisation in Zurich without being fully acquainted with the needs of the companies. seco did not try to impose clear limits on OSEC, instead opting for a strategy of aiming to provide a broad range of services for all sectors and geographic regions. However, the market analysis carried out by the Export Council shows that competition is not that fierce to the extent that key players are present in different market sectors or very specialised markets. It is essential that the trade promotion organisation does not retain mandates when there are other better qualified key players on the market.

It is regrettable that seco did not think it necessary to invite tenders for those mandates entrusted to the trade promotion organisation, apart from SOFI. This would have allowed all the key players in the public and private sectors to have competed clearly relating to their interests with regard to the different tasks and, if need be, to have put forward an offer outlining specific services. Specific details concerning collaboration or even of regrouping could thus possibly have been defined.

As far as the **external network** is concerned, setting up thirteen Swiss Business Hubs is the main new feature instigated by legislation. Eleven of these have been allocated to the Federal Department of Foreign Affairs (DFA) benefiting from the resources already available in the agencies abroad. The strategy is not clear as to the choice of countries where Swiss Business Hubs will be set up, priorities which have to be addressed in each country, as well as the distribution of tasks between the hub and the agency. If establishing hubs has allowed a more professional approach to providing services, the fact that they have generally been entrusted to consular staff who are by vocation from non-specialised backgrounds, involves disadvantages and does not always favour maintaining a broad network of contacts in the country.

The work of the SFAO shows that the cost of hubs managed by the DFA are double if not four times the cost for the Confederation of those managed by the bilateral chambers. However, this observation must be put into context. The chambers of commerce cover part of the costs and their labour costs are much lower. However, the Swiss agencies abroad carry out other tasks which are useful to companies and the Swiss economy. They have the advantage of providing direct access to the political authorities of the country and diplomatic status seems to be useful mainly in transition countries where the influence of the state on the economy is important. Certain tasks cannot be delegated to private key players, as is the case with negotiations on double taxation agreements, or combating state measures against Swiss companies. Labour costs of diplomatic or consular staff in the trade promotion sector are, on average, four times higher than that of local staff. The DFA hubs managed to recoup almost 5% of labour costs, this percentage is on the increase. In the majority of cases, the hubs managed by the DFA are similar to the former economic

and commercial services in the Swiss agencies. They do not devote their activities exclusively to trade promotion structures. They are also involved in activities in the public domain and should not be confused with the services of private key players.

Two factors somewhat temper the harsh conclusions arrived at in the evaluation. For some months now, in the wake of changes which occurred in seco and at the head of OSEC, a new willingness to collaborate is noticeable (the measures envisaged are described at the end of the report). Furthermore, the new Export Promotion Act is a recent addition having only entered into force on 1 March 2001.

In the opinion of the SFAO, the problems noted go beyond simple teething troubles, they are structural in nature. This is why, the SFAO considered it to be important to propose measures likely to successfully remedy the weaknesses discovered. Five recommendations have been drawn up with the aim of **simplifying the structures** and **pursuing a more professional approach** in the external network.

1. Cutting down on the number of public sector or highly-subsidised key players by restructuring the current services of OSEC and SOFI.
2. Simplifying the lines of command and increasing cost transparency in the external network. So as to achieve these objectives, the best solution would be to allocate the hubs to the trade promotion organisation.
3. Merging the services of the trade promotion organisation and those of the chambers of commerce and the bilateral chambers.
4. Defining and then applying the principle of subsidiarity.
5. Better definition of monitoring the trade promotion organisation.

These recommendations assume that the trade promotion mandate will be open to public tender. The SFAO does not assume that this mandate will be granted as a matter of principle to OSEC in its present form.

The comments of the DFA and seco to the draft report and the recommendations (version dated 3 December 2004) are to be found in **appendix 6**.